17MBAPI303B INTERNATIONAL LOGISTICS AND DOCUMENTATION 4 0 0 4

Scope:

One should be aware of procedures to be followed while goods are moved to foreign countries and various modes of transportation, documentations, international trade terms and legal framework involved in it.

Objective:

This paper deals with a broad conceptual focus on documentation in exports, imports, obtaining license and current scenario of logistics.

Unit I

International Distribution system and Logistics – International marketing channel decision, Importance and scope of channel decisions, Channels between nations, international physical distribution decisions, nature of physical distribution

Unit II

Transportation – Importance of effective transportation system, service choices and their characteristics, cost characteristics and role fixation, In-company management vs. outsourcing, shipping structure – Sea borne trade, International shipping characteristics, Important international sea routes, Liner & tramp operations, Liner freighting, CFC and ICD, Indian shipping – Growth, Policy and Problems, Major Indian ports, International Air Transport, freight rates, India's exports and imports by air – problems and prospects.

Unit III

Documentation - Naming the enterprise, Forms of ownership, Opening a bank account, Need for documentation, Process of obtaining Export and Import License:- General registrations, registrations with RBI, Registration with Licensing Authorities, Registration with appropriate EPC/Commodity Board's. Main commercial documents: Statutory documents for exporting country, Statutory documents for importing country and documents for claiming export benefits.

Unit IV

International Trade Terms –Trade contract, Credit risk management and payment terms, LC & parties involved, Types of LC, UCPDC – Major clauses, Consignment sale, Transit risk management – Contract of cargo insurance parties, Insurance policy and certificate, Cargo loss clauses – Procedure and documentation

Unit V

Clearance – Excise duty – Definition, Types of duties, Legal framework – Central Excise Act and rules, Tariffs, Customs Act 1962, Customs Tariffs Act 1975, Foreign Trade Act 1992, Physical Examination of goods, EDI and custom operations.

Suggested Readings:

Text book:

1. Khanna K K. (2007).*Physical Distribution Management: Logistical Approach*. New Delhi: Himalaya publishing house.

References:

1. Johnson J, Wood D. *Contemporary Logistics*.
2. Ismail, R. *Logistic Management.* Excel Books
3. Dornier. *Global Operation & Logistic Management.* John Wiley

KARPAGAM ACADEMY OF HIGHER EDUCATION

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Name: **JAI GANESH BALA (Assistant Professor)**
Department: **Management**
Subject Code: **17MBAPI303B** Semester: **IV** Year: **2017-19 Batch**
Subject: **International Logistics and Documentation - Lesson Plan**

UNIT-I			
S. No	**Lecture Duration (Hr)**	**Topics to be Covered**	**Support Materials**
1	1	Introduction to International Distribution system and Logistics	T: Page Number:01-05 R_1:Page Number:95
2	1	Channel of Distribution ❖ Definition ❖ Reasons to have distribution channels	R_3:Page Number:69-71
3	1	Types of Intermediaries ❖ Domestic Intermediaries ❖ Foreign Intermediaries	R_2:Page Number:425-435
4	1	International Marketing Channel Decision ❖ Importance of Channel decision ❖ Scope of Channel Decision	R_2:Page Number:439-442
5	1	Control of International Distribution Channel Members,	R_1:Page Number:103-104
6	1	Physical Distribution Management	R_1:Page Number:104-105
7	1	Physical Distribution Decision Nations Vs International	W_1
8	1	Nature of Physical Distribution- Case Study	W_2
9	1	Recapitulation and Discussion of Important Questions	
		Total No. of Hours Planned for Unit – I	**9**

UNIT-II			
S. No	**Lecture Duration (Hr)**	**Topics to be Covered**	**Support Materials**
1	1	Introduction to Transportation Importance of effective transport Services choice and their characteristics	R_4: Page Number: 94
2	1	Transportation cost structure and Role	T: Page Number:98

		fixation, In company Management Vs Outsourcing	R_5: Page Number:110-112 W_3
3	1	General Structure of Shipping Industry Types of ships, Seaborne trade and International Shipping Characteristics	R_6:Page number:17-20, 26-42
4	1	Important International Sea routes and Linear and Tramp operations	R_6: Page Number:20-23
5	1	Linear Freighting CFC, ICD- Roles, Functions	R_6: Page Number:46-51
6	1	Export clearance at ICD Clearance procedure for Import	R_6: Page Number:129-136
7	1	Indian Shipping Growth, Policy, Problems Major Indian ports	R_6: Page Number:88-89
8	1	International Air Transport, freight rates, India Exports and Imports by Air- Case Study	R_6: Page Number:158-166
9	1	Recapitulation and Discussion of Important Questions	
		Total No. of Hours Planned for Unit – II	**9**
		UNIT-III	
S. No	**Lecture Duration (Hr)**	**Topics to be Covered**	**Support Materials**
1	1	Introduction to Export Business ❖ Establishing a business firm ❖ Name of firm ❖ Approval to Name of firm ❖ Registration ❖ Opening Bank Account	R_7:Page Number:05-10
2	1	Process of obtaining Export and Import License ❖ General Registration ❖ Registration with RBI ❖ Registration with Licensing Authorities ❖ Registration with Export Promotion Council	W_4
3	1	Automated Documentation System ❖ Objectives ❖ Advantages	R_7:Page Number:12-13
4	1	Commercial Documents Regulatory Documents	T:Page Number:121-123

5	1	Documents Related to Goods and Shipment	R_7:Page Number:13-22
6	1	Bill of Lading- Purpose, Types, Significance	R_7:Page Number:22-25
7	1	Documents Related to Payments, Inspection	R_7:Page Number:26-28
8	1	Documents for Claiming Export Benefits	R_7:Page Number:154-156
9	1	Recapitulation and Discussion of Important Questions	
		Total No. of Hours Planned for Unit – III	**9**
		UNIT-IV	
S. No	**Lecture Duration (Hr)**	**Topics to be Covered**	**Support Materials**
1	1	Introduction to International Trade- Case Discussion	R_8:Page Number:03-07
2	1	INCOTERMS 2000, Types of Trade Contract	R_7:Page Number:34-35
3	1	Credit Risk Management- Meaning, Organization Covering Credit Risks, ECGC	T:Page Number:154-165 R_7:Page Number:78-82
4	1	Payment Terms ❖ Methods of Received payment ❖ Types of Letter of Credit ❖ Parties involved in Documentary Credit	R_7:Page Number:48-57
5	1	Uniform Customs and Practice for Documentary Credits (UCPDC) ❖ Major Clauses ❖ Consignment Sale	R_7:Page Number:71-74
6	1	Cargo Insurance ❖ Meaning, ❖ Parties to Insurance,	R_7:Page Number:83-87
7		❖ Scope of Cargo Insurance Policy ❖ Cargo Loss- Types	R_7:Page Number:88-90
8	1	Procedure and Documentation for filling claim and duties of the assured	R_7:Page Number:90-91
9	1	Recapitulation and Discussion of Important Questions	
		Total No. of Hours Planned for Unit – IV	**9**

UNIT-V			
S. No	**Lecture Duration (Hr)**	**Topics to be Covered**	**Support Materials**
1	1	Introduction to Clearance of Cargo	R_7:Page Number:108-109
2	1	Central Excise Act 1944 Definition Features of Central Excise Duty, Sources of Central Excise Law	R_9: Page No: 132-133
3	1	Types of Custom Duties	R_9: Page No:150-151
4	1	Introduction to Customs Act 1962 ❖ Features of customs duty, ❖ Objectives of customs duties, ❖ Functions of Customs department	R_9: Page No: 86-90,
5	1	Foreign Trade Act, 1992 ❖ Objectives ❖ Main Provisons	R_8: Page Number:424-426
6	1	Physical Examination of export and Import Cargos	R_7:Page Number:129,140 T:PageNumber:210-211
7	1	Objectives of Customs Control Exchange Control Deceleration Form	R_7:Page Number:123-124
8	1	Indian Customs EDI systems ❖ Objectives ❖ Advantages to Trading partners	R_7:Page Number:124-131
9	1	Recapitulation and Discussion of Important Questions	
Total No. of Hours Planned for Unit – V			**9**
10	1	Discussion of Previous year ESE question paper	
11	1	Discussion of Previous year ESE question paper	
12	1	Discussion of Previous year ESE question paper	
Total No. of Hours Planned for Unit – V and Previous ESE Discussion			**9+3=12**

TEXT BOOK:

T: K K Khanna (2004), *Physical Distribution: Logistical approach* Himalaya Publishing House, Newdelhi.

REFERENCE BOOK:

R_1: R.Srinivasan, (2003), International Marketing, Prentice Hall of India Pvt Ltd, NewDelhi.

R_2: Sak Onkvisit and John J Shaw, International Marketing Strategy & Theory, 5th Edition, Routledge, Oxon.

R_3: Bloomberg (2003), Logistics, Prentice Hall of India Pvt Ltd, NewDelhi.

R_4: Reji Ismail, (2008), *Logistics Management*, Excel Books India, New Delhi.

R_5: David, (2003*), International Logistics*, Biztantra, New Delhi.

R_6: Dr.Krishnaveni Muthiah (2002), *Logistics Management and World Seaborne Trade,* Himalaya Publishing House, Mumbai.

R_7: C Rama Gopal, (2008), *Export Import Procedures*, New Age International (P) Ltd, New Delhi

R_8: Francis Cherunilam. (2013). *"International Trade and Export Management"*, 20th Edition, Himalaya Publications Mumbai.

R_9: P. Radhakrishnan. (2011). *Indirect Taxation*, Kalyani Publishers, NewDelhi

Website:

W_1: http://www.ugb.ro/etc/etc2014no1/14_Gherasim_A.pdf

W_2: https://sol.du.ac.in/mod/book/view.php?id=1239&chapterid=886

W3:https://cdn2.hubspot.net/hub/159356/file-581693922-pdf/docs/asl_blog_outsourcing_vs_insourcing_march_6_-_2014.pdf

W_4: smallbusiness.chron.com/license-importexport-business-14635.html

UNIT-I-International Distribution System and Logistics

SYLLABUS

International Distribution system and Logistics – International marketing channel decision, Importance and scope of channel decisions, Channels between nations, international physical distribution decisions, nature of physical distribution

Introduction

Distribution refers to the steps taken to move and store a product from the supplier stage to a customer stage in the supply chain. Distribution is a key driver of the overall profitability of a firm because it directly impacts both the supply chain cost and the customer experience. Good distribution can be used to achieve a variety of supply chain objectives ranging from low cost to high responsiveness. As a result, companies in the same industry often select very different distribution networks. Dell distributes its PCs directly to end consumers, while companies like Hewlett Packard and Compaq distribute through resellers.

Dell customers wait several days to get a PC while customers can walk away with an HP or Compaq PC from a reseller. Gateway opened Gateway Country stores where customers could check out the products and have sales people help them configure a PC that suited their needs. Gateway, however, chose to sell no products at the stores, with all PCs shipped directly from the factory to the customer.

CONCEPT OF DISTRIBUTION CHANNEL:

A distribution channel consists of a set of people and firms involved in the transfer of title to a product as the product moves from producer to consumer. Thus, a distribution channel is primarily concerned with the movement of goods from the point of production to the point of consumption, which involves a variety of functions.

The main participants in the distribution system are:

1. The manufacturers,
2. The intermediaries,
3. The facilitating agencies, and

4. The consumers. Manufacturers produce the goods.

This is the starting point in the distribution system. The second category of participants, I .e. intermediaries, are involved in direct negotiation between buyers and sellers whether or not they take title to goods. These intermediaries locate the manufacturers who produce various products, identify the needs of the consumers and distribute the goods. In the process, they perform various functions like buying, selling, assembling, standardization and grading, packing and packaging, risk bearing, etc. Facilitating agencies are the independent business organizations other than intermediaries. These agencies facilitate the smooth distribution of goods from producers, through intermediaries, to consumers. The major facilitating agencies are banking institutions, insurance companies, and transportation agencies and warehousing companies.

The fourth category of participants in the distribution system, i.e. consumers, is the final destination for goods in the distribution system. A Channel of distribution is mainly concerned with second participant, i.e. the intermediaries.

The term 'Channel of Distribution' refers to the route taken by goods as they flow from the producer to the consumer. This flow of goods may mean its physical distribution and/or the transfer of title (ownership). Channels of distribution are mainly concerned with the transfer of title to a product which may be affected 148 Logistics and Supply Chain Management directly or through a chain of intermediaries. You know most producers do not sell goods directly to the consumers. They make use of a variety of intermediaries known as middlemen.

These middlemen who take title to goods or assist in transferring the title to goods as they move from the producer to the consumer is called the channel of distribution. Thus, the channel of distribution is a network of institutions that perform a variety of interrelated and coordinated functions in the movement of goods from producers to consumers. A distribution channel creates place, time, form and possession utilities to the products by prompt and efficient performance of the function of physical distribution. In modem societies the production of goods takes place on a large scale in factories concentrated in few localities while the consumers are scattered throughout the country. For instance, textile mills are concentrated at few places like Bombay, Ahmedabad, Coimbatore, etc. while the cloth is used by all the people in the country. Similarly, Maruti cars are manufactured at Delhi while the users are spread in all parts of the country. Same thing is true of agricultural commodities. Apples are produced mainly in Kashmir Valley and Himachal Pradesh whereas they are consumed by people throughout the country. Another such example is tea which is mainly produced in Assam while it is consumed everywhere in the country.

Thus, in most of the cases goods are produced at one place while they are consumed at various other places and contact the producers directly. Similarly it is not possible for all the producers to contact the consumers directly and sell the goods. Hence, it is essential to move the goods from the place of production to the markets where consumers can buy them. Otherwise, production has no value and it becomes waste. A distribution channel helps in the movement of goods from producer to consumer and, thus, creates place utility to the product. There is another barrier which arises due to time lag between production and consumption.

The goods produced are not consumed at the same point of time. A distribution channel makes it possible for the consumers to get the products in a convenient shape, unit size, style and package. Thus, it creates convenience value. Distribution channel also makes it possible for the consumer to obtain goods at a price he is willing to pay and under conditions which bring him satisfaction and pride of ownership. Thus, it creates possession utility. Thus, it is the distribution system which moves the goods from the place of production and makes them available to the consumers at the right place, time and form.

Kinds of Middlemen in Distribution Channel

The various kinds of middlemen in the market are:

1. Wholesalers: They are the people who buy in bulk from the producers and sell in small quantities to the retailers.

2. Retailers: They are the people who buy in small quantities from the wholesalers and sell to the ultimate consumers.

3. Agents: They are the middlemen who do not take any title to goods. They render all services required in marketing. They represent either the seller or the buyer. They receive commission for their work.

4. Brokers: Like agents, brokers also represent either the buyer or the seller. They do not usually have physical control over the goods in which they deal. Example: share brokers. They get ‘brokerage’ for their work.

5. Dealers: They are the business houses that resell goods. Example: Viveks, Vasanth & Co. and so on.

6. Distributors: They are the same as wholesalers.

7. Jobbers: They are associated with stock exchanges. A jobber deals in certain securities. He transacts only with a broker and does not deal directly with the public.

8. Branches: These are establishments maintained by manufacturers at different places to promote sales. Example: Bata Shoe company.

9. Consumer Co-operatives: These are owned and managed by the ultimate consumers. Such cooperatives buy and distribute goods mainly to the members.

10. Company show room: A company may run its own show room to sell its goods. Example: Philips, BPL and Thomson have their own showrooms in Chennai.

11. Facilitating Agencies: These agencies are directly or indirectly involved in the performance of certain marketing functions. These are transport organizations, warehouses, banks, insurance companies and so on

DOMESTIC AGENTS

Export Broker The function of export broker is to bring a buyer and seller together. He may be assigned some or all foreign markets in seeking potential buyers. He can negotiate the best deal for the seller (i.e., manufacturer) but cant conclude the transaction without prior approval of the seller. May operate at its own name or of the manufacturer. For any action performed he gets fee or commision. He doesn't take the title of the goods. He has no financial resposiblities.

Advantages (Export Broker) Useful because of his extensive knowledge of the market's supply, demand & foreign customers . Due to this - can negotiate best terms for the seller. Valuable associate for highly specialized goods & seasonal products. Is used by small manufacturer's with limited financial resources, selling their goods in broad markets.

Manufacturer's Export Agent (Sales Representative) Is a independent businessperson who retains his or her own identity by not using the manufacture's name. Have freedom to select when, where & how to work within the assigned territory. Like export brokers, he also works for commission. But, unlike export broker he has continuous and more permanent relationship with the manufacturer. He works under contract which defines territory, term of sale, methods of compensation & is renewable by mutual agreement. He may take possession but not the title of the goods, thus risk of loss remains to the manufacturer. He carries several product lines i.e. he may represent manufacturer of related products.

Advantages (Manufacturer's Export Agent / Sales Representative) Manufacturer can avoid fixed cost associated with having own sales & distribution organization , because commission is paid when sales are made. Have extensive knowledge of specific foreign market. As he carries several product lines in his bag so the expense of doing business is shared by other manufacturers. Allows manufacturer to capitalize his time, money, and expertise on production rather than marketing aspect.

Export Management Company Manages entire export program under contract. Also known as combination export manager (CEM), because it may function as export department for several allied but non-competing manufacturers. In this regard those export broker & export agents who represent combination of clients can also be called as EMC's. They have greater freedom and considerable authority. But unlike export brokers & agents, they provide extensive services, ranging from promotion to shipping arrangement & documentation.

Foreign buyers usually prefer to deal directly with the manufacturer rather than through a third party. Therefore, an EMC usually solicits business in the name of the manufacturer and may even use the manufacturer's letterhead. EMC requires at least a one-year contract to handle a manufactured products. More often it is three year contract. They get compensated in the form of salary, or commission or both.

Many EMC are also traders (i.e. export merchants). As they are both agents & merchants, EMC are engaged more in sell-buy method than commission arrangement. In that case EMC takes the title of the good (i.e. ownership). They are compensated by discounts on purchased goods, & such discounts are many greater than what other middleman receive for domestic market.

Advantages (EMC) It has international marketing expertise and distribution contacts overseas. For many service provided an EMC's cost are relatively low because of efficiency of scale (i.e. cost can be spread over the products of several clients. In addition provide shipping efficiency because it can consolidate many manufacturer product in one shipment. From this company can get better freight rates. It also provide financial services, by guaranteeing payments and collecting from overseas buyers It allows manufacturer to concentrate on internal efforts and its domestic market.

Cooperative exporter A cooperative exporter is manufacturer with its own export organization that is retained by other manufacturer to sell in some or all foreign markets. It works like an export agent, & sometimes act as a broker. Cooperative exporter's motive in representing other manufacturers primary involves its financial intrest. Having fixed cost for the marketing of its own product, the cooperative exporters desires to share its expenses and expertise. Because of these activities it is often referred as "mother hen", piggyback exporter" Ex/ GE, Singer, Borg-Warner.

Advantages (Cooperative Exporters) Relationship b/w cooperative exporter and its principal is very long one. This arrangement provides easy & low-risk way for the principal to start marketing overseas &relation continues as long as unrelated & non-competative products are involved.

Webb-Pomerene Association This association is formed when two or more firms, usually in the same industry join together to market their product overseas. It provides information to member firms, set prices, allocate orders & sell products. It arranges shipping, frieght consolidation, rate negotitation This association takes possesion of the goods but not the title. As cooperative organization it tends to work on non-profit or expenses basis.

Purchasing/Buying Agent As we seen earlier , an export agent represents a seller ; the purchasing/buyer agent represent the foreign buyers. They seek a product that matches his principal's (i.e. buyer's) preferences & requirement. He acts on the behalf of buyers seeking the best possible price. Also known as commission agent, buyer for export, export commission house, export buying agent. Since the agent operates on an order basis, the relationship with buyer or seller is not continuous. This arrangement does not offer steady bolume of business neither reduces financial risk.

Country-Controlled Buying Agent: This type of agents perform exactly the same functions as the purchasing/buyer agent, the only difference is that this agent are actually a foreign government agency. They are empowered to locate & purchase goods for its country. This type of agents have permanent office in the suppliers country or make a formal visit when the demand arises.

Resident Buyer This intermediary also perform the same function as by purchasing agent But it is usually located near highly centralized production industries. It is different from the P.A because it is retained by the principal on a continuous basis to maintain a search for new products that may be suitable . It also maintain continuous relationship with the suppliers .

DOMESTIC MERCHANTS

Export Merchant: It seeks out needs in the foreign market and purchases from manufacturer in its own country to fill all those needs. Goods they generally deals are staple goods, undifferentiated products or unbranded products. They resells this products in foreign markets in its own name. It assumes all risks associated with ownership It works for profit motive They may or may not have a steady relationship with their suppliers.

Export Drop Shipper Export Drop Shipper also known as desk jobber or cable merchants is a special type of Export Merchant. In this case, the export drop shipper takes the order from overseas in turn places the order with a manufacturer, directing him to deliver the product directly to foreign buyer. The manufacturer collects his payments from the drop shipper, who in turn is paid by the foreign buyer. It is common for marketing of bulky products of low unit value(e.g. coal, lumber, construction materials). Relationship is not continuous.

Export Distributo Unlike Export Merchant & Export Drop Shipper , an Export Distributor has a continuous relationship with the manufacturer. Have exclusive rights to represent manufacturer & sell in some or all foreign markets. Located in manufacturers own country Export distributor operates in its own name or that of the manufacturer. Export Distributor usually sells the manufacturer’s product abroad at manufacturer list price & gets agreed percentage as remuneration. Export Distributor is either paid by commission or allowed a discount for its purchase.

Trading Company Sometimes those who want to buy & those who want to sell have no knowledge of each other or no knowledge of how to contact each other, Trading Companies came into existence to fill this gap. Trading company may buy and sell as a merchant. Handle goods and consignments and act as a commission house for some buyers. By representing several clients it looks like an EMC except for the fact that it. Has more diverse product line. Offer many more services. It is not exclusively restricted to engaging in export trade. Goes beyond the role of an intermediatry by engaging directly in production, physical distribution channel development, financing and resources development.

Direct Distribution Channel:

FOREIGN DISTRIBUTOR Is a foreign firm that has exclusive rights to carry out distribution for a manufacturer in a foreign country -distributor purchases merchandize at a discount and then resells or distributes the merchandize to retailers or final consumers e.g. Seiko USA is a distributor for its Japanese parent(Hattori Seiko)

FOREIGN RETAILER A manufacturer may contact foreign retailers and interest them in carrying a product ,ranging from a personal visit by the manufacturer's representative to mailings catalogues, brochures and other literature to prospective retailers Body Shop - UK

STATE CONTROLLED TRADING COMPANY - for some products, particularly telecommunication, a manufacturer must contact and sell to state – controlled companies

END USER A manufacturer is able to sell directly to foreign end users with no intermediary Involved -natural choice for costly industrial products EXPORT BROKER -function of an export broker is to bring a buyer and seller together for a fee -negotiates the best terms for the seller but cannot conclude the transaction without the principal’s approval of the arrangement.

SALES REPRESENTATIVE -an independent businessperson who usually retains his or her own identity by not using manufacturers name --may take possession but no title to the goods and thus assumes no risk

Factors influencing channel decisions in International Market are as follows:

International marketing channels deal with channels within which goods and services pass to reach their foreign consumers. This implies that manufacturers and consumers must be located in either the manufacturers or consumers country or having presence in both countries. The choice of the channel to use is a fundamental decision for the manufacturer where a number of factors and objectives have to be considered as a basis for such decision. The international marketer needs a clear understanding of market characteristics and must have established operating policies before beginning the selection of channel middlemen. The following points should be addressed prior to the selection process:

1) Identify specific target markets within and across countries.

2) Specify marketing goals in terms of volume, market share, and profit margin requirements.

3) Specify financial and personnel commitments to the development of international distribution. 4) Identify control, length of channels, terms of sale, and channel ownership. There are a number of factors both objective and subjective and varying from company to company which govern choice or

selection of channel of distribution. But there are some which stand out and influence channel of distribution choice in all cases.

They are as follows: 1) Factors Relating to Product Characteristics: Product manufactured by a company itself is a governing factor in the selection of the channel of distribution.

Product characteristics are as follows:

Industrial/Consumer Product: When the product being manufactured and sold is industrial in nature, direct channel of distribution is useful because of the relatively small number of customers, need for personal attention, salesman's technical qualifications and after-sale servicing etc. However, in case of a consumer product indirect channel of distribution, such as wholesalers, retailers, is most suitable.

ii) Perishability: Perishable goods, such as, vegetables, milk, butter, bakery products, fruits, sea foods etc. require direct selling as they must reach the consumers as easily as possible after production because of the dangers associated with delays in repeated handling.

iii) Unit Value: When the unit value of a product is high, it is usually economical to choose direct channel of distribution such as company's own sales force than middlemen. On the contrary, if the unit value is low and the amount involved in each transaction is generally small, it is desirable to choose indirect channel of distribution, i.e. through middlemen.

iv) Style Obsolescence: When there is high degree of sty obsolescence in products like fashion garments, it is desirable to sell direct to retailers who specialize in fashion goods.

v) Weight and Technicality: When the products are bulky, large in size and technically complicated, it is useful to choose direct channel of distribution.

vi) Standardized Products: When the products are standardized, each unit is similar in shape, size, weight, colour and quality etc. it is useful to choose indirect channel of distribution. On the contrary, if the product is not standardized and is produced on order, it is desirable to have direct channel of distribution.

vii) Purchase Frequency: Products that are frequently purchased need direct channel of distribution so as to reduce the cost and burden of distribution of such products.

viii) Newness and Market Acceptance: For new products with high degree of market acceptance, usually there is need for an aggressive selling effort. Hence indirect channels may be used by appointing wholesalers and retailers as sole agents. This may ensure channel loyalty and aggressive selling by intermediaries.

ix) Seasonally: When the product is subject to seasonal variations, such as woolen textiles in India, it is desirable to appoint sole selling agents who undertake the sale of production by booking orders from retailers and direct mills to dispatch goods as soon as they are ready for sale as per the order.

x) Product Breadth: When the company is manufacturing a large number of product items, it has greater ability to deal directly with customers because the breadth of the product line enhances its ability to clinch the sale.

2) Factors Relating to Company Characteristics:

i) Financial Strength: A company which is financially sound may engage itself in direct setting. On the contrary, a company which is financially weak has to depend on intermediaries and, therefore, has to select indirect channel of distribution, such as Wholesalers, retailers, with strong financial background.

ii) Marketing Policies: The Policies relevant to channel decision may relate to delivery, advertising, after-sale service and pricing, etc. For example, a company which likes to have a policy of speedy delivery of goods to ultimate consumers may prefer direct selling and thus avoid intermediaries and will adopt a speedy transportation system.

iii) Size of the Company: A large-sized company handling a wide rang of products would prefer to have a direct channel for selling its products. On the contrary, a small-sized company would prefer indirect selling by appointing wholesalers, retailers etc.

iv) Past Channel Experience: Past Channel experience of the company also influences the choice of selection of channel distribution. For instance, an old and established company with its past good experience of working with certain kinds of intermediaries will like to opt for the same channel. However, different will be the case in reverse situation.

v) Product Mix: The wider is the company's product mix, the greater will be its strength to deal with its customers directly. Similarly, consistency in the company's product mix ensures greater homogeneity or uniformity and similarity in its marketing channels.

vi) Reputation: It is said that reputation travels faster than the man. It is true in the case of companies also who wish to select channel of distribution. In case of companies with outstanding reputation like

Tata Steel, Bajaj Scooters, Hindustan Levers etc indirect channel of distribution (wholesalers, retailers, etc.) is more desirable and profitable.

3) Factors Relating to Market or Consumer Characteristics: Market or consumer characteristics refer to buying habits, location of market, size of orders, etc. They influence the channel choice significantly. They are:

i) Consumer Buying Habits: If the consumer expects credit facilities or desires personal services of the salesman or desires to make all purchases at one place, the channel of distribution may be short or long depending on the capacity of the company for providing these facilities. If the manufacturer can afford those facilities, the channel will be shorter, otherwise longer.

ii) Location of the Market: When the customers are spread over a wide geographical area, the long channel of distribution is most suitable. On the contrary, if the customers are concentrated and localized, direct selling would be beneficial.

iii) Number of Customers: If the number of customers is quite large, the channel of distribution may be indirect and long, such as wholesalers, retailers, etc. On the contrary, if the number of customers is small or limited, direct selling may be beneficial.

iv) Size of Orders: Where customers purchase the product in large quantities, direct selling may be preferred. On the contrary, where customers purchase the product in small quantities frequently and regularly, such as cigarettes, matches, etc., long (wholesalers, retailers, etc.) of distribution may be preferred.

4) Factors Relating to Middlemen Considerations: The choice of the channel of distribution is also influenced by the middlemen considerations. They may include the following:

i) Sales Volume Potential: In selecting channel of distribution, the company should consider the capability of the middlemen to ensure a targeted sales volume. The sales volume potential of the channel may be estimated through market surveys.

ii) Availability of Middlemen: The company should make efforts to select aggressively oriented middlemen. In case they are not available, it is desirable to wait for some time and then to pick up. In such cases, the company should manage its own channel so long the right types of middlemen are not available.

iii) Middlemen's Attitude: If the company follows the resale price maintenance policy, the choice is limited. On the contrary, if the company allows the middlemen to adopt their own price policy, the choice is quite wide. Quite a large number of middlemen would be interested in selling company's products.

iv) Services Provided by Middlemen: If the nature of product requires after-sale services, repair services, etc., such as automobiles, cars, scooters etc, only those middlemen should be appointed who can provide such services, otherwise the company will adopt direct selling channel.

v) Cost of Channel: Direct selling generally is costlier and thus distribution arranged through middlemen is more economical.

5) Factors Relating to Environmental Characteristics: The environmental factors which include competitors' channels, economic conditions, legal restrictions, fiscal structure etc., as given below, affect significantly the channel choice.

i) Economic Conditions: When economic conditions are bright such as inflation, it is desirable to opt for indirect channel of distribution because there is an all-round mood of expectancy, market tendencies are bullish and favourable. On the contrary, if the market is depressed (such as deflation), shorter channel may be preferred.

ii) Legal Restrictions: The legislative and other restrictions imposed by the state are extremely formidable and give final shape to the channel choice. For example, in India M.R.TP. Act, 1969 prevents channel arrangements that tend to substantially lessen competition, create monopoly and are otherwise prejudicial to public interest. With these objectives at the backdrop, it prevents exclusive distributorship, territorial restrictions, resale price maintenance etc.

iii) Competitors' Channel: This also influences the channel choice decision. Mostly, in practice, similar types of channels of distribution used by the competitors are preferred.

iv) Fiscal Structure: Fiscal structure of a country also influences the channel choice decision. For example, in India, State Sales Tax rates vary from state to state and form a significant part of the ultimate price payable by a consumer. As a result, it becomes an important factor in evolving channel arrangements. Differences in the sales tax rates in two different states would not only bring about difference in the price payable by a consumer but also in the distribution channel selected. Hence the company should appoint the channel in that stale where the sales tax rates are quite low, such as in Delhi, and that would give price advantage to the buyers of those states where the sales tax rates are high.

Management of physical distribution of goods: (1) Order Processing: A company receives orders from other companies, middlemen, or directly from customers through mail, e-mail, fax, phone, or salesmen. Order processing is an importation component of the distribution system. It is considered as a key to customer service and satisfaction. Order processing mainly includes: 1. Receiving order 2. Recording order 3. Filing order 4. Executing order or assembling of products for dispatch 5. Credit and collection. Thus, it concerns with processing the orders quickly, accurately, and efficiently. The time period from the receipt of an order to the date of dispatch of products must be as short as possible. Ideally, the order recycle time should be completed within 8 days. But, the use of computer and computer networks, for speedy and accurate order processing, can save time, money and efforts for the company and increases customer satisfaction. It is often called as electronic data processing that minimizes possibility of error and omission. Every firm should establish the standard order procedure. The physical distribution must be customer-oriented. It starts with customer order. Note that order processing affects customer service in two ways – reordering time (interval between two orders) and consistency of delivery time (delivering products within the fixed time). Rapid order processing enables a company to attain economy in other areas of physical distribution.

