CHAPTER 24

Importation and port clearing

SUMMARY

The purpose of an effective and efficient importation and port-clearance process is to ensure that pharmaceuticals and related health supplies are cleared from a land, sea, or airport with the least possible delay after their arrival.

Port delays can have costly consequences, such as—

- Reduced shelf life or, for vaccines and other very temperature-sensitive items, possibly a complete loss of potency
- Deterioration of product
- Damage to product cartons and other packaging or damage to outer identification
- Increased chance of theft
- Storage fees (demurrage), which can result in prohibitively high costs
- Stockouts, resulting in emergency purchases made at higher unit cost and with the potential for unassured quality
- Cash flow problems caused by pharmaceutical products being tied up for indefinite periods in port

The port-clearing process consists of—

- Managing preshipment issues, such as documentation, which are often required for the clearance process
- Identifying and anticipating the arrival of shipments
- Locating the shipments and the particular consignments
- Obtaining the documents needed for clearing before the arrival of supplies at a port, and ensuring that the documents are in accordance with the country's port and customs requirements
- Making timely payments relating to the clearance process
- Ensuring that appropriate storage space is available to receive the shipment and that transport is available immediately
- Delivering goods to the warehouse or other storage facility as appropriate

Expediting port clearing is an important function, requiring either a well-organized, paper-based activity-monitoring system or a computerized information system, as well as suitably trained human resources.

Port clearing may be slowed by government customs and import regulations, and inefficiencies within agencies that import goods. Private companies are sometimes able to achieve more rapid port clearance than government agencies. Two private-sector choices are available: either the supplier can be made responsible for the port-clearing process and delivering goods to a nominated warehouse, or the task can be contracted out to a clearing and forwarding agent. Retaining the services of experienced and well-trained staff can significantly improve the port-clearing process. A cost/benefit analysis should be carried out to establish the most suitable method for managing port clearance—either in-house or outsourced to the private sector. In addition, any changes to clearance formalities must be monitored continuously to prevent unnecessary delays when new regulations come into force.

Losses and damage in transit can be substantial. In order to recover insured losses, the import unit must lodge insurance claims systematically and expeditiously, because insurance companies usually have specific periods within which claims must be made.

24.1 Managing importation

This chapter discusses systems and procedures to improve the efficiency of port clearing. The port-clearing process is vital to the efficient operation of a public pharmaceutical supply program, whether it is performed by public employees or contracted out.

In many countries, clearing pharmaceutical consignments from airports and other ports is an inefficient and time-consuming activity that leads to financial losses. Unlike products that are nonperishable or indestructible, medicines and medical supplies can be damaged by poor handling and inadequate or poor storage conditions. They are also highly attractive to thieves. Thus, there is a critical need to clear pharmaceuticals and other temperature-sensitive and high-value products, such as HIV test kits, as quickly as possible after delivery to any port. The speed of this process is particularly important in landlocked countries, where goods may travel long distances overland, subject to unexpected delays, in less than desirable storage conditions.

Financial losses caused by poor port-clearing management, such as the following, can be extensive and are often proportional to the delay in the port.

- Shelf life can be affected when products are kept in the port under incorrect storage conditions. In the case of vaccines and other temperature-sensitive products, the

product may be rendered unusable or extra costs may be incurred to test the potency of the items.
- The likelihood of theft and product deterioration or damage is increased, especially when cartons are damaged by poor handling or are handled multiple times.
- Storage fees (demurrage) can result from delays in clearing; such fees are often substantial.
- Port-clearing delays result in longer delivery lead times. Unless funds are invested to increase safety stocks, stockouts may occur at storage and dispensing facilities, leading to extra expenditures on emergency purchases and supply chain disruption.
- Capital funds are tied up by port-clearing delays, which worsen cash flow problems in programs operating a revolving drug fund.

In many countries, the efficiency and economy of port clearing are hindered by cumbersome, bureaucratic, or obsolete regulations and by the poor systems and procedures used by customs and port authorities. The resulting delays for importers are substantial, yet improving performance can be difficult. The common practice adopted by private companies and individual importers is to obtain the services of a private clearing agent on a contract basis. An experienced agent has the best chance of negotiating the regulatory labyrinth in the shortest possible time.

