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World Bank Group

# Bangladesh Bond Warehouse Regime

Assessment + Recommendations

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## Executive Summary

Bangladesh's customs bonded warehouse regime permits licensed manufacturers to import duty free parts and materials required for their export production purposes. The regime is most heavily used by RMG producers to import fabric and components required to manufacture garments in Bangladesh for export, and by Bangladeshi manufacturers who produce and supply accessories and packaging to the export RMG industry (e.g., manufacturers of zippers, buttons, plastic hangers, packaging). The procedures are also used to a lesser extent by leather goods, footwear, and shipbuilding industries.

This report contains the results of an assessment of the customs bonded warehouse regime, as it is used in connection with export manufacturing.<sup>1</sup> As part of this assessment, a review was made of operations at the offices of the Customs Bond Commissionerate in Dhaka and Chittagong, and clearance of goods at the Chittagong customs house in November 2014.

The particular focus of this assessment is the import and export border clearance processes related to the bonded warehouse regime – the legal basis, procedures, and data and documentation requirements - for purposes of suggesting recommendations to reduce administrative barriers and improve efficiency.

The following is a summary of the main findings of the assessment, and recommendations for actions to improve the regime-

### *Main Findings:*

- **The regime lacks a clear, comprehensive legal basis**

The legal basis for the regime is the warehousing provisions of Customs Act, 1969. However, those provisions largely described a regime for customs storage warehouses, and contain few provisions on manufacturing. Lack of a clear legal basis in the Act creates uncertainty as to requirements and leaves greater scope for administrative discretion.

- **Authorities exercise 100% transaction-by-transaction control, rather than risk-based selective control**

For example-

- Customs checks bill of entry/export and supporting documents for every import and every export made under the regime;
- BGMEA/ BKMEA verifies the utilization declaration for every transaction by a garment manufacturer

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<sup>1</sup> The bonded warehouse regime is also used for duty free storage purposes, such as for goods held for sale to diplomats and “privileged persons.” These other uses of the regime were not considered in this assessment.

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- Bond Commissionerate audits every Accessory Manufacturer (1x per year) and every Garment Manufacturer (1x per two or three years).

- **Processes are mainly manual and paper-based, with very little or no automation**

For example, deemed exporters must present to Customs at the clearance office the original of an “Import Entitlement” sheet for each entry of parts or materials, on which a handwritten record is made for each import. Customs maintains passbooks to record import and exports made by direct exporters, and manual bond registers to record transfers in and out of deemed exporters warehouses.

- **There is a significant amount of redundancy in documentation and data requirements and formalities**

For example, with each import of fabric or materials by a licensed garment manufacturer, and with each export of the finished goods, Customs keeps a handwritten record in a passbook. This passbook information is largely identical to the data that is entered in the bill of entry or bill of export submitted to Customs for these transactions. Duplication also appears between the bill of entry and the import entitlement.

- **Financial security is not used to support the regime**

In contrast to practice in many other countries, licensees are not required to provide a financial security (such as a bank guarantee or third party surety) as a condition of importing parts/materials for manufacturing purposes without payment of duty. Rather, they provide an “undertaking” (a promise to pay) and a written assurance from the bank of financial reliability. Because there is no financial security to back obligations, Customs appears to rely on manual and physical controls.

- **Efficiencies that can be realized by a centralized, automated customs clearance system (ASYCUDA World) have not yet been taken into account**

With a centralized, automated customs declaration system (such as ASYCUDA World), certain of the bond-related control processes and documentation requirements can be reduced or eliminated.

### ***Main Recommendations:***

- **Incorporate provisions in the Customs Act to enable implementation of a RKC-consistent “inward processing” procedure**

The Customs Act should be revised to clearly provide for an “inward processing” procedure distinct from the warehouse procedure, based on principles of the WCO Revised Kyoto

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Convention. This would create greater transparency, allow flexibility in the law that will be necessary to extend the regime to sectors other than RMG, and will enable certain of the simplifications described below.

- **Business process analysis to identify and reengineer unnecessary/repetitive customs clearance formalities, documents and data requirements**

It is clear from this assessment, and acknowledged by Customs, that there is much duplication and inefficient processes, particularly in clearance, where ASYCUDA World can be used to eliminate current manual processes.

We suggest that, with adoption of a proper “inward processing” procedure and possible extensions to ASYCUDA World functionality, Customs could eliminate the current paper/manual processing related to the Import Entitlement, Passbooks, and Utilization Permit.

- **Introduce selective, risk-based system of control**

The current 100% transaction-based controls may be a barrier to extending the bond regime to industries other than garments, and seems unsustainable. Customs stakeholders advised, for example, that Customs does not have enough customs officers to supervise the bond licensing regime today.

- **Assess availability/feasibility of financial security to support bond licensing regime**

It may be that the heaviness of Customs control of the bond regime, and particularly the transaction by transaction restrictions on quantities that can be imported by deemed exporters (import entitlements) and released from the warehouse into production (utilization permits) import, is due in part to the lack of a real recourse to recover lost duty if imported goods are diverted into the local market. The impact of imposing a requirement of a financial security on the current users of the regime should be assessed. If financial security feasible, this might also facilitate transition to a risk-based system of control.

- **Introduce an AEO program for trusted manufacturers**

To move toward risk-based controls, a pilot AEO program of trusted manufacturers, relying on their inventory control systems (for example), should be considered. This would eliminate a number of documents and control measures now taken that do not appear to actually add value in terms of ensuring against revenue loss; would reduce the importance of BGMEA in the process; and could build confidence on the part of Customs in using risk based control methods.

- **Assess automation proposals/requirements**

The design documents of the system proposed by Customs have not been reviewed. It is understood that the essential function of the system is to reconcile the number of garments

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produced/exported with the quantity of raw materials imported, using the utilization declaration (UD) - a kind of bill of materials for each style of garment - to do the calculation. This would seem to require an enormous amount of manual data capture (BGMEA issues 100 UD's and 300 to 400 UD amendments per day!), and involve complex processing, and therefore should be carefully considered. Also, the more manufacturers that could be moved to risk based controls (starting with an AEO pilot), the need for a bond module to control the remaining transactions would become less important and perhaps not justifiable.

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## LIST OF ABBREVIATIONS and ACRONYMS

AC	Assistant Commissioner
ARO	Assistant Revenue Officer
BKMEA	Bangladesh Knitwear Manufacturers and Exporters Association
BGMEA	Bangladesh Garment Manufacturers & Export Association
BOI	Board of Investment
IFC	International Finance Corporation
JC	Joint Commissioner
L/C	Letter of Credit
NBR	National Board of Revenue
PRC	Proceeds Realization Certificate
RKC	Revised Kyoto Convention
RMG	Ready Made Garment
RO	Revenue Officer
SROs	Statutory Rules and Orders
UD	Utilization Declaration
UP	Utilization Permit
WCO	World Customs Organization



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## I. Introduction

This is an assessment of Bangladesh’s bonded warehouse regime. At present, the regime is most heavily used by RMG producers to import duty-free the fabrics and other components required to manufacture garments in Bangladesh for export, and by Bangladeshi manufacturers of accessories (e.g., zippers, buttons, plastic hangers, packaging) to import duty free parts and materials needed to produce and supply the RMG industry. To a lesser extent, the regime is used by the leather goods, footwear and the shipbuilding industries.

The primary purpose of this assessment was to determine what improvements, if any, might be made to the administration of the bond warehouse regime in order to improve efficiency and better enable extension to industry sectors other than the current participants.

The assessment included a review of operations at the offices of the Customs Bond Commissionerate in Dhaka and Chittagong; clearance of goods at the Chittagong customs house; and interviews with BGMEA representatives and other stakeholders, in November 2014.

This report is organized as follows:

Section II is a summary description of the bonded warehouse regime, including a review of the legal basis for the regime, the main “actors” involved in the bonded warehouse procedures, and the main documents and processes.

Section III is a review of “best practice” standards used to evaluate the bonded warehouse regime, as well as prior assessments of the regime by WBG.

Section IV contains the analysis and recommendations.

## II. Bond Licensing Regime

The bonded warehouse regime that is the subject of this paper refers to those procedures under which materials, parts and components may be imported duty free for use in manufacturing operations and export. Under customs laws of other countries, this procedure may be referred to as “inward processing” or “bonded manufacturing.”

Bangladesh’s bonded warehouse regime also encompasses procedures to allow duty-free storage and sale of goods to diplomats and “privileged persons;” and the use of warehouse for goods taken into home consumption. This assessment does not cover those other types or categories of customs bonded warehouses.

## A. Legal Basis

### *Customs Act 1969*

There are few specific provisions in the *Customs Act 1969* concerning the bond licensing regime. Rather, the Board and/or the Commissioner (Bond) have relied upon general authority provided under the Act concerning the licensing of warehouses and powers to exempt goods from duty to establish the regime by rule. In particular, the following provisions of the Act are relied upon to establish the regime:

**Table 1 Customs Act, 1969 Bond Licensing Provisions**

<b>Customs Act 1969 Relevant Provisions</b>	<b>Description</b>
<b>Section 13</b> (Licensing of Private Warehouses)	<ul style="list-style-type: none"> <li>• Authorizes the Board to establish, by notification in the Official Gazette, conditions, limitations or restrictions on private warehouse licenses, the goods that may be placed in such warehouses, or the import entitlement of the warehouse</li> <li>• Authorizes Commissioner (Bond) to grant licenses for warehouse for purposes of deposit of imported goods, and to suspend or cancel such licenses under defined conditions.</li> </ul>
<b>Section 19</b> (General power to exempt from customs duties)	<ul style="list-style-type: none"> <li>• Authorizes the government to exempt any goods from customs duties subject to such conditions, limitations or restrictions as it thinks fit to impose</li> </ul>
<b>Section 21</b> (Power to deliver certain goods without payment of duty and to repay duty on certain goods)	<ul style="list-style-type: none"> <li>• Authorizes the Board, in general or in specific cases, to allow goods of such classes or description as it may prescribe to be imported without payment of duty if intended to be used in the production, manufacture, processing, repair or refitting of prescribed goods</li> </ul>
<b>Chapter XI</b> (Warehousing)	<ul style="list-style-type: none"> <li>• Generally, sets out conditions for use of customs warehouses for <u>storage</u> of imported goods without payment of duty</li> </ul>
<b>Section 86</b> (Warehouse Bond)	<ul style="list-style-type: none"> <li>• Requires owner of goods entered for warehousing to execute a bond binding himself to a penalty of twice the amount of duty on the goods, in form to be prescribed by the Board</li> <li>• Authorizes Commissioner (Bond) to accept a general bond for goods entered over a specified period of time</li> </ul>
<b>Section 95</b> (Manufacture and other	<ul style="list-style-type: none"> <li>• Included in warehouse chapter (Chapter XI), this provision authorizes the Commissioner (Bond) to allow manufacturing operations in a warehouse on application of the owner of the</li> </ul>

<b>Customs Act 1969 Relevant Provisions</b>	<b>Description</b>
operations in relation to goods in a warehouse)	goods, including for purposes of producing goods for home consumption
<b>Section 219</b> (Power to make rules)	<ul style="list-style-type: none"> <li>• General authority of Board to make rules “for carrying out the purposes of this Act” to be published in the Official Gazette and placed before Parliament</li> </ul>
<b>Section 219B</b> (Power to issue Orders, Notices, Explanations or Circulars)	<ul style="list-style-type: none"> <li>• Authorizes Board and/or Commissioners to issue orders <i>etc.</i></li> </ul>

The warehousing chapter of the Act refers to “**special bonded warehouses**” which, in practice, are the legal type of warehouse permitted for use by the export RMG manufacturers. Special bonded warehouses are defined as private warehouses for “100% export oriented industries”, not subject to being locked by Customs (as is the case with other warehouses)(**Sections 2 and 91**).

Goods placed in such warehouses-

- may remain for a period of two years (**Section 98**);
- can be removed only under such conditions as the Commissioner (Bond) may prescribe (**Section 100**);
- may not be cleared for home consumption without permission requested 15 days in advance (**Section 104**); and
- shall be subject to such export or home clearance procedures as the Commissioner (Bond) prescribes (**Section 107**).

A licensee is required to keep a register of special warehoused goods in such manner and form as the Commissioner (Bond) shall prescribe by rule (**Section 114**).

Except as provided in Section 95, the Act contains no specific provisions on the conduct of export manufacturing operations. For example, there is no indication of what is meant by a “100% export oriented industry” or the circumstances under which an application for a license will be denied or export processing will or will not be allowed. Under the Act, these decisions are fully within the discretion of the Board and/or the Commissioner (Bond).

### ***Customs SRO’s and Orders***

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The Board and Commissioner (Bond) has issued a number of SRO's and orders or instructions, dating from 1984 or earlier, that set out specific rules and conditions for use of the bond licensing regime.