(2) Warehousing: In today's context, production is made in expectation of demand. Therefore, products are to be stored or preserved safely for the future demand. And also, all the production is not sold directly. Warehousing plays an important role for balancing demand and supply. For example, most of the agricultural products are produced seasonally, but have demand throughout the year. It facilitates both continuous production and continuous marketing of the production. Warehousing service can contribute to customer satisfaction. Be clear that storage and warehousing are not similar terms, though are closely related. Storage is marketing activity that involves holding and preserving products from the time of their production until their sale. Warehousing embraces storage plus a broad range of functions, such as assembling, breaking the bulk, dispatching as per need of middlemen, sorting/classification, providing market intelligence, preparing product for reshipping, etc. Warehousing involves more activities.

(3) Transportation: Transportation is one of the core components of distribution system. It consists of moving or transferring products from producers to final users. Transportation involves two parties, carriers and shippers. Carriers are those companies that provide transportation facilities to

others, such as the Western Railway, Indian Airline, Indian Shipping Companies, and many other private carriers provide transportation services by road, rail, water, air and underground pipes.

3. Suitability and Credibility: It is an important consideration. The mode of transportation must fit to the products and company's overall internal situation, and must be reliable. 4. Relations: In the era of relationship marketing, the marketer must maintain long-term profitable relations with various transport agencies. A firm has to perform many activities to establish and maintain healthy and profitable relations with the transport agencies.

5. Legal Provisions and Restrictions: A firm must take transportation decisions within limit of contemporary legal provisions. Knowledge of legal provisions is essential.

6. Ownership: This issue concerns with whether a firm should own, contract, or hire transportation means. Depending upon a company's capacity and requirements, it may own its own means of transportation, may undergo the contracts, or may hire such facilities.

(4) Organizational Responsibility for Physical Distribution: Physical distribution is an important decision in today's marketing management. It involves a wide range of activities. Therefore, an effective coordination of various activities, such as order processing, warehousing, transportation, inventory control, etc., is indispensable to contribute in overall success of marketing strategies. The entire range of physical distribution must be systematic and even scientific for effective distribution of products to the ultimate users. For the purpose, the systematic structure of organisation should be created to take care of physical distribution activities. Organisation of physical distribution must be well-equipped and properly organised to serve the purpose over time.

The Major Functions of a Distribution Channel

Distribution Channels

Distribution channels include methods of selling as well as locations. Methods include direct sales, wholesalers and retailers. Direct sales involve you selling directly to the consumer with no middleman, such as in a store you own, online or with a catalog. Using a wholesaler involves a distributor to get your product into a variety of channels you might not reach by yourself. Using retailers, you sell to stores that mark up your product to make their profit. Specific distribution channel options include retail stores, direct-response advertising, on your website, through catalogs and using sales agents.

Sales Volume

One of the functions of a distribution channel is to optimize your sales volume. Even though you might have several opportunities to distribute your product, you might have limited capacity to make your product, so you must look at which will help you generate the most sales. If you rely on retailers to sell your product and you add online sales to your distribution strategy, some of your retailers might drop you if they believe their sales will drop because customers can purchase more easily online. Maximum sales doesn't always mean optimum sales because some channels have higher associated costs.

Cost of Sales

Some distribution channels require more costs to use. For example, direct sales requires order processing and fulfillment, including staff time, shipping and credit card processing software and transaction fees. Other options might require promotional costs, such as signage, coupons, displays and sale calls. This is why distribution channels that offer the highest sales volumes don't always offer the highest profit margins.

Profits

Once you know your expected sales from a potential distribution channel, your cost of sales and your price per unit, you can calculate your profit margin per item and gross profits. This helps you determine which distribution options are the best for you, based on your ability to fund sales and produce goods.

Brand

If you rely on a strong brand in the marketplace, you must consider the effect that selling in a particular location or using a particular method has on your brand. Selling a high-end product through a supermarket, where you are sold next to bargain brands, can damage your image. If your image includes superior personal service, selling online can reduce your reputation in this area.

Nature of Physical Distribution:

Meaning:

It is a comprehensive term. Physical distribution, also known as distribution network, refers to a range of activities and services required for moving products from producers to ultimate users.

Functions:

Physical distribution involves a large number of activities like grading or classifying; processing, packing and storing; ordering, transporting, and transferring of title; receiving, inspecting, storing, maintaining, and selling; and insuring and paying. It is applicable to raw materials and finished products.

(i) Order processing

(ii) Handling products

(iii) Sorting and packing

(iv) Warehousing

(v) Transportation

(vi) Insurance and banking

(vii) Inventory control

(viii) Customer service, etc.

4. Costs:

Distribution involves, in an average, 20% to 25% costs. Main components of costs involve grading or processing, storing, moving, charging, insuring, damage or loss during movement, delivering to customers, and clearing bills. These all costs can be reduced to a great extent by a suitable distributing system.

5. Utility Creation:

Physical distribution creates time and place utility. Products manufactured at a particular point can be made available to different destinations in time. Consumers have more ease and freedom to buy the required quantity of products as and when they need. The right distribution can add to the total consumer satisfaction. Wide availability at all the times can help buyers and sellers.

6. Role:

Physical distribution plays a decisive role in determining overall success of any product. Just by establishing a suitable distribution system, a company can offer additional benefits to buyers. Availing products regularly and at reasonable price where and when consumers demand depends largely on physical distribution. It is treated as an important tool for survival and growth.

7. Flexibility:

Physical distribution is flexible in nature. How a product can be distributed is dependent upon various factors. So, distribution decision is the individual decision of the firm and it depends on nature of product, management philosophy, financial and human abilities of the firm, availability of quality and quantity of auxiliary services, demand of products, government rules and restrictions, and likewise. Every company designs its distribution network as per its needs and forces of external environment.

Objectives/Importance of Physical Distribution:

Basically, physical distribution is aimed at availing the products to consumers smoothly at low cost. It stresses on achieving the righteousness in all the significant aspects of physical distribution, i.e., the right product, at the right time, at the right place, in the right manner, for the right people, and at the right price/cost. It balances between the price and the services.

The main objectives can be stated as under:

1. To Ensure Consumer Convenience:

It is the primary objective of physical distribution. The right kind of distribution can increase consumer convenience. They can buy the product as per their needs at any time from the convenient place, even at reasonable price. Similarly, middlemen involved in physical distribution, who sell products of various companies, can offer consumers a chance to select the most suitable products. Smooth and continuous flow of goods can add to total consumer satisfaction.

2. To Facilitate Continuous Production:

Distribution is directly beneficial to producers. Continuous production contributes a lot to distributors, consumers, and society at large. An efficient distribution network facilitates continuous production because of sophisticated storing facility, rapid means of transportation and communication, access to global market, advance ordering, buying incentives to sell in off--seasons, rapid ordering and executing, etc.

3. To Achieve Economy:

To economize distribution is one of the objectives of physical distribution. A suitable distribution system results into lowering overall costs in a number of ways. Speedy order processing, availability of the latest transportation and communication, benefits of scale of economy, rapid sales turnover, insuring the products, and many other similar benefits lead to low costs, and ultimately low selling price.

4. To Reduced Degree of Damage/Wastage:

A company can reduce product damage that takes place during storage, transportation, and handling. Also, availability of insurance at a lower premium can reduce considerable risk during storage and transportation. Use of cold storage, rapid and safe means of transportation, and other facilities relating to distribution can reduce damage or wastage of product. Reduced damage and better quality significantly contribute to success of product.

5. To Increase Competitiveness:

Today's market is characterized by cut-throat competition. All sellers are fighting for better offers to their consumers. A company can increase its competitive strengths by a systematic distribution network. Many companies can distinguish their offers by availing products differently than competitors. Effective distribution affects positively to services, availability, timing, price, and similar benefits. Undoubtedly, if all the components of distribution work effectively, physical distribution can be a powerful means to fight with competitors.

6. To Lower Idle Stocks:

This objective relates with inventory control. Producers and distributors can minimize reordering size or safety margin by effective distribution system. Due to speed and precision in placing and executing orders, and advanced ordering by distributors, they are not required to maintain more stock of the finished products. This facility can reduce overall inventory costs and need of working capital.

7. To Ensure Continuous Availability:

This objective concerns with offering direct benefit to consumers. Due to wide availability of products, consumers are not required store the essential commodities. They can buy the right quantity as and when they need. It leads to several benefits to consumers.

8. To Achieve Rapid Turnover of Stock:

Physical distribution is also targeted to speed up turnover of stocks. From investment of cash in raw materials to realization of cash through the sales of finished can be speeded up. Stocks can be speedily converted into cash. So, the duration of working capital cycle can be reduced, and need of working can be minimized.

Part A (ONE Mark)

Multiple Choice Questions

Online Examination

Part B

(2 Marks)

1. State the types of Direct Channels.
2. Define Indirect Distribution Channel.
3. List the importance of International Channel Decision
4. State the objectives of Physical Distribution.
5. What is International Logistics?

Part C (8 Marks)

1. Explain the different types of International Distribution Channels.
2. State the nature of Physical distribution. Also explain the International Physical distribution decisions.
3. What is the scope of International Channel Decision? Discuss in detail the various channels between the nations.
4. Enumerate the factors affecting International Channel Decision.
5. Describe the various International Logistics Decision.
6. Explain the barriers to International Logistics.
7. Enumerate the functions of International Distribution channel.
8. Explain the importance of International Channel Decision.

Questions	Opt 1	Opt 2	Opt 3	Opt 4	Answer
Marketing channel that involves no intermediaries to made their products available to final buyers is classified as…………….	direct channel	indirect channel	flexible channel	static channel	direct channel
Process of managing upstream and downstream of final goods, flow of raw materials and information about resellers and final consumers is classified as……………..	marketing logistics network	supply chain manageme nt	delivery network	physical distribution network	supply chain managem ent
Network of delivering products to customer which is composed of distributors, suppliers and manufacturing company is classified as……………	supply chain managemen t	marketing channels	delivery channels	value delivery network	value delivery network
In marketing intermediaries, way of distribution in which few dealers distribute company's product in selective territories is classified as……………	selective distribution	intensive distributio n	inclusive distribution	exclusive distribution	exclusive distributio n
If company A works through website and sell its handbags only having no outlets anywhere then channel used by company A is called……………	flexible channel	static channel	direct channel	indirect channel	direct channel
Marketing logistics are also called as……	physical distribution	supply chain manageme nt	exclusive distribution	exclusive dealing	physical distributio n
A company's channel decisions directly affect every…………	employee in the channel	channel member	competitor' s actions	marketing decision	marketing decision
A channel consisting of one or more independent producers, wholesalers or retailers that are seeking to maximize their own profits even at the expense of profits for the channel as a whole is a ………..	administere d vertical marketing system	vertical marketing system	convention al distribution channel	vertical distribution structure	conventio nal distributio n channel
An advantage of a channel of distribution over selling direct to consumers is that each channel member plays a……………. in the channel.	specialized role	disciplinar y role	time-saving part	information al role	specialize d role
Channel members should be evaluated using all of the following criteria except which one?	control	economic factors	adaptive criteria	channel leadership	channel leadership
Companies manage their supply chains through………………	transportati on modes	competitor s	information	skilled operators	informatio n

Companies should state their channel objectives in terms of targeted levels of …………..	customer service	fair prices	efficiency and reduced conflict	profitability	customer service
From the economic system's point of view, the role of marketing intermediaries is to transform the assortment of products made by producers into the assortment of products wanted by……………....	channel members	distributors	manufacturers	consumers	consumers
Intermediaries play an important role in matching …………………	supply and demand	information and promotion	manufacturer to product	dealer with customer	supply and demand
It is common for international marketers to……………...their channel strategies for each country.	seek approval for	eliminate	adapt	extend	adapt
When suppliers, distributors, and customers partner with each other to improve the performance of the entire system, they are participating in a ……………..	value delivery network	supply chain	supply and demand chain	demand chain	value delivery network
Which of the following is not a key function that intermediaries play in completing transactions?	promotion	negotiation	information	financing	financing
Which of the following is not a typical supply chain member?	wholesaler	reseller	customer	producer	producer
Which type of product might require a more direct marketing channel to avoid delays and too much handling?	perishable products	products in their decline stage	products in their maturity stage	lower-priced products	perishable products
Rolex watches can only be found in a limit	exclusive dis	high-end di	intensive distribution	quality distribution	exclusive distribution
Foreign distributor is to carry out distribution in ……………………	India	Overseas	Within the state	Both domestic and National	Overseas
Foreign distributor works for…………….	Suppliers	Retailers	Manufactureres	End consumers	Manufactureres
Overseas distributor is a (n)…………..	Indirect Channel	Multi channel	Omnichannel	Direct Channel	Direct Channel
…………must be channeled through the distributors	Orders	materials	sub components	information	Orders

Foreign distributors purchase the commodities from……………..	Suppliers	Manufactu reres	wholesalers	End consumers	Manufact ureres
The relationship between the manufacturer and distributor is established by………………..	contract	friendly	collaborati on	mutual understandi ng	contract
Foreign distributor depends on……………	Manufactur er	supplier	Retailer	independent merchant	independe nt merchant
Foreign distributor is required …………facilities to carryout distribution function.	godown	warehouse	shop	internet	warehous e
Foreign retailer is a……………	Indirect Channel	Multi channel	Omnichann el	Direct Channel	Direct Channel
Foreign retailers are not required……….	suppliers	distributor s	wholesalers	manufactur ers	distributor s
Example of manufacturer direct contact with relationship……………	low volume products	chemicals	Automobil e-high volume	Industrial products	Automobi le-high volume
State Controlled trading company is a ………….	Indirect Channel	Multi channel	Omnichann el	Direct Channel	Direct Channel
State controlled company is influenced by……………	government trade policies and politics	Distributor s	Manufactur ers	Retailers	governme nt trade policies and politics
A problem with manufacturers to endusers………..	Duty and clearance problem	complex network	costly products	EXIM problem	Duty and clearance problem
Manufacturers sell their products through intermediaries………….	Indirect Channel	Multi channel	Omnichann el	Direct Channel	Indirect Channel
The difference between the domestic Agent and Domestic Merchant is…………..	Ownership	strong relation	weak tieup	possession of goods	Ownershi p
Domestic agent never takes………..of goods	Ownership	Cost	Subsidiary	responsibilit y	Ownershi p
……own the merchandise.	Domestic Agent	Manufactu reres	Domestic Merchant	Suppliers	Domestic Merchant
The one who never takes title to the goods……………	Domestic Agent	Manufactu reres	Domestic Merchant	Suppliers	Domestic Agent
…………….makes a contract with manufacturer.	Domestic Agent	Manufactu reres	Domestic Merchant	Suppliers	Domestic Agent
Export broker represent the interset of the…………..	buyers	consumers	supliers	manufactur ers	manufactu rers

Export broker is to bring…………...together.	Supliers and manufacturers	Wholesalers and retailers	Banks and firms	Buyers and sellers	Buyers and sellers
Export broker would get…………	salary	wages	fee	commision	fee
Export broker is………………	take title to the goods	middlemen	relationship with manufacturer	not take possession of goods	not take possession of goods
…………may work either an exclusive or non exclusive basis.	Manufacturers	Agents	Brokers	Manufacturer's Export Agent	Manufacturer's Export Agent
Manufacturer's Export Agent may present issues to manufacturers……….	contract	Advertising, credit assistance	Financial limitation	Resource issues	Advertising, credit assistance
EMC means………………	Export Management Company	Export Manufacturer Company	External Management contract	External Manufacturer contract	Export Management Company
EMC handles the………………	National Marketing activities of manufactureres	Export and Import only	Manufacturers' International Activities	Production function	Manufacturers' International Activities
……………would help for marketing of SMEs product in overseas market.	EMC	Manufacturer's Export Agent	Sales representative	Export Brokers	EMC
Cooperative Exporter is a…………….	Retailers	Agents	Manufacturer	Distributor	Manufacturer
Cooperative Exporter is also referred to as………………..	piggyback	Agents	Retailer	consumers	piggyback
Who is called mother hen?	Agent	consumers	Manufacturer	Cooperative Exporter	Cooperative Exporter
An export agent represents…………..	buyers	sellers	consumers	Government	sellers
A purchasing agent represents…………	Seller	Manufacturer	consumers	Foreign buyer	Foreign buyer
Export drop shipper is also known as……….	seller	merchant	Agent	Desk jobber	Desk jobber
A manufacturer to drop ship a product directly to the…………..	local customer	overseas customer	suppliers	Agents	overseas customer

Transporting and storing goods is part of which of the following marketing channel functions?	negotiation	physical distributio n	contact	matching	physical distributio n
A ……………..is a set of interdependent organizations involved in the process of making a product or service available for use of consumption by the consumer or business user.	retailer	wholesaler	distribution channel	middleman	distributio n channel
Karen is studying the potential for selling her company's products in China. As part of her analysis, she is assessing the number, types and availability of wholesalers and retailers. Karen is studying the country's	Natural conditions	Technolog ical feasibility	Social and cultural norms	Distribution structure	Distributi on structure
With respect to a channel of distribution, the number of intermediary levels within the channel indicates the…………………..of a channel.	width	depth	length	similarity	length

UNIT-II- Mode of International Transportation

SYLLABUS

Transportation – Importance of effective transportation system, service choices and their characteristics, cost characteristics and role fixation, In-company management vs. outsourcing, shipping structure – Sea borne trade, International shipping characteristics, Important international sea routes, Liner & tramp operations, Liner freighting, CFC and ICD, Indian shipping – Growth, Policy and Problems, Major Indian ports, International Air Transport, freight rates, India's exports and imports by air – problems and prospects.

Introduction:

Transportation moves products to markets that are geographically separated and provides added value to customers when the products arrive on time, undamaged, and in the quantities required. In this way, transportation contributes to the level of customer service, which is one of the cornerstones of customer satisfaction: an important component of the marketing concept.

Transportation is one of the largest logistics costs and may account for a significant portion of the selling price of some products. Low value-per-pound products such as basic raw materials (eg: sand and coal) are examples. Transportation costs for computers, business machines, and electronic components may be only a small percentage of the selling price. Generally, the efficient management of transportation becomes more important to a firm as inbound and outbound transportation share of product cost increases. Even with high-value products, expenditures for transportation are important although the percentage of selling price may be low, primarily because the total cost of transportation in absolute terms is significant.

Total cost approach to logistics:

Total cost analysis is the key to managing the logistics function. Management should strive to reduce the total cost of logistics rather than the cost of each activity. So logistics must be viewed as an integrated system rather than the individual system, because reduction in one cost invariably lead to increase the cost of other components. Effective management and real cost savings can be accomplished only by viewing logistics as an integrated system and minimizing its total cost given the firms customer service objectives. So the main costs which are involver are

(1) Customer service level

(2) Transportation costs

(3) Warehousing costs

(4) Order processing and information costs

(5) Lot quantity costs

(6) Inventory carrying costs Customer service level: Most business people find it difficult, if not impossible to measure this cost. The cost associated with alternative customer service levels is the cost of lost sales(not only the margin lost by not meeting current sales demand, but the present value of all future contributions to profit forfeited when a customer is lost due to poor availability, long lead times, or other service failures).

By comparing total logistics system costs, management can make knowledgeable judgment about the likelihood of recovering, through increased sales, the increase in total system costs brought about by an increase in customer service levels. Of course, management could also reduce spending in some other to component of the marketing mix – promotion, for example – in order to maintain profits with a similar sales volume. Likewise, with decrease in customer service levels, management can improve profitability or increase expenditures for other 208 components of the marketing mix in an effort to maintain or improve market position. At the end the goal is to determine the least total cost method of logistics while keeping customer service objectives in mind.

Transportation costs: Costs associated with the transportation function can be identified in total and be segments (i.e. inbound, outbound, by vendor, by customer, by mode, by carrier, by product, or by channel). This detail is necessary to determine the incremental costs associated with changes in the logistics system.

If Transportation costs are not currently available in any other form, management can determine them at a relatively low cost by sampling product flows and auditing freight bills (for common carriers) or corporate accounting records (for private fleets). Warehousing costs: Warehousing costs are all the expenses that can be eliminated or that must be increased as a result of a change in the number of warehousing facilities. Warehousing costs should be separated into two distinct categories:

a) Throughput costs

b) Storage costs

Throughput costs: These costs are associated with selling product in a given market by moving it into and out of a warehouse in that market, and the fixed costs associated with the facility. Example is charges that public warehouses assess for moving product into and out of their facilities, and the costs of leased and owned facilities for the movement of the goods.

Storage costs: Warehousing costs related to inventory storage should be included in inventory carrying costs. These warehousing costs change with the level of inventory held in a 209 specific warehouse and tend to be negligible in a company- owned or leased warehouse. Throughput costs should be included instead in warehousing costs so that the increments can be easily added or subtracted when the logistics system configuration system changes. Order processing and information costs:

Order processing and information costs include the cost of order transmittal, order entry, order processing, related handling costs, and associated internal and external communication costs. When establishing these costs management should remember to include in the analysis only those costs that will change with decision being made. Lot quantity costs Lot quantity costs are those production related or purchasing/acquisition costs that will change as a result of a change in the logistics system. Generally it consists of production preparation costs, capacity lost due to changeover, materials handling, scheduling and expediting. The lot quantity costs associated with purchasing are the costs of buying in various quantities. Inventory carrying costs: Conceptually inventory carrying costs are the most difficult costs to determine next to the costs of lost sale. Inventory carrying costs should include only those costs that vary with the level of inventory stored and that can be categorized into 4 costs.

a) Capital costs

b) Inventory service costs

c) Storage space costs

d) Inventory risk costs.

In sourcing Vs Out sourcing:

The primary difference between outsourcing and insourcing is the method in which work is divided between various companies or departments for strategic purposes. Other differences between these two business practices include control, costs, location and resources.

Insourcing is a business practice performed within an organization's operational infrastructure. Outsourcing, on the other hand, enlists the help of outside organizations not affiliated with the company to complete specific tasks. As a result, these differences effect cost, location and resource aspects of the organization, which influences decision making.

The cost associated with insourcing is different from the cost associated with outsourcing. Insourcing is typically more expensive for an organization as a result of implementing new processes to start a different division of the organization. Outsourcing uses the developed workforce of an outside organization to perform tasks.

Resources are another major difference between these two business practices. Outsourcing uses the resources of an outside organization for services and manufacturing products. Insourcing utilizes developed resources within the organization to perform tasks or to achieve a goal. For example, an organization may insource technical support for a new product as a result of having technical support setup for another product within the organization.

The organization's control over operations and decision making differs while using outsourcing and insourcing. Organizations that use outsourcing for a particular service or manufacturing process have minimal managerial control over the methods of an outside organization. For instance, an organization that is renowned for friendly customer service does not have the ability to enforce or manage how an outside support center interacts with customers.

Location is another difference between outsourcing and insourcing. Insourcing places new operations and processes on-site within the organization, whereas outsourcing involves an outside organization generally away from the primary organization's operations.

Modes of transportation used in national and international logistics and supply chain management can be grouped under five models. They are rail, highway, water, pipeline, and air. The relative importance of each mode can be measured in terms of system mileage, traffic volume, revenue, and the nature of traffic composition. Each mode is discussed with respect to these measures.

1. **Motor Carriers :** Highway transportation has expanded rapidly since the end of World War II. To a significant degree the rapid growth of the motor carrier industry results from doorto-door operating flexibility and speed of intercity movement. Motor carriers have flexibility because they are able to operate on all types of roadways. In comparison to railroads, motor carriers have relatively small fixed investments in terminal facilities and operate on publicly maintained highways. Although the cost of license fees, user fees, and tolls is considerable, these expenses are directly related to the number of over-the-road units and miles operated. The variable cost per mile for motor carriers is high because a separate power unit and driver are required for each trailer or combination of tandem trailers. Labor requirements are also high because of driver safety restrictions and the need for substantial dock labor. In comparison to railroads, motor carriers are best suited to handle small shipments moving short distances.

The characteristics of motor carriers favor manufacturing and distributive trades, short distances, and high-value products. Motor carriers have made significant inroads into rail traffic for medium and light manufacturing. Because of delivery flexibility, they have captured almost all freight moving from wholesalers or warehouses to retail stores. The prospect for maintaining stable market share in highway transport remains bright. The primary difficulties relate to increasing cost to replace equipment, maintenance, driver wages, and platform and dock wages. Although accelerating labor rates influence all modes of transport, motor carriers are more labor-intensive, which causes higher wages to be a major concern. To counteract this trend, carriers have placed considerable attention on improved line-haul scheduling that bypasses terminals, computerized billing systems, mechanized terminals, tandem operations that pull two or three trailers by a single power unit, and utilization of coordinated intermodal systems. These enhancements reduce labor intensity and, thus cost. Specialty carriers include package haulers 'such as Federal Express and United Parcel Service. These firms focus on specific requirements of a market or product. Despite the aforementioned problems, it is quite apparent that highway transportation will continue to function as the backbone of logistical operations for the foreseeable future.

2. Rail Network Historically, railroads have handled the largest number of ton-miles continental. As a result of the early establishment of a comprehensive rail network connecting almost all cities and towns, railroads dominated intercity freight tonnage until after World War II. This early superiority resulted from the capability to transport large shipments economically and to offer frequent service, which gave railroads a somewhat monopolistic position. However, with the advent of serious motor carrier competition following World War II, the railroads' share of revenues and ton-miles started to decline. The capability to efficiently transport large tonnage over long distances is the main reason railroads continue to handle significant intercity tonnage and revenue. Railroad operations incur high fixed costs because of expensive equipment (track) , switching yards, and terminals. However, rail experiences relatively low variable operating costs. The replacement of steam by diesel power reduced the railroads' variable cost per ton-mile, and electrification offers potential for more reductions. New labor agreements have reduced workforce requirements, further decreasing variable costs.

3. Water Transport: Water is the oldest mode of transportation. The original sailing vessels were replaced by steamboats in the early 1800s and by diesel power in the 1920s. A distinction is generally made between deep-water and navigable inland water transport. The main advantage of water transportation is the capacity to move extremely large shipments. Water transport employs two types of vessels. Deep-water vessels, which are generally designed for ocean and Great Lakes use, are restricted to deepwater ports for access. In contrast, diesel-towed barges, which generally operate on rivers and canals, have considerably more flexibility. Water transport ranks between rail and motor carrier in respect to fixed cost. Although water carriers must develop and operate their own terminals, the right of way is developed and maintained by the government and results in moderate fixed costs compared to rail and highway. The main disadvantages of water transport are the limited range of operation and speed. Unless the origin and destination of the movement are adjacent to a waterway, supplemental haul by rail or truck is required. The capability of water to carry large tonnage at low variable cost places this mode of transport in demand when low freight rates are desired and speed of transit is a secondary consideration. Typical inland water freight includes mining and basic bulk commodities such as chemicals, cement, and selected agricultural products. In addition to the restrictions of navigable waterways, terminal facilities for bulk and dry cargo storage and loadunload devices limit the flexibility of water transport. Labor restrictions on loading and unloading at docks create operational problems and tend to reduce the potential range of available traffic. Finally, a highly competitive situation has developed between railroads and inland water carriers in areas where parallel routes exist.

4. Pipelines: It operates on a twenty-four-hour basis, seven days per week, and are limited only by commodity changeover and maintenance. Unlike other modes, there is no empty "container" or "vehicle" that must be returned. Pipelines have the highest fixed cost and lowest variable cost among transport modes. High fixed costs result from the right-of-way, construction and requirements for control stations, and pumping capacity. Since pipelines are not labor-intensive, the variable operating cost is extremely low once the pipeline has been constructed. An obvious disadvantage is that pipelines are not flexible and are limited with respect to commodities that can be transported: only products in the form of gas, liquid, or slurry can be handled.

5. Air Transport : The newest but least utilized mode of transport is air freight. Its significant advantage lies in the speed with which a shipment can be transported. A coast-tocoast shipment via air requires only a few hours contrasted to days with other modes of transportation. One prohibitive aspect of air transport is the high cost. However, this can be traded off for high speed, which allows other elements of logistical design, such as warehousing or inventory, to be reduced or eliminated. Air transport still remains more of a potential opportunity than a reality. Although the mileage is almost unlimited, airfreight accounts for significantly less than 1 percent of all intercity ton-miles. Air transport capability is limited by lift capacity (i.e., load size constraints) and aircraft availability. Traditionally, most intercity airfreight utilized scheduled passenger flights. While this practice was economical, it resulted in a reduction of both capacity and flexibility. The high cost of jet aircraft, coupled with the erratic nature of freight demand, has limited the assignment of dedicated planes to all-freight operations. However, premium air carriers such as Federal Express and United Parcel Service Overnight provide dedicated global freight operation. While this premium service was originally targeted at documents. it has expanded to include larger parcels.

For example, both United Parcel and Federal Express have extended their air freight service to include overnight delivery from a centralized distribution center located at their air hub. This is an ideal service for firms with a large number of high-value products and time-sensitive service requirements. The fixed cost of air transport is low compared to rail, water, and pipeline. In fact, air transport ranks second only to highway with respect to low fixed cost. Airways and airports are generally developed and maintained with public funds. Likewise, terminals are normally maintained by local communities. The fixed costs of airfreight are associated with aircraft purchase and the requirement for specialized handling systems and cargo containers. On the other hand, air freight variable cost is extremely high as a result of fuel, maintenance, and the labor intensity of both in flight and ground crews.

The following factors can be considered for the selections of international carrier .They are as follows:

1. Transportation cost-This includes Rates, minimum weight, loading and unloading charges. 2. Transit time- is the total time that elapses from the time the consigner makes the goods available for dispatch until carrier delivers same to the consignee.

3. Reliability- Refers the consistency of the transit time a carriers provides.

4. Capability-Refers to the carrier‟s ability to provide the equipment and facilities that is required for the movement of particular commodity.

5. Accessibility-Refers to carrier‟s physical access or geographical limits.

6. Security- Concern the arrival of good in the same condition.

General structure of liner and tramp operations

Liner conference: A liner conference is a group of two or more vessels operating carriers which provides international liner services for the carriage of cargo on a particular route or routes within specified geographical limits on uniform or common freight rates and on other mutually agreed conditions. A liner services provides

(1) Regularity of sailings to scheduled ports of call

(2) Stability of freight rates for a relatively long period of time which enables shippers to quote CIF prices.

(3) Uniform rates for all shippers

(4) Coverage of a wide range of ports: and

(5) Rebates on freight rates based on loyalty agreements. There are over 360 liner conferences in the world which cover various trades. As distinguished from a conference, a rate agreement merely

specifies the conditions under which the signatories to the agreement have to charge freight rates. There are 3 rebate systems in operation for this purpose.

(a) Deferred rebate system Here a shipper who utilizes exclusively the vessels of the member lines of the conference for the carriage of cargo between the ports covered by the conference, receives a rebate of a certain percentage (usually ten percent of freight payments).

The rebate is computed for a designated period (shipment period), which is normally three to six months, but is paid after the same period (deferred period) of time following the shipment period, on the condition that the shipper gives his exclusive support to the conference lines, both during the shipment period and the deferred period.

(b) The dual rate system: If the shippers sign a contract with the conference for exclusive patronage, they get the benefit of rates which are lower than the rates applicable to noncontact shippers.

(c) Immediate rebate system: Here, the contract shippers are given cash or immediate rebate (usually9.5%) of freight on shipment of their cargoes. This procedure helps shippers to obtain their rebate straightway, without blocking money, as in the deferred rebate system. Tramp shipping:

Under tramp shipping, ships are charted in one or the other of the following forms:

(i) Voyage charter Here, ships are chartered for a specific voyage, e.g., Chennai to Singapore to carry 5000 tons of ore. Normally, traders prefer to go in for the voyage charter.

(ii) Time charter Here, the ship is chartered for a specific period of time, e.g., from 1st January to 31st June. The chatterer may employ the ship on the basis of own requirements.

(iii) Demise charter Here, the ship without floating personnel, fuel, etc is chartered on a time- charter basis. The chartered has to equip the ship with floating personnel, fuel and other necessaries and operate the ship. Normally, a ship owner or prospective ship owner prefers this method. After the fixture is made, the documents, called the charter parties, are drawn up. There are different charter parties for different modes of charter and for different trades.

