NEW AGE

EXPORT IMPORT PROCEDURES

Documentation and Logistics

(Inclusive of Latest Computerised Customs Clearance Procedures)

An Exclusive & Comprehensive Book Covering Revised UGC Syllabus

C. Rama Gopal

NEW AGE INTERNATIONAL PUBLISHERS

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An Exclusive & Comprehensive Book covering Revised UGC Syllabus

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PUBLISHING FOR ONE WORLD

NEW AGE INTERNATIONAL (P) LIMITED, PUBLISHERS

New Delhi • Bangalore • Chennai • Cochin • Guwahati • Hyderabad
Jalandhar • Kolkata • Lucknow • Mumbai • Ranchi

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ISBN (10) : 81-224-2326-4

ISBN (13) : 978-81-224-2326-6

Price : £ 9.99

PUBLISHING FOR ONE WORLD

NEW AGE INTERNATIONAL (P) LIMITED, PUBLISHERS
4835/24, Ansari Road, Daryaganj, New Delhi - 110002
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Dedicated

To

Lord Venkateswara

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PREFACE

In view of the increasing thrust of exports in the field of International Marketing, a number of Indian Universities have introduced the subject "Export-Import Procedures, Documentation and Logistics" at Post-graduation level, in particular M.B.A., while certain inputs of the subject are also taught even at graduation level in some of the institutes.

This subject has gained importance looking to the job potential, as doors of employment have been opened on this new front with the increasing pace of exports and emphasis on globalisation.

To me, to write this book, an inspiring force has been students of my Institute. Since introduction of U.G.C. syllabus at M.B.A., they have always complained that they are not able to find a comprehensive book to meet their academic requirements, in a systematic and meaningful manner. Their persistent demand, semester after semester has heightened.

Their request has turned into a fruitful compliance with my stay for four months in United States to support my daughters and enjoy vacation. I have promised my students, before departure, that I would be back at the Institute with a book to place in their hands to meet their longstanding desire.

This book provides a single place — Just like a single window concept — where MBA students, following UGC syllabus, adopted by many Universities, can find all the topics, dealt in a systematic manner. The topics are covered in the same order of UGC syllabus for students' convenient reading. Other students who have this subject at graduation/post graduation level, hopefully, find this book irresistible, considering its relevance and usefulness, as many Business Schools/Institutions, largely, have the same topics, chosen by UGC, in their course content. Recent path - breaking developments in Simplification of Documents, made by the Government in August, 2005, have also been added in this book.

Computerized Customs Clearance both for exports and imports has come into operation from September 2004. This is in vogue at over 19 ports in India. I have focused to deal with this new area, as highlighted, in detail, along with manual clearance still existing at those ports, where computerized processing has not, yet, been initiated.

I shall feel delighted if this book fills in the students' quench, which they have been craving. My aim has been to answer three questions mainly in each topic — "Who, Why and What for". Experience has given me the feeling that many books do not answer these questions, adequately, leaving basics unclear. My effort has been to address these issues with clarity.

I record my appreciation to my ever-smiling Director Prof. P.K. Chopra, who knows the art of being a tense freeman, even in the midst of tensions.

During my stay in U.S., I have been able to secure the necessary environment with the support of my two professionally employed daughters—Radhi and Dheera—and my two little American Citizens, grandsons—Theer and Tarkh. I owe this book to my wife Sandhya—for her unflinching love and care towards me. But for the computer support provided by my two sons-in-law — Kalyan and Kish — this book could not have been completed. In fact, Kish, despite his busy and heavy schedule, has designed the colourful front page to give completeness to the book.

My special thanks are due to my dear friend Mr. R. Satyanarayana who has taken pains for careful proof reading.

I have gone through the autobiography of Mahatma Gandhiji "My Experiments with Truth" during my early student days. I have been greatly influenced with the simple language of the book with total focus on communication. Needless to add, I have made sincere efforts to give tinge of that style of writing to my readers. I feel happy if my students can understand what I have wanted to convey without the barrier of language.

PROF. C. RAMA GOPAL

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EXPORT-IMPORT TRADE : INTRODUCTION TO REGULATORY FRAMEWORK

- Introduction
- Trade Policy
- Foreign Trade
- Simplification in Documentation (Developments in August, 2005)
  - DGFT related documentation at a single place
  - Reduction of Documents to five for Customs purposes
- Review Questions

INTRODUCTION

Creation of appropriate institutional framework and supportive environment facilitates the growth of external trade. In a developing country like India, the real barometer of sustained economic development is the growth index of exports. Sustained growth in exports can only be accelerated by conducive framework. The primary objective and emphasis of the framework is towards accelerated development with the required regulation to support the framework structure. The role of regulation is to protect the interests of consumers, obtain conditions of competition and foster the institutional framework. The present regulatory framework in India is highly supportive. The attitude of the government, a very important aspect for faster pace, is poised in that direction to make the framework achieve the sustained growth, removing the bottlenecks, hindering the path of progress and development.

TRADE POLICY

Trade policy is one of the many economic instruments for achieving economic growth. The basic twin objectives of the trade policy have been to promote exports and restrict imports to the level of foreign exchange available in the country. The inherent problems of the country have been non-availability/acute shortage of crucial inputs like industrial raw materials, supporting relevant technology and required capital goods. The problems can be removed by imports. But, continuous imports are neither possible nor desirable. The gap between exports and imports is financed through borrowing and foreign aid. However, imports must be financed by exports, in the long run. The basic objective of the trade policy revolves round the instruments and techniques of export promotion and import management.

FOREIGN TRADE

Foreign trade is recognized as the most significant determinants of economic development of a country, all over the world. For providing, regulating and creating necessary environment for its orderly growth, several Acts have been put in place. The foreign trade of a country consists of inward and outward movement of goods and services, which results into outflow and inflow of foreign exchange. The foreign trade of India is governed by the Foreign Trade (Development & Regulation) Act, 1992 and the rules and orders issued there under. Payments for import and export transactions are governed by Foreign Exchange Management Act, 1999. Customs Act, 1962 governs the physical movement of goods and services through various modes of transportation. To make India a quality producer and exporter of goods and services, apart from projecting such image, an important Act—Exports (Quality control & inspection) Act, 1963 has been in vogue.

Developmental pace of foreign trade is dependent on the Export-Import Policy adopted by the country too. Even the Exim Policy 2002-2007 lays its stress to simplify procedures, sharply, to further reduce transaction costs.

Today's international trade is not only highly competitive but also dynamic. Necessary responsive framework to make exports compete globally, is essential. In order to harness these gains from trade, the transaction costs, in turn dependent on the framework support, involved need to be low for trading within the country and for international trade. International trade is a vital part of development strategy and it can be an effective instrument of economic growth, employment generation and poverty alleviation. Market conditions change, almost daily, requiring quick response and more importantly, anticipation of the future requirements is the need of the hour. To gear with the changing requirements, it is essential that the framework has to remain in pace and change in anticipation, accordingly, and then only international trade can pick up the speed envisaged.

SIMPLIFICATION IN DOCUMENTATION (Developments in August, 2005)

DGFT Related Documentation at a Single Place

Importers and exporters have to fill multiple application forms at various stages of their business activity to meet procedural requirements of different Departments/Ministries under different Acts. The objective of Government has been to simplify procedures and reduce documentation requirements so as to reduce the transaction costs of the exporters and thereby increase their competitiveness in international markets. With this in mind, a Committee to look into procedural simplification and reduction of transaction costs has been set up under the Chairmanship of Director General of Foreign Trade.

As a first step towards this exercise, the DGFT has devised a single common application form called 'Aayaat Niryaat Form'. This 50-page set of forms, as against the 120-page set currently in existence, provides availability of information on DGFT related Documentation at a single place. It has a web interface for on-line filing by exporters and retrieval of documents by the licensing authorities. This is a major leap towards paperless trading, in the series of initiatives in the direction of moving towards reduced paper transactions through procedural simplifications. A single common application form called "Aayaat Niryat Form" is being introduced, reducing the documentation requirements by more than 60%.

REDUCTION OF DOCUMENTS TO FIVE FOR CUSTOMS PURPOSES

Government has decided to do away with a number of declarations that exporters, presently, have to file under various promotion schemes, including duty drawback and duty entitlement pass book.

The decision has been taken by the finance ministry in line with the recommendations of the sub-committee headed by the Chief Commissioner of Customs, Delhi. The panel has been formed to study the problems faced by traders under the present exports documentation procedure, following complaints from industry about cumbersome requirements that have often resulted in unnecessary delay and additional transaction costs.

The sub-committee has comprised representatives from the Customs department, the Directorate General of Foreign Trade, the Reserve Bank of India, Fieo and the Delhi Exporters Association. After a scrutiny of requirements under the electronic data interface (EDI) system, the sub-committee has concluded that there are just five documents required for customs purposes. These include commercial invoice, packing list, self-declaration form, ARE-1 (application for removal of excisable goods for export) and the declarations pertaining to various export promotion schemes.

While the identified documents can not be dispensed with, the sub-committee has stated that a number of documents being filed by exporters for various export promotion schemes have outlived their utility and do not serve any useful purpose. It has recommended

that such declarations should be done away with. The revenue department, after going through the sub-committee's recommendations, has also decided not to ask for any declaration on the duty drawback scheme and the duty-free replenishment certificate scheme. The department has agreed to issue a suitable draft notice and standing order for guiding industry and staff, in this context.

REVIEW QUESTIONS

1. Write the importance of Regulatory Framework in the context of exports trade?
2. Write a note on recent emerging developments in 'Simplification of Documentation' in International Trade?

2

EXPORT PRELIMINARIES

- ❖ INTRODUCTION
- ❖ ESTABLISHING A BUSINESS FIRM
  - SELECTION OF NAME OF FIRM
  - APPROVAL TO NAME OF FIRM
  - REGISTRATION OF ORGANISATION
  - OPENING OF BANK ACCOUNT
  - OBTAINING PERMANENT ACCOUNT NUMBER
  - REGISTRATION WITH SALES TAX AUTHORITIES
- ❖ IMPORTER-EXPORTER CODE NUMBER
  - REGISTRATION CUM MEMBERSHIP CERTIFICATE
  - REGISTRATION WITH ECGC
  - REGISTRATION UNDER CENTRAL EXCISE LAW
  - REGISTRATION WITH OTHER AUTHORITIES
  - EXPORT LICENSING
- ❖ CHECK YOUR UNDERSTANDING
- ❖ REVIEW QUESTIONS

INTRODUCTION

In order to enter into export business, certain preliminary steps have to be taken by every business organisation. The setting up of an export firm is completed in two stages. They are:

(*a*) Establishing a business firm and

(*b*) Obtaining the Importer-Exporter Code number for the business firm and completing other registrations.

ESTABLISHING A BUSINESS FIRM

There are various formalities and registrations to be made with different authorities before an exporter can enter into export business and accept an export order.

1. Selection of Name of Firm

An entrepreneur can choose any name for the firm he wants to start. It is desirable that the name of the firms indicates that the business relates to export / import. Various words like global, international and overseas in the name of the firm convey the meaning that the firm is engaged in export / import.

2. Approval to Name of Firm

There is no need to obtain prior approval of Regional Licensing Authority of DGFT for the proposed name of business firm. However, if the firm is planning to export ready made garments to any country, approval from Apparel Export Promotion Council (AEPC) is required. The entrepreneur has to apply to AEPC in the prescribed application form for the clearance of the name. While applying, one can suggest two or three names, in the order of preference. Once the name is approved, registration of firm in that name with AEPC is to be made within a period of three months. After the registration is done, the firm would become a registered exporter and be able to get the quota allocation for export of ready made garments to export quota countries. Export of ready made garments to countries like USA, Canada and countries of European Union requires quota approval from AEPC.

3. Registration of Organisation

The form of organisation can be sole proprietorship, partnership firm under Indian Partnership Act, 1932 or joint stock company registered under the Companies Act, 1956. If it is a joint stock company, it can be either a private limited company or public limited company. If the form of business is partnership or joint stock company, registration under the appropriate act is required. A sole trader requires permission from local authorities, as required. No separate registration is needed for a sole proprietorship.

4. Opening of Bank Account

The firm or company has to open a bank account with a branch of a commercial bank, authorised by Reserve Bank of India to deal in foreign exchange. Only a select few branches of commercial banks are authorised by RBI to deal in foreign exchange. The firm may require pre and post shipment finance for its business. In deciding the bank and branch, the firm has to keep its credit requirements and cooperative attitude of the bank to assist as it would be a new entrant in the field of international business. Timely credit is an important

ingredient for the success or failure of business, in particular, in international business which is highly competitive.

5. Obtaining Permanent Account Number

Export income is subject to a number of exemptions and deductions under the Income Tax Act. For claiming those exemptions and deductions, it is necessary for every exporter to obtain Permanent Account Number from the income tax authority. This PAN is required to be quoted while applying for Export Import Code number.

6. Registration with Sales Tax Authorities

Exporter need not pay sales tax while making purchases, meant for export. For availing the benefit, firm has to register with sales tax authorities and secure sales tax number. Exporter/purchaser has to give Form -H to the seller/manufacturer. For this purpose, exporter has to make an application along with copy of letter of credit or export order to the Sales Tax Office that has jurisdiction to his office for issuance of Form-H. Exporter prepares Form-H, in triplicate, and issues two copies to the seller and retains one copy for his record.

7. Importer-Exporter Code number

No export or import transaction can be made without obtaining an importer-exporter code number. IEC number is a pre-condition for exports from and imports into India. IEC number entitles to import or export any item of non-prohibited goods. This code number is made compulsory, now.

The Registered/Head office of the applicant shall make an application for grant of IEC number to the Regional office of DGFT (known as Regional Licensing Authority), having territorial jurisdiction over the firm, along with the following documents:

(A) Profile of the exporter/importer

(B) Demand draft from a bank for Rs.1,000 as fees

(C) Certificate from the banker of the applicant

(D) Two copies of passport size photographs of the applicant, duly attested by bank.

(E) If there is any non-resident investment in the applicant firm and such investment is with full repatriation benefit, full particulars of such investment are to be disclosed and approval of RBI for such investment is to be enclosed.

(F) Declaration on applicant's letterhead that there is no association of the applicant's firm with caution listed firms.

The Licensing authority shall allot the IEC number in a prescribed format. There is no expiry date for IEC number. It shall be valid till it is revoked. This number is to be, invariably, quoted in all documents, prescribed by rules, in particular, in Bill of Entry in case of imports and in Shipping Bill, in case of exports.

Prior to 1-1-1997, it was necessary for every exporter to obtain CNX number from RBI. Now, it is no longer required as IEC number has replaced CNX number.

8. Registration cum Membership Certificate

It is obligatory for every exporter to register with appropriate Export Promotion Council (EPC) and obtain Registration cum Membership Certificate. Any person applying for import or export licence or any other benefit under the current Exim Policy is required to obtain Registration cum Membership Certificate (RCMC). The benefits provided in the current Exim Policy are available only to those having valid RCMC.

A registered exporter receives ocean of literature and necessary guidance regarding export market information from the Council. Any exporter may obtain RCMC from any Export Promotion Council relating to his main line of business.There are different Export Promotion Councils such as Engineering Export Promotion Council, Chemical Export Promotion Council, Apparel Export Promotion Council and Textile Export Promotion Council etc. However, if the export product is not covered by any EPC, the concerned Regional Licensing Authority of DGFT can issue RCMC to the exporter. With the receipt of certificate, the exporter will be known as "Registered Exporter". The benefits provided in the current Exim policy are available only to the registered exporters having valid RCMC.

9. Registration with ECGC

The exporter should also register with Export Credit and Guarantee Corporation of India (ECGC) in order to secure export payments against political and commercial risks. It also helps to get financial assistance from commercial banks and other financial organisations.

10. Registration under Central Excise Law

Central excise levy is applicable if the following conditions are satisfied:

(*a*) The duty is on the goods

(*b*) The goods must be excisable

(*c*) The goods must be manufactured or produced and

(*d*) The goods must be manufactured produced in India.

When Registration is to be Made: Every manufacturer/producer of goods has to submit the prescribed application form to the jurisdictional Range officer of the Central Excise for registration if the total value of the goods cleared for home consumption, known as Domestic turnover, exceeds the exemption limit. The exemption limit is Rs. 100 lakhs in case of SSI unit and Rs. 50 lakhs in case of non-SSI units. However, the unit is exempt from registration, if the products manufactured by it are not excisable. Manufacture of salt does not attract excise duty. The incidence of duty is attracted when the goods are cleared from the factory/warehouse of the manufacturer.

Allotment of Registration Number: Once the unit is registered with Central Excise Authority, they allot Excise Control Code (ECC) Number. The ECC number is 15 digit code number with the first 10 digits being the same as Permanent Account Number.

Applicability of Excise Duty to Exporter: In respect of applicability of excise duty on exports concerned, goods enjoy exemption from duty on the final product, meant for

export. Where exemption is not availed, refund of excise duty paid is made, after actual export. Secondly, refund of excise duty is made on inputs used in the manufacture of goods, meant for export. The exporter has to submit the prescribed form ARE-1, in sixtuplicate, to the competent central excise authority for the central excise clearance of the goods. The procedure for clearance of central excise would be discussed, in detail, in the chapter dealing with "Excise clearance of cargo".

11. Registration with other Authorities

It is desirable for the exporters to become members of local Chamber of Commerce, Productivity Council or any other trade promotion organisation recognised by the Ministry of Commerce or Industry. Local membership helps the exporters in different ways, including in obtaining Certificate of Origin, which is vital for exports to certain countries.

12. Registration for Business Identification Number

The exporters have to obtain PAN based Business Identification Number (BIN) from the Directorate General of Foreign Trade prior to filing for customs clearance of export goods. Purpose of BIN is to bring a common identification number to all persons dealing with various regulatory agencies, such as the Central Excise and Customs Department, Income Tax Department, Offices of Director General of Foreign Trade etc. All assesses would be considerably benefited if they have to obtain just one identification number for use by the various Government agencies.

13. Export Licensing

Many items of goods are free for exports without obtaining any licence, if they do not fall in the Negative List.

The Negative list consists of goods the import or export of which is prohibited, restricted through licensing or otherwise canalized.

Part–I : Prohibited Items: These items can not be exported or imported. These items include wild life, exotic birds, wood and wood products in the form of logs, timber, pulp and charcoal.

Part–II : Restricted Items: These are the items, export or import of which is restricted through licence. They can be imported or exported only in accordance with the regulations governing in this behalf.

Part–III : Canalized Items: Goods, which are canalized, can be imported or exported through the canalizing agency, specified in the Negative List. The Director General of Foreign Trade may issue a licence to any other person to import or export those items, which are included in the Negative List.

It is evident from the above, all goods may be exported barring items in the Negative List. Items in the Negative list can be prohibited items, imported or exported by licence or through the designated canalizing agency or others under special conditions. So, it is necessary for the exporter to check the nature of the item before he enters into the contract or even

makes efforts to secure the export order. Needless to add, the item of export agreed upon should not fall in the banned list.

CHECK YOUR UNDERSTANDING

State whether the following statements are TRUE or FALSE.

1. Exporter/purchaser has to give Form-H to the seller/manufacturer so that sales tax is not charged on goods purchased, meant for export.
2. Export of ready made garments to countries like USA, Canada and countries of European Union does not require quota approval from AEPC.
3. It is not necessary for exporter to obtain CNX number from RBI as IEC number has replaced CNX number.
4. The benefits provided in the current Exim policy are available only to the registered exporters having valid Registration cum Membership Certificate (RCMC).
5. Exporter should register with Export Credit Guarantee Corporation of India to secure overseas payments, protecting from commercial and political risks.
6. The incidence of excise duty is attracted when the goods are cleared from the factory/ warehouse of the manufacturer.
7. In respect of goods, which are not included in negative list, exporter can export the cargo without obtaining any licence.

Answers

1. True 2. False 3. True 4. True. 5. True. 6. True. 7. True

REVIEW QUESTIONS

1. Describe the different preliminary steps to be taken in respect of establishemt of a business firm and registrations required to be made before entering into export business?
2. Describe the formalities and registrations with the different authorities before an exporter can accept export contract?
3. Write Short Notes on the following:
   (*a*) Registration cum Membership Number
   (*b*) Import Export Code Number
   (*c*) Excise Control Code Number
   (*d*) Sales tax formalities for exports
   (*e*) Negative List

3

DOCUMENTATION FRAMEWORK—ALIGNED DOCUMENTATION SYSTEM

- ALIGNED DOCUMENTATION SYSTEM (ADS)
  - OBJECTIVE
  - ADVANTAGES OF ALIGNED DOCUMENTATION SYSTEM
  - SITUATION TODAY
- COMMERCIAL DOCUMENTS
  - PRINCIPAL EXPORT DOCUMENTS
  - AUXILIARY EXPORT DOCUMENTS
- REGULATORY DOCUMENTS
- CLASSIFICATION OF COMMERCIAL AND REGULATORY DOCUMENTS
  - DOCUMENTS RELATED TO GOODS
  - DOCUMENTS RELATED TO SHIPMENT
  - DOCUMENTS RELATED TO PAYMENT
  - DOCUMENTS RELATING TO INSPECTION
  - DOCUMENTS RELATED TO EXCISABLE GOODS
  - DOCUMENTS RELATED TO FOREIGN EXCHANGE REGULATIONS
- CHECK YOUR UNDERSTANDING
- REVIEW QUESTIONS

HISTORY

International trade developed, over the centuries, in an unstructured and adhoc manner as countries exchanged goods and products they excelled in for those, which they lacked.

Documents accompanying these transactions also followed a similarly haphazard path. Numerous documents were required in a variety of formats for each export shipment. An order number might appear on the right or the left side of a form; addresses could be shown as lines or blocks.

The situation has started to improve in the mid-1960s with the document alignment work initiated by Sweden, standards developed by the Trade Facilitation Working Party of the UN/ECE (WP.4) and the 1965 publication of the United Kingdom Board of Trade's Simpler Export Documents.

ALIGNED DOCUMENTATION SYSTEM (ADS)

The standardisation of the pre-shipment export documents is done on the basis of the system, popularly known as Aligned Documentation System (ADS).

Objective

The primary objective has been to ensure benefits to everyone in the international trade chain from easier documentation. To enter information on an easy basis and access the information with greater convenience, Aligned Documentation System (ADS) is adopted. Documents related to exports are printed on uniform length and standard A-4 size of paper. Initially, information is entered in Master Document 1 and Master Document 2. From these documents, Common information, required to be incorporated in all the relative documents, is entered in the slots at the same locations. An exporter can develop 14 out of 16 Commercial Documents with the help of Master Document 1. Shipping order and Bill of Exchange are the only two Commercial Documents that can not be developed as these have not been standardised. In a similar manner, with the help of Master Document 2, three of the Regulatory Documents-GR form, Shipping Bill/ Bill of Export and Port trust copy of Shipping Bill can be developed.

Main advantage of this system is to enter the data quickly and read them with greater ease and speed. Document alignment is a major trade facilitation activity. Aligned Documentation System is based on the U.N. layout key. Deriving national document subsets from the UN Layout Key rules simplifies trade documentation on an international scale, bringing considerable benefits to traders.

Advantages of Aligned Documentation System

1. **Dispenses Conventional Documentation preparation:** Once information is entered into Master Documents, it becomes possible to prepare many Commerical and Regulatory Documents with the help of masking reproduction technique. The documents are aligned to one another. All documents are printed in the same size of paper. Common items of information are given the same relative slots in each of the documents included in the system. The common items of information occupy the same relative position on each form. For example, shipper top left, references top right, signatory details bottom right and so on.

2. **Easier to Complete and Access:** This makes forms both easier to complete and easier to process. Since common positions are used for data items, it is possible to use a 'Master Document.' This master document can be used to produce a range of documents using a photocopier and overlays (to provide the form outlines and hide unwanted data).
3. **Benefit to All Parties:** All parties in the international trade chain benefit from easier document processing. Using documents that comply with UN alignment standards speed up form preparation, cut costs and reduce errors. Exporters may actually get paid quicker than otherwise!
4. **Better Image:** Aligned documents simplify document checking and training new staff. They even enhance an organization's professional image.

Paper Size and Specifications

Paper:	A4	
Size:	Length	297 mm
	Width	210 mm
Margins:	Top	10 mm
	Left	20 mm
	Right	6 mm
	Bottom	7 mm

Situation Today

By the mid-1980s, the use of aligned documents has been widespread in a number of countries. Its true potential has begun to materialize as master/photocopier systems started yeilding to computerized export documentation systems. Success stories include banking and transport (apart from rail).

For the purpose of Documents Aligned System, documents have been classified into two categories as under:

1. Commercial Documents
2. Regulatory Documents

COMMERCIAL DOCUMENTS

Objectives

The objectives of Commercial documents are:

1. To effect physical transfer of goods from the exporter's place to the importer's place.
2. To transfer property and title of goods from the exporter to the importer and

3. Realization of export proceeds from the exporter to the importer.

Out of the 16 commercial documents in the Export Documentation Framework, as many as 14 documents have been standardized and aligned one to another. Commercial documents may be classified as Principal Export Documents and Auxiliary Documents.

Principal Export Documents: These are the eight documents, which are required to be sent by the exporter to the importer.

These are known as Principal Export Documents. They are:

(*i*) Commercial invoice

(*ii*) Packing list

(*iii*) Certification of inspection/quality control (where required)

(*iv*) Bill of lading/Combined Transportation Documentation

(*v*) Shipping Advice

(*vi*) Certificate of origin

(*vii*) Insurance Certificate/Policy (In case of CIF export sales contract)

(*viii*) Bill of Exchange.

Auxiliary Export Documents: The remaining eight documents, other than principal export documents, are known as auxiliary export documents. They are:

(*i*) Proforma invoice

(*ii*) Intimation for Inspection

(*iii*) Shipping Instructions

(*iv*) Insurance Declaration

(*v*) Shipping Orders

(*vi*) Mate's Receipt

(vii) Application for Certificate of Origin and

(*viii*) Letter to the Bank for Collection/Negotiation of Documents.

REGULATORY DOCUMENTS

Regulatory pre-shipment export documents are those which have been prescribed by different government departments and bodies in the context of export trade. These documents are meant to comply with the various rules and regulations under relevant laws governing export trade such as export inspection, foreign exchange regulations, export trade control and customs etc.

There are 9 regulatory documents associated with the pre-shipment stage of an export transaction. Out of them, only 4 have been standardized. The regulatory documents are as follows:

(1) *Gate Pass-I/Gate Pass II*: The Central Excise Authorities prescribe them.

(2) *ARE-1*: These are Central Excise forms. Earlier, AR4 and AR5 Forms have been used. In their place, ARE 1 form , now, is used.

(3) *Shipping Bill/Bill of Export*: They are standardized and prescribed by the Central Excise Authorities.

- For export of goods.
- For export of duty free goods.
- For export of dutiable goods.
- For export of goods under claim for duty drawback.

(4) *Export Application/Dock Challan*: Standardized and prescribed by the Port Trust Authorities.

(5) *Receipt for Payment of Port Charges*: Standardized.

(6) Vehicle Ticket.

(7) *Exchange Control Declaration Forms*: GR/PP forms are standardized and prescribed by RBI.

(8) Freight Payment Certificate.

(9) Insurance Premium Payment Certificate.

Classification of Commercial and Regulatory Documents

The different commercial and regulatory documents may be classified into documents related to goods, documents related to shipment, documents related to payment, documents related to inspection, documents related to excisable goods and documents related to foreign exchange regulations.

DOCUMENTS RELATED TO GOODS

(i) Proforma Invoice

Proforma invoice is the starting point of an export contract. As and when the exporter receives the trade inquiry from the importer, exporter submits the Proforma invoice to the importer.

The Proforma invoice contains details such as name and address of the exporter, name and address of the intending importer, nature of goods, mode of transportation, unit price in terms of internationally accepted quotation, name of the country of origin of goods, name of the country of final destination, period required for executing contract after receipt of confirmed order and finally signature of the exporter.

Importance and Significance of Proforma Invoice are Two Fold

(A) It forms basis of all trade transactions and further negotiation or contract is made on this basis.

(B) It helps the importer to obtain the import licence, where required, and obtain foreign exchange for completion of the contract.

(ii) Commercial Invoice

A commercial invoice is the seller's bill for merchandise or goods sold by him. Invoice contains all the particulars and details in respect of name and address of seller (exporter), name and address of buyer (importer), date, exporter's reference number, importer's reference number, description of goods, price per unit at particular location, quantity, total value, packing specifications, terms of sale (FOB, CIF etc), identification marks of the package, total number of packages, name and number of the vessel or flight, bill of lading number, place and country of destination, country of origin of goods, reference to letter of credit, if opened, terms of payment, and finally signature of the exporter etc.

From the details, it is clear that invoice is an important and basic export document. It is also known as 'DOCUMENT OF CONTENTS' as it contains all the important information necessary for the preparation of other export documents.

For many countries, there are no prescribed special invoice forms. Exporters can use their normal invoices used for indigenous trade for exports made outside the country too and show the particulars required by the importer in terms of the contract. However, there are special invoicing procedures in respect of exports to certain countries like Canada, U.S.A. and Australia. Some countries like Uganda, Mexico, Sudan and Tanzania require special customs invoices.

Information about the special invoice forms required can be gathered from the respective Export Promotion Councils apart from the procedures of trade to be followed in respect of the importer's country. Any recognized Chamber of Commerce too can provide the information in this respect.

Significance of Commercial Invoice

(A) It is prima facie evidence of the contract of sale and purchase of goods. On the basis of the invoice, all the other documents, in the context of export, are prepared as it is the basic document.

(B) Invoice constitutes the main document for various export formalities such as pre-shipment inspection, quality, excise and customs procedures.

(C) It is useful for accounting purposes, both by the exporter and importer.

(D) This document is required in collection/negotiation of documents through the bank.

(E) For claiming incentives, this document is essential.

(iii) Consular Invoice

Some of the importing countries insist that the invoice is to be signed by the importing county's consular located in the exporter's country. Such invoices are known as **consular invoice.** The exporter has to pay a certain fee to obtain the certificate/invoice. Such charges/ fees vary from country to country. The main purpose to obtain consular invoice is to secure authentication of information contained in the invoice. Once the invoice is signed by the consular of the country, the importer gets comfort and confidence in respect of accuracy of information in respect of quality, source of goods, volume and grade.

Normally, on arrival of the goods, it is necessary to convince the customs authorities of the importing country that the goods stated in the invoice and the actually imported goods are one and the same. If the customs authorities get suspicious or not convinced, they open the packages of the imported goods. If this happens, considerable delay takes place. The importer is put to hardship by delayed receipt of goods. To avoid all these problems, importer insists on the exporter to obtain the consular invoice from the consulate stationed in the exporter's country. The consulate invoice is, generally, prepared in three copies. One copy is retained by the consulate office, the second copy is sent to the customs of the importing country and the third copy is given to the exporter to forward the same along with other documents through the banker for collection/negotiation.

This information also facilitates in assessing import duties and also would be useful for statistical purposes.

Significance of Consular Invoice can be Summarized

Importance to the Exporter

1. Once the invoice is signed by the consulate of the importing country, the exporter is reasonably assured that there are no import restrictions in the importer's country for the goods and that there would be no problem in realization of export proceeds or foreign exchange.
2. It enables prompt clearance from the customs of exporter's country for shipping the goods.

Importance to the Importer

1. In the importer's country, the customs do not normally open the packages. It helps the importer to get speedy delivery of goods.
2. Lot of unnecessary hardship which importer faces once the packages are opened is avoided.

Importance to the Customs

1. The customs of the exporting country can easily clear the goods.
2. The customs of the importing country need not open the packages for checking and can easily calculate the import duties.

(iv) Legalized Invoice

Certain Latin American countries like Mexico require this. It is just like consular invoice, which requires certification from consulate or authorized mission, stationed in the exporter's country.

(v) Customs Invoice

When the commercial invoice is prepared on the format prescribed by the customs authorities of the importing country, it is called "Customs Invoice". This is the requirement of U.S.A., Canada and Australia.

(vi) Packing Note and Packing List

There is a difference between packing note and packing list. Packing note refers to the particulars of contents of an individual pack while packing list is a consolidated statement of the contents of the total number of cases or packs.

A packing note contains the following details:

(*a*) Date of packing,

(*b*) Number of packing note,

(*c*) Number of case to which it relates to,

(*d*) Contents of case in terms of quantity and weight,

(*e*) Marking numbers,

(*f*) Name of exporter,

(*g*) Name of importer,

(*h*) Importer's order number,

(*i*) Number and date of bill of lading and

(*j*) Name of vessel/flight.

Packing note is kept in each concerned case/pack. Packing note and packing list are sent to the importer along with other documents. If any case contains any shortfall, importer can communicate to the exporter in which case there is shortage of goods for making good.

No particular form has been prescribed for both packing note/list. Normally, ten copies are prepared. Two copies are sent, in advance, to the buyer, one copy along with the documents, one to the shipping agent and the remaining are retained by the exporter.

Precaution is to be exercised that the details of the quantity in the packing note/list should conform to the quantity as stated in the Invoice and Bill of Lading/Airway Bill.

(vii) Certificate of Origin

As the very name indicates, certificate of origin is a certificate that specifies the name of the country where goods are produced. This is absolutely necessary where the importing country has banned the entry of goods of certain countries to ensure that the goods from those countries are not allowed to enter in. At the time of arrival of the goods in the importer's country, this certificate is necessary for the customs to permit preferential tariff. Certain countries offer preferential tariff to goods produced and imported from India. In such a case, this is a must to the importer to claim preferential tariff and importer insists on this document from the exporter. This enables the importer's country to regulate the concessional tariff only to select countries and deny to the rest of the countries.

A certificate of origin can be obtained from Chamber of Commerce, Export Promotion Council and various trade associations which have been authorized by Government of India to issue. The agency from which certificate of origin is obtained should conform to the terms of letter of credit.

Significance of Certificate of Origin

(A) Certificate of origin is required for availing concession under Commonwealth Preferences (CWP) as well as Generalized System of Preferences (GSP).

(B) It facilitates the importer to adhere to the rules and regulations of his country.

(C) Customs in the importer's country allow the concessional tariff only on production of this certificate.

(D) When goods from some countries are banned, importing country requires this certificate to ensure that goods from banned countries are not entering into the country.

(E) Exporting country may insist on this certificate to ensure that the goods imported are not reshipped again.

DOCUMENTS RELATED TO SHIPMENT

(i) Shipping Bill

The shipping bill is the main document on the basis of which the customs permission is given. Under manual processing of export documents, the exporter is required to file the appropriate type of shipping bill to seek the order for customs clearance of the export shipment. Under computerized processing, the exporter does not prepare the shipping bill; instead it is computer generated. The customs order is called "LET EXPORT Order". After the shipping bill is stamped by the customs, then only the goods are allowed to be carted to the docks.

The shipping bill contains the following particulars:

(A) Nature of goods exported,

(B) Name of vessel, master or agents,

(C) Flag,

(D) Country of destination, the port at which the goods are to be discharged,

(E) Exporter's address,

(F) Importer's address,

(G) Details of the packages, such as numbers and marks,

(H) Quantity details of each case, total number of cases and aggregate weight,

(I) F.O.B. prices and real value as defined in the Sea Customs Act and

(J) Whether the merchandise is Indian or foreign origin which is re-exported.

The shipping bill is prepared in five copies:

1. Customs copy
2. Drawback copy

3. Export Promotion copy
4. Port Trust copy and
5. Exporters copy

Importance of Shipping Bill

(A) It is an important document required by the customs authorities for clearance of goods. The customs authorities endorses the duplicate copy of the shipping bill with "Let Export Order" and "Let Ship Order".

(B) After the clearance of customs, exporter can load the goods on ship.

(C) Shipping bill endorsed by the customs authorities facilitates the exporter to claim incentives such as excise duty refund and duty drawback.

Types of Shipping Bills

(1) Free Shipping Bill: It is used in case of goods which neither attract any export duty nor entitled for duty drawback. It is printed on simple white paper.

(2) Dutiable Shipping Bill: It is used in case of goods, which attract export duty. It may or may not be entitled to duty drawback. It is printed on yellow paper.

(3) Drawback Shipping Bill: It is used in case when refund of duties is allowed on the goods exported. Generally, it is printed on green paper, but when the drawback claim is paid to a bank, then it is printed on yellow paper.

(4) Shipping bill for Shipment Ex-Bond: It is used in case of imported goods for re-export and which are kept in bond. It is printed on yellow paper.

(5) Coastal Shipping Bill: It is used in case of shipment that is moved from one port to another port, by sea, within India. It is not an export document.

When goods are sent by sea, it is called Shipping Bill and it is Airway bill when goods are sent by Air.

(ii) Mate's Receipt

A mate's receipt is issued by the mate (assistant to the captain of the ship) after the cargo is loaded into the ship. It is an acknowledgment that the goods have been received on board the ship.

Contents of Mate's Receipt

Mate' receipt contains the details about

1. Name of the vessel,
2. Date of shipment,
3. Berth,
4. Marks,
5. Numbers,

6. Description and condition of goods at the time they are shipped, port of loading,
7. Name and address of the shipper,
8. Name and address of the importer(consignee) and
9. Other required details.

Types of Mate's Receipts

Mate's receipt can be clean or qualified.

(A) **Clean Mate's Receipt:** Mate of the ship issues a clean mate's receipt if the condition, quality of the goods and their packing are proper and free from defects.

(B) **Qualified Mate's Receipt:** If the mate's receipt contains any adverse remarks as to the quality or condition of the goods/packing, it is known as 'Qualified Mate's Receipt'. If the goods are not packed properly and the mate's receipt contains any adverse remarks about the packing such as "Poor Packing', the shipping company does not assume any responsibility in respect of the goods during transit. It is necessary for the exporter to secure the mate's receipt without any adverse remarks. On the basis of the mate's receipt, the Bill of Lading is prepared by the shipping agent. If there are adverse remarks in the mate's receipt, the same will be incorporated in the Bill of Lading, which may turn to become a claused Bill of Lading, and this may not be acceptable for negotiation.

Mate's receipt is first handed to the Port Trust Authorities who hands over to the exporter soon after he clears their dues. This procedure is adopted to facilitate for collection of port dues from the exporter.

Significance of Mate's Receipt

(1) Mate's receipt is an acknowledgment of goods. It is not a document of title.

(2) It is issued to enable the exporter or his agent to secure bill of lading from the shipping company.

(3) Bill of Lading, which is the title to the goods, is prepared on the basis of Mate's receipt so it should be obtained without any adverse remarks.

(4) Port Trust Authorities are enabled to collect their dues as it is routed through them.

(iii) Cart Ticket

A cart ticket is also known as cart chit. This is prepared by the exporter, which contains the details of the vehicle number, description of goods, quantity, name of the shipper, shipping bill number and port of destination. The driver of the vehicle carries the cart ticket. At the time of entry into Port, the cart ticket is verified by the Port Authorities to satisfy that the vehicle is carrying only those goods, which are mentioned in the cart ticket. After being satisfied, the gatekeeper/warden/inspector issues the gate pass to the driver and allows entry of the vehicle into the premises of the port.

(iv) Certificate of Measurement

Freight is charged either on the basis of weight or measurement. When weight is the basis of measurement, the shipping company for the purpose of calculation of freight may accept the weight declared by the exporter. However, when measurement is the basis for calculation of freight, the shipping company may insist on a certificate issued by Chamber of Commerce or other approved organization in respect of goods. The certificate of measurement contains the details in respect of description of goods, quantity, length, breadth and depth of the packages, name of the vessel and port of destination of the cargo etc.,

(v) Bill of Lading

Bill of Lading is a document issued by the shipping company or his agent acknowledging the receipt of cargo on board. This is an undertaking to deliver the goods in the same order and condition as received to the consignee or his agent on receipt of freight, the shipping company is entitled to. It is a very important document to the exporter as it constitutes document of title to the goods.

Each shipping company has its own bill of lading. The exporter prepares the bill of lading in the form obtained from the shipping company or agents of shipping company.

The goods can be consigned to order of the exporter, which means the exporter can authorize someone else to receive the goods on his behalf. In such a case, the exporter would discharge the bill of lading on its reverse. When the bill of lading is negotiated through the bank, it would be endorsed in favour of the bank that would endorse further to the importer, on receipt of payment.

Bill of Lading is made in signed set of 2 originals, any one of which can give title to the goods. The shipping company also issues non-negotiable copies (unsigned) which are not documents of title to goods but serves the purpose of record only.

The reverse side of Bill of Lading contains the terms and conditions of the contract of carriage. The clauses on most of the bills of lading are common. A Bill of lading should be clean to facilitate the exporter to obtain the proceeds of export without difficulty.

Main Purposes

It serves three main purposes.

(A) As a document of title to the goods

(B) As a receipt from the shipping company and

(C) As a contract of affreightment (transportation) of goods.

Types of Bill of Lading

(1) Received for Shipment B/L: A shipping company issues it when goods have been given to the custody of the shipping company, but they have not been placed on board.

(2) On Board Shipped B/L: The shipping company certifies that the cargo has been received on board the ship.

(3) **Clean B/L:** It indicates a clean receipt. In other words, it implies that there has been no defect in the apparent order or condition of goods at the time of receipt or shipment of goods by the shipping company.

(4) **Claused or Dirty B/L:** It shows that the B/L is qualified which expressly declares a defective condition of goods. The clause may state “bale number 5 hook-damaged” or “package number 10 broken”. By superimposing this type of clause, the shipping company is limiting its responsibility at the time of delivery of goods, at the destination. It is very important to note that bank accepts only a clean B/L at the time of negotiation.

(5)) **Transshipment or Through B/L:** When the journey covers several modes of transport from the place of starting to the place of destination, this type of B/L is taken. It indicates that transshipment would be en route. For example, part of the journey is by ship and the rest of journey may be by road, rail and air.

(6) **Stale B/L:** According to international commercial practice, B/L along with other documents must be presented to the bank not later than twenty one days of the date of shipment as given in the B/L. In some cases, the importer may indicate the number of days within which the documents are to be presented from the date of shipment. Exporter has to comply with the stipulation indicated. Otherwise, the B/L becomes stale and is not accepted by the bank for payment. A stale bill is one which is tendered to the presenting bank so late a date that it is impossible for the bank to dispatch to the consignee’s place, in time, before the goods arrive at the destination port. In other words, bank finds it impossible to see the documents reach before the ship reaches the destination.

(7) **To Order B/L:** In this case, the B/L is issued to the order of a specified person.

(8) **Charter Party B/L:** It covers shipment on a chartered ship.

(9) **Freight paid B/L:** When the shipper pays the freight, then this type of B/L is issued with the words “Freight paid”.

(10) **Freight Collect B/L:** When the freight on the B/L is not paid and to be collected at the point of destination, it is marked “Freight Collect” and this B/L is known as “Freight Collect B/L”.

Generally, the importer insists on the “clean on-board shipped” bill of lading with the prohibition of transshipment of goods as goods can suffer damage during transshipment. If transshipment is allowed, even period of journey may take longer.

B/L is a non-negotiable document: A bill of lading is not a negotiable document while it is a transferable document. Transferability enables the exporter to claim payment from the bank even before the goods reach the destination. Similarly, it enables the importer to sell the goods even before they reach the destination.

Parties mentioned in B/L: There are three main columns in B/L. These are shipper (consignor), consignee or order of and notifying party. Notifying party is party to whom

notice is to be sent on the arrival of goods at the place of destination. When the B/L is made to the order of, the person, in whose name it is made to the order of, has the right to endorse further. To illustrate:

Consignor: Cherry & Co, Bhopal

Consignee or to the order of: Dimpy & Co, Newjersey, U.S.A.

Notifying Bank: Bank of America, Newjersey

In this case, Dimpy & co has the total right for the cargo as the consignee. So, Cherry & Co can not transfer title to the goods to the third party. If payment of the goods is not received, consignor loses title to the goods and so B/L is not to be made in this way. However, where advance payment has been received or goods are shipped under irrevocable letter of credit, bill of lading can be made in the name of the consignee. In the normal circumstances, exporter takes the bill of lading to his order and endorses to the bank at the time of negotiation and in this way his interests are fully protected.

Who can lodge claim: B/L is the only evidence to file claim against the shipping company in the event of non-delivery, defective delivery or short delivery. If the importer makes payment, he can lodge the claim, as he will be in possession of negotiable copy of B/L. Otherwise, exporter can lodge the claim and receive the value of goods.

Contents of B/L

1. Name and address of the shipper.
2. Name and address of the vessel.
3. Name of port of loading.
4. Date of loading of goods.
5. Name of port of discharge and place of delivery.
6. Quantity, quality, marks and other description.
7. Number of packages.
8. Freight paid or payable.
9. Number of originals issued.
10. Name of the shipping company.
11. Voyage number and date.
12. Signature of the issuing authority.

SIGNIFICANCE OF BILL OF LADING

Importance to the Exporter

1. It is an acknowledgment from the shipping company that the goods have been received for the purpose of shipment.

2. After receipt of B/L, it helps him to send the shipping advice to the importer.
3. If any damage occurs to the cargo during transit, he can hold the shipping company responsible, if he has received clean bill of lading.
4. A copy of bill of lading is required to be attached to the application form to claim the incentives
5. It is a contract of carriage between the exporter (shipper) and the shipping company.

Importance to the Importer

1. It is a document of title to the goods, which enables him to transfer the tittle by endorsement and delivery.
2. The exporter can send a non-negotiable copy of B/L as advance intimation of shipment to the importer.
3 It enables him to pay the freight amount as the B/L contains freight details.

Importance to the Shipping Company

1. It helps the shipping company to collect the freight amount from the exporter (CIF contract) or importer (FOB contract).
2. Shipping company can protect itself from the wrongful claims of exporter/importer by incorporating condition of goods/packaging, at the time of receipt. In case the shipping company, inadvertantly, omits to mention the advesrse conditon, at the time of receipt, advantage can be claimed by exporter/importer, by submitting wrongful claim.

(vi) Airway Bill

Airway Bill is also called Air consignment Note. It is a receipt issued by an airline for the carriage of goods. As each shipping company has its own Bill of Lading, so each airline has its own airway bill.

Airway Bill or Air consignment note is not treated as a document of title to goods and is not issued in negotiable form. Delivery of the goods is made to the consignee without the production of airway bill.

Importance of Airway Bill

1. It is a contract of carriage of goods between the consignor and airlines or his agent.
2. It acts as a customs declaration form.
3. It contains details of freight and so works as a freight bill.

(vii) Bill of Entry

Bill of Entry is a declaration form made by the importer or his clearing agent in the prescribed form under Bill of Entry Regulations, 1971 on the strength of which clearance of imported goods can be made.

When goods are imported into a country, customs duty has to be paid by the importer. For this purpose, importer prepares the Bill of Entry declaring the value of goods, quantity and description. This is prepared in triplicate. Customs authorities may ask the importer to produce the invoice of the exporter, broker's note and insurance policy to satisfy about the correctness of value of goods declared.

For the purpose of giving information, goods are classified into three categories.

(1) **Free Goods:** These goods are not subjected to any customs duty.

(2) **Goods for Home Consumption:** These goods are imported for self-consumption.

(3) **Bonded Goods:** Where goods are subject to customs duty, till duty is paid, goods are kept in Bond.

Contents of Bill of Entry

1. Name and address of importer.
2. Name and address of exporter.
3. Import licence number.
4. Name of port where goods are to be cleared.
5. Desription of goods.
6. Value of goods.
7. Rate and value of import duty payable.

DOCUMENTS RELATED TO PAYMENT

(*i*) Letter of Credit

A letter of credit is a document-containing guarantee of a bank to make payment to the exporter, under certain conditions and up to a certain amount, provided the conditions contained in the letter of credit are complied with. For a detailed presentation, reader may refer to the chapter on Export Financing.

(*ii*) Bill of Exchange

The Negotiable Instruments Act, 1881 defines a Bill of Exchange as " an instrument in writing containing an unconditional undertaking, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument".

There are five important parties to a Bill of Exchange:

The Drawer: The drawer is the person who has issued the bill. In an export transaction, exporter draws the bill as money is owed to him.

The Drawee: The drawee is the person on whom the bill is drawn. Exporter draws the bill on the importer who is the drawee. Drawee is the debtor who owes money to the exporter (creditor).

The Payee: The payee is the person to whom the money is payable. The bill can be drawn by the exporter payable to the drawer (himself) or his banker.

The Endorser: The endorser is the person who has placed his signature on the back of the bill signifying that he has obtained the title for the bill on his own account or on account of the original payee.

The Endorsee: The endorsee is the person to whom the bill is endorsed. The endorsee can obtain the payment from the drawer.

Types of Bills of Exchange

(a) **Sight Bill of Exchange:** In this Bill of Exchange, also known as demand Bill of Exchange, the drawee has to make the payment, on presentation.

(b) **Usance Bill of Exchange:** In case of Usance or Time Bill of Exchange, payment is to be made on the maturity date, after a certain period, known as tenor. When the calculation of period is made with reference to the sight of bill, the bill is known as 'after sight usance bill'. Sometimes, the maturity date is calculated with reference to the date of bill of exchange, it is known as 'after date usance bill'.

(c) **Clean Bill of Exchange:** A clean Bill of Exchange is one when the relative shipping documents do not accompany with it. In this case, the relative shipping documents i.e. Bill of Lading is sent directly to the importer to enable him to take delivery of the cargo.

(d) **Documentary Bill of Exchange:** A documentary Bill of Exchange is one where the relative shipping documents such as Bill of Lading, marine insurance policy, invoice and other documents are sent along with the Bill of Exchange. This is the common form in export trade.

The documents are given to the bank either for collection or negotiation. In case the importer gets the documents on acceptance, it is called Documents against Acceptance. If the importer gets the documents only on payment, it is called Documents against Payment.

After shipment of goods, the exporter draws the bill on the importer or, more frequently, on bank acting for the importer, as agreed between the exporter and importer. The exporter usually draws the bill to his own order or that of his bank. Later, he endorses the bill in favour of his bank. Exporter may request his bank to collect or purchase the bill. In case of purchase of bill, exporter receives the export proceeds immediately. In any case, the exporter's bank sends the documents to its branch or correspondent's bank in importer's place. The bank at that end sends the intimation of receipt of documents to the importer either for acceptance

or payment, dependant on the nature of bill drawn. In case of Documents against acceptance, importer accepts the bill and then only gets title to goods. In case of Documents against payment, importer has to make the payment for securing delivery of documents.

(iii) Trust Receipt: In case of D/P bill, the importer has to make the payment to take delivery of goods. If the importer is unable to make the payment, on arrival of the shipment, and take possession of goods, he executes a Trust Receipt to take delivery of goods. Importer will have the right to sell the goods and would be acting as agent of the bank. Importer will be depositing the sale proceeds with the bank, as and when sales are made. Till the importer makes the final settlement, bank retains ownership for the merchandise and the role of the importer is not that of owner but that of agent to the bank. This arrangement facilitates the importer to take delivery of goods when sufficient funds are not available with him. This facility provides the flexibility to the importer while the interests of bank are protected, at all times.