Generally, it appears that these SRO's and orders refer to the general authority given in sections of the Customs Act 1969 described above as the legal basis. These SRO's and orders are published on the NBR website (<http://www.nbr-bd.org/>)

All but a very few of these SRO's and orders are translated to English.<sup>2</sup>

## **B. Actors**

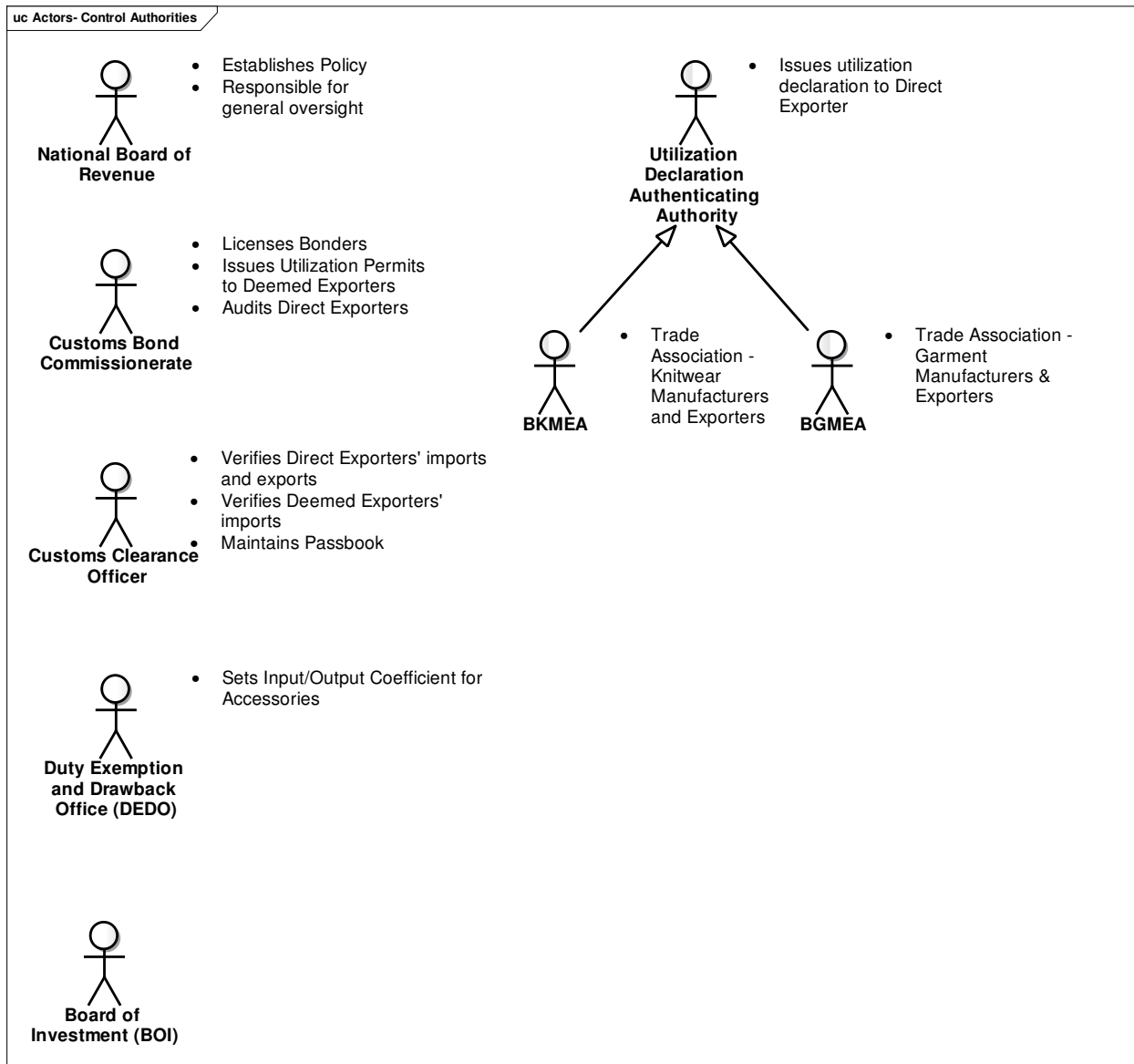
The main “actors” involved in the processing applications for bond licenses and supervision and control of licensees, and their respective functions, are show in Figure 1.

It is important to note that in addition to these actors, there are a number of authorities that have indirect responsibilities with respect to the bonded licensing regime. For example, in order to obtain a bond license, the applicant must present a trade license and issued by local government bodies; a fire certificate issued by the appropriate authority; and import and export registration certificates issued by Ministry of Commerce.

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<sup>2</sup> For that reason, the text of those administrative rules was not reviewed in this assessment.

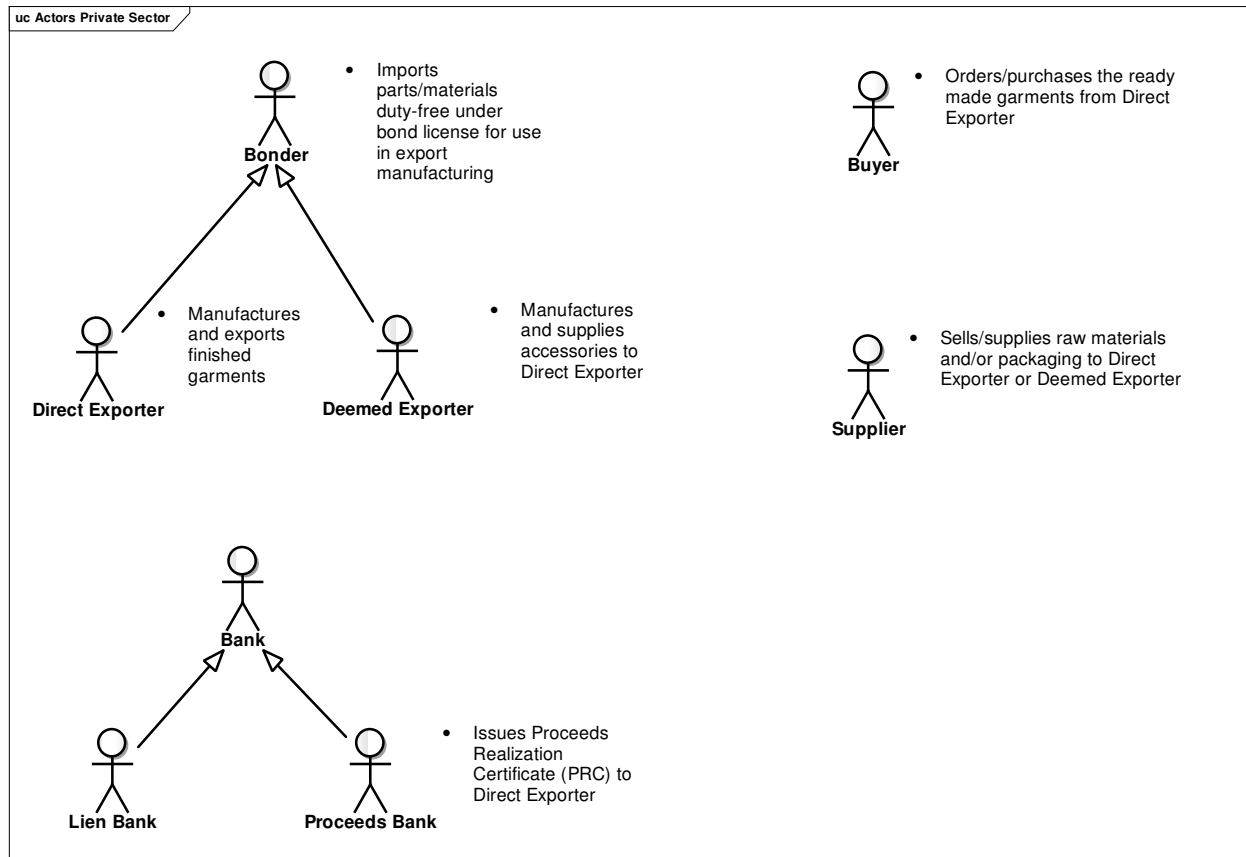
**Figure 1 Bond Licensing Actors – Control Authorities**



The main “actors” from the private sector involved in the bond licensing regime are depicted in Figure 2. Note that-

- “Direct Exporters” are also referred to as “Garment manufacturers”
- “Deemed Exporters” are also referred to as “Accessory manufacturers”
- Both Direct Exporters and Deemed Exporters are referred to a “100% export-oriented industries.”

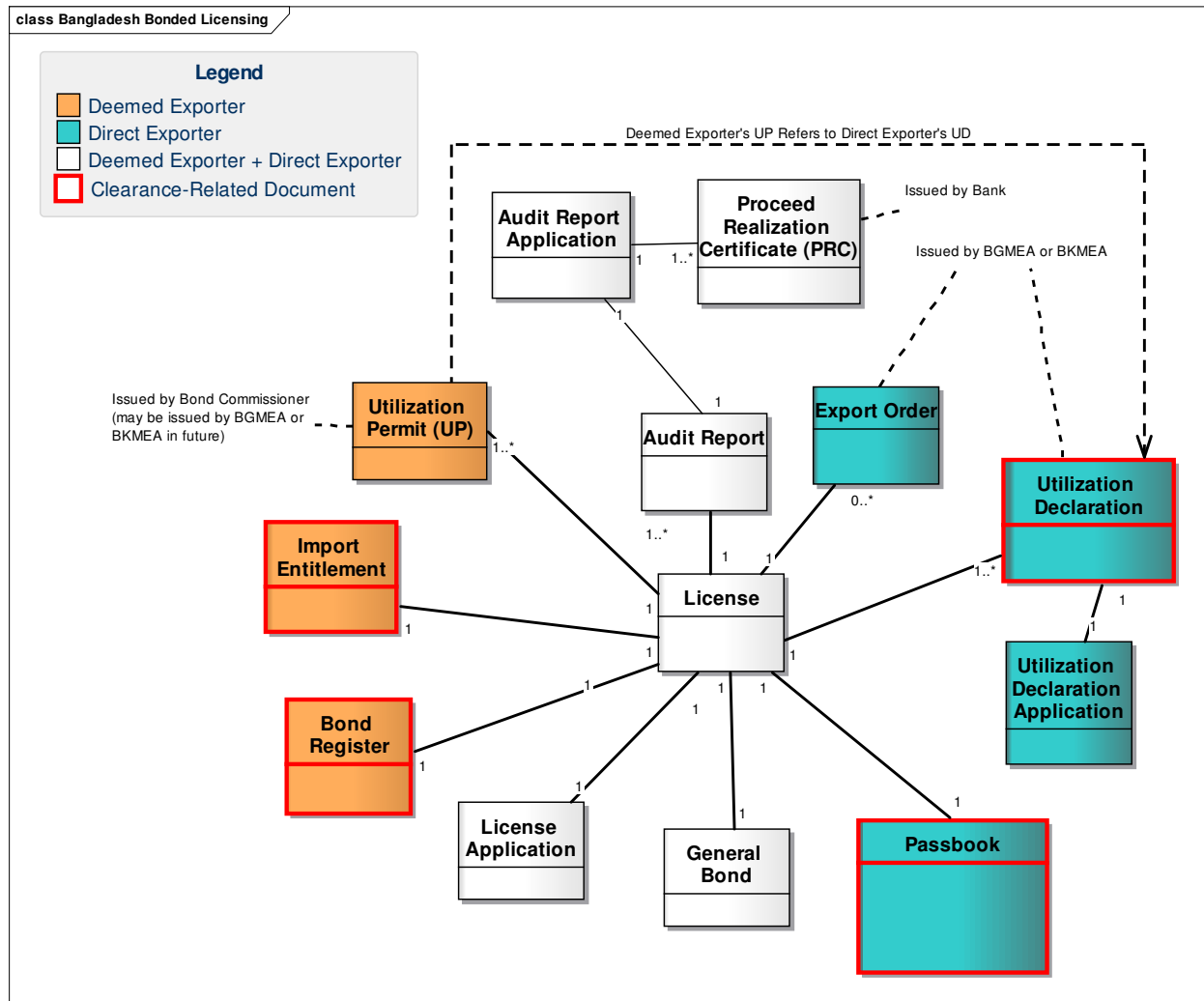
Figure 2 Bond Licensing Actors - Private Sector



### C. Documents and Data

The documents used in the bond licensing regime and their relationships are depicted in Figure 3. A summary explanation of the document follows the diagram

Figure 3 Bond Licensing - Documents



1. Documents used by Direct Exporters and Deemed Exporters

- License application

The application is a 7-page form with details about the producer, the factory and its machinery (particularly, as related to potential production capacity), and the planned production operations. The application is submitted to the Bond Commissionerate in Dhaka or Chittagong.