Freight rate for any mode of transport are based on the following principles:

1. Freight should cover the actual cost of transport operations. The actual cost of operation depends on the following factors.

(a) freight costs: Freight should cover interest on capital, depreciation, registration and insurance expenses of a vehicle, if applicable general upkeep of the vehicle, administrative overheads, and expenditure on other fixed facilities etc

(b) semi fixed cost Freight should cover the salary of the driver, cleaner, conductor and miscellaneous maintenance expenses, which vary partially with the running of the vehicle.

(c) variable cost Freight should cover the cost of fuel, lubricating oil and accessories which is incurred when the vehicle is on the move and the cost of repairs and maintenance directly attributable to the particular journey. These expenses are generally directly proportional to the distance over which cargo is to be moved. But freight must take into account damage to the vehicle and the consignment enrooted. Damage to vehicles or consignment is greater on bad routes; for example hilly roads command higher freight rates. Sea rates for consignments passing through hazardous or war – torn areas are also higher.

(d) vehicle utilization: A transporter is interested in getting the maximum mileage out of his vehicle. He would like to move it all top speed to cover the distance in as short a time as possible (I) If the consignments loaded or the route covered is not conducive to this objective for whatever reasons; the transporter would quote higher freight rates.

(ii) Higher freight rates are also quoted when vehicles are detained at terminals either for certain formalities, terminal congestion in busy ports or at factory gates, or while waiting for loading or unloading operations. Terminal detentions are invariably accounted for in the freight rates themselves, but they normally not noticed at all.

(iv) Freight rates take into account the expectation of obtaining a return trip with a load. If considerable empty movement of vehicles is involved after unloading, or if vehicles have to wait for another load, higher freight rates are quoted.

(v) Vehicle utilization is affected by the nature of goods. Hazardous goods which are prone to damage, or which are likely to cause damage to other consignments or the vehicle itself, attract higher freight rates.

More over, consignments which can be loaded less by weight in a vehicle attract higher unit freight rate since they yield poor utilization of vehicle. 2. Traffic bearing capacity: an age – old consideration for quoting freight rates is the doctrine of what the traffic can bear. Transportation adds place utility to goods, for it makes them marketable at another place. However after the addition of the cost of transport, the price of goods should be such that it is still attractive to the buyer. This will depend on the nature of the commodity. 3. Public use: freight rates all over the world are governed by the consideration that consignments required for public use will be carried at lower rates than others.

For example food grains and salt are carried at rock bottom prices, sometimes even at those which do not cover the actual cost of operation. These rates are justified on humane grounds that items of public use should be made available to the common man at the cheapest rate.

4. government policy: freight rates are often legislated upon of framed on the basis of government directive which aim at serving one or the other stated objectives – such as promotion of certain types of trade, development of certain industries, etc. in such cases, freight rates are either depressed to promote the particular traffic or hiked to discourage a particular traffic.

5. Reasonable profit: the transporter must provide for a reasonable profit after covering the cost of operations and capital investment. This margin must give not only reasonable return on investment and compensate him for the entrepreneurial time and effort he puts in, but also provide sufficient funds for future development of his enterprise.

FAK Rates:

FAK is an abbreviation of freight all kinds. FAK rates (a single rate for all kinds of freight) are not of much relevance to liner cargo as the structured commodity tariff is the rule and FAK rates the exception.

Liner terms: Conference freight rates are quoted on liner terms. This means that liner freight is inclusive of the cost of loading the cargo onto the ship at the loading port and of unloading it from the ship at the discharge port. In other words, these costs are borne by the shipping line. Port charges do not fall into this category. These have to be borne by the shipper unless a conference freight schedule specifies its rates as inclusive of these charges.

Rate stability and increases Shipping lines profess that one positive feature of conferences is the stability of freight rates. Intended increases in current freight rates are effected by conferences only after due notice has been served on shippers of the extent of the proposed increase. About three months advance notice is generally provided. This period includes the month in which the notice is given and following two months. The freight structure and any increases are often discussed by conferences with representative bodies of shippers such as shipper's councils. Usually conferences provide full justification for freight increases, substantiating these with an analysis of movements in operating, maintenance repair and /or capital costs.

THE MAIN INTERNATIONAL SHIPPING ROUTES

Shipping routes reflect world trade flows. Sailings are most numerous and most frequent on routes where trade volumes are largest and demand is therefore greatest.

In liner trades to and from Europe, the busiest routes are to the Far East (especially China andJapan), passing through the Mediterranean, the Suez Canal and the Malacca Straits. The North Atlantic route, linking Western Europe and the USA and Canada, is also busy, and there are well-established routes to the Middle East, India, Australia and New Zealand, Central and South America, as well as to East and West Africa.

There are direct liner services from European ports to most other countries, and certainly to all the main trading economies. However, if your cargo is destined for a smaller port in one of these countries or for a port in a country with little trade with your country, there may not be a direct sailing available - in which case, your cargo will need to be transhipped to another local sailing at the end of the ocean voyage.

In bulk trades routes reflect the places of origin and consumption of the commodities carried. For example, many of the main oil routes begin in the Middle East and end in developed countries where demand for oil is greatest.

There will usually be a range of routes by which your cargo can reach its destination. It's worth exploring all the options available to find the one that best suits your needs in terms of price, speed, safety and contractual stipulations. This can be done by directly contacting those shipping companies that advertise sailings to your destination or by engaging freight forwarders to make arrangements for you.

THE COSTS OF OCEAN SHIPPING

A range of factors can influence the cost of transporting a consignment of goods by sea. There are two main elements: the ocean freight charged by the carrier, and costs associated with handling and clearing the goods at the ports of loading and discharge.

A number of factors can influence how these charges are calculated:

- for liner traffic, freight is usually charged according to the shipping company's standard tariff, although larger or frequent shippers and freight forwarders may be able to negotiate preferential shipping rates
- charter rates for other vessels depend on supply and demand conditions prevailing at the time when the charter is negotiated

However, there are many other factors that can impact on the final price, including:

- different rates for specific goods and general cargo
- congestion charges at busy ports
- currency adjustment factor (CAF), to take account of exchange rate changes during the journey - shipping costs are usually calculated and quoted in US dollars
- bunker adjustment factor (BAF), to take account of fuel price fluctuation
- surcharges (like a security surcharge) levied by ports and/or by the shipping company to cover the costs of particular regulatory regimes

Another factor that affects the cost of shipping containerised cargo is whether or not you have a full container load (FCL) to transport. Shipping companies' tariffs are based on flat per-container rates, so it is clearly most economical to ship your goods in containers that are full. If you have a less-than-container-load (LCL) consignment, it may be worth consolidating your cargo with that of other traders, so you'll only pay for the weight or volume (whichever is greater) of your own goods.

Working out the most cost-effective way to ship your goods around the world can be a complicated task. As with most services, you can research the options yourself or pay a third party (such as a freight forwarder) to handle these issues for you, finding transport modes and routes that suit your needs.

Sea Borne Trade:

The volume of exchanged goods and services between nations is taking a growing share of the generation of wealth, mainly by offering economic growth opportunities in new regions and by reducing the costs of a wide array of manufacturing goods. By 2007, international trade surpassed for the first time 50% of global GDP, a twofold increase in its share since 1950.

India's seaborne trade may cross 830 mt by 2016-17:

Growing at a compounded annual growth rate (CAGR) of over eight per cent, the seaborne trade in India may cross the 830 million ton (mt) mark by 2016-17, apex industry body ASSOCHAM said on Monday.

"This would require massive investment to the tune of over Rs 17,000 crore as there is a need to augment the port capacity by over 140 mt from the current level of about 690 mt," according to a study titled 'Shipping Industry: Today & Tomorrow,' conducted by The Associated Chambers of Commerce and Industry of India (ASSOCHAM).

"The private sector participation is imperative for such huge investments in the shipping sector," said D.S. Rawat, national secretary general of ASSOCHAM, while releasing the study.

Lack of level-playing field for private operators, hinterland connectivity, especially lack of co-ordination between road, rail and port authorities and proper risk allocation are certain key issues affecting port development in India, he said.

The government needs to act as a facilitator to create opportunities for attracting fresh investments in the shipping sector, more so as about 41 per cent of India's fleet of ships belong to the 20-year-plus age group indicating a slow rate of new fleet addition.

This augurs well for the Rs 7,300 crore worth of India's shipbuilding and ship-repair industry as 20-years-plus older ships require more frequent and extensive repair and maintenance. "However, this makes the Indian fleet less competitive as mostly young vessels below 15 years old are often preferred in international trade."

Drastic decline in share of Indian ships in carriage of overseas trade over the years is a significant concern. Indian shipping carriage dropped from about 36 per cent to just about eight per cent between 1990-91 and 2009-10. "This is causing a drain on precious foreign exchange in terms of payment of freight charges and this could instead be used for other high priority imports and scaling up infrastructure facilities."

India can save up to Rs 26,000 crore by 2016-17 if we can increase the share of coastal shipping in total traffic carriage thereby reducing the burden on other modes of transport. There is a need to encourage coastal shipping as a viable mode of bulk freight transportation as it has just about three per cent of share in carrying regional traffic.

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GENERAL STRUCTURE OF SHIPPING

Characteristics of shipping industry:

Shipping industry has certain special characters and are presented below, The permanent way: sea or ocean is a permanent way and it requires no capital expenditure in its construction like those of railways or roads or air transportation. No annual maintenance is required. It is open to all and there is freedom of movement except for restrictions imposed by the countries on their territorial waters. Although the sea routes are not required to be constructed or maintained, yet for safety and security, seas have been mapped, regular routes marked out and safety provisions like light houses and radio communications have been provided on the sea routes according to international conventions and agreements.

Terminal facilities: terminal facilities needed for ships are generally maintained by port authorities and shipping companies can avail them on payment of charges. Ports, harbors, docks and wharf, loading and unloading facilities and port installations like light houses and radio communications are maintained by the port authorities and offered to the individual shipping companies on payment. The 68 shipping companies need not invest in terminal facilities and it is this respect also that shipping differs railways and roadways. Nature of capital expenditure: capital expenditure in shipping industry depends on the type and size of the vessels selected, the nature of trade served and the time when the purchase is made. Some of the important expenditures are: Smaller capital investment: shipping requires small capital expenditure in the initial stages. Only a small investment in the purchase of ships has to be made. Once the ship leaves a seaway, ways of voyage are provided by the nature at free of cost. Since permanent way is free and is open to all under international agreements, no investment is made in construction or maintenance of sea routes. A few routes for very short distance of sea way traffic – the panama, Suez, Corinth, Kiel canals are artificial and subject to tolls, but their use is normally open to all on equal terms. A little expenditure is required to be made in light houses and radio communications, but they are maintained according to the international conventions and agreements.

The terminal facilities for harboring the ships, dock facilities, loading and unloading facilities are maintained by the port authorities and shipping companies are required to pay some dues for using them. Thus keeping in view the great importance of shipping, the capital investment is relatively very small. Capital investment is a small multiple of annual receipts: the capital investment in shipping is a small multiple of annual receipts, particularly as compared to railways. While the capital in railways is ten times great in value as the annual gross earnings in ships it is roughly equal to the gross annual earnings. But its fixed investment is relatively high in comparison with the gross earnings as against the manufacturing industries and the distributing trades in which the fixed capital forms only a small portion of annual output.

No direct relation with the volume of Traffic: since the capital investment cannot be reduced and most of the operating expenses in shipping are constant, the shipping profits very finely and quickly react to the prevailing state of the trade. During the times of depression therefore the profits of the shipping companies are very hard hit and during boom they make fabulous profits. Therefore the profits of the shipping companies are very much fluctuating and only big shipping companies having good financial backing can successfully run shipping business during depression and compensate the loss during boom. Consequently, the law of diminishing returns applies to shipping. Mobility of capital: The investment made in shipping is mainly in the ships purchased. In case one trade route is not profitable the ships can be moved to other routes and thus the investment made is not a dead loss as in the case of railways where capital is tied to the fixed routes and is completely irrecoverable. Working expenses: the working or operating expenses in shipping may be divided into constant variable charges. Constant charges are related to maintenance of ships and steamers, administration, and insurance charges. So constant charges are fixed and inflexible.

Variable charges: It represents the smaller percentage and move with the volume of traffic. They may include bunker or fuel charges: port, dock or light dues: stevedoring, loading, and unloading charges and claims of short delivery and damage of goods. Shipping income: The shipping income is derived mainly from the freight and passenger traffic, but the bulk of the income is derived from freight traffic. 70 Flag registration: In order to trade, a merchant ship must be registered with an appropriate national authority, and legally she will then be governed by the laws and protected by the country whose flag she flies. A stateless ship is internationally unacceptable and would find it virtually impossible to trade between the nations. Each and every registered merchant vessel is issued with a vital document called per certificate of registry which must be available for inspection at ports of call and which should be kept safely with the other trading documents listed earlier. This certificate a provisional document provides evidence of a ship' s entitlement to fly her national colors.

Case Study:

Varun limited, a cash rich company, is a leading fruit processing company and involved in business of fruit pulp/processed fruit and natural fruit syrup (sarbat). The fruit pulp is mainly exported and has very limited market in metros, whereas sarbat is having very good domestic market. They are selling their products under the very popular brand „Natural‟. They have a modern plant, which is located near Bhopal. The fruits purchased from various fruit cultivating areas such as grapes from Nasik, etc. to make effective localized procurement they have 4 procurement centers they have very good cold storage facilities. The fruits are transported from this procurement centre to factory using hired trucks. While transporting fruits from warehouse to factory, there were shortages and also damages /decompositions that varied from 15 to 25 % and also there were inconsistency in transit time . The „Natural‟ packaging is one of the reasons for popularity of this brand. The quality and taste of syrup had created very good consumer base for sarbat. The sarbat is sold in ten different variants and three different packaging sizes. The sarbat is sold in ten different variants and three different packaging sizes. The sarbat loses the taste if it is kept for longer period (2 months) in normal condition. The taste remains to its best if it is kept in cold condition. The sarbat is distributed through 20 different distribution centers and are equally distributed in each zone. These centers are directly reporting to factory and passes information once a week. These sarbat were packed in very strong secondary packaging, even then there were 18%t 20% damages in transit. There was excess inventory in some of the distribution centers while shortages in others. Also, specifically in summer season there were complaints about the quality (change in taste) of syrup. Entry of multinationals with synthetic sarbat increased the competition and put lot of pressure on Natural. Managing director of Varun Ltd formed a team of senior executive to come with concrete plan to fight the competition and increase market share and margin. And they decided to appoint a Logistic consultant to overcome some of the problem. The managing Director wants to appoint you as logistics consultant to solve the following problem so that the company can fight competition and increase market share and margin.

Questions:

1. Suggest proper transportation policy to ensure minimum transportation loss of fruits and Sarbat and reduction in packaging cost.
2. suggest the appropriate distribution method to maintain the quality of Sarbat
3. Develop a demand forecasting technique to take care of seasonality, reduction in inventory and shortage at some area.
4. Suggest the use of information technology to substitute maintenance of high inventory without affecting customer service level.
5. Establish connectivity between factory and distribution centers

Ocean Transportation: An introduction Seaways / waterways are the oldest mode of transport. When goods are transported through the water medium by a ship, it is called seaways transportation. Due to globalisation of the world market, seaways have a large potential for foreign trade. Throughout the world, this mode has acquired very high position due to its advantages like being the cheapest, having a larger capacity and flexibility. However, the greatest drawback of it lies in terms of slow speed.

Containers: Transportation of cargo is greatly facilitated through containerisation and packaging developments. Containerisation is putting goods in boxes or trailers that are easy to transfer between two transportation modes. They are used in multi-modal systems commonly referred to as piggyback, fishy back, tranship or air truck.

Types of containers:

1. End loading: Fully enclosed, equipped with end – doors, suitable for general cargo. It is basic intermodal container.
2. Side loading: fully enclosed, equipped with side door for use in stowing and discharge of cargo.
3. Open top: used for carriage of heavy, bulky or machinery items where loading or discharge of the cargo through end or side door is not practical. Most open top containers are equipped with fabric

covers. Some open top versions are filled with removal hatch – panel covers of a detachable full size metal roof.

4. Ventilated: for cargoes which should not be exposed to rapid or sudden temperature changes, ventilated versions are available.

5. Refrigerator: also known as refer container. Insulated and equipped with a built in refrigeration system, powered by direct electrical connection or by diesel or gasoline generator used primarily for refrigeration of frozen foods.

6. Dry bulk: designed for carriage of dry bulk cargoes such as chemicals and grains.

7. Liquid bulk: tank type containers for carriage of goods

8. Flat rack: available in a variety of sizes and models, the flat racks are used for lumber, mill products, large heavy or bulky items or machinery & vehicles. Some are equipped with removable sides and fabric covers.

9. Livestock: containers for livestock carriage. These containers are available for transporting poultry, cattle, and other livestock.

Container Freight Station and ICD

At a container port, ISO containers move from ship to railway wagons through various stages from ship to berth, berth to container, container yard to container freight station (CFS) and from there to railway marshalling yard. At these stages, the handling of containers in the CFS is of great importance and much of the success of handling international containers depends upon the design, planning and operations of the container freight station.

A CFS is a station is an enclosed area where rail and road facilities are provided for the transfer of containers between road and road and between road and rail units. It contains facilities of mobile and static cranes, warehouses for goods, customs clearance sheds etc.

The main activity of CFS is to ensure that a container is ready for onward movement either towards the ship or towards the hinterland by road or by rail. Containers arrive at the CFS in an empty or loaded condition by road, rail, or ship, either in break- bulk condition or in container loads.

It is the function of the CFS to match the goods and containers after observing the prescribed formalities and move them forward in an empty or loaded condition. The goods for export, which may arrive in a bulk condition at the CFS are stuffed into containers for easy handling and transport by ship. The less than container loads (LCLS) Arriving from different places is stripped and the contents are reformed into full container loads (FCL) at the CFS. The empty containers are sent to the places where they are required.

The main facilities provided by CFS are:

1) Warehouses

2) Stripping and stuffing stations, where containers are destuffed and stuffed – these activities have to be performed in separate allotted areas to avoid a mix up contents.

3) Separate stacking areas for loaded containers meant for export and import and keeping empties.

4) Container park area.

5) Back up, storage, workshop, fuelling station, tractor trailer park, fire station.

6) Roads and parking area for road units

7) Receipt and despatch facilities including offices. To achieve a smooth flow of movement, the CFS provides for a road and rail interface with areas gradated for import and export activities. CFS handles goods arriving for export by rail as well as by road. It is not necessary that goods arriving by road should come in containers. Some of the goods by road may reach in bulk condition. At the CFS, such goods are stuffed into containers.

The size of a CFS is determined on the basis of the traffic offered, the frequency of services and time required for completing the operations and formalities. At the CFS an area for seven day storage on an average stack of 1.5 containers high basis may be provided. Stripping and stuffing stations are provided with covered area. The location of CFS should not be an obstacle to the future development of the port. Nor should it take away the area behind the port's active zone which is required for such support facilities as storage, shed, workshop facilities, maintenance shops, repair shops for sick containers, buildings for various offices etc.

The location of the CFS should be away from the berthing place and the container yard, so that sufficient land is available for back up facilities required not only now but also 30 to 40 years. CFS should also facilitate centralisation of customs inspection. Therefore it should be a bonded area.

Inland Container Depots or Dry ports: With the increase in containerisation of cargo all over the world, the ICD have assumed an important role in the logistics chain. A lot still needs to be done to upgrade the existing facilities at ICDs The waiting time of containers before loading them on block trains at ICDs is high. For imports: the container take on an average 15-18 days before they leave the gateway ports. The surprising things are that the same goods coming from the UK to India takes only 24 days. Container delays at Indian ports cost approximately US $ 70 million a year, putting us at the cost disadvantage. With the passing of multi modal transport of goods act 1993 to promote inter modal transport, development of ICDs have become of paramount importance to facilitate „door to door‟ delivery concept. Private sector takes the lead in developing ICDs either by joint venture or other acceptable mode of participation. Electronification of ICDs and customs with the user should be initiated on a priority basis. As export and import of cargoes in India started rising, use of containers has been on the rise. These containers were however handled mainly at the major ports leading to slackened cargo movements. This led to the formation of container depots in link with CONCOR to undertake the transport of the containers. This system of linking of gateway ports through railways was approved and the Indian railways were entrusted with the work.

Inland container Depots were established at the following places by the Ministry of commerce, Govt of India.

1. Anaparthi
2. Bangalore
3. New Delhi
4. Guntur
5. Tirupur
6. Coimbatore
7. Hyderabad

MULTIMODAL TRANSPORTATION AND CONCOR:

CONCOR was incorporated in March 1988 under the Companies Act, and commenced operation from November 1989 taking over the existing network of 7 ICDs from the Indian Railways. The company was set up with the objective of developing multi modal logistics support for India's International and Domestic containerized cargo and trade. The task was to provide customers with the advantages of direct interaction and door to door services that formed the backbone of road transport, while capitalizing on the robust and more economical option of rail movement on the Indian Railways network. CONCOR - The Multimodal Logistics Professionals Ever since globalization transformed the transport sector, national boundaries have become permeable to penetration by trade, creating the need for flexible transport solutions. Intermodalism and containerization were the by-products of this era and were poised to metamorphoses transport of "general cargo", moving it 'seamlessly' through sea and land arteries. Forty years ago, the physical process of exporting or importing goods was arduous. Goods needed to be transported by lorry to the port, unloaded into a warehouse and then reloaded into the ship 'piece by piece'. Malcolm McLean's idea of containerization changed the basics of cargo transport by standardizing the dimensions of the container and simultaneously improving the productivity of ports by mechanizing handling of container-carrying 'cellular' ships and reducing their handling to a few hours only. Unitisation helped elimination of multiple handling of cargo and made transfers quick, cheap and easy. As containerization came to stand for 'cargo care', it grew by leaps and bounds the world over.

Multimodal transport system: As know every mode of transport has its own strengths and weakness in absolute as well as relative terms. These strengths and limitations put challenges and opportunities before surviving and growing in the competitive environment.

Further more, challenges before the transportation industry have further been intricate in the last two decades, mainly due to growing awareness about the alluring contribution of logistics and supply chain management for sustainable growth of the corporate enterprises.

That is why after realizing their limited strengths and emerging challenges, various modes of transport have started cooperating with each other to pool their recourses and facilities so as to have a win – win situation to all while meeting the service expectation of their customers. The beginning of the state of the art transport technology has given the impetus to the concept of multi modal transportation, emphasizing the coordination of two or more modes to transport rather than in competition with each other.

Multimodal transport system has been defined as the carriage of goods by at least two different modes of transport on the basis of a multi-modal transport contract from place in one country to a place designated for delivery situated in a different country. In another definition, multimodal describes a shipment that takes several different means of transportation - road, rail, ocean, air, - from its point of departure to its point of destination.

This meaning has evolved recently to limit the use of this term to freight for which a single bill of lading covering more than one of these alternatives is issued. In Multimodal transport system, one transport document, and one rate and through liability are used. Multimodal transport, an old concept is a term used to describe the linking of transport responsibilities, documentation and liability in the movement of goods (by land, sea, and air) using the existing infrastructure. This linking results in improved transport efficiency and provides the user with a single point of responsibility and grater cost transparency.

The ultimate aim of multi – modelism is to make the movement of goods from seller to buyer more efficient through faster transit at reduced costs. Multimodal transport brings benefits by enabling exports to be placed in the market places of the world at a reduced cost and so be more competitive. Like wise costs associated with imports will be reduced thus leading to reduced foreign exchange outflow and cheaper imported goods, Multimodalism is all about:

Coordination of the different modes of transport

Coordination of documentation

Coordination of the commercial and physical aspects of the commercial

Transaction between the buyer and the seller.

Thus multi modal/ inter modal transportation is the use of more than one mode of transport for the movement of shipment from the origin to its destination. Inter modal systems are joint, point to point through transportation services involving two or more modes on a regular basis. In this system, inter – modal operators use multiple modes of transport to take the advantage of the inherent economies of each and thus provide integrated service at the lowest total cost. **Piggyback:** Piggyback is the best known and most widely used inter modal transportation system, which is an outcome of the coordination between railways and roadways. It is also called as „trailor on flat car‟ (TOFC) or container in flat car (COFC). This system involves picking up goods in a trailer or container by truck, delivering it to rail, removing the truck Trailor and loading it on a flat car of rail for a long distance by rail, and at the destination, detaching the trailor from rail, reattaching it to a truck which makes the final delivery. This inter modal transportation system became very popular and widely used from the 1960s in the USA and 1980s onward in India, accounting for maximum freight cargo movements in recent years. **Fishyback:** The inter modal transportation system is achieved by coordination of road and water modes of transport. It functions in the same fashion as piggyback combines roadways and railways. In other words, in fishyback service, the goods containing boxes are loaded on the trailor which will be further loaded on a ship. Again at destination, it will be unloaded from the ship and reloaded on truck train for final delivery. This coordinated transportation system is used widely in the case of export / import freight cargo. Trans ship: Trans ship refers to a inter modal transportation system which is the combination of coordination efforts of railways and

Name of the Ports	Cargo handled	Vessel Traffic	Container Traffic

waterways for the bulk movement of freight cargo. Again, it functions in the same pattern.

Airtruck: As the name itself says, this inter – modal transportation system is the outcome of the coordination between airways and roadways. That is, it refers to exchange of goods containers/ boxes between air and road carriers. It is also referred to as birdyback.

Major Sea Ports in India:

Kandla	87.00	-7.06% ↓	2,734	0.74% ↑	29	-75.42% ↓
Paradip	68.00	20.25% ↑	1,279	-4.96% ↓	9	-30.77% ↓
JNPT	62.37	-3.32% ↓	2,588	-11.25% ↓	4,161	-2.30% ↓
Mumbai	59.19	1.98% ↑	1,949	-5.25% ↓	41	-14.58% ↓
Visakhapatnam	58.50	-0.91% ↓	2,066	-16.36% ↓	263	6.48% ↑
Chennai	51.11	-4.30% ↓	1,928	-5.63% ↓	1,468	-4.68% ↓
Kolkata	41.39	3.65% ↑	3,155	-0.91% ↓	563	-6.17% ↓
Mangalore	39.37	6.29% ↑	1,096	-5.11% ↓	50	4.17% ↑
Tuticorin	28.64	1.35% ↑	1,292	-13.40% ↓	508	6.72% ↑
Ennore (corporate port renamed to Kamarajar Port)	27.34	-52.85% ↓	475	23.38% ↑	--	--
Krishnapatnam Port[4]	36.11	↑	1060	↑	--	--
Kochi	20.89	5.25% ↑	1,367	-1.09% ↓	351	--
Mormugao	11.74	-33.65% ↓	473	39.75% ↑	22	10.00% ↑
All Indian Ports	**555.50**	**1.78% ↑**	**20,402**	**-6.95% ↓**	**7,465**	**-3.10% ↓**

AIR TRANSPORT AND AIR TRANSPORTATION OVERVIEW

The history of civil aviation in India began in December 1912. This was with the opening of the first domestic air route between Karachi and Delhi by the Indian state Air services in collaboration with the imperial Airways, UK, though it was a mere extension of London-Karachi flight of the latter airline. Three years later, the first Indian airline, Tata Sons Ltd., started a regular airmail service between Karachi and Madras without any patronage from the government. At the time of independence, the number of air transport companies, which were operating within and beyond the frontiers of the company, carrying both air cargo and passengers, was nine. It was reduced to eight, with Orient Airways shifting to Pakistan.

These airlines were: Tata Airlines, Indian National Airways, Air service of India, Deccan Airways, Ambica Airways, Bharat Airways and Mistry Airways. In early 1948, a joint sector company, Air India International Ltd., was established by the Government of India and Air India (earlier Tata Airline) with a capital of Rs 2 crore and a fleet of three Lockheed constellation aircraft. Its first flight took off on June 8, 1948 on the Mumbai (Bombay)- London air route. At the time of its nationalization in 1953, it was operating four weekly services between Mumbai-London and two weekly services between Mumbai and Nairobi. The joint venture was headed by J.R.D. Tata, a visionary who had founded the first India airline in 1932 and had himself piloted its inaugural flight.

Significance of Air Transport Air transport is the most modern, the quickest and the latest addition to the modes of transport. Because of speed with which aeroplanes can fly, travel by air is becoming increasingly popular. As far as the world trade is concerned it is still dominated by sea transport because air transport is very expensive and is also unsuitable for carrying heavy, bulky goods. However, transportation of high value light goods and perishable goods is increasingly being done by air transport

The Indian Air cargo Market

The growth of air cargo in India has also been manifold though it might not have kept pace with the progress made all over the world. Table 1 shows how both international and domestic air cargo traffic has increased, reflecting an overall year on year growth.

POLICY GUIDELINES FOR STARTING AIR TAXI AND SCHEDULED AIR TRANSPORT SERVICES

The repeal of Air Corporations Act. 1953 with effect from 1.3.1994 has demonopolised the domestic air transport services and enabled private operators to provide scheduled air transport services. However, in order to 154 ensure safety, security and orderly growth of air transport services and keeping in view the infrastructure constraints at a number of airports, Government is permitting addition of some limited capacity to existing operators and import / acquisition of any type and size of aircraft to operators based on the projections of traffic growth.

CHANGES IN THE POLICY ON DOMESTIC AIR TRANSPORT SERVICES

a. Although no scientific appraisal of the performance of private operators has been carried out, it generally appears that but for one or two jet aircraft based operators and a couple of other regional airlines, no private operator has been able to provide regular, stable and professionally run air transport service in the country.

b. A need was, therefore, been felt to review the existing policy guidelines and suggest modifications which could lead to orderly development of domestic air transport industry in a healthy competitive environment. Accordingly, the Ministry of Civil Aviation prepared a framework of policy for domestic air transport services keeping in view the various parameters. c. The Cabinet approved the policy paper on 24.1.1997. Salient features of the policy framework as approved. The Cabinet, however, desired that modalities for NRI/Foreign equity participation in the domestic air transport services sector be formulated and brought up for approval.

Major Policy Initiatives

The civil aviation sector in India has undergone some significant developments/ transformation during the Ninth Plan period.

The more important developments are : The Government considerably disengaged itself from commercial operations of airlines. The Government encouraged an increase in the role of the private sector in order to bridge the resource gap as well as to bring greater efficiency. A decision has been taken to disinvest up to 60 percent of Government equity in Air India of which 40 percent would be offered to the private sector and the balance 20 percent to employees, financial institutions and public.

However, not more than 26 percent of the total equity would be held by a foreign airline. In the case of Indian Airlines, out of 51 percent equity to be disinvested, 26 percent would be given to a strategic partner and balance 25 percent to the employees, financial institutions and public. The process of disinvestment has, however, been delayed.

Export By Air They specialize in managing the movement of any weight of cargo of all shapes and sizes at reasonable rates. They will monitor your shipments from the time it leaves your premises until it reaches its destination. Import & Export by Sea will ship any package whatever the size or weight using prominent shipping lines. They have a very good working relationship with all major shipping lines, which work closely as a team to ensure total customer satisfaction. All our staff are extremely knowledgeable which will always provide a wide range of options to adapt and satisfy your budget and time constraints.

They recognize that freight forwarding is no longer a simple matter of carrying goods from A to B. The provision of logistics, packing and insurance in a cost-effective package is a must in today's competitive market.

Custom Clearance Being a Custom House Broker with facilities like online billing of papers with customs EDI. They offer a wide range of custom clearance services that include for both Export & Import: Liaison with all regulatory agents, council to deal with all types of cargo Advice on all modes of transportation- surface, sea and air Arranging of storage in clearance stage, movement of goods Coordinating between warehouse statutory authority and the shipping line Speedy transaction of all custom formalities and obtaining all required certificates Packing They undertake any type of packing for which we have a reputable company with experienced staff and adequate materials.

Shipping Committed Cargo arranges for the most suitable routes, schedule & vessels and handles the related formalities along with constant cargo tracking.