24.2 Using a clearing and forwarding agent

Importation and customs clearance is a specialized area of work. Unless the pharmaceutical program already has an experienced team with clearing and forwarding skills, contracting with a specialized clearing and forwarding agent is strongly recommended.

If a private-sector agent is used, tenders for these services should be obtained from several companies, particularly if a large volume of business is involved. Any tender must clearly specify the service levels required and request pharmaceutical handling experience and references from current and previous clients. Tenderers should be asked to specify all charges and rates and to clearly identify the duties they will perform (see Box 24-1). Before an agent is appointed, it is important to obtain satisfactory business references from other clients and verify documents that have been submitted with the tender offers. The agent's offices and warehouses should also be inspected to ensure that good business and materials-handling practices are observed. Pharmaceuticals require special handling, and the agent should show an understanding of the problems associated with such commodities and demonstrate the ability to deal with these problems.

The import agency must have a broad understanding of the regulations and procedures related to customs and

Box 24-1
Contracting for port clearing

The following list includes the main features of a contract for port-clearing and forwarding services. Professional advice should be sought to ensure that terms and conditions are locally appropriate, legally enforceable, and realistic.

Scope of work

- Dealing with customs formalities
- Arranging clearance from the port or airport
- Arranging transport to the agent's warehouse or the consignee's premises
- Reviewing existing warehousing and identifying any potential problems in terms of capacity, security, ease of access, and availability of handling equipment
- Providing safe and secure warehousing prior to delivery, if required
- Arranging for delivery to final destinations, if required, which may include ensuring that lists of authorized signatories for taking over goods are available to maintain security
- Specifying documentation to be provided by the supplier and by the consignee (for example, shipping advisory, bill of lading, air waybill, packing list)

Performance standards

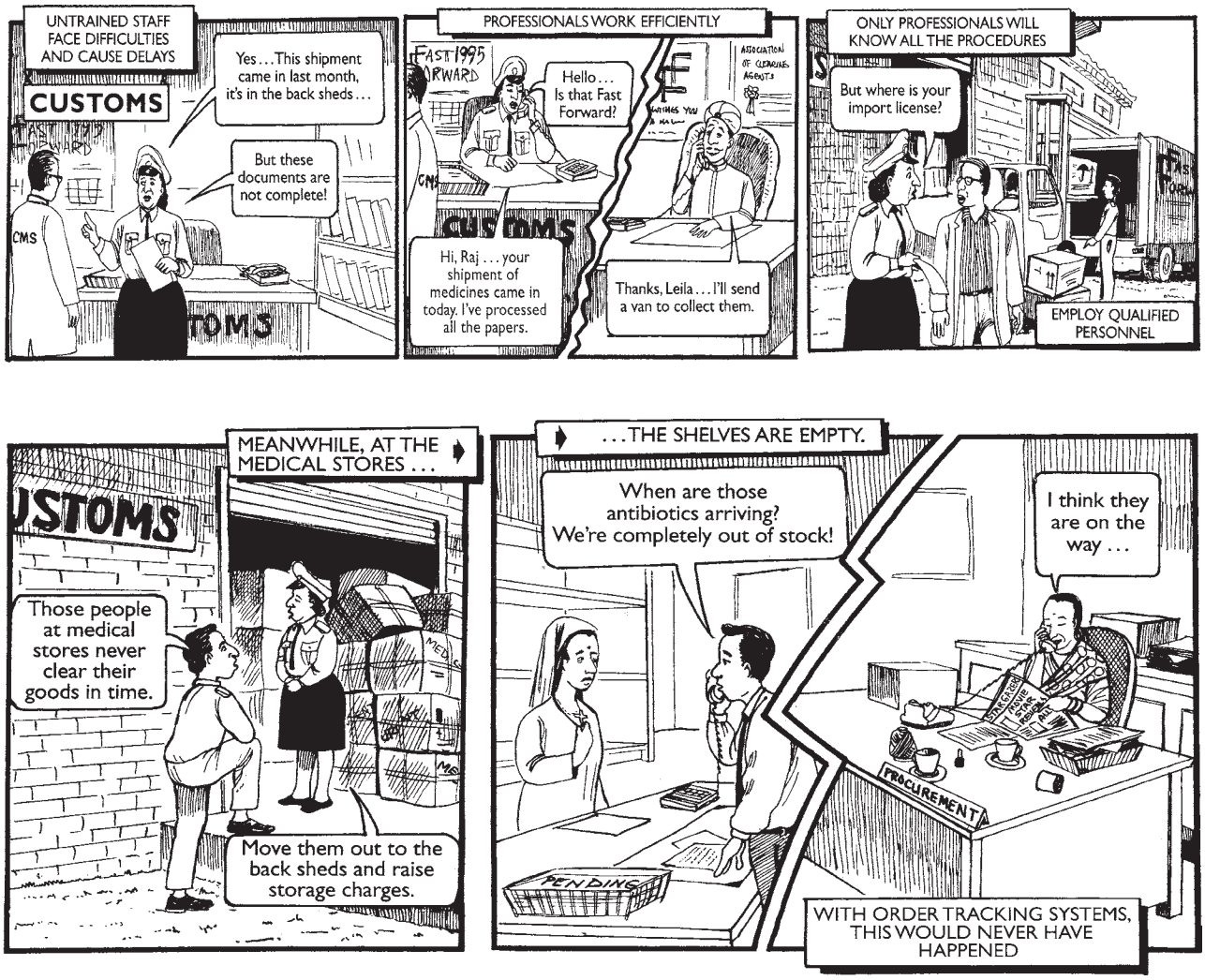
- Time periods allowed for each stage in the import and port-clearing process
- Procedures for regular performance monitoring