**Table 2 Bond License Application - Main Elements**

<b>Bond License Application Form - Summary</b>	
<ul style="list-style-type: none"> <li>• <b>Name/Address Factory and Head Office</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Lien Bank</b></li> </ul>
<ul style="list-style-type: none"> <li>• <b>Owners and Directors</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Production Details</b></li> </ul>
<ul style="list-style-type: none"> <li>• <b>Compulsory Registrations</b></li> </ul>	<ul style="list-style-type: none"> <li>○ Goods to be produced (HS Code and description)</li> </ul>
<ul style="list-style-type: none"> <li>○ Board of Investment registration number</li> </ul>	<ul style="list-style-type: none"> <li>○ Raw Materials (HS Code and description)</li> </ul>
<ul style="list-style-type: none"> <li>○ Taxpayer Id.</li> </ul>	<ul style="list-style-type: none"> <li>○ Factory Area</li> </ul>
<ul style="list-style-type: none"> <li>○ Export Registration number</li> </ul>	<ul style="list-style-type: none"> <li>○ Warehouse Area</li> </ul>
<ul style="list-style-type: none"> <li>○ Import Registration number</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Machinery Details</b></li> </ul>
<ul style="list-style-type: none"> <li>○ VAT registration number</li> </ul>	<ul style="list-style-type: none"> <li>○ Production capacity</li> </ul>
<ul style="list-style-type: none"> <li>○ Trade License Number</li> </ul>	<ul style="list-style-type: none"> <li>○ Import/Purchase Details</li> </ul>
<ul style="list-style-type: none"> <li>○ Fire License Number</li> </ul>	
<ul style="list-style-type: none"> <li>○ Trade Association Membership number (e.g., BGMEA)</li> </ul>	

In addition to the application form, the applicant is required to submit 22 required supporting documents.<sup>3</sup>

- **Bond License.**

On verification and approval of the application, the Bond Commissionerate issues a license. This 3-page document restates certain of the application details and includes certain legal conditions. A license is valid for one year.

- **General Bond**

The applicant is required to submit a general bond to the Bond Commissionerate once the

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<sup>3</sup> The license application form and list of required documents is set out in the Appendix, Annex 2 – Bond License Application.



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license issued. This general bond is in the nature of a personal undertaking of the officers/directors of the bonder; it is not a bank guarantee or a third-party surety.

An excerpt of the general bond is set out in the Appendix, Annex 1 – General Bond Excerpt.

- **Audit report Application**

This is an application made by the bonder to the Bond Commissionerate. It is submitted at within 3 months following the expiration of the license period. It is essentially a detailed report of transactions made by the bonder during prior year that matches quantities of materials imported against export transactions. It includes supporting declarations from the lien bank that the bonder has no liability to the bank due to export failure, as well as the passbook. Submission of the application and supporting documents is a condition for renewal of the license.

- **Proceed Realization Certificate (PRC)**

The bonder submits this document with the audit report application. It is issued by the bonder's bank and details payments received for exported goods.

- **Audit Report**

After verification and audit of the bonder, the Bond Commissionerate issues an audit report.

## 2. **Documents used by Direct Exporters only**

- **Utilization Declaration Application**

This is a statement by the manufacturer as to the quantities of imported materials that are required to produce the quantity of product covered by the bond license to be exported. In effect, it is the manufacturer's bill of materials for specific goods to be produced under a specific contract.

The application is a four-page form (or longer, depending on continuation sheets). A specimen of the blank form is set out in Appendix, Annex 3 – Utilization Declaration Application/Form.

The bonder submits the completed form to BGMEA or BKMEA, as the case may be, with certain required commercial or banking documents, including-

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- the master L/C
  - the export L/C
  - the back to back L/C
  - the pro forma invoices
  - packing instructions
  - bank statement (referencing the L/C)
  - product measurement sheet

The application form and required supporting documents are defined by NBR in published SRO's.

- **Utilization Declaration**

Following verification of the application, BGMEA or BKMEA, as the case may be, issues the Utilization Declaration. Essentially, this is the verified Utilization Declaration Application, signed by a representative of BGMEA or BKMEA and assigned a unique reference number.

- **Passbook**

The bonder is provided with two passbooks. One is for the bonder, the other for customs. The purposes of these passbooks is to record each import transactions of raw materials made under the bond license, and each export of finished goods manufactured with those inputs.

**Box 1 Customs Rules - Passbooks**

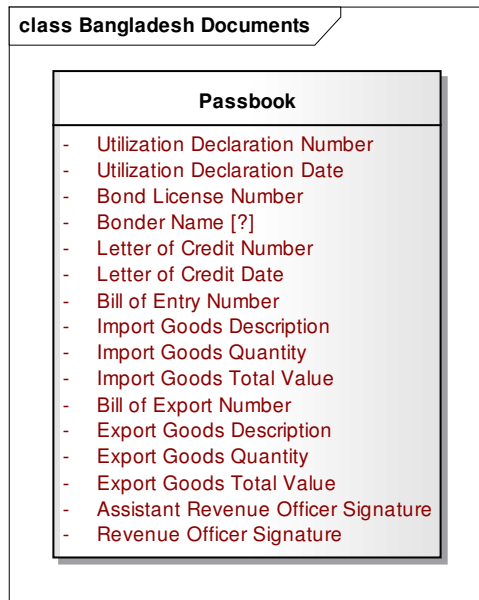
**DIRECT EXPORTERS  
PASSBOOKS – CUSTOMS RULES**

- 1) The management of an export oriented garment industry shall be issued with two passbooks (one original and one duplicate) in Form A by each of the customs station from where import or export of the goods shall take place.
- (2) The original of the Passbook (while cover page) shall be retained by the issuing customs station and the duplicate light green cover page) shall be given to be management of the export oriented garment industry.
- (3) Each time an import or export takes place, relevant particulars of the consignment shall be recorded in both the copies of the Passbook by an officer of customs not below the rank of an Appraiser or Inspector and authenticated by the Principal Appraiser or Superintendent of Customs and the management of the industry shall produce the duplicate Passbooks to any officer of Customs deputed for the purpose of inspection of the same.

*from: Export-Oriented Garments Industries (Temporary, Importation) Rules, 1985.*

The Passbook contains the data elements set out in Figure 4.

**Figure 4 Passbook Data Elements**



**3. Documents used by Deemed Exporters only**

- **Utilization Permit**

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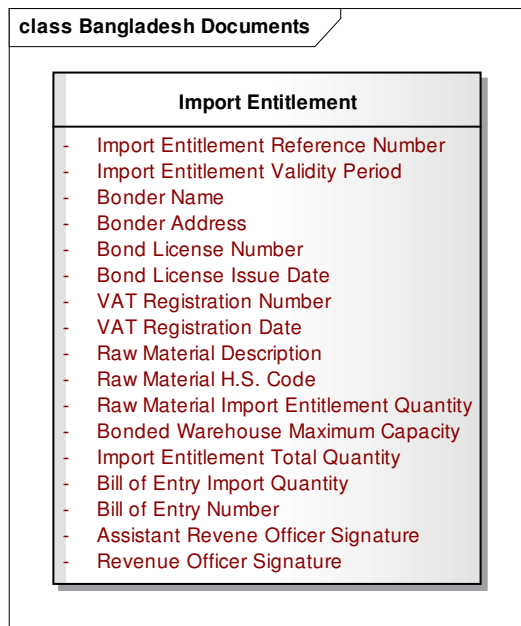
This document issued by the Bond Commissionerate on application of a deemed exporter to allow the deemed exporter to remove imported raw materials from his bonded warehouse so that they can be used in production of accessories.

A sample UP application form is set out in the Appendix, Annex 5 – Utilization Permit Application.

- **Import Entitlement**

A document issued by the Bond Commissionerate to the deemed exporter at the time the bond license is approved. The Import Entitlement lists the raw materials that the deemed exporter may import duty free under the regime, with the description, Harmonized System code, and import permitted quantities (in metric tons) of the goods. It contains certain other data elements that may be useful to Customs in clearance control (e.g., maximum capacity of warehouse, validity period). See Figure 5. Generally, the validity period is one year.

**Figure 5 Import Entitlement Data Elements**



A sample Import Entitlement form is set out in the Appendix, Annex 4 – Import Entitlement.

- **Bond Register**

This is a book in which an officer of the Bond Commissionerate records the physical transfer and arrival of the imported goods to the warehouse. One copy is held by the deemed

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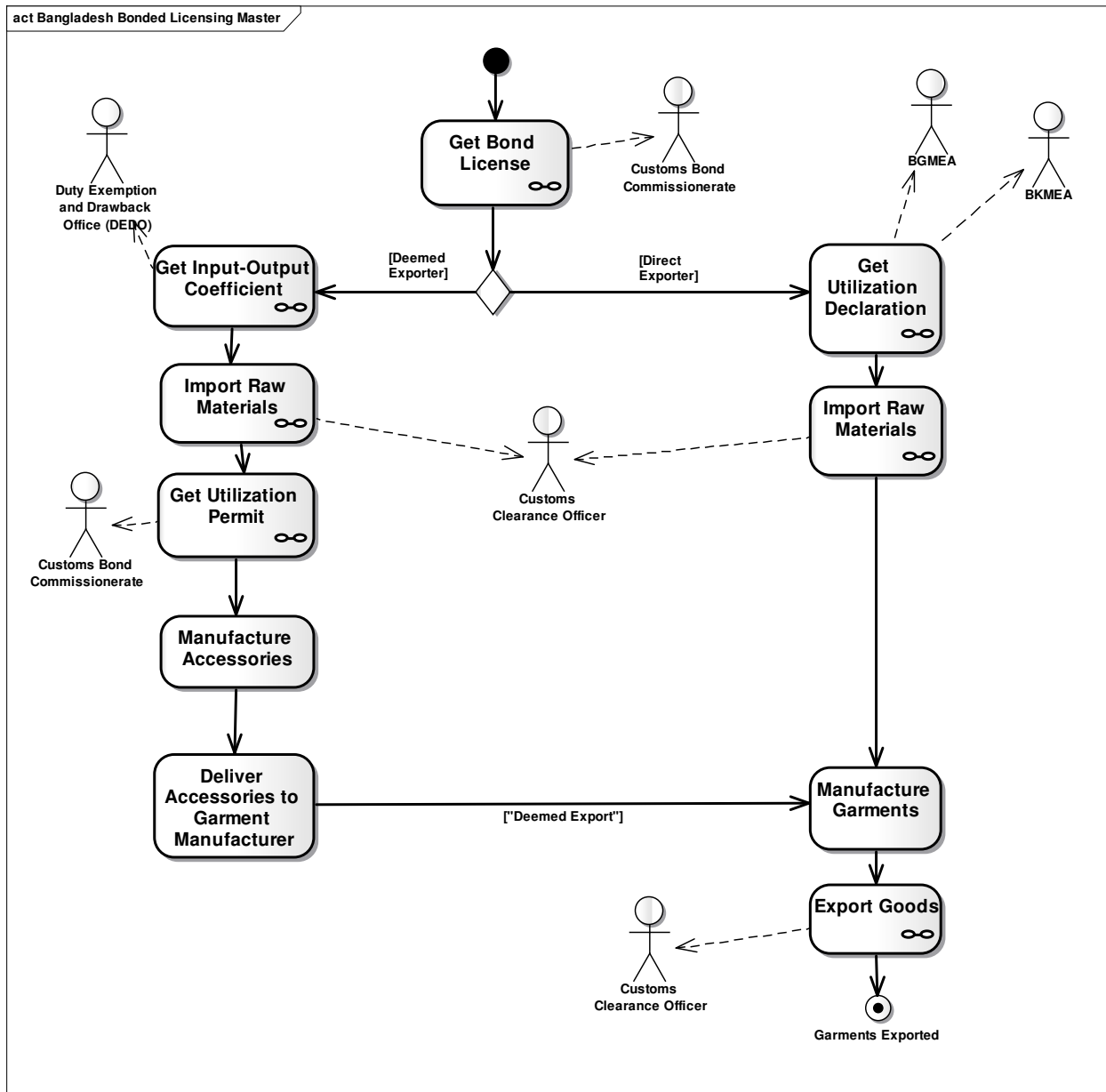
exporter, and a duplicate is maintained by the supervising customs office. See Figure 7. The officer will make deductions from the Bond Register on approval of each UP.

#### **D. Processes**

Both the Direct Exporter and the Deemed Exporter are required to obtain a bond license from the Bond Commissionerate to import raw materials and packaging duty free under the bonded licensing regime. Thereafter, the controls and conditions on the importation and use of raw materials in production vary for the two types of bonders.

The overall process for application, import, production and export are shown in Figure 6.

Figure 6 Bond Licensing Process - Overview



A brief description of these processes is described in the following subsections. Activity diagrams for certain of the main processes can be found in the Appendix.

### 1. Get Bond License (Direct Exporter + Deemed Exporter)

The application for the bond license is made to the Commissioner (Bond) in Dhaka or Commissioner (Bond) Chittagong. All requirements for making the application are published in the SRO's.