Our shipping services include: Custom clearance, forwarding and Sea Freight Consolidation Shipping

 Packing and transport of containers

 Multi modal transport facilities

Warehousing and services at all major sea and dry ports

Warehousing A fully automated warehouse for consolidating and holding shipments and bulk goods, short and long term under the care of a logistics control and inventory management team. **Transport** We can arrange pickup and delivery of goods to/from anywhere in the India. Our drivers have the ability to handle all types of goods and are aware of the safety and importance that are in order. They enjoy hi-tech connectivity through its state-of-the-art communications network and advanced office automation. This helps in round-the-clock monitoring of cargo movement and to track progress. This in turn enables quick decision making in the event of a snag or delay. Further, the customer is kept updated on demand about the progress of shipment.

Part A (ONE Mark)

Multiple Choice Questions

Online Examination

Part B

1. Define Transportation.
2. Define Freight.
3. Differentiate between in-company management Vs Out sourcing
4. List out the major Indian Sea ports.
5. What is CFS and ICD?

Part C

1. What are the functions of CFS and ICD? Explain the procedures for approval and implementation of ICD.
2. Explain the main characteristics of International shipping.
3. Elucidate the problems in Indian Shipping Industry.
4. Explain the different modes of Transportation.
5. Describe India’s Exports and Imports by Air. What are the problems and prospects in Indian Air Transport?
6. Explain the functions of CFS and ICD.
7. What do you mean by Seaborne trade? Also explain the challenges in Seaborne trade.
8. Explain the important sea routes of the world.

Questions	Opt 1	Opt 2	Opt 3	Opt 4	Answer
There are five basic transportation modes. They are air carrier, motor carrier, and…………………..	pipelines, railways an water carriers	railways, ocean vessels and dirigibles	trucks, canals and robotics	water routes, railways and trucks	pipelines, railways an water carriers
Rail has the largest shipping capacity com	pipeline	air carrier	water carrier	motor carrier	water carrier
TOFC is the same as…………….	piggyback	total fleet command	tri-optic float carrier	one-way dispatching	piggyback
Air freight is costly, but its speed may cre	he extensive availability of airports	lower inventory	getting to store shelves before water carriers	lower costs created by FIFO	lower inventory
FTL stands for………………..	Fair transportati on laws	Freight tax levy	Fixed transport lane	Full truck load	Full truck load
When compared to truck transport, rail tr	Less flexible but cheaper	Less flexible and more expensive	More flexible but more expensive	More flexible and cheaper	Less flexible but cheaper
The use of two or more different modes o	Container shipping	LTL shipping	Double-stacking	Intermodal transport	Intermoda l transport
Direct shipment refers to…………..	Shipping directly from	Holding inventory received	Continuous shipment from	Storage of full trailers in locked	Shipping directly from
Multiple carriers during a single journey is	Multimodal	Intermodal	Single trans	Long transportati on	Multimod al transporta tion
……………...transportation is used by oi	Truck	Pipeline	Rail	Road	Pipeline
……………...is the best option for time s	Airfreight	Maritime	Road	Rail	Airfreight
Single carrier during a single journey is kn	Multimodal	Intermodal	Single trans	Long transportati on	Intermoda l transporta tion
system refers to the practice of loading ba	LASH	RORO	SD14	PANAMA X	LASH
LASH also known as……………	RORO	SD14	Kangaroo ship	Oil ship	RORO

RORO Means…..	Run On Run Off	Receive on and receive off	Roll on Roll off	Risk On Risk Off	Roll on Roll off
RORO carriers belongs to …..	Vehicles	Bulk	Oil	Passenger	Vehicles
Maritime transport is under the ministry o	Shipping	Road transp	Water trans	Commerce	Shipping
The 12 major Indian ports, which are man	Port Trust o	Private con	MTO	IMO	Port Trust of India
IMO means…………	Indian Maritime Organization	Indian Maritime Operation	International Maritime Organization	International Maritime Opertaion	International Maritime Organization
…………………companies need a large	Liners	containers	ships	aircrafts	Liners
………………advices ship owner on various port details	ship agent	stevedores	freight forwarder	captain	ship agent
India currently ranks 16th among the maritime countries with a coastline of…………….	7,527 km	7,517 km	7,117 km	7,717 km	7,517 km
The 12 major Indian ports, which are managed by…………..	Port Trust of India	Private companies	MTO	International Maritime Organizations	Port Trust of India
Ennore Port is an example for………..	Land lord port model	Govt.port	Pvt.port	Central port	Land lord port model
……………..companies need a larger organisation than tramp companies	Liners	containers	ships	aircrafts	Liners
All the major ports are administered under Port Trust Act………………	1956	1963	1950	1925	1963
The port that handles coal traffic is…………….	Cochin	Kandla	Mangalore	Tuticorin	Tuticorin
The port which was formerly called Nhava Sheva is…………..	New Mangalore	Cochin	JNPT	Tuticorin	JNPT
Container vessels were formerly called…………..	Trucks	Vanships	Ships	Tramp	Vanships
Insulated container is an example of…………	Steel container	Thermal container	Iron container	Bulk container	Thermal container
Location of ICDs is regulated by………………	Ministry of commerce	Ministry of railways	Ministry of Transportation	Ministry of Health	Ministry of commerce
ICD stands for………………	International container depot	Intermodal container depot	Inland container depot	Inter container depot	Inland container depot

CFS stands for……………..	Cargo freight service	Container freight station	Container free service	Container Freight Solution	Container freight station
CONCOR is under the ministry of…………..	Railways	Shipping	Commerce	Transport	Railways
Conference system is an association of…………..	Tramps	Liners	Tankers	Containers	Liners
………..operates under fixed schedule	Liners	Tramps	Tankers	Containers	Liners
The flexible price rate system used under…………..operations	Liners	Tramps	Tankers	Containers	Tramps
Tramp operations carries……….	Gas	Container	Liquid	Grain, Coal	Grain, Coal
…………is a modern tramp vessel designed to convey bulk cargoes	SD14	RO RO	OBO	PANAMA X	SD14
Ore/bulk/oil ships are known as……………..	OBO	SD14	RO RO	PANAMA X	OBO
Vessels designed to carry cars……………..	OBO	SD14	RO RO	PANAMA X	RO RO
…………………...is a general cargo vessel engaged primarily on deep sea liner service	OBO	Tween deck	PANAMA X	Coaster	Tween deck
Light aboard ship is known as………………	LASH	SD14	Tween deck	Coaster	LASH
……...Cargo carriers are operating around the coast	Reefer	Coaster	SD14	Tween deck	Coaster
Those cargo ships which can pass through the Panama canal…………………	PANAMA X	Coaster	Barge	Reefer	PANAMAX
…………..are interfaces between connecting modes of transportation	ICD	Government	Ships	Roads	ICD
………...scheme helps those consignors with less load	HCL	FCL	LCL	ICD	LCL
FCL stands for……………	Full container load	Freight container load	Freight cargo load	Full cargo load	Full container load
Who invented containers?	Malcom mclean	Wright brothers	Porter	Joe william	Malcom mclean
…………….container are using for the transportation of livestock	Flat container	Bulk container	Liquid container	Pen container	Pen container
Northern Sea route connects………..	Asia Only	Europe only	North America - Europe	Asia and Europe	Asia and Europe
……….route is connecting major world's leading port.	Northern Sea route	North Atlantic route	Cape Route	Indian Ocean Route	North Atlantic route

North Atlantic route connects………	Asia and America	Asia - Europe	Scandinavian	Mediterranean to Europe	Mediterranean to Europe
Petroleum products are transported by this route…………	Northern Sea route	Mediterranean Route	Cape Route	Indian Ocean Route	Mediterranean Route
Panama Canal started in……….	1914	1917	1924	1927	1914
Vessals are sailing between Europe and North America………...route	Baltic Sea	Panama Canal	Indian Ocean	Cape	Panama Canal
Baltic sea is linked to the……….	Baltic Ocean	White Sea	Black Sea	Pacific Ocean	White Sea
Baltic sea route directly linked to the North sea by………..	Kiel Canel	Suez Canel	Panama Canel	White Sea Canel	Kiel Canel
Indian Ocean covers…………percent of earth's water surface.	30	10	20	40	20
Indian Ocean is bounded on west by……….	South Asia	Arabian Peninsula	Malay Peninsula	Antartic	Arabian Peninsula

UNIT-III- Export Registration and Documentation

SYLLABUS

Documentation - Naming the enterprise, Forms of ownership, Opening a bank account, Need for documentation, Process of obtaining Export and Import License:- General registrations, registrations with RBI, Registration with Licensing Authorities, Registration with appropriate EPC/Commodity Board's. Main commercial documents: Statutory documents for exporting country, Statutory documents for importing country and documents for claiming export benefits.

Introduction:

Government of India took bold initiatives in July 1991 by way of introduction of reforms notably in the sphere of industrial, trade and fiscal policy. The trade policy reforms aimed to create an environment to enable increase in exports at a rapid pace raise India's share in world exports and find a lasting solution to the balance of payments crisis. For this purpose, significant changes in the Export-Import (EXIM) Policy were made and country specific and commodity specific measures were taken to promote exports. In this lesson, you will learn the role of foreign trade in the economic development, trends in India's foreign trade and composition and direction of exports and imports. You will be also acquainted with the problems of India's foreign trade

This term "export" is derived from the concept of shipping goods and services out of the port of a country . The seller of such goods and services is referred to as an "exporter" who is based in the country of export whereas the overseas based buyer is referred to as an "importer". In international trade, exporting refers to selling goods and services produced in the home country to other markets

Export of commercial quantities of goods normally requires the involvement of customs authorities in both the country of export and the country of import. The advent of small trades over the internet such as through Amazon and eBay has largely bypassed the involvement of customs in many countries because of the low individual values of these trades. Nonetheless, these small exports are still subject to legal restrictions applied by the country of export. An export's counterpart is an import.

Export of services consists of all services rendered by residents to non-residents. In national accounts, any direct purchases by non-residents in the economic territory of a country are recorded as exports of services; therefore, all expenditure by foreign tourists in the economic territory of a country is considered part of the export of services of that country. International flows of illegal services must also be included.

Scope of Export:

1. Exports of Agriculture
2. Exports of Textile
3. Exports of Electronic Goods
4. Exports of Pharmaceutical
5. Exports of Jewellery
6. Exports of Services
7. Exports in National Accounts
8. Exports of Project
9. Deemed Exports

Functions of Export

Once a decision is taken to establish export business, the first and the foremost task is to plan to secure an export order. After confirming the order to the buyer, the next step is to create an organization structure for it and create the required team of personnel for its execution. Export

Manager is a key person. The success or otherwise of the export order depends, to a great extent, on how efficiently he handles the order.

Functions of Export Manager

(a) Procurement of Export Order

The first function of export manager is to plan for securing the export order. This requires deciding the exact item for export market. A study of the profile of the target customer group and the business practices of the target export markets is of paramount importance in the process of securing an export order.

(b) Planning for Export Order Execution

Effective planning is essential for the success of execution of export order. The export planning should be viewed as planning for the successive phases of an export activity. The export manager and his team should understand the terms and conditions of the export order. The export manager should, then, proceed to develop a detailed schedule for the completion of all the tasks for the accomplishment of the overall targets. Budgets, work programs and implementation schedules are to be prepared as a part of planning for execution of the export order.

(c) Directing for Exports

The export manager should issue executive instructions to all the members of the export team. The process is referred to as directing for exports. It is also viewed as an extension of export planning as it involves issuing directions to execute the export plans. These directives should be very precise, simple and unambiguous so that implementation is done without any difficulty. It is important since the efficiency with which these directions are given would determine the success or otherwise of the execution of export be allocated to those responsible for their execution.

(d) Export Order Execution

It is implementation of the assigned tasks by the frictional manager and other members of the export team. The export tasks must be implemented within the time schedule, the budget and in accordance with the agreed design and specifications.

(e) Importer Liaison

Export Management is intended to meet the requirements of the importer to his satisfaction. For the purpose, it is important for all the members of the export team to understand his requirements as regards quality, labeling, packaging, packing and markings on the export products as well as delivery goods.

This calls for maintaining liaison with the importer, being the prime responsibility of the export manager. The primary objective of importer liaison is, thus, to keep him informed of the progress in the execution of export order. This will enable the importer to appreciate that the exporters is very serious in the execution of his order and it would prove to be very beneficial for the exporter in building sound business relations with him. In case the exporter is faced with any difficulty beyond his control, it is very likely that the importer will appreciate his problems and may give him the required support in the form of extension of the time for delivery of goods or permitting him/her to make the partial shipment and so on.

(f) Export Order Evaluation

Evaluation is a continuing process of assessing the progress of the export order in terms of its objectives. Ideally, evaluation consists in comparing existing conditions and current results with export plans and with the specifics of export direction. Any deviation represents a possible problem that should be highlighted, analyzed, and understood.

A system of appropriate controls should be established for the export order execution. The export manager must scrutinize carefully the qualitative assessment of his team and evaluation of how the export order is progressing.

(g) Reprogramming

Based on export reports, the export manger should take suitable corrective measure to improve the level of performance of various functional divisions /outside agencies. For this propose, reprogramming may have to be done. The reprogramming involves changing the plans, schedules and budgets or redefining the channels of communication or clarifying the export directions to the members of export team.

(h) Reporting on export Order Execution

Reporting on the progress of the export order is a logical consequence of export order evaluation and reprogramming. Every export manager should submit reports at regular intervals, of the progress of work to the top management. The report should reflect the targets, the actual performance and the variances, with reasons thereof. It should also highlight the problems/difficulties faced in the execution of the export order and the steps proposed to solve them.

(i) Export Cycle

The various activities/stages involved in planning and execution of an export order are performed in a sequential manner. Therefore, the activities/stages are viewed as different links in the chain of cycle called Export Cycle. The export cycle is divided into three phase. (a) Planning for exports (b) Implementation and monitoring of an export order (c) Post export follow up action.

Benefits from Export

1. Market Diversification
2. Additional Sources of Revenues
3. Use of Excess Production Capacity
4. Leverage on purchasing power
5. Business operation stability
6. Product Lifecycl eExtension
7. Product Improvement
8. Lower Unit Costs
9. Economics of Scale
10. Minimizing the effect of seasonal fluctuations in Sales
11. Untapped Markets

Setting up an Export Firm:

1. Naming the Enterprsie
2. Obtaining approval of the name of the firm
3. Deciding the location of the firm
4. Develop the trade name and Logo
5. Creating the necessary physical infrastructures
6. Applying for the Grant of PAN of IT
7. Opening a Bank Account.

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 Export Preliminaries 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 Export-Import Procedures, Documentation and Logistics 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 Preliminaries 9 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 10 Export-Import Procedures, Documentation and Logistics makes efforts to secure the export order. Needless to add, the item of export agreed upon should not fall in the banned list.

Rules for Successful Exporting

1. Understand and Prepare for Exports
2. Researching and segmenting Export Markets
3. Compiling an Export Plan
4. Implementing the Export Plan
5. Export Transportation and Logistics
6. Export Documentation and Payments

Registration of Exporters:

1. Registration with Reserve Bank of India (RBI)
2. Registration with Director General of Foreign Trade (DGFT)
3. Registration with Export Promotion Council
4. Registration with Commodity Boards

Registration with Income Tax Authorities

Once all the research and analysis is done its time to get registered with the various government authorities.

Registration with Reserve Bank of India (RBI)

Prior to 1997, it was necessary for every first time exporter to obtain IEC number from Reserve Bank of India (RBI) before engaging in any kind of export operations. But now this job is being done by DGFT.

Registration with Director General of Foreign Trade (DGFT)

For every first time exporter, it is necessary to get registered with the DGFT (Director General of Foreign Trade), Ministry of Commerce, Government of India.

DGFT provide exporter a unique IEC Number. IEC Number is a ten digits code required for the purpose of export as well as import. No exporter is allowed to export his good abroad without IEC number.

However, if the goods are exported to Nepal, or to Myanmar through Indo-Myanmar boarder or to China through Gunji, Namgaya, Shipkila or Nathula ports then it is not necessary to obtain IEC number provided the CIF value of a single consignment does not exceed Indian amount of Rs. 25, 000 /-.

Application for IEC number can be submitted to the nearest regional authority of DGFT.

Application form which is known as "Aayaat Niryaat Form - ANF2A" can also be submitted online at the DGFT web-site: http://dgft.gov.in.

While submitting an application form for IEC number, an applicant is required to submit his PAN account number. Only one IEC is issued against a single PAN number. Apart from PAN number, an applicant is also required to submit his Current Bank Account number and Bankers Certificate.

A amount of Rs 1000/- is required to submit with the application fee. This amount can be submitted in the form of a Demand Draft or payment through EFT (Electronic Fund Transfer by Nominated Bank by DGFT.

Registration with Export Promotion Council

Registered under the Indian Company Act, Export Promotion Councils or EPC is a non-profit organisation for the promotion of various goods exported from India in international market. EPC works in close association with the Ministry of Commerce and Industry, Government of India and act as a platform for interaction between the exporting community and the government. So, it becomes important for an exporter to obtain a registration cum membership certificate (RCMC) from the EPC. An application for registration should be accompanied by a self certified copy of the IEC number. Membership fee should be paid in the form of cheque or draft after ascertaining the amount from the concerned EPC.

The RCMC certificate is valid from 1st April of the licensing year in which it was issued and shall be valid for five years ending 31st March of the licensing year, unless otherwise specified.

Registration with Commodity Boards

Commodity Board is registered agency designated by the Ministry of Commerce, Government of India for purposes of export-promotion and has offices in India and abroad. At present, there are five statutory Commodity Boards under the Department of Commerce. These Boards are responsible for production, development and export of tea, coffee, rubber, spices and tobacco.

Registration with Income Tax Authorities

Goods exported out of the country are eligible for exemption from both Value Added Tax and Central Sales Tax. So, to get the benefit of tax exemption it is important for an exporter to get registered with the Tax Authorities.

Documentation for Exports

An exporter without any commercial contract is completely exposed of foreign exchange risks that arises due to the probability of an adverse change in exchange rates. Therefore, it becomes important for the exporter to gain some knowledge about the foreign exchange rates, quoting of exchange rates and various factors determining the exchange rates.

Export from India required special document depending upon the type of product and destination to be exported. Export Documents not only gives detail about the product and its destination port but are also used for the purpose of taxation and quality control inspection certification.

Shipping Bill / Bill of Export

Shipping Bill/ Bill of Export is the main document required by the Customs Authority for allowing shipment. A shipping bill is issued by the shipping agent and represents some kind of certificate for all parties, included ship's owner, seller, buyer and some other parties. For each one represents a kind of certificate document.

Documents Required for Post Parcel Customs Clearance

In case of Post Parcel, no Shipping Bill is required. The relevant documents are mentioned below:

Customs Declaration Form - It is prescribed by the Universal Postal Union (UPU) and international apex body coordinating activities of national postal administration. It is known by the code number CP2/ CP3 and to be prepared in quadruplicate, signed by the sender.

Despatch Note- It is filled by the exporter to specify the action to be taken by the postal department at the destination in case the address is non-traceable or the parcel is refused to be accepted.

Commercial Invoice - Issued by the exporter for the full realisable amount of goods as per trade term.

Consular Invoice - Mainly needed for the countries like Kenya, Uganda, Tanzania, Mauritius, New Zealand, Burma, Iraq, Ausatralia, Fiji, Cyprus, Nigeria, Ghana, Zanzibar etc. It is prepared in the prescribed format and is signed/ certified by the counsel of the importing country located in the country of export.

Customs Invoice - Mainly needed for the countries like USA, Canada, etc. It is prepared on a special form being presented by the Customs authorities of the importing country. It facilitates entry of goods in the importing country at preferential tariff rate

Legalised / Visaed Invoice - This shows the seller's genuineness before the appropriate consulate or chamber or commerce/ embassy.

Certified Invoice - It is required when the exporter needs to certify on the invoice that the goods are of a particular origin or manufactured/ packed at a particular place and in accordance with specific contract. Sight Draft and Usance Draft are available for this. Sight Draft is required when the exporter expects immediate payment and Usance Draft is required for credit delivery.

Packing List - It shows the details of goods contained in each parcel / shipment.

Certificate of Inspection – It is a type of document describing the condition of goods and confirming that they have been inspected.

Black List Certificate - It is required for countries which have strained political relation. It certifies that the ship or the aircraft carrying the goods has not touched those country(s).

Manufacturer's Certificate - It is required in addition to the Certificate of Origin for few countries to show that the goods shipped have actually been manufactured and is available.

Certificate of Chemical Analysis - It is required to ensure the quality and grade of certain items such as metallic ores, pigments, etc.

Certificate of Shipment - It signifies that a certain lot of goods have been shipped.

Health/ Veterinary/ Sanitary Certification - Required for export of foodstuffs, marine products, hides, livestock etc.

Certificate of Conditioning - It is issued by the competent office to certify compliance of humidity factor, dry weight, etc.

Antiquity Measurement – It is issued by Archaeological Survey of India in case of antiques.

Shipping Order - Issued by the Shipping (Conference) Line which intimates the exporter about the reservation of space of shipment of cargo through the specific vessel from a specified port and on a specified date.

Cart/ Lorry Ticket - It is prepared for admittance of the cargo through the port gate and includes the shipper's name, cart/ lorry No., marks on packages, quantity, etc.

Shut Out Advice - It is a statement of packages which are shut out by a ship and is prepared by the concerned shed and is sent to the exporter.

Short Shipment Form - It is an application to the customs authorities at port which advises short shipment of goods and required for claiming the return.

Need for Documentation

1. Vital interest to Exporter and Importer
2. Evidence of shipment and Title of Goods
3. Documentary Requirements of Exporting
4. Complete description of the goods
5. Long Distance
6. Assistance form Intermediaries

Types of Export Documents

EXPORT DOCUMENTATION AND PROCEDURES

Exporters should seriously consider having the freight forwarder handle the formidable amount of documentation that exporting requires; freight forwarders are specialists in this process. The following documents are commonly used in exporting; which of them are actually used in each case depends on the requirements of both our government and the government of the importing country.

- Commercial invoice
- Bill of lading
- Consular invoice

- Certificate of origin
- Inspection certification
- Dock receipt and warehouse receipt
- Destination control statement
- Insurance certificate
- Export license
- Export packing list

Enquiry:

STEP1

The starting point for any Export Transaction is an enquiry. An enquiry for product should, inter alia, specify the following details or provide the following data

- Size details - Std. or oversize or undersize
- Drawing, if available
- Sample, if possible
- Quantity required
- Delivery schedule
- Is the price required on FOB or C& F or CIF basis
- Mode of Dispatch - Sea, air or Sea/air
- Mode of Packing
- Terms of Payment that would be acceptable to the Buyer - If the buyer proposes to open any Letter of Credit, any specific requirement to be complied with by the Exporter
- Is there any requirement of Pre-shipment inspection and if so, by which agency
- Any Certificate of Origin required - If so, from what agency.

STEP 2: - Proforma generation:

After studying the enquiry in detail, the exporter - be it Manufacturer Exporter or Merchant Exporter - will provide a Proforma Invoice to the Buyer.

STEP 3: Order placement:

If the offer is acceptable to the Buyer in terms of price, delivery and payment terms, the Buyer will then place an order on the Exporter, giving as much data as possible in terms of specifications, Part No. Quantity etc. (No standard format is required for such a purchase order)

STEP 4: Order acceptance:

It is advisable that the Exporter immediately acknowledges receipt of the order, giving a schedule for the delivery committed.

STEP 5: Goods readiness & documentation:

Once the goods are ready duly packed in Export worthy cases/cartons (depending upon the mode of despatch), the Invoice is prepared by the Exporter. If the number of packages is more than one, a packing list is a must.

Even If the goods to be exported are excisable, no excise duty need be charged at the time of Export, as export goods are exempt from Central Excise, but the AR4 procedure is to be followed for claiming such an exemption. Similarly, no Sales Tax also is payable for export of goods.

STEP 6: Goods removal from works:

There are different procedures for removing Export consignments to the Port, following the AR4 procedure, but it would be advisable to get the consignment sealed by the Central Excise authorities at the factory premises itself, so that open inspection by Customs authorities at the Port can be avoided.

If export consignments are removed from the factory of manufacture, following the AR4 procedure, claiming exemption of excise duty, there is an obligation cast on the exporter to provide proof of export to the Central Excise authorities

STEP 7: Documents for C & F agent:

The Exporter is expected to provide the following documents to the Clearing & Forwarding Agents, who are entrusted with the task of shipping the consignments, either by air or by sea.

- Invoice
- Packing List
- Declaration in Form SDF (to meet the requirements as per FERA) in duplicate.
- AR4 - first and the second copy
- Any other declarations, as required by Customs

On account of the introduction of Electronic Data Interchange (EDI) system for processing shipping bills electronically at most of the locations - both for air or sea consignments - the C&F Agents are required to file with Customs the shipping documents, through a particular format, which will vary depending on the nature of the shipment. Broad categories of export shipments are:

- Under claim of Drawback of duty
- Without claim of Drawback
- Export by a 100% EOU
- Under DEPB Scheme

STEP 8: Customs Clearance:

After assessment of the shipping bill and examination of the cargo by Customs (where required), the export consignments are permitted by Customs for ultimate Export. This is what the concerned Customs officials call the 'LET EXPORT' endorsement on the shipping bill.

STEP 9: Document Forwarding:

After completing the shipment formalities, the C & F Agents are expected to forward to the Exporter the following documents:

- Customs signed Export Invoice & Packing List
- Duplicate of Form SDF
- Exchange control copy of the Shipping Bill, processed electronically
- AR4 (original duplicate) duly endorsed by Customs for having effected the Export
- Bill of Lading or Airway bill, as the case may be.

STEP 10: Bills negotiation:

With these authenticated shipping documents, the Exporter will have to negotiate the relevant export bill through authorized dealers of Reserve Bank, viz., Banks.

Under the Generalized System of Preference, imports from developing countries enjoy certain duty concessions, for which the exporters in the developing countries are expected to furnish the GSP Certificate of Origin to the Bankers, along with other shipping documents.

Broadly, payment terms can be:

- DP Terms

- DA Terms
- Letter of Credit, payable at sight or payable at... days.

Step11: Bank to bank documents forwarding:

The negotiating Bank will scrutinize the shipping documents and forward those to the Banker of the importer, to enable him clear the consignment.

It is expected of such authorized dealers of Reserve Bank to ensure receipt of export proceeds, which factor has to be intimated to the Reserve Bank by means of periodical Returns.

STEP 12: Customs obligation discharge:

As indicated above, Exporters are also expected to provide proof of export to the Central Excise authorities, on the basis of the Customs endorsements made on the reverse of AR4s and get their obligation, on this score, discharged.

STEP 13: Receipt of Bank certificate:

Authorized dealers will issue Bank Certificates to the exporter, once the payment is received and only with the issuance of the Bank Certificate, the export transaction becomes complete.

It is mandatory on the part of the Exporters to negotiate the shipping documents only through authorized dealers of Reserve Bank, as only through such a system Reserve Bank can ensure receipt of export proceeds for goods shipped out of this country.

Documents Required

Export procedure describes the documents required for exporting from India. Special documents may be required depending on the type of product or destination. Certain export products may require a quality control inspection certificate from the Export Inspection Agency. Some food and pharmaceutical product may require a health or sanitary certificate for export.

Shipping Bill/ Bill of Export is the main document required by the Customs Authority for allowing shipment. Usually the Shipping Bill is of four types and the major distinction lies with regard to the goods being subject to certain conditions which are mentioned below:

- Export duty/ cess
- Free of duty/ cess
- Entitlement of duty drawback
- Entitlement of credit of duty under DEPB Scheme

- Re-export of imported goods

The following are the export documents required for the processing of the Shipping Bill:

- GR forms (in duplicate) for shipment to all the countries.
- 4 copies of the packing list mentioning the contents, quantity, gross and net weight of each package.
- 4 copies of invoices which contains all relevant particulars like number of packages, quantity, unit rate, total f.o.b./ c.i.f. value, correct & full description of goods etc.
- Contract, L/ C, Purchase Order of the overseas buyer.
- AR4 (both original and duplicate) and invoice.
- Inspection/ Examination Certificate. The formats presented for the Shipping Bill are as given below
- White Shipping Bill in triplicate for export of duty free of goods.
- Green Shipping Bill in quadruplicate for the export of goods which are under claim for duty drawback.
- Yellow Shipping Bill in triplicate for the export of dutiable goods.
- Blue Shipping Bill in 7 copies for exports under the DEPB scheme

Note: - For the goods which are cleared by Land Customs, Bill of Export (also of 4 types - white, green, yellow & pink) is required instead of Shipping Bill.

Order (business)

In business or commerce, an order is a stated intention, either spoken or written, to engage in a commercial transaction for specific products or services. From a buyer's point of view it expresses the intention to buy and is called a purchase order. From a seller's point of view it expresses the intention to sell and is referred to as a sales order. When the purchase order of the buyer and the sales order of the seller agree, the orders become a contract between the buyer and seller.

Within an organization, the term order may be used to refer to a work order for manufacturing, a preventive maintenance order, or an order to make repairs to a facility.

In many businesses, orders are used to collect and report costs and revenues according to well-defined purposes. Then it is possible to show for what purposes costs have been incurred. **Spoken orders**

Businesses such as retail stores, restaurants and filling stations conduct business with their customers by accepting orders that are spoken or implied by the buyer's actions. Taking a shopping cart of merchandise to a check-out counter is an implied intent to buy the merchandise. Placing a take-out or eat-in order at a restaurant is a spoken purchase order. Putting gasoline in one's tank at a filling station is an implied order. The seller usually expects immediate payment by cash, check or credit card for these purchases, and the seller provides the buyer with a receipt for the payment. In legal terms, this form of business order is an "implied in fact contract".

Steps in commercial orders

In commerce, various business documents are used to record the negotiation of an agreement to buy and sell, record the agreement itself, and record compliance with the agreement and closure of the contract. An agreement to buy and sell is a form of contract.

There are five basic requirements for a contract to exist between two parties: agreement, voluntary, consideration, capacity, and legality. A sixth requirement of "in writing" sometimes applies.

The main concern for commercial orders is that there must be agreement (offer and acceptance) for the order to be a contract. Prior to this, businesses often record the details of negotiations by using a request for quotation, request for bid, sales quotation, or sales bid. Quotations are non-binding and part of the negotiation process. A request for bid can be binding or non-binding, depending on the terms of the bid.

Once an agreement or contract is in place, businesses record these as confirmed purchase orders and confirmed sales orders.

Main Commercial Documents: (In Brief)

1. Commercial Invoices
2. Packing List and Note
3. Bill of Lading
4. Combined Transport Document
5. Certificate of Inspection
6. Insurance Certificate
7. Certificate of Origin
8. Bills of Exchange and Shipment Advice

Additional Commercial Documents:

1. Proforma Invoice
2. Shipping Instruction
3. Shipping Order
4. Application for Certificate of Origin
5. Intimation for inspection
6. Insurance Declaration
7. Mate Receipt
8. Negotiation of Document

Statutory Documents for Exporting Country:

1. GR/SDF form
2. Cash on delivery form
3. Form C
4. SOFTEX form
5. PP Form
6. GP form
7. Forms AR-4/AR 4 A
8. Generalized system of preferences.

Regulatory Documents:

1. Legal Documents for Export from India:

There are two types of regulatory documents:

(i) Documents needed for registration, and

(ii) Documents needed for shipment.

The first category documents include applications and other supporting documents for obtaining:

(i) Code number from the Reserve Bank of India (RBI),

(ii) Importers and exporters' code numbers from the Chief Controller of Imports and Exports,

(iii) Registration-cum-membership certificate (RCMC), etc.

The documents needed for shipment of goods include the following:

(i) GR Form:

It is required to be filled in duplicate for all exports other than by post. Both of the copies have to be submitted to the customs authorities at the port of shipment. They will retain the original copy to be sent to the Reserve Bank of India directly.

They will return the duplicate copy which is submitted to the negotiating bank along with other documents after shipment of goods. The negotiating bank sends the duplicate copy to the RBI after the export proceeds have been realised.