Service requirements

- Reporting
- Quoting for individual consignments
- Payment arrangements
- Penalties for poor performance
- Security
- Dealing with defective shipments in a timely manner
- Restrictions on the sublease of services to other companies

Payment terms

- Port or airport charges itemized in detail
- Agent's costs itemized in detail



port clearance, whereas the clearing agent must be familiar with key local officials and understand local rules, practices, and culture to help the recipient through the routines required. For example, differences in standard work weeks because of cultural or religious customs could make clearance and delivery procedures unfeasible on particular days of the week (for instance, arrivals should not be scheduled in Muslim countries on Fridays). The agent should obtain documentation from the import agency in advance of the arrival of goods in port to avoid storage charges, and should also assist in obtaining relevant permits, waivers, or bonds. The agent must also be up-to-date with current legislation and promptly notify the principals of any changes.

The agent must take full responsibility for ensuring that the cargo is cleared and delivered with minimal delay, in a secure and appropriate way, and at the lowest cost (or at a cost consistent with the contracted rate). Even if this system is in place, it is critically important for the recipient to understand all the stages of the importation and port-clearing process.

24.3 Organizing an import unit

An alternative to contracting with a private-sector clearing agent is to empower an import unit in the supply system to handle port-clearance responsibilities. This unit's responsibility should be specifically defined and include standard operating procedures, and the responsible officials should be accountable to the pharmaceutical supply program for prompt, reliable port clearance. The unit should have one or more experienced clearing agents on staff. Before the decision is made to organize an in-house import unit, its cost-effectiveness should be compared with that of using a contract with a private clearing agent. Chapter 44 discusses the responsibilities of an import unit attached to medical stores.

24.4 The port-clearing process

The most important steps in the port-clearing process are discussed in this section. Shippers and their forwarding agents must check conditions at the relevant port at each end of the journey. This step includes establishing any limitations on the use, size, and availability of containers and container-handling equipment; determining storage conditions in warehouses or storerooms in the port; and ascertaining the availability and functionality of refrigeration equipment to store vaccines and other temperature-sensitive products.