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To complete the application and collect the supporting documents, the applicant must have previously registered and/or obtained licenses from the tax and other authorities (some of which require presentation of the same documents as required by the Commissioner (Bond)) and paid the requisite fees. In particular, this includes the Board of Investment, from which Customs also requires a certification of the list of raw materials required by the applicant to be imported.

Following submission of the application-

- a Customs officer verifies that the application is complete, and creates and assigns a file to an Assistant Revenue Officer (ARO) for verification;
- the ARO verifies with all issuing authorities the validity of all documents that were presented;
- the ARO visits the factory to verify the application details against the physical facility;
- the ARO prepares a report of his/her findings for the Assistant Commissioner (AC) and/or Joint Commissioner (JC);
- the Commissioner (Bond) grants or rejects the application bond license.

All processing is manual; no verification with other authorities is on line or electronic.

It appears that the main purpose of verification is to ensure that the application is not fraudulent; that is, that it is not a scheme to import and sell on the local market duty-free goods. To that end, the ARO verifies that the factory and machinery actually exist<sup>4</sup> and that the warehouse, factory and equipment have the capacity to store the imported materials and generate the production volumes described in the application (and therefore the need for the volume of duty-free inputs described in the application).

The conditions under which a license will not be issued are not described in the legislation or SRO's. We were advised that if the application and supporting documents are verified, the license is granted; it is not granted in cases where there is doubt whether the imported goods will be diverted to the local market (these cases where applications are denied appear to be rare).

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<sup>4</sup> For example, I was told that a person may borrow a factory or machinery simply for purposes of passing the site visit by the ARO, and then return them once the visit is over. For that reason, Customs requires the applicant to prove ownership of the production machinery and lease for the factory. Also, Customs requires photos and video of actual production at the factory to assure that the operations described in the application are real.

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Once the license is approved, the applicant submits the general bond to Customs and signs the license in the presence of Customs.

## **2. Get Utilization Declaration (Direct Exporter)**

If a direct exporter and a RMG manufacturer, the licensee is required to obtain a Utilization Declaration (UD) issued by the appropriate industry association. A UD is not required for other industries (such as leather goods).

With respect to the RMG producers, the government took a decision in 1994 to delegate review of the UD to the trade industry associations, BGMEA (with respect to apparel) and BKMEA (with respect to knit goods). This delegation of a customs control function to a private trade association was apparently taken as a measure to facilitate the RMG export industry.<sup>5</sup>

According to the BGMEA internal processes, the bonder present the application first to a counter officer which ensures that all required documents are submitted in the correct form and that the application is otherwise complete. If not, the application is returned to the applicant with a discrepancy explanation.

If complete, the application is then reviewed by one of the two BGMEA “cutting masters” who determine whether the consumption levels declared by the manufacturer – the amount of imported fabric required to produce the garments – is appropriate. This appears to be a decision based on the cutting master’s personal expertise and experience with the same kinds of garments.

The cutting master sends the application to a “Consumption Committee” for verification, if the declared consumption exceeds thresholds that have been laid down by the Bond Commissionerate in published SRO’s;<sup>6</sup> otherwise the application is sent directly to the UD Committee. The UD Committee approves the UD, which is then signed by one of the Committee members. BGMEA assigns a unique identifier to the UD, provides the applicant with the original, and sends copies by courier to the Bond Commissionerate and the customs office(s) through which the imported goods will be imported.

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<sup>5</sup> We were informed that the government has under consideration plan to delegate responsibility for the utilization permits to these associations as well.

<sup>6</sup> We were advised that these amounts are set out in SRO 153 published in 1993.



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BGMEA charges a fee of 100 BDTs for processing the application, as well as a fee for each amendment made. Each day, approximately 100 applications and 300 or more UD amendment applications are made to BGMEA. There are two cutting masters that review these submissions.

We were advised that BGMEA generally processes an application in two days time, but also offers “emergency” processing at a higher fee.

BGMEA rejects approximately 5 percent of the applications made on grounds that consumption quantities claimed are excessive. In cases of high risk or doubts about the claimed consumption, BGMEA may impose “cutting conditions” – i.e., require physical supervision of the manufacturer’s fabric cutting operation – or other conditions on the applicant.

The original of the UD (but not amendments, at least at the time of this study) are on line and accessible via the BGMEA website to the bonder as well as customs offices.

### **3. Import Materials (Direct Exporter + Deemed Exporter)**

- **Direct Exporter**

The documents presented by the direct exporter (or his agent) to the customs clearance officer with the bill of entry (IM7<sup>7</sup>) include the following-

- L/C
- Pro forma invoice
- Commercial invoice
- Bill of entry/export
- UD (issued by BGMEA)
- Bond

The customs clearance officer checks the documents against each other to ensure consistency, particularly between details of the UD, bill of entry and invoice.

The agent also provides the customs clearance officer with the two passbooks – one the agent’s copy and the other Customs copy (in practice, the agent holds Customs copy for the duration of the license period). In practice, the agent fills in the passbook with the import details, which are then checked by the customs clearance officer. The clearance officer then signs the passbook entry.

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<sup>7</sup> IM7 is the warehouse procedure; that is, the goods are declared for warehousing.

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In practice, the checks described above undertaken by the customs clearance officer are in fact done first by the ARO and then repeated by the RO.

- **Deemed Exporter**

The documents presented by the direct exporter (or his agent) to the customs clearance officer with the bill of entry include-

- Bill of lading
- Commercial Invoice
- Packing List
- L/C
- Certificate of Origin
- Import Entitlement sheet (original)
- Bond license (original)

The customs clearance officer checks the documents, handwrites the deduction of the imported quantity on the back of the Import Entitlement sheet, and signs the sheet to certify his entry (in practice, to save time the C&F agent makes these notations and the customs officer verifies and signs). The officer makes a photocopy of the Import Entitlement and returns the original to the C&F agent.

The checks by the customs clearance officer are to ensure all required documents are presented and valid, including, for example, that the bond period is not expired.

As is the case with the imports made by Direct Exporters, these checks are done first by the ARO and repeated by the RO.

On release of the imported goods, an officer of the Bond Commissionerate physically supervises the transfer of the goods to the warehouse, where he records the entry in the warehouse bond registers.

Stakeholders noted that the Import Entitlement sheet must be presented at each customs house where the importer wishes to clear his goods. Customs will only accept the original, so the requirement of the original is a cause of delays if goods are imported in two or more places. Also, the importer may have different C&F agents working for him, and they must therefore transfer the document among themselves. It was also noted that there is a possibility of forgery of the document, and it was said that anyone can make a duplicate copy and use it.

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#### 4. Export Goods (Direct Exporter)

Customs processing of exports of goods under the bond licensing regime follow the same pattern as import of materials: the same documents are presented (albeit a bill of export rather than a bill of entry is submitted on ASYCUDA) with the UD and the passbooks. The same checks are done, and when the process is complete, Customs officer makes the notation of the export in the passbooks.

#### 5. Audit Bonder

On receipt of the audit application and supporting documents (PRC, passbooks, *etc.*), the Bond Commissionerate assigns an audit inspector to verify the documents, including verification of the PRC and L/C's with the relevant banks and the UD's with the BGMEA. The audit inspector prepares a report of findings and sends to the Joint Commissioner. On the basis of this report, the general bond will be renewed.

### III. Standards + Prior Assessments

**Subsection A** summarizes the international “best practices” standards used in this assessment to evaluate Bangladesh’s bond licensing regime.

A number of assessments have been done of Bangladesh’s bond licensing regime since 2005. The relevant recommendations from these prior studies are summarized **Subsection B**.

#### A. “Best Practice” Standards/Models

- *WCO Revised Kyoto Convention*

The primary source of “best practice” standards and recommendations is the WCO Revised Kyoto Convention, which is considered the “blueprint” for development of a modernized customs administration.

The RKC procedures relevant to Bangladesh’s bonded licensing regime are “inward processing” (Specific Annex F/Chapter 1) and “customs warehouse” (Specific Annex D/Chapter 1).

In RKC terms, inward processing is a *manufacturing* procedure

**"inward processing"** means the Customs procedure under which certain goods can be brought into a Customs territory conditionally relieved from payment of import duties

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and taxes, on the basis that such goods are intended for manufacturing, processing or repair and subsequent exportation<sup>8</sup>

whereas customs warehouse is a *storage* procedure-

"**Customs warehousing procedure**" means the Customs procedure under which imported goods are stored under Customs control in a designated place (a Customs warehouse) without payment of import duties and taxes.<sup>9</sup>

RKC elements of an inward processing procedure that are particularly relevant to this discussion include the following-

- Legislation must specify when a prior authorization is required and which authority shall issue it;
- The authorization shall specify how the operations permitted under inward processing shall be carried out;
- Inward processing shall not be limited to goods imported directly from abroad but can be granted for goods already placed under another procedure (e.g., warehouse);
- Persons who carry out regular inward processing operations should, on request, be granted a general authorization covering such operations;
- Authorities should allow operations to be carried out on the goods by persons other than the person who was authorized (i.e., persons other than the bonder), provided that the person authorized (the bonder) remains responsible to Customs for compliance with the conditions set out in the authorization for the entire duration of the operations.

## **B. Previous Studies/Recommendations**

- ***World Bank 2005***<sup>10</sup>

In 2005, the World Bank analyzed the implications of the end of the Multi-Fibre Arrangement on Bangladesh's garment manufacturing industry, and made certain recommendations as to how

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<sup>8</sup> RKC, Specific Annex F, Chapter 1, Definitions

<sup>9</sup> RKC, Specific Annex D, Chapter 1, Definitions

<sup>10</sup> The World Bank, End of MFA Quotas: Key Issues and Strategic Options for Bangladesh Readymade Garment Industry (2005)

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Bangladesh might remain competitive in this sector. The study noted that “reducing lead time – turnaround from receipt of orders to shipment of goods to market – for the woven garment subsection, if not for all RMG, is critical to survival.” It found that certain administrative practices and controls under the bond licensing regime created delays for producers in accessing supply of raw materials.

Among a number of other recommendations, the study suggested that the Government should permit the establishment of a “**central bonded warehouse**” where raw materials, equipment and supplies needed by the garment manufacturing industry could be imported and stored by entrepreneurs, who would then have supply on hand for producers to meet their needs under specific contracts.

Also directly relevant to the administration of the bonded licensing regime, the study recommended that the requirement of back-to-back L/C’s be reviewed to allow RMG producers to use open LC’s and direct payment.

It appears that these recommendations were not implemented.

- *Foreign Investment Advisory Services/ South Asia Enterprise Development Facility 2006*<sup>11</sup>

In 2006, FIAS/SEDF targeted six government regulatory activities for an “administrative barriers review” for purposes of identifying reforms and improving Bangladesh’s overall investment climate. One of the six governmental activities targeted was the licensing of bonded warehouses. Three critical recommendations were made related to the regime:

- a bank guarantee should be required from applicants as a condition of licensing a warehouse, rather than the “unenforceable bond;”
- a “duty suspension” system should be introduced (in addition to the existing drawback system); and
- the existing requirement that the applicant obtain Board of Investment’s recommendation on its license application should be eliminated as superfluous.

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<sup>11</sup> FIAS and SEDF, Bangladesh, Pursuing Investment Climate Improvements: From Analysis to Reform, An Administrative Barriers Review (November 2006). At the time, FIAS was a joint service of IFC and the World Bank. SEDF was funded in part by IFC.

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The FIAS/SEDF report stated that these recommendations were agreed with the NBR and the Bond Commissionerate. However, it appears that these recommendations were not implemented.

- ***Business Initiative Leading Development (Build) 2012***

In 2012, BUILD made certain proposals to NBR to streamline the bonded warehouse license application. The proposals and the result are described in the following excerpt (Box 2).

**Box 2 BUILD Bonded Warehouse Proposal**

In line with the concerns voiced by the private sector regarding the time delay and cumbersome document requirements, the BUILD advocated a series of reforms to the process by which bonded warehouse licenses are issued.

For example, under the current system, it takes over two weeks for the CBC to check the application and supporting documents and issue a date for inspection of the premises. This delay is caused since the applications supporting documents are checked after four internal steps, meaning any inadequacy in the documentation would require tracing back those four steps (involving four signatures) before this is communicated to the applicant. These steps can be avoided easily if at the stage of the receipt of the application a responsible officer can be engaged.

The BUILD recommended that checking of documents be done at the time of submission by the assigned official, and that a date for inspection should be communicated at the same time. In addition, in line with BUILD's recommendation, four out of 18 documents required to obtain the license would no longer be needed, since they are redundant and duplicative. The NBR and the Board of Investment (BoI) will coordinate with each other so that duplication of documents submission can be avoided.