(iv) Bank Certificate of Payment: It is a certificate issued by the negotiating bank to the exporter that the bill covering the shipment has been negotiated through it and export proceeds have been received from the importer. The certificate indicates the details of the merchandise exported. Exporter submits this certificate of payment for establishing that the export transaction has been completed totally by him. This certificate is required to comply with the requirements for the discharge of export obligation.

DOCUMENTS RELATING TO INSPECTION

Certificate of Inspection

It is a certificate issued by the Export Inspection Agency certifying that the consignment has been inspected under the Export (Quality Control and Inspection) Act, 1963 and found that the requirements relating to quality control and inspection have been complied with, as applicable, and the goods are export worthy.

DOCUMENTS RELATED TO EXCISABLE GOODS

(1) GP Forms

GP stands for Gate Pass. A GP form, gate pass, is issued for the removal of excisable goods from the factory or warehouse. Form GP1 is issued for the removal of excisable goods on payment of duty. GP2 is issued for the removal of excisable goods without payment of duty.

(2) Form C

It is not to be confused with C form. Form C is used for applying for rebate of duty on excisable goods (other than vegetable, non-essential oils and tea) exported by sea. It is to be submitted, in triplicate, to the Collector of Central Excise.

(3) Forms AR4/AR4A

These forms are meant for removal of excisable goods for export by sea/post. Now, in their place, ARE-1 form is used.

DOCUMENTS RELATED TO FOREIGN EXCHANGE REGULATIONS-LEGAL REGULATED DOCUMENTS

Foreign Exchange Regulations require that all exports other than exports to Nepal and Bhutan shall be declared on the following forms:

1. GR Form

GR is an exchange control document required by Reserve Bank of India. It is required to be filled, in duplicate, for all exports in physical form other than by post. An exporter has to realize the export proceeds within a period of 180 days from the date of shipment, in India. To ensure control on realization, RBI has introduced this procedure.

GR form, in duplicate, is to be submitted by the exporter to the customs along with the Shipping Bill. Customs will give their running serial number on both the copies. After admitting the customs shipping bill, customs will certify the value of goods declared by the exporter in the space earmarked and also record their assessment of value. Customs retains the original copy and return the duplicate to the exporter. Customs sends the original GR form to RBI, which will be an indication of the goods, which are to be exported. Exporter has to submit the duplicate of GR form to the authorized dealer, named in GR form, along with other shipping documents within a period of 21 days of shipment for the purpose of negotiation. After the negotiation of bill, the authorized dealer will report the transaction of negotiation to RBI. On receipt of the original, RBI is apprised of the developments in respect of the export transaction.

Once the export proceeds are received from the importer, the authorized dealer has to forward the duplicate copy of GR form together with the copy of invoice to RBI. RBI recognizes that the export transaction has been concluded and export proceeds have been fully realized.

At certain customs offices, shipping bills are processed electronically. So, at those offices, GR form has been replaced by SDF (Statutory Declaration Form).

2. PP Form

It is required to be filled in for all export transactions, in duplicate, for all countries to be made by post parcel, except when made on “value payable” or “cash on delivery basis”.

3. VP/COD Form

It is required to be filled for all export transactions to all countries by post where the export proceeds are realized on “value payable” or “cash on delivery basis”.

3. SOFTEX Form

It is required to be prepared, in triplicate, for export of computer software in non-physical form.

All the above documents serve the purpose of monitoring the realization of export proceeds in the stipulated manner.

CHECK YOUR UNDERSTANDING

(*i*) State whether the following statements are TRUE or FALSE.

A. Export documentation is the simplest part of overseas marketing.

B. It is the duty of the exporter to submit the Bill of Lading within 21 days from the date of shipment or any other period stipulated in the export contract.

C. GR form is required to be filled in duplicate for all the exports in physical form other than by post.

D. When goods are exported by sea, the document used for this purpose is called Shipping Bill

E. Drawback Shipping Bill is used for export of goods entitled to duty drawback.

F. Softex Form is required to be prepared for export of computer software.

G. For an importer, sight bill is more convenient than the usance bill.

H. Importer has to obtain the Bank Certificate of Payment after completion of import.

I. Certificate of Measurement can normally be obtained from Chamber of Commerce.

(ii) Fill in blanks:

A. Under the Foreign Exchange Regulations, exporters from India have to declare exports on .... Form for all exports in physical form other than by post

B. The application for getting the Export Inspection Certificate is the ....

C. Shipping Bill is prescribed by .... authority.

D. Main documents for claiming rebate in central excise duty are ....

Answers

(*i*) (A) False (B) True (C) True (D) True (E) True (F) True (G) False (H) False (I) True

(*ii*) (A) GR Form (B) Intimation for inspection (C) Customs (D) ARE 1 Forms

REVIEW QUESTIONS

1. Describe Aligned Documentation System? What are its objectives and advantages in the context of international trade?
2. What are the main Commercial and Regulatory Documents when goods are sent by sea under a C.I.F. contract?
3. What is a Bill of Lading and describe the purposes it serves?
4. Write different types of Bill of Lading and explain its differences from Air Consignment Note?
5. Describe different regulatory documents, which serve the purpose of monitoring the realization of export proceeds?
6. Write short notes on the following:
   (A) Bill of Entry
   (B) Cart Ticket
   (C) Trust Receipt
   (D) Certificate of Origin
   (E) Difference between sight bill and usance bill.

4

INTERNATIONAL BUSINESS CONTRACTS

- INTRODUCTION
- DISTINCTION BETWEEN DOMESTIC SALES CONTRACT AND EXPORT SALES CONTRACT
  - CONFLICT OF LAWS
- CONSTRUCTED CONTRACT
- INCOTERMS 2000
- TYPES OF CONTRACTS
- MAJOR LAWS HAVING BEARING ON EXPORT CONTRACTS
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- DISPUTES SETTLEMENT
- BASIC ADVANTAGES OF ARBITRATION
- HOW TO RESOLVE AND SETTLE DISPUTES?
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INTRODUCTION

Contract is a legal term. In simple terms, contract is an agreement that can be enforced in law. When goods are sold, both seller as well as buyer can enforce the agreement. The term 'Contract' has been defined under Section 2(h) of the Indian Contract Act.

How an indigenous contract is different when it is compared to International Business Contract? What is the special significance to deal with in a separate chapter? Let us discuss.

Distinction between Domestic Sales Contract and Export Sales Contract

Both are sale contracts. However, the major point of distinction between a domestic sale contract and international export contract lies in identifying the proper law governing the export contract.

Conflict of Laws

When both buyer and seller are situated in India, both of them are very clearly aware that both of them are bound by Indian Contract Act, 1872 and are subject to jurisdiction of Indian courts. This is not the case when the exporter and importer are located in different countries. Laws and Regulations of both the countries are different and goods are crossing one national frontier to another. So, the question raises which country's law is applicable. The distinctive feature of international business is **'Conflict of Laws',** as both the parties have to deal with different legal systems. It is necessary for both exporter and importer to put down the terms of the agreement, in writing, and specify the applicability of the law of the land to their contract to avoid misunderstanding and disputes. The law could be either exporter or importer's country. In the absence of specific mention of the law, the courts decide about the applicability of the law to the contract. Normally, the law applicable to the contract is where the contract is to be carried out (i.e. the place where delivery of goods takes place). Delivery of goods takes place when goods are placed on the carrier. Normally, goods are placed on the carrier in exporter's country. So, exporter country's law becomes applicable to the contract. This is the position unless otherwise the contract states. When goods are exported from India, Indian law is applicable as the goods are, normally, placed in the carrier in the exporter's country. To make the matters abundantly clear, it is all the more better to specify about the applicability of law clearly in the contract. In export business, the parties involved in the contract agree mutually about the applicability of particular country's law.

Oral Vs written and constructed contracts: Oral contracts are legally binding, if the contract is for sale of goods in India. However, in Indian context, an export contract has to be in writing as documentary evidence is essential to secure special export facilities and incentives. In the absence of a written contract, even constructed contract is sufficient.

Constructed Contract: A constructed contract is one, which does not have written formal contract but inferred and established from the documents exchanged. The important requirement is evidence of agreement. This can be inferred from telex or fax messages,

electronic data interchange with authenticity of messages, exchange of letters, purchase order or letters of credits. If information is available to establish that there has been agreement between the exporter and importer, based on any one or all of these documents, it is adequate. Both written and constructed contracts are, equally, binding on both exporter and importer.

Form of Contract: There are no universally acceptable norms to the form of contract. There is no need of a formal contract, duly signed by both exporter and importer. The contract is not needed to be stamped even.

As a matter of rule, majority of long term supplies contracts and project exports between exporter and importer are based on detailed documentation and in writing. However, at times, contracts related to supply of garments, jewellery and handicrafts are not based on written contracts. It does not mean that there is no contract at all. Contracts in such cases are established on the basis of telephonic contacts, confirmed subsequently by correspondence.

INCOTERMS 2000

Meaning of Incoterms

There are a number of common sale or trade terms used in international trade to express the sale price and corresponding rights and obligations of the seller and buyer. These terms are defined by the International Chamber of Commerce, which are known as 'Incoterms.

Purpose of Incoterms

The purpose of Incoterms is to provide common interpretation for the different trade terms used in international trade.

In international business, parties are from diverse nations. Different meanings exist for different terms, due to different trade practices followed in those countries. Specific terms are to be interpreted by all parties in a similar manner; otherwise disputes are bound to arise. This can create misunderstandings and disputes. They may lead to litigation resulting in wastage of time, money and strained relationship, disrupting the long- standing mutally beneficial business contacts. In order to remedy the problem, International Chamber of Commerce has developed Incoterms. The uncertainties of different interpretation have been greatly avoided or atleast reduced by these Incoterms. These terms have been revised several times with the changes in international commercial practices, from time to time. The current version of Incoterms has been issued in 1990. They define the rights and responsibilities of importers and exporters in international trade.

Types of Contracts

Type of contract depends on the basis of price quotation. Mainly, there are three types of contracts, which are often used in international market.

Ex Works Contract: The seller fulfills his obligation by delivering the goods at his factory/shop/warehouse. The buyer bears all the costs and risks in taking the goods from that place to the desired destination. This term represents the minimum obligation on the part of the seller. In this type of contract, the obligations of the seller are the lowest and contract price is always the lowest.

Free on Board (FOB): The seller fulfills his obligation when he delivers the goods on the ship rails at the named port of shipment. The buyer has to bear all costs and risks from that point of time. Cartage up to the port, inland insurance, port dues and loading charges into the ship are to be borne by the seller. The seller has to take care of all these expenses. The term can only be used for sea or inland water transport.

Duties of the Exporter

(A) Supply the contracted goods in conformity with the contract of sale and deliver the goods on board the vessel named by the buyer at the named port of shipment;

(B) Bear all costs and risks of the goods until such time as they shall have effectively passed the ship's rail. In other words, once goods are placed on ship's rail, title to the property passes to the buyer and so risks too;

(C) Provide at his own expense the customary clean shipping documents as proof of delivery of goods;

(D) Provide export licence and pay export duty, if any; and

(E) Pay loading costs.

Duties of the Importer

(A) Reserve the necessary shipping space and give due notice of the same to the exporter;

(B) Bear all costs and risks of the goods from the time when they shall have effectively passed the ship's rail;

(C) Pay freight;

(D) Pay unloading costs and

(E) Pay the price as provided in the contract to the exporter.

Cost Insurance Freight (CIF): In addition to the responsibilities associated with FOB contract, exporter has to arrange shipping space, bear the ship freight and marine insurance charges from his contract price.

Duties of the Exporter

(A) Supply the goods in conformity with the contract of sale, arrange at his own expense, for shipping space by the usual route and pay freight charges for the carriage of goods;

(B) Obtain at his own risk and expense all documentation regarding government authorization necessary for the export of goods;

(C) Load the goods at his own expense on board the vessel at the port of shipment;

(D) Procure at his own cost in a transferable form a policy of marine insurance for a value equivalent to C.I.F. plus 10%;

(E) Bear all risks until the goods shall have effectively crossed the ship's rail and furnish to the buyer a clean negotiable bill of lading;

(F) Provide export licence;

(G) Pay export duty if any and

(H) Insure the goods.

Duties of the Importer

(A) Accept the documents when tendered by the exporter, if they are in conformity with the contract of sale and pay the price;

(B) Receive the goods at the port of destination and bear all costs except freight and marine insurance, incurred in respect of carriage of the goods;

(C) Pay unloading costs and

(D) Bear all risks of the goods from the time they shall have effectively passed the ship's rail at the port of shipment.

PASSING OF TITLE OF GOODS TO THE IMPORTER

In ex works contract	Seller's plant
In FOB contract	Port of Export
In CIF contract	Port of Import

If the price quotation is on FOB basis, it is a FOB contract. Similarly, if the price quotation is on CIF basis, then it is a CIF contract. The rights and responsibilities of importer and exporter in both the contracts are different. The International Chamber of Commerce has described the rights and responsibilities in 'INCO' Terms.

Major Laws having bearing on Export Contracts

Export contracts are private contracts and Government does not interfere with them so long as the provisions of the contract do not go against the provisions of various laws, which have been enacted for the export-import business contracts in India. The provisions of the export contracts should not flout the existing laws of the land. The following are the major laws:

(A) Foreign Trade Development & Regulation Act, 1992: Under this Act, Director General of Foreign Trade brings out the export-import policy and lays down the procedures, from time to time. While entering into a contract, exporter has to draft the provisions of the contract in pursuance of the provisions of the Act. To illustrate,

where there is a price regulation and a floor price is fixed in respect of a product, exporter should not enter into a contract with a foreign buyer for supplying that product below the price fixed. If a product is banned for export, contract should not cover export of that commodity. If Government releases certain goods on quota basis, it is necessary for the exporter to provide a clause in the export contract that the supply will be dependent on the release of quota from government. If the contingent clause is incorporated and quota is not released to that exporter and in consequence there is breach of contract in his performance, exporter would not be liable for default in performance.

(B) Foreign Exchange Management Act, 1999: As per the provisions of the Act, export proceeds are to be brought into India within a period of 180 days from the date of shipment. Exporter is not to enter a contract providing a period of credit of more than 180 days to the importer unless the exports are made on deferred payment basis or goods are sent on consignment basis. Further, an exporter is not permitted to pay commission more than 12.5% to his agent, abroad for the sales made by him and so provision for payment of commission is not to be made at a higher rate in the contract, unless prior permission of RBI has been obtained.

(C) Pre Shipment Inspection and Quality Control Act, 1963: In the larger interests of the international trade and in order to protect the image of the exporter as well as nation, certain products have been brought under the Act. Once a notification is made under the Act, certificate about pre-shipment inspection & quality control has to be obtained by the exporter. Quality norms have to be complied with while entering into the contract with the importer. Contract can stipulate higher quality norms but does not allow to mention a lower norm than the one mentioned in the Act. Even if the importer does not insist on the certificate, it is obligatory on the part of exporter to obtain the certificate from the approved agency before shipment of goods.

(D) Customs Act, 1962: No goods can be sent out of the country without the customs clearance. All consignment of goods can be checked by the customs to ensure that the goods stated in the invoice only are leaving the country and that there has been no over/under invoicing in this process. The authority to check the cargo involved is vested with the customs, under this Act.

(F) International Commercial Practices: Indian laws, basically, govern the export-import contracts. In addition to these laws, there are International Commercial Practices, which also have a significant bearing on these contracts. The International Chamber of Commerce, Paris has prepared two documents, in the context of international business. The documents are Uniform Customs and

Practices for Documentary Credits (UCP) 1993 and Incoterms, 1990. Banks use UCP in the negotiation of export-import documents. Virtually, it is a bible to bankers for negotiation of documents.

ELEMENTS IN EXPORT CONTRACTS

Meaning and Significance

The term “Elements” is a bit confusing that refers to the general conditions in contracts. Export contracts invariably refer to the subject matter of the contract. In addition to the subject matter, it is advisable for both the paties to incorporate several general conditions in the contract, in particular, rights of the parties in case of failure of performance or other contractual obligations. The goods may be lost, stolen or damaged during transit. Who would bear the risk in such a situation? If the contract specifies the position clearly, lot of litigation and approaching the court can be avoided. Physical movement of goods involves cost. Who has to bear the costs and up to what point? These issues are resolved by incorporating the elements (general conditions) in export contracts.

Most exporters have developed standard general contracts. It simplifies the day to day operations and also reduces the possibility of missing certain items. The complexity of the conditions depends on what is exported. If the items exported are common items such as handicrafts, garments or normally used consumption items, standard general conditions contract is sufficient. However, if the goods exported are complex item such as petrochemicals, the export contract has to be drafted with a great deal of care, which may turn to be voluminous running into hundreds of pages.

For a majority of products being exported from India, the following elements have to be incorporated in the export contracts:

1. Names of the Parties
2. Description of the Products
3. Quality
4. Price per unit
5. Total value
6. Currency
7. Tax and Charges
8. Packing
9. Marking and Labelling
10. Mode of Transport
11. Delivery: Place and schedule
12. Insurance
13. Inspection
14. Documentation
15. Mode of Payment

16. Credit period, if any
17. Warranties
18. Passing of risk
19. Passing of property
20. Availability/non-availability of export-import licence
21. Force Majeure (Factors beyond the control of the parties that makes the performance of the contractual obligations impossible e.g. Wars, floods, fire, civil war. Once this specific clause is incorporated, parties are relieved of their mutual obligations, on the happening of the event. Contract comes to an end and no party is liable for damages)
22. Settlement of Disputes
23. Proper Law of the Contract
24. Jurisdiction.

The Ministry of Commerce, Government of India, has set up Indian Council of Arbitration. It has developed a model set of Contracts for the benefit of exporters. These model contracts are suitable, in case of most small and medium enterprises.

LEGAL DIMENSIONS

There are several legal dimensions in implementation of export contracts which form part of corporate export marketing plan. These legal dimensions or issues can be broadly classified into four categories:

(*i*) Those Relating to export-import contracts

(*ii*) Those Relating to Relationships between exporter and agents/distributors

(*iii*) Those Relating to Products

(*iv*) Those Relating to Letters of Credit

(i) Relating to Export-Import Contracts

They relate to the general conditions of export contracts and different types of contracts. Both the areas have been, already, dealt above.

(ii) Relationships between Exporter and Agents/Distributors

To promote overseas market, most of the exporters enter into Export Agency agreement. Export Agency agreement is a legal document, which establishes and defines the relationship between the principal (exporter) and agent. The conditions mutually agreed upon between both the parties are incorporated in the agency agreement. While drafting the export agency agreement, care is to be exercised in respect of certain points. They are summarized as under:

(1) **Parties to the Contract:** Names and identities of the parties must be made clear. It is also to be made clear whether the agent has the right to assign contract in favour of a third party.

(2) **Contractual Products:** Scope of the agency agreement must be explicit, indicating the names of the products for which the agency agreement is entered into. If this clause is silent, it implies that the agent is working for all products of the exporter, both present and future. This situation may not be favourable and suitable to the exporter. That may turn to be a cause for strained relationship, in future, and may affect the prospects of the existing product.

(3) **Contractual Territory:** The area for which the agency agreement is entered into must be specified. In the absence of specific mention in the contract, the agent may develop business plans, anticipating the other areas for expansion. Exporter may not intend to appoint him for the additional areas that may cause unintended problems in relationship.

(4) **Customers:** Customers located in a particular territory automatically come under the agency agreement and business dealings with them entitle the agent for commission. However, problems may crop up with the concept of 'International Buying Groups' that has been growing rapidly, recently. The exporter develops the business dealings with that group from India, directly, and executes them without the involvement of the agent in the agent's territory. As both identification of the group of clientele and contract execution are made by the exporter, exporter would be unwilling to pay commission while the agent stakes his claim as the clientele are located in his territory. Whether the agent would be eligible for the commission or not in such situations, matter has to be made clear in the contract, initially, to avoid future disputes.

(5) **Acceptance or Rejection of Orders:** Whether the principal has the right to accept or reject the orders secured by the agent has to be clear in the agreement. This matter assumes importance where the goods are to be sold on credit, when principal is not sure of the creditworthiness of the potential buyers and agent does not have any responsibility in respect of bad debts.

(6) **Payment of Commission:** Payment of commission is a crucial issue as it is revenue to the agent while it is an expense to the exporter. Commission, basis for calculation and when it becomes due are significant issues that are to be made abundantly clear in the contract. Rate is a percentage while base may be the invoice value or net realized proceeds, after deduction of expenses, incurred by the agent. Normally, agent is entitled to commission soon after exporter accepts the order. There is every possibility that the realization of proceeds may not materialize, after payment of commission. It is desirable to incorporate that the agent would be entitled for commission only after the receipt of proceeds in India. Such clause is necessary in view of the regulations of RBI.

(7) Settlement of Disputes: In international trade, most of the business is transacted on the basis of written orders and well-drafted contracts. Notwithstanding the clarity of the detailed clauses, occurrence of disputes can not be totally ruled out. Contract should have a clear clause for the mechanism for settlement of disputes. Referring the matters to arbitration is the most acceptable solution as it is least expensive, with minimum strained relationship. Above all, both the parties have faith in him. Venue of the arbitrator and applicability of the law are very important issues as both the exporter and importer may insist their own country and law for arbitration. Arbitration clause should be comprehensive enough dealing with these issues in the contract.

(8) Renewal and Termination: The contract should provide suitable clauses for renewal of the period, on expiry of the originally agreed period and equally grounds for termination. No principal would be interested, in the normal course, to terminate the agent when the going is good. When the business does not show up as anticipated, principal may desire to terminate the agent and agent may demand compensation for the premature termination. Minimum turnover clause can be a good solution to overcome the contingencies of the poor performance of the agent and get rid off the situation.

Agency Vs Distribution Agreement

Scope of agency and distribution agreements is different. In both the cases, exporter enters into a contract with a third party from the country, where business is to be promoted and developed. The basic differences are:

(A) Title of goods

This is the basic distinction between the two. In case of agency agreement, title to the goods vests with the exporter even though goods remain in the possession of the agent. Normally, goods are sent on consignment basis to agent. In case of distributorship, distributor purchases the goods on his account from the exporter and so title remains with the distributor.

(B) Scope of Services

In case of agency agreement, agent procures the order only. After the procurement of order, subsequently, exporter deals with the potential buyers directly. So, contractual relationship exists between the principal (exporter) and final buyers directly. In case of distributorship, goods are sold to the buyers by the distributor and identity of the buyers may not be known to the exporter, unless distribution agreement so provides. So, the contractual relationship is between the exporter and distributor and no contract exists between the exporter and ultimate buyers. So, title and risk lie with the distributor while it is not the case in case of agency.

(C) Credit Terms

In case of agency agreement, credit risks are to be borne by the principal only. Agent is not responsible for realisation of sale proceeds, unless Del credre clause exists. In case of

distribution agreement, distributor is only responsible for credit risks as goods are, already, sold to him.

(D) Third Party Liability

In case of agency agreement, principal is liable to third parties directly as agent states that he is acting as agent only and discloses the name of principal. Responsibility does not go back to the principal and only distributor is responsible, in case of distribution agreements.

(E) Control

In case of agency agreement, principal enjoys absolute control on the business and buyers. So, principal can manage the business as he desires and agent's control over the principal is rather difficult. Control of principal is always weak as distributor acts independently, buying and selling goods on his account. Once, distributor becomes powerful, he exercises more control and, at times, dictates his own terms due to proximity and control on the market.

Common feature in both Agency and Distribution

Warranties: Only principal is responsible both in case of agency and distribution agreements.

The above picture shows clearly that the extent of legal liabilities is more to the principal, in case of agency, compared to distribution agreement. It may be possible to get a good agent, but virtually impossible to secure a reliable distributor in International Marketing.

(iii) Relating to Products

Trade Marks: Trademarks are words or designs or combination of both. Names of trademarks may be coined for the purpose of trademark only. Those words are not presently existing and are created that may not convey any meaning. When we hear the word KODAK, we recall photography products and XEROX relate to photocopiers. Trademarks are intended to perform marketing functions. While choosing those names, emphasis is given for;

(1) Creating or enhancing distinctiveness of the product;

(2) Identifying the products which it manufactures or markets;

(3) Symbolizing the quality of the product; and

(4) Stimulating the desire to buy.

Protection of Trade Marks: Any person can apply for registration of trademarks to the registering authority of the country where the product is exported or planned to be exported. The registering authority publishes the request for allotment of trademark in its official journal inviting the objections for grant of registration. In case no valid objection is received, the registering authority accords approval for the registration of trademark. However, names, surnames, geographical places, numerals, descriptive words are not allowed as trade marks. Registration of trademarks is a specialized field and so it is prudent for the exporter to seek the professional services of an attorney who is a specialized in that field.

Product Liability: Product liability can be defined as the responsibility borne by the manufacturers, distributors and retailers for any consequential injuries/damages from the products they make or sell. If the user of the product suffers, he has the right to sue.

(A) In case of Negligence on the Part of the Manufacturer: Negligence in manufacturing makes him liable. The user has to establish negligence on the part of manufacturer in designing or making the product.

(B) Principle of Strict Liability: This is an important principle established by the U.S. Supreme Court in 1953. Even if there is no negligence on the part of the manufacturer, still, the manufacturer is responsible to the aggrieved user if the user sustains injury from a defective product.

(C) Express/Implied Warranties: In some contracts of sale, there are express or implied warranties in respect of merchantability of the product which make the manufacturer liable. Exporter must be conversant with the laws and regulations of the country to which the product is exported to ensure their compliance. In case any suit is filed, eventhough the exporter may plead that the foreign country does not have the jurisdiction over him and may succeed even. Still, he has to incur legal charges. Any penalty imposed on the distributor for the fault of exporter spoils the business relations and, finally, ruins the prospects of business. It is desirable for the exporter to take product liability insurance.

Laws relating to Packing and Promotion: Most of the countries have laid down rules in respect of packaging. Rules insist to declare the composition of product, gross/net weight, date of manufacture/ expiry and precautions to be taken while using the product. Even rules of advertisement are strict in many countries. Unsubstantiated claim in respect of the product, while advertising, makes the manufacturer liable for legal action. Exporter has to remember that he can get away with false advertisement in India, but not in overseas market!

(iv) Laws relating to Letters of Credit

Every exporter wants to enjoy the payment before the physical possession and title to goods is passed on to the importer. This becomes possible when the importer opens letter of credit in favour of exporter through the medium of bank.

By opening a letter of credit, bank makes a commitment to the exporter to make payment once the documents contained in the letter of credit are presented and, on scrutiny, found to be in order. Opening and negotiation of letter of credit are governed by the International Chamber of Commerce Brochure No. 500 entitled"Uniform Customs & Practice for Documentary Credits" commonly known as UCP.

Though letter of credit is based on the sale/purchase contract, the letter of credit transaction is independent of the physical transaction of goods.

Article 3 of General Provisions and Definitions states:

"Credits, by their nature are separate transactions from the sales or other contracts on which they may be based and banks are in no way concerned with or bound by such contracts".

Parties and Relationships in Letter of Credit

(A) There is a contractual relationship between the importer and exporter, evidenced by sales contract.

(B) Banker customer relationship exists between the importer as applicant to the letter of credit and opening bank. Similar relationship exists between the exporter and advising/negotiating bank.

(C) Relationship between the opening bank and negotiating bank. The later acts as the special agent of the former.

(D) Relationship between the exporter and opening bank. Credit contract is established as the opening bank opens letter of credit in favour of the exporter.

DISPUTES SETTLEMENT

Causes for Disputes

Reasons for disputes, in international trade, between exporter and importer can be many. Generally, the primary reason for disputes is quality of the goods exported. Under contractual terms in many export contracts, importer gets the opportunity to inspect the quality of goods only when the consignment reaches him. In many cases, by that time, the exporter would have got money. Even if the consignment is sent on collection basis, importer can check the quality only after retiring the documents. Other reasons for the disputes can be delayed shipment or non-shipment due to change in government regulations or market conditions, restricting exports, etc.

Methods: There are two basic methods for disputes settlement viz. Litigation and arbitration. Litigation is highly unsuitable due to the proverbial delayed process, prohibitive costs and uncertainty of decision.

Basic Limitations of Litigation

1. **Slow Process:** Court process is proverbially slow, time consuming and formalistic.
2. **Avoidable Necessity of Expert Witness and other Evidence:** In international contracts, practices, procedures and customs are different. A judge however well versed may be, in law, can not be expected to know all these intricate matters. So, in courts, to educate the judge about these practices, witnesses who are experts and having knowledge in the field have to be produced to prove the practices, even before the evidence is established.
3. **Inconvenience to the Parties:** Court timing and date of hearings may not be convenient to the litigants. Most of the time, cases are postponed and in that

process months drag on even for completion of one witness. Even after day's long waiting for hearing, one may know, at the end of the day, that the case is adjourned for two months due to non availability of the other advocate!

4. **Adverse Public Image:** Court proceedings are never secret. Media always covers the developments in important cases. Even the superior court judgments are published. Matters, which have been confidential till the case is brought to a court of law, become topics for public discussion that may bring notoriety, loss of goodwill and long-standing reputation.
5. **Bitterness and Disruption of Trade Relationships:** When a matter goes to a court of law, it is immaterial which party may win as the age old established relationship, after the case is brought to litigation in a court, comes to an end with only acrimony and bitterness.
6. **Different Laws and Procedures:** International trade laws and procedures are more complicated. Litigation in foreign courts is more expensive and difficult in comparison to the domestic courts.

Basic Advantages of Arbitration

In comparison to litigation, the basic advantages of arbitration are:

1. **Quickness:** Definitely, arbitration is quicker than litigation. Process of arbitration can be completed as fast as the concerned parties' desire. Under Arbitration Act, the arbitrators have to make the award within four months from the date of completion of all proceedings. Usually, arbitration is settled within a period of four months to one year.
2. **Inexpensiveness:** Total incidental expenditure in arbitration is always much lower than litigation. Arbitration fees is around 2% of the claim value or less in institutional arbitration.
3. **Promotes Goodwill:** As the arbitrator is chosen by both the parties, based on their faith and his competence, arbitration becomes a normal process of goodwill. Arbitration proceedings and its outcome do not disturb the existing friendly relations between the exporter and importer.
4. **Choice of Appropriate Arbitrator:** As the arbitrator is chosen by both the parties and name incorporated in the contract, who has the knowledge of customs and procedures of international trade, so separate expert witness for educating the judge does not arise.
5. **Privacy:** Arbitration proceedings are not open to public. Arbitrator's award is not published in any newspapers. This preserves privacy of the parties. So, trade secrets as well as disputes arising from the contracts do not become public.

HOW TO RESOLVE AND SETTLE DISPUTES?

Inclusion of Future Dispute Clause: While entering into export contract, suitable arbitration clause for referring the future disputes indicating the name of arbitrator, venue of arbitration and applicability of law may be incorporated to protect mutual interests. In case the arbitration clause is not included in the export contract, originally, a subsequent written agreement may be entered into, referring to the earlier contract. The later agreement is called 'Submission agreement'.

Law for Enforcement of Foreign Awards in India

India is a party to International Conventions. Countries, which are members to the International Conventions, have to pass the necessary legislation for enforcement. Accordingly, Foreign Awards (Recognition and Enforcement) Act, 1961 has been passed.

Procedure for Enforcement in India: Any person interested in the award can pray the court, having jurisdiction, for filing the award. After giving notice to the parties why the award should not be filed, court pronounces the judgment according to the award, if the court is satisfied that the foreign award is enforceable under the above Act. Upon the judgment so pronounced, decree shall follow. No appeal can lie except when the judgment is in excess or not in accordance with the award.

Enforcement of Indian Awards in Foreign Countries

It is understood that awards made in India are enforceable in Foreign Countries, similarly, if the other country is a member of International Conventions. Where the other country is not a member of the International conventions or does not adhere to similar international regulations, enforcement of arbitration is beset with more difficulties.

CHECK YOUR UNDERSTANDING

State whether the following statements are TRUE or FALSE.

1. To ensure uniform interpretation of specific terms, International Chamber of Commerce has developed Incoterms.
2. Arbitration is inexpensive and it maintains privacy.
3. In FOB contracts, risks associated with freight escalation have to be borne by the importer.
4. Selling under FOB contract are good for the country as a whole.
5. In a CIF contract; it is not the responsibility of the seller to procure a contract of insurance for the shipped goods.
6. Oral contracts are legally binding if the contract is for sale of goods in India.
7. In export business, the parties involved in the contract agree mutually about the applicability of particular country's law.
8. Incoterms are a treaty adopted by the trading nations.

Answers

1. True 2. True 3. True 4. False 5. False 6.True 7. True 8.False

REVIEW QUESTIONS

1. Describe the significance and difference of International Business Contract to an exporter in comparison to sale contract for supply of goods in India?
2. "The legal environment of foreign marketing takes an added dimension of importance since there is no uniform commercial law which governs foreign business transactions" Comment?
3. Describe the different major laws which have to be kept in mind while entering into export contracts?
4. What are the differences between FOB contract and CIF contract and explain the duties and obligations of importers and exporters?
5. Describe the different general conditions in an export contract?
6. Describe the different legal dimensions in implementation of export contracts?
7. Distinguish the role of agent and distributor in international business contacts?
8. Write the importance of different clauses in Export Agency Agreement?
9. "Arbitration is better than litigation"—Discuss?
10. Describe the procedure for enforcement of an arbitration award?
11. Write short notes on the following:
    - *a*. Incoterms
    - *b*. Force Majeure
    - *c*. Ex works in international contracts.

5

TERMS OF PAYMENT

- INTRODUCTION
- WHAT FACTORS DETERMINE TERMS OF PAYMENT?
- METHODS OF RECEIVING PAYMENT
  - PAYMENT IN ADVANCE
  - DOCUMENTARY BILLS
  - DOCUMENTARY CREDIT UNDER LETTERS OF CREDIT
  - OPEN ACCOUNT WITH PERIODIC SETTLEMENT
  - SHIPMENT ON CONSIGNMENT BASIS
- CHECK YOUR UNDERSTANDING
- REVIEW QUESTIONS

INTRODUCTION

In international trade, the growing competition is not confined to quality, price and delivery schedule but extends to terms of payment. International trade has been not only highly competitive, equally sensitive. Credit facilities extended to the importers, many a time, tilt the choice of exporter. Importer may prefer that exporter who can afford credit even though the price is relatively higher. When all the factors stand on the same footing between competing exporters, it is all the more choice of the importer to finalise with that exporter who extends credit on favourable terms. Here, the role of institutional credit comes into full play.

Amount and Time of Credit

The extent of credit needed depends upon the terms of sale. Exporter who has finalised the terms of sale on CIF basis requires more funds to finance the export transaction, in

relation to FOB contract when no advance payment is received from the importer. So, sale terms influence not only the amount of credit, but also when the credit must be extended to the exporter to facilitate successful completion of export transaction. In some cases, credit may be extended to the exporter by importer, through letter of credit, even to purchase raw materials to manufacture goods, meant for export. Export transactions are deemed to be complete only when the export proceeds are fully received from the importer.

The terms of payment play an important role in export business. How and when the exporter has to receive payment are decided during early negotiations between the exporter and importer. Many exporters are able to clinch the deal based on attractive payment terms though they may not be totally competitive from the viewpoint of price or quality. Payment terms are determined by a host of factors, including the exchange control regulations of the country, financial competence of the exporter, monopolistic conditions of the product and above all bargaining strength of the parties. According to exchange control regulations in our country, the full value of export proceeds must be received within a period of six months from the date of shipment. Any extension of the period requires the prior approval of Reserve Bank of India.

There are five methods of receiving payment from overseas buyers. Choice of method, largely, depends on the bargaining muscle of the trading partners. Different methods of payment carry varying degrees of risk to the exporter.

What Factors Determine Terms of Payment?

The following factors are usually taken into consideration, while deciding the terms of payment:

A. Exporter's knowledge of the Buyer.

B. Buyer's financial ability.

C. Degree of security of payment, if advance payment is not considered.

D. Speed of Remittance.

E. Cost of remittance, which normally depends on speed of remittance.

F. Competition faced by the exporter.

G. Exchange restrictions in the importer's country.

Methods of Receiving Payment

I. Payment in Advance

This is most favoured method of payment from the viewpoint of the exporter. This mode does not have any credit or transfer risk to the exporter in executing the contract, whatsoever. When the conditions in the importer's country are unstable and there is no guarantee of receipt of payment, even after successful execution of the contract, advance payment is always insisted by the exporter. If an order from Afghanistan is received, Indian exporter may prefer to forego the order however attractive the price terms may be, unless advance payment is received.

Exporter receives payment from the importer, in advance, before execution of the order. Receipt of payment can be at the time of receiving the order, initially, or later, in installments, but before final execution of the order. Payment may be received by means of demand draft, mail transfer or telegraphic transfer in the currency specified in the contract of sale. Even in this mode of payment, slight risk exists in the form of exchange risk from the date of contract till the date of receipt of payment. Risk appears to be an integral of life, at least the slightest! However, importer seldom accepts this method of payment. Importer does not accept the mode unless there is heavy demand for those goods in his country or the goods are tailor- made to the specific requirements of the importer. In those circumstances only, exporter can dictate the advance payment. When the importer is unknown or his creditworthiness is doubtful and not acceptable to the exporter and the importer requires those goods, there is no alternative to the importer, other than making advance payment. Normally, importing country's exchange control restrictions do not permit this type of advance payment. Even when advance payment is allowed, a part payment is made at the time of acceptance of order, another part, in stages, while the manufacturing is in progress, after verification and balance before shipment, finally.

This methods works out to be the cheapest mode of contract to the exporter as there would be no commission charges as banks do not charge while crediting the demand draft/ mail transfer/telegraphic transfer amount to the account of the exporter.

II. Documentary Bills

When the exporter is unable to get the advance payment from the importer, the next best alternative mode of payment is 'Documentary Bills'. The exporter is unwilling to part with the documents of title till he receives the payment and the importer is not prepared to part with payment and assume the risk until he is sure of receiving the goods. Under those circumstances, 'Documentary Bills' is a bridge, as documents are routed through the bank. It provides the required solution as it satisfies the claims of both the parties. In this system of payment, banks act as a media to reconcile the conflicting requirements of the exporter as well as importer.

Forms of Documentary Bills

Documentary Bills can be in the form of Sight Bill and Acceptance Bill. Method of payment depends on the form of bill used.

Documents against Payment: Under this method, exporter draws a sight bill on the importer and hands over the relative documents specified in the contract to his banker with the instructions to deliver the documents only on payment. The documents are sent to the correspondent's bank, where the importer is located, with the instructions given by the exporter. When the importer makes the payment, he can get title to the goods and possession.

Documents against Acceptance (D/P): Under this method, exporter draws usance bill on the importer. Usance period may be 30 to 180 days. Usance period cannot exceed 180

days as the export proceeds are to be collected within a maximum period of 180 days as per Exchange Control restrictions. The essence of the transaction is the exporter is not only willing to ship the goods but also prepared to part with the title and possession of goods, before payment is received and even extending the agreed period of credit.

(A) Collection of Bill: In this case, either D/P bill or D/A bill is sent to the correspondent's bank for collection of proceeds from the importer.

In case of D/P bill, importer has to make payment to get the documents. In case of D/A Bill, on receipt of advice from the bank, importer accepts the usance bill by writing the words 'Accepted' with his signature on the usance draft. Then only, importer gets documents of title to goods from the bank. He can get possession of goods and even sells the goods to get the necessary funds to make payment on the due date. In this case, the exporter is extending credit to the exporter, apart from assuming the commercial risk of default in payment as the importer may not pay on the due date, after taking delivery of goods. Soon after the payment is received from the correspondent bank, exporter's account will be credited when the bill is sent on collection basis.

(B) Purchase/Discounting of Bill: When the exporter is in need of funds, at the time of handing over the documents, he can request the banker to purchase/discount the bill and allow the proceeds to be credited to his account.

If it is a sight bill, bank purchases and if it is usance bill, bank discounts the bill. In both the cases, payment is made to the exporter, on presentation of documents. Different terms 'Purchase' and 'Discount' are used, in separate contexts, to serve the same purpose. However, in case the importer fails to pay the bill, the exporter's account will be debited.

Consequences of Non-Payment in Case of D/P Bill: When importer fails to make the payment, on presentation by the correspondent's bank, exporter may have to pay additional charges by way of warehouse charges and insurance charges, at the port of destination as the goods will be lying in the foreign port. If the importer finally refuses to take delivery of goods, alternative buyer may have to be procured or distress sale may become necessary. If nothing materialises, goods may have to be brought back to the country. This course of action results in heavy loss to the exporter.

Consequences of Non-Payment in Case of D/A Bill: There are greater risks associated in case of D/A Bill, compared to D/P Bill. In case of D/A Bill, importer makes payment only on the due date. From the date of delivery of goods till date of payment, exporter has to bear credit risk as importer has, already, taken delivery of goods. If the importer fails to make the payment, exporter has no alternative but to file only a civil suit that is beset with costs and realisation difficulty.

Common Risk: In both the cases, documents against payment and acceptance, there is a common risk-transfer risk-if there is shortage of foreign currency or exchange control

restrictions in the importer's country. However, institutional facilities are available in all countries to cover political risk related to inability to receive the remittance from the importer's country, even after payment by the importer. In India, Export Credit Guarantee Corporation of India LTD (ECGC) offers this facility.

III. Documentary Credit under Letters of Credit

Main Attraction: This method of payment has become highly popular in recent times. The greatest attraction to the exporter is elimination of credit and payment risks. Exporter is not concerned with the creditworthiness of the borrower while entering into the contract. In other words, the credit of the banker is substituted for that of the importer. There is no payment risk as negotiating bank makes the payment to him, once the stipulated conditions are complied with. Above all, an important advantage from the viewpoint of the exporter, he can obtain the payment from a bank, at his own centre. The documentary bills finance a large part of overseas trade.

Definition: According to Article 3 of Uniform Customs and Practices relating to Documentary credits, Documentary Letter of Credit has been defined as "any arrangement whereby a bank acting at the request and in accordance with the instructions of a customer (the importer) undertakes to make payment to or to the order of a third party (the exporter) against stipulated documents and compliance with stipulated terms and conditions".

Method: At the request of the importer, bank makes a commitment to the exporter to make payment, under certain circumstances and up to a limit, provided the stipulated documents in the letter of credit, requested by the importer, are presented and found to be in order. Exporter may draw the draft on the importer or importer's bank. The documents usually required are full set of bill of lading, invoice and marine insurance policy.

Parties in Documentary Credits

There are several parties involved in documentary credit arrangement.

1. The importer **(applicant)** approaches the bank and initiates the process of opening documentary credit in favour of the exporter. He requests the bank to open the documentary credit, incorporating the documents required to be presented by exporter, which are specified in the contract entered into between the importer and exporter.
2. The banker who issues the letter of credit at the request of the applicant is referred to as **the opening or issuing banker** who undertakes to make the payment to the exporter on presentation of the required documents, in proper condition.
3. The bank to whom the letter of credit is sent for authentication and delivery is known as **" Advising Bank'.** According to Article 8 of UCP, the advising bank is expected to take reasonable care while verifying the authenticity of the documentary credit.
4. The bank, which adds the confirmation, is known as **"Confirming Bank".** The confirming bank gives its commitment to make the payment if conditions stipulated

in the credit are complied with even if the advising bank is unable to pay or refuses to make the payment. Normally, advising bank and confirming bank are one and the same.

5. Bill of exchange is drawn by the exporter on the importer or named importer's bank. When the exporter draws the bill on importer, issuing bank of documentary credit becomes the **Paying Bank**. Alternatively, when draft is drawn on the importer's bank, that bank becomes the **Paying Bank.**
6. When the paying bank is not located in the exporter's place, credit permits any bank to make the negotiation of documents and disburse payment to the exporter, known as **'Negotiating Bank'.** After payment, the negotiating bank claims reimbursement from the paying bank. Until the paying bank makes the payment, the drawing is not finalised. The negotiating bank can have recourse to the exporter till it can get reimbursement from the paying bank.
7. The exporter for whose benefit the documentary credit is opened is called the **'Beneficiary'.**

In a documentary credit, there should be at least four parties, applicant, beneficiary, the issuing bank and the advising bank. The advising bank, confirming bank and paying bank may be rolled into one.

Different Types of Letter of Credit

There are different types of letter of credit. They are:

1. **Documentary Letter of Credit:** This letter of credit specifies the various documents that are required to be submitted by the exporter to the importer. That is the reason why it is called documentary letter of credit. Following documents are usually specified in the letter of credit.
   - Sight or Usance Bill of Exchange
   - Commercial Invoice/Customs Invoice
   - Consular invoice
   - Packing List
   - Full set clean-on-board Bill of lading/Airway Bill/Combined Transport Document
   - Inspection Certificate
   - Marine insurance policy/certificate
   - Certificate of origin
   - Any other document as required by the buyer, mentioned in letter of credit
2. **Revocable and Irrevocable Credit:** Under revocable letter of credit, the opening bank reserves the right to cancel or modify the credit, at any time, without the

consent of the beneficiary. This leaves the exporter in lurches. The exporter may realise that the importer has instructed his banker to revoke the credit when the contract is at an advanced stage of execution or even after shipment. This method of payment is not popular as no exporter accepts this unsafe system of payment. In case of irrevocable letter of credit, the opening bank has no right to change the terms of credit, without the consent of the beneficiary. The opening bank is irrevocably committed itself to make the payment, if the documents are in conformity to credit terms specified in the letter of credit. So, the exporter is secured as above said problems do not remain in this type of credit.

According to UCP, the letter of credit should state whether it is revocable or irrevocable credit. In the absence of any specific mention, it is deemed that the credit is irrevocable credit effective from 1st January '94.

3. **With Recourse or Without Recourse Letter of Credit:** The revocable and irrevocable credits are further classified into "With Recourse" and "Without Recourse" letter of credit.

   Under 'With Recourse" letter of credit, the negotiating bank can make the exporter liable, in case of default in payment by the opening bank or importer. For this, Negotiating bank has to obtain suitable undertaking from the exporter for refund of amount paid, in the event of not getting reimbursement from the issuing bank. Under "Without Recourse" letter of credit, the negotiating bank has no recourse to the exporter. But, if the confirming bank happens to be the negotiating bank, it cannot have recourse to the exporter.

   A confirmed letter of credit is without recourse to the beneficiary. Unconfirmed or negotiable credit is always with recourse to the beneficiary.

4. **Confirmed and Unconfirmed Letter of Credit:** Exporter and importer remain in different countries. Exporter may not be aware of the standing of the issuing bank. In such cases, exporter may insist that the local bank should add confirmation to the credit opened. Normally, importer would not be willing to add confirmation to the credit as it involves additional commission of the confirming bank. After confirmation, the letter of credit becomes confirmed and irrevocable. Once confirmation is added, the confirming bank, which is normally the correspondent bank of the opening bank, adds a clause to the effect that:

   > "The above credit is confirmed by us and we hereby irrevocably undertake to honour the drafts drawn under this credit on presentation, provided that all the terms and conditions of the credit are duly satisfied".

   When the credit is irrevocable but not confirmed, the issuing bank asks the correspondent bank to advise the credit and in such a case, the correspondent bank will advise the credit with a clause stating that:

   > "This credit is irrevocable on the part of the issuing bank but is not confirmed by us and therefore it does not involve any undertaking on our part."

In the absence of confirmation of credit, there is a contingent risk to the exporter. The exporter has to endorse the documents to the negotiating bank. Though the negotiating bank makes the payment to the exporter, it will have recourse on the exporter in the event it does not get reimbursement from the issuing bank.

5. **Transferable and Non-Transferable Letter of Credit**: Under transferable letter of credit, exporter can transfer the credit fully or partly to one or more parties. This is possible when the credit clearly states it is "transferable" (no other term is acceptable). In cases, when the product is to be fabricated by a third party, fully or partly, a portion of the credit is made transferable to the third party. Such transfer of credit must be informed to the issuing bank. It is used when the seller is a middleman who can transfer a part of the credit to the exporter for shipping the goods. When the credit is not transferable, it is non-transferable credit.
6. **Fixed and Revolving Letter of Credit:** A fixed letter of credit is for a fixed period and amount. Letter of credit expires if the credit is exhausted or period is over, whichever is earlier. In case of revolving letter of credit, the letter of credit would be revived automatically for the same amount and period, once it is exhausted. Such letter of credit is beneficial when the exporter and importer have frequent dealings of the same nature.
7. **Freely Negotiable and Restricted Letter of Credit:** When the letter of credit does not put any condition for the negotiation of documents, it is a freely negotiable letter of credit. This letter of credit can be negotiated through any willing bank. In case, the credit names a specific bank for negotiation, then the letter of credit is a restricted credit. In case, the bank that has been named for negotiation refuses to negotiate, then it is the responsibility of the opening bank to pay as per the terms of credit.
8. **Red Clause and Green Clause Letter of Credit:** A red clause letter of credit is one that authorises the exporter to avail pre-shipment finance on the strength of the credit. In this letter of credit, the clause is printed or typed in red ink. Hence, such letter of credit is known as red clause letter of credit. This is a pre-shipment finance provided to the beneficiary by the importer. This credit is liquidated once the documents are negotiated.

   In a green clause letter of credit, in addition to pre-shipment finance, storage facilities are allowed at the port of shipment to the exporter by opening bank. Such type of clause is typed or printed in green ink. So, this letter of credit is known as "green clause letter of credit'.
9. **Back-to-Back Letter of Credit:** This letter of credit provides pre-shipment finance to the beneficiary. When the beneficiary wants to purchase raw materials from a third party for the purpose of executing export order, or is only a middleman and not the actual supplier of goods, he can ask the bank to open a new letter of credit, on the strength of this credit, in favour of a third party. In this case, a new letter

of credit has to be opened while in the case of transferable credit; the existing credit is only transferred.

10. **Assignable and Non Assignable Letter of Credit:** An assignable letter of credit can be assigned to a third party by the beneficiary of the credit. When the buyer is not able to find the real exporter, in the meantime, he opens the credit in favour of his agent or representative. When the agent is able to find an exporter who is willing to supply the goods on the terms of the buyer, he assigns the letter of credit to the supplier of goods. A non-assignable letter of credit is one that cannot be further assigned and so opened only in favour of the real exporter of goods after the exporter confirms the order.
11. **Deferred period of Credit:** In this period of credit, the supplier provides credit to the buyer after supply of goods.
12. **Stand by Credit:** This is similar to a performance bond or guarantee, but in the nature of letter of credit. The credit assures the beneficiary that in the event of non-performance or non-payment of any obligation, the beneficiary may request the issuing bank to make the payment. The beneficiary has to draw the claim by drawing a bill on the issuing bank, accompanied with documentary evidence in support of non-performance of contract. When the exporter receives the advance payment from importer, importer may insist on exporter to open 'Stand by credit' in favour of the importer to protect the latter's interests.