Notify buyer of expected arrival date of shipments

As soon as a consignment of medicines is shipped (in the case of air freight, preferably twenty-four hours ahead of dispatch), the seller has the responsibility of telling the buyer the name of the carrying vessel, aircraft, or vehicle and its expected time of arrival at the buyer's port. This step is often done by e-mail or fax. The seller then dispatches to the buyer copies of all the documents mentioned in Figure 24-1 and Box 24-2. When the buyer receives these documents, the local agents for the shipper or carrier can be contacted to obtain exact arrival details.

Locate shipments

The shipper's local agent provides final details specifying the quay, airport, or land destination where the shipment will arrive. Typically, a land destination will be a customs-bonded warehouse that can be publicly or privately owned (often by the importer) and is often located right at the port of entry, which minimizes handling and therefore risk. Subsequently, the agent provides details of the specific port or customs warehouse to which the consignment will be cleared. During the time that goods are parked in a bonded warehouse, duties do not have to be paid. Duty is not due until the product is taken from the bonded warehouse to sell or consume; if the products are reexported or destroyed, then duties will not have to be paid at all. Storage in a bonded warehouse also allows time for pharmaceuticals to be quality-tested before being released to the market. Such warehouses require adequate security to prevent theft or diversion of pharmaceutical shipments and also should have the capacity to store medicines at the right conditions, including appropriate temperature, to prevent damage.

Obtain documents needed for clearing

The port authorities require the original copies of the documents described in Box 24-2 to permit clearance by the buyer or its authorized clearing agent. Having an established list of duly authorized persons able to sign for goods helps ensure full security and accountability. Along with the original documents described in Box 24-2, the buyer or the clearing agent prepares customs and port authority entries. The drug regulatory authority may also inspect the shipment to make sure that the pharmaceuticals are registered, have been imported by a licensed importer, and any charges have been fully paid. After these steps are completed, customs duties (if applicable) as well as port authority and other charges must be paid before the consignment of medicines is removed from the custody of the customs and port authorities. When import agencies do not make advance preparations to have the required funds ready, clearance is delayed and storage fees accumulate.

Deliver to warehouse

Except in the case of medicines requiring special storage conditions—for example, a cold room or a dark location—the consignment is kept in a general-purpose port or customs warehouse until delivery. Such warehouses should be checked to ensure that they have appropriate handling and storage facilities for medicines in addition to straightforward container handling. The loading of the consignment onto trucks must be supervised by wharf officers from the import agency or its authorized clearing agent. To avoid delays at the delivery site, drivers should be told precisely where the consignment is to be delivered and informed of any particular timing issues related to warehouse closures or lack of receiving staff.