It is estimated that the changes would decrease the lead time required to obtain such a license at least by half, from 18-21 days to issue a license currently, to 7-10 days, assuming the best case scenario. It is indeed very encouraging that the government has an ear open to mutually beneficial recommendations from the private sector, and from the BUILD. An office order has also been issued by the CBC in regard to receiving application and issuing new bond licenses reflecting recommendations made by the BUILD.

*Source: The Financial Express, September 14, 2012*

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## IV. Analysis + Recommendations

### A. Legal Basis

#### 1. Analysis

Customs Act, 1969 is the legislative basis for Bangladesh's bonded licensing regime that is described in this paper. However, there are few specific provisions in the Act concerning importation of materials duty free on condition they are used in export manufacturing operations.<sup>12</sup>

For example, there are no specific provisions in the Act that define the conditions under which an application for manufacturing operations will be authorized (or an application will be refused); no specific provisions concerning the conditions or restrictions to which the manufacturing operation will be subject; no specific provisions on rate of yield, treatment of waste; no provisions on subcontracting or transfer of goods between manufacturers, *etc.*

The legal basis on which the government has built the bonded licensing regime is the customs warehousing provisions of the Act. However, these provisions generally describe a customs storage warehouse procedure; that is, a procedure where imported goods can be stored without payment of duty for some limited period of time without being used, and must then be exported or imported for home consumption and duty paid. This warehouse chapter of the Act largely aligns to the WCO Revised Kyoto Convention description and standards on the customs warehouse procedure. However, in practice, the procedure that is actually being applied is an "inward processing" procedure.

In the absence of specific legal provisions in the Act authorizing a manufacturing customs procedure, NBR has been necessarily required to "fill in" the gaps with SRO's and other administrative acts. A lack of a clear legal basis can result in lack of transparency and arbitrariness in implementation.

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<sup>12</sup> Section 95 of the Act does authorize the Commissioner to permit manufacturing in a warehouse on application by the owner. However, this section does not appear to be relied upon as the basis for the regime. Moreover, it appears that the manufacturing operations under the regime are not conducted in the licensed warehouse, which is used for storage of imported materials until their release into production operations.

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Note that FIAS/SEDF in its 2006 study also recommended the introduction of a “duty suspension” system, which is a form of inward processing.

## **2. Recommendation**

Incorporate in Customs Act 1969 provisions to enable implementation of a RKC-consistent inward processing procedure.

## **B. Assurance of Obligations**

### **1. Analysis**

As a condition for use of the regime, the applicant is required to provide Customs with a general bond. This “general bond” is not a surety bond supported by a third-party (which form of security is not provided for under the Customs Act, 1969 in any event) or a bank guarantee or other financial instrument, but is an undertaking – a promise to pay – by the officers or directors of the applicant. Although the Customs Act does authorize the Commissioner (Bond) to require a bank guarantee in addition to this bond, in fact such a guarantee is not typically required. As also described above, an applicant for a license must provide a statement from the lien bank, but this also is not a guarantee by the bank but essentially a letter of reference.

In sum, the users of this regime are not required to provide a financial security for duty that Customs can convert or realize where there is a breach of obligations. This is unusual in international practice. This absence of a security to ensure obligations may also contribute to the heavy controls and checks that Customs exercises against bonders in licensing, import and export clearance, and (in the case of deemed exporters) in production. In the absence of a financial security, Customs has only physical control to ensure obligations.

The FIAS/SEDF study in 2006 also noted this peculiarity of Bangladesh’s regime and recommended that a bank guarantee be required. It is not clear why this recommendation was not implemented. However, one stakeholder advised that the bank charges to manufacturers for provision of such guarantees may be prohibitive and would discourage use of the regime.

## **2. Recommendation**

Revisit the FIAS/SEDF recommendation concerning bank guarantees to determine why it was not implemented; assess feasibility and impacts on customs administration and manufacturers use of the regime if the requirement of a proper security were implemented.



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## C. Method of Control

### 1. Analysis

With regard to all aspects of administration of the bonded warehouse regime, Customs (or its delegate) appears to exercise manual and physical controls on 100% of transactions. For example,

- Customs clearance officer checks bill of entry/export and supporting documents for every import and every export made under the regime;
- BGMEA/ BKMEA verifies the utilization declaration for every transaction by a garment manufacturer;
- Bond Commissionerate audits every Accessory Manufacturer (1x per year) and every Garment Manufacturer (1x per two or three years);
- Bond Commissionerate supervises every transfer of materials imported by deemed exporter to the licensed warehouse.

Control (mainly in the form of document checks) is exercised on each of the key processes (issue of license, import of raw materials, removal from warehouse (in case of deemed exporters), export of goods), and manually recorded by Customs (in the passbook, bond register, Import Entitlement, bills of entry/export, *etc*).

According to Customs stakeholders, this level of control is motivated by a perception that the bonded warehouse regime is highly subject to misuse and risk of diversion of imported goods into the local market. There is a perception that deemed exporters present a higher risk of diversion than direct exporters, who are generally larger firms with international contacts. It is not clear how effective these transaction-based control methods have been to detect and deter fraud.

This approach to control has a cost to both the industry, in terms of delays and unofficial charges, and to the government, in the cost of administration. Customs stakeholders advised that the Customs administration does not in fact have the manpower to sustain this level of supervision. Moreover, it can constrain the expansion of the bonded warehouse regime to sectors in addition to the garment industry.

According to the Strategic Action Plan, NBR intends to adopt risk management across all of its operations as the basis for control

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### Box 3 NBR Strategic Objective - Risk Management

Objective

2.1 Develop and implement a whole-of-organization Risk Management (RM) Framework that drives a philosophy of a risk-based, intelligence-led approach to everything we do

*Source: NBR Customs Modernization Strategic Action Plan 2014 - 2017*

Given the importance of the regime, it would be important to ensure that when implementing this strategic objective on risk and all associated activities, NBR fully takes into account the bond warehouse processes and procedures.

As part of implementation of a risk-based approach to control, the emphasis on transaction-based control should be reduced in favor of account-based selective control. That is, rather than a customs officer at the border matching every import and export and recording the result, the Bond Commissionerate should exercise control on the basis of periodic reporting by the licensee, periodic visits to the factory/warehouse and, where justified by risk assessment, audit of the licensee's records.

## 2. Recommendations

Introduce and require risk management principles to be used the basis for control of bonded warehouse processing. This includes controls exercised on the license application (determining, for example, what the level of checking to be done on particular applications; the amount of security that may be required); when physical supervision is required when imported goods are transferred from one location to another (*e.g.*, deemed exporter warehouse to factory floor), and in customs clearance of imports and exports of goods under the regime.

Shift from a transaction-by-transaction control at the border to account-based control using periodic reporting and audit.

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## **D. Simplifications (“Authorized Operators”)**

### **1. Analysis**

With certain exceptions (*e.g.*, provisions for use of a general and a “continuous” bond), the bonded warehouse regime does not appear to contain any provisions to allow simplified or reduced customs processing and controls in justified cases. As noted above, all operators – direct exporters and deemed exporters – appear to be subject to the same processes and level of control in Customs licensing, and in import and export customs clearance, regardless of their compliance history.

Under a risk-based system of control, Customs can recognize that certain traders who have demonstrated compliance with obligations over time can be accorded simplified processing and control. The RKC (see Box 4 ) sets out the simplifications that should be granted by Customs such “authorized traders.”

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### Special procedures for authorized persons

#### 3.32. Transitional Standard

For authorized persons who meet criteria specified by the Customs, including having an appropriate record of compliance with Customs requirements and a satisfactory system for managing their commercial records, the Customs shall provide for:

- release of the goods on the provision of the minimum information necessary to identify the goods and permit the subsequent completion of the final Goods declaration;
- clearance of the goods at the declarant's premises or another place authorized by the Customs;

and, in addition, to the extent possible, other special procedures such as:

- allowing a single Goods declaration for all imports or exports in a given period where goods are imported or exported frequently by the same person;
- use of the authorized persons' commercial records to self-assess their duty and tax liability and, where appropriate, to ensure compliance with other Customs requirements;
- allowing the lodgement of the Goods declaration by means of an entry in the records of the authorized person to be supported subsequently by a supplementary Goods declaration.

*Source: RKC*

Certain or all of these simplifications should be made available to those operators, on application, that Customs has determined have a high level of compliance and otherwise present a low risk of violations. Simplifications such as allowing clearance at the manufacturer's facility or declaration by means of "entry in the records" creates flexibility and reduces delays that can be important to support the manufacturing industry.

As part of its general modernization strategy, Customs is implementing an authorized trader program; this important sector of Bangladesh's economy (RMG industry) should be given priority in implementing this program.

## 2. Recommendations

Implement as a priority an authorized trader program for licensed bonders that would provide import/export simplifications, such as allowing imported materials to be taken directly to the manufacturer's facility for customs clearance or by declaration through an "entry in the records."

This authorized trader program for bonded warehouse operators might be implemented, for example, on a pilot or limited basis for selected manufacturers at selected customs houses for selected customs operations (e.g., RMG exports made in Chittagong).

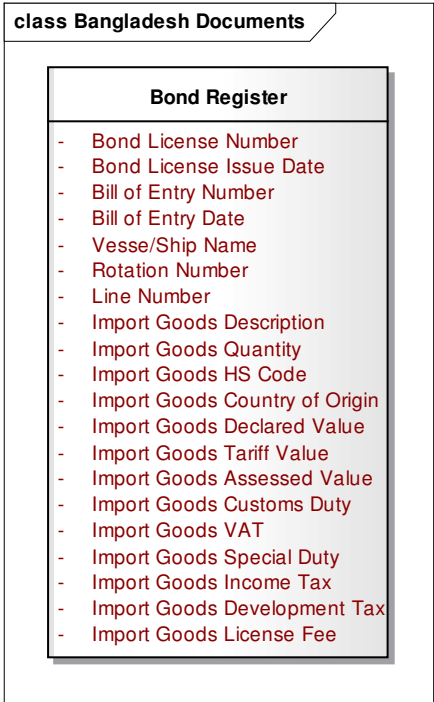
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## E. Documents and Formalities

### 1. Analysis

There appears to be a significant amount of redundancy in the documents, data and formalities required under the current system. One example is the **Bond Register** (Figure 7) which contains information that appears to be identical to the Bill of Entry for the goods.

Figure 7 Bond Register Data Elements



Even if the bond register were continued to be used, it is unclear why it would not be sufficient to simply record the BoE number in the register book, rather than hand copy of the BoE details.

Another example is the **Passbook** that Customs maintains to track imports and exports of direct exporters might also be made redundant by the ASYCUDA World system. As is clear from a review of the Passbook data elements (see Figure 4), the information manually captured by the Customs clearance officer at the time of import and export is identical to the information that is captured electronically in the Bill of Entry or Export. If this information is actually required for customs control purposes, it can be generated as a report from the ASYCUDA system.

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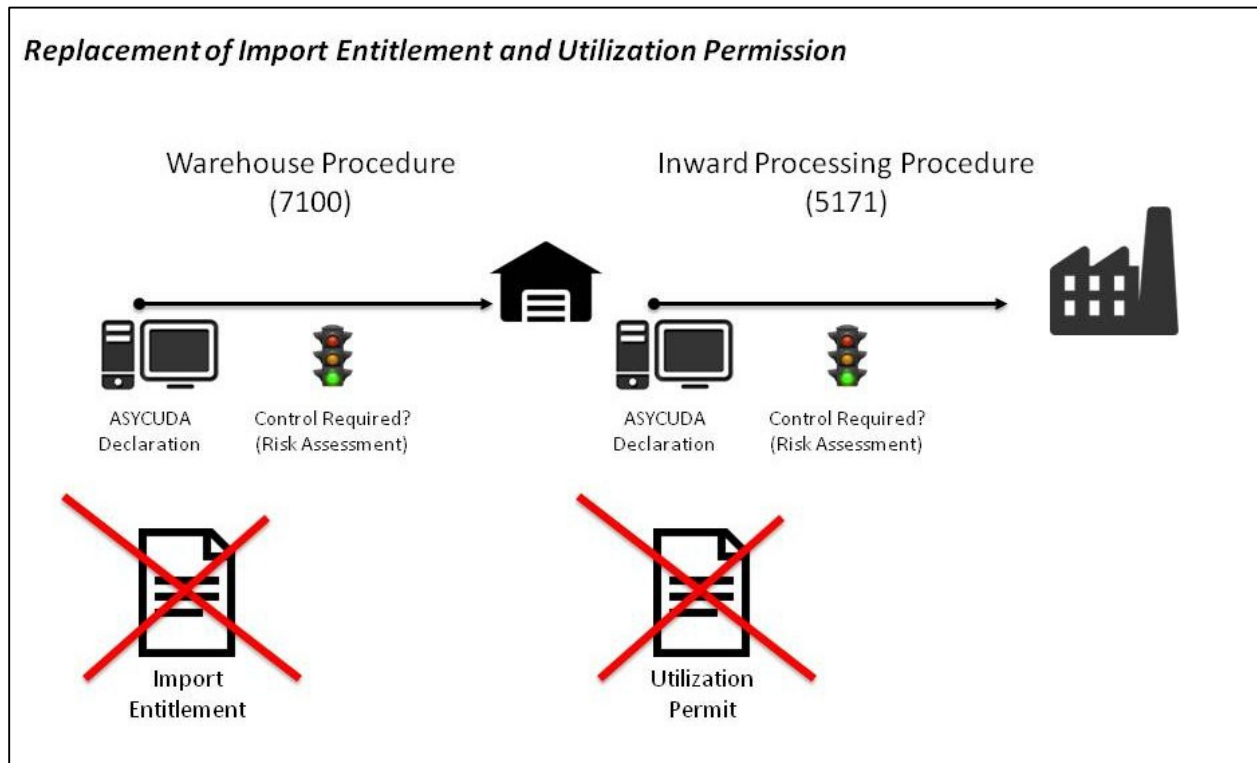
Apart from redundancy in documents and data, a significant amount of efficiency can be gained by taking advantage of the functionality available in ASYCUDA World, Customs centralized declaration processing system.