Main distinction between Documentary Bill and Documentary Credit under Letters of Credit

Documentary Bills: Under this method of payment, bank opens no letter of credit. Bank functions as an agent for collection of the bill. The role of bank is that of medium only. There is no commitment on the part of bank for any payment, whatsoever. In case of D/A bill, importer gets documents of title to goods, on acceptance of the bill. Exporter gets payment only if importer makes payment. If importer fails to make payment on due date, exporter has no alternative other than filing a civil suit against importer as it is not legally possible to get back possession of goods. In case of D/P bill, if importer fails to make payment, exporter gets back the document of title to goods. There is no risk in case of non-payment, an important advantage from the viewpoint of the exporter.

Documentary Credit under Letters of Credit: Letter of credit is opened by bank, at the instance of the applicant (importer). Here, the bank that has opened the letter of credit assumes the responsibility to make the payment, on presentation of the documents specified in the letter of credit. So, exporter is sure of receiving the payment, once the documents specified in the letter of credit are presented. Exporter is not concerned with the creditworthiness of the importer. Neither credit risk nor political risk- in fact, no risk exists for receipt of payment if the exporter, scrupulously, follows conditions in the letter of credit.

IV. Open Account with Periodic Settlement

Under this form of payment, exporter sends the goods, directly, to the overseas buyer along with invoice. The exporter does not draw any bill of exchange on the importer. This form of payment is made when the exporter and importer are inter-connected companies like holding company and subsidiary company or where the relationship between them is long standing and absolute trust exists between the two. There is real risk to the exporter as there is no proof in the form of documentary evidence to establish the obligation on the part of the importer to make the payment. If no credit arrangement is agreed, the buyer has to make payment, immediate to the receipt of goods. However, in most of the cases, importer makes the payment only on the expiry of the stipulated credit period agreed. It is desirable for the exporter to enter into this manner of payment only when the bonafides of the importer is beyond doubt.

This method of payment is simple and involves no additional costs. This form of payment is possible only when the exporter is financially strong as he is meeting the credit requirements of the buyer. It presupposes that there are no exchange control restrictions in the importer's county. Otherwise, the importer may not be able to remit the amount when the amount falls due for payment.

Indian exporters are allowed to send the goods on this basis only with the special approval of RBI. RBI normally permits to foreign companies operating in India.

V. Shipment on Consignment Basis

Under the consignment basis, the seller ships the goods to his agent or representative. Exporter retains legal title to the goods though the physical possession is with the agent. As and when agent sells the goods, he makes the remittance to the principal who is the exporter. There is no financial security to the exporter if the agent is dishonest, not sincere or fraudulent in working as no document of evidence in the form of Bill of Exchange is available to protect him from default. In case goods are not sold, the agent will send back the goods to the exporter, at the risk and cost of later. However, this form of payment arrangement is common in respect of those goods, which cannot be standardised in respect of quality such as tea, coffee, wool etc.

There is a certain advantage to the exporter to secure better realisation as the buyers would be having an opportunity to inspect the goods and may be willing to pay a higher price if they are satisfied with the quality of the product.

At the time of sending the goods on consignment, the exporter has to declare the selling price of the goods in the GR form. If the value of the goods is not ascertainable, the exporter has to declare that value, at which they can be sold, having regard to the prevailing market conditions at that time. FERA provisions indicate that the exporter shall not sell the goods at a price lower than the declared value unless exporter takes prior permission of RBI for such sale.

CHECK YOUR UNDERSTANDING

State whether the following statements are TRUE or FALSE.

1. The exporter draws a usance bill under the documents against payment method.
2. Open account method is generally used in cases of inter-company relationship.
3. In documents against acceptance method, the buyer can take possession of goods without making the payment.
4. When goods are shipped on consignment basis, the importer is either the exporter's agent or works on commission basis.
5. A banker who adds his confirmation is known as advising bank.
6. Under Documents against payment method, the shipper allows time to pay for the documents.
7. Under the deferred payment basis, the supplier allows the buyer time to pay for the documents.
8. Under revolving credit arrangement, the seller makes an arrangement of regular and continuing shipment.
9. Documentary letter of credit has become popular because it reconciles the interests of buyers and sellers.
10. Advance payment is the safest method from the importer's side.
11. Red clause is in the nature of pre-shipment finance given to the seller by the buyer.

Answers

1. False 2. True 3. True 4. True 5. False 6. False 7. True 8. True 9. True 10. False 11. True

REVIEW QUESTIONS

1. Describe the various alternatives available to an exporter from the viewpoint of realising export proceeds? Arrange them in order of safety and highlight the risks associated with each of the alternatives?
2. Describe different methods of receiving payment in case of export contract?
3. How the method of realizing payment under Documents against Payment differs from that of Documents against Acceptance?
4. Is it possible for an Indian exporter to export on Running account basis? Discuss.
5. What does Documentary Letter of Credit mean? Describe different types of Letter of Credit?
6. Write Short Notes on:
   (A) Importance of amount and timing of credit in export transactions
   (B) Parties in a Letter of Credit
   (C) Green clause in Letter of Credit.

6

INSTRUMENTS OF PAYMENT AND METHODS OF FINANCING EXPORTS

- ❖ INTRODUCTION
- ❖ INSTRUMENTS OF PAYMENT
- ❖ PRE-SHIPMENT FINANCE
  - • PACKING CREDIT
  - • ADVANCES AGAINST INCENTIVES RECEIVABLE FROM GOVERNMENT
  - • PRE-SHIPMENT CREDIT IN FOREIGN CURRENCY
- ❖ POST SHIPMENT FINANCE
  - • NEGOTIATION OF EXPORT DOCUMENTS UNDER LETTERS OF CREDIT
  - • PURCHASE/DISCOUNT OF FOREIGN BILLS
  - • ADVANCE AGAINST EXPORT BILLS SENT ON COLLECTION
  - • ADVANCE AGAINST EXPORTS SENT ON CONSIGNMENT BASIS
  - • ADVANCE AGAINST EXPORT INCENTIVES
  - • ADVANCE AGAINST UNDRAWN BALANCES
  - • ADVANCE AGAINST RETENTION MONEY
- ❖ POST-SHIPMENT CREDIT IN FOREIGN CURRENCY
  - • BUYERS' CREDIT
  - • LINE OF CREDIT
- ❖ CHECK YOUR UNDERSTANDING
- ❖ REVIEW QUESTIONS

INTRODUCTION

Finance occupies an important role in every business, more so in the increasingly competitive international trade. Survival and growth of business depends on the adequate and timely availability of finance, at economical cost. Every developing country has been giving priority and immense support for exports. All exporters are not lucky to get advance payment from the buyers. Even if exporter gets credit at the time of shipment of goods, still he has to arrange finance to meet the expenses till the shipment of goods. Pre-shipment finance is needed for purchase of raw materials, components, processing cost, transportation, packing, packaging and warehousing etc. In addition to the above problems, many a time, exporter has to take over the problems of the importer too, in the form of providing credit facilities to the latter. All said and done, buyer prefers that party who provides finance for his purchases. In such an event, the requirements of exporter would be more and for longer period. Institutional finance is the right answer to meet the needs of the exporter in right time and adequate proportion. All serious countries that are concerned with the growth of international trade have taken the necessary steps for strengthening institutional support to the export trade.

Exporter can avail financial assistance at two stages, depending upon the stage of execution of export order:

1. Pre-shipment finance
2. Post-shipment finance.

INSTRUMENTS OF PAYMENT

These are the instruments through which foreign exchange transactions take place. The most common instruments through which foreign exchange transactions take place are Telegraphic Transfer, Mail Transfer, Bank Draft and Cheques, Bill of Exchange and Letter of Credit. Foreign exchange dealings are more risky for bank, compared to domestic transactions.

The following are the methods of transferring money from one country to another.

1. Telegraphic Transfer (TT)

This is a method or remitting foreign payments through telegraphic transfer of funds to persons in foreign countries. The money is deposited with the banks in India and the Indian banker sends a cable, telegram or fax to the foreign branch/correspondent to make certain payments to the specific party, on that very date. Then, the foreign branch/ correspondent makes necessary payments in foreign exchange to the specific party. In export-import trade, this practice is commonly adopted where realizations are received through bank, when documents are sent for collection.

Fax are now being used widely for transmitting money between countries. Telegraphic transfer is the quicker method of transmitting funds, involving no risk. As it involves

payment of funds in the foreign centres on the same day as the receipt of domestic currency in local centre, no interest or capital risks are involved. Best exchange rate is provided at the time of remittance as payment is made for money received.

2. Mail Transfer (MT)

In this method of remittance, an order to pay cash to a third party or credit to account of a person who has account with bank is made, in writing, which is sent by mail. This is similar to a telegraphic transfer with the difference that instead of the order being sent by cable/fax, it is sent through post. Issuing bank issues Mail transfer and is dispatched on the same day of receipt of payment in domestic currency, at the local centre. On receipt of the mail transfer order, the receiving branch issues to the beneficiary its own pay order in case account is not maintained or made payment to the beneficiary by crediting the concerned account.

3. Bank Drafts and Cheques

A bank draft is a pay order issued by a bank on its own branch or correspondent bank abroad. The bank draft or demand draft is handed over to the buyer who sends it to the beneficiary. The beneficiary obtains payment on presentation to the bank on which the draft is drawn. The beneficiary is indicated in the draft. Banks charge commission for issuing bank draft and directs the Branch Manager of that country to make payment of specified amount in foreign exchange to the particular party (beneficiary). Bank drafts are by far the most popular methods of remittances. The only drawback of remittance by draft is the risk of loss of the draft in transit and the transit delay in effecting payment to the beneficiary.

In case of cheque, there is no guarantee of receipt of amount if the cheque is from a party whose credit worthiness is not known.

4. Bill of Exchange

A bill of exchange is an order drawn by a person upon bank or another person asking the latter to make payment to a third party. Bill of Exchange is an important method of payment. It is prepared by the exporter and sent to the place of importer through a commercial bank along with the documents.

Foreign Bill of Exchange may be of two types :

(*i*) **Ordinary or Clean Foreign Bill :** The is an ordinary bill of exchange and drawn in case the exporter has sufficient confidence in the credit-worthiness of the importer. This is also called Clean Foreign Bill of Exchange.

(*ii*) **Documentary Bill :** When necessary documents to the title of the goods are also sent along with the foreign bill of exchange, it is called Documentary Bill. A Documentary bill may be of two types :

   (*a*) **Documents Against Payment :** In this case, the documents are delivered to the importer provided he makes the full payment. The exporter gives clear

instruction to the bank that the documents should only be given provided the importer makes the full payment.

(*b*) **Documents Against Acceptance :** The exporter instructs the bank to deliver the documents to the importer provided the importer accepts the enclosed bill of exchange.

Foreign Bill of Exchange bear the stamps of both the countries. The exporter should affix sufficient stamps while sending the bill and the acceptor of the bill also should affix the stamps according to the rules his country.

Features of Instruments

S.No.	*Instrument*	*Pros*	*Cons*
1.	Cheques	• No charge if it is local cheque • Payable through clearing • Can be discounted after receipt, if it is outstation cheque but requires customer limit	• Can bounce • Risky to accept when the creditworthines is not known. • Banks collect charges for the service provided, in case they are out station cheques
2.	Drafts	• Payable in local clearing • Chances of bouncing are practically nil	• Buyers account is debited on the day one. • Bank collects charges for issuance of draft. No uniformity in respect of charges as banks enjoy total freedom in this respect.
3.	Documentary Bills	• Goods are released on acceptance in case of D/A bill or payment in case of D/P bill • Low discounting charges	• Not payable through clearing • Long delays
4.	Letter of credit	• Good credit control as goods are released on payment or acceptance of bill • Seller forced to meet delivery schedule because of expiry date	• Opening charges • Transit period interest • Negotiation charges • Letter of credit limit is needed to open Stamp duty on usance bills

PRE-SHIPMENT FINANCE

Pre-shipment finance is financial assistance extended to the exporter before the shipment of goods and post-shipment finance is concerned with the financial assistance extended after shipment of goods.

Classification of Pre-Shipment of Finance:

(A) Packing Credit

(B) Advances against incentives receivable from Government

(C) Pre-shipment credit in Foreign Currency.

(A) Packing Credit

The basic purpose is to enable the exporter to procure, process, manufacture or store the goods for export. Packing credit refers to the credit granted by bank to an exporter to enable him to pack the goods. This is a short-term working capital advance.

The salient features of the scheme are:

1. **Eligibility Criteria:** Packing credit loan is sanctioned only on receipt of confirmed export order or irrevocable letter of credit. The persons who are eligible for packing credit are:

   (*a*) Export/Trading/Star Trading/Super Star Trading House or exporter who has received the letter of credit or confirmed export order from the overseas buyer directly and

   (*b*) Supplier of goods or supporting manufacture of the export house who has not received the export contract directly but would be executing the contract through the export house. In such an event, he has to produce the letter from the export house/exporter indicating the details of the order received such as description of goods, quantity and value with an undertaking that the export house/exporter would not avail the packing credit to the extent mentioned in the letter. In this case, the export house/exporter and the supporting supplier would share the total pre-shipment finance eligible for executing the export order.

   In the absence of confirmed order/letter of credit, packing credit may be sanctioned by the bank based on the cable provided minimum details of description of goods, quantity, value and name of overseas buyer are available. The regular order or letter of credit has to follow subsequently.

2. **Purpose of Finance:** Packing credit is a purpose-oriented advance. This is made available for the purpose of purchasing raw materials and supplies for manufacturing or producing goods or purchasing goods, processing costs, packing, packaging and warehousing etc. This is a short-term advance.

3. **Form of Finance:** Pre-shipment finance is both a fund based and non-fund-based advance. Form of advance is dependent upon the stage of execution of export order. This assumes the form of a loan when the purpose is for purchase of raw materials, manufacture of goods and other incidental costs, prior to shipment of goods. The bank, will release loan from time to time, based on the request letter of the applicant of packing credit and requirement stage. Non-fund based advance can be in the form of letter of credit, domestic as well as import and issue of various types of guarantee etc.

4. **Security:** Packing credit advance can be clean or secured. When the raw materials are not acquired, it can be clean in the initial stages. When the goods are physically possessed and title to the goods is acquired, exporter can pledge or hypothecate the goods to the bank, then the advance becomes secured either in the form of packing credit pledge account or packing credit hypothecation account.
5. **Quantum of Finance:** There is no fixed formula in respect of quantum of finance. The basic principle is that packing advance should be adequate for the exporter to execute the order. More so, the guidelines of RBI, in this context, are that no export order should suffer for want of finance. Packing credit is, generally, sanctioned to the extent of domestic cost of production or FOB value of export order, whichever is lower.
6. **Margin Requirement:** There are no fixed norms in respect of margin. However, banks stipulate margin, while sanctioning limits both for fund based and non-fund based. The basic intention of the bank is to ensure business sense and consciousness in the exporter, protect the interests of bank if erosion happens in the value of goods charged to the bank and not to finance the profit component in the export contract. It is normal that no business firm accepts any contract without profit margin.
7. **Period of Finance and Interest Rate:** Banks sanction packing credit facility, initially, for a period of 180 days, subject to the period involved in production cycle. The exporter may seek sanction of extended period of 90 days in case of circumstances, beyond the control of exporter. Banks normally approve additional period of loan subject to production of revalidated export order or letter of credit by the exporter.

   Banks have to charge concessional rate of interest on the packing credit to make the export products, globally competitive. As per the directives of RBI, the rate of interest charged on packing credit has to bear relationship with the prime-lending rate. Each bank fixes its own prime-lending rate. The prime-lending rate of interest also changes from time to time. Banks are given the freedom to charge the rate of interest to make the interest rate competitive. Interest rate for the first 90 days will be cheaper, while the next 90 days will be still higher. Extended period of credit of 90 days carries more interest rate than the rate charged earlier. However, the interest rate of the bank has to be lower than the prime-lending rate of that bank. Banks are not allowed to charge any other service charges other than those stipulated by Foreign Exchange Dealers' Association of India. However, premium payable to ECGC has to be borne by the exporter.
8. **Sanction of Packing Credit Limit:** In order to avail packing credit facility, exporter has to submit formal application along with the necessary documentary proof. Exporter is sanctioned a regular packing credit limit based on the assessment of the bank in respect of the credit needs of the exporter. For every export order, a separate packing credit loan account is opened for proper monitoring. At the

time of sanction of packing credit loan, bank obtains an undertaking from the exporter that the documents covering shipment of goods, for which packing credit is sanctioned, will be negotiated through that bank and packing credit account will be closed with those proceeds. Further, exporter also undertakes to deposit any receivable from Government such as duty drawback into the account. Disbursal of loan will be made, in installments, depending on the schedule of production and other requirements.

9. **Closure of Packing Credit Loan:** Normally, packing credit account gets closed with the realisation of sale proceeds of export order. After the shipment of goods, balance in packing credit loan account will not be allowed to continue. If the exporter is not able to make shipment of goods for one reason or other, bank charges higher rate of interest on such loan. If any balance remains in the packing credit account, after shipment of goods and negotiation of bill, such excess balance will be transferred or converted to another loan account and the advance will be treated as post-shipment finance. This type of transfer or conversion into a separate loan account is necessary to ensure compliance of ECGC guarantee.
10. **Running Account Facility:** RBI permits banks to sanction running account facility even in the absence of firm order/letter of credit, subject to the following conditions:
    (*a*) Need for running account facility has to be established by the exporter to the satisfaction of the bank.
    (*b*) Banks extend this facility only to those exporters whose track record is free from blemishes.
    (*c*) L/C or firm order is to be submitted to the bank within a reasonable period. However, in respect of commodities covered under selective credit control commodities, banks have to insist on submission of the above documentary proof within one month from the date of sanction
    (*d*) The concessional credit facility, available to the exporter, should not exceed 180 days.
11. **Packing Credit under Red Clause L/C:** In this method, credit is given at the risk and responsibility of the foreign bank establishing the letter of credit. Packing credit advance may remain unsecured in character till the exporter is in a position to offer security, in the form of hypothecation of the goods purchased.

(B) Advances against Incentives receivable from Government

Generally, incentives receivable from Government of India are sanctioned at post-shipment stages. However, bank sanctions these advances, under exceptional circumstances, when the production cost of export order is more than the FOB value of the contract as packing credit is sanctioned only to the extent of the minimum of the two. In this case, the advance is sanctioned against the duty drawback subject to the condition that the loan is covered under Export Production Finance Guarantee of ECGC. These advances are to be

repaid from the proceeds of shipment and receipt of incentives from Government. This loan also carries the concessional rate of interest from the bank as packing credit loan. Premium payable to ECGC has to be borne by the exporter.

(C) Pre-Shipment Credit in Foreign Currency

This is an additional window to rupee packing credit scheme. This will enable the exporter to import the required raw materials for executing the export contract. This credit is available in all foreign currencies. For this, exporter cannot get sanction without producing confirmed export order/irrevocable letter of credit. This advance is self-liquidating in nature, with negotiation of export bill.

POST SHIPMENT FINANCE

Post-shipment finance may be defined as loan or advance granted by the bank to the exporter after the date of shipment of goods till the date of realisation of export proceeds. It includes any advance granted on the security or in consideration of the amount of duty drawback or any kind of receivable in the form of incentives to be received from Government.

While granting advances for post-shipment, banks are guided by the directives of RBI, the rules of Foreign Exchanger Dealers' Association of India, the Trade Control and Exchange Control Regulations and the International Conventions and Codes of the International Chamber of Commerce. The quantum of credit depends on export sales and receivables.

Compliance of Exchange Control Provisions

Post-shipment finance is granted under various methods. Exporter seeks the sanction of appropriate type advance from the bank, depending upon the actual requirement. Bank scrutinises the following documents to verify the compliance of exchange control provisions by the exporter:

(*a*) Whether the documents are drawn in permitted currencies and the payment receivable is under permitted method of payment.

(*b*) Whether the relevant GR/PP is duly certified by the customs authorities and the particulars contained are consistent with the particulars in other documents and export contract/firm order/letter of credit.

(*c*) The documents are submitted for negotiation within the prescribed period and in case of delay, delay is supported by sufficient documentary proof.

(*d*) Usance bill is in consonance with the time limit fixed.

Types of Post-Shipment of Finance

Let us discuss the various types of post-shipment finance.

1. Negotiation of Export Documents under Letters of Credit

When the export bill is drawn under letter of credit arrangement, it is the duty of

negotiating bank to scrutinise carefully whether all the documents required under L/C are presented and they are drawn in conformity to the terms of letter of credit. If the documents are in order and comply with the total terms of letter of credit only, the negotiating bank makes the payment to the exporter. Even if there is slightest deviation from the terms of letter of credit or there is even minor discrepancy in the documents, the negotiating bank does not make the payment to the exporter. There is no distinction between major and minor discrepancy. If the documents are not in order, even after the negotiating bank makes payment to the exporter, opening bank does not make reimbursement to the negotiating bank.

2.Purchase/Discount of Foreign Bills

When the exporter has not received the letter of credit from the importer, as mode of payment, exporter requests the bank to purchase / discount documents for receiving immediate payment. Bill may be drawn on D/A (Documents against Acceptance) or D/P (Documents against Payment) basis, dependant on the terms of the export contract. Bank hands over the documents only on receipt of payment from buyer, in case of D/P basis. So, bank is reasonably secured in case of default in payment as title to goods is in possession of the bank. In case of D/A bills, document of title would be given to the buyer, on acceptance of the usance bill. So, risk is greater to the bank as no security lies with the bank, in case of default in payment by the importer. The credit worthiness of the buyer is important in such a case. When the exporter enjoys the sanctioned limit for purchase/discount of bills, exporter can get the funds immediately. When it is D/P bill, the bank purchases it. The term 'discount' is used in case of D/A bill.

To cover the risk, banks insist on the exporter to take ECGC policy in favour of the exporter and assign the policy in favour of bank. Under the policy, ECGC may fix payment terms and limits to the individual buyers and bank has to ensure that the limits are not exceeded while purchasing the bills. More so, banks can also take guarantee from ECGC in respect of post-shipment finance either on selective or whole turnover basis. If the buyers are new, banks may also obtain credit reports about the buyers before purchasing the bills, drawn on them.

3. Advance Against Export Bills Sent on Collection

Bills drawn on importer are sent on collection basis through the bank under the following circumstances:

(*a*) When the documents drawn under L/C contain any discrepancies but bank is confident that the buyer will retire the documents and

(*b*) When the bill purchase limit of the exporter is exhausted and bank is not willing to sanction additional limit.

Under the above circumstances, bank may finance a part of the total bill amount as advance. As and when the bill is realised, the advance will be liquidated and the bank will pay the balance to the exporter. This advance carries the same rate of interest, applicable to post-shipment finance.

4. Advance Against Exports Sent on Consignment Basis

Sometimes, exports are made on consignment basis. Until the sale is made in respect of goods sent on consignment, title to the goods remains with the exporter.

Consignment exports are treated at par with outright sales. So, rules and regulations of pre-shipment finance applicable to outright sale is equally applicable to consignment exports.

5. Advance Against Export Incentives

Advances against export incentives are sanctioned by bank both at pre-shipment and post-shipment stage. Advance under this category is sanctioned when the exporter has to receive the duty drawback incentive from Government, refund of customs and excise duty and differential between the indigenous and international prices of raw materials.

Normally, in such case, bank gets power of attorney executed by the exporter in favour of bank and registers with the concerned authority such as Director General of Foreign Trade, Commissioner of Customs etc. Bank sanctions this type of advance only when the bank grants other facilities to the same exporter.

6. Advance Against Undrawn Balances

Sometimes, the exporter does not draw the bill for the full value of the invoice as per custom of trade in that particular line of business. A part of the invoice value is not drawn due to difference in weight, quality and other factors, not fully settled between the exporter and importer. Buyer settles the final price only after inspection and approval of the goods. Bank advances against the undrawn balance to facilitate the exporter. The undrawn balance cannot be more than 5% of the total invoice value. The exporter has to give undertaking to realise and surrender the balance amount too within the prescribed period of 180 days from the date of shipment of goods.

7. Advance Against Retention Money

In case of some exports, in particular capital goods and project exports, buyer withholds a small part of the invoice value towards guarantee of performance. If this balance amount is payable within one year from the date of shipment of goods/services, banks advance against such retention money at concessional rate of interest. The maximum period of advance is 90 days. However, if the retention money is payable after a period of one year from the date of shipment of goods, such advances are to be treated as deferred payment advances. In such cases, banks do not extend concessional interest rate. The rate of interest will be as determined by the bank.

8. Post-shipment Credit in Foreign Currency

The exporter has the option of availing the post-shipment credit in Indian rupees or foreign currency. When the exporter opts to avail the credit in foreign currency, the interest rate will be linked to LIBOR (London Inter Bank Offered Rate). The credit has to be liquidated in foreign currency.

9. Buyers' Credit

Under the Buyers' Credit scheme, buyer is extended credit by a financial institution or consortium of financial institutions. Exporter gets the payment immediately. When the financial institution is located in supplier's country, there is no transfer of funds from one country to another as the financial institution in India makes remittances in Indian rupees to the exporter and gets repayment of loan in foreign currency. However, if the financial institution is located in the buyer's country, there is immediate remittance of funds from the buyer's country to the supplier's country to enable the supplier to get payment. This type of credit is normally extended for capital goods.

RBI's approval is needed in extending the buyer's credit as payment is made to the exporter on behalf of resident buyer. The authorised dealer should make application, in Form DPX 6, for this purpose.

10. Line of Credit

When a number of buyers are located in the same country, instead of extending credit to different buyers, line of credit is extended to a financial institution located in the buyer's country by the financial institution from seller's country. The advantage is that the responsibility in judging the creditworthiness of different buyers and recovery from them is shifted to that financial institution located in buyer's country. In this process, the financial institution extending line of credit, in the exporter's country, becomes totally free from the worries connected with identifying the buyers, in importer's country, and recovering from them.

CHECK YOUR UNDERSTANDING

State whether the following statements are TRUE or FALSE.

1. Generally, the amount of packing credit will not exceed the FOB value or domestic cost or production, whichever is lower.
2. Banks sanction packing credit limit to exporter initially, for a period of 180 days at concessional rate of interest.
3. Banks are authorised to extend the packing credit for a further period of 180 days.
4. Whenever exporter wants, he can avail the post-shipment advance against bills sent on collection basis.
5. Advances against the incentives are sanctioned to the exporter both at pre-shipment and post-shipment stages.

Answers

1. True 2. True 3. False 4. False 5. True.

REVIEW QUESTIONS

1. Describe the different methods of financing exports?
2. What does Packing Credit mean? Explain different features of the credit?
3. Write short notes on the following:
   (*a*) Advance against Retention balance
   (*b*) Post-shipment credit in foreign currency
   (*c*) Advance against undrawn balances
   (*d*) Buyers' Credit.
   (*e*) Instruments of Payment in exports.
4. What are the different methods of post-shipment finance?

7

UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS

- ❖ INTRODUCTION
- ❖ SALIENT PROVISIONS OF UCP
  - • OPENING OF L/C IS BASED ON UCP
  - • UCP GUIDES NEGOTIATION OF DOCUMENTS
- ❖ DOCTRINE OF STRICT COMPLIANCE
  - • BANKS DEAL IN DOCUMENTS, NOT IN GOODS
  - • DOCUMENTS SHOULD BE NON-DISCREPANT
- ❖ TIME FOR EXAMINATION
- ❖ TIME FOR PAYMENT
- ❖ OPTION IN CASE DOCUMENTS ARE DISCREPANT
- ❖ FAILURE OF ISSUING BANK TO COMMUNICATE DECISION
- ❖ CHECK YOUR UNDERSTANDING
- ❖ REVIEW QUESTIONS

INTRODUCTION

Exporter and importer reside in different nations. Each nation has its own laws. Contract in a country is not only governed by the law of the land but also commercial practices of that country. Apart from Indian laws, the international commercial practices have certain bearing on the export-import contracts. In order to guard against confusion and misunderstanding, opening and negotiation of letter of credit are governed by ”Uniform Customs & Practice for Documentary Credits” commonly known as UCP. The International Chamber of Commerce, Paris has prepared the document ”Uniform Customs & Practice for Documentary Credits”.

These have been revised from time to time and brought up to date. Presently, they are applied in almost all the countries, including India. The latest in the line of revisions is UCP 500 (w.e.f. 1st January 1994), which updates and consolidates the previous UCP400.

Salient Provisions of UCP

UCP is a document, which is used by the bank in the negotiation of letter of credit. The salient provisions of UCP are:

(A) Opening of L/C is based on UCP

At the time of opening of letter of credit, the provisions of UCP guide opening bank. UCP is a bible to banks for negotiation of export-import documents.

Every exporter wants to enjoy payment before the physical possession and title to goods is passed on to the importer. This becomes possible when the importer opens letter of credit in favor of exporter through the medium of bank. Based on the application of the importer, bank opens the letter of credit in favour of the exporter. By opening a letter of credit, opening bank makes a commitment to the exporter to make payment once the documents contained in the letter of credit are presented and, on scrutiny, found to be in order. Correct opening of letter of credit can ensure successful completion of transaction. So, the opening bank takes utmost care at the time of opening letter of credit. After scrutiny of the application form, the opening bank opens the letter of credit, subject to the provisions of UCP.

(B) UCP guides Negotiation of Documents

When documents are presented to the negotiating bank for payment, it makes payment, provided the documents are in accordance with the terms of letter of credit, strictly. Beneficiary also can present the documents, directly, to the opening bank and can claim payment. Opening bank makes reimbursement to the negotiating bank, provided the documents are in order. Whether the documents are in order or not, banks decide based on the provisions of UCP.

(C) Doctrine of Strict Compliance

The operation of letter of credit as a mode of payment is based on the principle of "Doctrine of strict compliance". Under this principle, banks have to make the decision in respect of payment, based on documents presented to them. Banks have the right to reject the payment if any document is not in strict conformity with what is asked for in the letter of credit. The banks follow international standard banking practices to determine whether the documents stipulated under the letter of credit are in compliance with the terms and conditions of L/C or not. The standard banking practices are published in Uniform Customs and Documentary Practices, which are published by the International Chamber of Commerce, Paris.

(D) Banks deal in Documents, not in Goods

Though letter of credit is based on the sale/purchase contract, the letter of credit transaction is independent of the physical transaction of goods.

Article 3 of General Provisions and Definitions states:

> "Credits, by their nature are separate transactions from the sales or other contracts on which they may be based and banks are in no way concerned with or bound by such contracts".

Banks do not deal in goods; they deal in documents only. There is no minor or major discrepancy in documents. Any discrepancy makes the documents liable for rejection. The Supreme Court has reconfirmed this principle in United Commercial Bank Vs Bank of India and others.

(E) Documents should be Non-discrepant

The documents are considered to be discrepant when the documents presented are not in compliance with the terms and conditions of letter of credit or the documents are inconsistent with each other. If any document is missing or there is spelling mistake in any document or shipment has been made after the date mentioned in letter of credit, all these illustrate discrepancies in documents. In case the beneficiary tenders any additional documents other than those mentioned in letter of credit, bank refuses to examine additional documents for scrutiny.

(F) Time for Examination

Issuing bank has seven banking days, following the day receipt of documents, to examine the documents and communicate its decision to the negotiating bank or beneficiary that presents the documents for payment. These seven banking days are counted following the day of receipt of documents.

(G) Time for Payment

Issuing Bank makes payment within the seven banking days from the date of receipt of documents provided the documents are as specified and comply with the terms and conditions of letter of credit.

(H) Option in Case Documents are Discrepant

In case, documents are found discrepant, the issuing bank may, in its sole judgment and risk, approach the applicant of letter of credit to waive the discrepancy/discrepancies and seek necessary amendment to the credit. In other words, if the discrepant document is acceptable to the applicant, he requests the bank to amend the letter of credit and, soon after amendment, the documents would be as per the terms of letter of credit. Within the period of seven banking days, the entire exercise of approaching the applicant, getting his approval for amendment and communicating the final decision to the presenting bank or beneficiary has to be completed. This is only an option to the issuing bank. The issuing bank is at full liberty to reject the documents when they are found not to be in accordance with the terms of the credit. The issuing bank has to use the most expeditious mode of communication to give notice to the presenting bank or beneficiary, but in any case the rejection is to be communicated within the stipulated period of seven banking days. Such notice must state all the discrepancies in the documents.

(l) Failure of Issuing Bank to Communicate Decision

In case, issuing bank fails to examine the documents or communicate the decision within the stipulated period of seven banking days, the issuing bank is precluded to reject the documents and is bound to make the payment to the presenter of documents.

CHECK YOUR UNDERSTANDING

State whether the following statements are TRUE or FALSE.

1. Uniform customs and practices for Documentary credits govern opening and negotiation of letters of credit.
2. Issuing bank makes the payment when documents are discrepant.
3. Issuing Bank is precluded from rejecting the documents and is bound to make payment within seven banking days from the day following the receipt of documents, though it has not examined the documents.

Answers

1. True 2. False 3. True

REVIEW QUESTIONS

1. Describe the salient provisions of "Uniform customs & practices for documentary credits"?
2. Describe "Doctrine of Strict Compliance" in the context of Documentary Letter of Credit?

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BUSINESS RISK COVERAGE

- ❖ INTRODUCTION
- ❖ TYPES OF RISKS IN INTERNATIONAL TRADE
  - COMMERCIAL RISKS
  - POLITICAL RISKS
  - RISKS ARISING OUT OF FOREIGN LAWS
  - CARGO RISKS
  - CREDIT RISKS
  - FOREIGN EXCHANGE FLUCTUATIONS RISKS
- ❖ TYPES OF COVER ISSUED BY ECGC
  - STANDARD POLICIES
  - SPECIFIC POLICIES
  - FINANCIAL GUARANTEE
  - SPECIAL SCHEMES
- ❖ TRANSFERRING RISK TO THIRD PARTIES
- ❖ CHECK YOUR UNDERSTANDING
- ❖ REVIEW QUESTIONS

INTRODUCTION

Risk is inherent in every business, more so in international business compared to domestic trade. Complexities in business have been growing, so risks too have been commensurately increasing. Success in international trade depends, largely, on the careful evaluation of risks and then attempting to minimise or eliminate the risks to the greatest possible extent. Risks can be reduced, if not ruled out, by covering the risks to the extent possible.

Businessmen with long-standing experience are aware of risks in new business. When they plan to start domestic business at a new place, they start with a place where they have relations or friends who can come to their rescue, in case of need. Even, when we want to buy a house, we prefer to buy at a place where our own community lives predominantly. So, with the same business instinct, when they want to enter into international business, they make a beginning at a place where Indians are more or at least where English speaking prevails to overcome communication barriers. Every businessman wants to export to safer countries rather than unsafe countries. So, safer countries get crowded, in course of time. Unsafe places afford ample scope to enter and grow while survival becomes difficult at safe places.

The following points need consideration:

(*i*) Competition is the keenest in safe markets while it is, virtually, non-existent in unsafe countries. There is no competition to export to Afghanistan, as the country is still considered unsafe to export.

(*ii*) No one can foresee which countries are going to be risky. If one can foresee future so clearly there would be no risk. Unfortunately, life is not that comfortable.

In international trade, risk assuming is voluntary. No one compels to export to Afghanistan. The opportunities are plenty, so the risks. In the initial stages, one attempts to avoid assuming risks. But, one gets prepared to accept the risks progressively and a day may not be far off when the market in Afghanistan too may be attractive!

TYPES OF RISKS IN INTERNATIONAL TRADE

The various types of risks that an international trader faces are divided into the following categories:

1. Commercial risks
2. Political risks
3. Risks arising out of foreign laws
4. Cargo Risks
5. Credit risks
6. Foreign exchange fluctuations risks.

Now, let us discuss these risks, in detail.

1. Commercial Risks

Causes of Commercial Risks: Commercial risks are caused due to the following factors:

(*i*) Lack of knowledge about the foreign markets:

(*ii*) Inadaptability of the export product to change to the conditions of the foreign market requirements:

(*iii*) Longer transit time and

(*iv*) Varying situations to be handled, not anticipated before export.

Nature of Risk different in International Trade

Commercial risks exist in domestic market too. But, their impact in international market is greater, in comparison to domestic market. The changes in international market are hazardous and difficult to anticipate. Suitability and acceptability of the product in international market is rather difficult to gauge. Variations in demand and supply conditions are more unpredictable.

Most of the commercial risks are to be borne by the exporters. Exporters cannot shift these risks to the professional risk bearers, paying insurance premium. The exporter is not aware of the conditions in the foreign market as the way he is aware of domestic market. Long distances to travel along with cost and time implications distinguish international trade from domestic trade. Exporter cannot visit Paris with the same ease he does Mumbai from Bhopal. If goods are not sold or price realisation is lower than anticipated, due to changes in demand or supply, exporter has to bring back the goods, incurring additional freight cost or opt to sell the goods at a loss.

In international market, as in domestic market, presence of competitors influences the demand and supply conditions and entry of new competitors depresses the market more. Further, local production may bring down the prices. Introduction of substitutes to capture the market may take away the exporter's share in the market.

The price realization of the product in export market is influenced by:

(*a*) **Changes in Exchange Rates:** Changes in home currency or foreign currency affects the price realisation. If the home currency is devalued, the competitive capacity of the exporter is enhanced. If the foreign currency is depreciated, there is a considerable reduction in the exporter's competitive strength.

(*b*) **Changes in Import Duties or Tariff Barriers:** Changes in import duties and creation of tariff barriers disturb even an established market. In this field, through the efforts of GATT, import duties have been fairly reduced and market has become stable. On account of these impediments, exporters open manufacturing facilities in the importing countries to overcome these problems.

(*c*) **Changes in Transport Costs:** Transport costs constitute, generally, a major part of the invoice value and so any change in transport costs affects the competitive edge of the exporter. Change in transport costs does not affect FOB prices. There is no problem even in CIF contracts, which have escalating clause in respect of transport costs. Exporters have to worry in case of CIF contracts that are not provided with escalation clause.

(*d*) **Change in Foreign Market Characteristics:** A classical example is change in styles, soon after shipment of goods, in particular, when the shipment is made without letter of credit. Ready made garments suffer, greatly, from this problem.

Minimisation of Commercial Risks: Commercial risks can be minimised by using forecasting techniques and keeping a careful watch on the changing business conditions in the concerned country, in particular, and also keeping a track of the changes in the world economy. Exporters have to be prepared to face any eventuality and wisdom lies in forecasting and anticipating, of course, finally, quick responding, at the earliest hour.

2. Political Risks

These risks arise due to change in political situations in the concerned importing and exporting countries. Following are the factors, affecting the political situation:

(*i*) Changes in the party in power in the concerned countries, followed by change in head of the Government;

(*ii*) Coups, civil wars and rebellions;

(*iii*) Wars between the countries or among many countries and

(*iv*) Capture of cargo by enemies during war.

Political risks can be avoided, to a certain extent, by judicious selection of the countries to which goods are exported. Insurance companies may agree to provide cover for some of these risks, by collecting additional premium. Export Credit Guarantee Corporation (ECGC) also covers some of the risks.

3. Risks Arising out of Foreign Laws (Legal Risks)

Every country has its own commercial law. So, different laws prevail both in exporter and importer countries. Legal proceedings are complex as well as expensive. In every relationship, however cordial and long-standing may be, differences are likely to arise. Legal risks can be avoided to a great extent by incorporating the provision for appointment of an arbitrator, in case of dispute about contractual terms.

4. Cargo risks

Transportation of cargo has undergone radical improvements over a period. Most of the goods are transported by sea. Transit risks are a common hazard for those engaged in export/import business. The list of dreary and hazardous risks in transit is long viz. Storms, collisions, theft, leakage, explosion, spoilage, fire, and high sea robbery. Every exporter should have working knowledge of marine insurance so that he knows whether he is getting the required risk protection at the minimum cost. It is always possible to transfer the financial losses resulting from perils of sea and perils in transit to professional risk bearers known as underwriters. Principles of marine insurance are also equally applicable to insurance of air cargo also.

5. Credit Risks

Risks are inherent in credit transactions, more so in international business. International business is invariably riskier than the domestic trade. Credit risk is not the same whether one sells the goods in domestic market or in foreign market. Success in international business

depends, largely, on the ability of the exporters to give credit to importers on the most competitive and favourable terms.

Export business has become highly risky as selling on credit has become very common. Importers are sought after so it is but natural they dictate terms as there are many exporters competing for the cake of international trade. Insolvency rate is on the increase. Balance of payment difficulties has severely affected the capacity of many countries to pay the import price. However, offering credit has become unavoidable to the exporters to face competition. Two issues stand before the exporters:

(*i*) The exporter must have sufficient funds to offer credit to the buyers abroad and

(*ii*) The exporter should be prepared to take credit risks.

Meaning of Credit Risk

Once goods are sold on credit, risks arising in realising the sale proceeds are referred as credit risks. Risk may arise due to inability of the buyers to pay on the due date. Alternatively, even if the buyer makes the payment, situations may change in the buyer's country that the funds of buyer do not reach the exporter. An outbreak of war, civil war, coup or an insurrection may block or delay the payment for goods exported. Whatever the reason may be, if funds are not received, sufferer is, finally, exporter. Credit risk has assumed an alarming proportion on account of large volumes in international business and sweeping changes in political and economic conditions, globally. In such a high risky situation, credit risk insurance is of immense help to the exporters as well as banks that finance the exporters.

Organisation covering Credit Risk

There are more than 40 organisations covering the credit risk, all the world over. In India, we have Export Credit Guarantee Corporation of India Limited to cover export credit risks. This is a Government of India enterprise, with its Head office located in Mumbai, under the administrative control of the Ministry of Commerce. Board of Directors representing Government, Banking, Insurance, Trade and Industry manages this organisation.

Types of Cover issued by ECGC: They are broadly divided into four groups:

1. **Standard Policies:** They are ideally suitable to exporters to cover payment risks involved in exports on short-term credit basis.
2. **Specific Policies:** These policies are specifically designed to protect Indian exporters from the risks involved in

   (*a*) Exports on deferred payment contracts

   (*b*) Services rendered to foreign parties and

   (*c*) Construction works and turnkey projects undertaken abroad.

   Special Policies, beside the risks covered under Standard policies, are issued by ECGC to meet the specific requirements of export transactions.
3. **Financial Guarantee:** They are the policies issued to banks for covering risks in extending credit at pre-shipment as well as post shipment stages.

4. Special Schemes: They are meant to cover risks involved in confirmation to letters of credit opened by foreign banks, insurance cover for Buyers Credit, Line of Credit and exchange fluctuations risks.

Standard Policies: The ECGC has designed four types of standard policies for shipment made on short-term credit.

(*a*) Shipments (Comprehensive Risks) Policy: This covers from commercial and political risks from the date of shipment.

(*b*) Shipments (Political Risks): This covers from political risks from the date of shipment.

(*c*) Contracts (Comprehensive Risks) Policy: This covers from commercial and political risks from the date of contract.

(*d*) Contracts (Political Risks) Policy: This covers from political risks from the date of contract.

The Shipments (Comprehensive Risks) policy is the one ideally suitable for goods exported on short-term credit basis. This policy covers from commercial and political risks from the date of shipment. Risk of pre-shipment losses on account of frustration of contract are practically nil in respect of export of raw materials, consumer durable or consumer goods as they can be sold easily. Contract policies cover from the date of contract so they are ideally suitable in case goods are to be manufactured to meet the specific requirements of buyers and do not have alternative buyers. Further, the risk of ban on export of goods is covered by the contract policy only.

Risks Covered under Standard Policies

Risks covered by Standard Policies fall into two categories.

(A) **Commercial Risks:** This includes:

(*i*) insolvency of the buyer;

(*ii*) protracted default in payment (Importer has to pay within four months of due date) and

(*iii*) Under special circumstances specified in the policy, buyer's failure to accept the goods though there is no fault on the part of exporter.

(B) Political Risks: This includes:

(*i*) imposition of restrictions in buyer's country by the Government for remittance of sale proceeds which may block or delay the payment to the exporter;

(*ii*) war, revolution or civil disturbances in the buyer's country;

(*iii*) new import restrictions in the buyer's country or cancellation of valid import licence, after the date of shipment or contract, as applicable;

(*iv*) cancellation of valid export licence or imposition of new licensing restrictions after the date of contract, applicable under Contracts Policy;

(*v*) payment of additional transportation and insurance charges occasioned by interruption or diversion of voyage which can not be recovered from the buyer and

(*vi*) Any other loss that has occurred in buyer's country, which is not covered under general insurance and beyond the control of exporter and/or the buyer.

In case, where the buyer happens to be foreign Government or Government department and it refuses to pay, the default will fall under the category of political risks.

Risks Not Covered: The Standard policies do not cover the following risks:

1. Commercial disputes including the quality disputes raised by the buyer, unless the exporter obtains a decree from a competent court in the importer's country in his favour;
2. Causes inherent in the nature of the goods;
3. Buyer's failure to obtain import licence or exchange authorisation in his country;
4. Insolvency or default of an agent of the exporter or the collecting banks;
5. Losses or damages which can be covered by commercial insurers; and
6. Exchange fluctuations.

ECGC does not cover those risks that are covered by the commercial insurers. Exporter can take comprehensive policy that covers both commercial and political risks. If the exporter wants, he can take only policy that covers political risks, depending on the requirements. However, it is important to note ECGC does not issue the policy covering only commercial risks.

If the goods are confiscated by the customs on charges of smuggling, then insurance does not cover.

6. Foreign Exchange Fluctuations Risks

If the exporter has invoiced in the buyer's currency, he will be subjected to risk of foreign exchange fluctuations. If the foreign currency depreciates in terms of rupees, exporter will receive lesser amount in terms of rupees or vice versa. In the same circumstances, if the Indian currency depreciates, exporter stands to gain.

If the export bill is purchased or negotiated under letter of credit and the foreign currency undergoes fluctuation, the bank will be bearing the risk. However, if the exporter has sent the bill for collection, the exchange rate on the date of receipt of foreign currency in India will be given to the exporter. If there is intervening difference in the exchange rate between the date of giving the bill for collection and date of realisation, exporter stands to lose or gain, depending on the trend in fluctuation.

There will be no foreign exchange risk in case the invoice is made in Indian rupees. In such a case, the importer will be subjected to foreign exchange fluctuation risk.

Transferring Risk to Third Parties

The exporter can manage to transfer some of the risks to third parties that specialise in managing the risks of exports. These parties are known as insurance agencies. The

various agencies and the type of risk they cover are as under:

	Category of Risk	Agency
1.	Credit Risk	ECGC
2.	Physical Risk	General Insurance Company
3.	Product Liability Risk	General Insurance Company
4.	Exchange Fluctuation Risk	Commercial Bank

CHECK YOUR UNDERSTANDING

State whether the following statements are TRUE or FALSE.

1. Exporter has to bear most of the commercial risks and these risks cannot be shifted.
2. Political risks can be avoided, to a certain extent, by judicious selection of the countries to which goods are exported.
3. If the goods are confiscated by the customs on charges of smuggling, then insurance covers.
4. Standard policy issued by Export Credit Guarantee Corporation of India covers all types of risks in export trade.
5. The Shipments (Comprehensive Risks) policy is the one ideally suitable for goods exported on short-term credit basis.
6. ECGC does not issue the policy covering only commercial risks.
7. Credit risk is the same whether one sells the goods in domestic market or in foreign market.
8. ECGC does not cover losses due to insolvency of the collecting bank.
9. ECGC does not cover risks that can normally be insured with commercial insurers.

Answers

1. True 2. True 3. False. 4. False 5. True 6. True 7. False 8. True 9. True

REVIEW QUESTIONS

1. Explain the various types of risk in international trade and discuss the suggestions for minimisation of these risks?
2. What do you mean by Credit Risk? List out the various types of policies issued by ECGC?
3. Describe the risks not covered by the Standard policy of ECGC?
4. Write short notes on the following:
   (A) Commercial risks
   (B) ECGC
   (C) Foreign exchange fluctuations risk.

9

CARGO INSURANCE

- NEED FOR CARGO INSURANCE
- MEANING OF CARGO (MARINE) INSURANCE
- PRINCIPLES GOVERNING INSURANCE
- WHEN AND WHY TO INSURE
- HOW TO INSURE
- SCOPE OF CARGO INSURANCE POLICY
- TYPES OF MARINE INSURANCE POLICIES
- RISKS NOT COVERED BY MARINE INSURANCE
- KINDS OF LOSSES
  - TOTAL LOSS
  - GENERAL AVERAGE LOSS
- CHECK YOUR UNDERSTANDING
- REVIEW QUESTIONS

NEED FOR CARGO INSURANCE

Exporter may suffer financial loss if goods are damaged during transportation from the port of dispatch to the point of destination. To protect from loss, exporter may have to take insurance policy to protect him from physical damage to the goods. This is known as 'Cargo Insurance'. In case, goods are shipped by sea, the insurance is known as 'Marine Insurance'. The term 'Cargo Insurance' is used in case of air shipment. However, in practice, both the terms are interchangeably used and their regulations are also common.

The need for insurance is for two reasons, Legal and Commercial. Legal liability of the

intermediaries is limited. Intermediaries include clearing and forwarding agents, carriers, port and customs authorities etc. that handle the goods at various stages. They do not incur any liability, if the damage is due to circumstances beyond their control or if the loss is caused despite their reasonable care taken by them. In case of sea shipments, their legal liability is limited to 100 pounds per package and in case of air shipment, the liability of the airlines is limited to $16 per kg. It is quite normal such amount of compensation does not cover the loss totally sustained by the exporter.

As and when post-shipment finance is made, banks also insist for insurance coverage to protect their financial interests.

Insurance is required even on commercial considerations. Once goods are damaged, importer may not accept the bill of exchange, in case of D/A bill. He may not make payment in case of D/P bill. When loss occurs, loss may not be just shipment of goods, but also loss of profits too.

MEANING OF CARGO (MARINE) INSURANCE

According to Marine Insurance Act, cargo insurance is an insurance cover for marine goods, air cargo and post parcels. The purpose of cargo insurance is to protect goods against physical loss or damage, during transit.

All export consignments should preferably be insured even if the terms of contract do not provide for it. Exporter should insure the goods sent on consignment.

Contract of Indemnity

Cargo insurance is a contract of indemnity whereby the insurance company (Insurer) undertakes to indemnify the owner (Insured) of a ship or goods, against risks that are incidental to Marine insurance (Section 3 of the Marine Insurance Act, 1963). The underwriter insures the goods against loss and damages caused by perils specified in the contract for a stipulated consideration, known as 'Premium'.

Parties to Insurance

There are two parties:

1. The insurance company is also known as underwriter who assumes the liability as and when loss occurs.
2. The insured is the one who procures the policy or becomes the beneficiary through the insurance contract.

Principles governing insurance are

(*i*) **Principle of Utmost Good Faith:** The insured must disclose all the facts known to him or ought to be known to him, in the ordinary course of business.

(*ii*) **Principle of Insurable Interest:** Any person who has 'insurable interest' in the

cargo only can insure. Exporter is said to have insurable interest in the safe arrival of cargo as he is the owner of the property.