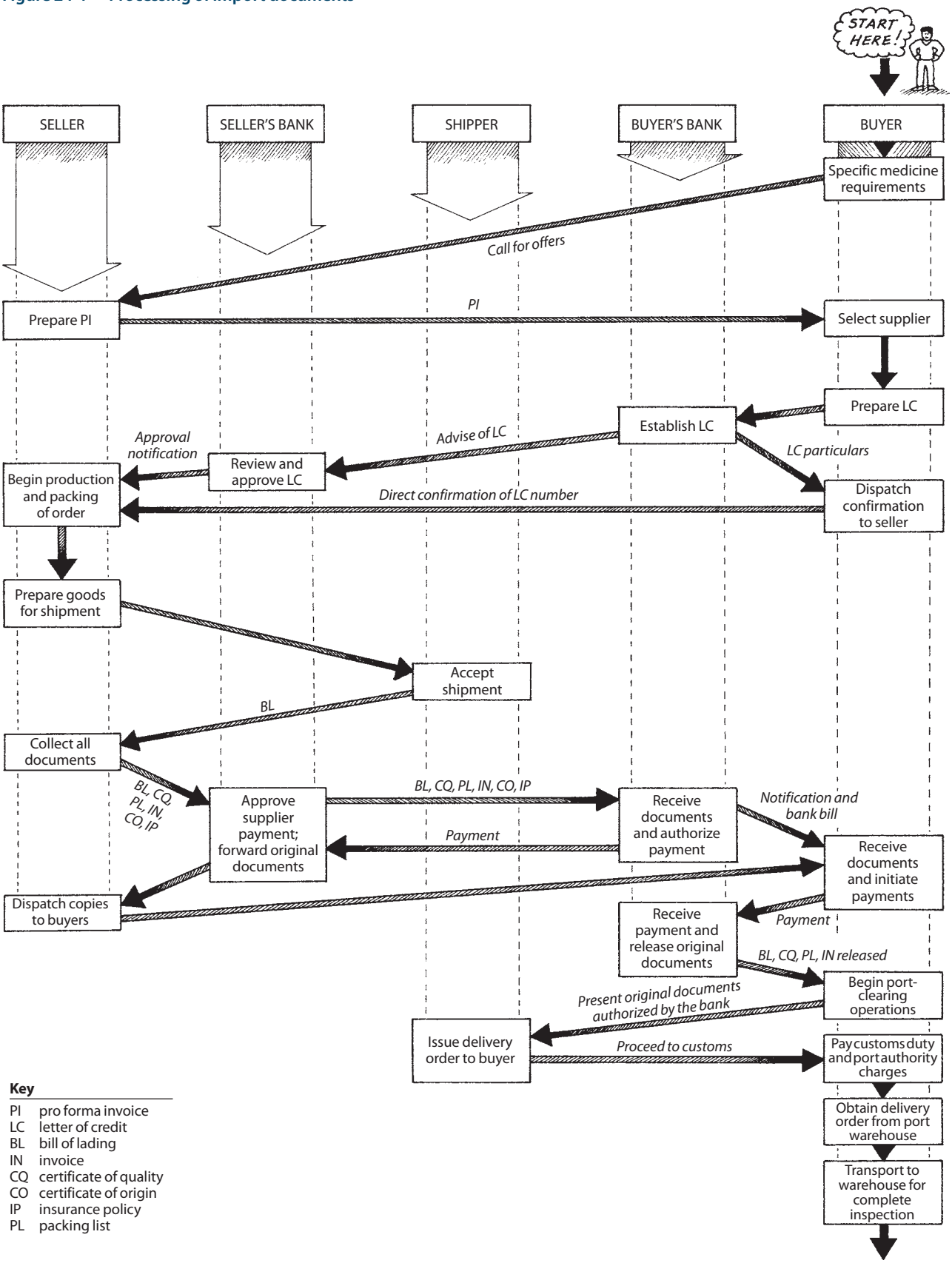
24.5 Expediting port clearing

Port facilities in many countries are inefficient. Nevertheless, the port-clearing department or port-clearing agent can improve the situation by adopting better systems and procedures. Typical problems experienced by an import unit, and some methods for expediting work, are discussed in this section.

Use of an activity monitoring system

One of the greatest problems experienced by the manager of an import unit or port-clearing department is the supervision of staff engaged in clearing shipments of medicines at the port. Unlike the staff of other departments, such as procurement and inventory control, many of the personnel involved in clearing medicines spend much of their time outside the office. Hence, supervision, assignment of duties, and progress monitoring are difficult. Careful selection of appropriate staff for port-clearing positions and consistent communication via radios or wireless telephones are important.

Figure 24-1 Processing of import documents



Key

PI	pro forma invoice
LC	letter of credit
BL	bill of lading
IN	invoice
CQ	certificate of quality
CO	certificate of origin
IP	insurance policy
PL	packing list

Box 24-2
Documents used in port clearing

Air waybill (AWB). Document prepared by the shipper that provides details about the contents of the shipment, the route and carrier, and the shipping charges.

Bank bill (BB). A bill presented by the buyer's bank to the buyer that covers the total cost of goods received and any bank charges for processing the order (cable charges, interest on letter of credit, fees).

Bank guarantee (BG). In certain circumstances, the lack of necessary documents may make it impossible for the buyer to clear a consignment of medicines that has arrived at the port. In such instances, a bank guarantee from the buyer's bank can facilitate port clearing.

Bill of lading (BL). A document certifying that the goods are in the charge of the carrying vessel and dated on or before the last date for shipment as given in the letter of credit. The document is issued by the shipper and signed by the master of the vessel.