(ii) PP Form:

Exports to all countries by parcel post (PP), except when made on ‘value payable’ or ‘cash on delivery’ basis should be declared on PP forms.

(iii) VP/COD Form:

It is required to be filled in one copy for exports to all countries by post parcel under arrangements to realise proceeds through postal channels on ‘value payable’ or ‘cash on delivery’ basis.

(iv) EP Form:

Shipment to Afghanistan and Pakistan other than by post should be declared on EP forms.

(v) SOFTEX Form:

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

2. Shipping Bill:

The shipping bill is the main document on the basis of which the custom’s permission for export is given. Post parcel consignment requires customs declaration form to be filled in. There are three types of shipping bills available with the customs authorities.

These are:

(i) Free Shipping Bill:

It is used for export of goods for which there is no export duty.

(ii) Dutiable Shipping Bill:

Printed on yellow paper, it is used in case of goods which are subject to export duty/cess.

(iii) Drawback Shipping Bill:

It is usually printed on green paper and is used for export of goods entitled to duty drawback.

3. Marine Insurance Policy:

It is the basic instrument in marine insurance. A marine policy is a contract and a legal document which serves as evidence of the agreement between the insurer and the assured. The policy must be produced to press a claim in a court of law. An exporter must also put up the marine insurance policy as a collateral security when he gets an advance against his bank Credit.

Statutory Documents for Importing Country:

1. Import License
2. Bill of Sight
3. Indent
4. Bill of Entry
5. Dock Challan
6. Insurance Policy
7. Letter Advice

Documents for Claiming Export Benefits:

1. Application for Registration
2. Cash Assistance on selected Export Products

3. General Surety for Executing bonds
4. Draw back shipping bill
5. Import License for Raw materials Intermediates
6. Drawback of import and Excise duties
7. AR4 and AR5 form
8. Drawback bill
9. Transport Assistance

1. Application Form for Registration:

Exporters desirous of availing themselves of the benefits of the import policy are required to register themselves with the appropriate registering authority such as Export Promotion Councils (EPC), Commodity Boards and Chief Controller of Imports and Exports (CCIE), New Delhi.

The application for registration should be accompanied by a certificate from the exporter's bankers in regard to his financial soundness. In case of a firm having branches, the application for registration shall be submitted only by the Head Office.

2. Allotment of Indigenous Raw Materials on Priority Basis:

Manufacturer- exporters may apply to the Director of Export Promotion, Ministry of Commerce, for replenishment of the indigenous materials used in the manufacture of goods for export.

3. Duty Drawback:

For claiming this incentive, the main document is the customs attested drawback copy of shipping bill. This is to be accompanied by other documents such as drawback payment order, final commercial invoice and a copy of bill of lading or airway bill, as the case may be.

4. REP License and CCS:

For claiming REP license and cash compensatory support (CCS), the exporter is required to prepare and file a number of documents.

The main documents in this regard are:

(i) Application in the prescribed form

(ii) Acknowledgement slip

(iii) Bank challan issued by the treasury for the application fee paid.

(iv) Advance receipt for cash assistance amount

(v) A duly certified copy of shipping bill.

(vi) Non-negotiable copy of bill of lading/airway bill.

Process of Obtaining Export and Import License in India:

First of lets look at how to get import export license in India. This License is needed when you are dealing with any item that is not freely importable. In India, most goods are freely importable, but the EXIM Policy of 2007 states certain goods and categories of products that are prohibited and some goods that can be conditionally imported. A typical export import business license would have two copies.

First Copy

The first copy is used for opening a letter of credit and for effective remittance to a seller abroad. This copy is called the foreign exchange control copy.

Second copy

The second copy, which is called the customs copy, is used to present to the customs authority for clearing the goods. Without this copy, the import or export would be considers unauthorized and you would be liable for penalty and confiscation of good.

Definition and Process on how to get Import Export License in India

An import export business license in India is called an IEC Code. It is a unique, 10-digit code issued by the government of India to registered Indian companies. The body that is responsible for providing this code is the Director General of Foreign Trade, or DGFT, which is part of the Ministry of Commerce. IEC is the short form of Importer Exporter Code, and the eligibility, legal provisions and other conditions for an IEC Code application is defined under the Foreign Trade (Regulation) Rules, 1993 stated by the Ministry of Commerce.

An application for granting an IEC Code number should be made by the organization's Head Office or Registered Office, and to the nearest Regional Authority for the Directorate General Foreign Trade. The applicant must fill up the ANF2A form, which will also state some documents that need to be attached with it during submission. When there are BTP, EHTP or STPI units concerned, the DGFT regional office that has jurisdiction over the location of the STPI unit head office shall issue the IEC Code.

For each PAN number, there is only one IEC Code number issued. A proprietor who has more than one IEC Code number would have to surrender the extra ones to the Regional Office and cancel them.

The form must be attested by the banker of the applicant, and must contain the applicant's letterhead along with a passport size photograph. You would also need to provide an application fee of around Rs. 250. This fee has to be paid as a Demand Draft or Pay Order from a designated bank, drawn in the favour of Zonal Joint Director General of Foreign Trade. The amount can also be paid through Electronic Fund Transfer from a bank nominated by the DGFT.

The application for an import and export license must be complete in all the specified areas as per the relevant provisions given by the policies. The applicant also has to sign the application, according to paragraph 9.9 of the policy. If there is any change in the information given in the ANF2A form, the import and export license holder has to intimate it accordingly to the Regional authority that issued the IEC Code number in the first place.

Other related material on how to get import export license in India.

Part A (ONE Mark)

Multiple Choice Questions

Online Examination

Part B

1. Define Export Business.
2. What is IEC number?
3. What is a commercial document?
4. List out the benefits from export.
5. What is bill of Entry?

Part C

1. Explain the functions of Export Manager.
2. Describe the preliminary steps involved in exporting
3. Discuss the General Registrations of Export firms.
4. Explain the need for export documentation.
5. What is Export license? Elucidate the procedure to get export license in India?
6. What are the necessary documents required for submission of claiming export benefits? Explain.
7. Discuss the import license and process of obtaining import license.
8. Describe statutory documents for export's country. What are the different types of statutory documents?

Questions	Opt 1	Opt 2	Opt 3	Opt 4	Answer
Downloading goods or services from foreign countries for the purpose of manufacturing goods and services can be termed as…………	Importing	Exporting	Franchising	Licensing	Importing
Which one of the following is a method for an exporter to get a contract?	Performa invoice.	Purchase order.	Sales contract.	Proforma invoice, Purchase order & Sales order	Proforma invoice, Purchase order & Sales
When the exporter, expects the importer, to make the payment immediately upon the draft being presented to him is called	sight draft.	usance draft.	demand draft.	pay note.	sight draft.
____________ means selling the home countrys goods service in foreign country.	Marketing.	Sales.	Export.	Import.	Export.
__________ documents are also known as transport documents.	Bill of lading.	Airway bill.	Combined transport document.	Customs bill	Airway bill.
Export policy resolution in 1970 was______________.	human relation.	marketing function.	quality control.	promoting wealth.	quality control.
The export policy resolution was started in the year ____________.	1966	1970	1982	1994	1970
____________ in export business assumes greater significance as many parties are involved in single transaction.	Taxation.	Document ation.	Marketing.	Banking.	Document ation.
The certificate issued by the EIA after conducting the preshipment inspection is ___________.	certificate of Inspection.	certificate of Transport.	certificate of Export.	export Documenta tion.	certificate of Inspection .
How many copies of shipping bills are required during shipping?	1	5	8	10	5
First procedure in exports is _______________.	shipment.	offer & acceptance .	negotiation of documents.	obtaining various incentives.	offer & acceptanc e.
Export Promotion council for Apparel is located in _____________.	Chennai.	Mumbai.	Kolkatta.	New Delhi.	New Delhi.
Export promotion council for engineering goods is situated at __________.	Chennai.	Kolkata.	Mumbai.	New Delhi.	Kolkata.
Export promotion council for cotton textiles is located in ___________.	Chennai.	Kolkatta.	Delhi.	Mumbai.	Mumbai.

LPG means _________.	Liberalization, Privatization and Globalization.	Leadership, Promotion and Goal Setting.	Liberalization, Promotion and Globalization.	Leadership, Privatization and Globalization.	Liberalization, Privatization and Globalization.
The offer, when accepted by the foreign buyer, becomes an _____________.	entity.	order.	evidence.	escalation.	order.
The offer made by the exporter is usually in the form of a ____________.	profoma invoice.	consignment.	condition.	voucher.	profoma invoice.
Export license before shipment should be obtained from __________.	Government of India.	Customs department.	Joint Director General of Foreign Trade.	Shipping inspector.	Joint Director General of Foreign Trade.
BOL means _____________.	Carting order.	Bill of Lading.	Export permission Letter.	a copy of invoice.	Bill of Lading.
Before the goods are loaded on to the ship, Permission for loading has to be obtained by the exporters forwarding agent from the preventive officer is called as ___________.	customs clearing.	customs examination.	carting order.	let ship order.	let ship order.
Import license are required……………..	for all imports	for all capital imports	import of goods covered by negative list	Decleared goods	import of goods covered by negative list
A company has four branches at Bangalore, Chennai, Delhi and Mumbai. IEC number should be obtained by…………..	the head office, which can be used by all branches.	each branch separately	any one branch, which can be used by all branches	all branches simultaneously	the head office, which can be used by all branches.
An exporter who deals in multi products should get Registration-cum-Membership Certificate from……………	all export promotion councils relevant to the	export promotion council nearest to the head	FIEO	FIFO	

A thorough buyer evaluation may be waived in case of……………	buyers from advanced countries.	buyers from countries having bilateral relations with India	buyers having import licences	transactions covered by full advance payment	transactions covered by full advance payment
Force majuere clause in an export……………	relates to penalty for non-	exempts the exporter	provides for enforcing	adhere export procedure	exempts the exporter
Booking of shipping space in advance is helpful to an exporter in…………	saving in freight charges.	availing bank finance	getting priority on inland movement of cargo by rail	getting priority on inland movement of cargo by road	getting priority on inland movement of cargo by rail
Open account when used as a method of payment indicates…………	the transactions are legal	the buyer has no money to pay immediately	the seller wants to sell desperately	none of the above	none of the above
Open account method of payment is beneficial to………………	the buyer	the seller	the buying agent	both the buyer and the seller	the buyer
When goods are sent to an agent of an exporter in the importing country, the method of payment adopted is……………	open account	letter of credit	consignment sale	documents against acceptance	consignment sale
The following invoice does not evidence sale…………….	consular invoice	certified invoice	visaed invoice	proforma invoice	proforma invoice
The following transport document is a document of title to goods………….	bill of lading	multimodal transport document	airway bill	Lorry Receipt	bill of lading
A bill of lading is………………	a non-negotiable instrument	a quasi-negotiable	fully negotiable instrument	partly negotiable instrument	a quasi-negotiable
In a bill of lading the consignee's name is mentioned as 'to order'. It means the goods will be delivered to the order of………………	consignor	the bank	the consignee	the shipping agent	consignor

A straight bill of lading is one…………	covering both land and water transport	the goods covered by which are deliverable to the	which is sent directly to the consignee	documents against acceptance	the goods covered by which are deliverabl
The following transport document is acceptable under a letter of credit……………..	house air waybill	house bill of lading	warehouse receipt	tramp bill of lading	house air waybill
Air waybill is prepared in…………….	three originals	quadruplicate	as many copies as required by the exporter	one original only	three originals
Generally, on exports the proceeds are to be realized within…………..	six months from the date of	one year from the date of	six months from the date of	one year from the date of	six months from the
A bank may refuse to accept to accept an export bill for collection………………….	when the customer has	when the documents have	when the documents are	documents against acceptance	when the documents are
If the importer refuses to accept the bill drawn on him the exporter……………..	should reimport the goods	must find an alternate buyer	may reimport or sell to alternate buyer depending upon commercial expediency	sue the importer	may reimport or sell to alternate buyer depending upon commercial expediency
The institution specializing in organizing fairs and exhibitions is………..	Indian Institute of Foreign Trade	Federation of Indian Export Organisations	Indian Trade Promotion Oraganisations	Indian Maritime Organization	Indian Trade Promotion Oraganisations
TIN means………….	Tax Identific	Tax Input Number	Taxable turn	Tax credit variant	Tax Identification Number
TIN is a………..	Encode	Decode	Code	Method of tax calculation	Code
TIN consists of……….	10 digits nur	12 digits number	7 digits num	11 digits number	11 digits number

First two characters indicates in TIN……	Central code	State code	Shop code	Name code	State code
The basic objective of export Promotion Council is to promote and develop the exports of the ____________.	particular products of country.	only attractive projects of the country.	only services industry products of the country.	overall exports of the country.	overall exports of the country.
IEC means…………..	Import-Export Coordinatio n	Importer-Exporter Code	Exporters Code number	Importers' code number	Importer-Exporter Code
IEC number by the competent authority under ………………Foreign Trade Act, 1992.	Sec7	Sec8	Sec9	Sec10	Sec7
Importe-Exporter code number has been alloted the business firm would be known as…………….	Import Firm	Governme nt Organizati on	Partnership firm	Export firm	Export firm
Foreign Trade, Development and Regulation Act…………..	1892	1972	1992	1962	1992
DBA means………………..	Debt balance account	Doing Business As	Diverse business Association	Developme nt of Business Acumen.	Doing Business As
Partnership Act……………..	1942	1952	1932	1962	1932
Export documentation may use for…………….	Import purpose	Tax benefit	Export Trade	Filing	Export Trade
DGFT means…………………	Director General of Foreign Trade	Director General of Freight Trade	District goods for trade	Direction movement of goods and freight trade	Director General of Foreign Trade
Export Act…………..	1973	1963	1955	1985	1963
……………form is issued for IEC Number.	Aayaat Niryaat	EXIM Form	Foreign Trade Form	Tax Claim Form	Aayaat Niryaat
……………council will be assisted for the exporter to explore the foreign market opportunities.	Export	Import	Foreign Trade	Export Promotion Council	Export Promotio n Council
Commercial invoice is the…………..	Sellers' bill	buyers' bill	Dealers' bill	consumers' bill	Sellers' bill
…………number of documents the exporter is required to send importer	6	7	8	10	8

Commercial document is required for……….	claiming tax benefits	obtain loan from banks	evidence for exporter	physical transfer of goods	physical transfer of goods
Combined transport document is…………..	Multimodal transport document	shipping document	EXIM document	Rail Document	Multimodal transport document

UNIT-IV- INTERNATIONAL TRADE CONTRACT

SYLLABUS

International Trade Terms –Trade contract, Credit risk management and payment terms, LC & parties involved, Types of LC, UCPDC – Major clauses, Consignment sale, Transit risk management – Contract of cargo insurance parties, Insurance policy and certificate, Cargo loss clauses – Procedure and documentation.

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?

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.

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.

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, International Business Contracts 37 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.

(E) International Commercial Practices: Indian laws, basically, govern the exportimport 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.

2. Credit Risk Management and Payment Terms

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 Terms of Payment 51 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 (Types of LC) 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 Terms of Payment 53 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 56 Export-Import Procedures, Documentation and Logistics 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 nonpayment, 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.

Payment Terms- A list of things to consider when determining the best price for your product overseas.

Terms of Sale

Terms in international business transactions often sound similar to those used in domestic business, but they frequently have very different meanings. For this reason, the exporter must know the terms before preparing a quotation or a pro forma invoice.

Preparing Quotes for International Buyers

While a sales contract that spells out the details of a transaction is warranted for larger, more complex deals, a quotation in the form of a Pro Forma Invoice may be sufficient for smaller transactions.

Learn how to prepare Pro forma invoices and the information they should contain and more about how to prepare quotes.

A successful export transaction starts with the negotiation of a sales contract and ends with a timely payment. The buyer/importer gets the product they want and pays the seller/exporter a profitable amount as soon as possible. Depending on the parties' comfort with the degree of risk, there are four methods of payment and other issues to consider, as explained below.

Cash In Advance

With Cash In Advance, the buyer pays the exporter before the shipment/export is made. This method benefits the seller, provided all costs were taken into consideration and calculated correctly. See VEDP Fast Facts on terms Ignoring actual cash and the barter system, there are three forms of payment that qualify as cash in advance:

- A wire transfer is the best method of paying, although banks charge ($25-$35) for this service.
- Paying by check is another good option, but payment could be delayed for up to six weeks waiting for clearance from a foreign account. A bank draft is more appropriate for trade.
- A credit card is a viable choice for low dollar amounts, mostly for the convenience of speed and the automatic currency conversion, but the decision will depend on the exporter's product and in-house collections process.

Cash In Advance payment terms may be considered the most "credit-risky" for the importer/buyer, however the terms may allow for a "savings" to the importer if offered with a discount. Often, Cash In Advance payment terms can be less expensive for the importer when viewing the overall process of the sale and compared to the costs for opening a Letter of Credit at their bank. Depending on a product's lead time and the investment required to produce goods for a specific buyer, Cash In Advance terms by "progress payments" can be an attractive payment method.

Letters Of Credit / Documentary Credits

Letters of Credit (L/C) are often called Documentary Credits by some banks to avoid confusion with "Stand-by" L/C, which are used as a "back up" when services are not provided per a sales agreement. Documentary Credits help to remind the parties involved that banks deal strictly in documents; they do not see or handle the actual goods, so attention to detail on the shipping documents is a must. This method of payment involves strict adherence to bank instructions on the types of documents, terms, conditions, and specific wording required. See flow chart page 5.

- Letters of Credit are produced by commercial banks. The importer's bank "opens" a L/C in favor of the exporter, which is based on the importer's credit and the export sale involved.
- The format for Letters of Credit has been standardized by the International Chamber of Commerce (ICC). For instance, uniform codes are used for each line item so that, as an example, line item 45A will always be where the description of goods will be found, and line item code 44C will always be where the latest shipment date is designated.
- The best type of L/C for the seller is one that is based on their proforma invoice and is non-transferable and irrevocable. All L/Cs, unless specified, are considered irrevocable – meaning the buyer/seller cannot back out of the deal after the L/C has been opened and accepted.

- A “confirmed” L/C ensures the exporter will be paid by his or her own bank, even if the importer’s bank fails to pay, provided all of the L/C instructions and document requirements are followed. Although additional fees apply, exporters should request importers to open a confirmed, irrevocable and non-transferable commercial L/C. The importer’s bank must have a corresponding relationship with a U.S. bank or be creditworthy since the exporter’s bank will not confirm the L/C of an unknown bank. Note that in some countries, a confirmed L/C is not always available due to risk factors.
- A disadvantage to an importer (relative to the size of their business) is that their bank charges fees to open a L/C and usually will hold a percentage of collateral during the “validity” of the L/C (it “ties up” their cash).

There are several variations of Letters of Credit, including Export, Sight, Time, Performance, and Stand-By. Before the exporter accepts the Letter of Credit from the importer, it is extremely important for them to review every detail of the L/C. For example, the exporter should consider if the latest ship date referenced in the L/C is acceptable, or if the amount/value of the L/C is correct (a “+” or “–” prefix to the value on the amount stated can actually help prevent delays when the total ends up being different than the exact amount indicated on the L/C).

Documentary Draft

Documentary drafts are a standardized document available to the exporter by their bank and used to execute the payment terms for a sale. Drafts are filled out by the exporter/seller and sent with the shipping documents to the presenting bank – the bank in the buyer’s country. Copies are sent to the exporter’s bank and the two banks become “witnesses” to the transaction.

The original shipping documents are released by the presenting bank as the importer/buyer “accepts” the draft with a payment schedule of 30/60/90 days "tenor" or pays the draft “at sight.” Then, the presenting/buyer’s bank sends the payment to the seller’s bank.

- Documentary drafts are also standardized by Uniform Customs and Practices (UPC 600).
- Documentary drafts involve a slight risk for the exporter compared to a confirmed L/C since there is no guarantee of a payment.
- Payments by documentary drafts are less costly than documentary drafts to process for the importer. For the exporter, they have the advantage of allowing the shipment to be without the stipulations of a L/C. For example, a L/C may have a “latest ship date” that is impossible

to meet because of product availability or production delay requiring an amendment to the L/C which, if accepted, will add a fee to the cost of the sale.

- With this payment term, the exporter need not wait for a L/C to be opened from the importer's bank - if the goods are ready to ship, the exporter just needs the buyer's bank information to send the Documentary Draft.
- Using Documentary Drafts for collections is a good step in building a long-term relationship with a client. The documentary draft process signals more trust, less costs to the importer, and may be used as a gauge for the exporter to decide when to offer Open Account terms.

Open Account

Open account means the exporter is extending credit to the buyer as a contractual relationship.

- The importer agrees to pay at a later time. Terms offered by the exporter may be 30/60/90 and sometimes 120 days after the date of the Commercial Invoice or Bill of Lading.
- The exporter's credit and collections/finance department monitors the customer's account in their billing/accounting system designating the transaction involved and payment due date.
- Open Account payment terms may be considered the most "credit-risky" for the exporter and should not be offered until they have determined that the importer has a good reputation for making payments.

Credit Insurance

EX-IM also provides credit insurance at very reasonable prices which protects U.S. exporters against the risks of non-payment by foreign buyers for political or commercial reasons. EX-IM assumes the risks banks will not accept—as long as there is reasonable assurance of repayment.

Pre-Export Financing

EX-IM's working capital financing can help U.S. exporters obtain loans to produce or buy goods or services for export. These working capital loans are made by commercial lenders and backed by an EX-IM guarantee. Exporters may use the guaranteed financing to:

- Purchase finished products for export;
- Pay for raw materials, equipment, supplies, labor and overhead to produce goods and/or provide services for export;
- Cover Standby L/C serving as bid bonds, performance bonds, or payment guarantees;

- Finance foreign receivables.

To be eligible for working capital loans:

- Exporters must be located in the U.S., have at least a one-year operating history, and a positive net worth;
- Exports must be shipped from the U.S.;
- Products must have at least 50% U.S. content. If less than 50%, then Ex-Im can only support the export up to the percent of the U.S. content;
- Services must be performed by U.S.-based personnel;
- Military or defense items are generally not eligible, nor are sales to military buyers (with certain exceptions).

Payment terms as a means of financing your exports

Your financing requirements begin at the time you decide to enter the export market, but the serious financing requirements start once you get the order. The contract that you negotiate with the importer dictates:

- How you will be paid
- When you will be paid
- For what you will be paid

These are referred to as your 'payment terms'. All of these factors impact on your post-contract financing requirements. Take, for example, if you agree to be paid in 90 days. This will mean that you will not see any money from the buyer for 90 day.

Negotiating payment terms

It is highly likely as you become increasingly involved in exporting, that a point will come where you have to negotiate an export sale. During these negotiations, the importer is most likely going to ask you what payment terms you offer. A payment term refers to the way payment will be made as well as the period over which you will allow the importer to pay for the goods. Such payment/credit terms are important in international trade as they can be used to competitive tool to attract business for your firm, but they can also be used by the importer against you.

Risk to the importer

If your goods are not up to standard and the importer has already paid you, they will have lost out. Once you have received your money, it is very difficult for the importer to exert any influence over you. You may argue that you are a reputable company and that you would never renege on a contract or that you will always provide after-sales service, but the importer may not be willing to take a chance with a company that they do not know and that is also very far away.

If the importer is in a stronger position, then you may be obliged to offer payment terms. What is more, if payment terms are being offered by your competitor or if payment terms are normal in the industry or country that you are competing in, then may again be obliged to offer such terms.

3. LETTER OF CREDIT

After a contract is concluded between a buyer and a seller, the buyer's bank supplies a letter of credit to the seller. Seller consigns the goods to a carrier in exchange for a bill of lading.

Seller provides the bill of lading to bank in exchange for payment. Seller's bank then provides the bill to buyer's bank, which provides the bill to buyer.

Buyer provides the bill of lading to carrier and takes delivery of the goods.

A letter of credit is a document from a bank guaranteeing that a seller will receive payment in full as long as certain delivery conditions have been met.

In the event that the buyer is unable to make payment on the purchase, the bank will cover the outstanding amount. They are often used in international transactions to ensure that payment will be received where the buyer and seller may not know each other and are operating in different countries. In this case the seller is exposed to a number of risks such credit risk, and legal risk caused by the distance, differing laws and difficulty in knowing each party personally. A letter of credit provides the seller with a guarantee that they will get paid as long as certain delivery conditions have been met. For this reason the use of letters of credit has become a very important aspect of international trade.

The bank that writes the letter of credit will act on behalf of the buyer and make sure that all delivery conditions have been met before making the payment to the seller. Most letters of credit are governed by rules promulgated by the International Chamber of Commerce known as Uniform Customs and Practice for Documentary Credits. Letters of credit are typically used by importing and exporting companies particularly for large purchases and will often negate the need by the buyer to pay a deposit before delivery is made.

They are also used in land development to ensure that approved public facilities (streets, sidewalks, storm water ponds, etc.) will be built. The parties to a letter of credit are the supplier, usually called the "beneficiary", "the issuing bank", of whom the buyer is a client, and sometimes an advising bank, of whom the beneficiary is a client. Almost all letters of credit are irrevocable, i.e., cannot be amended or canceled without mutual consent of all parties.

Terminology

Origin

The name "letter of credit" derives from the French word "accréditation", a power to do something, which derives from the Latin "accreditivus", meaning trust.[citation needed]

Related terms

- A sight LC causes payment to be made immediately to the beneficiary/seller/exporter upon presentation of the correct documents. A time or date LC specifies when payment is to be made at a future date and upon presentation of the required documents
- Negotiation means the giving of value for draft(s) or document(s) by the bank authorized to negotiate, with the nominated bank. Mere examination of the documents and forwarding the same to the LC issuing bank for reimbursement, without giving of value / agreed to give, does not constitute a negotiation.
- Advising Bank — advises the beneficiary at the request of the issuing bank.
- Applicant — the party on whose request the issuing bank issues a credit.
- Banking day—The day on which a bank is regularly open at the place at which an act to be performed.
- Beneficiary — the party who is to receive the benefit (payment) of the LC. The consignee of an LC and the beneficiary may not be the same. The credit is issued in the beneficiary's favor.
- Presentation — either delivery of documents against an LC or the document itself.
- Complying presentation — when the presentation of documents is in accordance with:

  The terms and conditions of the credit

  The applicable provisions of UCP

  International standard banking practice

- Confirmation — a definite undertaking from the confirming bank to honor or negotiate a complying presentation in addition to that of the issuing bank.
- Confirming bank — adds confirmation to an LC. It does so at the request of the issuing bank and taking authorization from the issuing bank.
- Letter of credit/credit — an irrevocable commitment of the issuing bank to honor a complying presentation.
- Honour — to act according to commitment of the LC. Presentations are honored in different ways depending on the type of credit:

Making payment at sight for sight LC.

Incurring a deferred payment undertaking and paying at maturity for deferred payment LC.

Accepting a draft drawn by the beneficiary and paying at maturity for deferred acceptance LC.

- Issuing bank — issues the LC.
- Nominated Bank — the bank with which credit is available. If no bank is mentioned in the credit as nominated bank, all banks are "nominated".
- Negotiation — A nominated bank is said to negotiate a document if it purchases a draft or documents under a complying presentation either by making an advance or agreeing to advance funds to the beneficiary on or before the date on which reimbursement is due to the nominated bank. A draft drawn on a nominated bank cannot be purchased separately.

Documents that can be presented for payment

To receive payment, an exporter or shipper must present the documents required by the LC. Typically, the payee presents a document proving the goods were sent instead of showing the actual goods. The original bill of lading (BOL) is normally the document accepted by banks as proof that goods have been shipped. However, the list and form of documents is open to negotiation and might contain requirements to present documents issued by a neutral third party evidencing the quality of the goods shipped, or their place of origin or place. Typical types of documents in such contracts include:

- Financial Documents — Bill of Exchange, co-accepted draft
- Commercial Documents — Invoice, packing list

- Shipping Documents — Transport document, insurance certificate, commercial, official or legal documents
- Official Documents — License, embassy legalization, origin certificate, inspection certificate, phytosanitary certificate
- Transport Documents — Bill of lading (ocean or multi-modal or charter party), airway bill, lorry/truck receipt, railway receipt, CMC other than mate receipt, forwarder cargo receipt
- Insurance documents — Insurance policy or certificate, but not a cover note.

Legal principles governing documentary credits

One of the primary peculiarities of the documentary credit is that the payment obligation is independent from the underlying contract of sale or any other contract in the transaction. Thus the bank's obligation is defined by the terms of the LC alone, and the sale contract is irrelevant. The defenses available to the buyer arising out of the sale contract do not concern the bank and in no way affect its liability. Article 4(a) of the UCP states this principle clearly. Article 5 of the UCP further states that banks deal with documents only, they are not concerned with the goods (facts). Accordingly, if the documents tendered by the beneficiary, or his or her agent, are in order, then in general the bank is obliged to pay without further qualifications.

The policies behind adopting the abstraction principle are purely commercial and reflect a party's expectations: first, if the responsibility for the validity of documents was thrown onto banks, they would be burdened with investigating the underlying facts of each transaction, and less inclined to issue documentary credits because of the risk and inconvenience.

Second, documents required under the LC could in certain circumstances be different from those required under the sale transaction. This would place banks in a dilemma in deciding which terms to follow if required to look behind the credit agreement.

Third, the fact that the basic function of the credit is to provide a seller with the certainty of payment for documentary duties suggests that banks should honor their obligation notwithstanding allegations of buyer misfeasance. Courts have emphasized that buyers always have a remedy for an action upon the contract of sale and that it would be a calamity for the business world if a bank had to investigate every breach of contract.

The "principle of strict compliance" also aims to make the bank's duty of effecting payment against documents easy, efficient and quick. Hence, if the documents tendered under the credit deviate from the language of the credit the bank is entitled to withhold payment, even if the deviation is purely terminological. The general legal maxim de minimis non curat lex has no place in the field.

Types

- Import/export — The same credit can be termed an import or export LC[4] depending on whose perspective is considered. For the importer it is termed an Import LC and for the exporter of goods, an Export LC.
- Revocable — The buyer and the bank that established the LC are able to manipulate the LC or make corrections without informing or getting permissions from the seller. According to UCP 600, all LCs are irrevocable, hence this type of LC is obsolete.
- Irrevocable — Any changes (amendment) or cancellation of the LC (except it is expired) is done by the applicant through the issuing bank. It must be authenticated and approved by the beneficiary.
- Confirmed — An LC is said to be confirmed when a second bank adds its confirmation (or guarantee) to honor a complying presentation at the request or authorization of the issuing bank.
- Unconfirmed — This type does not acquire the other bank's confirmation.
- Transferrable — The exporter has the right to make the credit available to one or more subsequent beneficiaries. Credits are made transferable when the original beneficiary is a middleman and does not supply the merchandise, but procures goods from suppliers and arranges them to be sent to the buyer and does not want the buyer and supplier know each other.

The middleman is entitled to substitute his own invoice for the supplier's and acquire the difference as profit.

A letter of credit can be transferred to the second beneficiary at the request of the first beneficiary only if it expressly states that the letter of credit is "transferable". A bank is not obligated to transfer a credit.

A transferable letter of credit can be transferred to more than one alternate beneficiary as long as it allows partial shipments.

The terms and conditions of the original credit must be replicated exactly in the transferred credit. However, to keep the workability of the transferable letter of credit, some figures can be reduced or curtailed.

i. Amount
ii. Unit price of the merchandise (if stated)
iii. Expiry date
iv. Presentation period
v. Latest shipment date or given period for shipment.

The first beneficiary may demand from the transferring bank to substitute for the applicant. However, if a document other than the invoice must be issued in a way to show the applicant's name, in such a case that requirement must indicate that in the transferred credit it will be free.

Transferred credit cannot be transferred again to a third beneficiary at the request of the second beneficiary.