(*iii*) **Principle of Indemnity:** The underwriter indemnifies the loss arising from the risks covered under a policy. In a contract of indemnity, only loss is made good. However, a marine insurance is commercial indemnity, so even the reasonable anticipated profit is also made good.

(*iv*) **Causa Proxima:** The insurer indemnifies if the loss arises only from the nearest cause. If goods are stolen due to faulty packing, the insurer does not indemnify the loss.

Types of Insurance Documents

There are three types of insurance documents:

(*a*) **Insurance Policy:** The insurance policy sets out all the terms and conditions of the contract between the insurer and insured.

(*b*) **Certificate of Insurance:** It is an evidence of insurance but does not set out the terms and conditions of insurance. It is also known as 'Cover Note'.

(*c*) **Insurance Broker's Note:** It indicates insurance has been made pending issuance of policy or certificate. However, it is not considered to be evidence of contract of insurance.

WHEN AND WHY TO INSURE

Before shipment of goods, exporter has to insure the goods. Date of coverage in insurance policy should always be earlier to the date of shipment of goods, then only insurance covers totally. Banks insist the date of insurance to be earlier to the date of shipment of goods, at the time of negotiation of documents. Any person who has 'insurable interest' in the goods only can insure. Exporter is said to have insurable interest in the safe arrival of goods. Equally, its loss, damage or detention will prejudice exporter. When the cargo is sent on CIF basis, exporter invariably takes marine insurance, as it is his duty to cover the risk. Till ownership in goods is transferred, in his own interest, exporter has to take the coverage. There is no obligation to the exporter to take insurance, after transfer of ownership. Still, it will be wise for the exporter to take adequate insurance policy till the goods reach the end of voyage. Here are the reasons:

(A) Importer's insurance may be inadequate.

(B) In case of insolvency of the importer, claim amount may go to the benefit of the importers' creditors and exporter would not receive the payment.

(C) Foreign exchange problems could complicate the remittance of insurance claim amount to the exporter.

HOW TO INSURE

There are two ways to insure. First, take insurance policy as and when shipment is made. Those exporters, who make shipment now and then, do this. The second and common mode is to take open policy. Under open policy, the exporter does not have to take insurance contract, every time, as and when shipment is made. He pays insurance premium, in advance, and the policy is issued for the amount paid. The policy is, generally, issued for a period of one year. The insurance company undertakes to indemnify the insured up to the amount of the policy. Shipment of goods to the extent of the policy amount is covered. A brief declaration by the exporter about the basic facts of shipment would do. A great volume in exports business prefers this method for the following obvious advantages:

(*a*) Exporter enjoys automatic and continuous protection. Even if there is delay in declaration or exporter has overlooked to submit declaration, the shipment is covered provided the delay and oversight are not intentional.

(*b*) Trouble of taking insurance policy, each time, is avoided.

(*c*) Exporter will have prior knowledge of the premium amount and so exporter can quote competitive rate for his exports.

(*d*) Better relationship between the exporter and insurance company will be developed, so better advice would be available. As the insurance company understands the requirements in a better way, the insurance company can develop tailor-made protection to the exporter.

SCOPE OF CARGO INSURANCE POLICY

The scope of the insurance policy depends on the risks it covers. Here, risks are termed as perils. Perils are referred as causes of events. The various kinds of perils are:

1. **Maritime Perils:** These are the events which are created by God or man made. Events created by God are earthquake, collision, storm, lightning, and entry of sea water into the vessel, volcanic eruption, rain water damage and washing overboard of cargo.

   The man made events are fire, smoke, water used to extinguish fire, piracy, barratry (fraud, gross criminal negligence of the crew to prejudice ship owner), sabotage, vandalism etc.

2. **Extraneous Perils:** These are incidental perils. These perils are caused due to faults in loading, carrying and unloading. Examples are rough handling, leakage, breakage, pilferage and non-delivery etc.

3. **War Perils:** These perils relate to losses due to war including civil war, revolution, rebellion and detainment of the carrier etc. If the goods are confiscated by the customs on charges of smuggling, then insurance does not cover.

4. **Strike Perils:** This means damage or loss due to lockouts, strikes, labour disturbances, riots, and civil commotion and by any terrorist acting from political motive.

TYPES OF MARINE INSURANCE POLICIES

The shipper or insured covers the risks depending on the terms of letter of credit/export order. The Institute of London Underwriters has drawn up the different clauses in marine insurance policy in respect of risk coverage. The risk coverage is done in terms of various institute cargo clauses. Different marine insurance policies with different risk coverage are:

(*a*) *Institute Cargo Clause A*: This policy covers all the risks of loss or damage to goods. This is the widest cover.

(*b*) *Institute Cargo Clause B*: This policy covers risks less than under clause 'A'.

(*c*) *Institute Cargo Clause C*: This policy covers lowest risks.

War and Strikes, Riots and Civil Commotion (SRCC) clause is excluded in all the above policies. These risks can be covered by specifically asking for, paying additional premium.

RISKS NOT COVERED BY MARINE INSURANCE

1. **Under Normal Conditions:** Due to nature, certain goods carry inherent vice such as easy breakage. Damage to fragile glassware is not covered, if inadequately packed. Damages caused during original packing are excluded, no matter when the damage occurs, for instance, damages caused by a nail driven by careless packers into the contents of packages.
2. **Insurance Contract Specifically Excluded:** Losses due to leakage or hook losses in case of goods packed in bags may be excluded by the insurance contract itself. Solidification of palm and coconut oil may be excluded, unless heated storage is available.
3. **Delayed Arrival:** Loss of profit, market loss due to delayed arrival or deterioration arising due to delay is excluded.
4. **Ordinary and Unavoidable Trade Losses:** Shrinkage and evaporation in bulk shipment or infestation in case of copra are excluded, unless specifically provided.
5. **Violence:** Certain perils such as wars, strikes, riot and civil wars are excluded, unless specifically endorsed.
6. **Dangerous Drugs Clause:** Insurance policy stipulates losses connected with shipment of opium and other dangerous drugs are not paid unless specified conditions are met.

Terms Used in Marine Insurance

(a) 'Fire' includes direct and indirect fire damage including loss while extinguishing fire.

(*b*) 'Assailing thieves' refer to forcible taking, does not cover clandestine theft or mere pilferage.

(*c*) 'Jettison' is the throwing of articles, usually to lighten the vessel in times of emergency.

(*d*) 'Barratry' is the willful misconduct of the master and crew that would include international casting away of the vessel, theft or wrongful conversion with dishonest intent.

(*e*) 'All other Perils' do not cover all the perils that befall a shipment, but only connected sea perils.

(*f*) 'Perils of the Sea': It includes out of the ordinary wind and wave action, stranding, lightning, collision, and damage by sea water when caused by peril such as opening of the seams of the vessel by stranding or collision.

KINDS OF LOSSES

There are two kinds of marine losses. Broadly, they are Total loss and Average loss.

1. Total Loss

Total loss can be further classified into actual loss or constructive loss.

(A) Actual Total Loss may occur when:

(*i*) The insured cargo is physically destroyed such that there is no possibility of salvage or recovery of the goods.

(*ii*) The insured cargo is damaged that it ceases to be a thing or description insured. E.g. Cement bag turns into concrete due to sea-water contact.

(*iii*) The cargo is irretrievably lost. For example, when the ship sinks, the cargo can be retrieved only after a long time and the salvaged goods cannot be of any value to the insured.

(B) Constructive Total Loss can take place when the cargo is damaged to such an extent that the cost of saving and repairing or reconditioning of the goods is more than the value of the goods.

2. Average Loss

If loss is less than total, it is called an average loss in insurance. Average loss may be particular or general.

(A) Particular Average Loss: There are two types of particular average losses i.e. the total loss of a part of goods and goods arrived in damaged condition.

(*i*) **Total loss of a Part of Goods:** When a part of total consignment is lost, this method is applied. Value will be arrived by multiplying the number of items lost with per unit value declared in the invoice.

(*ii*) **Arrival of Damaged Goods:** In case, the goods arrive in a damaged condition at the point of destination, the consignee or his agent and ship surveyor attempt to arrive at the agreed percentage of depreciated value of goods for settlement. Say, the depreciated value is arrived at 30%, insurance company will pay the balance 70% of the declared value. If both the parties fail to arrive at a settlement, the damaged goods will be sold, locally, in the open market. To arrive at the claim amount, the sale proceeds will be deducted from the wholesale value of those goods at that place and time where damaged goods are sold. The claim amount and sale proceeds are given to the insured. Auction charges and other incidental expenses have to be borne by the insurer. If the damaged goods can advantageously be repaired, the underwriter pays the repair charges to the insured, not exceeding the insured value.

(B) General Average Loss: This may occur whether the goods are insured or not. It results from an intentional sacrifice or expenditure incurred by the master of the vessel to save the ship or goods from danger for the common benefit of the owners of the ship and goods. It needs to be emphasised that the sacrifice or expenditure should be made knowingly, but prudently, and in a reasonable manner.

General average loss would arise in the following circumstances:

(*i*) Some goods are thrown to lighten the ship when the ship is caught in a rough weather.

(*ii*) Make payment to the nearby agency to tow the ship in danger of sinking to the nearby safe port or

(*iii*) Pour water to extinguish fire.

When general average loss occurs, captain of the ship reports the matter of loss to the port authorities. The port authorities appoint an Average Adjuster for preparing the statement of general average adjustment and fixing the contribution to be made by the owner of the vessel and various shippers. After cargo owners make payment of their contribution, the shipping company gives delivery of goods to the concerned owners.

The preparation of general average adjustment is a complex accounting operation. This job is normally entrusted to the professionally trained average adjuster (not the insurance company). This entire exercise frequently requires two or three years for completion.

The average adjuster also gives a certificate of contribution to the shippers in respect of the amount of contribution, payable by different parties. The insured would be able to get the contribution certificate from the shipper, soon after payment. The insured can get settlement of claim from the insurance company, producing the evidence of contribution certificate and its payment.

TYPES OF LOSSES

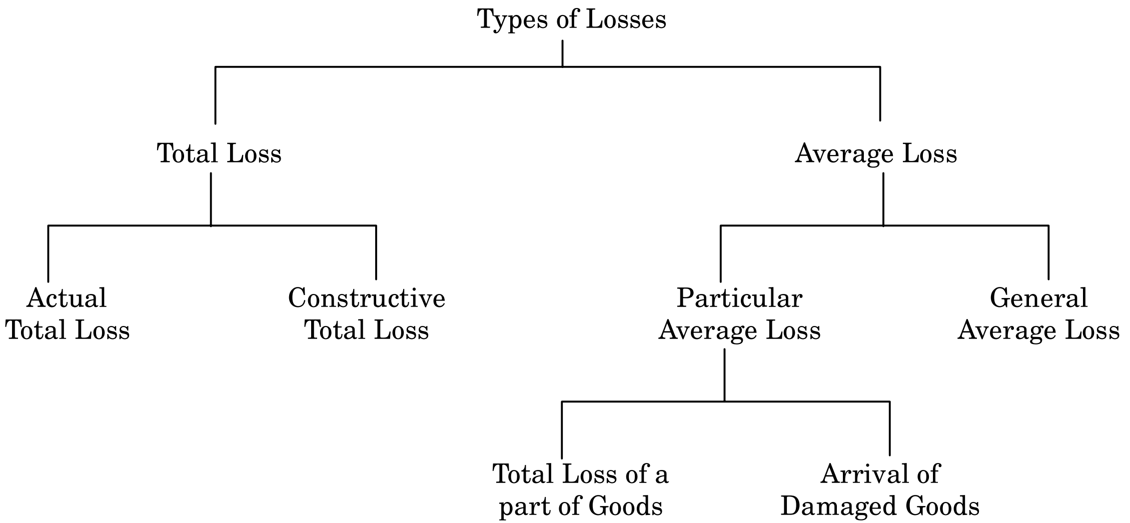

Diagram 1. Types of Losses

Procedure and Documentation for Filing Claim and Duties of the Assured

- **Notice to Insurer:** In the event of loss or damage to the goods, insured or his agent has to give immediate notice to the insurance company.
- **Reasonable Care:** It is a condition of the policy that the insured and his agents should act as if the goods are uninsured and should take all such measures and actions as may be reasonable and necessary to minimise the loss or damage. They must also ensure that all the rights against carriers, bailees or third parties are protected.
- **Survey and Claim:** At the time of taking delivery, if any package shows signs of outward damage, insured or his agents must call for a detailed survey by the ship surveyors and lodge the monetary claim with the shipping company for the loss or damage to the packages.
- **Outward Condition:** Many a time, when the outward condition of the packages is in apparent sound condition, the insured takes delivery, unsuspectingly. After reaching warehouse, on opening the packages, they find damages to goods. In such an event, the insured and/or agent should immediately inform the insurance company and call for the ship surveyor for detailed survey. They should not make any delivery of goods. They should not disturb the packing materials or the contents in packages.
- **Missing Packages:** In case any package is found missing, the insured must lodge the monetary claim with the insurance company and its bailees (shipping company) and obtain a proper acknowledgement from them.

- **Time Limit:** The time limit for filing suit against the shipping companies is one year from the date of discharge of goods.

Documents Required: The following documents are to be submitted by the insured to enable the insurance company to settle the claims expeditiously:

1. Original Insurance Policy or Certificate
2. Copy of Bill of Lading
3. Survey report/Missing certificate
4. Original Invoice and Packing List together with shipping specification or weight notes
5. Copies of Correspondence exchanged with the carriers or bailees
6. Claim Bill.

Precautions: While procuring insurance, exporter should observe the following precautions:

(*i*) Amount of insurance is 110% of C.I.F. value of goods. 10% covers anticipated profits. In other words, exporter is allowed to take a policy to cover profits up to a maximum amount of 10% of CIF value.

(*ii*) Insurance document is not later than the date of shipment.

(*iii*) Amount insured must be in the same currency invoice to take care of the exchange fluctuations.

(*iv*) Insurance document is issued by the insurance company or its agents or underwriters. The document issued by the brokers is not a good document.

CHECK YOUR UNDERSTANDING

State whether the following statements are TRUE or FALSE.

1. Marine insurance policy with 'Institute Cargo Clause C' covers lowest risks.
2. When the ship sinks, the cargo can be retrieved only after a long time and the salvaged goods cannot be of any value to the insured. This is an example of 'Total Loss'.
3. Maritime perils can be man made only.

Answers

1. True. 2. True. 3. False

REVIEW QUESTIONS

1. Explain the meaning of Cargo Insurance and detail principles governing insurance?
2. What is meant by 'Peril'? Explain different types of perils covered while insuring cargo?

3. Describe the different types of marine insurance policies that can be issued?
4. Explain those risks that are not covered by marine insurance?
5. Explain the various kinds of losses under marine insurance?
6. Explain the procedure for submission of insurance claim by the exporter?
7. Narrate the documents required and precautions to be exercised in a marine insurance contract?

10

FOREGN EXCHANGE REGULATIONS AND FORMALITIES

- INTRODUCTION
- EXCHANGE CONTROL
- FERA, FEMA AND EXCHANGE CONTROL REGULATIONS
  - BASIC DIFFERENCE IN APPROACH
- MAIN PROVISIONS OF FEMA
- CHECK YOUR UNDERSTANDING
- REVIEW QUESTIONS

INTRODUCTION

Both exports and imports involve foreign exchange. Export results in receipt of foreign exchange and import results in payments for purchases made. As and when exports are made, there are incidental remittances involving foreign exchange in the context of participation in trade fairs, agency commission, subscription for trade magazines, sales promotion tours, advertisements in the foreign media etc. All the transactions fall in current account, which are necessary for the purpose of export business. Investment abroad, lending and borrowing money and purchase of plant and machinery fall in capital account. It is necessary for exporters as well as importers to have good understanding in respect of regulations relating to foreign exchange. Regulations relating to foreign exchange are known as Exchange Control Regulations. Knowledge of these regulations is necessary to work within the purview of law.

EXCHANGE CONTROL

Exchange control means regulating the demand and supply of foreign exchange with the objective of rationalising the use, to meet the priorities laid down in the policy, from

time to time. Exchange control covers both receipts and payments of foreign exchange. The objective is to pool exchange reserves for conservation, at the time of receipts and judicious use, at the time of payments.

FERA, FEMA AND EXCHANGE CONTROL REGULATIONS

Reserve Bank of India is the Exchange Control authority in India. RBI frames the exchange control regulations.

The Foreign Exchange Regulations Act, 1973 (FERA 1973), as amended by the Foreign Exchange Regulation (Amendment) Act, 1993, which formed the statutory basis for exchange control in India, stands repealed from the first of June 2000. From this date, the FEMA 1999 forms the statutory basis for Exchange Control and Management in India. Government of India has notified that FEMA shall come into force from 1-6-2000. All foreign exchange transactions taking place on and from this date are governed by the provisions of FEMA 1999, the Rules, Regulations, Notifications/directions or orders made or issued there under.

Basic Difference in Approach

The objective of FERA was to conserve foreign exchange and put them to judicious utilisation. The focus of FEMA is to facilitate external trade and payments and to promote and maintain an orderly growth of foreign exchange market, in India. FEMA has diluted the rigorous enforcement provisions that were the hallmark of the erstwhile legislation. The FEMA is more transparent in its application.

MAIN PROVISIONS OF FEMA

The Act provides:

- The amount representing the full value of goods exported should be realised and paid to the authorised dealer on the due date for payment or within a period of six months from the date of shipment, whichever is earlier. In case of exports of software in non-physical form, the period is reckoned from the date of invoice. This period restriction is not applicable in respect of shipment made on deferred payment terms or consignment basis.
- Ceiling on agency commission at 12.5% of FOB value has been abolished with effect from 1st June 2000, date when FEMA has come into force.
- Residents going abroad for business purposes or attending seminars or participating in conferences can avail foreign exchange up to $ 25,000 per trip, without the approval of RBI. Period of stay is immaterial.
- Under the liberalised exchange rate management system, exporters are permitted to maintain foreign currency balances in separate foreign currency accounts known as ‘Exchange Earners Foreign Currency’ (EEFC) w.e.f. 1-3-1994.

1. Merchant/ Manufacturer Exporter : 50%
2. 100% EOU/EPZ unit : 70%
3. SEZ Unit : 100%
4. Status Holder Exporter : 100%

- Indian companies engaged in certain specified sectors are permitted to acquire shares of foreign companies, engaged in similar activities or issue ADRs/GDRs up to certain specified limits.
- FEMA is a civil law unlike FERA. Contravention under FEMA will be dealt with through civil procedures. FERA presumes everyone accused as guilty of the crime and the accused has to prove his innocence. Whereas in FEMA, no such assumption exists. Like any other civil case, the prosecution has to prove that the person had committed the offence. Arrest could be made under FERA. This stringent provision of arrest has been deleted under FEMA.

CHECK YOUR UNDERSTANDING

State whether the following statements are TRUE or FALSE.

1. The objective of FERA was to conserve foreign exchange and put them to judicious utilisation while the focus of FEMA is to facilitate external trade and maintain an orderly growth of foreign exchange market, in India.
2. Exporters are permitted to maintain foreign currency balances in separate foreign currency accounts known as 'Exchange Earners Foreign Currency' (EEFC).
3. FEMA presumes everyone accused as guilty of the crime and accused has to prove his innocence.
4. FEMA is a civil law unlike FERA.
5. Indian companies are not allowed to issue ADRs/GDRs abroad.
6. Regulations relating to foreign exchange are known as Exchange Control Regulations.
7. Exchange control means regulating the demand and supply of foreign exchange with the objective of rationalising the use to meet the priorities laid down in thepolicy, from time to time.

Answers

1. True 2. True 3. False 4. True 5. False 6. True 7. True

REVIEW QUESTIONS

1. Explain the focus of FEMA in relation to FERA?
2. Write the main provisions of FEMA highlighting how FEMA is more exporter- friendly?

11

QUALITY CONTROL AND PRESHIPMENT INSPECTION

- INTRODUCTION
- DEFINITION AND MEANING OF QUALITY CONTROL
- MECHANISM FOR ENFORCEMENT OF QUALITY
- OBJECTIVES OF QUALITY CONTROL
- METHODS OF QUALITY CONTROL AND PRE-SHIPMENT INSPECTION
  - CONSIGNMENT-WISE INSPECTION
  - IN-PROCESS QUALITY CONTROL
  - SELF-CERTIFICATION
- PROCEDURE FOR PRE-SHIPMENT INSPECTION
- EXEMPTION FROM PRE- SHIPMENT INSPECTION
- CHECK YOUR UNDERSTANDING
- REVIEW QUESTIONS

INTRODUCTION

Quality assumes highest importance in penetrating, capturing and sustaining in International market. The international market is highly competitive and quality of product is one of the important determinants in export business. One of the important problems faced by many developing countries, including India, in increasing exports is the poor quality of product. Quality improvement is one of the prerequisites in improving the share in export market. Once we hear that the product is made in 'Japan', the immediate impression we gather, even before testing and using, is that the product would be qualitative. Such a psychological impact, Japan has been able to establish with its incessant efforts on the

quality front. Before those efforts, in particular, prior to the introduction of comprehensive export inspection law in 1948, the products of Japan too were of poor quality. In short, quality control and pre-shipment inspection have an important place in improving export performance.

DEFINITION AND MEANING OF QUALITY CONTROL

Quality control is defined as "a deliberate and planned activity having for its object the determination of quality of a product with a view to accepting it as such in case it satisfies the stipulated requirements, or in case it does not satisfy these requirements to take necessary measures to correct the quality appropriately. Control of quality is best exercised during the course of production of an article, actually staring from with the raw materials, going through the various stages and ending up with the final product, paying due attention to packing, storage and transport".

"Pre-shipment inspection is the process of inspection of a batch of goods, just prior to shipment to determine whether it satisfies the conditions for shipment, which may be concerned either with the quality, weight, packaging, contraband character, etc."

To 'ascertain' the level and 'ensure' that the level meets the expected requirements is the main theme of quality control. The level of quality-high, medium or low- depends upon how rich or poor the specifications are. The quality of the product is determined with reference to the requirements of the buyer. It should be understood in the relative sense but not in absolute sense of the term. It is immaterial whether the quality of the product is high or low. What is important, the quality should meet the requirements of the buyer.

MECHANISM FOR ENFORCEMENT OF QUALITY

In order to promote exports as per international standards, the Government of India has introduced compulsory quality control and pre-shipment inspection for majority of items (around 90%), by enacting the Export (Quality Control and Inspection) Act, 1965. The Government has set up Export Inspection Councils to monitor the quality of goods meant for exports. EIC has a network of offices through out the country to conduct inspections and issue quality control certificates that are required before shipment of goods.

OBJECTIVES OF QUALITY CONTROL

The following are some of the objectives of quality control*

1. Promoting and ensuring the image of Indian goods exported to other countries.

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* C.R. Rama Rao "Quality Control for Export"

2. Ensuring goods of assured quality only move into the export market.
3. Sustaining the foreign markets where Indian goods are already favoured and developing new markets with qualitative edge.
4. Inspiring confidence in the minds of buyers, with the assurance provided by reputed third party guarantee.
5. Adhering strictly to the technological requirements accepted by the foreign buyers of the product.
6. Ensuring sound and safe performance, without causing any health or safety hazards.
7. Observing conformity of rules and regulations of the importing country.
8. Maintaining proper packing for the safety of product during transit.
9. Eliminating the causes for complaints from the foreign buyers and making every effort to spread quality consciousness in the country to improve overall quality of Indian products.
10. Maximising production and effecting economies by standardisation.

METHODS OF QUALITY CONTROL AND PRE-SHIPMENT INSPECTION

There are three methods of quality control and inspection. They are:

1. Consignment-wise inspection

Under this system, each consignment, in packed condition, is subjected to detailed inspection by the Export Inspection Agencies. They conduct the inspection on the basis of statistical sampling plan. If the goods conform to the stipulated quality, they issue the inspection certificate. The certificate also carries a validity period before which the export consignment must be shipped. In case of consignment-wise inspection, actual export consignment, in packed condition, is taken for inspection.

No consignment of any notified commodity is allowed to be exported without the certificate issued by the recognised inspection agency. This system is applicable to all commodities other than those that undergo in-process quality control. Generally, Small-scale manufacturers who cannot afford to have their own facilities and personnel adopt consignment-wise inspection certificate procedure.

2. In-process Quality Control

Certain commodities like paints and allied products, linoleum, ceramics, printing ink, sanitary wares etc. come under the purview of In-process quality control.

In case of continuous process industries, an option is given to them to become approved “export-worthy” unit, as they possess the requisite infrastructure for manufacturing/processing products of standard quality. This status enables them to conduct inspection and give declaration and based on their declaration, they get inspection certificate.

3. Self-Certification

With the experience gained in operating the compulsory Quality Control and Pre-shipment Inspection Scheme in India, there has been a qualitative change in the inspection system also. Recently, a self-certification system has been introduced. This is based on the concept that the manufacturing unit which has in-built responsibility for quality control should have the freedom to certify its own product for export.

PROCEDURE FOR PRE-SHIPMENT INSPECTION

There are different procedures for obtaining pre-shipment inspection certificates.

1. Consignment-wise Inspection

Each consignment is subjected to detailed inspection. The following procedure is applicable to all the notified products by the Export inspection Council, other than those for which the in process quality control system and Self-Certification is applicable.

(A) **Application to EIA:** The exporter has to apply in the prescribed 'Intimation for Inspection', well in advance, to the date of shipment to avoid delays, along with the following documents:

- Copy of export contract;
- Copy of letter of credit;
- Details of packing specifications;
- Commercial invoice giving evidence of FOB value of export consignment;
- Crossed cheque/DD in favour of EIA towards inspection fees and
- Declaration regarding importer's technical specifications.

(B) **Deputation of Inspector:** After getting the 'Intimation for Inspection', EIA deputes an inspector to conduct an inspection of the consignment, in packed conditions, at the factory/warehouse of exporter. The exporter should keep the consignment, in packed condition for export, ready for inspection at the appointed place and time.

(C) **Inspection and Testing:** The inspector conducts inspection on a random basis. He will conduct inspection with reference to the agreed specifications, which should not be inferior to the notified specifications. Samples may be drawn and sent to the laboratory, if required. Where testing facilities are not available at the exporter's place, sample may be sent to the private independent laboratories. Inspector submits the field report based on his inspection and test results obtained.

(D) **Packing and Sealing of Goods:** If the inspector is satisfied with the quality of goods, he issues order for packing of goods in his presence. After packing, the consignment is marked and sealed with the official seal of Export Inspection Agency.

(E) **Submission of Report to EIA and issue of Inspection Certificate:** Based on the field inspection report, the Deputy Director, Export Inspection Agency issues the Inspection Certificate to the exporter, in triplicate, which will be disposed as under:

- The original copy is to be submitted to the customs.
- The duplicate copy is dispatched to the importer.
- The triplicate copy is retained by the exporter for his record.

(F) **Issue of Rejection Note:** If the inspection report is not favourable, the Deputy Director of EIA issues Rejection Note.

(G) **Appeal against Rejection Note:** Exporter can file an appeal against the order of the Deputy Director, EIA. The appeal is to be made within 10 days from the date of receipt of Rejection Note. On receipt of the appeal, EIC arranges to convene a meeting of the Appellate Panel. The appellate panel reviews the inspection report and examines the consignment again, if necessary. The decision of the Appellate Panel is final and binding on both the parties i.e. Exporter and Export Inspection Agency.

2. In Process Quality Control

Manufacturing/processing units, having continuous processing system, are given an option to become "export-worthy" status units so that they get the inspection certificate, based on their own declaration.

These units are highly quality conscious and conduct thorough quality control at each and every stage of production that includes:

- Raw materials and bought out components,
- Process control,
- Product control and
- Packing and packaging control.

Export-worthy Status Units: These units possess the required infrastructure facilities for manufacturing/processing standard quality products. To secure recognition and approval of "export-worthy" status, export-oriented manufacturing/processing units have to submit an application, in the prescribed format, to Export Inspection Agency. After a preliminary visit by the officer of Export Inspection Agency, it appoints a panel of experts to investigate the quality control facilities available in the unit. The panel thoroughly investigates the quality control facilities available from the stage of raw materials to packing. It submits its report to the agency. On the basis of those recommendations, the unit is accorded the status of an "export-worthy" unit. The Export Inspection Council may recognise a manufacturing unit as an "export-worthy", only after ensuring that the unit is adequately supported with facilities for the enforcement of quality control standards required by the Council.

Such a unit is allowed to inspect and clear the goods for export, without inspection by the Export Inspection Agency. Based on the declaration of the unit that the goods have been manufactured/processed, as required under the prescribed regulations, the agency issues certificate of inspection. The EIC and inspection agencies ensure that adequate controls are exercised by periodic inspection and testing of export consignments, at random.

3. Self Certification

Certain manufacturing units are given the freedom to certify their inspection certificates. The philosophy behind the scheme is that manufacturing units, with proven track record of maintenance of quality, deserve to enjoy the freedom for issuance of pre-shipment inspection certificate themselves. The essential condition is that the unit has not received any complaint during the last three years.

For the purpose of qualifying to become eligible, the reputed manufacturing unit should comply with the prescribed norms that include the following:

- Product Quality
- Design and Development
- Raw materials/Bought out Components
- Organisation and personnel for quality control
- Process Control
- Laboratory
- Quality Audit
- Packaging
- After-sales-service and
- House-keeping and Maintenance

After conducting inspection, EIC recognizes the units for issue of self-certification.

The approved unit under this system is recognised by notification under section 7 of the act as the Agency for Quality Control and Inspection of specific products, manufactured in the unit. Validity of such recognition is for a period of one year. Period may be extended provided the unit continues to enjoy the above facilities. This system has removed the need to obtain certificate of inspection from an outside agency. The manufacturing unit certifies its own product and issues the inspection certificate. This has provided an added edge in exportation to the really deserving reputed units.

Exemption from Pre-Shipment Inspection

The following units are exempt from the requirement of compulsory pre-shipment inspection:

(A) Export House, Trading House, Super Trading House and Super Star Trading House;

(B) 100% Export oriented unit set up in the Export Processing Zones or Free Trade Zones;

(C) Where the overseas buyer does not want pre-shipment inspection certificate and

(D) Products bearing ISI mark or the AGMARK for exports.

CHECK YOUR UNDERSTANDING

State whether the following statements are TRUE or FALSE.

1. Export Inspection Agency is the authority to carry out inspection tests and issue inspection certificates.
2. In in-process consignment inspection, Export inspection Agency inspects each and every export consignment.
3. In case of self-Certification, a manufacturing unit certifies its own product and issues certificate for export.
4. An export panel investigates the quality control facilities of the unit to accord the status of an 'export worthy' unit.
5. The Government of India has introduced compulsory quality control and pre-shipment inspection for majority of items, meant for export, by enacting the Export (Quality Control and Inspection) Act, 1965.

Answers

1. True 2. False 3. True 4. True. 5. True.

REVIEW QUESTIONS

1. Describe the importance of Quality control and Pre-shipment inspection in International trade and explain their objectives?
2. Narrate the different methods of Quality control and Pre-shipment inspection?
3. Detail the procedure for Quality control and Pre-shipment inspection, before shipment of goods?
4. Specify the cases when pre-shipment inspection certificate is exempted?

12

ROLE OF CLEARING AND FORWARDING AGENTS

- ❖ INTRODUCTION
- ❖ ROLE OF CLEARING AND FORWARDING AGENTS
- ❖ ESSENTIAL SERVICES
  - • WAREHOUSING BEFORE TRANSPORTATION
  - • LOCAL TRANSPORTATION
  - • CONTAINER ARRANGEMENT
  - • RESERVATION OF SHIPPING SPACE
  - • SELECTION OF MODE OF TRANSPORT
  - • PACKING, MARKING AND LABELLING
  - • COMPLETING CUSTOMS AND PORT FORMALITIES
  - • CARGO INSURANCE
  - • ADVISING EXPORTERS ON TRADE LAWS
  - • EDUCATING EXPORTERS
  - • COORDINATION WITH OTHER AGENCIES
  - • PROCURING DOCUMENTS
- ❖ OPTIONAL SERVICES
  - • WAREHOUSING FACILITIES ABROAD
  - • BRINGING BACK GOODS
  - • LOCATING STRANDED GOODS
  - • ASSESSMENT OF DAMAGE
- ❖ FIXATION OF FEES
- ❖ CHECK YOUR UNDERSTANDING
- ❖ REVIEW QUESTIONS

INTRODUCTION

Distribution logistics is an important area of planning in exports. Distribution logistics refer to the process of physical flow of goods from the place of exporter to the location of importer, at right time, with minimal cost. In this significant area, Clearing and Forwarding Agents are a link between the owners of goods and owners of means of transport. They help cargo owners in efficient movement of goods to the buyers by completing a number of procedural and documentary formalities. They are experts and knowledgeable in laws and regulations governing shipment of goods through the customs authorities.

ROLE OF CLEARING AND FORWARDING AGENTS

Their basic function is to provide different range of services to exporters to ensure smooth and timely shipment of goods. Clearing and Forwarding Agents play a pivotal role in the selection of mode and route of transport. They are the specialised people to guide in the selection of the shipping line/air line. Every exporter is concerned with distribution logistics to ensure that the goods reach the final buyer, in specified time and at minimal cost, in the condition they are sent. The essence of distribution logistics is the decision in respect of mode of transport to be used. Clearing agent advises exporter about the availability of alternative modes of transport and guides exporter in decision-making about the final choice of transport to achieve optimal cost in transporting the goods, well within the delivery schedule. In addition to these activities, he undertakes most of the functions connected with exports such as marking, labelling, packing of goods, advising on trade laws, arranging local transportation as well as apprising developments on transportation and claiming duty-drawback claims on behalf of the exporter. An efficient clearing and forwarding agent, indeed, goes a long way to the exporter in the journey of exports to make the matters easier, comfortable and may be cheaper too. Above all, the agents act trouble-shooters for the exports, in case of movement problems. It is well said a real clearing agent can perform all the functions except selling the goods!

Where goods are transported by rail, export consignments are to be given either B or C priority of the Railway Priority Schedule as formulated by the Railway Board. There are five priorities in the schedule from the highest A to lowest E. Thus, B and C are fairly high priorities.

Clearing and forwarding agents are also known as Customs House Agents or Freight Forwarders or Shipping Agents.

Classification of services

The services they provide can be classified into essential and optional services.

ESSENTIAL SERVICES

The following are some of the services provided by all Clearing and Forwarding Agents.

1. Warehousing before Transportation

Soon after the goods are manufactured and are ready for shipping, warehousing facility for goods is made available before they are transported to the docks/port.

2. Local Transportation

When clearance is received from Port, goods are transported to the docks and warehoused in the port.

3. Container Arrangement

Movement through containers has been gaining popularity to facilitate export goods reach in the original condition, they are sent. In case of need, this service is provided.

4. Reservation of Shipping Space

Unless shipping space is finalised, there is no guarantee about the shipment of goods. C & F agent books the shipping space contacting the agents of the shipping company, alternatively, making arrangements for air- freighting.

5. Selection of Mode of Transport

Mode of transport is a matter of negotiation between the exporter and importer, invariably, incorporated in the contract. Either exporter or importer arranges transportation, depending on price terms. C & F agent provides information about different shipping lines/ air lines and guides on the selection of route, optimal from the standpoint of delivery date and distribution costs. Delivery of goods as agreed upon is one of the conditions on which success in exports depends. As transportation cost occupies a significant place in total cost structure, services of clearing agents are highly valuable in managing timely delivery, containing costs to achieve sales and profit goals for exporter.

6. Packing, Marking and labelling

Goods are packed, marked and labelled so that goods are ready for inspection and pre-shipment. These services are also provided by shipping agents, depending upon the requirement.

7. Completing Customs and Port formalities

Clearing agents prepare the shipping documents to the requirements of customs procedures. Necessary port formalities are complied with, in time, to avoid delays in shipment of goods.

8. Cargo Insurance

Necessary marine/cargo insurance is made as per the terms of contract. Risk coverage in insurance policy has to be earlier to the date of shipment of goods.

9. Advising Exporters on Trade Laws

They are experts in the field as they deal continuously. They are abreast of the changes in the regulations and trade practices of foreign countries. Exporters can get benefit of their advice.

10. Educating Exporters

Clearing agents educate exporters in respect of developments in transport and changing options available to them to explore new markets that are earlier remote or inaccessible.

11. Coordination with other Agencies

Clearing agents arrange to procure certificates or endorsements from different agencies, required for shipment of goods. To illustrate, where necessary, certificate of origin is procured by them from the local Chamber of Commerce.

12. Procuring Documents

Finally, clearing agent procures documents like Bill of Lading and makes them available to the exporters for negotiation with the bank.

OPTIONAL SERVICES

The leading clearing and forwarding agents provide the following optional services:

1. Warehousing facilities abroad

When goods reach the destination point and importer refuses to take delivery of goods, exporter faces an embarrassing situation. At some of the major international markets, the leading clearing agents provide warehousing facilities. This facility gives breathing time to plan alternative course of action to gain, at least minimal profit to the exporter.

2. Bringing back Goods

When original importer refuses to take delivery of goods, it is not easy for exporter to find alternative buyer at that place, immediately. If his efforts fail, there is no option to the exporter other than bringing back the goods to his own place or sending goods to another place where sale can be made, with minimum loss. If the clearing agent can perform that service, exporter can avert a major chaos in the business of exports.

3. Locating Stranded Goods

At times, it so happens that the goods may be misplaced and do not reach the intended destination. When the goods are misplaced or stranded at some port, clearing agents provide necessary assistance in locating them.

4. Assessment of Damage

When goods are sent by ship, occasionally, goods may get damaged partly or totally. In such an event, clearing agent coordinates with the ship surveyor for assessment of damage

and obtaining surveyor's certificate. They may provide the assistance to file claim with the insurance company.

FIXATION OF FEES

There are no standardised rates for the services provided by the clearing and forwarding agents. The exporter negotiates the fees, depending on the range of services provided and competence of the clearing agent. Selection of a competent clearing agent is highly important for the smooth completion of export contract. Fees, naturally, depends on experience of the clearing agent in the product/country exported and on the frequency of exports of the exporter, above all, bargaining capacity of the mutual parties.

CHECK YOUR UNDERSTANDING

State whether the following statements are TRUE or FALSE.

1. Basic function of Clearing and Forwarding Agent is to ensure timely and smooth shipment of goods to the importer.
2. Clearing and Forwarding Agent helps in efficient movement of goods.
3. Clearing and Forwarding Agents are a link between the owners of goods and owners of transport.
4. Exports are to be given either B or C priority in respect of movement of goods as per the priority of Railway Board.
5. Clearing and Forwarding Agents do not advise the exporter on the relative cost of sending consignment on different shipping lines and selection of the route.
6. There are standardised rates for the services provided by the clearing and forwarding agents.
7. All clearing agents provide both essential and optional services.

Answers

1. True. 2. True. 3. True.4. True 5.False. 6. False. 7. False

REVIEW QUESTIONS

1. Discuss the role of a Clearing and Forwarding Agent in the successful execution of an export contract?
2. Describe the Essential and optional services provided by Clearing and Forwarding Agents in International Trade? What is the basis for fixation of fee for their services?

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CLEARANCE OF CARGO

- INTRODUCTION
- CENTRAL EXCISE CLEARANCE PROCEDURE
  - CLEARANCE IN RESPECT OF EXEMPTED UNITS
  - CLEARANCE IN RESPECT OF UNITS OTHER THAN EXEMPTED UNITS
- CENTRAL VALUE ADDED TAX (CENVAT)
- CENTRAL EXCISE CLEARANCE OPTIONS
- EXPORT UNDER CLAIM OF REBATE OF DUTY
  - PROCEDURE FOR EXCISE CLEARANCE (WITH EXAMINATION)
  - PROCEDURE FOR EXCISE CLEARANCE (WITHOUT EXAMINATION)
- EXPORT UNDER BOND/LETTER OF UNDERTAKING
  - PROCEDURE FOR EXCISE CLEARANCE
- CHECK YOUR UNDERSTANDING
- REVIEW QUESTIONS

INTRODUCTION

When exporter is ready for shipment of goods, it is necessary for him to secure clearances from Central Excise and Customs Authorities. Excise duty is an indirect tax imposed by the Central Government on goods manufactured in India. This is collected at source, at the time of removal of goods from the factory/warehouse. All excisable goods can be removed only

after their clearance by Central Excise Authorities. It is a common practice, all over world, that exporters do not bear financial burden of Central Excise. In India too, Exporters do not bear the burden of Central Excise on inputs used in manufacturing goods, meant for export. Additionally, excise duty on final product is either exempted on execution of bond by the exporter or refunded after payment of duty. In other words, the intention of Government is exporters should not bear the burden of excise duty, both on inputs and outputs. The procedure is laid down in section 37 of the Central Excise and Salt Act.

CENTRAL EXCISE CLEARANCE PROCEDURE

The procedure to obtain central excise clearance is classified into two categories:

(A) Procedure for central excise clearance in respect of exempted units.

(B) Procedure for central excise clearance in respect of units, other than exempted units.

Procedure for Central Excise Clearance in Respect of Exempted Units

Definition of Exempted Unit : A manufacturing unit is treated as an exempted unit if

(*i*) Goods manufactured are not excisable under the Central Excise and Salt Act, 1944 and its regulations thereunder and

(*ii*) Value of goods for home consumption, known as domestic turnover, does not exceed Rs.50 lakhs in case of non-SSI unit and Rs.100 lakhs in case of SSI unit.

Excise Clearance Procedure

The exempted units are not required to obtain Central Excise Registration. However, they are required to file declaration with central excise if their domestic turnover exceeds the "Specified limit". The specified limit is Rs. 10 lakhs less than the exemption limit. So, the specified limit is Rs. 40 lakhs in case non-SSI unit and Rs. 90 lakhs in case of SSI unit. When the domestic turnover is less than the specified limit, even declaration is not required to be filed. Non-SSI unit has to file the declaration only when its domestic turnover exceeds the limit of Rs. 40 lakhs and SSI unit has to file declaration when its domestic turnover exceeds the limit of Rs. 90 lakhs. The declaration is to be submitted only once for the purpose of obtaining exemption from registration. The exempted unit has to obtain the exemption letter from Central Excise only when the domestic turnover crosses the specified limit. The purpose appears to be just to alert the central excise that they have to keep a watch on the unit as its domestic turnover may exceed the exemption limit soon, then it would cease to be an exempted unit and the unit has to pay excise duty.

The exempted unit has to give reference to the exemption letter in its invoice. That invoice serves as the proof for central excise clearance. There is no need for them to obtain central excise clearance till it becomes non-exempted unit. If a manufacturing unit is totally

exporting its goods and does not have any domestic turnover, it always remains as an exempted unit.

Procedure for Excise Clearance in Respect of Units other than Exempted Units

All the manufacturing units other than the exempted units are liable to obtain the Central Excise registration. Such manufacturers are required to obtain clearance of the Central Excise Authorities in respect of shipment of goods, subject to the levy of excise duty. They have to pay duty of excise before shipment is made. Now, 'duty of excise' has been changed to 'Central Value Added Tax' (CENVAT).

CENVAT Credit : It is a credit in respect of central excise on inputs purchased for the manufacture or duty paid in relation to the manufacture of the final product. This credit is also available in respect of duty paid on capital goods, which include machinery, plant, spare parts of machinery etc. In other words, instead of paying cash towards central excise on shipment of goods, the exporter can adjust the excise duty paid on the inputs and machinery. Virtually, it is like a credit balance in bank account that can be adjusted towards the excise duty payable.

Let us explain how the scheme works. ABC Ltd is a manufacturer and exporter of toys and it purchases certain components from PQR Ltd for use in manufacture of toys. PQR Ltd would have paid excise duty on components manufactured by it and it would have recovered that excise duty in its sales price from ABC Ltd. Now, ABC Ltd has to pay excise duty on toys manufactured by it as well as bear the excise duty paid by its supplier, PQR Ltd. This amounts to multiple taxation. ABC Ltd. can take credit for excise duty paid by PQR Ltd. so that lower excise duty is payable by ABC Ltd, at the time of export.

The benefit of excise duty on inputs is available, instantaneously, when the inputs reach the factory. There is no need to establish any linkage between the inputs and goods manufactured. In case of capital goods, 50% benefit is available in the current year of purchase and balance in the next year. This balance can be adjusted against the duty payable but is not refunded. So, it is desirable to utilise this balance, at the earliest.

In other words, exporter is totally freed from the burden of excise duty, at all the different stages, on inputs used, duty paid on final products and even duty paid on capital goods purchased. The intention of Government is to eliminate the burden of excise duty on exports totally, paid directly or indirectly, to make them globally competitive.

CENTRAL EXCISE CLEARANCE OPTIONS

An exporter has two options to claim central excise clearance. They are

A. Export under claim of Rebate of Duty and

B. Export under Bond/Letter of Undertaking.

Both the merchant exporter and manufacturer exporter can avail of both the above options for clearance of excisable goods.

A. Export Under Claim of Rebate of Duty

Under this method, the exporter has to pay excise duty, initially, and can claim refund of excise duty, after exportation of goods to countries except Nepal and Bhutan. However, this method involves blockage of finances as the procedure involves time for getting back refund of excise duty. Excise procedure is governed under Rule 12.

Where there is balance in Capital Goods Cenvat Credit, it is ideal to use that amount first towards clearance of goods for export.

Exporter can request clearance of goods either with examination or without examination by central excise authorities. Once the central excise authorities make examination, customs authorities may not inspect the goods, before giving customs clearance, if they are satisfied that the seals are not broken. If the exporter desires that the goods may not be examined by the customs authorities at the port/airport of shipment, he should apply for clearance under examination. Excise clearance, after examination is also known as excise clearance under seal.

B. Export Under Bond

Under this method**, e**xporter does not make payment of excise duty. He has to obtain bank guarantee or surety to an amount equivalent to excise duty payable. This is beneficial to the exporter, as finances are not blocked. Once evidence of export is shown, the excise authorities would release the bond. In case of manufacturer-exporter, he can execute undertaking for the amount of excise duty payable instead of submitting Bond

A. Export Under Claim of Rebate of Duty

(i) Procedure for Central Excise Clearance Under Claim of Rebate (With Examination)

1. **Application to the Central Excise:** The exporter is required to submit application in ARE-1, in sixtuplicate (six copies) to the Superintendent or Inspector of Central Excise having jurisdiction over the factory or warehouse of the exporter at least twenty four hours before the removal for inspection. However, where exporter is unable to give 24 hours advance notice to the Superintendent of Central Excise, his request for inspection with a shorter notice also is, normally, accepted.

   The different copies of ARE-1 forms are of different colours, indicated below:

   Original—White

   Duplicate—Buff

   Triplicate—Pink

   Quadruplicate—Green

   Quintuplicate—Blue

   Sixtuplicate—Yellow

   It will be sufficient if the copies of ARE-1 contain a colour band on the top or right hand corner in accordance with above colour scheme. ARE-1 is introduced in place of earlier AR-4 and AR-5 forms.

2. **Inspection by the Central Excise:** The Superintendent of Central Excise may depute an Inspector of Central Excise or he may go for examination of the export consignment and sealing. Where the ARE-1 indicates that the export is in discharge of an export obligation under a Quantity-based Advance Licence or a Value-based Advance Licence issued under the Duty Exemption Scheme, the consignment should invariably be examined and sealed by the Superintendent of Central Excise himself.
3. **Samples:** The Central Excise Officer, after examining the consignment, would draw samples wherever necessary, in triplicate. He would hand over two sets of samples, duly sealed, to the exporter or his authorized agent, for delivering to the Customs Officers, at the point of export. He would retain the third set for his records.
4. **Markings:** The packages in which the goods are to be exported would be legibly marked as "export cargo" in ink or oil colour or in such other durable manner with progressive number commencing with No. 1 for each calendar year and with the exporter's name. These marks and numbers are to be specified on all the six copies of ARE-1 forms.
5. **Personal Ledger Account:** Excise authorities maintain Personal Ledger Account, manufacturer-wise. Amount paid by the exporter towards excise duty would be credited to the exporter's account. As and when the excise authorities clear goods, applicable excise duty is debited to the Personal Ledger Account and balance is arrived at. The procedure is similar to a current account maintained with a bank.
6. **Option for Claim of Rebate:** Exporter has the option to name Maritime Commissioner or jurisdictional Assistant Collector of Central Excise for claiming rebate of excise.

   Where the export is from any of the port, airport or post office falling within the jurisdiction of Maritime Collector of Central Excise, option is available to file claim of rebate before such Maritime Collector of Central Excise or the Jurisdictional Assistant Collector of Central Excise. For this purpose, exporters are required to clearly indicate their option on ARE-1 along with complete postal address of the authority from which the rebate shall be claimed.

   Exporters should be advised to take adequate care in filling up the ARE-1 form. The rebate sanctioning authority along with its complete postal address should be clearly mentioned at appropriate place in the ARE-1. The applicable portions should be carefully retained and inapplicable portion struck off.
7. **Processing by Excise Authorities:** After verifying the details contained in the documents, the Range Superintendent of Central Excise allows clearance of the cargo from the factory/warehouse for onward transmission to the port of shipment. Following endorsement is to be given in all copies of ARE-1 form:

   > "Allowed for export under claim for Central Excise Rebate"

The original, duplicate and sixth copies of ARE-1 form are handed over to the exporter. The triplicate copy is sent to the Maritime Central Excise Collectorate Refund section, having jurisdiction over the port wherefrom the goods are to be shipped. This copy on the request of exporter may be sealed and handed over to the exporter/his authorized agent for presenting to the rebate sanctioning authority. The fourth copy is sent to the Chief Accounts Officer (CAO) of the Maritime Central Excise Collectorate concerned. The Range Superintendent, for his record and future reference, retains the fifth copy.

8. **Examination of Goods by Customs Authorities:** The exporter/his authorised agent shall present original, duplicate and sixtuplicate copies of the ARE-1 to the Customs Officer at the point of export along with the goods, Shipping Bill/Bill of Export and samples sealed by the Central Excise Officer. These documents show the evidence of excise duty payment to the customs authorities. The export consignment shall be checked by the Customs Officer to see whether the seals are intact and the marks and number tally. If they are found in order, customs may allow exports after ensuring that the No. of the ARE-1 has been indicated in the Shipping Bill or the Bill of Export, as the case may be. The samples shall be dealt in accordance with instructions/standing orders of the Collector of Customs or the Central Board of Excise and Customs. After the goods have been shipped, the concerned officer of Customs would make necessary endorsement in the original, duplicate and sixtuplicate copies of the ARE-1 at appropriate places and put his stamp with his name and designation below his signature. He shall dispose off the copies of ARE-1 in the following manner:

    Original and Sixtuplicate: To be handed over to the Exporter. Original shall be used for filling rebate claim.

    Duplicate: Customs sends this copy to Rebate Sanctioning Authority, declared on ARE-1.This copy on a request of exporter may be sealed and handed over to the exporter/his authorized agent for presenting to the rebate sanctioning authority.