For example, stakeholders have already targeted the **Import Entitlement** document for possible elimination. At present, this document is used by Customs to ensure that the quantities of raw material imported by the deemed exporter for use in his production do not exceed the total volume the Bond Commissioner has allowed the deemed exporter to import over a given period (one year). This is now managed by manually by Customs clearance officers who handwrite a running balance on the back of the Import Entitlement document by deducting the quantity of each import consignment against the total volume allowed. Stakeholders advise that this creates possibilities for fraud and delay, as the same original Import Entitlement document may be needed to clear goods at different offices and/or by different customs agents. The need for this manual operation can be made redundant by ASYCUDA World. All of the required data is captured by the system in the declaration and at all customs offices. Extensions may be necessary to allow the ASYCUDA system to check the declared quantities against the annual limit and keep the running balance.

Other documentation and formalities could be likewise eliminated using ASYCDUA World in combination with the adoption of risk-based processing and a RKC-consistent procedure for inward processing, as recommended above.

For example, at present a deemed exporter is required to obtain a **Utilization Permit** from the Bond Commissioner before he/she can remove imported materials from the licensed warehouse and put them into production processing. This manual procedure can be a source of delay. However, if a RKC consistent inward processing procedure is implemented, the requirement of the UP could be eliminated, as shown in Figure 8.

Figure 8 Replace/Eliminate Presentation of Import Entitlement Sheet and UP



Under this proposal, when the raw materials are imported, the deemed exporter makes a declaration on ASYCUDA World placing the goods under the warehousing procedure (procedure code 71). The goods are released by Customs and moved to the deemed exporter's licensed warehouse. Subsequently, when the goods are to be removed from the warehouse for use in production, the deemed exporter makes a declaration on ASYCUDA World placing the goods under the inward processing procedure (procedure code 51), which refers to the declaration that put the goods into the warehouse.<sup>13</sup> The ASYCUDA World selectivity system would determine whether physical control by Customs is necessary; otherwise, the system would release the goods for use in the manufacturing operation. Customs has an electronic record of the removal and can approve on line the transfer of the goods into production. In this way, ASYCUDA World *plus* a proper inward processing procedure eliminates the need for the current manual/paper-based UP and the Import Entitlement processes.

<sup>13</sup> ASYCUDA World warehouse module may also be used here to keep count of quantity of goods remaining in warehouse, a function that is now apparently done manually using the bond register.

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## 2. Recommendations

Extend (as necessary) ASYCUDA functionality and eliminate in import and export clearance processing requirements for submission of-

- Import Entitlement sheet,
- Utilization Permission, and
- Passbook

Conduct a detailed analysis of all document and data requirements to eliminate redundancies or other data elements not required for customs control.

## F. Automation

### 1. Analysis

Proposals have been made to automate bond licensing procedures. According to the NBR Strategic Plan (Table 3 ), the intention is to automate on the basis of ASYCUDA World by mid-2015.

**Table 3 NBR Strategic Plan - Bond Warehouse Automation**

Objective	Action/Activities	Responsibilities	Priority	Time frame Milestones	Performance Measure	Resources
10.4. Review current arrangements for the Customs application and clearance of warehoused goods	10.4.1. Establish an automated bonded warehouse management system utilizing the ASYCUDA World module	Member (Customs Export, Bond and IT) Mr. Kh. Md. Aminur Rahman	High	Due June 2015	System in place	Development partner GoB

ASYCUDA World includes a bonded warehouse module that tracks goods placed in and removed from a storage warehouse. However, the ASYCUDA system does not appear to have functionality to manage manufacturing operations.



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The Customs Bond Commissionerate appears to have developed proposals in 2009 or earlier to automate the current documents (that is, the UP, UD, license, etc) and associated processes. In contrast to ASYCUDA World, these proposals appear to include functionality to cover manufacturing operations. These earlier proposals for automation were not reviewed in detail in this assessment (and may no longer be valid).

A system to monitor manufacturing operations can be complex to build and to operate, if that is NBR's intention. For example, if it is the intention to track manufacturing operations in order to link imported materials to finished goods, then manufacturers' UD's would have to be captured in the system. This alone could be a large task given that BGMEA today processes 100 UD's and 300 UD amendments per day. Moreover, to be useful, the design of such a system should take into account other industries which may have more complex manufacturing operations (e.g., operations that produce waste and by-products, or use chained bills of materials) and considerably longer lists of parts and components.

As recommended above, Customs should transition from transaction-based controls to control based on risk management principles, with compliance verified by means of periodic reporting, periodic site visits and audit, which would include audit of the manufacturer's own automated inventory control system, if any. This recommended approach to control might obviate the need to build a Customs system to track all imported goods through manufacture to export.

## **2. Recommendations**

Functionality in ASYCUDA World should be investigated and extended, if feasible, to eliminate the need for the Import Entitlement sheet, UP and the Passbook, as suggested in the previous recommendation. However, the cost and complexity of building a module or application to track usage of imported materials in manufacturing operations may not be justified, particularly if Customs control is transitioned away from transaction controls to periodic and audit based controls using risk management principles.

In any event, development of a module should not automate the current processes, but should be developed only after analysis and elimination of unnecessary and redundant documents, formalities and controls, including those suggested in this paper.

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## G. Use of Regime by Other Industries

As previously noted, the bonded warehouse regime in Bangladesh has been used mainly by the RMG industry and its upstream suppliers. According to statistics of the Dhaka Bond Commissionerate, for example, approximately 80% of the new licenses issued between July 2014 and March 2015 have been issued to garment and accessory manufacturers (jewelry, diamond, footwear and leather goods industries appear to account for most of the balance).<sup>14</sup>

Nevertheless, this assessment did not find any legal or procedural rules that would bar or prevent industry sectors other than RMG and accessory manufacturers from using the regime. The relevant provisions of the Customs Act, 1969 are industry-neutral, which also appears to be the case of the SRO's implementing the regime. In fact, it appears to be the official policy of the government to allow use by other sectors-

“Recognised manufacturing and exporting units in all other sectors operating under the bonded warehouse system may import their raw and packing materials under back to bank [sic] L/C arrangements. This provision shall cover both output manufacturing (direct exporters) as well as input manufacturers (indirect exporters) units.

In case of industries which supply raw materials to export oriented industries i.e., deemed exporters, raw materials can be imported against back to back L/C through bonded warehouse.”

Import Policy Order 2012-2015, para. 24(16)-(17).

## V. Conclusion

This paper contains the results of an assessment of Bangladesh's bonded warehouse regime, as it relates to export manufacturing operations. The assessment found that the regime should be improved in the following respects-

Subject	Recommendation
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<sup>14</sup> See <http://www.cbc.gov.bd/>

<b>Legal Base</b>	<ul style="list-style-type: none"> <li>• Incorporate clear/comprehensive provisions in the Customs Act to enable a RKC-consistent inward processing procedure</li> </ul>
<b>Assurance of Obligations</b>	<ul style="list-style-type: none"> <li>• Investigate the feasibility of requiring a financial security (bank guarantee, 3<sup>rd</sup> party surety) for use of the regime</li> </ul>
<b>Control Methods</b>	<ul style="list-style-type: none"> <li>• Incorporate as a priority bonded warehouse regime within NBR risk management framework and activities</li> <li>• Shift from transaction-based control to risk based control on basis of periodic reports, visits, audit</li> </ul>
<b>Simplifications</b>	<ul style="list-style-type: none"> <li>• Extend as a priority the authorized trader program to bonded warehouse manufacturers</li> <li>• Provide qualifying manufacturers with option for clearance at premises and/or “entry in the records” to reduce delays at border</li> </ul>
<b>Documents and Formalities</b>	<ul style="list-style-type: none"> <li>• Extend ASYCUDA World functionality (as necessary) in order to <u>eliminate</u> requirement of presentation of Passbook, Import Entitlement sheet, and Utilization Permission in import/export clearance</li> </ul>
<b>Automation</b>	<ul style="list-style-type: none"> <li>• Review critically any proposal to develop a bonded manufacturing module</li> </ul>

Although the assessment was based on the regime “as is,” which is largely used by RMG export manufacturers and their upstream suppliers, the changes that are suggested in this report are intended to improve the regime generally, in order to facilitate its use and utility by industries in addition to the current participants.

## Appendix

### Annex 1 – General Bond Excerpt

In exercise of the order passed by the National Board of Revenue in pursuance of section 86 Sub Section (2) of The Customs Act, 1969 (IV of 1969) the form of bond to be executed under sub-Section (1) of the said section by the hundred percent export-oriented industry i.e. a bonder, is as under :

### BOND

We of **M/S** ..... **ADDRESS**....., **BANGLADESH**.

S/L no.	Name	Designation	Present & Permanent Address	Signature
1.		Managing Director	<u>Present Address</u> : <u>Permanent Address</u> :	

OF THE SAME PLACE, are jointly and severally bound to the president of Bangladesh, in the sum of Tk. 30000000.00 (Taka Three Crore Only) to be paid to the President of Bangladesh for which we jointly and severally bind ourselves and our legal representatives.

The above bonder **M/S** ..... having applied to the appropriate officer of Customs at Chittagong to lodge in the warehouse at ..... for a period of three years the following goods that is to say :

Marks & No. of Packages	No. of Description of Packages	Quantity/weight or Measure	Description of Goods
-------------------------	--------------------------------	----------------------------	----------------------

**AS PER BILL OF ENTRY**

Import Value	Rate of Customs Duty	Amount of Custom Duty	Duty Paid Value	Rate of VAT	Rate of VAT
--------------	----------------------	-----------------------	-----------------	-------------	-------------

**AS PER BILL OF ENTRY**

Imported by sea/land/air from all authorized ports of entry/countries on board of the ship/vehicle/air craft and entered in the custom house books as no of the Register of goods imported by sea/land/air :

#### The condition of this bond is that:

If the **M/S** ..... or their legal representative shall observe all the provisions of the Customs Act, 1969 and the rules in respect of such goods to be observed by owners of goods warehouse and by persons obtaining permissions to warehouse goods under the provisions thereof.

And if the said **M/S** ..... or their legal representatives shall pay to the appropriate officers of Customs at the Customs Station of Chittagong all dues whether customs duties, warehouse dues, rent or other charges which shall be demandable or, the said goods, or on account of penalties incurred in respect to them, within 3 (three) years from the date of this bond or within such further time as the Commissioner of Customs, Customs Bond Commissionerate, Dhaka or the National Board of Revenue may allow in that behalf together with interest every sum at the rate as mention under Section 86(1)(B) or such other rate for the relevant period as may be fixed by the National Board of Revenue from the date of demand there of being made in writing by the said officers.

---

And if, within the terms and conditions so fixed or allowed the said goods, or any portion thereof, having been removed from the said warehouse for home consumption or re-exportation by sea/land or air, like the full amount of all customs duties, warehouse duties, rent and other lawful charges, penalties and interest demandable as aforesaid shall have been first paid on the whole of the said goods.

**This obligation shall be void.**

Otherwise and on reach or failure in the performance of any part of this condition, the same shall be in full force and...