- Untransferable — A credit that the seller cannot assign all or part of to another party. In international commerce, all credits are untransferable.
- Deferred / Usance — A credit that is not paid/assigned immediately after presentation, but after an indicated period that is accepted by both buyer and seller. Typically, seller allows buyer to pay the required money after taking the related goods and selling them.
- At Sight — A credit that the announcer bank immediately pays after inspecting the carriage documents from the seller.
- Red Clause — Before sending the products, seller can take the pre-paid part of the money from the bank. The first part of the credit is to attract the attention of the accepting bank. The first time the credit is established by the assigner bank, is to gain the attention of the offered bank. The terms and conditions were typically written in red ink, thus the name.
- Back to Back — A pair of LCs in which one is to the benefit of a seller who is not able to provide the corresponding goods for unspecified reasons. In that event, a second credit is opened for another seller to provide the desired goods. Back-to-back is issued to facilitate intermediary trade. Intermediate companies such as trading houses are sometimes required to open LCs for a supplier and receive Export LCs from buyer.

Pricing

Issuance charges, covering negotiation, reimbursements and other charges are paid by the applicant or as per the terms and conditions of the LC.

If the LC does not specify charges, they are paid by the Applicant. Charge-related terms are indicated in field 71B.

Legal basis

Legal writers have failed to satisfactorily reconcile the bank's undertaking with any contractual analysis. The theories include: the implied promise, assignment theory, the novation theory, reliance theory, agency theories, estoppels and trust theories, anticipatory theory and the guarantee theory.

Although documentary credits are enforceable once communicated to the beneficiary, it is difficult to show any consideration given by the beneficiary to the banker prior to the tender of documents. In such transactions the undertaking by the beneficiary to deliver the goods to the applicant is not sufficient consideration for the bank's promise because the contract of sale is made before the issuance of the credit, thus consideration in these circumstances is past. However, the performance of an existing duty under a contract may be a valid consideration for a new promise made by the bank, provided that there is some practical benefit to the bank A promise to perform owed to a third party may also constitute a valid consideration.

Another theory asserts that it is feasible to typify letter of credit as a collateral contract for a third-party beneficiary because three different entities participate in the transaction: the seller, the buyer, and the banker. Because letters of credit are prompted by the buyer's necessity and in application of the theory of Jean Domat the cause of a LC is to release the buyer of his obligation to pay directly to the seller. Therefore, a LC theoretically fits as a collateral contract accepted by conduct or in other words, an implied-in-fact contract under the framework for third party beneficiary where the buyer participates as the third party beneficiary with the bank acting as the stipulator and the seller as the promisor. The term "beneficiary" is not used properly in the scheme of an LC because a beneficiary (also, in trust law, cestui que use) in the broadest sense is a natural person or other legal entity who receives money or other benefits from a benefactor. Note that under the scheme of letters of credit, banks are neither benefactors of sellers nor benefactors of buyers and the seller receives no money in gratuity mode. Thus is possible that a "letter of credit" was one of those contracts that needed to be masked to disguise the "consideration or Privity requirement". As a result this kind of arrangement, would make letter of credit to be enforceable under the action assumpsit because of its promissory connotation.

A few countries, including the United States (Article 5 of the Uniform Commercial Code) have created statutes in relation to letters of credit. These statutes are designed to work with the rules of practice including UCP and ISP98. These rules of practice are incorporated into the transaction by agreement of the parties. The latest version of the UCP is the UCP600 effective July 1, 2007. Since the UCP are not laws, parties have to include them into their arrangements as normal contractual provisions.

4. Uniform Customs & Practice for Documentary Credits:

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. Uniform Customs and Practice for Documentary Credits 73 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. 74 Export-Import Procedures, Documentation and Logistics

(I) 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.

Document topic UCP 500 articles

- Authentication requirements - UCP 20
- Copies of - UCP 20
- Conforming - UCP 14

- Content of - UCP 21
- Documents v. Goods/ Services/ Performance - UCP 4
- Dated prior to L/C issuance - UCP 22
- Discrepancies - UCP 14
- Examination - UCP 13
- Fraudulent Documents - UCP 15
- Issuer, ambiguity about - UCP 20
- Lost Documents - UCP 16
- Non-stipulated Documents - UCP 13
- Originals - UCP 20
- Required Documents - UCP 5
- Signature on - UCP 20
- Stale Documents - UCP 43

5. Transit Risk Management

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 minimize 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. 80 Export-Import Procedures, Documentation and Logistics

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 82 Export-Import Procedures, Documentation and Logistics various agencies and the type of risk they cover are as under:

shipment is under Letter of Credit, documentation is a crucial part as the opening bank debits you against any discrepancy found on documents. So once you received Letter of Credit, make a copy of the same and read carefully twice. Mark each and every point where ever necessary. Whether any international inspection required, clean on board bill of lading, factory inspection certificate, certificate of origin, legalized documents, consulate attestation, SGS,BVQI inspection, Phyto sanitary certificate, chemical analysis certificate, shipped on board certificate, freight certificate, etc.etc. List out the documents required to submit while negotiating bills. Go through each document minimum twice, whether each document is as per LC requirements. Make sure, all documents are

Category of Risk	**Agency**
Credit Risk	ECGC
Physical Risk	General Insurance Company
Product Liability Risk	General Insurance Company
Exchange Fluctuation	Risk Commercial Bank

there as per LC terms and not found any discrepancy in each of document. This is very important while submitting documents with bank to send to overseas buyer through buyer's bank.

Once after receipt of export documents, your bank arranges to negotiate bill as per Letter of credit terms and conditions after proper verification of each and every clause. If your export order is in US Dollar currency, you can either convert the amount in your currency or you can open a dollar account and transfer the amount accordingly.

6. 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.

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.

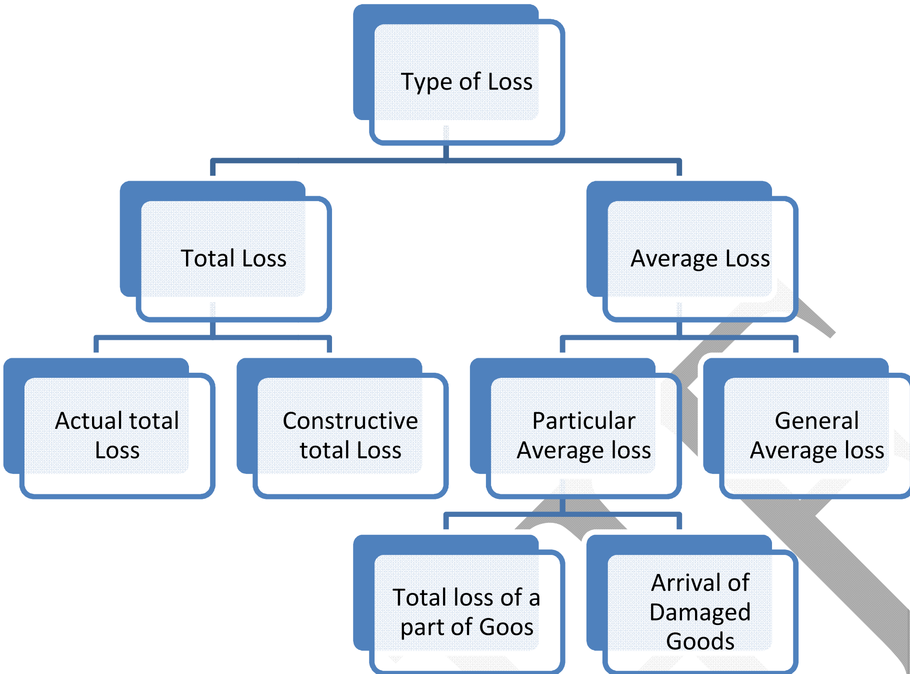
(i) Total loss of a Part of Goods: When a part of total consignment is lost, this method is applied. Value will be arrived by multiplying the number of items lost with per unit value declared in the invoice. (ii) Arrival of Damaged Goods: In case, the goods arrive in a damaged condition at the point 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.



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.

Part A (ONE Mark)

Multiple Choice Questions

Online Examination

Part B

1. Define International Trade contract.
2. What is Letter of Credit?
3. Write a short note on ECGC.

4. State the types of transit risk.
5. What is consignment sale?

Part C

1. Define International Trade terms. Explain the various incoterms.
2. Explain the methods of payment in International Trade.
3. Enumerate the Features of Export Credit Guarantee Corporation of India (ECGC).
4. Enumerate the Payment Terms in Export Trade.
5. What are the parties involved in Letter of Credit? State the types of Letter of Credit.
6. Explain the UCPDC norms. Also give the major clauses of UCPDC.
7. Elaborate on the cargo loss clauses. Explain the procedure and documentation of cargo loss.
8. Enumerate the risks covered by export credit insurance along with the types of export credit insurance.

Questions	Opt 1	Opt 2	Opt 3	Opt 4	Answer
Unless other wise specified in a Letter of Credit which is issued subject to UCPDC 500and also UCPDC 600,documents must be presented for negotiation within _________ days from the date of shipment.	10 days.	7 days.	15 days.	reasonable.	7 days.
If export cargo is lost in transit, the exporter should………	claim under marine insurance	claim with ECGC	seek write off of post-shipment credit	forseek refund of customs duty	claim under marine insurance
Packing credit is the term used for ………….	medium term Loans.	Preshipment credit.	long term credit.	short term credit.	Preshipment credit.
When the exporter, expects the importer, to make the payment immediately upon the draft being presented to him is called as ………..	sight draft.	usance draft.	demand draft.	pay note.	sight draft.
Payment by documentary credit includes ______________.	post dated cheque.	letter of credit.	letter of indent	contract of the business.	letter of credit.
The method of payment where the exporter relies on the undertaking of a bank to pay is…………..	bank guarantee	letter of credit	letter of comfort	Export credit	letter of credit
Letter of credit transactions are generally governed by the provisions of…………….	Uniform customs and Procedures for Documentary	United Conference on Practices for Documenta	Uniform Customs and Practice for Documentar	Uniform Code and Procedure for Documentary	Uniform Customs and Practice s
The beneficiary under a letter of credit is……………	the bank opening the credit	the customer of the opening bank	the confirming bank	the exporter	the customer of the opening bank
A letter of credit is opened on behalf of……………	exporter customers	importer customers	any party wishing to make payment abroad	EXIM bank	importer customers

A letter of credit is addressed to………………………	the beneficiary	the negotiating bank	the reimbursing bank	Importer	the beneficiary
When a letter of credit does not indicate whether it is revocable or irrevocable, it is treated as................	revocable	irrevocable	revocable or irrevocable at the option of the	revocable or irrevocable at the option of the negotiating	irrevocable
Payment for bills drawn under letter of credit should be made by the negotiating bank..................	immediately in all cases	after the documents are approved by the	immediately or on a future date depending upon the	only in foreign currency	immediately or on a future date
Under an acceptance letter of credit, the responsibility of the issuing bank is......................	only to accept the bill	to pay against the bill	to accept the immediately and also to pay the amount of	to get the acceptance of the importer on the bill	to accept the immediately and also to
A confirmed letter of credit is one……………….	confirmed to be authentic	confirmed by the importer to be correct	confirmed by the exporter that he agrees to the condition	confirmed by a bank (other than the opening bank) in the exporter's	confirmed by a bank (other than the opening
Under the confirmed letter of credit the undertaking the confirming bank is…………….…......	in addition to that of the opening bank	in substitution of the undertaking of the opening	to accept the immediately and also to pay the amount of	subject to government policies to the exporter country	in addition to that of the opening
A credit which provides for reinstatement of the amount as and when bills are drawn under it is called……………...	reinstatement credit	reimbursement credit	revolving credit	back-to-back credit	revolving credit
A transferable credit is one…………………..	which can be negotiated	which can be transferred by the importer	which can be transferred by the beneficiary	which provides for transfer of liability to another	which can be transferred by the beneficiar
A transferable credit can be transferred…………………...	once	twice	thrice	any number of times	once

A transferable credit can be transferred to a third person in……………..	the same country	a third country	the same country or any third country	any country	the same country or any third country
A transferable letter of credit...................	can be transferred to more than one	can be transferred to more than one	is one which contains words such	is transferred free of charge	can be transferred to more than one
A back to back letter of credit………………….	is always an inland letter of credit	is a new letter of credit issued on	can be issued only when the original		can also be transferred
A letter of credit that provides for granting of pre-shipment finance as well as storage of goods in the name of the bank is………………………	a red clause letter of credit	a standby letter of credit	a green clause letter of credit	a secured letter of credit	a green clause letter of credit
A letter of credit carries an undertaking of the opening bank to pay up to a specified amount in case of non-performance of certain obligation by the applicant. This letter of credit is	Invalid	an anticipatory letter of credit	standby letter of credit	performance letter of credit	standby letter of credit
The responsibility of an advising bank of a letter of credit is to....................	vouch the genuineness of the letter of credit	negotiate documents under the letter of	negotiate documents under the letter of	Export bills	vouch the genuineness of the letter of
While scrutinizing the documents tendered under a letter of credit, the negotiating bank and issuing bank should apply the doctrine of…………………..	strict compliance	force majeure	indemnity	major compliance	strict compliance
The expiry date of a letter of credit falls on 1st November, a bank holiday at exporter's place.....................	The documents can be presented	The documents should be negotiated	Last date of negotiation and last	The last date for shipment gets	The documents can be presented
The government of India established The Indian Council of Arbitration. in the year _________	1963	1964	1965	1966	1965
The Indian Institute of Foreign Trade was setup as __________, registered under the societies registration act.	an autonomous body.	public sector undertaking.	subsidiary body.	deemed university.	an autonomous body.

Aletter of credit is a letter of payment authority issued by the ________ bank	Shipper's	exporter's	buyer's	EXIM	buyer's
The exporter after the receipt of the duplicate copy of the _________ and the necessary certification thereon files a claim with the maritime collector.	AR 4 form.	AR 5 form.	AR 6 form.	AR 7 form.	AR 4 form.
CPT means ____________.	carrier posted to.	carrier paid to.	carriage paid to.	carriage posted to.	carriage paid to.
CFR means _____________.	container and freight.	cost and freight.	carriage and freight.	carrier and freight.	cost and freight.
____________ form is the application for removal of excisable goods from the factory for exports.	EX.	ARE.	GR.	Statutory declaration	ARE.
How many types of ARE forms are involved in export procedural activities?	2	3	4	5	2
_____________ is a statement containing full details of the goods shipped.	commercial invoice.	Packing List.	Bill of Lading.	A profoma invoice.	commercial invoice.
_____________ are prescribed under the laws that govern export import transactions which are mandatory.	Commercial documents.	Regulatory documents.	Mates Receipt.	Bill of Lading.	Regulatory documents.
___________ is an export form described under Foreign Exchange Management Act	Ex Form.	Statutory declaration form.	GR Form.	ARE Form.	GR Form.
Export promotion council for Synthetic & Rayon is located in _______________.	Chennai.	Kolkata.	Delhi.	Mumbai.	Mumbai.

The submission of the relevant set of documents to the bank during shipment and the process of obtaining payment consequently is called as ___________.	certificated of origin.	negotiating the documents.	certificate of origin.	commercial invoice.	negotiating the documents.
A bill of lading issued after the goods are loaded on the vassal is called as __________.	on board bill of lading.	off board bill of lading.	commercial invoice.	letter of credit.	on board bill of lading.
__________ is a draft drawn by the negotiating bank on the opening bank at the time of exports.	A bill of exchange.	A bill of lading.	A letter of credit.	Sight draft.	A letter of credit.
If the letter of credit stipulates payment at sight the exporter draws a _________ on the buyer or his bank.	bill of lading.	letter of credit.	sight draft.	usance draft.	sight draft.
ADS means ______________.	Attribution Development System.	Arbitration Documentation System.	Arbitration Development System.	Aligned Documentation System.	Aligned Documentation System.
Duty drawback is allowed as per _________.	the customs Act, 1962.	the Income Tax Act,1961.	the Societies Registration Act.	the Duty Drawback Act,1956.	the customs Act, 1962.
An exporter can claim incentives applicable for exports by submitting Form I or _________.	bill of lading.	GR I.	negotiating documents.	bank certificate.	bank certificate.
The exporter requires a _________ attested by the bank for his use in claiming incentives.	bank certificate.	commercial invoice.	GR form.	master documents	commercial invoice.
What is the color of Original GP I form and AR 4 form while submitting to excise authorities before dispatch of goods?	White.	Yellow.	Pink.	Green	White.
What is the color of Duplicate GP I form and AR 4 form while submitting to excise authorities before dispatch of goods?	White.	Yellow.	Pink.	Green.	Yellow.

What is the color of Triplicate GP I form and AR 4 form while submitting to excise authorities before dispatch of goods?	White.	Yellow.	Pink.	Green.	Pink.
A __________ of the ECGC is designed to protect Indian exporters against the risk of non payment of services rendered to foreign parties.	transfer guarantee.	manufacturers credit insurance policy.	market development policy.	service policy.	service policy.
Which one among the following is widely employed strategy of export promotion?	Export credit.	Market Development Assistance	Production Assistance.	Export Incentives.	Export Incentives.
An export house is a registered exporter who satisfied certain criteria laid down in ___________.	the export promotion policy.	the EXIM policy.	the export trade policy.	the foreign trade policy.	the foreign trade policy.
___________ is an undertaking by the importers bank if the exporter exports the goods and products documents as stipulated in the letter	Bill of Exchange.	Promissory Note.	Letter of Credit.	Bill of Lading.	Letter of Credit.
_____________ are drawn when the exporter wants to extend credit to the importer for a specified period.	DP bills.	DA bills.	Open account.	Letter of credits.	DA bills.
___________ is one which can be cancelled or amended by the issuing bank at any time with prior notice to the benefiary.	A. A revocable credit.	B. An irrevocable credit.	C. Revolving credit.	D. Unconfirmed credit.	A. A revocable credit.
____________ is any loan or advance granted to a exporter for financing the purchase, processing or packing of goods meant for export.	Pre shipment credit.	Post shipment credit.	Guarantee Credit.	Standby Credit.	Pre shipment credit.
______________ is a substitute for bank guarantee and is used in countries where issuing of bank guarantee is not allowed.	Pre shipment credit.	Post shipment credit.	Guarantee credit.	Standby credit.	Standby credit.
ECGC has designed __________ types of standard policies to provide cover for shipments made on short-term credit.	3	4	5	6	4

ECGC is under administrative control of ____________.	ministry of industries.	ministry of economics.	ministry of finance.	ministry of commerce.	ministry of commerce.
Credits extended beyond 180 days are classified under ____________ and ___________ credit.	advance and deferred.	medium term and long term.	short term and medium term.	short term and long term.	medium term and long term.
Until the early 1990s, India followed _________.	advanced import practices.	a highly restrictive trade policy.	indiscriminative trade strategy.	advance export practices.	a highly restrictive trade policy.

UNIT-IV- INTERNATIONAL TRADE CONTRACT

SYLLABUS

International Trade Terms –Trade contract, Credit risk management and payment terms, LC & parties involved, Types of LC, UCPDC – Major clauses, Consignment sale, Transit risk management – Contract of cargo insurance parties, Insurance policy and certificate, Cargo loss clauses – Procedure and documentation.

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?

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.

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.

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, International Business Contracts 37 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.

(E) International Commercial Practices: Indian laws, basically, govern the exportimport 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.

2. Credit Risk Management and Payment Terms

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 Terms of Payment 51 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 (Types of LC) 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 Terms of Payment 53 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 56 Export-Import Procedures, Documentation and Logistics 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 nonpayment, 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.

Payment Terms- A list of things to consider when determining the best price for your product overseas.

Terms of Sale

Terms in international business transactions often sound similar to those used in domestic business, but they frequently have very different meanings. For this reason, the exporter must know the terms before preparing a quotation or a pro forma invoice.

Preparing Quotes for International Buyers

While a sales contract that spells out the details of a transaction is warranted for larger, more complex deals, a quotation in the form of a Pro Forma Invoice may be sufficient for smaller transactions.

Learn how to prepare Pro forma invoices and the information they should contain and more about how to prepare quotes.

A successful export transaction starts with the negotiation of a sales contract and ends with a timely payment. The buyer/importer gets the product they want and pays the seller/exporter a profitable amount as soon as possible. Depending on the parties' comfort with the degree of risk, there are four methods of payment and other issues to consider, as explained below.

Cash In Advance

With Cash In Advance, the buyer pays the exporter before the shipment/export is made. This method benefits the seller, provided all costs were taken into consideration and calculated correctly. See VEDP Fast Facts on terms Ignoring actual cash and the barter system, there are three forms of payment that qualify as cash in advance:

- A wire transfer is the best method of paying, although banks charge ($25-$35) for this service.
- Paying by check is another good option, but payment could be delayed for up to six weeks waiting for clearance from a foreign account. A bank draft is more appropriate for trade.
- A credit card is a viable choice for low dollar amounts, mostly for the convenience of speed and the automatic currency conversion, but the decision will depend on the exporter's product and in-house collections process.

Cash In Advance payment terms may be considered the most "credit-risky" for the importer/buyer, however the terms may allow for a "savings" to the importer if offered with a discount. Often, Cash In Advance payment terms can be less expensive for the importer when viewing the overall process of the sale and compared to the costs for opening a Letter of Credit at their bank. Depending on a product's lead time and the investment required to produce goods for a specific buyer, Cash In Advance terms by "progress payments" can be an attractive payment method.

Letters Of Credit / Documentary Credits

Letters of Credit (L/C) are often called Documentary Credits by some banks to avoid confusion with "Stand-by" L/C, which are used as a "back up" when services are not provided per a sales agreement. Documentary Credits help to remind the parties involved that banks deal strictly in documents; they do not see or handle the actual goods, so attention to detail on the shipping documents is a must. This method of payment involves strict adherence to bank instructions on the types of documents, terms, conditions, and specific wording required. See flow chart page 5.

- Letters of Credit are produced by commercial banks. The importer's bank "opens" a L/C in favor of the exporter, which is based on the importer's credit and the export sale involved.
- The format for Letters of Credit has been standardized by the International Chamber of Commerce (ICC). For instance, uniform codes are used for each line item so that, as an example, line item 45A will always be where the description of goods will be found, and line item code 44C will always be where the latest shipment date is designated.
- The best type of L/C for the seller is one that is based on their proforma invoice and is non-transferable and irrevocable. All L/Cs, unless specified, are considered irrevocable – meaning the buyer/seller cannot back out of the deal after the L/C has been opened and accepted.

- A "confirmed" L/C ensures the exporter will be paid by his or her own bank, even if the importer's bank fails to pay, provided all of the L/C instructions and document requirements are followed. Although additional fees apply, exporters should request importers to open a confirmed, irrevocable and non-transferable commercial L/C. The importer's bank must have a corresponding relationship with a U.S. bank or be creditworthy since the exporter's bank will not confirm the L/C of an unknown bank. Note that in some countries, a confirmed L/C is not always available due to risk factors.
- A disadvantage to an importer (relative to the size of their business) is that their bank charges fees to open a L/C and usually will hold a percentage of collateral during the "validity" of the L/C (it "ties up" their cash).

There are several variations of Letters of Credit, including Export, Sight, Time, Performance, and Stand-By. Before the exporter accepts the Letter of Credit from the importer, it is extremely important for them to review every detail of the L/C. For example, the exporter should consider if the latest ship date referenced in the L/C is acceptable, or if the amount/value of the L/C is correct (a "+" or "–" prefix to the value on the amount stated can actually help prevent delays when the total ends up being different than the exact amount indicated on the L/C).

Documentary Draft

Documentary drafts are a standardized document available to the exporter by their bank and used to execute the payment terms for a sale. Drafts are filled out by the exporter/seller and sent with the shipping documents to the presenting bank – the bank in the buyer's country. Copies are sent to the exporter's bank and the two banks become "witnesses" to the transaction.

The original shipping documents are released by the presenting bank as the importer/buyer "accepts" the draft with a payment schedule of 30/60/90 days "tenor" or pays the draft "at sight." Then, the presenting/buyer's bank sends the payment to the seller's bank.

- Documentary drafts are also standardized by Uniform Customs and Practices (UPC 600).
- Documentary drafts involve a slight risk for the exporter compared to a confirmed L/C since there is no guarantee of a payment.
- Payments by documentary drafts are less costly than documentary drafts to process for the importer. For the exporter, they have the advantage of allowing the shipment to be without the stipulations of a L/C. For example, a L/C may have a "latest ship date" that is impossible

to meet because of product availability or production delay requiring an amendment to the L/C which, if accepted, will add a fee to the cost of the sale.

- With this payment term, the exporter need not wait for a L/C to be opened from the importer's bank - if the goods are ready to ship, the exporter just needs the buyer's bank information to send the Documentary Draft.
- Using Documentary Drafts for collections is a good step in building a long-term relationship with a client. The documentary draft process signals more trust, less costs to the importer, and may be used as a gauge for the exporter to decide when to offer Open Account terms.

Open Account

Open account means the exporter is extending credit to the buyer as a contractual relationship.

- The importer agrees to pay at a later time. Terms offered by the exporter may be 30/60/90 and sometimes 120 days after the date of the Commercial Invoice or Bill of Lading.
- The exporter's credit and collections/finance department monitors the customer's account in their billing/accounting system designating the transaction involved and payment due date.
- Open Account payment terms may be considered the most "credit-risky" for the exporter and should not be offered until they have determined that the importer has a good reputation for making payments.

Credit Insurance

EX-IM also provides credit insurance at very reasonable prices which protects U.S. exporters against the risks of non-payment by foreign buyers for political or commercial reasons. EX-IM assumes the risks banks will not accept—as long as there is reasonable assurance of repayment.

Pre-Export Financing

EX-IM's working capital financing can help U.S. exporters obtain loans to produce or buy goods or services for export. These working capital loans are made by commercial lenders and backed by an EX-IM guarantee. Exporters may use the guaranteed financing to:

- Purchase finished products for export;
- Pay for raw materials, equipment, supplies, labor and overhead to produce goods and/or provide services for export;
- Cover Standby L/C serving as bid bonds, performance bonds, or payment guarantees;

- Finance foreign receivables.

To be eligible for working capital loans:

- Exporters must be located in the U.S., have at least a one-year operating history, and a positive net worth;
- Exports must be shipped from the U.S.;
- Products must have at least 50% U.S. content. If less than 50%, then Ex-Im can only support the export up to the percent of the U.S. content;
- Services must be performed by U.S.-based personnel;
- Military or defense items are generally not eligible, nor are sales to military buyers (with certain exceptions).

Payment terms as a means of financing your exports

Your financing requirements begin at the time you decide to enter the export market, but the serious financing requirements start once you get the order. The contract that you negotiate with the importer dictates:

- How you will be paid
- When you will be paid
- For what you will be paid

These are referred to as your 'payment terms'. All of these factors impact on your post-contract financing requirements. Take, for example, if you agree to be paid in 90 days. This will mean that you will not see any money from the buyer for 90 day.

Negotiating payment terms

It is highly likely as you become increasingly involved in exporting, that a point will come where you have to negotiate an export sale. During these negotiations, the importer is most likely going to ask you what payment terms you offer. A payment term refers to the way payment will be made as well as the period over which you will allow the importer to pay for the goods. Such payment/credit terms are important in international trade as they can be used to competitive tool to attract business for your firm, but they can also be used by the importer against you.

Risk to the importer

If your goods are not up to standard and the importer has already paid you, they will have lost out. Once you have received your money, it is very difficult for the importer to exert any influence over you. You may argue that you are a reputable company and that you would never renege on a contract or that you will always provide after-sales service, but the importer may not be willing to take a chance with a company that they do not know and that is also very far away.

If the importer is in a stronger position, then you may be obliged to offer payment terms. What is more, if payment terms are being offered by your competitor or if payment terms are normal in the industry or country that you are competing in, then may again be obliged to offer such terms.

3. LETTER OF CREDIT

After a contract is concluded between a buyer and a seller, the buyer's bank supplies a letter of credit to the seller. Seller consigns the goods to a carrier in exchange for a bill of lading.

Seller provides the bill of lading to bank in exchange for payment. Seller's bank then provides the bill to buyer's bank, which provides the bill to buyer.

Buyer provides the bill of lading to carrier and takes delivery of the goods.

A letter of credit is a document from a bank guaranteeing that a seller will receive payment in full as long as certain delivery conditions have been met.

In the event that the buyer is unable to make payment on the purchase, the bank will cover the outstanding amount. They are often used in international transactions to ensure that payment will be received where the buyer and seller may not know each other and are operating in different countries. In this case the seller is exposed to a number of risks such credit risk, and legal risk caused by the distance, differing laws and difficulty in knowing each party personally. A letter of credit provides the seller with a guarantee that they will get paid as long as certain delivery conditions have been met. For this reason the use of letters of credit has become a very important aspect of international trade.

The bank that writes the letter of credit will act on behalf of the buyer and make sure that all delivery conditions have been met before making the payment to the seller. Most letters of credit are governed by rules promulgated by the International Chamber of Commerce known as Uniform Customs and Practice for Documentary Credits. Letters of credit are typically used by importing and exporting companies particularly for large purchases and will often negate the need by the buyer to pay a deposit before delivery is made.

They are also used in land development to ensure that approved public facilities (streets, sidewalks, storm water ponds, etc.) will be built. The parties to a letter of credit are the supplier, usually called the "beneficiary", "the issuing bank", of whom the buyer is a client, and sometimes an advising bank, of whom the beneficiary is a client. Almost all letters of credit are irrevocable, i.e., cannot be amended or canceled without mutual consent of all parties.

Terminology

Origin

The name "letter of credit" derives from the French word "accréditation", a power to do something, which derives from the Latin "accreditivus", meaning trust.[citation needed]

Related terms

- A sight LC causes payment to be made immediately to the beneficiary/seller/exporter upon presentation of the correct documents. A time or date LC specifies when payment is to be made at a future date and upon presentation of the required documents
- Negotiation means the giving of value for draft(s) or document(s) by the bank authorized to negotiate, with the nominated bank. Mere examination of the documents and forwarding the same to the LC issuing bank for reimbursement, without giving of value / agreed to give, does not constitute a negotiation.
- Advising Bank — advises the beneficiary at the request of the issuing bank.
- Applicant — the party on whose request the issuing bank issues a credit.
- Banking day—The day on which a bank is regularly open at the place at which an act to be performed.
- Beneficiary — the party who is to receive the benefit (payment) of the LC. The consignee of an LC and the beneficiary may not be the same. The credit is issued in the beneficiary's favor.
- Presentation — either delivery of documents against an LC or the document itself.
- Complying presentation — when the presentation of documents is in accordance with:

    The terms and conditions of the credit

    The applicable provisions of UCP

    International standard banking practice

- Confirmation — a definite undertaking from the confirming bank to honor or negotiate a complying presentation in addition to that of the issuing bank.
- Confirming bank — adds confirmation to an LC. It does so at the request of the issuing bank and taking authorization from the issuing bank.
- Letter of credit/credit — an irrevocable commitment of the issuing bank to honor a complying presentation.
- Honour — to act according to commitment of the LC. Presentations are honored in different ways depending on the type of credit:

Making payment at sight for sight LC.

Incurring a deferred payment undertaking and paying at maturity for deferred payment LC.

Accepting a draft drawn by the beneficiary and paying at maturity for deferred acceptance LC.

- Issuing bank — issues the LC.
- Nominated Bank — the bank with which credit is available. If no bank is mentioned in the credit as nominated bank, all banks are "nominated".
- Negotiation — A nominated bank is said to negotiate a document if it purchases a draft or documents under a complying presentation either by making an advance or agreeing to advance funds to the beneficiary on or before the date on which reimbursement is due to the nominated bank. A draft drawn on a nominated bank cannot be purchased separately.

Documents that can be presented for payment

To receive payment, an exporter or shipper must present the documents required by the LC. Typically, the payee presents a document proving the goods were sent instead of showing the actual goods. The original bill of lading (BOL) is normally the document accepted by banks as proof that goods have been shipped. However, the list and form of documents is open to negotiation and might contain requirements to present documents issued by a neutral third party evidencing the quality of the goods shipped, or their place of origin or place. Typical types of documents in such contracts include:

- Financial Documents — Bill of Exchange, co-accepted draft
- Commercial Documents — Invoice, packing list

- Shipping Documents — Transport document, insurance certificate, commercial, official or legal documents
- Official Documents — License, embassy legalization, origin certificate, inspection certificate, phytosanitary certificate
- Transport Documents — Bill of lading (ocean or multi-modal or charter party), airway bill, lorry/truck receipt, railway receipt, CMC other than mate receipt, forwarder cargo receipt
- Insurance documents — Insurance policy or certificate, but not a cover note.