    Sixtuplicate copy: Used for claiming incentives (duty drawback).

9. **Submission of Rebate Claim:** Depending upon the exporter's option declared on the ARE-1, the claim should be filed with the jurisdiction of Maritime Collector of Central Excise or with Assistant Collector of Central Excise having jurisdiction on the factory of the exporter for claiming the rebate of excise duty on goods exported.

   The following documents need to be filed for claiming rebate:

   (*a*) Application in prescribed form- Form C (in triplicate)

   (*b*) Duplicate copy of ARE-1 in sealed cover received from Customs Officer

   (*c*) Copy of Bill of Lading, duly attested by customs

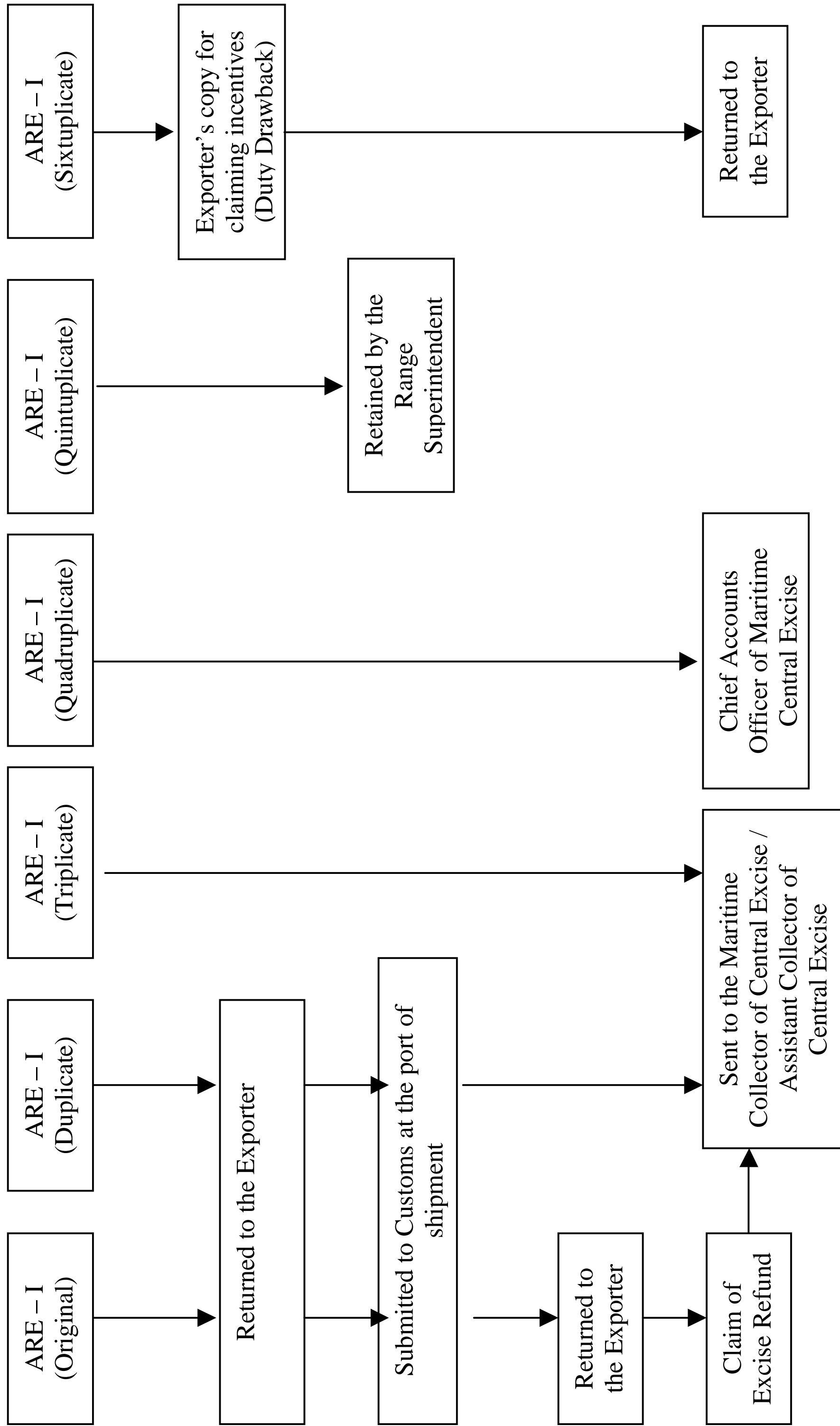

Diagram 2. Processing of ARE–1 Forms

(*d*) Copy of shipping bill (export promotion copy), duly attested by customs

(*e*) Original copy of duly ARE-1 duly endorsed by the Customs Officer

(*f*) Disclaimer certificate in case where the claimant is other than the exporter.

10. **Sanction of Rebate Claim:** The claim has to be filed within six months from the date of excise clearance from the factory for the purpose of shipment i.e. time prescribed under section 11B of Central Excise and Salt Act.

    The Maritime Collector or Assistant Collector, Central Excise would verify and compare the original copy of ARE-1 received from exporter with the duplicate copy of ARE-1 received from Customs Officer and triplicate copy of ARE-1 received from Range Supdt. Central Excise. If the claim is in order, he will order for sanction of rebate, either in part or in full.

    The rebate claim can also be claimed by electronic declaration on Electronic Data Inter-change (EDI) System.

11. **Discrepancy in Documents:** The rebate sanctioning authority should point out deficiency, if any, in the claim within 15 days of lodging the same and ask the exporter to rectify.

12. **Interest on Duty:** The Excise department should make the refund within a period of 3 months from the date of receipt of claim. In case of delay, interest @ 20% will be paid from the date of expiry of three months to the actual date of payment. This interest provision is really beneficial to expedite refund, as interest would be a burden to the department, in particular the above interest rate is higher than the prevailing bank interest rate.

13. **Cancellation of Documents:** In case export of goods does not take place, excise department cancels the documents, at the request of the exporter.

(ii) Procedure for Central Excise Clearance Under Claim of Rebate (Without Examination)

Under this method, exporter pays the excise duty and clears the goods on his own, without examination by the Central Excise Officer.

1. **Application to Excise Authorities:** The exporters are allowed to remove the goods for export, on their own, without getting the goods examined by the Central Excise officers. The application form-ARE-1 in such cases would be prepared in sixtuplicate, giving all particulars and declarations, after removal of goods. The exporter shall submit triplicate, quadruplicate, quintuplicate and sixtuplicate copies of ARE-1 to the Superintendent of Central Excise having jurisdiction over the factory or the warehouse, within twenty four hours of the removal of the consignment. He would retain the original and duplicate copies for presenting along with the consignment to the Customs Officer at the point of export.

2. **Examination by the Central Excise:** The jurisdictional Superintendent of Central Excise shall examine the information contained in ARE-1 and verify the facts of

payment of duty and other certificates/declarations made by the exporter. After he is satisfied that the information contained in the ARE-1 is true, he will sign at appropriate places in the four copies of ARE-1 submitted to him and put his stamp with his name and designation below his signature. He would then dispose of the triplicate, quadruplicate, quintuplicate and sixtuplicate copies of ARE-1 as under:

(*i*) Triplicate: To the rebate sanctioning authority viz. Maritime Collector of Central Excise or the Assistant Commissioner of Central Excise as declared by the exporter on the ARE-1. This copy, on the request of exporter, may be sealed and handed over to the exporter/his authorized agent for presenting to the rebate sanctioning authority.

(*ii*) Quadruplicate: To the Chief Accounts Officer in the Commissionerate Headquarters.

(*iii*) Quintuplicate: Office copy to be retained by the Central Excise Officer.

(*iv*) Sixtuplicate: To be given to the exporter.

3. **Examination by Customs Authorities:** In this case, the customs authorities would invariably examine the goods, as Excise authorities have not examined goods.

The rest of the procedure is the same as detailed in the earlier procedure for Central Excise clearance under Claim of Rebate (WITH EXAMINATION).

(B) Procedure for Excise Clearance under Bond/Letter of Undertaking

The procedure under this rule is similar to the one under claim for rebate. This is governed under Rule 13.

Under this rule, there is no PLA (Personal Ledger Account) as no duty is paid. Instead of payment of duty, the manufacturer exporter executes bond/letter of undertaking to the amount equivalent to the excise duty. Bond can be executed with surety or without surety. Such a bond is to be supported by a bank guarantee to protect financial interests of excise department. Exporters of the following categories are allowed to execute bond with surety and do not have to furnish any bank guarantee or cash security.

- Super Star Trading House
- Star Trading House
- Trading House
- Export House
- Registered Exporters (Registered with relevant Export Promotion Council)
- Manufacturers registered with Central Excise Department

(C) Letter of Undertaking by Manufacture-Exporter

Manufacturer-Exporter is neither needed to pay excise duty nor file the excise Bond.

Manufacture-Exporter can obtain clearance of export shipment by producing Letter of Undertaking. This is a great concession to the manufacturer who directly exports the goods.

CHECK YOUR UNDERSTANDING

State whether the following statements are TRUE or FALSE.

1. Central Excise Duty is either exempted or refunded on Export goods.
2. ARE-1 Form is to be submitted in eight copies to the Central Excise Department for refund of duty.
3. Shipping bill need not be submitted under Rule 12 for claiming rebate of excise duty.
4. Bill of Lading, duly attested by Customs, is required for refund of excise duty.
5. Maintenance of Personal Ledger Account is necessary when exporter seeks central excise clearance under Bond.
6. Range Superintendent of Central Excise makes an endorsement " Allowed to export under claim for Central Excise Rebate" on ARE-I documents.
7. Central Excise clearance is possible without physical examination of goods before shipment of goods.
8. Manufacturer- Exporter can produce Letter of Undertaking without paying excise duty for clearance of excisable goods.

Answers

1. True. 2. False 3. False. 4. True 5. False 6. True. 7. True. 8. True.

REVIEW QUESTIONS

1. Discuss the procedure for Central Excise Clearance in respect of Exempted Units?
2. What is meant by Cenvat Credit? Explain its importance in the context of exports?
3. Explain the different options available to an exporter to claim central excise clearance?
4. Discuss the procedure of Central Excise Clearance of all export shipments under claim for rebate of duty both with and without physical examination of goods?
5. Discuss in detail the procedure for Central Excise clearance of the goods under bond?

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SHIPMENT OF EXPORT CARGO

- INTRODUCTION
- PROCEDURE FOR SHIPMENT OF EXPORT CARGO
- CHECK YOUR UNDERSTANDING
- REVIEW QUESTIONS

INTRODUCTION

Exporter can send shipment through any one of the modes of transport, dependent on the terms of contract between the exporter and importer. The mode can be shipment by sea, shipment by air, shipment by post and shipment by land (land routes). The term 'Shipment' does not necessarily mean that the goods are shipped by sea alone. It is only an expression of dispatch of goods. However, export of cargo by shipment to the buyer is the more popular method in comparison to dispatch of goods by air. The freight charges for shipping cargo are much less than those of airfreight. Moreover, the physical size of the products, sometimes, constrains the exporter to dispatch them by air, especially when the products are heavy machinery or engineering goods.

PROCEDURE FOR SHIPMENT OF EXPORT CARGO

The essence of shipment of export cargo is to obtain negotiable copies of Bill of Lading, as many as required in the export contract. Bill of Lading constitutes the document of title to the goods that are to be passed on to the buyer to obtain export proceeds and completion of export contract. The different stages in this process are:

1. Shipping Order

The process of shipment of cargo commences even before the goods are ready for shipment. Reserving Shipping Space and obtaining Shipping Order is the primary step involved in shipment of cargo as space may not be available when goods are ready for shipment. Shipping order binds the shipping company to reserve the space on the sailing booked. So, advance planning is essential to meet the delivery schedule. Shipment of cargo involves various stages, once goods are manufactured and ready for dispatch.

2. Clearing and Forwarding Agent

Clearing and Forwarding agents are the specialised people with knowledge of procedures and documentation involved in shipment of goods. So, exporter has to appoint clearing and forwarding agents, experienced in the product and country to be exported. Range of services exporter intends to avail determines the choice of the forwarding agent. While all the forwarding agents provide essential services, very few render optional services. Scope of these services has already been discussed in the chapter " Clearing and Forwarding Agents" in detail. Basically, they guide the exporters in providing information on the various alternative routes of transport to reach the buyer's port along with relative cost implication and finally facilitate in the selection of mode as well as route of transport to meet the delivery schedule, at economical cost. They are the competent people to comply with procedural formalities of the customs and port authorities, separately.

3. Shipping Documents

As soon as export goods reach the warehouse, exporter arranges for a complete set of shipping documents to be passed on to the forwarding agent, along with detailed instructions. They comprise:

(*a*) ARE-1 in original, duplicate and sixtuplicate

(*b*) Commercial invoice (in duplicate)

(*c*) GR form (in duplicate)/SDF form (in duplicate) where shipping bills are electronically processed in Customs House

(*d*) Letter of Credit along with export contract or export order

(*e*) Packing list or Packing Note

(*f*) Certificate of Origin

(*g*) Certificate of inspection, wherever necessary

(*h*) Marine Insurance Policy

4. Verification of Documents at Customs House

According to prevailing customs regulations, no cargo meant for export is allowed for loading on ship without the customs clearance. So, the cargo must be cleared from the customs before it is loaded on the ship. For this, the above mentioned documents along with

five copies of Shipping Bill are to be submitted to the Customs Appraiser at the Customs House. The Customs House examines compliance of formalities relating to Quality Control, Exchange Control, Pre-Shipment inspection and compliance of requisite Licensing by the exporter to ensure genuineness of transaction. After verification, all documents except the original copy of GR, original copy of Shipping Bill and one copy of Commercial Invoice are returned to the exporter. If satisfied, he issues a "Shipping Bill Number" to the exporter/ C & F agent. After recording the required details of GR-1in their registers, they forward the original GR-1 to RBI.

5. Obtaining 'Carting Order' from the Port Authorities

The export cargo lying in the warehouse of the exporter is to be moved into the port premises and kept in the godown at the port till the goods are loaded on board. The C&F agent approaches the superintendent of the concerned port for securing "Carting Order" for moving the cargo into the port premises. After obtaining the order, the cargo is transported to the port. Later, permission of Gate Inspector is obtained to move the cargo into the port area. The goods are unloaded and kept in the appropriate shed assigned for those goods.

6. Customs Examination of Cargo at Docks

The customs examiner physically examines the goods. Physical examination of goods can be arranged at the warehouse/factory premises of the exporter by making a suitable application to the Assistant Collector of Customs. He seals the packages in his presence. The main purpose of examination of goods at the docks is whether the goods packed and kept ready for shipment are the same as mentioned in the Shipping Bill. After all the formalities are over and the Customs Officer is satisfied that the export does not contravene the provisions of any law and all duties and other dues have been paid, a "Let Export Order" will be made on the back of the shipping bill to permit the export. Where the customs clearance is computerized, clearance is processed through Electronic Data Interchange (EDI) System.

7. Obtaining "Let Ship Order" from the Customs

The C & F agent presents the duplicate copy of the Shipping bill to the Preventive officer of the customs who supplements his endorsement on the back of the Shipping Bill with "Let Ship Order", after satisfactory verification. At this stage, the shipping bill contains both the endorsements of "Let Export Order" and "Let Ship Order". The preventive officer supervises the loading of the cargo on board the vessel nominated for its export.

8. Mate's Receipt

As soon as the goods are loaded on board the vessel, the Captain or Master of the ship issues a document called "Mate's Receipt" to the Port Superintendent in-charge of the shed. It is a document certifying loading of the cargo on board the vessel. It contains details such as brief description of the cargo, the number of packages, the shipping marks, the name of the vessel and the date of issue. The mate's receipt contains a comment by the master on

the condition of goods at the time of its receipt on the vessel. Any adverse remarks on the mate's receipt are important, as the same will be incorporated in Bill of Lading as and when it is issued.

9. Port Trust Dues and Collection of Bill of Lading

Exporter has to collect Bill of Lading for the cargo as it is document of title for the goods that is to be, finally, made available to the buyer. Master of the vessel, where the goods have been loaded, gives the mate's receipt to port authorities. Exporter can collect the mate's receipt only after paying the dues to the port authorities. Routing the mate's receipt through port authorities is done to enable the port authorities to collect the dues from the exporter. Exporter surrenders the mate's receipt to the shipping company who gives bill of lading in two or three negotiable copies and two or three non-negotiable copies.

10. Documents with Exporter

At the end of the process, the forwarding agent returns the following documents to the exporter:

(*a*) A copy of the invoice duly attested by customs authorities.

(*b*) An Export Promotion copy of Shipping Bill.

(*c*) Full sets of clean bill of lading along with the requisite non-negotiable copies of bill of lading.

(*d*) The original letter of credit and export contract/export order and

(*e*) ARE-1 form in original (for claiming excise refund) and sixtuplicate (for claiming export incentives).

CHECK YOUR UNDERSTANDING

State whether the following statements are TRUE or FALSE.

1. Mode of shipment can be by sea, air, post and land (land routes).
2. The essence of shipment of export cargo is to obtain negotiable copies of Bill of Lading, as many as required in the export contract.
3. The master of the vessel makes mate's Receipt available to the exporter/Clearing and forwarding agent, after the goods are boarded on ship.

Answers

1. True. 2. True. 3. False.

REVIEW QUESTIONS

1. Explain the procedure for Shipment of Export Cargo?
2. What is the most popular mode of shipment and detail the procedure involved in the process of collecting Bill of Lading?

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CUSTOMS CLEARANCE OF EXPORT CARGO

- INTRODUCTION
- OBJECTIVES OF CUSTOMS CONTROL
- EXCHANGE CONTROL DECLARATION FORM
- CUSTOMS CLEARANCE OF EXPORT SHIPMENT
- DOCUMENTARY REQUIREMENTS
- INDIAN CUSTOMS ELECTRONIC DATA INTERCHANGE SYSTEM (ICES)
  - MAIN OBJECTIVES
  - ADVANTAGES TO TRADING PARTNERS AND DEPARTMENT
- COMPUTERISED CUSTOMS CLEARANCE PROCEDURE– SHIPMENT BY SEA
- PORT PROCEDURES
- COMPARISON OF COMPUTERISED CUSTOMS CLEARANCE VS. MANUAL CLEARANCE
- BACKGROUND NOTE ON A COMMON BUSINESS IDENTIFICATION NUMBER
- CHECK YOUR UNDERSTANDING
- REVIEW QUESTIONS

INTRODUCTION

Every exporter is required to obtain customs clearance in respect of export goods before they are sent to buyer, irrespective of the mode of shipment. The mode of shipment could be either by sea, air, rail or road. Customs procedures in different modes of shipment are

one and the same, barring minor variations. According to Section 40 of the Customs Act, person-in-charge of the conveyance vessel, aircraft or vehicle cannot permit loading of goods, without permission of the Customs Authorities. The exporter through the clearing and forwarding agent, also known as Customs House Agent (CHA), normally, obtains the customs clearance.

OBJECTIVES OF CUSTOMS CONTROL

The objectives of customs control are:

(*i*) To ensure nothing goes out of the country against the laws of the land and customs authorities duly enforce stipulated prohibitions and restrictions regarding outward cargo;

(*ii*) To ensure authenticity of value of outward cargo according to the customs valuation rules to check over and under invoicing;

(*iii*) To assess and realise export duty/cess/charge according to the customs Tariff Act and any other fiscal legislation;

(*iv*) To check that all the regulatory provisions of Export (Control) Order, Export (Quality Control and Inspection) Act and Foreign Exchange Regulations Act are duly complied with and

(*v*) To provide export data through the customs returns.

While complying with the objectives, before granting permission, customs ensure that the goods exported are of the same type, sort and value as have been declared by the exporter and the duty or cess thereon is properly determined and paid by the exporter.

EXCHANGE CONTROL DECLARATION FORM

Under Customs Act, every exporter is required to declare export value of shipment and give an undertaking that the export proceeds would be realised within a period of six months from the date of shipment or due date, whichever is earlier. If customs clearance for the shipment is made manually, declaration is made in GR form, in duplicate. If the clearance is computerised, SDF form, in duplicate, is used in place of GR form.

CUSTOMS CLEARANCE OF EXPORT SHIPMENT

The documentary requirements and procedure for customs clearance are as under:

Documentary Requirements

For movement of goods by sea or air, customs permission for shipment of goods is given on a prescribed document known as 'Shipping Bill'. In other cases, such as by road/rail, the

prescribed document on which the customs permission given is called 'Bill of Export'. There are four types of Shipping Bill/Bill of Export used in export of goods. These are:

(*i*) Dutiable Shipping Bill/Bill of Export: Export goods attract duty/cess.

(*ii*) Drawback Shipping Bill/Bill of Export: Export goods fall under Duty Drawback scheme. In this case, customs duty is paid first and later duty is refunded, after shipment of goods.

(*iii*) Free Shipping Bill/Bill of Export: This form is used when export goods attract neither export duty/cess nor are covered under Duty Drawback scheme (Free trade samples, gift parcels, warranty replacements etc).

(*iv*) Ex-Bond Shipping Bill/Bill of Export: Goods are shipped from the customs bonded warehouse.

Exporter or CHA has to submit the following documents to the customs department for securing customs clearance:

(*i*) Shipping Bill (Appropriate type) in quadruplicate, if clearance is manual or Annexure A or B, in case clearance is given in computerised manner;

(*ii*) Commercial Invoice (2 copies);

(*iii*) Exchange Control Form- GR Form or SDF as applicable, in duplicate. SDF form is used in place of GR Form where customs operations are computerised;

(*iv*) Copy of Letter of Credit/Copy of Export Order/ Export contract, duly attested by bank;

(v) Packing List;

(*vi*) Certificate of Origin or GSP certificate of Origin;

(*vii*) Shipper's declaration form for export of goods;

(*viii*) ARE-1, duly approved by the Central Excise office (ARE-1 has replaced AR-4);

(*ix*) Original copy of Certificate of Insurance, wherever necessary;

(*x*) Marine Insurance Policy;

(*xi*) Export Licence, where required and

(*xii*) Any other documents.

INDIAN CUSTOMS ELECTRONIC DATA INTERCHANGE SYSTEM (ICES)

The computerised processing of Shipping Bills under the Indian Customs EDI (Electronic Data Interchange) System- (Exports) has come into force w.e.f. 15.09.2004. The system is known as ICES (Exports).

Indian Customs EDI System (ICES) has initiated a new era in the country, an era of Paperless Trade. The objective is Trade facilitation rather then control. Now, Indian trading

community can exchange documents electronically with Customs and other Government Agencies. This had been made possible by joint design, development and implementation of ICES by the officers of Central Board of Excise and Customs and National Informatics Centre.

Customs authorities have introduced computerised processing of export documents, replacing manual processing at many customs centres. The main objective is to ensure expeditious processing and provide efficient customs clearance service to exporters. This system is known as Indian customs EDI System (Electronic Data Inter-Change System).

Computerised processing of shipping bills is in vogue at over 19 ports in India. Under the system, there would be no processing of paper documents except statutory declarations. Customs clearance is almost the same irrespective of the mode of shipment as already detailed in beginning of the chapter, barring minor variations.

Main Objectives of Indian Customs EDI System

1. To simplify customs laws, regulations, administrative guidelines and procedures to the extent possible so that customs clearance is expedited without undue burden;
2. Respond more quickly to the needs of trade;
3. Computerisation of customs related functions including import/export general manifest control, ex-bond clearance of warehoused goods, goods imported against export promotion schemes, monitoring of export promotion schemes;
4. Reduce interaction of trade with Government agencies;
5. Provide retrieval of information from other custom locations to have uniformity in assessment and valuation;
6. Provide management information system for policy making and its effective revenue collection;
7. Monitoring pendency and
8. Provide quick and correct information on import/export statistics.

Advantages to Trading Partners and Department

1. **Less Hassles:** The trading community is not required to travel physically to the Custom House for submitting documents except at the last stage for physical examination of goods.
2. **Control:** ICES allows exporter/importer to find out status of any document in the system and answer queries raised to make way for early clearance.
3. **Time and Cost Savings:** Computerisation of customs procedures has resulted in time and cost savings due to reduced need to prepare, handle, store and deliver customs documentation. Improvements in communications, access to information and transparency of customs processes and appeals increases level of certainty and fairness.

4. **Transparency:** A good compliance track record results in faster clearance and less intrusive verification techniques. Importers know the amount of duties and taxes owing as a result of clear and consistent rules. More efficient clearance produces time and cost savings and provides certainty required to exploit modern business practices such as "just-in-time" inventory. Customs brokers have the opportunity to refocus their services from dealing with forms and complexity to using their expertise and knowledge to bring a new range of professional services to clients, operating in an expanding and evolving trade market.
5. **Faster Service:** Carriers of goods benefit from faster service, lower costs and ability to use their equipment to its utmost capacity rather than having it delayed at customs.
6. **Security:** ICES provides security at all levels of access to the system.
7. **Trade becomes Competitive:** Improved customs clearance and inspection procedures have been generating faster, more certain and, ultimately, less costly trade transactions, making exports globally competitive.
8. **Faster Operations:** Fully automated process with little or no intervention by either party has provided a virtual on-line scenario. Declarations can be accepted round the clock automatically, resulting in maximum productivity. Quicker retrieval of cargo has become possible through reduction of clearance times. Reduction in manual administrative processes has resulted in fewer errors and no duplication with harmonised business relationships with other bodies such as Ports, DGFT, Airlines, Container Depots etc.
9. **Help to Department**: System includes powerful help features that can be invoked by the Assessing Officers from their respective screens to facilitate their assessment work.

COMPUTERISED CUSTOMS CLEARANCE PROCEDURE—SHIPMENT BY SEA

Normally, Clearing and Forwarding Agents handle customs clearance as they are specialised in the line of activity and familiar with the changing documentary requirements as well as clearing procedures.

Customs clearance procedure in respect of shipment by sea, when processing of documents is computerised is as under:

1. Registration for Business Identification Number

Exporters have to obtain PAN based Business Identification Number (BIN) from the Directorate General of Foreign Trade, prior to filing for customs clearance of export goods. Under the EDI System, PAN based BIN is received from the DGFT online.

Purpose of BIN is to bring a common identification number to all persons dealing with various regulatory agencies, such as Central Excise and Customs Department, Income Tax

Department, Offices of Director General of Foreign Trade etc. All the assessees would be, considerably, benefited if they have to obtain just one identification number for use by various Government agencies. The background for deciding on PAN based Business Identification Number is given at the end of the chapter.

Exporters are also required to obtain authorised foreign exchange dealer code (through which export proceeds are expected to be realised) and open a current account in the designated bank for credit of any drawback incentive.

2. Electronic Filing of Shipping Bill

Exporters/CHAs are required to register their Import Export Codes, Customs House Agent Licence Nos., and the Bank A/c No. (for credit of Drawback amount) in the Customs Computer Systems, before an EDI Shipping Bill is filed.

Exporters/CHAs would be required to submit the following documents at the Data Entry Centre of the Customs Station (Service Centre):

(*a*) A declaration in the specified format (Applicable annexure A or B);

(*b*) SDF(Statutory declaration form) declaration;

(*c*) Quota/Inspection certificate and

(*d*) Drawback/DEEC/DFRC/DEPB Declarations etc., as applicable

The formats should be duly completed in all respects and should be signed by the exporter or his authorised CHA. Forms, which are incomplete or unsigned, are not accepted for data entry.

Initially, data entry for Shipping Bills is allowed to be made only at Service Centre. After exporters/CHAs become conversant with the EDI procedures, option of Remote EDI System would also be made available. In the Remote EDI System (RES), Exporters/CHAs can electronically file their shipping bills from their offices.

3. Shipping Bill

Under manual system, Shipping bill is submitted by exporter/CHA. Under computerised system, exporter is not required to file shipping bill. It is rather generated through computer system. The information is filled in the applicable two forms- Annexure A and B. If exports are duty free goods, Annexure A is filled in. If exports are under claim of duty drawback (duty is paid first and refunded after shipment), Annexure B is to be filled in. The applicable annexure is submitted at Service Centre- Data entry Centre of Customs Station.

Once the data is fed into the computer, a checklist is generated. Checklist is verified by the exporter/CHA and if the data is in order, they sign in token of approval. After correct data is entered into the system, Shipping Bill is processed, automatically, by the System on the basis of declaration made by Exporter. Then, the service centre generates shipping bill for noting and further processing. Service centre assigns a number to the shipping bill, which is endorsed on the printed checklist and returned to exporter/CHA.

The shipping bill so generated is used as the basic document for issue of "Let Export Order", later. The Exporter/CHA at Service Center can check status of the Shipping Bill. They should also check whether any query has been raised in respect of their Shipping Bill. In case of any query, they should file a reply to the query through Service Centre. It is important to note that the shipping Bill is only generated in the computer and no print out is taken at this stage. Endorsements are not made manually until 'Let Export Order' stage but entered on Shipping Bill, in computer system. Computer print out is taken only after the issuance of "Let Export Order".

The Assistant Commissioner assesses the following categories of Shipping Bill (Export):

(*a*) Shipping Bills where the FOB value is more than Rs. 10 Lakhs.

(*b*) Shipping Bills relating to free trade samples whose value is more than Rs. 20,000.

(*c*) Drawback Shipping bills where drawback amount is more than Rs. 1 Lakh.

4. Checking of Documents at Customs House

(*a*) Shipping bills involving foreign exchange are sent to the Appraisement section. In appraisement section, Dutiable and Drawback Shipping Bills are allotted to appraisers for scrutiny and examination order. Free Shipping Bills are sent to examiners.

(*b*) Verification of Shipping Bill is made to ascertain whether quantity and value of goods are as per export order/letter of credit. Input-output norms (wherever applicable) and details of drawback rate are checked by the inspector and superintendent of customs. Further, verification is also made in respect of the compliance of formalities as regards Exchange Control, Licensing, Pre-Shipment Inspection, if applicable, and other statutory requirements.

(*c*) The customs appraiser/examiner assesses value of goods. The value of goods assessed by the appraiser is considered in all future transactions, especially for settlement of incentive claims.

(*d*) After verification, the customs appraiser/examiner feeds "Examination Order" on the Shipping Bill into the system. The examination order determines the extent of physical examination of goods at Docks and assigns the official to conduct examination. This "order" enables the Dock Appraiser to conduct physical examination of the goods in the docks. The principal appraiser also countersigns the "examination order".

(*e*) The CHA, in turn, can enquire about the status of his documents from his own system. He can view any memo or objections on his documents as they are posted in the system.

(*f*) The shipping bill number is put on the GR/SDF forms. SDF form is used in place of GR form if the customs operations are computerised at that customs centre.

(*g*) Where export duty is to be paid, exporter/agent has to pay at Cash & Accounts section of the customs.

5. Physical Examination of Export Cargo by Dock Appraiser

(*a*) Export goods are transported into the shed, after completing port formalities.

(*b*) The exporter/agent presents the following documents to Dock Appraiser along with check List.

(*i*) Packing List

(*ii*) Invoice

(*iii*) ARE-Forms

(*iv*) Agmark Certificate, if applicable

(*c*) The shed Appraiser/Examiner conducts physical examination of goods as per the examination order.

(*d*) If the examination is satisfactory, the shed Appraiser/Examiner records the report of physical examination on the shipping bill through the computer system.

(*e*) The Appraiser also signs and stamps the original & duplicate copies of SDF. He returns exporter copy and second copy of SDF to exporter or his agent.

(*f*) In case of any variation between the declaration in the Shipping Bill and physical documents/examination report, the Appraiser may mark Electronic Shipping Bill to the Assistant Commissioner/Deputy Commissioner of Customs (Exports). He may also forward physical documents to Assistant Commissioner/Deputy Commissioner of Customs (Exports) and instruct the exporter or his agent to meet the Assistant Commissioner/Deputy Commissioner of Customs (Exports) for settlement of dispute.

(*g*) Documents once entered and submitted are then reviewed by different officers of the Custom House at various stages of processing and final clearance is accorded on the computer system after all formalities are over for physical examination of goods at the Sheds. ICES keeps track of officers who have handled the documents at various stages of processing. The trail of processing cycle is available to superior officers at any time.

(*h*) In case, exporter agrees with the views of Department, the Shipping Bill is processed accordingly. Where, however, the exporter disputes the view of the Department, principles of natural justice are required to be followed, before finalisation of the issue.

(6) Drawl of Sample

Where the Appraiser Dock (export) orders for samples to be drawn and tested, the Customs Officer may proceed to draw two samples from the consignment and enter particulars thereof. There is no separate register for recording dates of samples drawn. Three copies of test memo are prepared and signed by the Customs Officer and Appraising Officer on behalf of Customs and the exporter or his agent. The disposal of three test memo copies is as follows:

(*i*) Original—to be sent along with the sample to the test agency.

(*ii*) Duplicate—Customs copy to be retained with the second sample.

(*iii*) Triplicate—Exporter's copy.

The Assistant Commissioner/Deputy Commissioner if he considers necessary, may also order for sample to be drawn for purpose other than testing such as visual inspection and verification of description, market value inquiry, etc.

Results of testing agency are fed in the ICES-Export System.

(7) Generation of Shipping Bills

(*a*) After examination of goods and scrutiny of documents, if every thing is found to be in order, the Appraiser feeds "Let Export Order" into system on the Shipping Bill. Then, Shipping Bill is generated by the system in two copies i.e., one Customs copy and one exporter's copy.

(*b*) After obtaining the print out, the appraiser obtains the signatures of representative of the CHA on both the copies of shipping bill. It is necessary as the shipping bill has been computer generated and does not bind exporter, in the absence of signature. The name and Licence No. of the CHA should be clearly mentioned below his signature. The Appraiser thereafter signs & stamps both the copies of the shipping bill at the specified place.

(*c*) In case of discrepancy, the matter is reported to the Assistant Collector of Customs for further instructions/decision.

(*d*) Exporter gets Export Promotion Copy and Exporter's copy of shipping bill, duly signed by the competent authority.

(*e*) Customs copy of Shipping bill and original copy of SDF are forwarded by the Appraiser to Export Department of Customs House. Original copy of SDF is sent to RBI.

8. Loading of Goods under Supervision of Preventive Officer

(*a*) Exporter submits his copy of Shipping Bill to the Preventive Officer of Customs.

(*b*) Preventive Office makes an endorsement "Let Ship Order" on the exporter's copy of Shipping Bill.

(*c*) The above endorsement is an authorisation from customs to the shipping company to accept cargo on the vessel for loading.

(*d*) Goods are loaded under the supervision of Preventive Officer.

(*e*) Preventive Officer supervises the loading of container general cargo into the vessel and gives "Shipped on Board" endorsement on the exporter's copy of shipping bill.

9. Mate' Receipt

(*a*) Shipping Company hands over mate's receipt to Port.

(*b*) Exporter collects the mate's receipt after paying dues to Port.

10. Post Loading Certification

(*a*) Exporter presents mate's receipt to Preventive Officer.

(*b*) Preventive Officer, earlier, recorded certificate of shipment on exporter's copy of shipping bill. Now, he records the fact of shipment on other copies of shipping bill and on copies of ARE-1 and returns them to exporter/CHA.

11. Collection of Bill of Lading

Exporter/CHA submits the mate's receipt to the shipping company and requests it to issue the Bill of Lading (Negotiable and non-negotiable copies).

Port Procedures

Export cargo can be brought into the port after the ship has been allotted a berth and declared for loading. Shippers have to pay the port charges dependent on the procedure followed by each port. Some ports collect port charges before loading while Bombay port offers the facility of collecting port charges, after loading.

(A) Carting Permission: Before bringing cargo to the shipment shed, it is necessary to take "Carting permission" from superintendent of the shed and agent of the shipping company.

(B) Vehicle Ticket: At the port gate, while entering with cargo, shipper has to show carting permission and vehicle ticket, in duplicate, to the Gate Inspector. Gate inspector examines goods and documents to ensure permitted goods in the documents only are entering into port. The packages, bundles, cases mentioned in the vehicle ticket are tallied with those in the vehicles before goods are allowed in. Necessary entry is made in the registers in respect of cargo passed through the gate.

(C) Mate's Receipt: Soon after goods are cleared by customs, exporter/CHA obtains "Let Ship Order" from the Preventive officer of customs on the exporter's copy of Shipping Bill. The master of the vessel allows loading of cargo on board, in consultation with Preventive Officer of Customs. The master of the vessel issues mate's receipt to Port authorities in respect of shipment taken on board, indicating the condition of goods at the time of receipt. After payment of port dues, shipper collects the mate's receipt. Mate's receipt is an important document as it is to be exchanged to Bill of Lading. So, shipper has to collect it from the superintendent of the shed, immediately, soon after it is received to avoid the delay and problems in negotiation.

(D) Bill of Lading: Shipper collects blank copies of Bill of Lading from the shipping company and prepares two/three negotiable and required non-negotiable copies of Bill of Lading. Shipping Company issues Bill of Lading to the shipper in exchange of mate's receipt. Bill of Lading may be marked "Freight Paid" if shipper has paid freight and "Freight to Pay" when freight is to be collected from importer. Shipping Company incorporates those clauses that are appearing in the mate's receipt, before Bill of Lading is issued.

COMPARISON OF COMPUTERISED CUSTOMS CLEARANCE VS MANUAL CLEARANCE

A brief comparison is made between manual system and computerised system of customs clearance.

1. Shipping Bill

The basic difference is in submission of Shipping Bill. Under manual system, exporter submits shipping bill. This is not the case in computerised clearance. Exporter submits data in annexure A or B to Data Entry Centre of Customs Station. Checklist is first prepared and given to exporter for verification. Once there are no discrepancies in data, exporter's signature is taken on the Checklist and then Shipping Bill is generated by service centre. However, Shipping Bill is not printed at this stage.

2. Immediate Availability of Information

In computerised clearance, once checklist is approved, EDI System accepts documents from the trading partners in the Electronic Format. The documents can be prepared and submitted using either Electronic Data Interchange System or Service Centre. The document received over the Internet at Custom House is then loaded to the ICES, after proper validation checks. The Exporter/CHA can check the status of the Shipping Bill at the Service Center. They can also check whether any query has been raised in respect of their Shipping Bill. In case of any query, they file reply to query through the Service Centre. This transparency of information is not available with manual system and for every information, exporter has to depend on availability of written information from customs.

3. SDF Form in Place of GR Form

SDF form is used where shipping bills are processed electronically in customs house, while GR form is used when shipping bills are processed manually in customs house. "GR" stands for 'Guaranteed Receipt' form, while SDF stands for 'Statutory Declaration Form'.

BACKGROUND NOTE ON A COMMON BUSINESS IDENTIFICATION NUMBER

Presently, different agencies of Government use separate numbers for identification of individuals and businesses in relation to activities concerning the agencies. The Director General of Foreign Trade (DGFT) allocates Importer Exporter Code No. (IEC No.) for identifying importers and exporters; the Income-tax Department issues the Permanent Account Number (PAN) for all Income tax, Wealth tax assessees; the Central Excise Department is also registering various manufacturers and allocating a separate series of registration numbers. RBI separately used to allocate a CNX number for identification of the exporters, earlier.

It has been further decided that such common identification number to be used by various agencies will be based on Permanent Account Number allotted by the Income Tax

Department. The main objective of allocating an alphanumerical number by Government agencies is to identify the assessees/exporters/importers. It is also used to identify in some cases the concerned office where the person would be assessed or registered. Further, an alphanumeric number helps in processing information related to assessees on computers.

A Working Group comprising officers of different Departments had examined the feasibility of adopting a Common Identifier by various agencies. It was observed that the assessee would be considerably benefited if he has to obtain just one identification number for use by various Government agencies. With the increasing import and export activity, it has become necessary to develop linkages between import transactions, manufacturing activity and export transactions. Besides, maintaining a complete profile of the person concerned, wherein the records of his conduct with any of the Government Department could be ascertained, such a linkage can help in verification of availment of excise rebate on exports etc. Such a measure would be particularly helpful in introducing selective risk based assessment of import/export transactions instead of verification of each and every shipping bill or bill of export. A common identifier would immediately help obtain an overall assessment of the assessee's credentials with different Government agencies. Various Government Departments particularly DGFT, Income tax and Customs and Excise Departments are presently engaged in computerisation of their operations. There is need to share information from the computers of one of the Departments with the other Departments. This exchange of information will be made easier if there are common identification numbers.

It has been decided to adopt Permanent Account Number issued by Income-tax Department as the basis for Common Identifier. PAN is a 10-digits alphanumeric code and can identify upto 96 crores business entities. Apart from being unique (PAN is issued centrally and is generated by the computer system), it has the widest application (more than 2 crores assessees as against about 3 lakhs importers/exporters using Import and Export Codes and about 1.2. lakhs Central Excise assessees using ECC Number). Further, since it is not dependent on the location of the office of registration, it will not get modified on account of re-organisation of jurisdiction of the concerned Department/Offices.

As per decision of the Government, PAN will be the only identifier for cross-referencing with the other Departments though each Department is free to use any internal codes, which it may consider necessary.

CHECK YOUR UNDERSTANDING

1. Under Indian Customs Act, an overseas carrier cannot permit loading of goods without permission from the customs authority.
2. For movement of goods by road/rail, the prescribed document on which customs permission given is called Bill of Export.
3. Under computerised customs clearance system, exporter is not required to file shipping bill.

4. The goods can be brought into the shed without completing port formalities.
5. The shed Appraiser/Examiner conducts physical examination of goods as per examination order given by the customs appraiser.
6. "Let Export Order" on the shipping bill indicates completion of physical examination of goods.
7. Carting permission is not obtained from the shed superintendent.
8. "Let Ship Order" is given on the copy of shipping bill by the preventive officer, which gives authorisation to the master of vessel to ship goods on board.
9. SDF form is used where shipping bills are processed electronically in customs house, while GR form is used when shipping bills are processed manually in customs house.
10. Customs Appraiser examines export documents while Shed Appraiser examines export goods.
11. The computerised processing of Shipping Bills under the Indian Customs EDI (Electronic Data Interchange) System- (Exports) has come into force w.e.f. 15.09.2004.
12. Exporters have to obtain PAN based Business Identification Number (BIN) from the Directorate General of Foreign Trade, prior to filing for customs clearance of export goods.

Answers

1. True. 2. True. 3. True. 4.False. 5. True. 6. True 7. False 8. True. 9. True.
10. True. 11. True 12. True.

REVIEW QUESTIONS

1. What are the objectives of Customs Clearance?
2. Discuss the procedure to be followed for obtaining computerised customs clearance of export shipment by sea?
3. Detail the differences in documentation and procedures between manual and computerised customs clearance?
4. Write the objectives of Indian Customs Electronic Data Inter-Change System and its advantages to exporters/importers and department?
5. Write Short Notes on:
   (*a*) Let Export Order
   (*b*) Let Ship Order
   (*c*) Role of Customs Appraiser and Dock Appraiser
   (*d*) Port Procedures

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CUSTOMS CLEARANCE OF IMPORT CARGO

- INTRODUCTION
- TYPES OF IMPORT
  - IMPORT OF UNRESTRICTED ITEMS
  - IMPORT OF RESTRICTED ITEMS
  - IMPORT OF CAPITAL GOODS
- IMPORT OF RAW MATERIALS UNDER DUTY EXEMPTION SCHEME (ADVANCE LICENSING)
- RETIREMENT OF DOCUMENTS FOR IMPORTS
- PROCEDURE FOR CUSTOMS CLEARANCE
- INDIAN CUSTOMS ELECTRONIC DATA INTERCHANGE SYSTEM (ICES)
- CHECK YOUR UNDERSTANDING
- REVIEW QUESTIONS

INTRODUCTION

Goods imported into the country by any mode of conveyance- vessel, aircraft, mutimodal transport, land, post or even through couriers- attract customs duty. All goods imported in India have to pass through customs clearance. Apart from being a source of revenue, the major objective of customs clearance is to check smuggling. It is the duty of customs to ensure that the transactions prohibited by different laws do not take place, when goods move into the country. Customs clearance helps in regulating trade in accordance with

national objectives, priorities and policies. It also undertakes agency functions. It is the customs responsibility to ascertain and ensure that the requirements emanating from different laws are complied with. The requirements may relate to Foreign Exchange Management Act, Quality Control Act or Pre-Shipment Inspection Act. Finally, their function is also to collect trade data and submit the same to Directorate General of Commercial Intelligence & Statistics and Ministry of Commerce to assist in formulation of policies connected with International trade.

TYPES OF IMPORT

The export-import policy offers the facilities to import raw materials, components, parts, other inputs and capital goods to facilitate production of goods for export promotion. The facility of imports is allowed under different categories:

(A) Import of Unrestricted Items

Any person having import-export code Number is allowed to import the goods, which do not have any kind of restriction under the Import Policy 2002-07, as amended from time to time. Any intending importer has to check the classification of the item by referring to ITC (HS) Classification to find out the policy applicable to that item. If the item falls under unrestricted category, the only requirement is payment of applicable import duty, after obtaining customs clearance for the import consignment.

(B) Import of Restricted Items

Any business firm intending to import restricted items has to apply for import licence. All restricted items fall under the Negative List. For import of items under the negative list, importer has to give justification of the need to import those goods. The importer has to submit a statement of reasons to the licensing authority for the import. Import of restricted items is not a matter of right. It is a privilege extended by the Government. The licensing authority has the authority to refuse licence if it is not satisfied with the reasons of import.

(C) Import of Capital Goods

Import of new capital goods is liberal. There is no restriction regarding the import of new capital goods. The only requirement is payment of applicable import tariff for those capital goods and arrangement of customs clearance. However, in respect of second hand goods, there are certain restrictions. The capital goods to be imported should not be more than 10 years old and after import, they cannot be transferred, sold or otherwise disposed off within a period of two years, without the prior permission of DGFT.

Government has provided a facility to import capital goods, paying concessional import duty under a scheme known as "Export Promotion Capital Goods Scheme". The aim of the scheme is to facilitate import of machinery and other capital goods to enable them to export. The concessional import duty is 5% on import of new capital goods but carries Export

obligation. The export obligation is of a certain minimum value, in multiple of the value of capital goods imported. An exporter has to obtain EPCG licence to avail of the facility. However, second hand goods cannot be imported under this scheme.

(D) Import of raw materials under Duty Exemption Scheme (Advance Licensing)

Under the above scheme, an importer is entitled to the grant of duty free licence to import raw materials, components, spares, packing materials etc for the purpose of exports. He can also import mandatory spares to the extent of 10% of CIF value of the licence. However, an export obligation is imposed on the importer, in terms of value addition to be achieved. Standard input-output and value addition norms have been prescribed for individual products. The value of exports to be achieved is mentioned in the advance licence and period allowed to fulfill export obligation is 18 months. In case, the export obligation is not fulfilled within the above 18months period, on the written application of the importer, a further time limit of 6 months can be extended by Regional Licensing Authority. Any extension beyond six months period can be granted by the DGFT.

RETIREMENT OF DOCUMENTS FOR IMPORTS

On receipt of information from the airlines / Shipping lines, importer approaches the bank for retirement of documents. Release of documents by bank depends on the terms of payment agreed between the importer and exporter, instructions given by the exporter to his bank while negotiating documents. In case of D/P mode of payment, importer has to make payment for getting the documents. If the mode of payment is on D/A basis, importer receives documents on acceptance of bill of exchange. In case, documents are received under Letter of Credit, the importer's bank, issuing bank, verifies whether the documents are non-discrepant and documents are totally in conformity of the letter of credit opened. In case, documents are discrepant, it may seek instructions of the importer, instead of refusing to make payment to exporter. However, seeking instructions of opener of letter of credit is totally discretionary on the part of the issuing bank. Unless documents are totally in order and conform to the terms of letter of credit, refusal to make payment is within the right of the negotiating bank.

For retirement of documents, the importer is required to submit the following documents to bank:

(*i*) Letter of Authorisation to debit his account along with bank charges. Generally, cheque is not sent to bank as exchange rate fluctuates and importer is not aware of the exact exchange rate on the date of retirement of bill.

(*ii*) Form A-1 for sending remittance to the exporter and

(*iii*) Exchange Control Copy of the Import License, if applicable.

PROCEDURE FOR CUSTOMS CLEARANCE

The process of customs clearance involves various steps, as under:

1. Arrival of Goods and Import General Manifest

As per Section 30 of the Customs Act, 1962, the person in charge of the conveyance (ship, aircraft etc) carrying imported goods is required to deliver a document known as "Import General Manifest" to the proper officer of Customs. This is to be submitted within 24 hours of its arrival at the point of entry, in the prescribed format. The Import General Manifest is a list of items that the carrier is carrying for the purpose of unloading at the port of arrival. In the case of a vessel, the IGM is normally submitted before the arrival of the vessel. If the IGM is not submitted within 24 hours of its arrival, reasons for delay are to be explained. The proper officer accepts even after 24 hours provided the delay is due to genuine grounds.

The imported cargo is transferred to the customs bonded warehouse, attached to port of discharge. Thereafter, the shipping line / airline sends Cargo Arrival Notice to the consignee with details of import consignment.

2. Preparing Bill of Entry

The basic document used for obtaining customs clearance is known as "Bill of Entry". Bill of Entry may be filed 30 days, in advance, of the expected arrival of concerned cargo to expedite processing of Bill of Entry. The main contents are the following:

(*i*) Details of importer's name and address, IEC number, CHA Code Number, Port of Shipment, particulars of origin of goods, and vessel's name;

(*ii*) Particulars of goods imported with regard to the number, quantity, packages etc;

(*iii*) Description, classification and value of goods;

(*iv*) Rate and amount of import duty payable;

(*v*) Currency, weight, freight, insurance etc;

(*vi*) Details of exporter;

(*vii*) Import licence number of importer and

(*viii*) Declaration as to correctness of the information recorded.

For the purpose of giving information in Bill of Entry form, based on goods, Bill of Entry are divided into three categories:

(*i*) Bill of Entry for Home Consumption (White coloured): This is used when imported goods are cleared for home consumption, on payment of duty.

(*ii*) Bill of Entry on Bonded Goods (Yellow coloured): This is used when goods are transferred to recognised bonded warehouse of customs as no duty is paid on imported goods.

(*iii*) Bill of Entry for Ex-Bond Clearance for Home Consumption: This is used when the importer intends to clear imported goods, fully or partly, for home consumption from bonded warehouse, paying applicable import duty.

3. Services of Customs House Agent

The entire process of customs clearance is complex, so it is desirable to engage services of an accredited clearing agent for securing customs clearance. The clearing agent prepares the applicable Bill of Entry containing details of goods to be cleared from the customs and submits the same to the customs. The date of presentation of Bill of Entry is important. Amount of import duty depends on the applicable rate, in force, on the date of presentation of Bill of Entry.

4. Presentation of Bill of Entry for Noting

The Bill of Entry, complete in all respects, with proper declarations signed by the importer and his clearing agent, if any, is presented to the Import Noting Department for noting, on receipt of information regarding arrival of goods. The Bill of Entry is checked with the IGM, submitted by carrier by the concerned official. The date of presentation of Bill of Entry is important.