Certificate of origin (CO). Document stating that the product under consideration has been produced by the manufacturer in the country concerned. Such a certificate should be obtained from a national chamber of commerce or similar institute of the exporter's country.

Certificate of quality (CQ). A buyer usually insists on certification from the supplier, such as batch certificates and a WHO-type certificate of a pharmaceutical product from the exporting country's drug regulatory authority (see Chapters 19 and 39).

Insurance policy (IP). Pharmaceutical consignments are generally insured against damage, pilferage, and complete loss. The insurance policy indicates that a certain sum of money has been paid as a premium to cover the consignment of medicines. This document normally provides information about the nature and extent of coverage provided and the terms and conditions under which it is valid.

Invoice (IN). Document provided by the supplier indicating costs, freight, insurance, and any other payment due on the order.

Letter of credit (LC). An interbank document issued by the buyer's bank. It states that a certain sum of money is available for the seller to claim from the bank as soon as a consignment is shipped and the required documents are presented, as specified in the letter of credit. It becomes irrevocable when appropriated and numbered by the bank.

Packing list (PL). Prepared by the seller, this document describes in detail the contents of each package in a consignment of medicines, including strength, pack size, number of packs per carton, and number of cartons per package. This information helps the buyer check whether medicines actually shipped are in accord with the packing list and the purchase contract.

Pro forma invoice (PI). Provided to the buyer by the supplier. It includes information such as the price of the product, shipping and insurance charges (if applicable), total value, a detailed description of the product offered, and terms of payment. In some cases, the PI must be authorized by the country's drug regulatory authority before clearing can be completed. The PI can also form the basis of assessing the fee payable to the drug regulatory authority by the importer.

Registration documents (RD). In some countries, the customs department or the drug regulatory authority requires registration documentation before pharmaceuticals can enter the system.

Under such conditions, the import manager may also find it helpful to maintain an information system that is capable of monitoring current port-clearing activities, causes of delays, and assignment of personnel and equipment. This system should also be able to expedite clearance of urgently needed consignments. In some instances, an information system includes the issue of logbooks for all officers, whether in-house or contracted, who are responsible for customs and port clearance, to record their activities. Logbooks can be used to identify possible causes for delays and solutions for avoiding them.

Information and documentation for expected consignments

Another major problem is lack of information on expected shipments. Commonly, the import unit spends a great deal of time checking with shipping agents to ascertain whether goods have arrived. In many instances, the import unit learns of the arrival of consignments only after the goods have actually landed. In some cases, high port-storage charges have already been incurred and goods requiring special storage may have been delayed or damaged by the

Table 24-1 Flow of importation documents

Document	Who generates?	By when?	How transmitted?	Who receives?
Purchase order	NGO distributor	Within 2 weeks of contract approval	Scanned copy sent by e-mail or regular mail	Supplier
Pro forma invoice	Supplier	1 week from receipt of purchase order	E-mail or fax	NGO distributor
Import permit	Ministry of health	3 days after receipt of pro forma invoice	Collection by NGO distributor	NGO distributor
Import declaration form	National revenue authority at ministry of finance	3 days after receipt of import permit	Collection by NGO distributor	NGO distributor, through clearing/forwarding agent
Invoice	Supplier	Within 3 days of receipt of import declaration form	Scanned copy sent by e-mail	NGO distributor and then to clearing/forwarding agent
Packing slip	Supplier	Within 3 days of receipt of import declaration form	Scanned copy sent by e-mail	NGO distributor and then to clearing/forwarding agent
Ocean bill of lading	Suppliers' agent	Within 1 week of shipment	Scanned copy sent by e-mail	NGO distributor and then to clearing/forwarding agent
Air waybill	Suppliers' agent	Within 1 day of shipment	Scanned copy sent by e-mail	NGO distributor and then to clearing/forwarding agent

time notification is received. Table 24-1 shows an example of a nonprofit distributor's importation document flow.