Legal principles governing documentary credits

One of the primary peculiarities of the documentary credit is that the payment obligation is independent from the underlying contract of sale or any other contract in the transaction. Thus the bank's obligation is defined by the terms of the LC alone, and the sale contract is irrelevant. The defenses available to the buyer arising out of the sale contract do not concern the bank and in no way affect its liability. Article 4(a) of the UCP states this principle clearly. Article 5 of the UCP further states that banks deal with documents only, they are not concerned with the goods (facts). Accordingly, if the documents tendered by the beneficiary, or his or her agent, are in order, then in general the bank is obliged to pay without further qualifications.

The policies behind adopting the abstraction principle are purely commercial and reflect a party's expectations: first, if the responsibility for the validity of documents was thrown onto banks, they would be burdened with investigating the underlying facts of each transaction, and less inclined to issue documentary credits because of the risk and inconvenience.

Second, documents required under the LC could in certain circumstances be different from those required under the sale transaction. This would place banks in a dilemma in deciding which terms to follow if required to look behind the credit agreement.

Third, the fact that the basic function of the credit is to provide a seller with the certainty of payment for documentary duties suggests that banks should honor their obligation notwithstanding allegations of buyer misfeasance. Courts have emphasized that buyers always have a remedy for an action upon the contract of sale and that it would be a calamity for the business world if a bank had to investigate every breach of contract.

The "principle of strict compliance" also aims to make the bank's duty of effecting payment against documents easy, efficient and quick. Hence, if the documents tendered under the credit deviate from the language of the credit the bank is entitled to withhold payment, even if the deviation is purely terminological. The general legal maxim de minimis non curat lex has no place in the field.

Types

- Import/export — The same credit can be termed an import or export LC[4] depending on whose perspective is considered. For the importer it is termed an Import LC and for the exporter of goods, an Export LC.
- Revocable — The buyer and the bank that established the LC are able to manipulate the LC or make corrections without informing or getting permissions from the seller. According to UCP 600, all LCs are irrevocable, hence this type of LC is obsolete.
- Irrevocable — Any changes (amendment) or cancellation of the LC (except it is expired) is done by the applicant through the issuing bank. It must be authenticated and approved by the beneficiary.
- Confirmed — An LC is said to be confirmed when a second bank adds its confirmation (or guarantee) to honor a complying presentation at the request or authorization of the issuing bank.
- Unconfirmed — This type does not acquire the other bank's confirmation.
- Transferrable — The exporter has the right to make the credit available to one or more subsequent beneficiaries. Credits are made transferable when the original beneficiary is a middleman and does not supply the merchandise, but procures goods from suppliers and arranges them to be sent to the buyer and does not want the buyer and supplier know each other.

The middleman is entitled to substitute his own invoice for the supplier's and acquire the difference as profit.

A letter of credit can be transferred to the second beneficiary at the request of the first beneficiary only if it expressly states that the letter of credit is "transferable". A bank is not obligated to transfer a credit.

A transferable letter of credit can be transferred to more than one alternate beneficiary as long as it allows partial shipments.

The terms and conditions of the original credit must be replicated exactly in the transferred credit. However, to keep the workability of the transferable letter of credit, some figures can be reduced or curtailed.

i. Amount
ii. Unit price of the merchandise (if stated)
iii. Expiry date
iv. Presentation period
v. Latest shipment date or given period for shipment.

The first beneficiary may demand from the transferring bank to substitute for the applicant. However, if a document other than the invoice must be issued in a way to show the applicant's name, in such a case that requirement must indicate that in the transferred credit it will be free.

Transferred credit cannot be transferred again to a third beneficiary at the request of the second beneficiary.

- Untransferable — A credit that the seller cannot assign all or part of to another party. In international commerce, all credits are untransferable.
- Deferred / Usance — A credit that is not paid/assigned immediately after presentation, but after an indicated period that is accepted by both buyer and seller. Typically, seller allows buyer to pay the required money after taking the related goods and selling them.
- At Sight — A credit that the announcer bank immediately pays after inspecting the carriage documents from the seller.
- Red Clause — Before sending the products, seller can take the pre-paid part of the money from the bank. The first part of the credit is to attract the attention of the accepting bank. The first time the credit is established by the assigner bank, is to gain the attention of the offered bank. The terms and conditions were typically written in red ink, thus the name.
- Back to Back — A pair of LCs in which one is to the benefit of a seller who is not able to provide the corresponding goods for unspecified reasons. In that event, a second credit is opened for another seller to provide the desired goods. Back-to-back is issued to facilitate intermediary trade. Intermediate companies such as trading houses are sometimes required to open LCs for a supplier and receive Export LCs from buyer.

Pricing

Issuance charges, covering negotiation, reimbursements and other charges are paid by the applicant or as per the terms and conditions of the LC.

If the LC does not specify charges, they are paid by the Applicant. Charge-related terms are indicated in field 71B.

Legal basis

Legal writers have failed to satisfactorily reconcile the bank's undertaking with any contractual analysis. The theories include: the implied promise, assignment theory, the novation theory, reliance theory, agency theories, estoppels and trust theories, anticipatory theory and the guarantee theory.

Although documentary credits are enforceable once communicated to the beneficiary, it is difficult to show any consideration given by the beneficiary to the banker prior to the tender of documents. In such transactions the undertaking by the beneficiary to deliver the goods to the applicant is not sufficient consideration for the bank's promise because the contract of sale is made before the issuance of the credit, thus consideration in these circumstances is past. However, the performance of an existing duty under a contract may be a valid consideration for a new promise made by the bank, provided that there is some practical benefit to the bank A promise to perform owed to a third party may also constitute a valid consideration.

Another theory asserts that it is feasible to typify letter of credit as a collateral contract for a third-party beneficiary because three different entities participate in the transaction: the seller, the buyer, and the banker. Because letters of credit are prompted by the buyer's necessity and in application of the theory of Jean Domat the cause of a LC is to release the buyer of his obligation to pay directly to the seller. Therefore, a LC theoretically fits as a collateral contract accepted by conduct or in other words, an implied-in-fact contract under the framework for third party beneficiary where the buyer participates as the third party beneficiary with the bank acting as the stipulator and the seller as the promisor. The term "beneficiary" is not used properly in the scheme of an LC because a beneficiary (also, in trust law, cestui que use) in the broadest sense is a natural person or other legal entity who receives money or other benefits from a benefactor. Note that under the scheme of letters of credit, banks are neither benefactors of sellers nor benefactors of buyers and the seller receives no money in gratuity mode. Thus is possible that a "letter of credit" was one of those contracts that needed to be masked to disguise the "consideration or Privity requirement". As a result this kind of arrangement, would make letter of credit to be enforceable under the action assumpsit because of its promissory connotation.

A few countries, including the United States (Article 5 of the Uniform Commercial Code) have created statutes in relation to letters of credit. These statutes are designed to work with the rules of practice including UCP and ISP98. These rules of practice are incorporated into the transaction by agreement of the parties. The latest version of the UCP is the UCP600 effective July 1, 2007. Since the UCP are not laws, parties have to include them into their arrangements as normal contractual provisions.

4. Uniform Customs & Practice for Documentary Credits:

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. Uniform Customs and Practice for Documentary Credits 73 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. 74 Export-Import Procedures, Documentation and Logistics

(I) 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.

Document topic UCP 500 articles

- Authentication requirements - UCP 20
- Copies of - UCP 20
- Conforming - UCP 14

- Content of - UCP 21
- Documents v. Goods/ Services/ Performance - UCP 4
- Dated prior to L/C issuance - UCP 22
- Discrepancies - UCP 14
- Examination - UCP 13
- Fraudulent Documents - UCP 15
- Issuer, ambiguity about - UCP 20
- Lost Documents - UCP 16
- Non-stipulated Documents - UCP 13
- Originals - UCP 20
- Required Documents - UCP 5
- Signature on - UCP 20
- Stale Documents - UCP 43

5. Transit Risk Management

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 minimize 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. 80 Export-Import Procedures, Documentation and Logistics

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 82 Export-Import Procedures, Documentation and Logistics various agencies and the type of risk they cover are as under:

shipment is under Letter of Credit, documentation is a crucial part as the opening bank debits you against any discrepancy found on documents. So once you received Letter of Credit, make a copy of the same and read carefully twice. Mark each and every point where ever necessary. Whether any international inspection required, clean on board bill of lading, factory inspection certificate, certificate of origin, legalized documents, consulate attestation, SGS,BVQI inspection, Phyto sanitary certificate, chemical analysis certificate, shipped on board certificate, freight certificate, etc.etc. List out the documents required to submit while negotiating bills. Go through each document minimum twice, whether each document is as per LC requirements. Make sure, all documents are

Category of Risk	**Agency**
Credit Risk	ECGC
Physical Risk	General Insurance Company
Product Liability Risk	General Insurance Company
Exchange Fluctuation	Risk Commercial Bank

there as per LC terms and not found any discrepancy in each of document. This is very important while submitting documents with bank to send to overseas buyer through buyer's bank.

Once after receipt of export documents, your bank arranges to negotiate bill as per Letter of credit terms and conditions after proper verification of each and every clause. If your export order is in US Dollar currency, you can either convert the amount in your currency or you can open a dollar account and transfer the amount accordingly.

6. 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.

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.

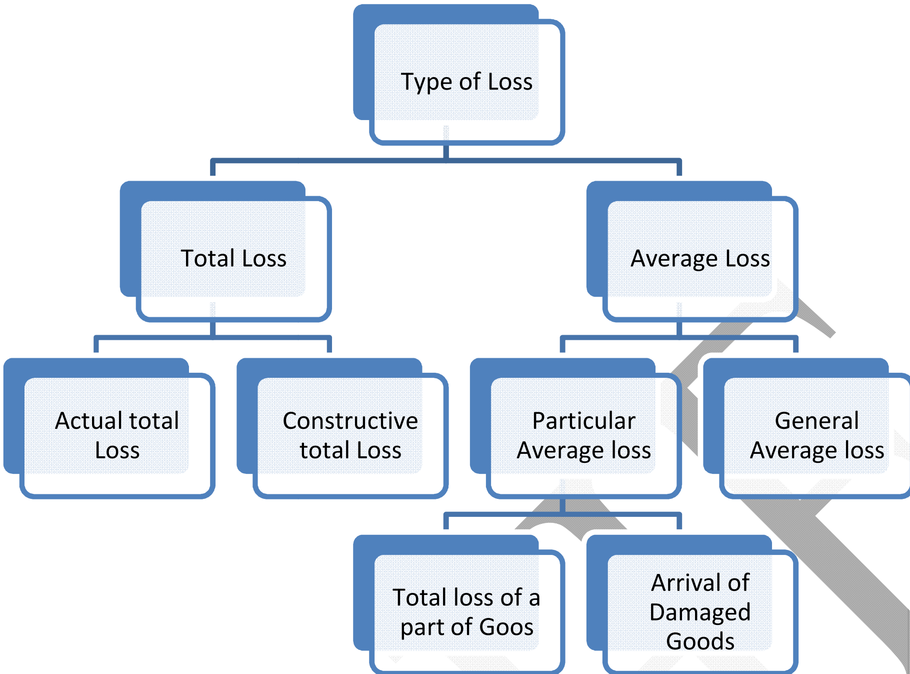
(i) Total loss of a Part of Goods: When a part of total consignment is lost, this method is applied. Value will be arrived by multiplying the number of items lost with per unit value declared in the invoice. (ii) Arrival of Damaged Goods: In case, the goods arrive in a damaged condition at the point 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.



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.

Part A (ONE Mark)

Multiple Choice Questions

Online Examination

Part B

1. Define International Trade contract.
2. What is Letter of Credit?
3. Write a short note on ECGC.

4. State the types of transit risk.
5. What is consignment sale?

Part C

1. Define International Trade terms. Explain the various incoterms.
2. Explain the methods of payment in International Trade.
3. Enumerate the Features of Export Credit Guarantee Corporation of India (ECGC).
4. Enumerate the Payment Terms in Export Trade.
5. What are the parties involved in Letter of Credit? State the types of Letter of Credit.
6. Explain the UCPDC norms. Also give the major clauses of UCPDC.
7. Elaborate on the cargo loss clauses. Explain the procedure and documentation of cargo loss.
8. Enumerate the risks covered by export credit insurance along with the types of export credit insurance.

Questions	Opt 1	Opt 2	Opt 3	Opt 4	Answer
Unless other wise specified in a Letter of Credit which is issued subject to UCPDC 500and also UCPDC 600,documents must be presented for negotiation within _________ days from the date of shipment.	10 days.	7 days.	15 days.	reasonable.	7 days.
If export cargo is lost in transit, the exporter should………	claim under marine insurance	claim with ECGC	seek write off of post-shipment credit	forseek refund of customs duty	claim under marine insurance
Packing credit is the term used for ………….	medium term Loans.	Preshipment credit.	long term credit.	short term credit.	Preshipment credit.
When the exporter, expects the importer, to make the payment immediately upon the draft being presented to him is called as ………..	sight draft.	usance draft.	demand draft.	pay note.	sight draft.
Payment by documentary credit includes ______________.	post dated cheque.	letter of credit.	letter of indent	contract of the business.	letter of credit.
The method of payment where the exporter relies on the undertaking of a bank to pay is…………..	bank guarantee	letter of credit	letter of comfort	Export credit	letter of credit
Letter of credit transactions are generally governed by the provisions of…………….	Uniform customs and Procedures for Documentary	United Conference on Practices for Documenta	Uniform Customs and Practice for Documentar	Uniform Code and Procedure for Documentary	Uniform Customs and Practice s
The beneficiary under a letter of credit is……………	the bank opening the credit	the customer of the opening bank	the confirming bank	the exporter	the customer of the opening bank
A letter of credit is opened on behalf of……………	exporter customers	importer customers	any party wishing to make payment abroad	EXIM bank	importer customers

A letter of credit is addressed to………………………	the beneficiary	the negotiating bank	the reimbursing bank	Importer	the beneficiar y
When a letter of credit does not indicate whether it is revocable or irrevocable, it is treated as................	revocable	irrevocable	revocable or irrevocable at the option of the	revocable or irrevocable at the option of the negotiating	irrevocabl e
Payment for bills drawn under letter of credit should be made by the negotiating bank..................	immediately in all cases	after the documents are approved by the	immediately or on a future date depending upon the	only in foreign currency	immediate ly or on a future date
Under an acceptance letter of credit, the responsibility of the issuing bank is......................	only to accept the bill	to pay against the bill	to accept the immediately and also to pay the amount of	to get the acceptance of the importer on the bill	to accept the immediate ly and also to
A confirmed letter of credit is one……………….	confirmed to be authentic	confirmed by the importer to be correct	confirmed by the exporter that he agrees to the condition	confirmed by a bank (other than the opening bank) in the exporter's	confirmed by a bank (other than the opening
Under the confirmed letter of credit the undertaking the confirming bank is…………….….....	in addition to that of the opening bank	in substitution of the undertaking of the opening	to accept the immediately and also to pay the amount of	subject to government policies to the exporter country	in addition to that of the opening bank
A credit which provides for reinstatement of the amount as and when bills are drawn under it is called……………...	reinstateme nt credit	reimburse ment credit	revolving credit	back-to-back credit	revolving credit
A transferable credit is one…………………..	which can be negotiated	which can be transferred by the importer	which can be transferred by the beneficiary	which provides for transfer of liability to another	which can be transferre d by the beneficiar
A transferable credit can be transferred…………………...	once	twice	thrice	any number of times	once

A transferable credit can be transferred to a third person in……………..	the same country	a third country	the same country or any third country	any country	the same country or any third country
A transferable letter of credit...................	can be transferred to more than one	can be transferred to more than one	is one which contains words such	is transferred free of charge	can be transferred to more than one
A back to back letter of credit………………….	is always an inland letter of credit	is a new letter of credit issued on	can be issued only when the original		can also be transferred
A letter of credit that provides for granting of pre-shipment finance as well as storage of goods in the name of the bank is………………………	a red clause letter of credit	a standby letter of credit	a green clause letter of credit	a secured letter of credit	a green clause letter of credit
A letter of credit carries an undertaking of the opening bank to pay up to a specified amount in case of non-performance of certain obligation by the applicant. This letter of credit is	Invalid	an anticipatory letter of credit	standby letter of credit	performance letter of credit	standby letter of credit
The responsibility of an advising bank of a letter of credit is to....................	vouch the genuineness of the letter of credit	negotiate documents under the letter of	negotiate documents under the letter of	Export bills	vouch the genuineness of the letter of
While scrutinizing the documents tendered under a letter of credit, the negotiating bank and issuing bank should apply the doctrine of…………………..	strict compliance	force majeure	indemnity	major compliance	strict compliance
The expiry date of a letter of credit falls on 1st November, a bank holiday at exporter's place.....................	The documents can be presented	The documents should be negotiated	Last date of negotiation and last	The last date for shipment gets	The documents can be presented
The government of India established The Indian Council of Arbitration. in the year __________	1963	1964	1965	1966	1965
The Indian Institute of Foreign Trade was setup as ___________, registered under the societies registration act.	an autonomous body.	public sector undertaking.	subsidiary body.	deemed university.	an autonomous body.

Aletter of credit is a letter of payment authority issued by the ________ bank	Shipper's	exporter's	buyer's	EXIM	buyer's
The exporter after the receipt of the duplicate copy of the _________ and the necessary certification thereon files a claim with the maritime collector.	AR 4 form.	AR 5 form.	AR 6 form.	AR 7 form.	AR 4 form.
CPT means ____________.	carrier posted to.	carrier paid to.	carriage paid to.	carriage posted to.	carriage paid to.
CFR means _____________.	container and freight.	cost and freight.	carriage and freight.	carrier and freight.	cost and freight.
____________ form is the application for removal of excisable goods from the factory for exports.	EX.	ARE.	GR.	Statutory declaration	ARE.
How many types of ARE forms are involved in export procedural activities?	2	3	4	5	2
_____________ is a statement containing full details of the goods shipped.	commercial invoice.	Packing List.	Bill of Lading.	A profoma invoice.	commercial invoice.
_____________ are prescribed under the laws that govern export import transactions which are mandatory.	Commercial documents.	Regulatory documents.	Mates Receipt.	Bill of Lading.	Regulatory documents.
___________ is an export form described under Foreign Exchange Management Act	Ex Form.	Statutory declaration form.	GR Form.	ARE Form.	GR Form.
Export promotion council for Synthetic & Rayon is located in _______________.	Chennai.	Kolkata.	Delhi.	Mumbai.	Mumbai.

The submission of the relevant set of documents to the bank during shipment and the process of obtaining payment consequently is called as ___________.	certificated of origin.	negotiating the documents.	certificate of origin.	commercial invoice.	negotiating the documents.
A bill of lading issued after the goods are loaded on the vassal is called as __________.	on board bill of lading.	off board bill of lading.	commercial invoice.	letter of credit.	on board bill of lading.
__________ is a draft drawn by the negotiating bank on the opening bank at the time of exports.	A bill of exchange.	A bill of lading.	A letter of credit.	Sight draft.	A letter of credit.
If the letter of credit stipulates payment at sight the exporter draws a _________ on the buyer or his bank.	bill of lading.	letter of credit.	sight draft.	usance draft.	sight draft.
ADS means ______________.	Attribution Development System.	Arbitration Documentation System.	Arbitration Development System.	Aligned Documentation System.	Aligned Documentation System.
Duty drawback is allowed as per _________.	the customs Act, 1962.	the Income Tax Act,1961.	the Societies Registration Act.	the Duty Drawback Act,1956.	the customs Act, 1962.
An exporter can claim incentives applicable for exports by submitting Form I or _________.	bill of lading.	GR I.	negotiating documents.	bank certificate.	bank certificate.
The exporter requires a _________ attested by the bank for his use in claiming incentives.	bank certificate.	commercial invoice.	GR form.	master documents	commercial invoice.
What is the color of Original GP I form and AR 4 form while submitting to excise authorities before dispatch of goods?	White.	Yellow.	Pink.	Green	White.
What is the color of Duplicate GP I form and AR 4 form while submitting to excise authorities before dispatch of goods?	White.	Yellow.	Pink.	Green.	Yellow.

What is the color of Triplicate GP I form and AR 4 form while submitting to excise authorities before dispatch of goods?	White.	Yellow.	Pink.	Green.	Pink.
A __________ of the ECGC is designed to protect Indian exporters against the risk of non payment of services rendered to foreign parties.	transfer guarantee.	manufacturers credit insurance policy.	market development policy.	service policy.	service policy.
Which one among the following is widely employed strategy of export promotion?	Export credit.	Market Development Assistance	Production Assistance.	Export Incentives.	Export Incentives.
An export house is a registered exporter who satisfied certain criteria laid down in ___________.	the export promotion policy.	the EXIM policy.	the export trade policy.	the foreign trade policy.	the foreign trade policy.
___________ is an undertaking by the importers bank if the exporter exports the goods and products documents as stipulated in the letter	Bill of Exchange.	Promissory Note.	Letter of Credit.	Bill of Lading.	Letter of Credit.
_____________ are drawn when the exporter wants to extend credit to the importer for a specified period.	DP bills.	DA bills.	Open account.	Letter of credits.	DA bills.
___________ is one which can be cancelled or amended by the issuing bank at any time with prior notice to the benefiary.	A. A revocable credit.	B. An irrevocable credit.	C. Revolving credit.	D. Unconfirmed credit.	A. A revocable credit.
____________ is any loan or advance granted to a exporter for financing the purchase, processing or packing of goods meant for export.	Pre shipment credit.	Post shipment credit.	Guarantee Credit.	Standby Credit.	Pre shipment credit.
______________ is a substitute for bank guarantee and is used in countries where issuing of bank guarantee is not allowed.	Pre shipment credit.	Post shipment credit.	Guarantee credit.	Standby credit.	Standby credit.
ECGC has designed __________ types of standard policies to provide cover for shipments made on short-term credit.	3	4	5	6	4

ECGC is under administrative control of ____________.	ministry of industries.	ministry of economics.	ministry of finance.	ministry of commerce.	ministry of commerce.
Credits extended beyond 180 days are classified under ____________ and ___________ credit.	advance and deferred.	medium term and long term.	short term and medium term.	short term and long term.	medium term and long term.
Until the early 1990s, India followed _________.	advanced import practices.	a highly restrictive trade policy.	indiscriminative trade strategy.	advance export practices.	a highly restrictive trade policy.

UNIT-IV
CUSTOMS CLEARANCE

Clearance – Excise duty – Definition, Types of duties, Legal framework – Central Excise Act and rules, Tariffs, Customs Act 1962, Customs Tariffs Act 1975, Foreign Trade Act 1992, Physical Examination of goods, EDI and custom operations.

1. What is excise duty?

Excise is derived from the Latin word **"Excisum/Excidere** which means to cut out".

The duty of excise is levied on a manufacturer or producer in respect of the commodities produced or manufactured by him. It is a tax upon manufacture of goods and not upon sales or proceeds of sale of goods.

Duty of excise has been renamed as Central Value Added Tax (CENVAT). **CENVAT includes duty, duties duty of excise or „duties of excise.**

Although excise started as a pure duty on manufacturing activity, over a period of time it has included deemed manufacture and became a value added tax. The changed nomenclature (CENVAT) indicates the same.

CONSTITUTIONAL PROVISIONS

Entry 84 of the **Union List of the Seventh Schedule** to Article 246 of Constitution of India provides as under:

- This Act may be called the Central Excise Act, 1944].
- It shall come into force on such date 3 as the Central Government may, by notification in the Official Gazette, appoint in this behalf.
- Subs. by Act 33 of 1996, s. 71, for subsection (1), w.e.f. 28.9.1996.
- The words "except the State of Jammu and Kashmir" omitted by Act 41 of 1954, S. 2 and Sch.

  Came into force on 28th February, 1944, vide Noti. No. III-D, G.O.I.(E), dt. 26.2.1944.

2. **Definitions**- In this Act, unless there is anything repugnant in the subject or context:-

1[(a) "Adjudicating authority" means any authority competent to pass any order or decision under this Act, but does not include the Central Board of Excise and Customs constituted under the Central Boards of Revenue Act, 1963 (54 of 1963) Commissioner of Central Excise (Appeals) or Appellate Tribunal;

(aa) "Appellate Tribunal" means the Customs, Excise and Gold (Control) Appellate Tribunal constituted under Section 129 of the Customs Act, 1962 (52 of 1962);]

2(aaa)] "Broker" or "commission agent" means a person who in the ordinary course of business makes contracts for the sale or purchase of excisable goods for others;

3 [(b) "Central Excise Officer" means the Chief Commissioner of Central Excise, Commissioner of Central Excise, Commissioner of Central Excise (Appeals), Additional Commissioner of Central Excise, 4[joint Commissioner of Central Excise], 5[Assistant Commissioner of Central Excise or Deputy Commissioner of Central Excise] or any other officer of the Central Excise Department, or any person (including an officer of the State Government) invested by the Central Board of Excise and Customs constituted under the Central Boards of Revenue Act, 1963 (54 of 1963) with any of the powers of a Central Excise Officer under this Act;]

(c) "Curing" includes wilting, drying, fermenting and any process for rendering an un-manufactured product fit for marketing or manufacture;

(d) "Excisable goods" means goods specified in the 6[Schedule to the Central Excise Tariff Act, 1985 (5 of 1986)] as being subject to a duty of excise and includes salt;

(e) "Factory" means any premises, including the precincts thereof, wherein or in any part of which excisable goods other than salt are manufactured, or wherein or in any part of which any manufacturing process connected with the production of these goods is being carried on or is ordinarily carried on;

7[(ee) "Fund" means the Consumer Welfare Fund established under Section 12C;]

"Manufacture" includes any process-

(i) Incidental or ancillary to the completion of a manufactured product;

(ii) Which is specified in relation to any goods in the Section or Chapter Notes of 9[the first Schedule] to the Central Excise Tariff Act, 1985 as amounting to manufacturer, and the word "manufacture" shall be construed accordingly and shall include not only a person who employs hired labour in the production or manufacture of excisable goods, but also any person who engages in their production or manufacture on his own account;]

(g) "Prescribed" means prescribed by rules made under this Act;

(h) "Sale" and "purchase", with their grammatical variations and cognate expressions, mean any transfer of the possession of goods by one person to another in the ordinary course of trade or business for cash or deferred payment or other valuable consideration;

(k) "Wholesale dealer" means a person who buys or sells excisable goods wholesale for the purpose of trade or manufacture, and includes a broker or commission agent, who, in addition to making contracts for the sale or purchase of excisable goods for others, stocks such goods belonging to others as an agent for the purpose of sale.

History of Central Excise Law

History: Prior to 1944 there were 16 individual Acts which levied excise duty. Each such act dealt with one or same type of commodities. All these acts were consolidated and a consolidating Act was passed in 1944 called as Central Excises and Salt Act, 1944 which came into effect from 28th February 1944. In I996 the Act was renamed as Central Excise Act, 1944.

The Central Excise Act, 1944 (originally Central Excises and Salt Act, 1944) and Rules framed there under came into force on 28th February, 1944.

Different kinds of Excise Duties

1. Basic Excise Duty : This is the duty leviable under First Schedule to the Central Excise Tariff Act, 1985 at the rates mentioned in the said Schedule.
2. Special Excise Duty : This is the duty leviable under Second Schedule to the Central Excise Tariff Act, 1985 at the rates mentioned in the said Schedule. At present this is leviable on very few items.
3. Additional Duties of Excise (Textiles and textile Articles) : his duty is leviable under section 3 of the Additional Duties of Excise (Textiles and

Textile Articles) Act, 1978. This is leviable at the rate of fifteen percent of Basic Excise Duty payable on specified textile articles.

4. Additional Duties of Excise (Goods of Special Importance) : duty is leviable under the Additional Duties of Excise (Goods of Special Importance) Act, 1957 on the specified goods mentioned in its First Schedule.
5. National Calamity Contingent Duty - Normally known as NCCD. This duty is levied as per section 136 of the Finance Act, 2001, as a surcharge on specified goods.
6. Excise Duties and Cesses Leviable Under Miscellaneous Act - On certain specified goods, in addition to the aforesaid duties, prescribed rate of excise duty and cess is also leviable.
7. Education Cess on excisable goods is levied in addition to any other duties of excise chargeable on such goods, under the Central Excise Act, 1944 or any other law for the time being in force.

Levy and Collection of Excise Duty:

Duties specified in the First Schedule and the Second Schedule to the Central Excise Tariff Act, 1985 to be levied.-

1. There shall be levied and collected in such manner as may be prescribed,—
    a. a duty of excise to be called the Central Value Added Tax (CENVAT), on all excisable goods which are produced or manufactured in India as, and at the rates, set forth in the First Schedule to the Central Excise Tariff Act, 1985 (5 of 1986);
    b. a special duty of excise, in addition to the duty of excise specified in clause (a) above, on excisable goods specified in the Second Schedule to the Central Excise Tariff Act, 1985 (5 of 1986) which are produced or manufactured in India, as, and at the rates, set forth in the said Second Schedule:

    Provided that the duties of excise which shall be levied and collected on any excisable goods which are produced or manufactured,—

i. in a free trade zone or a special economic zone and brought to any other place in India; or
ii. by a hundred per cent export-oriented undertaking and brought to any other place in India,

shall be an amount equal to the aggregate of the duties of customs which would be leviable under the Customs Act, 1962 (52 of 1962), or any other law for the time being in force on like goods produced or manufactured outside India if imported into India, and where the said duties of customs are chargeable by reference to their value, the value of such excisable goods shall, notwithstanding anything contained in any other provision of this Act, be determined in accordance with the provisions of the Customs Act, 1962(52 of 1962) and the Customs Tariff Act, 1975 (51 of 1975).

(1A) The provisions of sub-section (1) shall apply in respect of all excisable goods other than salt which are produced or manufactured in India by, or on behalf of Government, as they apply in respect of goods which are not produced or manufactured by Government.

2. The Central Government may, by notification in the Official Gazette, fix, for the purpose of levying the said duties, tariff values of any articles enumerated, either specifically or under general headings, in the First Schedule and the Second Schedule to the Central Excise Tariff Act, 1985 (5 of 1986)] as chargeable with duty ad valorem and may alter any tariff values for the time being in force.
3. Different tariff values may be fixed—
    a. for different classes or descriptions of the same excisable goods; or
    b. for excisable goods of the same class or description—
        i. produced or manufactured by different classes of producers or manufacturers; or
        ii. sold to different classes of buyers:

Provided that in fixing different tariff values in respect of excisable goods falling under sub-clause (i) or sub-clause (ii), regard shall be had to the sale prices charged by the different classes of producers or manufacturers or, as the case may be, the normal practice of the wholesale trade in such goods. Section 109 of Finance Act, 2000 (10 of 2000)

2. What is customs duty?

Customs duty is a duty or tax, which is levied by the Central Government on import of goods into, and export of goods from, India.

The term ‘customs’ derives its colour and essence from the term _custom‘, which means a habitual practice or course of action that characteristically is repeated in like circumstances.

Duties on import and export of goods have been levied from time immemorial by all the countries. In India, at the time when the predominant system of governance was monarchy, it was customary for a trader bringing the goods to a particular kingdom to offer gifts to the King for allowing him to sell his goods in that kingdom. Kautiliya‘s Arthashastra also refers to _shulka‘ consisting of import duty and export duty that was collected at the city gates on goods coming in and going out respectively.

Subsequently, the levy of customs duty was organised through legislation during the British period. Post independence, the Customs Act was passed and promulgated in India by the Parliament in the year 1962. It consolidated the erstwhile Sea Customs Act, 1878, Land Customs Act, 1924 and provisions for air customs. Further, the Customs Tariff Act was pass ed in the year 1975 to replace the erstwhile Indian Tariff Act, 1934.