5. Presentation of Bill of Entry for Appraisal

After the Bill of Entry is noted in the Import Department, it is presented to Appraising counters along with the following documents:

(*i*) Bank attested Commercial invoice

(*ii*) Copy of Letter of Credit

(*iii*) Import licence, if required

(*iv*) Bill of Lading/Airway Bill (original and non-negotiable) along with delivery order from the carrier

(*v*) Packing List (2 copies)

(*vi*) Insurance policy/certificate

(*vii*) Certificate of Origin

(*viii*) Freight and insurance certificate, if import is on FOB terms

(*ix*) Manufacturer's test certificate

(*x*) Importer- Exporter Code number

(*xi*) Weight specifications

(*xii*) A declaration from the importer that he has not paid any commission to agents in India

(*xiii*) Catalogue/drawings for machinery imported

(*xiv*) Customs declaration

(*xv*) GATT declaration form, duly filled in

(*xvi*) If second hand machinery is imported, a declaration as per the export-import Policy 2002-2007 and

(*xvii*) Any other relevant documents

While filing bill of entry and giving various particulars as prescribed therein, the correctness of information given has also to be certified by the importer in the form a declaration at the foot of bill of entry. Any wrong declaration/incorrect declaration has legal consequences and due precautions should be taken by importer, while signing these declarations.

The import licence must be valid and cover the goods imported. The appraising officer scrutinises documents. If documents submitted are adequate for acceptance to the declared value, the rate of duty is noted on the Bill of Entry. The Appraising officer gives 'Examination order'. Once the Appraising office completes the Bill of Entry, the Assistant Collector of Customs countersigns it.

6. Payment of Duty

The customs assessed Bill of Entry is given to the importer for deposit of import duty. After deposit of duty, the original copy is detached for record and rest of documents are returned to the importer.

7. Physical Examination as per Examination Order

The importer presents the documents to Dock Appraiser for physical examination of goods. If the goods are in order, the dock appraiser gives "Out of Charge" order. This procedure is known as the 'Second Check Procedure', under which 80-90% of consignments is cleared. In this procedure, first the documents are examined and later goods are checked.

When the appraising officer is not able to identify the goods properly or there is insufficient information about the composition/functions/classification of goods in question, the appraising officer marks the papers to the Dock Superintendent for physical examination. After the physical examination, the Bill of Entry is returned to Scrutinising Appraiser for completion and licence debit. This procedure is known 'First Check Procedure'.

8. Release Order

The clearing agent presents the documents to the Port Manager who ensures payment of any charges including demurrage. After the importer deposits the same, the port manager issues the release order. On the basis of release order, the goods are taken out of customs area.

9. Confiscation of Goods

If customs authorities find that the intended goods of import are prohibited or import is in contravention of the provisions of any Act, import goods can be confiscated. The authority lies with the Adjudicating authority to release goods on payment of fine or confiscate them.

INDIAN CUSTOMS ELECTRONIC DATA INTERCHANGE SYSTEM (ICES) SYSTEM FOR CLEARANCE OF IMPORTS

The objective of ICES is to facilitate acceptance of documents electronically and exchange information electronically between agencies involved in International trade.

To facilitate, streamline and expedite customs clearance for imports, electronic processing of Bill of Entry has been introduced. It replaces all manual operations. It is a communication from computer to computer. The system has been operating at many Air Cargo complexes and sea-ports. The steps involved in the processing of bill of entry are as under:

(A) If the goods are cleared through the EDI system, no formal Bill of Entry is filed. It is generated in the computer system. The importer does not submit documents as such for assessment. He submits declarations in electronic format containing all the relevant information to the Service Centre for processing of Bill of Entry for customs clearance. A signed paper copy of the declaration is taken by the service centre operator for non-repudiability of the declaration.

(B) Data is fed in the computer of importer or his clearing agent. Separate facility is also made available at Service Centre of customs to facilitate those who do not enjoy computer facility.

(C) The Bill of Entry can be filed at Service Centre, alternatively filed through the Remote EDI System. If filed through the Service Center by the Importer/CHA, importer has to submit signed declaration in a prescribed format along with copy of Invoice and Packing List. The computer at Service Centre is connected with computer of the Customs department. The data from computer of Service Centre is transferred to computer of the Customs department. The system assigns a Bill of Entry number, which is endorsed on the checklist. Then, a checklist is generated for verification of data by the importer/CHA. In case any errors are detected, they are corrected. After verification by the Importer/CHA, the signed "Check List" is to be submitted in the Service Center with signature in token of acceptance. No original documents are taken at this stage. Original documents are taken at the time of examination.

Another alternative is that document can also be filed through the Remote EDI System. The checklist can be generated electronically in one's own computer by the importer/CHA for verification. In case of Remote Electronic Data-Interchange System, the system validates data and if errors are found, a message is sent back to the party. If the data passes the check, system accepts data and an acknowledgment is sent to the Importer/CHA.

(D) If the Appraiser does not agree with the importer regarding tariff classification notification/declared value etc., he can raise a query in this regard. The Importer/CHA has to enquire at the Service Centre whether there is any query in respect

of their Bill of Entry and should reply to the same through the Service Centre. No print out of bill of entry is taken at this stage.

(E) Bill of Entry is electronically sent to terminal of the concerned Appraiser (Chapter wise) for assessment. Thereafter, they are sent to audit section. After both the stages, the Assistant Collector gives approval for Bill of Entry in the system itself.

(F) After approval of Bill of Entry, Bill of Entry comes back to the computer centre where three copies of duty challan (TR6) are generated. The Examination Order is also printed along with the TR-6 Challan.

(G) The duty is to be paid through the designated bank. After payment of Duty, the bank enters the same into the system at a terminal at their end.

(H) The electronically processed bills of entry are sent to the Shed Superintendent.

(I) The shed superintendent sends the bills of entry to Examiner/Inspector for physical verification of goods. Then the Bill of Entry appears on the screen of the Appraiser (Docks). The Importer/CHA presents the checklist/acknowledgment, duty paid challan and other documents including invoice, packing list etc. at the time of examination of goods. The Shed Appraiser examines the goods and enters the examination report in the system. The Shed Superintendent also endorses the report. After the examination of goods is complete, the Appraiser (Docks) gives "Out of Charge" order on the system. Thereafter, the system prints two copies of Bill of Entry for the importer and the Exchange Control Copies.

(J) Thereafter, the system prints three copies of Bill of Entry:

Importer's copy,

Exchange Control Copy and

Copy for bank that has made the remittance.

CHECK YOUR UNDERSTANDING

1. Any person having importer-exporter Code Number is allowed to import goods, without any kind of restriction, under the Import Policy 2002-07, as amended from time to time.
2. Bill of Entry is a declaration filed by the importer giving details of importer and goods etc.
3. Under the Export Promotion Capital Goods Scheme, both new and second hand capital goods can be imported.
4. Bill of Entry may be filed 30 days in advance of expected arrival of the concerned cargo to expedite the proceedings of Bill of Entry.
5. Even if the item is unrestricted for import, they are many formalities besides paying applicable import duty and seeking customs clearance.
6. Under the Second Check Procedure, first the documents are examined and later goods are checked.

7. The Import General Manifest is a list of items that the carrier is carrying for the purpose of unloading at the port of arrival.
8. To facilitate, streamline and expedite customs clearance for imports, electronic processing of Bill of Entry has been introduced and it replaces all manual operations.

Answers

1. False. 2. True. 3. False 4. True 5. False 6. True 7. True 8. True.

REVIEW QUESTIONS

1. Explain the procedure for customs clearance of import consignments?
2. Describe different types of Bill of Entry and what documents are to be enclosed along with it for seeking customs clearance of imports?
3. Describe customs clearance under Electronic Data Interchange (EDI) System?
4. Write short notes on the following:
   (*a*) Import General Manifest
   (*b*) Retirement of documents
   (*c*) Second and first check procedures
   (*d*) Bill of Entry.

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NEGOTIATION OF DOCUMENTS WITH BANKS

- INTRODUCTION
- DOCUMENTS REQUIRED UNDER LETTER OF CREDIT
- WHEN DOCUMENTS CAN BE NEGOTIATED?
- PRECAUTIONS IN SCRUTINY OF DOCUMENTS
- EXCHANGE CONTROL GUIDELINES
- PRACTICAL MECHANISM OF DOCUMENTARY LETTER OF CREDIT
- FLOW OF DOCUMENTS AND FUNDS
- COMMON ERRORS IN DOCUMENTS- GUIDELINES TO EXPORTERS
- CHECK YOUR UNDERSTANDING
- REVIEW QUESTIONS

INTRODUCTION

After the goods have been physically loaded on board, exporter collects Bill of Lading, which is the primary document in the process of shipment of goods. After collecting all relevant documents that the importer requires, in terms of the contract, exporter presents documents to the bank to collect payment. This process is known as “Negotiation of Documents with Banks”.

There are two methods in negotiation of documents with banks, one under documentary bill; second under documentary letter of credit. In both the cases, exporter draws bill of exchange either on D/A or D/P basis, in terms of the contract. In the method of documentary

bill, there would be no letter of credit while letter of credit is one of the documents, in case documents are negotiated under documentary letter of credit. In case of documentary bill, exporter may request the bank to purchase or discount them to get the funds immediately. If the exporter enjoys the sanctioned limit from the bank, exporter avails the facility as interest is concessional and so funds would be available at a cheaper rate. Here, bank provides the funds even before the receipt of payment from the importer. In the absence of limit or when funds are not needed immediately, exporter may request his banker to collect the billl, under collection. In such a case, the exporter gets funds soon after the payment by the importer, after deduction of commission. When it is D/P bill, it is called purchase of bill and if the bill is drawn on D/A basis, it is called discounting of bill. Though the terms 'Purchase' and 'Discount' are used in different types of bills, in both the cases, the negotiating bank immediately makes payment to the seller.

When letter of credit is opened in favour of exporter, exporter negotiates the documents with the negotiating bank. Exporter gets the payment if the documents are in conformity with the terms of letter of credit.

Whether there is letter of credit or not, the exporter has to draw the bill of exchange on D/A or D/P basis, in terms of contract, for presenting the documents to the bank which is known as "Negotiating of Documents with Banks". The exporter has to submit the documents along with the Standardised Letter to the bank for Collection/Negotiation of Documents. This letter provides comprehensive coverage of different points to be covered.

DOCUMENTS REQUIRED UNDER LETTER OF CREDIT

According to Article 4 of UCP, in credit operations all parties concerned deal in documents, but not in goods or services and or other performances to which the documents relate. Hence, beneficiary has to tender the documents, meticulously, as per the requirements of Letter of Credit.

Usual documents prescribed in letter of credit are:

1. Sight or Usance Bill of Exchange
2. Commercial Invoice/Customs Invoice
3. Packing List
4. Full set clean-on-board Bill of lading(all negotiable copies)/Airway Bill/Combined transport document
5. Inspection Certificate
6. Marine insurance policy/certificate, in duplicate
7. GR-1/SDF Form, in duplicate
8. Original letter of credit along with amendments made up to date
9. Certificate of Foreign Inward remittance in case of advance payment
10. Any other document as required by the buyer, mentioned in letter of credit

WHEN DOCUMENTS CAN BE NEGOTIATED?

When the exporter presents the documents, the first thing negotiating bank does is to carefully scrutinise the documents whether they are as per the terms and conditions of letter of credit. The bank should exercise extreme care in verifying the documents. There are no minor or major discrepancies in the documents. The documents should also be in accordance with the interpretation of various clauses contained in Uniform Customs and Practices for Documentary Credits, applicable at the time of the negotiation of documents.

(a) Document should Permit Negotiation

The advising bank or any bank can negotiate the documents and make the payment to the exporter provided the negotiation is not restricted and the credit is freely negotiable. Banks negotiate when the letter of credit is irrevocable. As far as revocable letters of credit are concerned, banks do not negotiate documents drawn under such letters of credit.

(b) Not Obligatory to Negotiate

It is not obligatory on the part of advising bank to negotiate the documents merely it has advised the letter of credit. Only a bank that has confirmed the letter of credit is bound to negotiate provided the documents are in order. Even confirming bank can refuse to negotiate, if the documents are not in accordance with the terms of credit, strictly. If the documents are discrepant, documents will be returned to the exporter for suitable correction and presentation, again. If the documents are presented again before the expiry of credit and are totally in conformity of the letter of credit, then only the documents are negotiated. Before the correction or obtaining the necessary amendment to the letter of credit, if the letter of credit expires, exporter can not get the payment even from the issuing bank.

(c) Documents should be Non-Discrepant

Discrepancies of even minor nature may take away the right of the negotiating bank to claim reimbursement from the opening bank. So, meticulous care has to be exercised while examining the documents. If the documents are totally in order and comply with the terms of the letter of credit, they should be negotiated.

(d) Slight Discrepancy in Documents takes away the Right

Even if there is slight discrepancy in the document, negotiating bank should not assume the risk of making payment to the exporter as it can not get reimbursement from the opening bank.

(e) Recourse to Drawer

Negotiating bank can have recourse to the exporter if the issuing bank refuses to make the payment on account of any discrepancies in the documents. In such a case, the negotiating bank recovers the amount paid from the exporter. In case documents are discrepant, negotiating bank takes indemnity to protect itself from such situation. However, negotiating

bank can not have recourse to the drawer if it is also a confirming bank. So, confirming Bank can not have recourse to exporter while negotiating do amounts under letter of credit.

PRECAUTIONS IN SCRUTINY OF DOCUMENTS

The following are the important precautions to be taken by the exporter to ensure that the documents do not have any discrepancy.

1. Bill of Exchange

The bill of exchange should be

(*a*) Drawn on the party/bank as stated in the letter of credit

(*b*) Drawn in favour of the negotiating bank

(*c*) Drawn for a period not exceeding six months from the date of shipment when it is usance bill

(*d*) Drawn in sets as per the terms of L/C, marked first and second bill of exchange for the net amount of the invoice

2. Invoice

(*a*) It should be prepared on the standard invoice form and properly signed.

(*b*) Description of the goods in the invoice should strictly conform to the description of goods in L/C.

(*c*) It should be certified by the authority as required in L/C.

(*d*) Value of the invoice should not be more than the amount available on the letter of credit.

(*e*) Currency of the invoice should be as per L/C.

3. Bill of Lading

(*a*) It should be presented in full set, with as many negotiable and non-negotiable copies as mentioned in letter of credit.

(*b*) Bill of lading should be marked "shipped on board" unless L/C permits received for shipment or combined transport document.

(*c*) It should not contain any adverse clauses as to the condition of goods or packing.

(*d*) It should be issued in the name of the shipper and blank endorsed or made out to the order of the overseas bank, as per the terms of L/C.

(*e*) If bill of lading states that the goods are received for shipment and later stamped "ON BOARD", the stamp should bear the date of shipment "ON BOARD" with the authorised signature of the carrier.

(*f*) Date of shipment should not be later than the date specified in L/C.

(*g*) It should bear the name of the notifying party, if required in L/C.

(*h*) Additional condition such as “stored in refrigerated compartment” should be incorporated if it is requirement of the L/C.

4. Airway Bill

The airway bill should indicate the following:

(*a*) Name of the carrier

(*b*) Place and date of issuance

(*c*) Name of the consignor and consignee

(*d*) Port of loading and destination

(*e*) Air way bill should not be claused or a charter party

5. Certificate of Origin

(*a*) The Chamber of Commerce or other competent authority as required by L/C should issue it.

(*b*) It should state the country of origin details

(*c*) It should state the description of goods, invoice number and shipping marks

EXCHANGE CONTROL GUIDELINES

The following guidelines have to be followed while negotiating the documents by banks as well as exporters in drawing the documents.

(a) Documents through Authorised dealer

All documents relating to exports have to be routed through the authorised dealer. The documents are allowed to be sent to the buyer, directly, only with the approval of RBI, provided advance payment has been received for full value of the consignment.

(b) Realisation through Authorised dealer

Payment against exports should be realised through authorised dealer of foreign exchange. Exporter is not allowed to receive the payment directly from the buyer in the form of cheque, draft, currency, foreign currency traveler cheque, unless permitted by RBI and to the extent allowed.

(c) Payment within six months

Usance bills should not be drawn for more than six months. Exporter should obtain prior approval of RBI to extend credit for more than six months.

(*i*) **Drawal of Invoice and bill of exchange:** Invoice and Bill of Exchange should be drawn for the amount of shipment declared in GR/SDF/PP forms.

(*ii*) **Change of Buyer:** The exporter can change the buyer. In such circumstances, fresh Bill of Exchange has to be drawn on the new buyer even for a reduced value of invoice.

(*iii*) **Presentation of Shipping Documents:** Shipping documents should be presented to the banker for negotiation within 21 days from the date of shipment. If the documents are presented with delay, exporter has to produce necessary documentary evidence as proof for delay. If the evidence is satisfactory, then only bank negotiates the documents.

(d) Export of jewellery

In case of export of jewellery, GR form is to be countersigned, in advance, by the authorised dealer. In such a case, documents are to be negotiated within five days from the date of countersignature.

PRACTICAL MECHANISM OF DOCUMENTARY LETTER OF CREDIT

In a Documentary letter of credit, the sequence of events may be as follows:

(*i*) The buyer and seller agree to the terms of sale, including opening of letter of credit.

(*ii*) The buyer approaches his bank to open letter of credit and incorporate the documents, specified in the export contract, in letter of credit.

(*iii*) Opening Bank opens the letter of credit and advises the exporter about opening of credit, through the advising bank.

(*iv*) After receipt of advice of opening of credit, if exporter is happy with the terms of credit and is in accordance with the contract of sale, proceeds to execute the export contract.

(*v*) Exporter ships the goods and obtains the relevant documents specified in the credit.

(*vi*) Exporter presents the documents to a bank that may be paying/negotiating bank; whichever one is appropriate to him.

(*vii*) The bank checks the documents and effects the payment if the documents are in order.

(*viii*) After payment to exporater, negotiating bank sends the documents to the issuing bank for reimbursement.

(*ix*) Issuing bank checks the documents and if they are in order makes reimbursement to the negotiating bank.

(*x*) Issuing bank sends advice to importer to retire documents under the letter of credit opened, at his request.

(*xi*) Importer retires documents to get possession of goods.

FLOW OF DOCUMENTS AND FUNDS

Flow of documents and funds in a Documentary Letter of Credit is depicted in the flow chart.

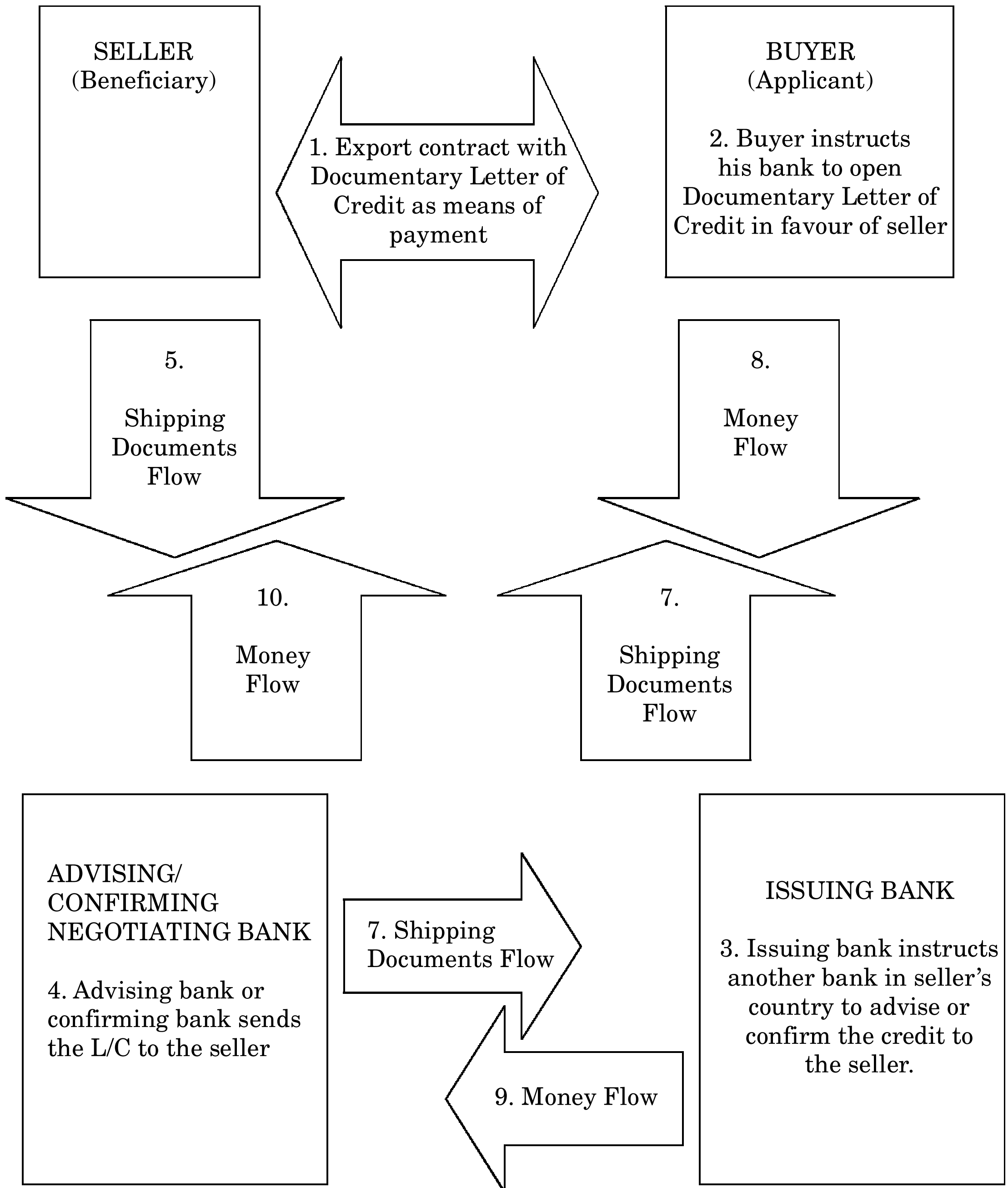

Diagram 3 Flow of Documents and Funds

COMMON ERRORS IN DOCUMENTS—GUIDELINES TO EXPORTERS

Banks observe the following general discrepancies in documents, which normally occur, when presented for negotiation/payment.

First, documents are presented to the negotiating bank that scrutinises carefully and then makes the payment to the exporter. Later, when the negotiating bank submits the documents to the paying bank, the paying bank, again, makes a careful scrutiny and on finding the documents in order, makes reimbursement to the negotiating bank. The following are the common errors in documents.

(*i*) The Letter of credit has expired.

(*ii*) The Bill of Lading is claused (unclean or dirty)

(*iii*) The goods were shipped on dock when it was not permitted, as Letter of credit has required clean on board Bill of Lading.

(*iv*) Insurance cover was inadequate and expressed in a currency other than that required in the letter of credit.

(*v*) The description of goods or even the spelling is different from that in the letter of credit.

(*vi*) The total amount in the invoice and bill of exchange differed.

(*vii*) The drawing was for a value, in excess of the amount of the letter of credit.

(*viii*) The Bill of Lading did not evidence whether the freight was paid or not.

(*ix*) The Bill of Exchange was drawn on wrong party.

(*x*) The Bill of Lading, Insurance document and Bill of Exchange were not endorsed correctly.

(*xi*) Transshipment/partial shipment made when prohibited under the L/C.

(*xii*) The facsimile signatures were used when not allowed.

(*xiii*) The Bill of Lading is stale.

CHECK YOUR UNDERSTANDING

State whether the following statements are TRUE or FALSE.

1. Exporter can draw usance bill for a period of one year for realisation of export proceeds.
2. Advising bank is bound to negotiate documents when approached by the exporter.
3. Confirming bank has to negotiate the documents even if they are discrepant.
4. Through GR form, RBI monitors realisation of export proceeds.
5. Documentary letter of credit is very popular in export trade.
6. Confirming bank claims reimbursement of export proceeds from the opening bank.

Answers

1. False 2. False 3. False 4. True 5. True 6. True

REVIEW QUESTIONS

1. Discuss Negotiation of Documents under Letter of Credit? What precautions have to be taken by the exporter in respect of the different documents, before they are submitted to bank for negotiation?
2. Describe Exchange Control Guidelines in respect of Negotiation of Documents?
3. Write the common errors in documents that are noticed by the negotiating bank at the time of negotiation?
4. Describe the role of negotiating bank in negotiation of documents?
5. Describe the mechanism of Negotiation of Documents with pictorial presentation?

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PROCEDURES AND DOCUMENTATION FOR AVAILING EXPORT INCENTIVES

- ❖ INTRODUCTION
- ❖ TYPES OF INCENTIVES
- ❖ DOCUMENTATION AND PROCEDURE FOR CLAIMING INCENTIVES
- ❖ INCENTIVE LINKED TO EXPORT PERFORMANCE
  - DUTY DRAWBACK (DBK)
  - EXCISE DUTY – REFUND / EXEMPTION
- ❖ DUTY EXEMPTION SCHEME
  - ADVANCE LICENCE
- ❖ IMPORT LICENSING
  - DUTY FREE REPLENISHMENT CERTIFICATE
  - DUTY ENTITLEMENT PASS BOOK SCHEME
- ❖ FISCAL INCENTIVES
  - SALES TAX EXEMPTION
  - INCOME TAX EXEMPTION
- ❖ CLAIM FOR RAIL FREIGHT REBATE
- ❖ CLAIM FOR AIR FREIGHT ASSISTANCE
- ❖ DUTY DRAWBACK CREDIT SCHEME
- ❖ CHECK YOUR UNDERSTANDING
- ❖ REVIEW QUESTIONS

INTRODUCTION

Exports are given priority in India and enjoy lot of incentives. However, the major problem lies in the process of realising them. Unfortunately, exporters have to approach multiple organisations for seeking sanction. Each organisation prescribes its own exclusive method of documentation as well as procedure from the stage of submission of claim till sanction. The documentation and procedures are diverse with each incentive provided. This is not the end of their problems. Incentives are available at post-shipment stage but they are connected with the documents generated at the time of shipment. If exporter does not pay adequate care and attention at the time and stage of export shipment in providing complete and adequate information in the documents in a proper way, their claims for export incentives are adversely affected. It is essential to the exporters to plan carefully in respect of incentives, even at the time of shipment, though their benefits are available only after completion of the shipment.

In the absence of adequate planning, it will upset their fund flow and equally the total realisation may not be remunerative for effecting exports. Exporters have to draw a suitable plan of action for claiming incentives in a timely manner to avoid delays and cuts in realisation. Exporters have to understand the different procedural formalities, connected with multiple and diverse agencies. This would ensure proper compliance for availing of full benefit of incentives. In this area, Government has to rationalise the incentives by opening a single window approach for sanction of multiple claims.

TYPES OF INCENTIVES

Government of India has been endeavouring to develop exports through various financial and non-financial assistance and fiscal incentives to the exporters. They are divided in two categories. They are:

1. Incentive Linked to Export Performance

(*a*) Duty Drawback (DBK)

(*b*) Excise Duty—Refund/Exemption

(*c*) Duty Free Replenishment Certificate

(*d*) Duty Entitlement Pass Book Scheme.

2. Duty Exemption Scheme

Advance Licence

3. Fiscal Incentives

(*a*) Sales Tax Exemption

(*b*) Income Tax Exemption

4. Claim for Rail Freight Rebate

5. Claim for Air Freight Assistance

DOCUMENTATION AND PROCEDURE FOR CLAIMING INCENTIVES

The procedure for claiming these incentives is different for different incentives.

Duty Drawback (DBK)

The duty drawback refers to the to the refund in respect of Central Excise and Customs Duties paid in respect of raw materials and other inputs used in the manufacture of the product, prior to export.

Whom to Apply: The customs house in whose jurisdiction the exporter's factory or warehouse is situated.

When to Apply: An exporter is entitled to claim the duty drawback as soon as the export of goods is completed. Delivery of goods at the port of destination is not essential. 'Export' for the purpose of claiming duty drawback is evidenced by "Let Export Order". Claim application is to be submitted with in a period of three months from the date of "Let Export Order", issued by the Customs Officer. The exporter can seek extension of period for submission of claim. The Assistant Commissioner can grant extension for a period of three months, if he is satisfied that the exporter is prevented from submitting the application.

When Samples are Drawn: In case, any sample has been drawn from the shipment of goods to determine the contents of the basic materials for fixation of drawback, the sample report is to be given to the exporter within a period of one month from the date of taking the sample. This report is to be submitted along with other relevant documents for submitting the claim. Delay in giving the report will be added to the period allowed for submission i.e. three months period. For example, if the sample report is given after one month and twenty-five days, the exporter can submit the claim within three months and twenty-five days, in addition to the discretionary extension period of three months.

Drawback Rates: The Government of India announces the rates of duty drawback every year on 31st May, product wise in the drawback schedule. Generally, the rates are expressed as a percentage of the FOB value of the goods exported. All such rates are called All Industry Rates. The rates are made effective from 1st June of every year. In case, duty drawback rate is not announced for a particular product, the manufacturer/exporter can submit an application, in the prescribed format, for determination of duty drawback for that particular product. The rates fixed on the individual request of the manufacturer/exporter is known as Brand Rate. In case, the rate of duty drawback is less than 80% of the duties paid, the exporter can submit an application for suitable upward revision. This is known as Special Brand Rate. The application is to be submitted to Directorate of Duty Drawback, Ministry of Finance.

When Duty Drawback not Admissible: Duty drawback is admissible for the export of all the notified products. However, in the following cases, it is not admissible:

(*a*) No excise/customs duty is paid for the manufacture of the export product

(*b*) Amount of drawback is less than 1% of the FOB value of the goods. However, if the amount of drawback is more than Rs. 500, it can be claimed

(*c*) If the export proceeds are not realised within six months

(*d*) If the amount of foreign exchange spent on the inputs used for the export is more than the foreign exchange value of the exports. In other words, value addition is negative

(*e*) Cenvat Credit is availed of

How to File Claim: The procedure for claiming duty drawback depends upon whether the processing of shipping documents has been computerised or not. The exporter is not required to file any separate application for claiming duty drawback, if the processing of documents has been computerised at the jurisdiction customs station. Where processing has not been computerised, separate application is to be submitted for claiming duty drawback. Triplicate copy of the shipping bill becomes the application for claiming duty drawback. The customs station processes the application only after the Export General Manifest is filed.

Documents to be submitted: The following documents are to be submitted to the Directorate of Duty Drawback:

(*a*) Triplicate copy of the Shipping Bill

(*b*) Copy of bank attested invoice

(*c*) Copy of Packing List

(*d*) Copy of Bill of Lading/Airway Bill

(*e*) Copy of ARE-1 form, where applicable

(*f*) Insurance Certificate, where necessary

(*g*) Copy of the Test Report, where required

(*h*) Copy of communication regarding Special Brand Rate fixation

(*i*) Copy of the export contract or letter of credit as the case may be

(*j*) Pre-receipt for drawback claim

How Claim Amount is Paid: The customs House that has the jurisdiction over the port or airport through which exports are effected makes the payment.

How Delay in Payment of Claim is Avoided: When the claim application along with complete set of documents is submitted, an acknowledgment in the prescribed form is issued to the exporter within 15 days from the date of filing the claim. The duty drawback is to be paid to the exporter within a period of two months from the date of acknowledgment. In case of delay, interest @15% per annum is paid for the period of default. Due to compulsory interest provision, normally, claims are settled in time.

What Happens if Wrong/Excess Payment is Made: In case, exporter fails to realise export proceeds within a period of six months, then the Directorate of Duty Drawback sends a notice to the exporter to refund the amount of duty drawback. Exporter has to refund within a period of three months from the date of notice. In case of default, the exporter has to pay interest at the rate of 20% per annum.

Duty Drawback Credit Scheme

As an export promotion measure, the Government of India has authorised Reserve Bank of India to instruct Authorised Dealers in foreign exchange to grant interest-free credit, against the duty drawback claim, to the exporters. The greatest advanatages are interest free element on credit and release of funds blocked in the form of customs duty and excise duty incidence on the inputs. The interest free credit is for a period of 90 days. Payment of Duty drawback is to be made by the Directorate of Dutydrawback within a period of two months otherwise interest is to be paid @ 15% for the period of default. By providing drawback credit on interest free basis, virtually, exporter's funds blocked in customs duty and excise duty on inputs and raw materials are released to him, after shipment. This credit is given to exporter against duty drawback claim, which is pending scrutiny, sanction and payment. This scheme is applicable only if excise duty has been determined on All Industry Rates or Brand Rate basis.

EXCISE DUTY—REFUND/EXEMPTION

Refund of central excise is an important finanancial incentive for export promotion. Universally, exporters do not bear the burden of indirect taxes. In India, indirect taxes are levied at the Central, State and Local level. Export goods are either exempted or such taxes are refunded. Exemption from payment of excise duty is made on execution of Bond by exporter. Where exemption is not made available, exporter has to make payment, initially, which is refunded later. While this procedure is adopted in respect of excise duty on finished product (export products), a different approach is adopted in respect of excise duty paid on inputs and packing used for manufacturing export products. Cenvat Credit is made available in respect of excise duty paid on inputs and packing used. Alternatively, under Duty Drawback, refund of excise duty and customs duty is made on inputs paid. By this, exporter is freed from the burden of excise duty and customs duty both on inputs and output to make their products globally competitive.

Necessary excise clearance is obtained in either of the two ways:

Export under Rebate: Initially, excise duty is paid and later refunded, after shipment is made.

Export under Bond: Under this system, exporter is required to execute a bond for the equivalent amount of excise duty and there is no need to make the payment of excise duty.

Whom to apply: The Assistant Commissioner or Deputy Commissioner of Central Excise or Maritime Commissioner of Central Excise is the authority.

How Operated: Manufacturers, producing export products, are required to register their factories with the local Central Excise authorities, by opening a Personal Ledger Account (PLA) with them. The amount paid to the excise authorities is shown as a credit balance in the account. As and when goods are cleared, the account is debited with the amount of excise duty. When documentary evidence as proof of export is shown, the account is credited with the refund of excise duty. When the exporter clears the goods under bond, no PLA is opened as no duty is paid.

Declaration of Consumption Ratios for Manufacturing: The manufacturer of finished goods is required to make a declaration, in quintuplicate, to the Collector of Central Excise having jurisdiction over his factory. The declaration shall contain details of the goods to be exported, details of inputs required and consumption ratios. The Collector of Central Excise may nominate suitable officer for verifying the declaration. The officer shall examine and verify the information furnished by the manufacturer. If the information is found satisfactory, permission for manufacture is granted to the exporter and claiming rebate of central excise duty paid on the inputs / materials used in the manufacture of finished goods.

When to Apply: Rebate on goods exported can be claimed within six months from the date of exports.

Documents to be submitted:

(*a*) Application in prescribed form- Form C (in triplicate)

(*b*) Original copy of ARE-1, duly endorsed by the Customs Officer

(*c*) Duplicate copy of ARE-1 in a sealed cover, received from Customs Officer

(*d*) Duly attested copy of Bill of Lading

(*e*) Duly attested copy of shipping bill (export promotion copy)

(*f*) Disclaimer certificate in case where the claimant is other than the exporter.

Procedure for Central Excise Clearance: There are two methods.

(*a*) Procedure for excise clearance (with examination)

(*b*) Procedure for excise clearance (without examination)

They have been discussed, in detail, in the chapter—Excise clearance of export cargo.

Refund of Duty: Under rebate on excise duty, the Chief Accounts Officer issues a cheque. If the refundable amount is not paid within three months from the date of filing the claim, interest @ 20% is to be paid for the period from the date of expiry of three months till date of refund. Where export is under bond, confrimation letter is issued in respect of cancellation of bond.

Duty Free Replenishment Certificate: Once export is completed, merchant-Exporter or Manufacturer-Exporter can approach Regional Licensing Authority for replenishing the inputs used. This certificate is issued to a merchant-Exporter or Manufacturer-Exporter for the import of inputs used in manufacture of goods, without payment of basic customs duty,

surcharge and special additional duty. However, such inputs shall be subject to payment of additional customs duty equal to excise duty at the time of import.

The exporter who wants to avail the facility has to submit a declaration along with shipping bill, while seeking customs clearance for shipment, about technical characterstics and specifications of the inputs used along with input-output norms. The exporter can file the application with in a period of 90 days from the date of realisation of export proceeds. The following documents are required to be submitted along with the application.

(*a*) Bank draft towards application fee.

(*b*) Export Promotion copy of Shipping Bill.

(*c*) Bank certificate for realsiation of export proceeds in the prescribed form appendix 22.

(*d*) Statement of exports made showing separately shipping bill number, FOB value of realisation proceeds in Indian rupees and description of the resultant product.

The value of the replenishment certificate is calculated keeping in view that there should be a minimum value addition of 33%. If the export made is Rs. 133 lakhs, the replenishment certificate would be given for 100 lakhs for import inputs used.

IMPORT LICENSING

Exporter is also provided with certain incentives in the form of import licensing to import inputs and raw materials to facilitate and promote exports. The incentives are in the form of Duty Entitlement Pass Book Scheme and Duty Exemption Scheme. Their details are as under:

Duty Exemption Scheme—Advance Licence

Under this scheme, registered exporters are eligible to import raw materials, which are physically incorporated in export product, without payment of duty.

Advance licence is issued under duty exemption scheme to import inputs, subject to actual user condition according to the exim Policy. The licences are issued to the manufacturer exporter or merchant exporter. The licences are issued to make a positive value addition. The licences are subject to fulfilment of a time bound export obligation as specified in the Exim Policy. Even after the completion of export obligation, neither the licence nor the materials imported are transferable.

Duty Entitlement Pass Book Scheme

The exporter who is not desirous of availing the Advance licensing facility may avail the facility of DEPB scheme. The objective of the scheme is to neutralise the incidence of customs duty on the import content of export product. An exporter is eligible to claim import duty credit at a specified percentage of FOB value of exports made in freely convertible

currency. Eligible products and rates against them are specified by DGFT. The exporter can use this credit for the import duty payable on the import of inputs required for the manufacture of the export product or not. The claim for the import duty credit is admissible only after the realsiation of the export proceeds. Both the manufacturer and manufacturer-exporter are eligible for the benefit under DEPB scheme. They can apply within 180 days from the date of export or 90 days from the date of realisation, whichever is later. This is reckoned with reference to each shipment. The import duty credit granted under DEPB scheme is freely transferable. Materials imported availing the benefit of DEPB are also freely transferable.

SALES TAX EXEMPTION

Purchase of goods for export are exempted from sales tax. To claim the exemption, the purchaser-exporter has to be a registered dealer for the class of goods meant for export.

When Available: This facility is available both under Central Sales Tax Act, 1956 and Local Sales Tax Act. The exporter has to give Form-H to the seller if the purchase is made from outside the state. In case, purchase is made with in the state, exporter has to submit the exemption form prescribed by the local state concerned.

Whom to Apply: The concerned sales tax officer in whose jurisdiction the exporter's office is situated.

What Requirements to be Complied by Exporter and Seller: After shipment of goods, Exporter/Seller prepares Form-H, in triplicate, filling up the necessary details about shipment of goods. Exporter gives two copies of Form-H to the seller. Seller has to submit one copy of Form-H to the sales tax authorities to claim deduction of sales at the time of assessment and retains the other copy for his record. In case, seller has paid excess payment of sales tax, sales tax department makes refund of tax to the seller/manufacturer.

For availing the benefit, the exporter should first get the items concerned covered under his local sales tax registration certificate and apply for issuance of Form-H.

Documents to be Submitted: The exporter should enclose the following documents for issuance of Form-H.

(*a*) Copy of Shipping Bill, duly certified by customs authorities,

(*b*) Copy of Invoice, duly certified,

(*c*) Copy of Letter of credit and

(*d*) Copy of confirmed export order.

INCOME-TAX EXEMPTION

Under Section 10(A) of the Income-Tax Act, tax holiday for ten years has been provided from the assessment year 2000-2001 for 100% Export oriented units. Further, under section

80 HHC, export firms are eligible for deduction in respect of income for export turnover from their total income, in a phased reduced manner. For the assessment year 2004-05, the extent of deduction is 30% while it is nil for assessment year 2005-06. Similar deduction is available to the units engaged in computer software, under section 80 HHE.

CLAIM FOR RAIL FREIGHT REBATE

Transportation of certain commodities are eligible for 50% rail freight rebate to the port of shipment.

CLAIM FOR AIR FREIGHT ASSISTANCE

Certain notified horticulture and forticulture products are extended air freight assistance to encourage exports.

CHECK YOUR UNDERSTANDING

State whether the following statements are TRUE or FALSE.

1. Under Duty Drawback scheme, custom duties and central excise on inputs are refunded back to the exporter on post-export basis.
2. Exporters can avail interst-free credit for a period of 90 days from commercial bank, under duty drawback credit scheme.
3. It is compulsory to maintain Personal Ledger Account for every exporter.
4. Rule 12 of Central Excise Rules provide refund of central excise on finished goods, meant for export.
5. Under Duty Entitlement Pass Book Scheme, exporter is not eligible to claim import duty credit at a specified percentage of FOB value of exports made in freely convertible currency.
6. Advance Licence facility enables the exporters to import inputs without payment of customs duty.
7. A major incentive to exporter is income-tax exemption in respect of that part of profits derived from export of specified goods or merchandise of exports.
8. Exporter can avail sales tax exemption by submitting Form-H to the seller.

Answers

1. True. 2. True. 3. False. 4. True. 5. False. 6. True. 7. True. 8. True.

REVIEW QUESTIONS

1. Explain the procedure and documentation involved for the different incentives available to an exporter?
2. What is duty drawback? Describe the procedure for claiming duty drawback?
3. Write Short Notes on the following:
   (*a*) Duty Drawback
   (*b*) Duty drawback rates
   (*c*) Duty drawback credit scheme
   (*d*) Duty Entitlement Pass Book Scheme.

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PROCESSING OF AN EXPORT ORDER

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INTRTODUCTION

Once export contract is procured, exporter has to execute it according to the terms of the contract. Finally, the export contract is completed successfully only when sale proceeds for the contract are realised, in full, along with incidental export incentives that Government of India has offered. Processing of an export order, strictly, starts only after the exporter receives the export contract. However, certain procedural matters are essential to follow to get the export order so that the export contract would be legally binding. The objective is to execute the order to get payment of export proceeds. Processing of an export order can be divided into four stages. They are:

(A) Getting Export Order

(B) Pre-Shipment

(C) Shipment

(D) Post-Shipment

(A) Getting Export Order

(1) Export Licensing

Many items of goods are free for exports without obtaining any licence, while a few are banned and some others are canalized requiring licence, prior to export. So, exporter has to check up whether any licence is required before accepting and executing export order. Needless to add, the items of export agreed upon do not fall in the banned list.

The Negative list consists of goods; the import or export of which is prohibited, restricted through licensing or otherwise canalized.

Part I: Prohibited Items: These items can not be exported or imported. These items include wild life exotic birds, wood and wood products in the form of logs, timber, pulp and charcoal.

Part II: Restricted Items: These are the goods that can be exported /imported only with a licence, in accordance with regulations governing in this behalf.

Part III: Canalized Items: Goods, which are canalized, can be imported or exported through the canalizing agency, specified in the Negative List. The Director General of Foreign Trade, may, issue licence to any other person to import or export those items, which are included in the Negative List.

It is evident from the above, barring prohibited items, other goods can be imported or exported by licence or through the designated canalizing agency or others under special conditions.

(2) Inquiry and Offer

Exporter my receive inquiries, directly. An inquiry is a request from the prospective buyer to keep him informed of the terms and conditions of sale. Any export inquiry has to

be attended with promptness and meticulous care. It is to be remembered that importers are in an advantageous position as many exporters compete to clinch the deal.

If the inquiry is from a new person, it is usual to inquire about the credentials of the potential importer. Importer may furnish his bank reference or trade reference. Trade reference means the importer may furnish the names of persons with whom he had business dealings, earlier, to facilitate the exporter to gather required details.

As export business is becoming highly competitive, many a time, exporters have to take the initiative, without waiting for inquiries, in identifying potential buyers by gathering information from trade journals which publish trade inquiries.

Whatever be the mode of gathering information, exporter has to react with speed and elegance by submitting the offer, through proforma invoice, with detailed literature in respect of product such as specifications, quality, packing, price, mode of transport and period required for supply of goods, after receipt of confirmed order. An offer is a proposal, which may be in the form of a letter or proforma invoice. It is desirable to send samples as they speak better about quality, which is the main criterion for selection of exporter. When it is necessary to send samples, current regulations, in force, are to be followed.

(3) Examination of Terms of Export

Before the export order is finalised for acceptance, it is highly essential to the exporter to examine the terms and conditions, carefully. These are some of the conditions which warrant careful examination, in particular:

(*i*) Product description including specifications, style, colour, packing conditions etc.

(*ii*) Marking and Labelling requirements, if any.

(*iii*) Price, terms of payment (FOB, CIF etc.) including currency, nature of letter of credit (revocable, irrevocable, confirmed, unconfirmed, restricted, unrestricted etc), credit period, if any.

(*iv*) Terms of shipment including choice of the carrier, mode of carriage, place of delivery, date of shipment/delivery, port of shipment, Transshipment etc.

(*v*) Inspection requirement including type of inspection, place of inspection and inspection agency.

(*vi*) Insurance requirements including nature of risks to be covered and insurable value.

(*vii*) Documents for realsiing payment including nature and number of invoices, certificate of origin, certificate of inspection, insurance policy, document of title etc.

(*viii*) Last date for negotiation of documents with bank.

(*ix*) Frustration clause indicating circumstances under which both the parties would be discharged from laibility.

Exporter has to examine all the clauses from the angle of cost implication. A new exporter who is keen to get the export contract may not give serious consideration and tend

to ignore the implications of certian aspects. This situation may result in loss in the deal. To illustrate, an exporter has not observed the requirement of a preshipment inspection by an agency who does not have office in India. Soon after the manufacture of the product, exporter has realised the time and cost implications for conducting inspection by a foreign agency. It is unlikely importer would agree to change the inspection agency, at that stage. If any condition is not acceptable, suitable amendment has to be secured from importer and only after all the clauses are acceptable, exporter has to accept export order.

(4) Export Contract and Confirmation of Acceptance

Export Agreement, Export Order and Export Contract signify the same essence. It indicates the decision of foreign buyer to buy specified items from the Indian exporter at the mutually agreed terms and conditions. This can take take place in three ways.

(*i*) Exporter may send the proforma invoice, in triplicate, to the importer. Importer accepts and sends two copies of proforma invoice, duly signed. As offer has been accepted, a binding contract has formed. However, exporter sends one copy of the proforma invoice, duly signed, again, to the importer as a token of confirmation of acceptance. This confirmation is, indeed, a precaution to ensure that the exporter has received the acceptance of contract from the importer and confirmation of acceptance would be a record to the importer.

(*ii*) Instead of exchanging the proforma invoice, a second way is for the importer to place a purchase order, duly signed, on the exporter, which is accepted by the exporter. Then, a confirmation follows from the exporter to the importer.

It is commercially prudent to send confirmation in the form of a documentary evidence. There is no specific format of this confirmatory letter and an ordinary letter also would serve the purpose. In certain countries, it may be a legal requirement.

(*iii*) A contract may incorporate all the terms and conditions such as description of goods, quantity, price, total amount payable, delivery schedule, mode of payment, payment of freight and other clauses such as certificate of origin and inspection that may be mutually agreed upon between the importer and exporter. When both the parties sign the contract, it becomes a binding contract between the exporter and importer.

(B) Pre-Shipment

(1) Pre-shipment Finance

If the exporter is in need of finance to execute the export contract, he has to make arrangements for securing necessary finance, well in advance. Now-a-days, banks extend financial assistance liberally, at concessional interest rate. Under the export credit (interest subsidy scheme), the RBI enables the commercial banks to extend pre-shipment credit in the form of packing credit and post-shipment credit, both at concessional interest rates.Pre-shipment credit is given to an exporter for purchase of raw mateirals, processing them and

conveting them into finished goods for the purpose of exports. The purchasing, processing and packing of goods for export are facilitated by packing credit faciity. This facility is accorded on the basis of either letter of credit or the confirmed export order or any other evidence of the export order. Packing credit, at the time of disbursement for purchase, is unsecured as banks may not insist upon any margin. So banks, generally, insist on some collateral security either in the form of immovable property or, atleast, a good third party guarantee. After goods are purchased by the exporter, they stand hypothecated to the bank. Banks obtain letter of hypothecation of goods, invariably, at the time of sanction of of credit facility.When packing credit facility is sanctioned by the bank, they affix a rubber stamp on the export order/letter of credit with the words reading "Export finance granted". The purpose is to avoid duplicate financing. Packing credit loan is disbursed in installments, depending on the requirements and progress of production schedule.This packing credit loan account gets closed as and when exporter negotiates the bill through the same bank.Bank obtains an undetaking from the exporter that the export bill shall be negotiated through that bank only to facilitate closure of packing credit loan account.

Banks also sanction post-shipment credit to bridge the gap between the shipment of goods and realisation of sale proceeds. Exporter can secure sanction of interest-free credit against duty drawback. The greatest advanatages are interest free element on credit and release of funds blocked in the form of customs duty and excise duty incidence on the inputs. The interest free credit is for a period of 90 days.This credit is given to exporter against duty drawback claim, which is pending scrutiny, sanction and payment. This schem is applicable only if excise duty has been determined on All Industry Rates or Brand Rate basis.

A good bank goes a long in the way of successful execution of the contract, in particular, to a new exporter as unexpected contingencies may come up demanding additional financial assistance. More so, timely sanction is the most important requirement as shipment has to be made before the stipulated date, otherwise letter of credit would not be valid for negotiation of documents.

(2) Production and Procurement of Goods

Once export contract is confirmed, exporter has to arrange manufacture of goods meant for export, if they are not readily available. In case, there are production constraints, priority is to be given for exports as timely delivery is the most important criterion in case of exports and, if necessary, certain rescheduling of production for meeting indigenous requirements may have to be made. If the goods are not to be manufactured but are to be procured from the local market, necessary action has to be initiated to meet the delivery schedule.

If exporter is a manufacturer, a detailed plan of action is to be drawn as manufacturing process is not as simple as procuring fininshed goods. The details of inputs required for production should be presented in the form of a document called Bill of Materials. The manufacturer/exporter has to prepare backward pass calculations to ascertain the time schedule of requirement of materials. For calculating this, it is desirable to leave a margin of ten to fifteen days to the date of shipment of goods to face unforeseen contingencies. It

is also prudent to plan for labelling, packing and packaging, simultaneously. A careful cost and time schedule and their periodical review are essential to meet the deadline date of delivery schedule and achieve the anticipated level of profits.