## Annex 2 – Bond License Application

### 1. Application Form

#### BOND LICENSE APPLICATION FORM

#### Section A

1. Name of the Manufacturing Unit							
2. Address of the Manufacturing Unit							
Holding No.							
Road No.							
Area/Village							
Mowja							
Union							
Upazila							
District							
Police station							
Ward							
City Corporation/Powrashova							
Phone/PABX no							
Fax no.							
Mobile no							
E-mail							
3. Name of the Head Office							
4. Address of the Head Office							
Holding No.							
Road No.							
Area/Village							
Mowja							
Union							
Upazila							
District							
Police station							
Ward							
City Corporation/Powrashova							
Phone/PABX no							
Fax no.							
Mobile no							
E-mail							
5. Manufacturing Unit Premises [Please tick]							
<input type="checkbox"/>	Hired	Deed no, if any	Date		CS Dag No		
			Exp.		RS Dag No		
<input type="checkbox"/>	Owned	Dalil no, if any	Date		CS Dag No		
					RS Dag No		

Page 1 of 7

5b. Whether there was any other bonded factory before at the same premises		Yes	No
If Yes, Bond License No., if any			
6. Type of Bond [Please tick]		Special Bonded Warehouse	Private Bonded Warehouse
<i>Subcategories</i>			
Direct		Supervised Bond	
Direct & Deemed		Home Consumption Bond	
Continuous Bond		Export processing Zone	
		Privileged/Diplomatic Bond	
		Continuous Bond	
		Commissariat	
		Deemed	
		Direct	
		Direct & Deemed	

7. Category of Bond [Please tick]

A (100% Foreign investment)	B (Both Local & Foreign investment)	C (100% Local investment)
-----------------------------	-------------------------------------	---------------------------

	Number	Issue	Date
8. TIN		Issue	
9. BOI / BSCIC Reg. no.		Issue	
10. ERC no.		Issue	
		Exp.	
11. IRC no.		Issue	
		Exp.	
12. VAT Reg. no. (BIN)		Issue	
13. Trade License no.		Issue	
		Exp.	
14. Fire License no.		Date	
		Exp.	

15. Enrolment (if any):

a. Enrolled with [tick]	BGMEA	BKMEA	BLMEA	BGAPMEA	BPGMEA
	Other (specify):				
b. Membership no					Issue
					Exp.

16. Environmental Certificate no (If Applicable)	Issue
	Exp.

17. Lien Bank					
Code	Name	Branch	Address	Fax	Solvency certificate issuing bank [please tick]

--	--	--	--	--	--

**Section B**

**18. Owner's Information**

Ownership Category [tick]:		
<input type="checkbox"/>	Proprietorship	<input type="checkbox"/>
<input type="checkbox"/>	Partnership	<input type="checkbox"/>
<input type="checkbox"/>	Private Limited	<input type="checkbox"/>
<input type="checkbox"/>	Public Limited	
Name of Proprietor/Chairman or MD/ Managing Partner		
Father/Husband's Name		
TIN		Date
Present Address		
Permanent Address		
Residence Phone no.		
Mobile no.		
Passport no. (if any)		Date
Place of Issue of passport, if any		
National ID No (For Bangladeshi)		
Signature and Photo	Put your signature here	Attach one copy passport size recent photograph

**19. Director's/Partner's Information (for Limited/Partnership Company)**

Name		
Father/Husband's Name		
TIN		Date
Present Address		
Permanent Address		
Residence Phone no.		
Mobile no.		
Passport no. (if any)		Date



Place of Issue of passport, if any		
National ID No (For Bangladeshi)		
Signature and Photo	Put your signature here	Attach one copy passport size recent photograph

*(Please use separate sheet if needed)*

### Section C

#### 20. Manufactured Goods Information

Description of Goods to be manufactured (as per the reg. No. of BOI/BSCIC/.....)

Sl. No.	HS Code	Commercial Description

*(Please use separate sheet if needed)*

#### 21. Total Area of the factory

SL	Length ( ft )	Width ( ft )	Area (Sq-ft )

#### 22. Raw Materials Warehouse:

SL	Length ( ft )	Width ( ft )	Height ( ft )	Volume (Cubic-ft )

#### 23. Finished Goods Warehouse (If Applicable):

SL	Length ( ft )	Width ( ft )	Height ( ft )	Volume (Cubic-ft )

#### 24. Raw Materials Information:

Description of Raw Materials and Accessories (if applicable) as per the installed machineries:

Sl. No.	HS Code	Commercial Description

*(Please use separate sheet if needed)*

## Section D

### 25. Installed Machineries Information

25a. Description of the Machineries:

a.	Description			
b.	Brand Name			
c.	Model No.			
d.	Manufacturing Year			
e.	Country Of Origin			
f.	Date Of Installation			
g.	B/E No or VAT Challan No.		Date	
h.	BL No.		Date	
i.	Invoice No.		Date	
j.	LC No.		Date	
k.	No. of Machines			

*(Please use separate sheet if needed)*

25b. Product wise mother and auxiliary machineries and total production capacity:

Sl	HS Code of the Product to be produced	Commercial description of the Product to be produced	Mother Machine's Description	Quantity/No. of mother machine of this type	Auxiliary Machines' Descriptions	Annual Total Production Capacity of the Mother Machine	Unit
a.					1. 2. 3. 4. 5.		
b.					1. 2. 3. 4. 5.		
c.					1. 2. 3. 4. 5.		

*(Please use separate sheet if needed)*

26. Indemnity Bond/Undertaking for import of Machineries (if any)

26a. Particulars of Importation for installed machineries:

Sl. no	B/E no	Date	Indemnity / Undertaking No	Date	Cash Memo /Challan/Voucher no	Date	Due date of release	Actual date of release

*(Please use separate sheet if needed)*



a.	Name of the person who is doing the associate business	
b.	TIN of that person	
c.	NID of that person	
d.	Name of the associate business	
e.	Address of the associate business	
f.	BIN of the associate business	
g.	TIN of the associate business	
h.	Nature of the associate business	
i.	Position of that person in associate business	
j.	Share of that person in associate business	

*(Please use separate sheet if needed)*

29. Information about authorized signatory

Name of the authorized signatory	Signature of the authorized signatory	Photograph (one copy)

30. *DECLARATION (by Chairman/MD/Proprietor/Sole Partner)*

I declare that the particulars supplied by me in this application are correct and true in every respect.

Name (in BLOCK letters)			
Signature and seal			
Designation of signatory		Date	

## 2. Required Supporting Documents

**Peoples Republic of Bangladesh**  
Customs Bond Commissionerate, Dhaka  
342/1 Segunbagicha, Dhaka-1000

### Required Document for application of Bond License

1	Application on Standard Format with appropriate revenue stamp
2	BOI/BSCIC Registration
3	Company TIN and Certified copy of wealth statement issued by Income Tax Department (IT-10B) for all directors/owner
4	Updated trade license
5	Updated Fire License
6	Value added tax (VAT) Registration certificate (Business Identification Number- BIN)
7	Recommendation by concern business association (if applicable). If applicant is not member of association, he can apply without recommendation for Bond License.
8	Name, Designation, present and permanent address, signature and photo attached/put on non-judicial stamp of value BDT 300/- of owner/directors. It should be duly notarized by competent authority and be attested by the lien bank(s).
9	Boiler certificate (if applicable)
10	One original copy of Memorandum and Article of Association and Certificate of Incorporation issued by RJSC (if applicant is a company)
11	Purchase document for machinery. Invoice and Bills of Entry for import and VAT invoice (Challan) for local purchase.
12	Two copies of layout plan of factory. It could be ammonia printed and duly signed by registered engineer.
13	Deed of land/space ownership or Duly notarized Rental deed (incase of rental space)
14	Affidavit (Halafnama) to follow the law, rules and procedures on non-judicial stamp of value BDT 300/- by Managing Director/Proprietor/Sole Partner. It could be duly notarized by competent authority.
15	Certificate from lien bank(s) that the applicant has financial strength to submit General Bond of appropriate amount of money.
16	License fee of BDT 10,000/-

- NB:
1. License fee to be deposited to the treasury in **Account Code: 1/1136/0005/1854**
  2. General Bond to be printed on non-judicial stamp of value BDT 2000/- after approval of license.
  3. 15% VAT is applicable on license fee. It could be deposited in the treasury using Account code of the concern VAT Commissionerate under which the applicant is registered for VAT. For further assistance, please visit: [www.nbr.gov.bd](http://www.nbr.gov.bd) of [www.taxguidebd.com](http://www.taxguidebd.com)



## Annex 3 – Utilization Declaration Application/Form

### Utilization Declaration (Woven/Knit/Sweater)

#### UD authenticating authority

1. Name &	B	A	N	G	L	A	D	E	S	H		G	A	R	M	E	N	T	M	A	N	U	F	A	C	T	U
2. Address	R	-	R	S		A		F	X	P	O	R	T	E	R	S		A	S	S	C	I	A	T	I	O	N
	BOMEA	7-9																									
3. Application no. (For office use only)																											
4. UD no. (For office use only)																											
5. UD version																											
6. Name of factory/unit																											
7. Factory Address																											
8. Phone																											
9. Head office Address																											
10. Phone																											
11. Bond Licence no.																											
12. VAT Reg. No.																											
13. Membership no.																											

#### Lien Bank Information:

14. Bank code	15. Bank Name	16. Address	17. Phone	18. Fax

#### Buyer's Information:

SL	19. Buyer name	20. Address	21. Country	22. Phone	23. Fax	24. E-mail
1						
2						
3						

#### Export L/C / Contract :

SL	25. Master Export L/C / Contract/P.O. no.	26. Date	27. Value	28. Currency	29. Shipment Date	30. Expiry date
1						
2						
3						

#### Import L/C: (Back to Back L/C/Sight L/C/USANCE L/C):

SL	31. Foreign	32. Import L/C No.	33. Date	34. Value	35. Currency
1					
2					
3					
	Local/ Inland				
1					
2					
3					
	Import without L/C against contract – raw materials imported free of charge/cost				
	Value on CM/CMT basis				







45. Description of importable Raw materials (fabrics & yarn) as approved by Utilization Permission Committee vide letter no..... date.....

**Fabrics/Yarn:**

Sl	Style/ Order	Description of Garments	Qty (Dozn/ Pce)	HS Code of Fabrics/ yarn	Description of Fabrics/ yarn	Construction and Trade name	Total Qty.	Consumption per unit (Dozn/Pce)
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
11								
12								

**Imported Accessories:**

Sl	HS Code	Commercial Description	Supplier's Name	Address	Country	Quantity	Unit	Remarks (In case excess import is taking place which will be adjusted against subsequent U.D, the same should be mentioned with quantity)
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								

**46. Description of Local Raw Materials (Fabrics & Accessories)**

**a) Fabrics/Yarn:**

Sl	Style/ Order	Description of Garments	Qty	HS Code of Fabrics	Description of Fabrics	Construction and Trade name, if any	Qty Dozn/ Pce	Consumption per unit (Dozn/Pce)
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								

**b) Accessories:**

Sl	HS Code	Commercial Description	Supplier's name	Address	Country	Quantity	Unit	Remarks (In case excess import is taking place which will be adjusted against subsequent U.D, the same should be mentioned with quantity)

**47. Description of Raw Materials from other UD**

**Fabrics/ Yarn/Accessories:**

Sl.	UD no.	Date	HS Code	Quantity (Kg/ Mtr/ Yards/Lbs)	Description of fabrics/yarn/ accessories	Value

**48. Total Fabrics/ Yarn**

SL	Description of Fabrics	Quantity ;KG/Mtr/ Yards/Lbs	Country of Origin	Supplier's Name and Address
1				
2				
3				
4				
5				
6				
7				
8				
9				

**49. Shipment information :**

Shipment date				
---------------	--	--	--	--

50. The above declaration/ information furnished is correct. Necessary bond has been executed and sample of garments signed by the designated representative of UD issuing authority will be submitted to Customs/Port at the time of export. Half yearly statement of import & export as per proforma duly authenticated by lien Bank will be submitted to Bond Commissionerate.

-----  
Signature of Bonder/Authorized  
Person with name & seal

- (1) This UD has been issued in terms of notification of NBR under SRO no. 271-Law/94/1564 dt.19.9.94 for the stated raw material, for import, storage and export of ready garments as per Master L/C/Contract.
- (2) The UD has been issued as per documents & declaration submitted by Bonder.
- (3) Bonder will remain responsible for any untrue statement or submission of false document and will bear all consequences for any irregularity detected in future.
- (4) In case of discrepancy in H.S. code, the same may be corrected by Custom Officer not below the rank of Asstt. Commissioner.