FEATURES OF CUSTOM DUTIES

The following are the features and objectives of customs duties,

1. Regulating the amount of import in India in order to protect the domestic market.
2. Protecting Indian Industry from undue competition
3. Prohibiting certain imports of goods for achieving the policy objectives of the Government.
4. Regulating imports
5. Coordinating legal provisions with other laws dealing with foreign exchange such as Foreign Trade Act, Foreign Exchange Regulation Act, Conservation of Foreign Exchange and Prevention of Smuggling Act, etc.

All import goods are classified into categories known as called "headings" and "subheadings" for the purpose of levy of duty. For each sub-heading, a specific rate of duty has been prescribed in the Customs Tariff Act, 1975.

THE MAJOR OBJECTIVES OF IMPOSING EXPORT DUTIES

The following are the major objectives of levying especially export duties,

1. Export duties for revenue purposes
2. Export duties for anti inflationary condition
3. Export duties to stabilize price of essential commodities
4. Export duties to protect home industries
5. Export duties as countervailing measure
6. Export duties to control export of raw materials.

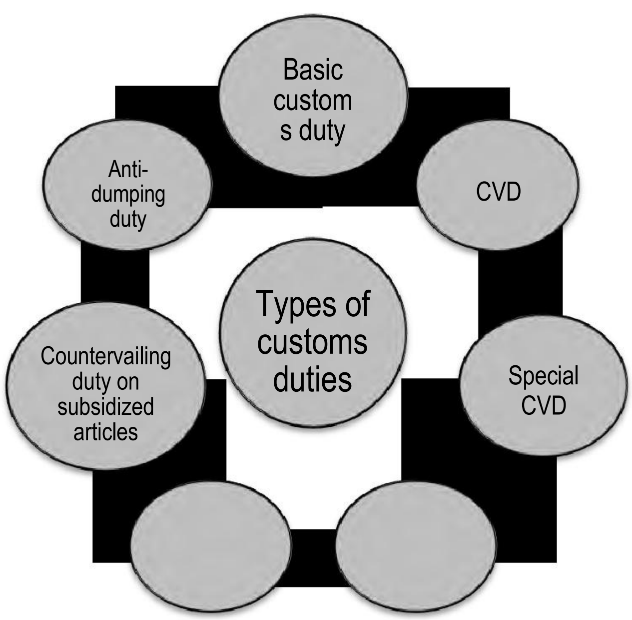
CONSTITUTIONAL PROVISIONS

As learned earlier, customs duty is an indirect tax levied by the Central Government. The power to levy the customs duty is conferred by **Entry 83** of the **Union List of the Seventh Schedule** to the Constitution of India.

Entry 83 provides as under:

Duties of Customs including Export duties

The various types of customs duties are as under:-



Safeguard duties | Protective duties

The aforesaid duties have been elaborated subsequently in this Unit.

Sources of customs law

Customs Law is a combined study of the Customs Act, 1962, Customs Tariff Act, 1975, Annual Union Finance Acts, Rules, Notifications, Circulars/ Instructions, Trade Notices/Clarifications and Case Laws.

(1) Customs Act, 1962: Customs Act, 1962 contains the provisions governing the import and export duty imposed on imports and exports of the goods.

(2) Customs Tariff Act, 1975: contains the provisions relating to various types of customs duties and the classification of imported and export goods.

(3) Rules and regulations: Some of the rules and regulations issued under the Customs Act, 1962 are the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007, Customs Valuation (Determination of Value of Export Goods) Rules 2007, Baggage Rules, 1998, Export Manifest (Vessels) Regulations, 1976, etc.

Levy of customs duty

Dutiable goods. -(1) Except as otherwise provided in this Act, or any other law for the time being in force, duties of customs shall be levied at such rates as may be specified under # [the Customs Tariff Act, 1975 (51 of 1975)], or any other law for the time being in force, on goods
imported into, or exported from India.

[(2) The provisions of sub-section (1) shall apply in respect of all goods belonging to Government as they apply in respect of goods not belonging to Government.]

Substituted (w.e.f. 2.8.1976) by s. 13 of CTA, 1975 (51 of 1975)

Substituted (w.e.f. 1.10.1963) by s. 2 of Customs and Central Excise (Amendment)Act, 1963 (30 of 1963)

Duty on pilfered goods. - If any imported goods are pilfered after the unloading thereof and before the proper officer has made an order for clearance for home consumption or deposit in a warehouse, the importer shall not be liable to pay the duty

Date for determination of rate of duty and tariff valuation of imported goods. - (1) [1] [The rate of duty [2] [Omitted]] and tariff valuation, if any, applicable to any imported goods, shall be the rate and valuation in force,-(a) in the case of goods entered for home consumption under section 46, on the date on which a bill of entry in respect of such goods is presented under that section;

(b) in the case of goods cleared from a warehouse under section 68, on the date on which a ***bill of entry for home consumption in respect of such goods is presented under that section;**

(c) in the case of any other goods, on the date of payment of duty:

[Provided that if a bill of entry has been presented before the date of entry inwards of the vessel or the arrival of the aircraft by which the goods are imported, the bill of entry shall be deemed to have been presented on the date of such entry inwards or the arrival, as the case may be.]

(2) The provisions of this section shall not apply to baggage and goods imported by post

Date for determination of rate of duty and tariff valuation of export goods. - (1) The rate of duty and tariff valuation, if any, applicable to any export goods, shall be the rate and valuation in force, -

(a) in the case of goods entered for export under section 50, on the date on which the proper officer makes an order permitting clearance and loading of the goods for exportation under section 51;

(b) in the case of any other goods, on the date of payment of duty.

Abatement of duty on damaged or deteriorated goods. - (1) [Where it is shown to the satisfaction of the Assistant Commissioner of Customs or Deputy Commissioner of Customs] -

(a) that any imported goods had been damaged or had deteriorated at any time before or during the unloading of the goods in India; or
(b) that any imported goods, other than warehoused goods, had been damaged at any time after the unloading thereof in India but before their examination under section *17,* on account of any accident not due to any wilful act, negligence or default of the importer, his employee or agent; or
(c) that any warehoused goods had been damaged at any time before clearance for home

consumption on account of any accident not due to any wilful act, negligence or default of the owner, his employee or agent,

such goods shall be chargeable to duty in accordance with the provisions of sub-section (2).

(2) The duty to be charged on the goods referred to in sub-section (1) shall bear the same proportion to the duty chargeable on the goods before the damage or deterioration which the value of the damaged or deteriorated goods bears to the value of the goods before the damage or deterioration.

(3) For the purposes of this section, the value of damaged or deteriorated goods may be ascertained by either of the following methods at the option of the owner :-

(a) the value of such goods may be ascertained by the proper officer, or

(b) such goods may be sold by the proper officer by public auction or by tender, or with the consent of the owner in any other manner, and the gross sale proceeds shall be deemed to be the value of such goods.

(I) Application of the Act

The Customs Act, 1962 applies to the whole of India. India includes territorial waters of India. Besides, the Customs Act, 1962 and Customs Tariff Act, 1975 have been further extended to: -

(i) the notified designated areas in the Continental Shelf of India (CSI) and Exclusive Economic Zone of India (EEZI) and

(ii) whole of EEZI and CSI for the purpose of processing for extraction or production of mineral oils and supply of any goods in connection thereto.

India has sovereignty in its territorial waters whereas it has full and exclusive economic rights in its EEZ and Continental Shelf.

Example: The machinery purchased by the oil rigs carrying on operations in the EEZI shall be considered as imported goods.

1. Baseline: It is the lower water mark along the coast.

2. Exclusive Economic Zone of India: It is an area beyond the Indian territorial waters. The limit of exclusive economic zone is 200 nautical miles from the nearest point of the baseline.

3. Continental Shelf of India: Continental shelf is the part of the sea floor adjoining a land mass where the depth gradually increases before it plunges into the ocean deeps.

Continental Shelf of India extends beyond the limit of its territorial waters throughout the natural prolongation of its land territory to the outer edge of the continental margin or to a distance of 200 nautical miles from the baseline.

(a) Indian territorial waters: Indian territorial waters extend upto 12 nautical miles (22 km) into the sea from the appropriate base line. India includes not only the surface of sea in the territorial waters, but also the air space above and the ground at the bottom of the sea.

(b) Indian customs waters: Indian customs waters means the waters extending into the sea up to the limit of contiguous zone of India and includes any bay, gulf, harbour, creek or tidal river [Section 2(28) of the Customs Act, 1962].

Indian customs waters cover both the Indian territorial waters and contiguous zone. Indian territorial waters extend up to 12 nautical miles (nm) from the base line where as contiguous zone extend to a further 12 nm from the outer limit of the territorial waters. Therefore, Indian customs waters extend upto a total of 24 nm from base line.

Contiguous zone of India: It is an area 12 nautical miles (nm) beyond the Indian territorial waters. Therefore, it is at a distance of 24 nautical miles from the nearest point of the baseline.

(c) Significance of Indian territorial waters and Indian customs waters: Since India includes Indian territorial waters, all the provisions of the Customs Act and rules and regulations thereunder are applicable in Indian territorial waters. In addition to this, the Customs Act, 1962 has extended certain powers of the customs officers in the Indian customs waters as well (for example, power to stop and search any vessel, power to arrest a person in Indian customs waters etc.).

(II) Charging section [Section 12 of the Customs Act, 1962]

1. Except as provided in this Act, or any other law for the time being in force,

- duties of customs shall be levied
- at such rates as may be specified under the Customs Tariff Act, 1975, or any other law for the time being in force,
- on goods imported into and exported from India.

2. The aforesaid provisions shall apply in respect of all goods belonging to

Government as they apply in respect of goods not belonging to Government. However, imports by Indian Navy, specific equipment required by police, Ministry of Defence, Costal Guard etc. are fully exempt from customs duty by virtue of specific notifications subject to fulfillment of conditions and/or procedure set out in the said notifications.

ANALYSIS : The following propositions arise from the aforesaid section:-

1. Customs duty is charged on goods and not on the person importing them or paying the duty. The goods shall be such as are imported to or exported from India. Being such, it is expected to be passed on to the buyer.

2. It may, however, be noted that this levy is subject to other sections in the Act. For instance:

Section 13 – no duty on pilfered goods Section 22 – reduced duty on damaged goods

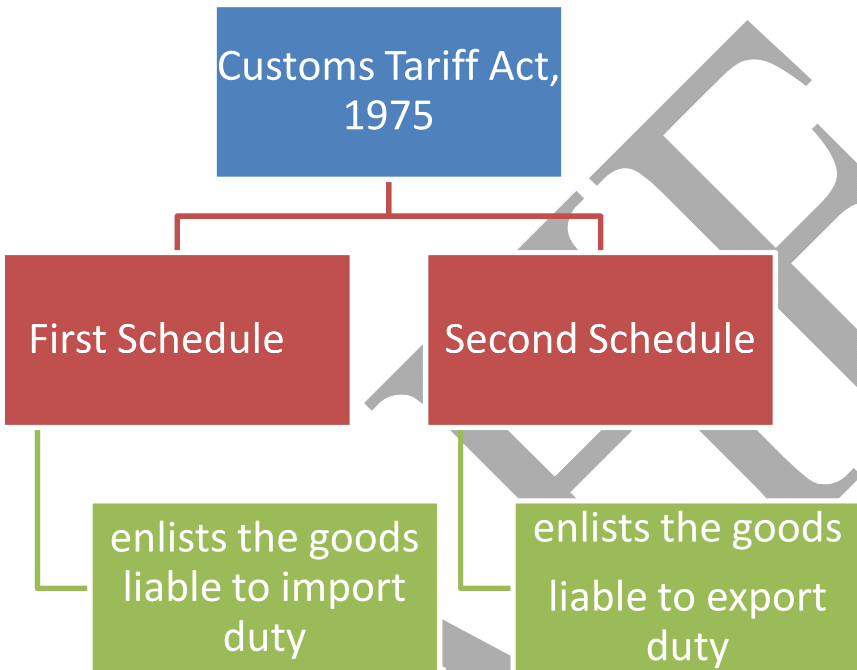
Section 23 – remission of duty on destroyed goods or no duty in case of relinquishment of the title to the goods.

3. Government goods shall be treated at par with non -Governmental goods for the purposes of levy of customs duty.

4. Rates of duty: The rates at which duties of customs shall be levied under the Customs Act 1962 are specified in the First and Second Schedules of the Customs Tariff Act, 1975.

Preferential rate of duty: If the goods are imported from the **preferential areas** *[as notified by the Central Government]*, then a lower preferential rate of duty will be applicable on such goods subject to the fulfillment of specified conditions.

(i) **Standard rate of duty:** In any entry, if no preferential rate of duty has been notified, the standard rate of duty shall be applicable.



(i) TAXABLE EVENT IN CASE OF IMPORTS

(a) In case of goods cleared for home consumption: Import of goods commences when they cross the territorial waters, but continues and is completed when they become part of the mass of goods within the country; the taxable event being reached at the time when the goods reach the customs barriers and bill of entry for home consumption is filed.

(b) In case of goods cleared for warehousing: In case of warehoused goods, the goods continue to be in customs bond. Hence, import takes place when the goods are cleared from the warehouse. The customs barriers would be crossed when they are sought to be taken out of the customs and brought to the mass of goods in the country.

Clearance for home consumption: It implies that customs duty on imported goods has been paid and thus, goods can be removed by the importer for utilization or consumption within the country.

Clearance for warehousing: In case where the goods are not immediately cleared for home consumption, they may be deposited in a warehouse and cleared at a later point of time. In such a case, the collection of customs duty will be deferred till such goods are cleared from warehouse for home consumption.

(ii) **TAXABLE EVENT IN CASE OF EXPORTS**

Export of goods is complete when the goods cross the territorial waters of India. If ship sinks within the territorial waters, export is not complete.

(1) Goods: includes-
(a) vessels, aircrafts and vehicles;
(b) stores;
(c) baggage;
(d) currency and negotiable instruments;
(e) any other kind of movable property [Section 2(22)].

For anything to be called as goods, it must moveable and marketable. The concept of movability and marketability of goods has been discussed at length in Unit 2: Central Excise Duty.

(2) Export: The term —export‖, with its grammatical variations and cognate expressions, means taking out of India to a place outside India [Section 2(18)].

(3) Export goods: means any goods, which are to be taken out of India to a place outside India [Section 2(19)].

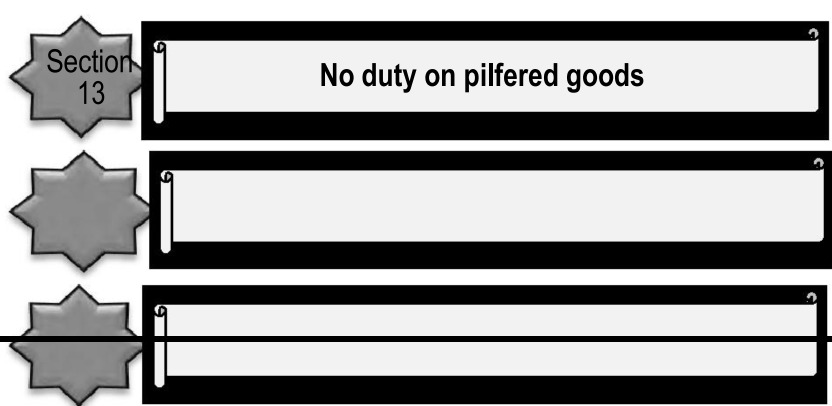
(4) Exporter: in relation to any goods at any time between their entry for export and the time when they are exported, includes any owner or any person holding himself out to be the exporter [Section 2(20)].

(5) Import: The term —import‖, with its grammatical variations and cognate expressions, means bringing into India from a place outside India [Section 2(23)].

(6) Imported goods: means any goods brought into India from a place outside India but does not include goods which have been cleared for home consumption [Section 2(25)].

(7) Importer: in relation to any goods at any time between their importation and the time when they are cleared for home consumption, includes any owner or any person holding himself out to be the importer [Section 2(26)].

Customs duty not leviable in certain cases



Section 22	**Reduced duty on damaged goods**
Section 23(1)	**Remission of duty on destroyed goods**
Section 23(2)	**No duty on relinquishment of the title to the goods**

1. No duty on pilfered goods [Section 13]

If any imported goods are pilfered after the unloading thereof but before the proper officer has made an order for clearance for home consumption or deposit i n a warehouse, the importer shall not be liable to pay the duty leviable on such goods. However, where such goods are restored to the importer after pilferage, the importer becomes liable to duty.

Meaning of term 'pilfer': The term _pilfer' means ―to steal, especially in small quantities; petty theft‖. Therefore, the term does not include loss of total package.

The underlying principle behind this provision is that when the goods are not under the control of the importer, he should not be required to pay d uty on such goods.

ANALYSIS:

(a) Conditions to be satisfied for exemption from duty

- The imported goods should have been pilfered.
- The pilferage should have occurred after the goods are unloaded, but before the proper officer makes the order of clearance for home consumption or for deposit into warehouse.
- The pilfered goods should not have been restored back to the importer.

(b) Points which merit consideration

- o If goods are pilfered after the order of clearance is made but before the goods are actually cleared, section 13 is not applicable and thus, duty would be leviable.

- Section 13 deals with only pilferage. It does not deal with loss/destruction of goods.
- Provisions of section 13 would not apply if it can be shown that pilferage took place prior to the unloading of goods.
- In case of pilferage, only section 13 applies and remission of duty under section 23(1) is not permissible.

Abatement of duty on damaged or deteriorated goods [Section 22]

Section 22 provides the importer with an option to pay the reduced duty if the goods are damaged or deteriorated under any of the specified circumstances.

(a) **Cases where abatement is available:** Abatement is available if it is shown to the satisfaction of the Assistant Commissioner/ Deputy Commissioner of Customs that the goods are damaged/deteriorated under any of the following circumstances:

EXEMPTION FROM CUSTOMS DUTY

Central Government's power to grant exemption: Article 265 of the Constitution provides that ―No tax shall be levied or collected except by authority of law‖. The power of the Central Government to alter the duty rate structure is known as delegated legislation and this power is always subject to superintendence and check by the Parliament [Section 25].

a. **General exemption:** If the Central Government is satisfied that it is necessary in the public interest so to do, it may, by notification in the Official Gazette, exempt generally either absolutely or subject to such conditions (to be fulfilled before or after clearance) as may be specified in the notification, goods of any specified description from the whole or any part of duty of customs leviable thereon.

b. **Special exemption:** If the Central Government is satisfied that it is necessary in the public interest so to do, it may, by special order in each case, exempt from payment of duty, any goods on which duty is leviable only under circumstances of an exceptional nature to be stated in such order.

Both the above mentioned exemptions may be granted by providing for the levy of duty on such goods at a rate expressed in a form or method different from the form or method in which the statutory duty is leviable. Further, the duty leviable under such altered form or method shall in no case exceed the statutory duty leviable under the normal form or method.

The Central Government is vested with similar powers of granting exemption under central excise laws also. Thus, excise duty can also be exempted by Central Government by way of general and special exemptions.

Rationale for grant of customs duty exemption: The power for grant of exemption vests with the Central Government subject to the overall control of the Parliament. The Government on a rational basis may use this power and the exemptions may be based on any of the following factors:

a. Moral grounds, where the duty should not be levied at all. Some of the instances, which may be given, are;
   (i) Where the goods do not reach the Indian soil at all.
   (ii) Where the goods have reached the Indian soil, but are not available for consumption.

Where the goods get damaged or deteriorated in transit.

3. Foreign Trade Act 1992

The Foreign Trade (Development and Regulation) Act was established on 7th August 1992. This Act came into existence as a replacement to the Import and Exports (Control) Act, 1947. This Act gave enormous supremacy to the Government to control Imports and exports of India. Foreign trade is nothing but an exchange of goods and services between one Country to another beyond their internationalborders. This Act is the supreme legislation in pursuance of foreign trade. This Act has been incorporated with the intention to provide framework for development and standardization of foreign trade by facilitating imports and enhancing exports in India and matters related to the same.

The Central Government has power to make any provisions relating to foreign trade to fulfill the objectives of this Act. This Government can make any provisions with regard to the formulations of import and export policies. Initially these policies were known as an export import policies or Exim policies but later it was termed as Foreign Trade Policies by Director General of foreign trade. This Director General shall be appointed by the Central Government by notifying the same in the Official Gazette for carrying out the foreign trade policies as per the provisions provided by this Act.

This Act never allows any person to do export and import business unless and until he is issued by an Importer Exporter Code Number (IEC.No) by the concerned authority. In case if any of the exporter or importer violates any provisions of foreign trade policies framed by the Central Government by misusing the Code number or found to be achieved with ill intentions, etc, such person's Importer Exporter Code Number shall be cancelled or suspended. This is done by the Director General of Foreign Trade. Person who's IEC No. has been cancelled or suspended shall not be allowed to transact any import or export businesses. Such cancellation or suspension of this IEC No. shall be done through initializing with duly written notice and appropriate investigations by calling for records or any other information from that person by giving reasonable opportunity as prescribed by this Act. Here the Central Government by wide Order specifying the reasons shall cancel or suspend his IEC No provided for doing import or export businesses.

This Act shall not allow doing any import or exporting business that is not specified or licensed to do so as per the foreign trade policies. Such License shall be granted in pursuance to this Act as prescribed. This License shall also be refused or cancelled if it does not fulfill the requirements of the policies framed by the Central Government with a written Order by Director General of Foreign Trade with the written reasons recorded for the same.

This License shall also be renewed or modified with an application by the person requesting for the same. This shall be done after proper investigations and enquiry, etc, as per the terms and conditions prescribed by this Act by mentioning the reason on its wide Order of the Central Government. This cancellation or suspension of license shall be done only after providing reasonable opportunities to be heard.

This Act shall authorize any person through notifications in the Official Gazette to search, investigate and seize the documents, goods, etc, as prescribed by this Act through the provisions under Code of Criminal Procedure, 1973. If any person Acts in contravention to the policies or provisions under this Act in anyway shall be adjudicated or adjudged and punished by Director General as per the powers prescribed by the Central Government under this Act. This may be by way of settlement or by way of penalty and suspension of IEC No., and such other punishments that may deem fit under this Act. Any aggrieved person shall go for an Appeal within forty five days from the date of Order made by the Director General and the Order made in such Appeal by the Appellate authority shall be final.

This Act has been repealed and amended by enacting The Foreign Trade (Development and Regulation) Act, 2010 in 19th August 2010 for betterment of Foreign Trade. The Department of Commerce with the intention to enhance foreign trade has opened a grievance cell with all forms of Contact details to the public as a whole.

Physical Examination of Goods

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 finalization of the issue.

4. 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.

5. EDI and Customs Operations:

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.

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.

2. 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.
3. 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. 128 Export-Import Procedures, Documentation and Logistics 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.

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.

(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: 130 Export-Import Procedures, Documentation and Logistics (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.

Part A (ONE Mark)

Multiple Choice Questions

Online Examination

Part B

1. What is CENVAT?
2. What are the chargeability and rates of excise duty?
3. Write a note on Foreign Trade Act, 1992.
4. What is EDI?
5. List out the advantages of EDI.

Part C

1. Explain the legal frame work of Central Excise.
2. Discuss the definitions and types of duties in Central Excise Act, 1944.
3. Explain the Physical Examination of Goods in Customs Act, 1961.
4. Discuss the CENVAT Credit Rules, 2004 in details.
5. Discuss the Customs Operations in Import and Export Procedure
6. Elucidate the advantages of EDI in Customs Operations.
7. Enumerate the procedure of clearance in Exporting goods
8. Discuss the salient features and provisions of the Foreign Trade Act, 1992.

Questions	Opt 1	Opt 2	Opt 3	Opt 4	Answer
The name of the Central Excise Act is:…………………	Central Excise Act	Central Excise	Central Excise Act	Central Excise and	Central Excise
Central Excise Act come into force w.e.f ……………	28/02 of 1944	28/02 of 1985	28/02 of 1945	28/02 of 1946	28/02 of 1944
Central Excise Act Extends to:……………	Whole of India and extended further upto	Whole of India except Jammu &	Whole of India except Continental	Whole of India except Himachal Pradesh	Whole of India and extended further
PLA in Excise duty refers to…………….	Permanent Lodging	Personal Ledger	Payment to Local	Permanent Ledger	Personal Ledger
In Central Excise Act Adjudicating Authority means………	Customs Officer	Judicial Officer	Central Excise	Administrative Officer	Central Excise
The power of the AA rises with his status starting from…………	Inspector ending with	Superintendent	Superintendent ending	Assistant Commissio	Assistant Commissi
-------- of central excises and salt act deals with grant of exemption from	sec 5A	sec 10 B	sec 12 D	sec 11 A	sec 5A
There are _______ chapters under the central excise classifications	97 chapters	80 chapters	100 chapters	96 chapters	96 chapters
What are Excisable goods in Central Excise Act……….	goods that find place	goods that find place	goods notified by	Goods notified by	goods that find place
-------- of central excises and salt act deals with grant of exemption from	sec 5A	sec 10 B	sec 12 D	sec 11 A	sec 12 D
Under Excise law excisable goods should possess the following characteristics………..	Mobility, Marketability and Excisebility	Mobility, Saleable	Marketability and Saleable	Mobility, Marketability and Saleable	Mobility, Marketability and Excisebili
In terms of Section 2(e) of Central Excise Act Factory Means…………	It is a place where some goods are	It is a place where in	It is a place where manufactur	It is a place where manufactur	It is a place where in
Name of fund created under Section 12-C of Central Excise Act	Consolidated Fund of	Contingent Fund of	Consumer Welfare	Product developmen	Consumer Welfare
Money in the Consumer Welfare Fund is used for………	Welfare of the Central	Welfare of the	Welfare of the poor	Welfare for agents	Welfare of the
The central excise tariff act classifies all the goods under -----------	18 , 100	20 , 98	10 , 74	20 , 96	18 , 100
Charging Section of the Central Excise Act 1944 is………..	Section 3(1)	Section 2(1)	Section 4(1)	Section 5	Section 3(1)
Central Excise duty levied on…………..	all goods manufactur	goods manufactu	all excisable	Above mentioned	all excisable
Central Excise duty is not leviable on the goods manufactured or produced	100% EOUs	SEZ	STPs and BTPs	Government	SEZ

Some times goods are cleared to DTA by 100% EOUs. In such case Central	Customs Tariff	Central Excise	100% EOUs Act	SEZ	Customs Tariff
Under Production Capacity based levy, duty is payable…………….	on the basis of monthly	on the basis of	on the basis of annual	on the basis of quartly	on the basis of
Is production capacity based levy applicable to the goods manufactured	goods	better	yes	no	no
Section 4 of the Central Excise Act 1944 deals with……………..	MRP based Valuation	Production capacity	Transaction Value	Assessable vale	Transactio n Value
If the valuation is not possible under Section 4 of the Central Excise Act, in such case valuation shall be done	Central Excise Tariff Act,	Central Excise Valuation	Customs Valuation Rules,	Excise Duty	Central Excise Valuation
In respect of the Transaction Value Which of the following is not	must be a sale of the	the sale should be	the buyer should not	the price should not	the price should not
Which of the following is includable in the assessable value ……………….	Sales Tax	Excise Duty	Additional considerati on flowing	Additional consideratio n of	Additiona l considerat
The Government may fix tariff value for certain goods based on	market trend in	market trend in	market trend in	market trend in	market trend in
Which of the following is not correct in respect of Related	the assessee and buyer	the assessee	the assessee	the assessee and buyer	the assessee
Inter Connected Undertakings are defined under…………..	Central Excise Act,	MRTP Act, 1956	Finance Act 1994	Customs Act, 1962	MRTP Act, 1956
What is the full form of MRTP Act……………….	Monopolies	Monopolie s and	Monopolie s and Trade	Monopolies and Free	Monopoli
What is Bonded Ware House?	it is the place	it is the godown of	It is the vacant	it is the godown of	it is the place
Section 4-A of Central Excise Act, 1944 deals with……………	Whole Sale Price	MRP based	Specific rate based	Advoleram based	MRP based
Under MRP based valuation duty is payable on………………	MRP less abatement	MRP	Whole sale price	Cost Price	MRP less abatement
A license granted under the Excise Act is valid for a maximum period…………..	5 Years	10 Years	3 Years	No time Limit	No time Limit
Remission of duty on goods found deficient in quantity due to natural deficiencies is allowed by the Central	Section 5 of the Central Excise	Section 5(1) of the Central	Section 5(3) of the Central	Section 5(2) of the Central	Section 5(1) of the Central
Under which Section Parliament empowers the Central Government to Grant Exemption From duty of	Section 5-A of Central Excise Act,	Section 5-A of Central	Section 6-A of Central	Section 6-A of Central Excise	Section 5-A of Central
Exemption Notifications are issued under…………	Section 5-A(1) of	Section 5-A(1) of	Section 5-A(1) of	Above mentioned	Section 5-A(1) of
Exemption Notifications issued by Central Government are applicable	Goods manufactur	Goods manufactu	Goods manufactur	Excisable goods	Excisable goods

Excise duty is a…………	Direct Tax	Sales Tax	Wealth Tax	Indirect Tax	Indirect Tax
Excise duty is leviable in case of…………goods.	Movable	Immovabl e	Foreign	High Value	Movable
Section 6 of the Central Excise Act, 1944 deals with…………	Valuation	Charging Section	Registratio n	De bonding	Registrati on
What is the punishment for(first time conviction) offence with a duty effect	Imprisonme nt upto a	Imprisonm ent upto a	Imprisonm ent upto a	Imprisonme nt upto a	Imprison ment upto
What is the punishment for(first time conviction) offence with a duty effect	Imprisonme nt for not	Imprisonm ent for not	Imprisonm ent for not	Imprisonme nt for not	Imprison ment for
What is the punishment for subsequent offences irrespective of	Imprisonme nt upto 10	Imprisonm ent upto 8	Imprisonm ent upto 7	Imprisonme nt upto 5	Imprison ment upto
Section 11 of Central Excise Act 1944 deals with………….	Recovery of Duties not	Issue of SCN	Recovery of Sums	Issue of Governmen	Recovery of Sums
Section 11-A of Central Excise Act 1944 deals with…………..	Recovery of Duties not	Issue of SCN	Recovery of Sums	Issue of Governmen	Recovery of Duties
Rates of Excise duty are given by………….	Chapter X	Sec 68	Rule 56 A	Schedule I	Schedule I
Revenue from excise duty is appropriated by………….	State government	Central Governme	Central and state	Planning Commision	Central and state
Excise duty is levied and collecetd by……………	State government	Central Governme	Central and state	RBI	Central and state
Protextive duties are levied under customs Tariff Act on the recommendation of…………..	Finance Commissio n	Tariff Commissi on	Fiscal Commissio n	Planning Commissio n	Tariff Commissio n
Rates of Export duties are given under	First Schedule	Second Schedule	Gazette notification	Central Governmen t	Second Schedule
The Payment of drawback is governed by	The Central Excise Act	Customs Act	Sales Tax Act	Sales Tax Act	Customs Act
Any person aggrieved by any decision or order passed under the Customs Act by an Officer of rank lower than a	Collector (Appeals)	Appellate Tribunal	High court	Central Governmen t	Collector (Appeals)
The power of the Central Government to notify goods under Customs Actis provided in…………	Section 11 A	Section 11 B	Section 11 C	Section 11 D	Section 11 B
The Customs Act was introduced in the year…………	1942	1947	1952	1962	1962
Any goods which are chargeable to duty and on which duty has not been paid is……………..	Export goods	Imported goods	Prohibited goods	Dutiable goods	Dutiable goods

Bill of entry under Customs Act is submitted by……………	An exporter	A business agent	An importer	Manufacturer	An importer
The Customs Act 1962 is divided into……………	14 Chapters	15 Chapters	16 Chapters	17 Chapters	17 Chapters
Power to examine person……………..	U/s 106-A of Customs Act	U/s 106-B of Customs Act	U/s 108 of Customs Act	U/s 107of Customs Act	U/s 107of Customs Act
Foreign Trade Act……….	1992	1982	1972	1962	1992
EDI means	Electronic Data Interface	Excise Duty Interface	Electronic Data Interchange	Electronic Data Interconnection	Electronic Data Interchange