(3) Shipping Space

As soon as confirmed export contract is received from the importer, exporter has to make the necessary arrangements for shipping space. The exporter has to make the necessary reservation, in case goods are to be sent by sea. The reason is there is shortage of shipping space and equally their frequency is also limited. Exporter has to gather information about the sailings for the port of destination, matching the delivery schedule. Necessary information can be gathered from Daily Shipping intelligence to which exporters may subscribe. Shipping agents work on behalf of the shipping companies who can be contacted too about the availability of the required space to match the schedule of delivery, at economic cost. Clearing and Forwarding agents are the specialized people in this line of activity who can be appointed. Exporter sends the cargo to the clearing and forwarding agents who take care of shipment of goods. In case, goods are to be sent by air, the problem is not that difficult as there are adequate airlines for booking the cargo.

There are two kinds of acceptance in case of shipment by sea, Shipping Advice and Shipping Order (Dead Freight). Shipping advice is only an intimation by the shipping company to the exporter that the goods would be accepted on the ship if there is availability of space on the ship. In this case, shipping company is not bound to accept and there is no commitment on the part of shipping company to provide space on board. Exporter would be running the risk if there is no space soon after the goods are sent for shipping and may not be able to send the goods as per delivery schedule. Where delivery schedule is not important, exporter can book on this basis which is not, normally, the case in exports. Shipping order, on the other hand, is a total commitment on the part of shipping company to provide the space on board and reserves the area for that exporter to whom commitment is made. If shipping company fails to provide the shipping space after issuing shipping order, shipping company can be sued for damages. As and when shipping order is issued to the exporter, shipping company sends a copy of shipping order to the commander of the ship for earmarking the space to the exporter.

(4) Packing and Marking

Soon after the goods are ready for shipment, they should be properly be packed and marked.

Importer's specific instructions in respect of packing and marking should be complied with, totally. In the absence of instructions from importer, exporter has to follow the packing rules prescribed by The Bureau of Indian Standards for certain items. The British Standard Packing Code, published by the British Standards Institute and the Exporters' Encyclopedia published in the U.S.A. give detailed packing instructions which can be followed by the exporters to match international standards in respect of packing. In respect of hazardous goods, shipping companies too give certain packing instructions, which are to be followed,

scrupulouly. Shipping companies do not accept the goods unless their rules are followed in respect of such goods. If necessary, assistance can be taken from Indian Institute of Packing (IIP) in respect of packing.

Necessary markings have to be made on the packages by the exporter, following importer's instructions. Needless to add, importer's instructions are to be followed meticulously by the exporter in respect of every aspect. In the absence of his specific instructions only, question of choice arises and in such event international standards are to be followed to secure total protection from any claim for negligence and consequential damages. Marking should include markings of the consignee, port of shipment, port of destination, measurements, the country of origin, gross and net weight and any other instructions of the importer. The International Trade Forum has indicated several rules for marking procedures, which are to be followed by the exporters.

(5) Quality Control and Pre-Shipment Inspection

Goods are not to be shipped unless they are of quality. If quality standards are not maintained, exporter's image gets ruined and further chances of export orders come to a virtual close. Normally, quality brings repeat orders to the exporters and so exporters should not take the slightest chance in respect of goods exported outside the country. Even the image of the country would be at stake and so the Government has taken several measures to maintain high standard of quality in respect of exports. One of the important measures taken by the Government to maintain stringent quality, Export (Quality Control and Inspection) Act, 1963 has been passed. The Act empowers to bring any commodity within its purview. Once notification is made in respect of any commodity under this Act, that commodity can not be exported unless a certificate of export-worthiness is obtained from the Export Inspection Council (EIC) or any other approved authority, authorised in this matter.The Indian Customs authorities require the inspection certificate issued by the designated agency before permitting the goods for shipment.

Inspection of goods may be conducted under

(*i*) Consignment-wise inspection

(*ii*) In-process Quality Control and

(*iii*) Self-Certification

In respect of consignment-wise inspection, before the excise authorities seal the packs, the process of pre-shipment inspection must be completed. Once production is completed, production department should submit an application to the prescribed agency on the prescribed form known as 'Notice of Inspection' with the following documents.

(*i*) A copy of the Commercial Invoice

(*ii*) A copy of the Export contract

(*iii*) Importer's technical specifications and/or approved sample

(*iv*) Demand draft covering the prescribed fee.

After inspection, the Export Inspection Agency gives the Certificate of Inspection, in triplicate. Exporter has to submit the origianl certificate to the customs authorities for granting approval for shipment of goods.Second copy is sent to the importer along with the documents and the third copy is retained by the exporter for his record.

In respect of those industries which have continuous processing activity and established in-process quality control infrastructure and checks, they can submit their request application to Export Inspection Agency for recogntion as Export Worthy Units or Adequacy of IPQC Units. After inspection of the facilities and procedures followed for quality control by a panel of expers appointed by EIA, the manufacturing units are given the approval. After completion of production, the export worthy unit conducts its own inspection and gives a delcaration about the quality control. Based on the declaration of the unit, EIA gives the certificate of quality inspection. EIA does not make any separate inspection. EIA makes periodical review of the working of the units and makes suggestions for improvement.

Under the system of Self Certification System, the manufacturing units which have proven record of maintenance of quality can issue pre-shipment inspection certificate themselves. Now, specified categories of exporters can avail self-certification scheme.

(6) Central Excise Clearance

As soon as as goods are ready for despatch to the port of shipment, exporter has to apply to the central excise authority for excise clearance of the cargo. The exporter has, now, an option to remove the goods with inspection by the central excise or remove the goods without inspection. For this, exporter has to apply to the jurisdiction Range Superintendent of central excise in the prescribed form ARE-1, in sixtuplicate. For inspection, exporter has to give advance notice of 24 hours to the range superintendent. The inspection may be made by the range superintendent or excise inspector, nominated by the superintendent of excise. After inspection, they seal the goods and give excise clearance. In case, goods are inspected by the excise authorities and seals are not broken, the customs authorities may not inspect the goods at the port. If goods are removed by the exporter, without the inspection by excise authorities, customs conduct inspection of goods at the port.

As a matter of policy to encourage exports, exporters are exempted from payment of central excise duty on the final product. Where exemption is not possible, refund of excise duty is made. Exporter has option to export under rebate or export under bond. In respect of excise duty paid on inputs, refund is made through Cenvat Credit or Duty Drawback.

In case of export under rebate, excise duty has to be paid first by the exporter and once the export transaction is completed, refund of excise duty paid can be claimed. In case of export under bond, excise duty need not be paid, but bond has to be executed by the exporter in the prescribed format, as approved by Controller of Central Excise, by producing security or surety, at least to the amount equivalent to the amount of excise duty chargeable on the goods.

(7) Appointment of C & F Agent

As exports is a complex subject and requires lot of documentation and compliance of procedures, it is desirable for the exporter to appoint C & F agent who are specialized in this field to guide and arrange shipment of goods, at economic cost, for the smooth completion of export transaction.

Clearing and Forwarding agents, also known as freight forwarders, provide specialised services in moving the goods from the exporter's warehouse to importer's warehouse. Their main function is to secure customs clearance for the cargo, ship them and procure the relevant transport document (Bill of Lading or Airway Bill). They also help in labelling, marking, transporting from the exporter's warehouse to the port and advising the exporter in the selection of shipping agent, route for shipment and economical mode of despatch of goods. The role of clearing and forwarding agent is very significant in the export scenario. They also provide non-essential services such as arranging warehousing facility in the importer's country in the event of importer's refusal to take delivery of goods and coordinating with the surveyor in case of damage to the goods, during transit.

(8) Obtaining Insurance Cover

Before the goods are exported, exporter takes insurance cover for the cargo. The exporter must take appropriate insurance cover for full risk coverage. The risks can be covered in the following two ways:

(*i*) ECGC policy to cover commercial and credit risks.

(*ii*) Marine policy, if the price quotation agreed is on CIF basis.

Goods are subject to maritime perils. Marine insurance is a contract of insurance to cover the losses caused through the perils of the sea. Marine insurance is undertaken by General Insurance Corporation of India which has four subsidiaries-New India Assurance Company Ltd, Oriental Fire and General Insurance Company Ltd, The National Insurance Company Ltd and The United Fire and General Insurance Company Ltd.

(C) Shipment

(1) Documentary Examination at Customs House

Goods may be shipped out of India only after customs clearance is obtained. The document on which the customs give their clearance for export is Shipping Bill. The customs grant permission at two stages:

(*i*) Documentary check at Customs House: The objectives are to determine the value of goods and assess customs duty. Secondly to examine and ensure that the formalities regarding exchange control, licensing, pre-shipment quality control and inspection etc. have been complied with or not.

(*ii*) Physical examination at Shipment Shed: The physical examination is made to verify that the goods are the same as declared in the documents submitted at the Customs House.

For this, the exporter or his C&F agent has to submit the following documents to the customs authorities for their checking:

(A) Shipping Bill (Five copies)

(B) Commercial Invoice (one for each of the shipping bill)

(C) Packing List or Packing Note

(D) Certificate of Origin

(E) GR Form (Original and duplicate)

(F) Export Licence (wherever required)

(G) Letter of Credit

(H) Original contract where available or correspondence leading to contract

(I) Certificate of Inspection (original copy, where required)

(J) ARE Form-1

(K) Marine insurance policy

(L) Other documents.

After examination of documents and assessment of value, the customs appraiser at Customs House makes an endorsement on the duplicate copy of the shipping bill. The customs appraiser also determines the amount of physical examination of goods and assigns an official for the conduct of examination.

(2) Obtaining 'Carting Order' and Customs Physical Examination

After physical examination order by the customs is given, it is desirable to obtain the carting order from the Port Trust Authorities. Then, the C&F agent obtains the carting order from the superintendent of Port Trust Authorities to move the cargo into the port premises. The cargo is physically moved into the port.

The dock appraiser physically examines the goods. After verification and prima facie satisfied, the dock appraiser seals the packages, prepares physical inspection report and passes the cargo for shipment by issuing the formal order "Let Export Order" on the back of the duplicate shipping bill. Then cargo is kept in the appropriate shed allotted till they are shipped on board.

Instead of examining in the port, a facility is available for checking the goods and sealing the packages at the factory or warehouse of the exporter. This is more convenient to the exporter and any shortcoming can be corrected, with more ease at the factory or warehouse. For this, an application has to be submitted by the exporter to the Assistant Collector of Customs.

(3) Loading cargo on Vessel

At the time of shipping the goods on board, the preventive officer of customs has the right to inspect the goods before the goods are actually loaded on ship. However, if he is satisfied with the bonafides of the goods and the seals on the packages, he may not open the packages. Inspection is discretionary. The C&F agent submits the duplicate copy of the

shipping bill where the endorsement "Let Export Order" has been made by the dock appraiser. The preventive officer of customs endorses the order "Let Ship Order", as supplementary, on the back of the duplicate copy of the shipping bill. This endorsement is an authorisation from the customs to the shipping company to accept the goods for loading.

(4) Exchange Control Formalities

An exporter of goods has an obligation to receive payment and bring the sale proceeds into the country. The government does not allow exports for any other consideration. The Exchange Control Regulations require the exporter to:

a. Make a declaration to the customs authorities representing the full value of goods,

b. Negotiate all the shipping documents, including those relating to sales on consignment basis, through the authorized dealer;

c. Receive payment through the authorized dealer and

d. Surrender the foreign exchange through the exchange control authorities to authorized dealers.

Exporters are required to realise the sale proceeds within the prescribed period. If the exporter has any genuine difficulty in realizing the sale proceeds within the prescribed period, he can seek extension of time from RBI. Exporter has to prove that the delay is beyond his control and not due to his fault or negligence.

Compliance of the above exchange control formalities is made through customs. Exchange control authorities require the exporter to fill certain forms and submit them to the customs authorities to ensure compliance of exchange control formalities.

(D) Post-Shipment

(1) Presentation of Documents for Negotiation

After shipment of goods, exporter has to negotiate the documents through a bank within a period of 21 days from the date of shipment. Submission of relevant documents to the bank and the process of obtaining payment is called "Negotiation of Documents". Documents which are submitted, in this context, to the bank are called "Negotiable set of Documents" which normally contains:

- Bill of Exchange, Sight Draft or Usance Draft.
- Full set of Bill of Lading or Airway Bill.
- Customs Invoice.
- Commercial invoice including one copy duly certified by customs.
- Packing List.
- Original Letter of Credit.
- Certificate of Origin.
- Exchange control copy of the Shipping Bill.
- Marine Insurance Policy, in duplicate.
- Foreign Exchange Forms, GR/SDF/SOFTEX/PP Forms, in duplicate.

When the documents are presented under Letter of Credit, Negotiating Bank makes the payment immediately. In the absence of letter of credit, exporter's bank may purchase the documents and provide funds immediately or send for collection and on realisation gives credit for the amount collected, after deducting commission.

(2) Export Incentives

Government of India has been providing incentives to exporters as is done in many countries.

Exporter has to claim the incentives available, adopting the required procedure to be followed. Incentives may be in the form of

(A) Duty Drawback (DBK)

(B) Exemption/Refund of Excise duty

(C) Exemption of Sales Tax

(D) Exemption of Octroi Duty

(F) Rebate in Rail Freight

(G) Exemption from Income-Tax

CHECK YOUR UNDERSTANDING

State whether the following statements are TRUE or FALSE.

1. Shipping advice guarantees provision of shipping space on board to the exporter's cargo.
2. Goods may be shipped out of India after customs clearance has been obtained.
3. In respect of goods, which are not included in the negative list, exporter can export the cargo without obtaining any licence.
4. "Let Ship Order" on the back of the duplicate copy of the shipping bill is an authorization from the customs to the shipping company to accept the goods for loading.

Answers

1. False 2. True 3. True 4. True

REVIEW QUSTETIONS

1. Describe the different steps involved in completing an export transaction from the stage of obtaining the order to the final stage of payments getting?
2. Write short notes on the following:
   (A) Negative List
   (B) Shipping order
   (C) Customs formalities
   (D) Packing and Markings
   (E) Negotiation of documents

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WORLD SHIPPING

- ❖ DISTRIBUTION LOGISTICS
- V NATURE OF EXPORT CARGO
  - RUSH CARGO
  - BULK CARGO
  - GENERAL OR NON-BULK CARGO
- ❖ MODES OF TRANSPORT
  - SEA TRANSPORT
  - AIR TRANSPORT
  - MULTI MODAL TRANSPORT
  - ROAD TRANSPORT
- ❖ STRUCTURE OF SHIPPING
- ❖ FORMS OF SHIPPING
  - LINER SHIPPING
  - TRAMP SHIPPING
  - CONFERENCE SHIPPING
- ❖ TYPES OF SHIPS
  - SINGLE DECK VESSELS
  - TWIN DECK VESSELS
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- ❖ CHARTERING PRACTICES
  - VOYAGE CHARTER
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  - BARE BOAT CHARTER OR CHARTER BY DEMISE
- ❖ FREIGHT RATE STRUCTURE
- ❖ CHECK YOUR UNDERSTANDING
- ❖ REVIEW QUESTIONS

DISTRIBUTION LOGISTICS

Even before the cargo is ready for dispatch, it is necessary for the exporter to plan for the mode of transport of goods to ensure their timely delivery to the importer. While air transport may not require that much advanced planning, it is not the case with the sea transport due to inadequacy of shipping lines, longer transit time and equally their lack of frequency, compared to air frequency to the same place of destination.

The term 'Distribution logistics', in essence, refers to the decision in respect of mode of transport to be used for reaching the goods to the place of importer. So, exporter has to draw up logistics plan, taking two important factors into account viz. alternative modes of transport and optimal mode from the viewpoint of total distribution costs. Many a time, exporters ignore certain markets, as they are not readily accessible with the direct mode of transport. To reach goods to those markets, goods are to be transshipped, as there is no direct link. No doubt, transshipment is a difficult job, yet the opportunities and other advantages may outweigh this disadvantage. With the development of container mode of transport, this is no longer considered as a hindrance to seize the opportunity, if available. Now, distribution logistics is not a problem even to export to moon, provided there is an importer and certainty of payment to receive!

Exporter is more concerned with distribution logistics if the price is quoted on CIF basis as it becomes the lookout of the exporter to bear the incidental costs and risks in reaching the cargo to the importer. However, generally, the importer and exporter usually decide the mode of transport mutually and this is specified in the export contract. The effort of the exporter is to ensure timely and safe delivery of goods to the importer, at economical cost. The role of clearing and forwarding agents is highly significant in the distribution logistics. This has been discussed, in detail, in the earlier chapter "Role of Clearing and Forwarding Agents".

NATURE OF EXPORT CARGO

The demand for transport services is a derived demand. The derived demand is dependent upon the nature of goods traffic in international trade. If the demand for a commodity is more, the relative nature of that goods traffic becomes more. The internationally traded goods, dependant on the nature of traffic, are divided into three groups. The groups are: Rush Cargo, Bulk Cargo and General or Non-Bulk Cargo. In respect of **Rush Cargo**, speed is the most important consideration in deciding the choice of transport. So, such cargo is always sent by air.

Bulk Cargo, by its very nature, can be carried and stored in large quantities. Their market demand does not frequently change. These commodities are free from new product developments as competitors. Their design does not undergo change. The threat of obsolescence does not exist. Deterioration and depreciation are not significant. Their cargoes are low unit

value. If they are transported and warehoused in large quantities, their incidental transportation and warehousing costs per unit would be low. The commodities having these characteristics are food grains, coal, fertilisers, petroleum products and liquefied gas etc. The bulk cargo is divided into two categories, viz., Dry Bulk (e.g., food grains) and Liquid Bulk (e.g., petroleum products and oil).

General Cargo comprises manufactured, semi-manufactured, processed, semi-processed goods and materials. Examples are textiles, engineering goods, leather products, drugs and pharmaceuticals, spices, tobacco and marine products. In contrast to bulk cargo, these are not carried and warehoused in bulk quantities due to susceptibility of fast changes in their demand due to greater changes in fashion, design, style, technology, season etc. They are carried in small quantities in cases, packages, parcels, bales etc. Their per unit cost is also high and so they can bear higher per unit transportation and warehousing costs.

MODES OF TRANSPORT

The mode of transport depends on the terms specified in the contract entered into between the exporter and importer. These are the following modes of transport that are, normally, mentioned in the contract.

1. Sea Transport
2. Air Transport
3. Multi Modal Transport
4. Road Transport.

Sea Transport

Sea transport involves carriage of goods by the ship from the point of shipment to the port of discharge. The contract of carriage of cargo by sea refers to the contract between the shipper and shipping company (carrier) for transportation of goods against payment of remuneration, known as freight, to the carrier. The shipper may be exporter or consignor. Consignor becomes the shipper when he is acting on behalf of the exporter. Exporter may enter into the contract with overseas buyer and later the exporter may enter into another contract with a third party for execution of the export contract. In such a case, the third party consigns the goods and sends the bill of lading, duly endorsed, to the exporter for negotiation of documents. In bill of lading, the third party becomes the consignor. In a similar way, buyer may be buying the goods on behalf of a customer. In such a case, buyer requests the exporter to send the goods direct to the customer's destination. With the development of trade, exporter may not be the real supplier of goods and buyer may not be the actual customer. Exporter and importer may be acting for different parties and in such an event, goods move direct from the port of actual supply to the port of destination where the actual consumer is located.

STRUCTURE OF SHIPPING

We discuss Forms of Shipping and Types of Ships.

FORMS OF SHIPPING

Different forms of shipping are needed, as the nature of commodities is different. Bulk cargo requires one kind of shipping to suit the homogeneous quality and attract cheaper freight charges. On the other hand, carriers, which provide regular and scheduled shipping services, suit general cargo as its nature is heterogeneous and their marketing requirements are different. The different forms of shipping are:

1. Liner Shipping

The liner shipping has the following features:

(*i*) **Regularity:** It operates on a regular route between fixed ports. The schedule of services are predetermined. The schedule does not change, irrespective of the availability of cargo. On account of commitment of regular services, they are ideally suitable and useful for small exporters. It carries small loads of many shippers. For easy understanding, they can be compared to local bus service in Bhopal. Just like local buses, these shipping lines stop on fixed routes. Local buses meet the requirements of general public; similarly these shipping lines cater the demands of the small exporters. They are highly useful to small exporters.

(*ii*) **Fixed Tariff:** They generally offer fixed and stable freight rates. Each shipper pays the freight in accordance with weight, volume or value of the cargo. The tariff rates are fixed in the market. So, exporters would be able to plan exports, taking the freight rates that are known and prevail fixed in market.

(*iii*) **Designed to Carry Variety of Cargo:** General cargo is in the form of bales, bundles, boxes, barrels, drums etc. The designs of the holds and number of decks are different from those of tramp to suit the varied nature of cargo. It carries even reefer (refrigerated) cargo. Share of containerised cargo is increasing due to its popularity. To suit the container requirements, the specially designed container ships are also increasing.

(*iv*) **Sophisticated Equipment:** The cargo handling equipment is expensive and sophisticated. The equipment ensures quick turnaround. A quick turnaround means that the ship spends the least possible time in loading and unloading in the port and more time in transit.

2. Tramp Shipping

The shipment of goods through tramps is known as tramp shipping.

A tramp carrier has the following characteristics:

(*i*) **Homogeneous transportation:** These ships are used for transportation of huge quantity of homogeneous cargo, which is carried in bulk quantity. Examples of such cargo are grain, coal, sugar, timber, wheat, ore, phosphate etc.

(*ii*) **No fixed Route and Tariff:** It does not have fixed route and predetermined schedule of departure. Tramps ply on the rule of demand and supply in the market. They are not committed to any discipline in respect of service schedule and freight rates. Their freight rates and tariff are purely market driven. They run where there is demand. They can be compared to private buses in a marriage season where there are no fixed rates and totally depend on the season's demand.

Generally, each tramp carries cargo of few ship users. They carry on specific voyage or consecutive voyage. In other words, for the same route they move continuously, one voyage after another. So, loading and discharging are confined to a few ports.

(*iii*) **Less Expensive and Less Operating Costs:** As they carry homogeneous cargo, their equipment is simple. Bulk cargoes are normally loaded and discharged by mechanical equipment, elevators and pumps that are less expensive. As they carry comparatively low unit value commodities, a tramp is operated at the lowest possible operating cost.

(*iv*) **Terms and Conditions Negotiable:** As their services, terms and conditions, freight charges are not fixed, they are not given and totally negotiable.

(*v*) **Charter Market and Chartering:** The market for shipping bulk cargo is referred to as charter market and the shipping services are known as chartering.

Chartering Practices

When a tramp carrier is engaged, it is said to be under charter. The charterer (person who engages or hires the tramp) can hire the tramp either whole or bulk of the space. The agreement between the ship owner and charterer for hiring the ship is called charter party. A tramp may be chartered in one of the most important forms:

(*a*) Voyage Charter: A ship may be engaged for a single voyage (say from port A to port B) or for consecutive voyage (say from port A to port B to port C) or return voyage (say from port A to port B and return to port A). The ship owner provides the vessel to the charterer for carrying an agreed quantity of cargo from a particular port in a country (Mumbai, India) to another port in a different country (Baltimore, USA). Instead of one port, ports of loading in India could be more (Mumbai, Chennai) and in similar way ports of discharge can be more than one in USA (Baltimore, New York). Alternatively, the agreement (known as charter party) provides carriage of cargo between ports within a certain range (say from any port in India to any port in USA). In the later case, the charterer has to convey the names of the specific ports to the master of the vessel before the commencement of voyage.

The agreement may provide that the charterer has to pay for the freight according to the actual quantity loaded or for the total capacity of the ship. Even if the

charterer is not able to load the total quantity agreed upon, he has to pay the freight for the agreed quantity. The remaining capacity not booked by the charterer can be hired by the ship owner to another charterer. In this case, the ship owner has to bear the total expenses for the voyage such as fuel, port charges, salaries of crew, stores and provisions, depreciation, insurance etc. In other words, ship owner has to bear all running expenses and operating expenses for the voyage. The ship owner recovers the freight charges from the charterers in the form of revenue. After meeting all expenses, balance of revenue becomes the profit for the voyage to the ship owner.

For a comparison, this practice can be compared to engaging a total bus by a marriage party with understanding that fifty seats would be paid at an agreed rate and the balance ten seats can be sold to other passengers by the bus owner. Even if the marriage party does not come in full swing of total booking made, still the bridegroom's party has to pay for 50 seats, as agreed. The bus owner is free to book the balance 10 tickets to another marriage party, provided he is able to synchronise!

(***b***) **Time Charter:** Under time charter arrangement, a ship is hired for a fixed time period with the condition that the ship is to be operated in specified territories. Though the primary essence of the agreement is for the fixed time, still the charterer can employ the ship only within the specified territories. The charterer cannot operate the ship beyond the territorial jurisdiction. The ship owner has to deliver the ship to the charterer, on the agreed date, in a seaworthy condition. Besides, it is the duty of the ship owner to ensure the ship, in the same seaworthy condition, during the period for which the ship has been given on contract to the charterer to enable him to use the ship for the purpose of carrying cargo during the contracted period. It is the responsibility of the ship owners to provide the crew and maintain stores and provisions for the crew during the period of voyage. All the operating expenses such as insurance, depreciation and other fixed expenses have to be borne by the ship owner. All the running expenses like fuel, port charges, canal dues and cargo expenses have to be met by the charterer. The charterer has to pay the agreed hire charges, generally in advance, whether the ship is used or not during the contractual period. After the period is over, charterer has to return the ship, in the same seaworthy condition, it has been given, back to the ship owner, except the normal wear and tear.

The ship owner is assured of the contracted hire charges. By a long-term contract of affreightment, the charterer is protected from the vagaries of fluctuations in freight rates during the long-term contractual period. The charterer can also sublet the ship if the agreement so provides. If the market rates improve and the ship is sublet later, then the charterer may earn more money than what he has to pay in the form of hire charges to the ship owner and stands to gain.

The charterers have greater responsibility under time charter compared to voyage

charter. However, under time charter, the ship owners have to undertake the responsibility that the ship is maintained in a seaworthy condition during the contract period. The ship owners have to exercise all reasonable care and diligence to maintain the ship, in seaworthy condition. This implies that the ship owners are responsible in keeping the hull, machinery and equipment in a thoroughly efficient condition during the contract period so that the charterers are able to employ the ship for carrying the cargo without any problem, whatsoever.

(*c*) Bare Boat Charter or Charter by Demise: Under this agreement, the bare boat is let out by the ship owner to the charterer for a fixed period. The ship owner hands over the boat in a seaworthy condition to the charterer. The ship is at the disposal of the charterer during the period. It is the responsibility of the charterer to bear all running expenses like paying salary to crew and maintaining the necessary provisions and stores, in addition to bearing all the operating expenses, as mentioned above in the charter voyage. The charterer has the right to appoint the master of the crew and the Chief Engineer, subject to the approval of the owners.

The difference between the time charter and bare boat charter lies in the fact that in the later case the ship lies in the bare form with the charterer who has the full right to operate the ship, in the way he desires. The ship owners have the minimum responsibility and are considered as 'dead' as they have no concern about the expenses and the use of the ship. Under this type of chartering arrangement, which is frequently also termed 'chartering by demise,' the ship owner virtually relinquishes all responsibilities and rights in respect of his vessel for a specified period, in return for a pre-arranged and regular payment of hire. The charterer becomes an assumed owner, operating, crewing and chartering the ship as if he were, in fact, the owner. They have to return the ship in the same seaworthy condition as they have received, except normal wear and tear.

For the agreed period, the ship owners are paid a fixed sum per ton, calculated on dead weight of the ship. The charterer is totally free to use the ship for carrying the cargo during the specified period and has to bear all running and operational expenses.

3. Conference Shipping

A conference is an association of two or more liner shipping companies. The first conference was formed in 1875, known as UK-Calcutta Conference. The characteristics of conference shipping are:

(*i*) **Restrict/Eliminate Competition:** They are organised to restrict/eliminate competition in trade, regulating and rationalising sailing schedules and ports of call. They operate on the basis of written agreement, defining rights and obligations of members. The members are expected to follow the rules set by the conference under agreement. In the event of violation of rules by any member, the agreement provides penalty. Penalty may be as high as the forfeiture of the amount deposited by the member.

(*ii*) **Benefits:** The basic aim is to minimise losses and maximise profits by combating competition among ship owners. There is a rate agreement in respect of the sailings between the liner ships. The sailing schedules are regulated.

They can be compared to Bhopal Local bus owners association where the local bus owners are the members of the association. They enjoy unity and work with strict discipline for their common good.

(*iii*) **Particular Trade or Geographical Area:** The conference practice is followed by the shipping lines engaged in a particular trade or operating in a specified geographical area. The competition from other shipping lines is encountered by entering into agreements with other conferences operating on alternative routes in such a way that each conference works in one route.

TYPES OF SHIPS

There are four types of ships. They are:

1. Single deck vessels: Such vessels have one continuous deck, which means easy access. These type of vessels are suitable for heavy bulk cargoes like grain, iron ore, coal etc.
2. Twin deck vessels: Such vessels have additional decks below the main deck. All the decks run the full length of the vessel. These decks are suitable for general cargo. Space is divided into separate tiers. On account of decks, the total weight of the cargo is not put on the bottom of the vessel and so risk of damage to the cargo is prevented.
3. Shelter deck vessels: Such decks have additional deck space, above the main deck. That deck provides more space for carrying lighter cargo.
4. Miscellaneous category ships: This includes Specialised vessels, Unitized cargo ships and Cellular ships. Cellular ships are designed to hold containers.

Freight Rate Structure

The ocean transport industry provides a wide range of shipping services, which may be broadly split into two main categories: liner shipping and tramp shipping. The determination of the freight rates is different for different forms of shipping.

Liner Shipping

Liner shipping takes place in an environment which is totally different from tramp shipping in that liner services are provided on the basis of fixed schedules and itineraries. Until recently, the liner-shipping sector was largely oligopolistic in that these services were controlled by cartels, called shipping conferences. A conference exists for each major trade route, and it is the conferences that draw up tariffs, scheduling freight rates at which goods will be transported. However, since the mid-1970s many independent carriers have entered

the liner-shipping sector, and they fix their rates on the basis of 'what the traffic will bear,' essentially applying market-pricing techniques.

Two basic factors affect rate fixing in liner shipping- port and distance related factors and cargo related factors. For general cargo, liner tariff rates are assessed on either cargo weight, measurement or value. Goods measuring less than 40 cu.ft. per 1,000 kg are charged on a cargo weight basis, and above that measure by the measurement tariff scale. If goods are of very high value, they are charged irrespective of weight and measurement on an ad valorem basis. Under liner freight tariffs, carrier assumes responsibility for loading and discharging expenses, as well as the carriage of the goods by sea.

In container shipping, different charges are applied to 'less-than-container-loads' (LCL) and 'full-container-loads' (FCL). In the former case, the rates are usually the same as those charged for conventional shipments. For FCL containers, there exists the principle of commodity box rates (CBR). CBR is a lump sum payable for the carriage of a container stuffed with a particular commodity. The rate is based on the average utilization of the box, e.g., 13 tons in a twenty-foot container. As a more recent development, container carriers have introduced the 'freight-all-kinds' (FAK) principle. FAK rates are non-discriminatory by treating all commodities the same way. They are basically average cost rates; the ship owner distributes his projected total costs over the anticipated number of containers to be moved. In combined transport arrangements by one carrier under a through document, an inter modal freight rate is charged. This rate is the sum of charges in the port of loading, ocean freight rate, charges in the port of discharge, and the road or rail haulage to the final destination.

Conference Shipping

There are three types of conference rates, including commodity rates, class rates, and commodity-class rates. Under the first category, rates are quoted individually for several hundred commodities; under the second category tariff specific commodities are grouped into a limited number of classes. The third category represents tariffs, which are a combination of the two others.

Despite the existence of conferences and because of the increasing role of independent carriers in the liner trades, the rates actually charged vary widely and often deviate substantially from published tariffs. Carriers offer loyalty bonuses and apply rebates in violation of conference agreements.

Service Contracts: Service contracts are gaining importance whereby individual shippers pledge a minimum amount of cargo to be shipped during a certain period in return for specially discounted rates offered by the contracted carrier.

Tramp Shipping

The environment in which tramp shipping takes place is close to the model of perfect competition, and pricing is fully governed by the law of supply and demand.

The charter rates are quoted on a competitive basis through brokers in various exchanges throughout the world. The major elements which influence the fixing of a specific rate are:

(*a*) ship specification;

(*b*) trade and route;

(*c*) general market conditions;

(*d*) terms of charter party, i.e., distribution of costs between ship owner and charterer;

(*e*) duration of charter;

(*f*) the urgency of the charter; and

(*g*) the convenience of the charter to the ship owner.

The composition of the charter rates under each of the above arrangements is depicted in the table below. In other words, the costs borne by the ship owner are indicated with (x) in the different categories of voyages:

	Voyage Charter	Time Charter	Bare boat Charter
Capital Costs	x	x	x
Operating Costs	x	x	
Voyage Costs	x		
Cargo Handling Costs	x		

CHECK YOUR UNDERSTANDING

State whether the following statements are TRUE or FALSE.

1. Speed is the most important consideration in case of Rush Cargo.
2. Liner shipping service is suitable for carrying homogeneous cargo.
3. Tramp Shipping is suitable for carrying heterogeneous cargo.
4. The demand for bulk cargo frequently changes.
5. Shipping conference helps in minimising losses and maximising profits by combating competition among ship owners.
6. Under time charter arrangement, a ship is hired for a fixed time period with the condition that the ship is to be operated in specified territories.
7. The difference between the time charter and bare boat charter lies in the fact that in the later case, the ship lies in the bare form with the charterer who has the full right to operate the ship in the way he desires.
8. The determination of the freight rates is different for different forms of shipping.
9. Service contracts are gaining importance whereby individual shippers pledge a minimum

amount of cargo to be shipped, during a certain period, in return for specially discounted rates offered by the contracted carrier.

10. The essence of distribution logistics is the decision in respect of utiilisation of mode of transport to be used.

Answers

1. True. 2. False. 3. False. 4. False. 5. True. 6. True 7. True. 8. True. 9. True. 10. True

REVIEW QUESTIONS

1. Describe the different forms of Shipping services?
2. What is meant by 'Charter" and describe different chartering practices?
3. Write Short Notes on:
   (A) Distribution logistics
   (B) Different modes of transport
   (C) Types of Ships
   (D) Conference Shipping
   (E) Chartering Practices
   (F) Determination of freight

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INDIAN SHIPPING

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- ❖ CHECK YOUR UNDERSTANDING
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INTRODUCTION

It is all Champagne time for Indian Shipping industry, now. Indian Shipping industry has stagnated for years together, continuously. All of a sudden, there has been sunshine to the industry from the financial year 2004, largely, due to the initiatives taken by Government to rejuvenate the sagging industry. Now, Indian Shipping industry is poised to compete with international shipping lines to capture its due share in the growing international market.

PRESENT STATUS OF INDIAN SHIPPING

India has 12 major ports and 185 minor/intermediate ports. Over 90 per cent by volume and 70 per cent by value of India's overseas trade, aggregate of exports and imports, is carried out through maritime transport along its 7,617 km long coastline. India has the largest merchant shipping fleet among the developing countries and its merchant shipping fleet ranks 18th in the world, in terms of fleet size. Another silver lining is the average age of the India's merchant shipping fleet is only 12.7 years as compared to the international average of 17 years. But, India's share, sadly, constitutes only 1.45% of the world's cargo carrying capacity.

As on April 1, 2005, India has a total of 686 ships comprising 8.01 million Gross Tonnage (GT) and 13.28 million Dead Weight Tonnage (DWT). The Shipping Corporation of India (SCI), the country's largest carrier, owns and manages 82 ships with 2.54 million GT and accounts for 40 per cent of national tonnage. India is also among the few countries that offer fair and free competition to all shipping companies for obtaining cargo. There is no cargo reservation policy in India.

Indian shipping has remained a deferred subject till independence. Only after independence, the development of shipping has attracted the State policy. The subject of Shipping, in the beginning, has been dealt with by the Ministry of Commerce, till 1949 and subsequently, in 1951, it has been shifted to the Ministry of Transport and Shipping. In 1947, the Government of India has announced the National Policy on Shipping, aiming at the total development of the industry. In order to accelerate the developmental efforts, the necessity for a centralised Administrative organisation has been felt. Accordingly in September 1949, the Directorate General of Shipping with its Headquarters at Bombay has been established with the objectives of promotion and development of Indian Shipping industry.

MAJOR PROBLEMS

The slow progress in tonnage acquisition and growth have been mainly due to:

- Lack of fiscal incentives to remain internationally competitive.
- Difficulty in raising external commercial borrowings.

- Prevailing market condition is depressed and charter/freight rates have fallen considerably, especially in the dry-bulk and liner sector.
- Considerable changes in the trade pattern that has compelled the major carrier, SCI to abandon many of its projects.

CONCERNS AND CHALLENGES BEFORE INDIAN SHIPPING INDUSTRY

As per the report prepared by Indian National Ship owners Association (INSA), the main concerns of Indian Shipping Industry are:

(A) Falling Share of Indian Industry

The falling share of the Indian shipping industry in Carriage of India's total overseas sea-borne cargo has been a cause of concern. The declining trend has relegated India's position in the world maritime trade. The share of Indian ships in the overseas trade is at a meager 15 per cent during 2002-03, while foreign ships carried 85 per cent of India's overseas trade, as per Shipping Ministry's report for 2003-04. In other words, foreign carriers transport major cake of India's overseas trade as high as 85%. Surprisingly, the reason is inadequacy of ships in India.

(B) Stagnant Tonnage Capacity

Even in 1980, the Indian maritime industry has realised that Indian fleet expansion had come to an end. The so-called Golden Age has lasted from 1959 till about 1975 when Indian shipping tonnage has gone from a paltry figure of 0.59 million Gross Registered Tonnage (GRT) to 5 million GRT. But, from then on tonnage has stagnated.

Progress of Tonnage Acquisition Programme

Item	*2000 (Mar)*	*2001 (Mar)*	*2002 (Mar)*	*2003 (Mar)*	*2004 (Mar)*
Total tonnage (million GT)	6.912	6.816	6.820	6.177	6.944
No. of Ships (Total)	510	557	562	616	639

Source: Report prepared by Indian National Ship owners Association (INSA).

The tonnage at the end of the Sixth Plan period has failed to cross even the more modest figure of 7 million GRT. The country has fared no better in the next Plan and even the lower figure of 7 million GRT has proved elusive. For a short time, in 1996-97, the 7 million GRT has reached. But, the Indian fleet has soon slipped to the 6 million GRT. Until the end of 2003-04, the Indian fleet has not crossed the 7 million GRT barriers, hovering uneasily at about 6.90 million GRT.

(C) Inadequate Competitiveness of the Indian shipping industry

There are certain aspects of operating costs, which place Indian shipping companies at a disadvantage vis-à-vis their foreign counterparts. They are:

(*i*) **Insurance:** Indian ship owners are statutorily required to insure their fleet for hull and machinery with Indian insurance companies. The premium rates (fixed by the tariff advisory committee) have traditionally been much higher than those prevailing internationally.

(*ii*) **Depreciation:** The rate of depreciation as applicable to the shipping industry is 25%. By contrast, vehicles such as trucks, buses and heavy vehicles are permitted 40% depreciation rate. There is a strong case for removing this inequity by raising the depreciation rate to 40% as it would help companies build up reserves in profitable years to finance fleet replacement and growth.

(*iii*) **Tax regime for Indian shipping companies:** Indian shipping companies have been subject to corporate tax (35%). The effective rate of taxation has been among the highest in the global shipping industry; around 94% of world shipping is under a very low tax regime. Approximately 15% of world shipping is owned by a group of countries that offers corporate tax along with an optional tonnage tax system where the tax liability in either case works out to 1% to 2% of the taxable income. Indian shipping has been denied this option, all the time. This has been the real grouse of Indian shipping, all along.

There is a need for removing distortions in the above areas to make the Indian shipping industry more competitive.

What is Tonnage Tax?

Many maritime nations have introduced tonnage-based taxation, earlier. India has joined the band late by introducing Tonnage Tax in the financial year 2004-05 to make the industry globally competitive, at least, now. It is a scheme of presumptive taxation. The notional income arising from the operation of a ship is determined based on the tonnage of the ship. If a ship has the capacity up to 1000 tonnage, the ship's daily notional income is Rs.46 per 100 tons. The daily tonnage income is multiplied by the number of days the ship operates. The notional income is taxed at the normal corporate tax rate applicable for the year. A company may opt for the scheme and once the option is exercised, there is a lock-in period of ten years. If the company opts out, it is debarred for re-entry for ten years.

RECENT TRENDS OF INDIAN SHIPPING

1. Indian Shipping on a New Wave

A booming freight market and recent introduction of a Tonnage Tax regime have caught the shipping industry on a high wave, with the Indian fleet tonnage crossing the magic figure of 8 million GRT (gross registered tonnage) mark as on April 1, 2005, for the first time ever. Indian tonnage as on June 1, 2004 has been 7.05 million Gross Tonnage (GT), which has increased to 8.01 million GT as on April 1, 2005.

Some would give credit to the reform process. Globalisation and the increased integration of India with the world economy have resulted in a rise, in merchant trade. About 90 per cent of this trade, by volume, is carried by sea, so the shipping industry must necessarily benefit. But, the reform movement has started some years ago and has remained more or less on course. The glorious rise in Indian shipping is, largely, due to introduction of tonnage tax.

2. Impact of Tonnage Tax

As announced by the Finance Minister in Parliament on July 8, 2004, the Government has rationalised the fiscal regime for the Indian shipping industry by introducing Tonnage Tax system as a substitute for the regular corporate tax. The basic aim is to provide a level playing field vis-à-vis international shipping companies and to facilitate the growth of Indian tonnage. In response to introduction of Tonnage Tax regime and also due to current shipping boom, Indian Tonnage has steadily grown during the year 2005. The Dredgers have also been included in the Tonnage Tax regime as per the finance bill 2005-06.

The shipping industry has reacted positively to the Finance Minister's initiative to re-vitalise the sector. For the fleet to record such a sharp increase in the very first year of the new tax regime, when many vital features are still not fully in place, speaks volumes for the importance of tonnage tax in increasing shipping tonnage.

Tonnage tax regime has reduced tax incidence on a shipping company as it isolates the company from the vagaries or volatility of freight markets. With this change in taxation, the amount of funds available with shipping companies have relatively increased, resulting in improved cash flows for investment which, in turn, is expected to increase the aggregate tonnage of India.

3. Tax Problem Not Fully Addressed—Sale of Aged Ship Not-Eligible to Tonnage Tax Benefit

However, one more problem is still not addressed. The benefits of tonnage tax are not being available to income accruing from sale of ships. It is difficult to understand the logic.

If income earned from plying a ship is eligible for tonnage tax, why should income earned from selling an aged ship not get the same benefit? Buying and selling ships are as much a part of any shipping company's business as plying a ship on the high seas for profit. There is another aspect to this. World over, it is well recognised that easy acquisition and disposal of vessels is essential for the growth and development of a cyclical industry like shipping. To ignore this aspect of the industry and declare only the plying of ships as deserving of policy support is to inhibit the industry and retard its growth. More important, it acts against all moves to modernise the fleet and reduce its age. If profits from selling a ship are not treated in the same way as that from other shipping activities, it will only send out the message that the Government is not committed to a modern fleet equipped with state-of-the-art vessels, which can compete internationally.

If Indian shipping is to become a major player in the world maritime industry, there must be a strong commitment to modernising the fleet and reducing its average age. Placing impediments in the way of selling old ships and acquiring new ones is no way to do this.

4. Reduction in Foreign Exchange Outflow

The growth of domestic fleet will definitely lower India's burgeoning freight bill and, given the massive growth in international trade, this is no mean advantage.

5. Numerous Incidental Benefits

More important, it will lead to greater employment, bring in huge increases in invisibles and give the country a chance to establish itself as a regional centre for maritime affairs. Ship-broking, insurance, manning and ship management could well become, along with BPO and the software industry, the new buzzwords of the Indian economy. And this will be a major change.

6. Impact of China's Growth—Fuels earnings of Indian Shipping Companies

While the growing economic might of the Red Dragon may be spreading ripples of insecurity across certain corporate sectors in India, there is one sector that is actually smiling and making money out of this. And that is the Indian shipping sector. Indeed, presently, the fortunes of the shipping companies are closely linked to the growth of the Chinese economy. The reason is clear. China has been importing huge quantities of raw materials such as iron ore, coal, bauxite, and tin to satisfy the appetite of its industries, which has placed significant demand for shipping. Indian shipping too has received the share of benefit, in the form of increased earnings.

7. More Indian Ships used in Global Waters due to Mismatch

Indian charterers need single hull vessels. However, most Indian shipping companies have been acquiring double hull vessels, in tune with global requirements. On account of this mismatch, more Indian flagships are chartered in the international waters and less of Indian vessels are used for India's trade. During the year 2004-05, 831 vessels have been chartered, out of which 409 have been Indian vessels as against 437 Indian vessels during the preceding year. This position clearly indicates usage of Indian ships in Indian waters has been reducing while their use in global waters is increasing.

8. Future Trends in Freight Rates

In financial year 2004-05, global freight rates have been, phenomenally high across all sectors. Growth in India's sea freight is amazing. At the macro-economic side, huge raw material consuming countries such as the US, Japan and China are having a healthy GDP growth - so there is a tremendous pressure on raw material movement, both crude oil as well as steel and iron ore. On one hand, we have a supply crunch as far as ships are concerned and on the other side the demand is increasing, worldwide. The indications are that there is no new supply of ships until 2007-08. So, the freight market boom will continue till 2007-08.

Since iron ore trade forms a major part of the dry bulk trade and China accounts for about 35 per cent of world sea borne iron ore trade, dry bulk freight rates will continue to be guided by China's appetite for commodities, primarily iron ore. The phenomenal rise in the freight market can be attributed to the Chinese factor, to a large extent.

FRESH CHALLENGES AND OPPORTUNITIES AHEAD

1. Exports to US may be more difficult

Exports to the US may be more difficult, now, with a new law that is more stringent about imports. Exporters will have to comply with additional formalities. The export of food products to developed markets has hit an unexpected hurdle with the US enacting a law namely Public Health Security and Bio-terrorism Preparedness and Response Act, 2002 of the USA. The exporting community feels that the new law will definitely be a hurdle in the way of higher exports to US, which may impede the progress of Indian Shipping.

Concerns about bio-terrorism have prompted major markets like the US to enact new laws to ensure food safety. The commerce ministry has been in the process of assessing the impact of the new laws on various categories of food exports from the country to the US and taking necessary corrective measures.

2. New Refineries Increase Demand

Several new refineries have been commissioned. India has become a new key destination for crude supply. During April-February (2005), crude oil imports surged 6.6 % to 87.372 mm tons compared to 81.958 mm tons in the corresponding period the previous year (2003-04). At the same time, the refineries are now free to opt for foreign lines to bring in crude. There have also been cutbacks in imports of petroleum products because of higher production by domestic refineries. With it, the need for transportation has been reduced as well. Local shipping companies have also a new competitor to reckon with in the shape of a large upcoming pipeline network. Opportunities for coastal transportation are bound to be severely restricted by this development.

3. New Shipping Opportunities—Import of Liquefied Natural Gas (LNG) in Pipeline

Natural gas is the world's third largest source of primary energy following coal and oil. Transportation is an essential aspect of the gas business, since reserves are often quite distant from the main markets. However, in its gaseous state, natural gas is quite bulky. When gas is cooled to -160°C, it becomes liquid and much more compact, occupying 1/600 of its gaseous volume. Where long distances are involved, transporting gas in its liquid state may become economical. Often, it is the only means of transporting gas across oceans. The need to transport gas long distances across oceans has led to the development of the international LNG trade.

There are newer shipping opportunities in the horizon. In India too, the LNG mania

has caught on in a very big way. LNG imports are expected to touch 20 million tons by 2010. This would require more than 16 vessels, making it the single largest growth area for the shipping industry. Plans are on to import-liquefied natural gas (LNG) on a large scale to feed India's future power and fertilizer projects. The moves involve a huge volume of business for the shipping industry. They may be worth several billion dollars. On a recent count, there are 20 potential projects on the anvil. Currently, India does not import LNG nor does it have a sophisticated carrier to bring in the imported fuel. One such ship could cost around $200 million.

Can the Indian companies pool the resources, strike deals with foreign partners and ensure they do not miss out on a golden opportunity? As the country's largest line, the Shipping Corporation of India (SCI) has decided that transportation of energy is going to be the major thrust area in the years to come. Typically, LNG business involves long charter of 20 years and more. What could be more lucrative to shipping companies? The prospect has attracted several global players into India. The State-owned SCI itself has made the foray by joining a Mitsubishi OSK-led consortium in Japan, which is building a LNG vessel dedicated to long-term India charter. Currently, SCI is restructuring its business strategy. It is common knowledge that the government is set to dilute its stakes in the company to below 51 per cent. The government now holds 80 percent equity in the national carrier. Apart from SCI, Varun Shipping Company in the private sector has also announced plans to focus on LNG transportation in a big way. The company has a fleet of three LPG (liquefied petroleum gas) carriers. It has chosen US-based American Marine Advisors (AMA) to tie up funds for the proposed LNG shipping.

In varying degrees, other Indian lines are also interested in LNG transportation but they cannot simply afford the carrier. Nor have they experience in handling this hazardous cargo. The Government has made it known that it will soon decide on a policy framework for LNG transportation business. India may well have lessons to learn from the experience of Japanese and Korean models.

4. Non-Availability of Very Large Crude Carriers (VLCCs)

There is a shortage of very large crude carriers (VLCCs) with Indian shipping lines that are required for carriage of crude oil. Even today, India's current strength of 5 VLCC's is not sufficient to meet India's demand for VLCCs that are catered by foreign flags. In such a scenario, the announcement of Reliance to double its refining capacity may witness further requirement of additional VLCCs for importing crude to its refinery. Such a situation may result in a further drop in the share of Indian shipping in India's trade. Surely, Indian tonnage has to grow and capitalise on the business opportunity.

CHECK YOUR UNDERSTANDING

State whether the following statements are TRUE or FALSE.

1. Major cake of India's overseas trade as high as 85% is transported by foreign carriers.
2. The Government has rationalised the fiscal regime for the Indian shipping industry by introducing Tonnage Tax system as a substitute for the regular corporate tax.
3. Indian ship owners are not statutorily required to insure their fleet for hull and machinery with Indian insurance companies.
4. A booming freight market and recent introduction of a Tonnage Tax regime have caught the shipping industry on a high wave, with the Indian fleet tonnage crossing the magic figure of 8 million GRT (gross registered tonnage) mark as on April 1, 2005, for the first time ever.
5. The benefits of tonnage tax are also available to income accruing from sale of ships.
6. While the growing economic might of the Red Dragon (China) may be spreading ripples of insecurity across certain corporate sectors in India, there is one sector— Indian Shipping Industry—that is actually smiling and making money out of this.