Excessive delays in port clearing and high port-storage charges are usually caused by a breakdown of communication between the supplier and the purchasing department. As described in Chapter 39, the procurement contract should clearly specify the number of copies of invoices, shipping documents, and any other supporting documentation needed, such as product registration papers or import licenses. One copy of the shipping document must be sent to the purchasing office by fax or other expeditious means when the shipment leaves the supplier's warehouse.

Often, the documents needed for clearing are not received on time from the supplier or too few copies are sent, resulting in additional delay and expense. Overcoming this problem requires the maintenance of good communication among the supplier, the freight forwarder, the consignee, and all other parties; a good practice is to use established, detailed document requirements that are agreed on by all parties involved in the process. In addition, reports of supplier inefficiency should be incorporated into the general merit-rating system for suppliers (see Chapter 21).

Country Study 39-2 describes how Papua New Guinea has addressed delays in port clearance by awarding contracts that require suppliers or their agents in the buyer's country to be responsible for customs, port clearance, and delivery of goods to warehouses designated by the buyer. In such cases, the seller is motivated to clear consignments and make the delivery immediately, because payment is not made to suppliers until receipt of the shipment.

24.6 Lodging insurance claims

When damaged goods or short shipments are identified, completing the insurance claim quickly is important. Recovery of insured losses depends on the existence of a thorough, systematic routine for inspecting all shipments when they are accepted at the port or at the central warehouse (see Chapter 44), and submission of claims within the time stipulated by the insurance company. Consistent recovery of insured losses also depends on the assignment of qualified staff members to carry out claims processing. An effective monitoring system reduces the chance that claims will be forgotten or unduly delayed. This function should be part of the system used for monitoring the port-clearing process. ■

References and further readings

★ = Key readings.

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ASSESSMENT GUIDE

Existing arrangements

- Which air, sea, and land ports are used? What proportion of total supplies comes through each port?
- What is the average time to clear goods from each port?
- Do any particular problems exist at each site, and how do they affect the clearance process?

Port conditions and clearance procedures

- Are cold rooms, freezers, and locked warehouses available? Do they have appropriate temperature controls? Are security personnel on duty at all times? Does security include fenced areas, alarms, or other controls? Are medicines damaged by climatic conditions?
- What are the causes of recent port losses?
  - Physical damage
  - Theft
  - Poor storage conditions
  - Lost shipments caused by crowding or disorganized port management
  - Delayed port clearance
  - Lack of human resources
  - Lack of appropriate handling equipment
- Who is responsible for port clearing?
  - Central medical stores staff
  - Ministry of health or government import unit
  - Private import agents
- Do port-clearing staff members know in advance when and where a shipment is due? Is this information used to speed port clearance? Do the same problems recur regularly, and if so, are remedial procedures being implemented?
- Are port-clearing staff members trained in import documentation and port-clearing procedures?
- Does the import unit workload vary significantly throughout the year? If so, when? Does this variation cause any difficulties?
- Do port authorities assign priority to pharmaceutical and other "sensitive" shipments?
- Do customs and import control regulations affect port-clearing efficiency? Do other agencies assist or impede port clearing? If the latter, can this situation be rectified?
- Are storage fees regularly incurred, and are they justified? Can they be avoided through remedial action?
- Are adequate and secure procedures in place for receiving and checking pharmaceuticals?
- Is adequate and suitable transport for distribution available?

Private clearing agents

- Are private clearing agents available? Are they competent to handle pharmaceutical shipments?
- How do charges for contracting with a private agent compare with the cost of existing arrangements?

Communications

- Does the import unit or agency have direct access to a reliable overseas telephone line and e-mail access? Does it have a fax machine and a computer?

Monitoring and evaluation

- What is the average time needed to clear shipments from the port or airport?
- Are effective systems in place for monitoring and evaluating import procedures? If not, which elements are missing?
- What is the annual cost of port losses as a percentage of the value of pharmaceuticals received? Do significant variations exist between ports? Why?
- If delays in port clearance are chronic, what are the causes?
  - Poor procedures by the buyer
  - Bureaucratic delays at the port
  - Inadequate communications
  - Lack of human resources
  - Missing or incomplete documentation
  - Lack of funds to clear goods