51. Condition, if any.....

-----  
BGMEA's nominated Member  
(Signature with seal)

-----  
BGMEA's nominated officer  
(Signature with seal)

Ref no: BGMEA/DHK/UD/2004/

date: 00/00/00

**Copy for kind information and necessary action to:**

- (1)
- (2)

-----  
BGMEA's nominated officer  
(Signature with seal)



# Annex 4 – Import Entitlement Sheet

গণপ্রজাতন্ত্রী বাংলাদেশ সরকার  
 কাস্টমস বন্ড কমিশনারেট  
 ৪২, এম. এম. অসী গোল্ড, দাজীরাবাজার, ঢাকা-১০।

*CUSTOMS BOND COMMISSIONER'S NAME & ADDRESS*

০১. অর্ডারের নাম : [REDACTED]  
*NAMES of BONDERS ADDRESS*

০২. বন্ড লাইসেন্স নং ও তারিখ : ৫(১৩)কক/আক/সড(সি)/সিই/১৪/২০১১, তারিখ-১৫/০৫/২০১১  
*No of Bond License + ISSUE DATE*

০৩. মূল্য নিবন্ধন নং ও তারিখ : [REDACTED]  
*VAT Registration No. + DATE*

০৪। বন্ড হোল্ডারের দ্বারা পূর্বায় কর্তৃক ক্রমিক নং-১৫ ও ২০ মেত্রেতে কাস্টমস বন্ডের বিবরণ জন্মগতী পন্যক্রমে সর্টিং।  
 অত্র নিয়মাবলীর পরিধায় ও এইচ এস কোড নিম্নে উল্লেখ করা হলোঃ

ক্র. নং	বর্ণনামাফের বিবরণ RAW MATERIAL DESCRIPTION	এইচ এস কোড H.S. CODE	মোট আমদানি প্রাপ্যতার পরিমাণ TOTAL QUANTITY (METRIC TON)		বর্ষিক আমদানি প্রাপ্যতা ANNUAL QUANTITY (METRIC TON)	
			Import ENTITLEMENT (মে. টন)	METRIC TON	(মে. টন)	METRIC TON
১	শিলি (সিলি গোল্ড)	৩৯০২.১০.০০	৭৭৭.০০	(বাকশত শতাংশ দ্রব্যিক ভন্য ভন্য)	TOTAL YEARLY QUANTITY - 1008.00 (এক হাজার অষ্টাশত ঠোল্লি দ্রব্যিক ভন্য ভন্য)	
২	সিলি পাই/প্রসারণ জিপিই সিলি গোল্ড	৩৯০১.১০.১০	২৪৮.০০	(শতাংশ ভিত্তি/সিলি দ্রব্যিক ভন্য ভন্য)		
৩	স্বয়ংক্রিয় (৩৩০ জিগসার বা জম্বু)	৪৮১০.৯২.০০	২৩১.০০	(দ্রব্যিক এককিত দ্রব্যিক ভন্য ভন্য)		
৪	সিলি গোল্ড (এম এম ১৩ জিগসার)	৪৮০৫.০০.০০	১০৮.০০	(একশত ঠোল্লি দ্রব্যিক ভন্য ভন্য)		

০৫. বর্ষিক আমদানি পরিমাণ = ১৩৬৬.০০ (বর্ষিক আমদানি দ্রব্যিক ভন্য ভন্য) মে. টন। *(MAX CAPACITY OF BOND)*

০৬। বর্ষিক আমদানি প্রাপ্যতার মেয়াদ ১৫/০৫/২০১১ হতে ১৫/০৫/২০১৬ খ্রঃ পর্যন্ত বলবৎ থাকবে। *\*\**

০৭। বন্ডের মেয়াদাবসান তারিখ ১৫/০৫/২০১৪ হতে ১৫/০৫/২০১৬ খ্রঃ পর্যন্ত অটোম-বর্তিত। *\*\*\**

*Signature*  
 (বিলেদ বিহারী জেজিপি)  
 সহকারী কমিশনার,  
 কাস্টমস এর অফিস,  
 তারিখ: ১৫/০৫/২০১১

০১। [REDACTED]  
 ০২। [REDACTED]  
 ০৩। প্রথম নাম সত্যপাই, বিডি এপিএমইএ, এফডি হোল্ডিং (এম এম), শেখ হুসিন রোড জারাজান, ঢাকা  
 ০৪। [REDACTED] - OFFICE COPY

*Signature*  
 (বিলেদ বিহারী জেজিপি)  
 সহকারী কমিশনার,  
 কাস্টমস এর অফিস

\* MAX limit of a consignment that can be imposable  
 \*\* Period of validity of Import Entitlement  
 \*\*\* License is auto renewed for one year

## Annex 5 – Utilization Permit Application



### BASIC INFORMATION

1.	Bond License No.	
2.	Name of the Bonder	

### EXPORT LC AND BUYER RELATED INFORMATION

3.	Name of the Buyer	
4.	Bond License No	
5.	Master LC/PI No	Date
6.	Master LC/PI Expiry Date	
7.	BBLC/Sales Contract/IP No	Date
8.	Last Date of Shipment	Expiry Date
9.	BBLC value (US\$)	

### EXPORT PRODUCT RELATED INFORMATION

10.	Name of the Product	
11.	HS Code of the Product	
12.	Quantity	Unit

### RAW MATERIALS INFORMATION

13.	Name of raw materials	
14.	HS Code of raw materials	
15.	Specific Bill of Entry No, if used	

### UTILIZATION DECLARATION INFORMATION

16.	UD No (Original)	Date
17.	Name of the Buyer	
18.	UD No (Amendment)	Date
19.	Goods(as per UD)/Garments Name	
20.	Quantity	Unit
21.	Goods(as per UP)/Accessories Name	
22.	Quantity	Unit
23.	Accessory needed per garment	

### LIEN BANK INFORMATION

24.	Bank	Branch
-----	------	--------

### REQUIRED DOCUMENTS FOR UP

1. BBLC/Sales Contract/IP
2. Proforma Invoice
3. Utilization Declaration
4. Master LC

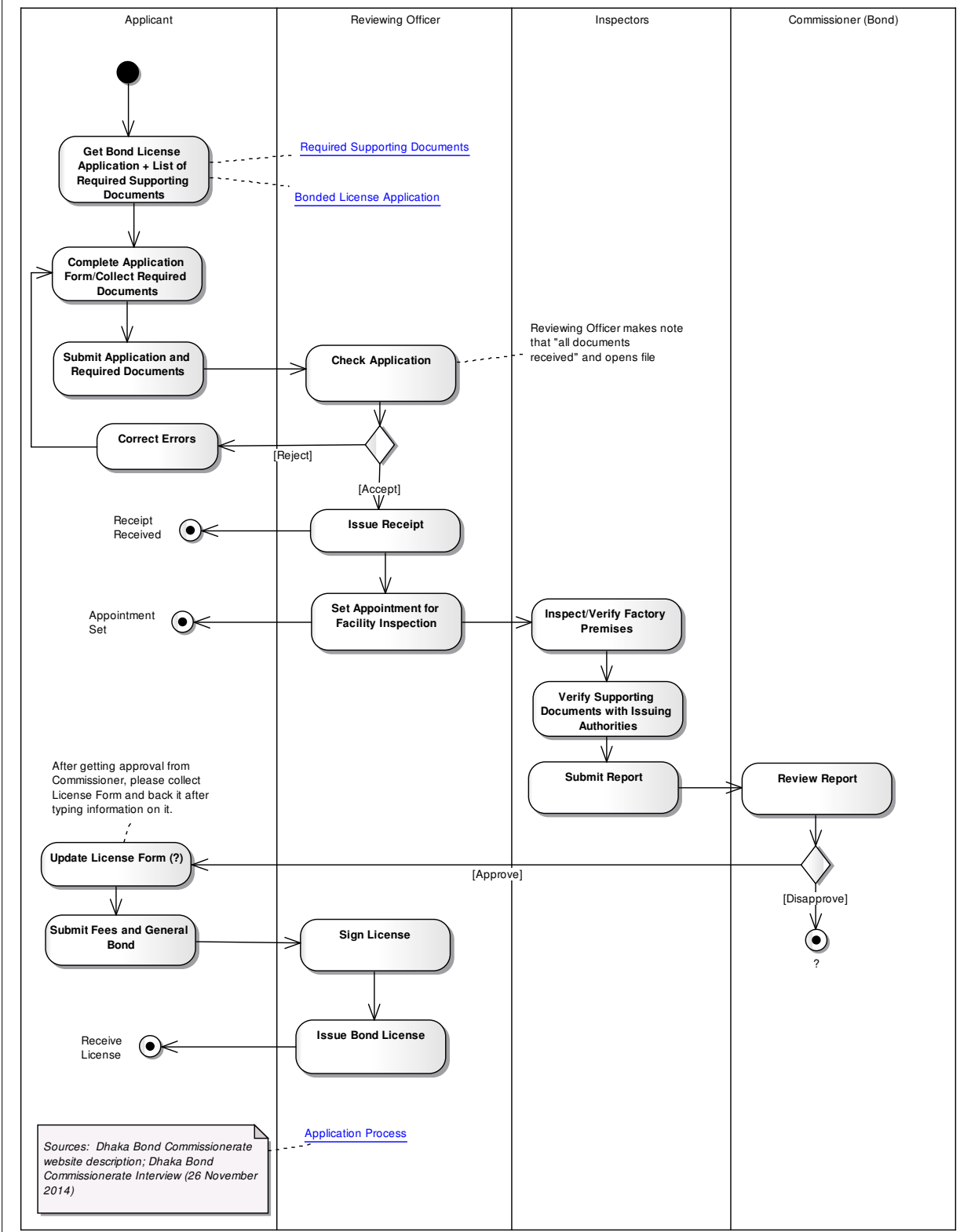
Signature and Seal of Applicant

---

## Annex 6 – Process Maps

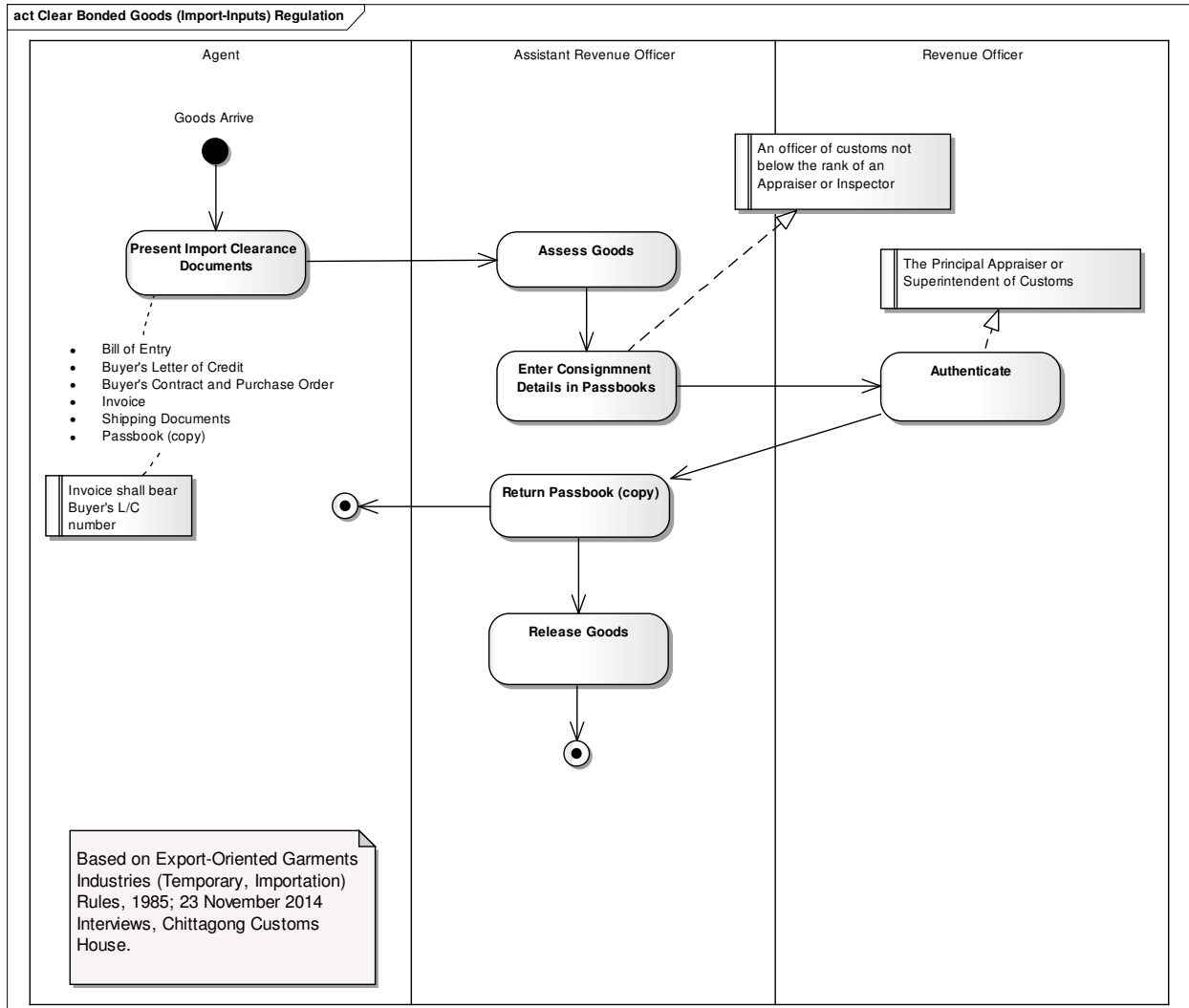
### 1. Get Bond License

act Get Bond License





### 3. Import Materials (Direct Exporter)





#### 4. Export Goods (Direct Exporter)