Answers

1. True. 2. True. 3. False. 4. True. 5. False. 6. True.

REVIEW QUESTIONS

1. Give an account of the Status and problems of Indian Shipping industry?
2. Describe the recent Trends, Developments and Initiatives taken by the Government in respect of Indian Shipping industry?
3. Write Short Notes on:
   (*a*) Tonnage tax
   (*b*) Impact of China's growth on Indian Shipping
   (*c*) New Challenges and Opportunities ahead of Indian Shipping.

22

CONTAINERISATION

❖ MULTI MODAL TRANSPORT DOCUMENT

❖ DRY PORT

- AVAILABILITY OF FACILITIES

❖ CONTAINERISATION

- INTRODUCTION
- WHAT IS MEANT BY CONTAINERISATION?
- PROCESS OF CONTAINERISATION
- WHAT IS INLAND CONTAINER DEPOT?
- WHAT IS "CONTAINER FREIGHT STATION"(CFS)?

❖ PROCEDURE FOR EXPORT/IMPORT THROUGH ICD

❖ PROCEDURE FOR EXCISE AND CUSTOMS CLEARANCE IN RESPECT OF CONTAINERS

❖ TYPES OF CONTAINERS

❖ PRECAUTIONS TO BE TAKEN WHILE USING CONTAINERS

❖ ADVANTAGES OF USING CONTAINERS

❖ ADVENT OF CONTAINERISATION IN INDIA

- ROLE OF CONTAINER CORPORATION OF INDIA
- CONTAINERISATION AT INDIAN PORTS ATTRACTS MAJOR GLOBAL PLAYERS

❖ CHECK YOUR UNDERSTANDING

❖ REVIEW QUESTIONS

DRY PORT

All Exporters/Importers may not be located nearer to seaports. When they are not stationed nearer to ports, they are at a disadvantage, compared to their counterparts located at the seaport. The concept of "Dry Port" wants to remove those handicaps. Inland container depot / container freight stations are located at those places where there is concentration of exporters / importers but sea port is not available. So, facilities, normally, available at sea ports are provided at those places, which are called 'Dry Ports'. In other words, conveniences are brought to the doorstep of the exporters to overcome their locational disadvantages. To give an example, Container Freight Station has been set up by Central Warehousing Corporation at a distance of 8 kilometers from Raipur. Raipur is endowed with mineral deposits and also a great procurement centre for rice, which carry a lot of potentialities for exports. So, Raipur though is not a seaport, exporters in and around Raipur can take advantages of dry port whereby they enjoy all the facilities available in a seaport. The advent of containerisation has created the need for establishment of dry ports.

Availability of Facilities

A dry port offers all the facilities available in seaports — for both exporters and importers. Storage and inspection of containers, as well as other procedures related to customs and duties, are carried out in the dry port. Customs clearance is provided at the factory or warehouse of the exporter. This will save at least 30 to 40 per cent logistic services' costs. These savings can be passed on to consumers in lower production costs and so products can become internationally competitive.

One of the advantages of the Dry port is that imports and exports can be released on a weekly or even daily basis, meaning that customs expenses can be spread evenly over the financial year, and need not have to be paid in one bulk sum.

It is thus clear that this facility shall function essentially as an "Enhanced" container freight station with all essential facilities expected at a port. The following facilities would be incorporated in the Dry Port.

- Container Yards
- Transit Sheds
- Warehouses
- Railway Siding
- Truck Parking

The Dry Port would be fully complemented with modern cargo handling equipment. Even lighter functions such as stuffing/destuffing of containers would be mechanized from the start to avoid a build up of labour presence. Further, it would be possible to obtain all statutory clearances relating to the export/import /transport of cargo at the facility.

MULTI MODAL TRANSPORT DOCUMENT

This is also called Combined Transport Document. Multi modal transportation means carriage of goods by two or more modes of transport i.e. rail, road, inland waterways and sea from the place of acceptance of goods in India to the place of delivery of goods outside India. Considering the importance of transportation, a separate act-Multi Modal Transportation of Goods Act, 1993 has been passed. Under this system, the consignor entrusts carriage of goods to the carrier who undertakes the responsibility to organise multi modal transport, arranges for transshipment of goods at the intervening place/places and final delivery of the goods to consignee at the destination. The person who performs these functions is called multi modal transporter. The consignor enters into a single contract with the carrier at the starting station and there is no need to enter into separate contracts with different agencies involved in transportation of goods. The operator issues only one document for the entire journey called Multi Modal Transportation Document to the consignor, mentioning the place of receipt or acceptance of goods and place of delivery instead of ports of shipment and discharge of goods.

Advantages

Against the conventional segmented transports, the main advantages of multi modal transport are:

(*i*) Loss of time and risk of loss, pilferage and damage to goods are eliminated.

(*ii*) Movement of goods becomes faster.

(*iii*) Burden of documentation and other formalities with different agencies are greatly avoided.

(*iv*) Costs of transportation, incidental insurance and loss in goods are reduced so the rates become more competitive.

(*v*) Consignor has to deal with one agency in all respects, instead of different agencies, including claim settlement.

(*vi*) Becomes easier to quote rates to the importer.

The contents of multi modal transport document are the same as in the traditional Bill of Lading. This is a document of title to goods and is transferable by endorsement and delivery. This document can be issued by any operator who need not own any ships for the carriage of goods.

CONTAINERISATION

Introduction

'Containerisation', the term very familiar to present day shipping industry is a completely unknown concept, a few decades back. It is Malcom McLean, owner of a huge trucking

company in USA, who has first conceived the idea of containerisation by transporting containers through 'Ideal-X' in 1956 and initiated a revolution in the history of shipping industry.

Before containerisation, cargo has to be loaded first into the truck and later truck is to be driven to the port, unload the goods at the port and then reload them into the ship at the port. This has been a cumbersome process and, in consequence, consumed a lot of time. For completing the exercise, ships are detained in the port for about ten days for the entire process of unloading and loading. With the arrival of containerisation, shippers have started stuffing their goods into containers, at their own place, and containers are brought to the container yard (Inland container depot) for shipment. This process has greatly facilitated in reducing the time and now ships, calling at the port, are able to leave the port in a day or two, after unloading the containers and loading them again into the ship. The process of containerisation has decongested the ports that are heavily crowded.

What is Meant by Containerisation?

Containerization is the practice of carrying goods in containers of uniform shape and size for shipping. Almost anything can be stored in a container, but they are particularly useful for the transport of manufactured goods. It is a method of distribution of goods using containers. The use of containers has, indeed, facilitated carriage of goods. Exporters need not go to the seaport for export of goods. Instead, the goods can be sent to Inland Container Depot/Container Freight Station for sending goods to the destination.

The enactment of Multi Modal Transportation of Goods Act, 1993 has enabled the transportation of goods, using containers for export of cargo. The goods are loaded in containers at the exporters place and are brought to Inland Containers Depot (ICD) by rail or road. Alternatively, goods are loaded in containers at Inland Containers Depot, after customs clearance of goods. Packing of the cargo can be done in the exporters place or at ICD. Exporters are issued Multi Modal Transportation Document, which serves all the purposes like a traditional Bill of Lading. The customs clearance is provided at ICD, which saves lot of time and costs.

Since 1950s, containers have revolutionised sea-borne trade, and now carry around 90% of all manufactured goods shipped by sea. The transporters in developed countries have started making use of containerisation, early. Now, developing countries too are taking a greater advantage in using containers for transportation of goods. Different countries are giving logistic support, giving the necessary boost to improve the required infrastructure to containerisation, for encouraging export industry.

Containers are the facilitators of inter modal transportation, i.e. movement of goods from one mode to another without the necessity of unloading and reloading. Gradually, cargoes that are used to be shipped in break-bulk started getting increasingly containerised and containerisation has soon become a global phenomena.

Process of Containerisation

The process of containerisation involves:

- Packing containers at the place of production rather than at the quayside;
- Moving containers to the port by lorry or rail and
- Using quayside cranes to lift the containers onto and off the ship.

The traditional teams of stevedores and porters have became redundant, and large quantities of goods can be shifted far more quickly than before. With fewer workers to be paid and less time spent in the ports, containerisation means huge savings for the shipping firms. To make containerisation pay, new ships are designed. They are built to carry the maximum number of containers. Their internal layout has allowed easy removal of containers by crane.

What is Inland Container Depot?

The present trend in the international trade is containerisation of cargo. The full benefits of containerisation can be derived only when the containers are permitted to be moved to points, in close proximity to important industrial station, so that the importers can get clearance of imported goods at the nearest point to their factory/premise. Equally, the facility is helpful to exporters as they can export the goods from the nearest point of their factory/premises. In order to provide this facility, some statutory conditions are to be fulfilled and necessary infrastructure provided.

To start with, the Government of India has to issue a notification under Section 7 of the Customs Act 1962 for selecting a suitable place as inland container Depot for the unloading of import goods and the loading of export goods or any class of such goods. After issue of such notification, the Commissioner of Customs, having jurisdiction over that place, issues a notification under Section 8 of the Customs Act, 1962 approving proper places in the ICD for loading and unloading of goods and also specify the limits of Customs area and post Customs Officers and staff to attend to work.

What is "Container Freight Station"(CFS)?

For the purpose of examination and assessment of the containerised cargo, both import and export container freight Station (CFS) are set up. They are appointed as custodians of goods by the Commissioner of Customs, under Section 45 of the Customs Act, 1962. The imported goods shall remain in the custody of such person as approved by the Commissioner of Customs until they are cleared for home consumption or are warehoused or are transshipped.

PROCEDURE FOR EXPORT/IMPORT THROUGH ICD

The exporters may take goods to the ICD/CFS and file the Shipping Bill and other documents. The customs officers examine the goods and they are stuffed into the containers

and thereafter the containers are sealed. The Container Corporation of India or any other authorised agency, either by rail or road, transports such containers to the seaports. Then, the containers are loaded into vessels for delivery of the same at the specified foreign port. In the case of export through ICD, the exporters are requested to file two additional copies of Shipping Bills known as "Transference Copies" along with other documents, as already discussed. The rest of the procedure is the same as in the case of exports through Customs Port/Airport.

When the importers intend to import the goods through a particular ICD, they should suitably advise the foreign suppliers so that the containers are manifested to that particular ICD. As the name of ICD is written visibly on the outside of containers, it facilitates movement of goods to proper destination, without any confusion. When such containers are landed in a seaport, they are arranged to be transported to the ICD concerned by the Shipping company agent through Container Corporation of India or any other authorized agency, either by rail or road. Once containers are received in the ICD, they are transported to the Container Freight Station where the importers have to file Bill of Entry and other documents as they do in the case of clearance through seaports or Airports.

PROCEDURE FOR EXCISE AND CUSTOMS CLEARANCES IN RESPECT OF CONTAINERS

1. Requisition for Containers

Whenever exporters intend to stuff their export cargo into the container at their factory premises, the exporters should requisition empty containers from steamer agents. The steamer agents' supply, after seeking permission of the Customs authorities to remove empty containers from the port to the exporters' premises. This permission is necessary as the containers are generally of foreign origin and when they are allowed to be taken out from the customs area, necessary precautions are taken by obtaining a Bond /Guarantee to ensure that the empty containers permitted to be taken out are brought back to the port/ ICD. The exporters take empty containers to their factory, after obtaining permission from the Customs authorities.

2. Verification of goods by Excise Authorities and Seal

The exporters requisition the services of central excise officers' in charge of the factory to examine the export goods and supervise loading into the container. The central excise officers examine the goods with reference to export invoice etc., and permit the exporters to load their goods. After loading is completed, the containers are sealed with the Central excise seal and the Export invoice and other connected documents are signed by the Central Excise Officers. A sample of the seal used to seal the container is forwarded to customs officers of the PORT/ICD along with other signed documents.

3. Customs Clearance

On receipt of the container and presenting the shipping bill and other connected documents, the customs officers may verify the seal and allow export if the Central Excise seal is found intact, without further examination of the goods. However, if the seal on the container is found broken or tampered with or on a reasonable suspicion regarding the correctness of the value or quantity or quality of the goods in the container, the customs officers may re-examine the goods, before allowing export.

TYPES OF CONTAINERS

There are different types of containers. The popular types are:

1. General purpose Containers

These are the most common type of containers and are the ones with which most people are familiar. Each general-purpose container is fully closed and has full width doors at one end for access. Both liquid and solid substances can be loaded in these containers.

Based on length of the container, the container is generally known as a 20 ft container or 40 ft container, in practice. Hazardous or dangerous cargo cannot be loaded into general-purpose containers.

2. Reefer Containers (Refrigerated)

These play an important role in South Africa's exports of perishable products, and are designed to carry cargoes at temperatures reading down to deep frozen. For refrigeration, they are fitted with electrical equipment for supply of necessary electricity.

3. Dry Bulk Containers

These are built especially for the carriage of dry powders and granular substances in bulk.

4. Open Top/Open Sided Containers

These are built for heavy and awkward pieces of cargo. These containers are ideal where height of the cargo is in excess of height of the standard general-purpose containers.

5. Liquid Cargo Containers

These are ideal for bulk liquids, such as wine, fruit concentrates, vegetable oils, detergents and various other non-hazardous chemicals. Bulk liquid bags, designed to carry specific commodities, can fit into these containers.

6. Hanger Containers

They are used for the shipment of garments on hangers.

PRECAUTIONS TO BE TAKEN WHILE USING CONTAINERS

The exporter should observe the following precautions while sending goods through the containers.

1. Thorough Checking the Container Before Packing

While checking, the following points are to be verified carefully:

- There are no holes before packing, someone should get inside the container, close the doors and ensure that no light enters. It should be rejected if there are holes or other damage.
- Locking doors and handles are easily operated.
- No placards/labels, meant for the earlier cargo, are left on the container.
- Container is waterproof.
- Container is absolutely dry from inside.
- Container is odourless. In case, earlier goods have left any odour, the container is thoroughly washed and made odourless before packing goods. This care is extremely necessary in case goods packed are sensitive for odour.
- Container is clean, free from dust and no cargo residue is left inside.

2. Care while Stuffing Cargo

Stuffing is concerned with packing of the cargo. Exporter should ensure:

- Achieve optimal utilisation of container capacity.
- Plan for packing and unpacking to increase speed.
- Not to pack wet goods with dry goods.
- Container is lined with foil or paper, in case of specially sensitive goods.
- Not to mix dusty goods with dust sensitive goods.
- Not placing heavy packets on light packets.
- Not to place protruding parts, edges or corners of goods with soft goods such as sacks or cardboard boxes.
- Not to mix odour-emitting goods with odour sensitive goods.
- Different types of packages are stacked separately. For example, wooden boxes and cardboard boxes are stacked separately.
- Every precaution is taken to see that cargo is securely fixed inside the container.
- Dunnaging is to be used whenever necessary and ensure that the goods are evenly distributed by weight over the floor of the box, with heaviest items on the bottom.

3. Checking of Container after Packing

After stuffing goods in the container, the exporter has to ensure the following:

- A copy of Packing List is displayed inside the container, at the most visible place.
- Quarantine Regulations, where applicable, are to be followed and a copy of quarantine Certificate is to be pasted inside the container.
- Door handles are sealed to protect from risk of pilferage.
- In case of open top containers, the top door (where opening exists) is fixed with tarpaulins and ropes.

ADVANTAGES OF USING CONTAINERS

Advantages of using containers are many:

- Risk of damage and pilferage to cargo is reduced greatly, if not totally.
- Cargo arrives in a better and safer condition and that provides a better image of the exporter. Indeed, it proves to be an edge to the exporter, in comparison to others who do not use containers.
- Packing costs are reduced substantially.
- In case of transshipment of goods, there would be no damage to goods.

ADVENT OF CONTAINERISATION IN INDIA

Containerisation has started in India in 1973 in a humble way and since then, the container traffic has been recording impressive leap, particularly since 1992-93, in tune with the increasing use of containers for all types of cargoes in the international trade. But, still, with subsequent globalisation, the liberalisation of economy and its induction into the world of economy, greater stress has been put on Major Indian ports.

Much before containerisation has come to Indian shores, mayhem, congestion, delays and chaos have prevailed at Indian ports. Only after the low-key entry of containerisation in the early seventies, a sense of order has begun to rule across Indian ports. The sheer convenience and speed of moving cargo in containers has amazed the sea transport.

Role of Container Corporation of India (Concor)

Containerisation in India is growing at a rate of 15-20% every year. Growth of Indian trade has been strangulated due to lack of infrastructure such as container terminals. The growth of containerisation in India has been slow and steady. The formation of Container Corporation of India (Concor) as an autonomous body, under the Ministry of Railways in 1988, has boosted the efforts at increasing containerised traffic in the country.

The container movement is, generally, operated by the Container Corporation of India. Country's first inland container depot (ICD) has come at Bangalore, which is also managed by the Railways. Today, CONCOR is, without doubt, the lifeline of the country's export-

import trade, providing the only means by which shippers can obtain containerised freight transportation by rail (through the Indian Railways network) in India.

Of the 11 major ports of the country, Jawaharlal Nehru Port (JNP) and Mumbai Port have established as the gateway ports for container traffic to India having a combined market share of around 60% of the total container traffic. Lack of adequate infrastructure in the form of container handling equipment, CFS network and rail network in other ports have led to concentration of container traffic at Mumbai and JNP.

Containerisation at Indian Ports attracts major Global Players

Taking a cue from several international ports that have privatised their operations, India too has opened its doors to usher in privatisation. Globalisation and the opening up of the Indian economy have been the big changes in the path of transformation of economy. International trade has skyrocketed and Indian ports soon have found themselves struggling to cope with the surge in cargo. Soon ports have realised that to keep up with this more speedier way of moving cargo by boxes and the demands of a booming economy, ports would have to reinvent themselves and step up the pace.

Privatisation has taken off in a big way after the port sector tasted success with the first private facility the Nhava Sheva International Container Terminal (NSICT). Today, India's entire West and East coast is dotted with state-of-the-art public and private container terminals. The LINK maps out how containerisation has brought vertical integration of the transport industry and consequently consolidated India's position as the seventh largest country in the world and second largest in Asia.

Global Players Associated With Indian Ports

Name of the Port	*Indian Partner*	*Global Player*
Kandla	ABG Industries	Voltri Terminals (PSA)
Mundra	—	MICT (P & O Ports)
Pipavav	(Foreign Institutional Investors)	APM Terminals
JNP		
-JNPCT	100% government owned	—
-NSICT	—	P&O Ports
-Gateway Terminals India	CONCOR	APM Terminals
Cochin	Transworld Group Chakiat Agencies Pvt. Ltd.	Dubai Ports International
Tuticorin	Sical	PSA
Chennai	Chettinad Logistics Eduljee Cassinath Pvt. Ltd.	CCT (P&O Ports)
Vizag	United Liner Agencies	Dubai Ports International

CHECK YOUR UNDERSTANDING

State whether the following statements are TRUE or FALSE.

1. Inland container depot / container freight stations are located at those places where there is concentration of exporters / importers but sea port is not available.
2. The main advantages of multi modal transport are elimination of pilferage and damage to goods and speedening the process of transportation of goods.
3. Containerisation is the practice of carrying goods in containers of different shape and size for shipping.
4. The process of containerisation has decongested the ports that are heavily crowded.
5. Exporter does not gain any visible advantage in using containers.

Answers

1. True. 2. True. 3. False. 4. True. 5. False.

REVIEW QUESTIONS

1. Explain the Concept and Process of Containerisation?
2. Describe different types and advantages of Containerisation along with the precautions to be exercised at the time of their use?
3. Elaborate the Procedure for Excise & Customs Clearance in respect of Containers, if goods are stuffed in exporter's premises?
4. Detail the emergence and progress of Containerisation in India?
5. Write Short Notes on:
   (*a*) Dry Port
   (*b*) Multi Modal Transport Document
   (*c*) Inland Container Depot
   (*d*) Container Freight Station.

23

MACHINERY FOR CONSULTATION

- INTRODUCTION
- SIX TIERS CONSULTATIVE SET-UP
- GOVERNMENT POLICY MAKING AND CONSULTATIONS
  - DEPARTMENT OF COMMERCE
  - BOARD OF TRADE
  - CABINET COMMITTEE ON EXPORTS
  - EMPOWERED COMMITTEE OF SECRETARIES
  - GRIEVANCES CELL
  - DIRECTOR GENERAL OF FOREIGN TRADE
  - MINISTRY OF TEXTILES
- INSTITUTIONAL FRAMEWORK
  - EXPORT PROMOTION COUNCILS
  - COMMODITY BOARDS
  - STATES' CELL
  - DEVELOPMENT COMMISSIONER, SMALL SCALE INDUSTRIES ORGANISATION
- CHECK YOUR UNDERSTANDING
- REVIEW QUESTIONS

INTRODUCTION

The primary aim to set up machinery for consultation is to create the required forum and environment for consulting various quarters interested and engaged in foreign trade.

It facilitates to develop a dialogue between Government, industry and the entrepreneurs, at various levels, to discuss varied problems faced by the enterprises and suggest necessary measures to solve the problems. Export is a dynamic industry and faces stiff international competition. It requires innovation, flexible approach and expeditious action to catch the swift changes that emerge as new opportunities. Further, orientation in attitude has to be developed to visualise and anticipate the changes that may overtake the scene. Equally, appropriate Government policies are important to support for rapid growth in international trade. To gear up with the changes, exporter needs guidance and assistance at different stages of export effort. For this purpose, Government has set up several institutions whose function is to support exporter in his endeavours. Institutions that are engaged in export falls in six distinct tiers. The set-up is:

Six Tiers Consultative Set-up

S. No.	*Name of Body*	*Objective*
1.	Department of Commerce	Primary Government agency responsible for formulating and directing Foreign Trade Policy and programmes including establishing relations with other countries where needed
2.	Board of Trade	Mechanism to maintain continuous dialogue with trade and industry for appropriate policy measures and corrective action by Government
3.	Commodity specific organisations	Tackling problems connected with individual commodities and groups of commodities
4.	Service Institutions	Assist exporters to expand their operations to reach world markets more effectively
5.	Government Trading organsiations	Handling export/import of specified commodities & supplementing efforts of private enterprises in export promotion and import management
6.	Agencies at State Level	Export Promotion

GOVERNMENT POLICY MAKING AND CONSULTATIONS

The following bodies are involved in policy making and consultation process:

1. Department of Commerce

Ministry of Commerce is the apex ministry at the central level to formulate and execute India's foreign trade policy and to initiate various exports promotional measures. The main functions of the Ministry are formulation of international commercial policy, negotiation of trade agreements, formulation of export-import policy and their implementation. It has created a network of commercial sections in Indian embassies and high commissions in various countries for export-import trade flows. It has set up an "Exporters' Grievances Redressal Cell" to assist exports in quick redressal of grievances. The department of

Commerce, in the Ministry of Commerce, has been made responsible for India's external trade and all matters connected with the same. This is the main organisation to formulate and guide India's foreign trade, formed with the responsibility of promoting India's interest in international market. The Department of Commerce has six divisions and their functions are as under:

S. No.	*Name of Division*	*Functions*
1.	Trade Policy Division	To keep abreast of the developments in the International organisations like UNCTAD, WTO, the Economic Commissions for Europe, Africa, Latin America and Asia and Far East
2.	Foreign Trade Territorial	Development of trade with different countries and regions of the world
3.	Export Products Division	Problems connected with production, generation of surplus and development of markets for the various products under its jurisdiction
4.	Export Industries Division	Development and Regulation of tobacco, Rubber and cardamom. Export promotion activities relating to handlooms, textiles, woolens, ready made garments, silks, jute and jute products, handicrafts, coir and coir products
5.	Export Services Division	Problems of Export Assistance
6.	Economic Division	Formulation of exports strategies, Export planning, Periodic appraisal and Review of policies

2. Board of Trade

It has been set up on May 5, 1989 with a view to provide an effective mechanism to maintain continuous dialogue with trade and industry in respect of major developments in the field of international trade. It provides regular consultation, monitoring and review of India's foreign trade policies and operations. The board has the representatives from commerce and other important Ministries, Trade and Industry Associations and Export Services Organisations. It is an important national platform for a regular dialogue between the Government and trade and industry. The deliberations in the Board of Trade provide guidelines to the Government for appropriate policy measures for corrective action.

The Minister of Commerce is the chairman of the Board of Trade. The official membership includes Secretaries of the Ministries of Commerce and Industry, Finance (Revenue), External Affairs (ER), Textiles, Chairman of ITPO, Chairman/MD of ECGC, MD of Exim Bank and Deputy Governor of Reserve Bank of India.The non-official members are President of FICCI,

ASSOCHAM, CII, FIEO, All India Handloom Weavers Marketing Co-operative Society, representatives of various Trade and Industry sectors, media and other eminent personalities in the field of Export and Import Trade.

3. Cabinet Committee on Exports

Cabinet Committee on Exports has been set up to ensure regular and effective monitoring of India's foreign trade performance and related policies.

4. Empowered Committee of Secretaries

For speedier and quicker decision making, an Empowered Committee of Secretaries has been set up to assist the Cabinet Committee on Exports.

5. Grievances Cell

Grievances Cell has been established to entertain and monitor disposal of grievances and suggestions received. The purpose is to redress the genuine grievances, at the earliest. The grievance committee is headed by the Director General of Foreign Trade. At the State level, the head of the concerned Regional Licensing authority heads the grievances committee. The committee also includes representatives of FIEO, concerned Export Promotion Council/ Commodity Board and other departments and organisations. The grievances may be addressed to the Grievances Cell, in the prescribed proforma.

6. Director General of Foreign Trade (DGFT)

DGFT is an important office of the Ministry of Commerce to help formulation of India's Export-Import formulation policy and implementation thereof. It has set up regional offices in almost all the states and Union territories. These offices are known as Regional Licensing Authorities. The Regional Licensing offices also act as Export facilitation centres.

7. Ministry of Textiles

This is another ministry of Government of India which is responsible for policy formulation, development, regulation and export promotion of textile sector including sericulture, jute and handicrafts etc. It has a separate Export Promotion Division, advisory boards, development corporations, Export Promotion Councils and Commodity Boards. The advisory boards have been set up to advise the government in the formulation of the overall development programmes in the concerned sector. It also devises strategy for expanding markets in India and abroad. The four advisory boards are as under:

(*a*) All India Handloom Board

(*b*) All India Handicrafts Board

(*c*) All India Power loom Board

(*d*) Wool Development Board.

There are Development Commissioners, Handicrafts and Handlooms who advise on matters relating to development and exports of these sectors. There are Textile Commissioner

and Jute Commissioner who advise on the matters relating to growth of exports of these sectors. Textile committee has also been set up for ensuring textile machinery manufactured indigenously, especially for exports.

8. Institutional Framework

Export Promotion Councils and Commodity Boards have been established with the objective of promoting and strengthening commodity specialisation. They are the key institutions in the institutional framework, established in India for export promotion.

(A) **Export Promotion Councils:** There are 19 Councils covering different products. These Councils advise the Government the measures necessary to facilitate future exports growth, assist manufacturers and exporters to overcome various constraints and extend them full range of services for the development of overseas market. The councils also have certain regulatory functions such as the power to de-register errant and defaulting exporters.

An idea of the functions of the Export Promotion Council can be had from understanding some of the functions of the Engineering Export Promotion Council. Some of their functions are:

(*a*) to apprise the Government of exporters' problems;

(*b*) to keep its members posted with regard to trade inquiries and opportunities;

(*c*) to help in exploration of overseas markets and identification of items with export potential;

(*d*) to render assistance on specific problems confronting individual exporters;

(*e*) to help resolve amicably disputes between exporters and importers of Indian engineering goods and

(*f*) to offer various facilities to engineering exporters in line with other exporting countries.

Over the years, the role of Export Promotion Councils has reduced to traditional liaison work and has lost their importance. Now, the procedures connected with the foreign trade are more simplified. So, they have to redefine their role to offer concrete market promotional and consolidation programmes and services to their members.

(B) **Commodity Boards:** There are 9 statutory Boards. These Boards deal with the entire range of problems of production, development, marketing etc. In respect of these commodities concerned, they act themselves as if they are the Export Promotion Councils. These Boards take promotional measures by opening foreign offices abroad, participating in trade fairs and exhibitions, conducting market surveys, sponsoring trade delegations etc.

9. States' Cell

This has been created under Ministry of Commerce. Its functions are to act as a nodal agency for interacting with state government or Union territories on matters concerning

export or import from the state or Union territories. It provides guidance to state level export organsiations. It assists them in the formulation of export plans for each state.

10. Development Commissioner, Small Scale Industries Organisation

The Directorate has the headquarter in New Delhi and Extension Centres are located in almost all the States and Union Territories. They provide export promotion services almost at the door steps of small-scale industries and cottage units. The important functions are:

(*i*) To help the small scale industries to develop their export capacities

(*ii*) To organise export training programmes

(*iii*) To collect and disseminate information

(*iv*) To help such units in developing their export markets

(*v*) To take up the problems and other issues related to small-scale industries

Besides, there are Directorates of Industries, National Small Scale Industries Corporation and State Corporations for promotion of exports from small-scale industries.

CHECK YOUR UNDERSTANDING

State whether the following statements are TRUE or FALSE.

1. Export Products Division in the Ministry of Commerce deals with problems connected with production, generation of surplus and development of markets for various products under its jurisdiction.
2. Board of Trade has been set up with a view to provide an effective mechanism to maintain continuous dialogue with trade and industry in respect of major developments in the field of international trade.
3. Export Promotion Council does not render any assistance on specific problems confronting individual exporters.

Answers

1. True. 2. True. 3. False.

REVIEW QUESTIONS

1. Describe the Machinery for Consultation in the context of exports promotion?
2. Write a note on the Government bodies involved in policy making and consultation process for promotion of foreign trade?
3. Write the functions of Export Promotion Council?
4. Write Short Notes on:

   (*a*) Department of Commerce (*b*) Board of Trade

   (*c*) Grievances Cell for exporters.

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AIR TRANSPORT

- IMPORTANCE OF AIR TRANSPORT
- FACTORS THAT INFLUENCE SELECTION IN FAVOUR OF AIR TRANSPORT
- FACTORS THAT INCREASED AIR TRANSPORT
- AIRWAY BILL
  - PURPOSES
  - CONTENTS OF AIRWAY BILL
  - DISPOSAL OF AIRWAY BILL
  - AIRWAY BILL NEITHER DOCUMENT OF TITLE NOR NEGOTIABLE DOCUMENT
  - CONSIGNOR'S RIGHT OF DISPOSAL
  - TRANSSHIPMENT PERMITTED IF AIRWAY BILL IS ONE
- LIABILITY OF AIRLINES
- ADVANTAGES AND DISADVANTAGES OF AIR TRANSPORT
- CHECK YOUR UNDERSTANDING
- REVIEW QUESTIONS

IMPORTANCE OF AIR TRANSPORT

Air transport is one of the world's fastest growing industries. The air transportation of goods involves sending the goods through one of the international airlines. Air transportation has developed rapidly since World War II, mainly because it avoids the forbidding geographic obstacles that hamper surface travel. Air routes, in purely theoretical sense, can be laid in

any direction. In fact, it is commonly said that the aeroplane has the freedom of air and freedom of action, denied to any other forms of transport. This is an essential industry to modern life. It is difficult to imagine or wish a world without air transport, since the benefits are linked to all regions worldwide via a network of air routes. A modern economy needs the links to the outside world that air transport provides, both to ensure its own businesses are competitive and to attract business from overseas. It is worthy to remember that the volume of cargo shipped by air is relatively small—less than 2% of the total world figure. Development of air transport, directly, affects expansion of trade to unexploited regions and widening the market. Now, no place is distant as the problem is overcome by means of air transport.

FACTORS THAT INFLUENCE SELECTION IN FAVOUR OF AIR TRANSPORT

In exports, choice of transportation revolves, largely , through ship or air. Assuming that both the means of transport are available to the shipper, the final choice does not depend upon the freight costs alone, as normally presumed. The factors that influence the selection of mode of transport in favour of air transport are:

(A) Total Distribution Costs are Relevant

The crucial factor for selection is total distribution costs in each mode of transport, not mere freight costs. It is found that the individual important elements of cost in total distribution costs behave in the following fashion for ocean and air transport:

	Cost Element	
	Air Transport	*Ship Transport*
Freight	High	Low
Warehousing costs	Low	High
Inventory costs	Low	High
Insurance	Low	High
Packaging	Low	High

From the above comparative statement, it can be seen that the freight, a direct variable cost, is higher in air transportation. However, in respect of other elements of cost, air transportation enjoys its supreme edge over transportation by ship. The total distribution costs are to be arrived at, before a final choice is made about the appropriate selection between transportation by ship or air. For certain destinations, it is perfectly possible air transportation may turn to be cheaper compared to transportation by ship.

(B) Nature of Product

At times, there may be no choice to be made. If cut flowers are to be exported, time

factor is crucial to exploit the demand. Air transportation is the only mode that can be considered while exporting. If they are to be exported, at all, there is no other choice or alternative. This is the case in respect of emergency shipments too.

(C) Availability of Time

If time is very short, only air transportation is to be made for the goods to reach on schedule.

(D) High Value but Low Volume Goods

Air transport is still, in general, costly, the reason being the expensiveness of its vehicle and the fuel cost. However, air transport is best suited for the carriage of commodities, which are low in bulk but high in value, or for commodities of perishable nature. High value but low volume goods are eminently suitable for air transportation. The incidence of freight costs, as a proportion to the final landed price of goods in the importing country, constitutes a lower proportion and so their competitive picture does not adversely affect. The classical example is diamonds and precious stones that are exported by air but not by ship. In respect of these goods, airfreight costs are of a low proportion to the total costs and they occupy a low volume of space in transportation.

(E) Speed, Frequency, Reliability, Safety and Appropriateness

Appropriateness may beat all other factors in certain types of cargoes such as heavy and bulky goods. The lifting capacity of the aircraft may stand in the way for consigning bulky goods. However, the recent introduction of large all-cargo jets has solved the problem to a large extent. In respect of other factors such as speed, frequency, reliability and safety, transportation by air has gained edge over transportation by sea.

(F) Terms of Contract

Finally, the terms of contract between the exporter and importer govern the mode of transport. Even where transportation by air is specified as mode of transport, it must be made clear in the contract whether transshipment of goods is permitted or not. Transshipment of goods permits the change of plane before the goods finally reach the point of destination. In case of transshipment, there are possibilities of delay in reaching the goods to the final destination if the connecting flight is not available, immediately or the originating flight reaches the intervening point with abnormal delay and in the meanwhile the connecting flight departs. All the circumstances may result in final delay for reaching the goods to the place of importer though goods are sent before the permitted date of shipment of goods. In this process, ultimately, the purpose of the importer may be defeated and may turn out to be a cause for strained relationship between the exporter and importer. To avoid the embarrassing situation, it is desirable to explicitly mention that such delay does not make the exporter liable provided the consignment is dispatched before the stipulated date mentioned in the contract.

FACTORS THAT INCREASED AIR TRANSPORT

There are some factors that have stimulated the increasing use of air transport for the carriage of traffic, these are:

- Freight rates, formerly prohibitively high, have begun to drop;
- The carrying capacity (i.e. the pay load factor) has been on the increase over the past years; and
- The use of standard containers, which can be handled easily by aircrafts, to the fullest extent, have substantially increased.

AIRWAY BILL

Airway Bill is a transport document. It shows the proof that the airline has taken charge of the goods. The documentation for air transport is far simpler than for sea transport. The exporter, normally, begins by completing an air-consignment note, or letter of instruction, to the airline. This note gives basic details of the cargo, the customer's name and address and services the exporter requires, such as COD (cash on delivery) or special insurance arrangements. From these instructions the airline prepares the airway bill.

Purposes

Airway Bill serves the following purposes:

- A receipt, acknowledging consignment of goods from the shipper.
- An evidence of the contract of carriage.
- A contract between the shipper and the airline for moving the goods to the destination.
- A freight bill as it contains all the details.
- A document of instructions to carrier's staff in handling, dispatching and delivering shipments.
- A customs declaration

Airway Bill is issued and signed by the airways company. They are made out in the name of the buyers or bankers of the buyers. The issuance date of the airway bill (AWB) is considered to be the date of shipment.

Contents of Airway Bill

The Airway Bill contains the following information:

- Name of the ship/carrier,
- Name and address of the shipper,
- Name and address of the consignee,
- Port of departure and destination,

- Particular marks necessary for identification of goods,
- Description of goods (General description),
- Packing and Container description,
- Indication of Full Container Load (FCL) or Less Container Load (LCL) clauses,
- Transit places (where applicable),
- Pre- paid freight or freight collect clauses,
- Date and signature of the issuing carrier or his agent and
- Declaration that the Warsaw Rules (the provisions in the 1929 Warsaw Convention), as amended, apply to limit the carrier's liability for loss of goods or damage to the goods.

The above information has to correspond with that appearing on the invoices and packages. The airway bill should be presented within two or three days from the date of shipment to the banker or within such period from date of issue as stipulated in the letter of credit.

Disposal of Airway Bill

The airway bill is made up of three original copies, one each for:

- The carrier (the airline). The airline uses copies for various purposes, such as customs clearance, as an invoice, for accounts and so on.
- The consignee (receiver). Carried with the consignment and delivered to the customer at the airport of destination.
- The consignor (shipper). Returned to him as a receipt and evidence of his affreightment contract with the airline.

Sometimes a L/C calls for "a full set of original airway bills". This is obviously a mistake; the seller cannot provide the complete set. This is a point exporter has to watch for in examining a letter of credit (L/C). The airway bill is an internationally standardised document, printed in English and in the language of the carrier.

Airway Bill Neither Document of Title Nor Negotiable Document

The airway bill is not a document of title to goods and, in consequence, not a negotiable document, unlike Bill of Lading. If the airway bill is prepared in the name of consignee, the consignee can take delivery of goods even, without producing copy of airway bill. It is a risky way to prepare the airway bill in the name of the buyer unless the buyer's integrity is unquestionable or advance payment has been received. It is highly desirable to consign to a third party like the issuing bank and mention the bank as consignee. In such an event, the bank takes delivery of goods and keeps the parcel (small size that can be kept in a cupboard) with it, till receipt of payment. After making the payment to the bank, the buyer can get delivery of the parcel from the bank. If this procedure is not adopted, the importer can obtain the goods from the carrier at destination, without paying the issuing bank or the consignor. Therefore, unless the exporter has received cash payment or integrity is not doubted, consigning goods directly to the importer is totally risky.

For air consignment to certain destinations, it is possible to arrange payment on a COD (cash on delivery) basis and consign the goods directly to the importer. If this procedure is adopted, the goods are released to the importer only after the importer makes the payment and complies with the instructions in the AWB. In USA, under Uniform Commercial Code, airway bill is a document of title to the goods.

Consignor's Right of Disposal

The exporter only has to present his copy of the airway bill to the airline to exercise his 'Right of Disposal' to the goods. He can do this at any time and so can:

- Stop the goods at any point of their journey,
- Have the goods delivered to a different consignee, other than one mentioned in the airway bill and
- Have the shipment returned.

The 'right of disposal' can be very important, especially if any differences arise between the shipper and consignee. For example, the shipper may discover after dispatching the goods that the consignee is in an unsound credit position and chances of realization are remote. In such circumstances, the consignor can exercise the 'Right of Disposal' to protect his financial interests.

Transshipment Permitted if Airway Bill is one

If the airway bill indicates that transshipment will or may take place, then the transshipment is allowed even if the letter of credit (L/C) prohibits transshipment, provided that the entire carriage is covered by one and the same airway bill. The airway bill also operates like a through bill of lading. It can be used in transshipment, that is, unloading and reloading from one aircraft to another aircraft during the course of carriage from the airport of departure to the airport of destination, stipulated in the L/C.

LIABILITY OF AIRLINES

Under the terms of a normal airway contract, airlines have a liability the equivalent of $16.00 per kg. If an exporter wishes to cover a higher liability, he has to declare the value on the airway bill and pay an additional charge on top the normal freight rates per kg. In any case, it is important for an exporter to take out insurance on the freight.

Advantages of Air Transport

The benefits of air transport are increasingly significant in terms of access, timesavings, economic benefits and safety. The transportation of goods by air offers many advantages to the exporter. Some of them are as follows:

(*i*) It provides fast means of delivering goods.

(*ii*) It links almost all countries of the world. Aircrafts are not tied to the surface and have the ability to fly above terrestrial obstacles.

(*iii*) It is a convenient means of transporting perishables and fragile goods.

(*iv*) It is suitable for transporting goods of high value.

(*v*) The risks associated with deterioration and obsolescence of goods is reduced.

(*vi*) It provides regular and punctual services.

(*vii*) The losses due to rough handling, breakage and pilferage are reduced to the minimum.

(*viii*) The insurance premium in the case of air transport is lower as compared to sea transport, in view of reduced level of risks.

(*ix*) The warehousing costs are reduced to minimum.

DISADVANTAGES OF AIR TRANSPORT

Air Transport carries certain disadvantages too and they are:

(*i*) Cost of operating airlines is very high and so freight cost is very high as compared to sea transport.

(*ii*) It is difficult to carry bulky, awkwardly shaped goods.

(*iii*) Very risky in case of accident.

(*iv*) It is controlled by climatic conditions, thus bad weather leads to uncertainty in its time table.

CHECK YOUR UNDERSTANDING

State whether the following statements are TRUE or FALSE.

1. The air transportation of goods involves sending the goods through one of the international airlines.
2. The crucial factor for selection is total distribution costs in each mode of transport, not mere freight costs and air transportation may turn to be a cheaper mode of transport.
3. If time is not very short, air transportation is to be made for the goods to reach on schedule.
4. The airway bill is a document of title to goods and, in consequence, a negotiable document, similar to Bill of Lading.

Answers

1. True. 2. True. 3. False. 4. False.

REVIEW QUESTIONS

1. Elaborate the factors that influence the selection of transport in favour of air transportation?
2. Describe the role of Airway Bill in Air Transport?
3. Draw a comparison of advantages and disadvantages of air transport?
4. Explain the unique features of the 'Right of Disposal' available to the consignor in air transportation?
5. Discuss whether Airway Bill is a Document of Title to goods?
6. Write Short Notes on:
   (A) Contents of Airway Bill
   (B) Transshipment of goods in case Airway Bill is one
   (C) Liability of Airlines.

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INTERNATIONAL SET-UP

- ❖ INTRODUCTION
- ❖ INTERNATIONAL AIR TRANSPORT ASSOCIATION
  - MISSION & RANGE OF SERVICES
- ❖ ROLE OF IATA
  - AIR FREIGHT RATES.
  - STANDARDISED DOCUMENTATION
  - CLEARING HOUSE
  - TRAINING
- ❖ CAN IATA SOLVE INDIVIDUAL'S PROBLEMS
- ❖ CHECK YOUR UNDERSTANDING
- ❖ REVIEW QUESTIONS

INTRODUCTION

International Air Transport is one of the most dynamic and fastest-changing industries in the world. It needs a responsive, forward-looking and universal trade association, operating at the highest professional standards. IATA (International Air Transport Association) is that Association, at international level. Combined with increased real incomes and more leisure time, the effect is an explosion in demand for air travel. Increased demand for air travel has led to increased activity for IATA.

INTERNATIONAL AIR TRANSPORT ASSOCIATION

The basic objective of IATA has been to promote safe, regular and economical air transport for the benefit of the peoples of the world, foster air commerce, study the problems

connected therewith and provide the means for collaboration among the air transport enterprises.

The International Air Transport Association is an international trade organization of airlines. It is founded in Havana, Cuba, in April 1945. At its founding, IATA has 57 Members from 31 nations, mostly in Europe and North America. IATA's Head Office is in Montreal; its main executive office is in Geneva. Regional offices are in Amman, Brussels, Dakar, London, Nairobi, Santiago, Singapore and Washington D.C. In addition, there are 57 offices around the world responsible for Agency Services, Billing and Settlement Plans and Cargo Account Settlements.

It is the prime vehicle for inter-airline cooperation in promoting safe, reliable, secure and economical air services for the benefit of the world's consumers. The international scheduled air transport industry is now more than 100 times larger than it was in 1945. Few industries can match the dynamism of that growth, which would have been much less spectacular without the standards, practices and procedures developed within IATA. Needless to add, IATA has played a very key role to develop high standards along with rigid implementation amongst its member airlines.

Today, it has over 270 Members from more than 140 nations in every part of the globe. Flights by these airlines comprise 94 percent of all international scheduled air traffic. Since these airlines face a rapidly changing world, they must cooperate in order to offer a seamless service of the highest possible standard to passengers and cargo shippers. Continual efforts by IATA ensure that people, freight and mail can move around the vast global airline network as easily as if they were on a single airline in a single country. In addition, IATA helps to ensure that Members' aircraft can operate safely, securely, efficiently and economically, under clearly defined and understood rules.

Mission & Range of Services

IATA's mission is to "represent, lead and serve the airline industry". In fulfilling that mission, IATA provides services to four groups, interested in the smooth operation of the world air transport system: airlines, the consumers, governments, third parties such as travel and cargo agents or equipment and systems suppliers.

For the Airlines: Different routes are combined through IATA—beyond the resources of any single company—to exploit opportunities. Through the presence of IATA, Airlines are able to knit their individual networks into a worldwide system. This provides a platform to solve the mutual problems that emerge when more mighty agencies decide to work together for the common benefit. On account of this association, it has become possible for the different airlines to come to single platform, despite diversity and differences in language, currencies, laws and national customs. In this process, IATA also saves money to all airline members.

For the Consumers: IATA simplifies the travel and shipping process. By helping to control airline costs, IATA contributes to cheaper tickets and shipping costs. Thanks to

airline cooperation through IATA, individual passengers can make one telephone call to reserve a ticket, pay in one currency and then use the ticket on several airlines in several countries and, if necessary, even return it, for a cash refund.

For Governments: The objective of every Government is to foster safe and efficient air transport to its people. IATA sets industry working standards, developed within IATA, for implementation by all the member airlines. The standards are drawn from the source of different airlines' experience and expertise. IATA saves much effort and expense that would otherwise have to be expended in bilateral negotiations - for example, on tariffs.

For Third parties: IATA is a collective link between third parties and the airlines. Passenger and cargo agents are able to make representations to the industry through IATA and derive the benefit of a neutral agency that has service standards and high professional skill levels. Equipment manufacturers and others are able to join in the airline meetings and can offer their viewpoint to the collective body that defines the way air transport business is to be conducted.

ROLE OF IATA

While the role of IATA has been fast changing and increasing manifold, with pace in traffic and commensurate increase in technological improvements, the main functions it has been performing are:

Initial Role : The most important tasks of IATA, during its earliest days, have been technical, because safety and reliability are fundamental to airline operations. These require the highest standards in air navigation, airport infrastructure and flight operations. Once they are operating within a sound technical and legal framework, airlines' next requirements are for answers to questions such as: who can fly where? What prices are to be charged and how the money from multi-airline journeys is to be divided up? How do airlines settle their accounts?

The following areas deserve particular mentioning when we discuss the role of IATA.

(A) Air Freight Rates

Airfreight rates are chargeable either on the basis of gross weight or gross volume or volumetric basis (i.e. weight or volume whichever is higher). The rates quoted by the airlines are from one specified airport to another airport, in one direction. If the rate quoted is from Mumbai to New York, the same rate is not applicable from New York to Mumbai as the traffic in the reverse direction may not be same as in the onward direction. The rate quoted is for a minimum acceptable weight. Even if the weight is lower than the minimum weight, the same rate is charged. Further, concessional rates may be provided when the total weight exceeds a particular tonnage to attract higher tonnage at concessional rates. The weights at which the concessions applicable are called "Break Points". For example, there could be a concession of 10% if the weight of cargo exceeds 100 kg or more.

Under IATA agreements, airlines offer specific commodity rates from one airport to another airport to the stipulated products or product groups. These are the concessional rates offered to those products, which are available for carriage in large quantities over a period of time. Thus, the airlines agree to provide concessional rates in return for regular tonnage. If the cargo is below the concessional quantity, only normal rate is charged.

(B) Standardised Documentation

Automation has become commonplace in airline operations during the 1960s. Airlines all over the world use standardised transport document, known as Airway Bill or Air Consignment Note. Airway Bill functions as a carrier receipt and evidence of contract of affreighment between the shipper and airlines. This document also operates as an instructions sheet for the onward carriers. It is not a document of title. IATA has begun its involvement in perfecting standard message formats for data exchange between the airlines, which continues to this day.

(C) Clearing House

IATA provides an important role to the carriers and users in the form of clearing house. Today, each year, 50 million international air passengers pay for their ticket in one place, in one currency, but complete their journey using at least two, and sometimes five or more, airlines from different countries, using different currencies. Equally, when the cargo is booked to a country that does not have direct flight and involves transshipment, shipper pays the freight to that airlines where cargo is booked and loaded, initially. Goods reach the final destination and in that process, several lines may be used. IATA provides the window for freight settlement between the users at the agreed tariff rates. Close to 300 airlines accept each others' tickets and airway bills—and thus their passenger and cargo traffic-on a reciprocal basis. Development of the Clearing House is followed by the establishment of Billing and Settlement Plans and Cargo Accounts Settlement Systems. In effect, clearing houses speed the flow of revenue from agents to airlines and mutual settlements between the airlines.

(D) Training

Training is another important area where it provides service to its member airlines. There are now nearly 81,000 IATA agents worldwide and 135,000 students have enrolled for IATA-sponsored agency training courses since they are introduced.

CAN IATA SOLVE INDIVIDUAL'S PROBLEMS

No, its role is different. IATA is an international trade association that provides services for its member airlines. It does not act as a compliance authority. Therefore, it cannot intervene in disputes or other matters involving member airlines and their customers. All problems have to be resolved by the parties directly concerned. In other words, anyone with a complaint or other problem, involving a particular airline, must raise this matter with the

customer relations department of that airline. It is not an agency to solve customers problems. They have to be dealt with individual airlines.

CHECK YOUR UNDERSTANDING

State whether the following statements are TRUE or FALSE.

1. The basic objective of IATA has been to promote safe, regular and economical air transport for the benefit of the peoples of the world, foster air commerce and provide the means for collaboration among the air transport enterprises.
2. IATA's mission is to "represent, lead and serve the airline industry".
3. IATA provides the platform for redressing the customers' complaints connected to the member airlines.
4. Thanks to airline cooperation through IATA, individual passengers can make one telephone call to reserve a ticket, pay in one currency and then use the ticket on several airlines in several countries and, if necessary, even return it, for a cash refund.
5. Airlines all over the world use standardised transport document, known as Airway Bill or Air Consignment Note.
6. Airfreight rates are chargeable either on the basis of gross weight or gross volume or volumetric basis (i.e. weight or volume whichever is higher).
7. IATA provides an important role to the carriers and users in the form of clearing house.
8. IATA provides the window for freight settlement between the users at the agreed tariff rates.

Answers

1. True. 2. True . 3. False. 4. True. 5. True. 6. True. 7. True. 8.True

REVIEW QUESTIONS

1. What is the mission of International Air Transport Association and discuss the range of services provided by it ?
2. Describe the role of International Air Transport Association?

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