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How to Import

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- Import Dos And Don’ts

Please remember, preparing for the world of international trade is a complex process. But with the proper knowledge and strategy, you’ll soon be on your way to world wide success.

Introduction : Export in itself is a very wide concept and lot of preparations is required by an exporter before starting an export business.

A key success factor in starting any export company is clear understanding and detail knowledge of products to be exported. In order to be a successful in exporting one must fully research its foreign market rather than try to tackle every market at once. The exporter should approach a market on a priority basis. Overseas design and product must be studied properly and considered carefully. Because there are specific laws dealing with International trade and foreign business, it is imperative that you familiarize yourself with state, federal, and international laws before starting your export business.

Price is also an important factor. So, before starting an export business an exporter must consider the price offered to the buyers. As the selling price depends on sourcing price, try to avoid unnecessary middlemen who only add cost but no value. It helps a lot on cutting the transaction cost and improving the quality of the final products.

The Government of Indian has defined it, in very simple terms; export may be defined as the selling of goods to a foreign country. However, As per Section 2 (e) of the Indian Foreign Trade Act (1992), the term export may be defined as 'an act of taking out of India any goods by land, sea or air and with proper transaction of money”.

Exporting a product is a profitable method that helps to expand the business and reduces the dependence in the local market. It also provides new ideas, management practices, marketing techniques, and ways of competing, which is not possible in the domestic market. Even as an owner of a domestic market, an individual businessman should think about exporting. Research shows that, on average, exporting companies are more profitable than their non-exporting counterparts.

Basic planning for Export: Introduction

Before starting an export, an individual should evaluate his company’s “export readiness”. Further planning for export should be done only, if the company’s assets are good enough for export. There are several methods to evaluate the export potential of a company. The most common method is to examine the success of a product in domestic market. It is believed that if the products has survived in the domestic market, there is a good chance that it will also be successful in international market, at least those where similar needs and conditions exist. One should also evaluate the unique features of a product. If those features are hard to duplicate abroad, then it is likely that you will be successful overseas. A unique product may have little competition and demand for it might be quite high. Once a businessman decides to sell his products, the next step is to developing a proper export plan. While planning an export strategy, it is always better to develop a simple, practical and flexible export plan for profitable and sustainable export business. As the planners learn more about exporting and your company's competitive position, the export plan will become more detailed and complete.

Objective: The main objective of a typical export plan is to:

- Identifies what you want to achieve from exporting.
- Lists what activities you need to undertake to achieve those objectives.
- Includes mechanisms for reviewing and measuring progress.
- Helps you remain focused on your goals.

For a proper export planning following questions need to be answered.

1. Which products are selected for export development?
2. What modifications, if any, must be made to adapt them for overseas markets?
3. Which countries are targeted for sales development?
4. In each country, what is the basic customer profile?
5. What marketing and distribution channels should be used to reach customers?
6. What special challenges pertain to each market (competition, cultural differences, import controls, etc.), and what strategy will be used to address them?
7. How will the product's export sale price be determined?
8. What specific operational steps must be taken and when?
9. What will be the time frame for implementing each element of the plan?
10. What personnel and company resources will be dedicated to exporting?
11. What will be the cost in time and money for each element?
12. How will results be evaluated and used to modify the plan?

From the start, the plan should be viewed and written as a management tool, not as a static document. Objectives in the plan should be compared with actual results to measure the success of different strategies. The company should not hesitate to modify the plan and make it more specific as new information and experience are gained.

Some "Do's and Don'ts of Export Planning

DO ensure your key staff members are ‘signed on’ to the Plan.

DO seek good advice – and test your Export Plan with advisers.

DON’T create a bulky document that remains static.

DO review the Export Plan regularly with your staff and advisers.

DO assign responsibility to staff for individual tasks.

DON’T use unrealistic timelines. Review them regularly – they often slip.

DO create scenarios for changed circumstances – look at the “what ifs” for changes in the market environment from minor to major shifts in settings, e.g. change of government, new import taxes.

DO develop an integrated timeline that draws together the activities that make up the Export Plan.

DO make sure that you have the human and financial resources necessary to execute the Export Plan. Ensure existing customers are not neglected.

Identifying Export Product: A key factor in any export business is clear understanding and detail knowledge of products to be exported. The selected product must be in demand in the countries where it is to be exported. Before making any selection, one should also consider the various government policies associated with the export of a particular product. Whether companies are exporting first time or have been in export trade for a long time - it is better for both the groups to be methodical and systematic in identifying a right product. It’s not sufficient to have all necessary data 'in your mind' - but equally important to put everything on paper and in a structured manner. Once this job is done, it becomes easier to find the gaps in the collected information and take necessary corrective actions.

There are products that sell more often than other product in international market. It is not very difficult to find them from various market research tools. However, such products will invariably have more sellers and consequently more

competition and fewer margins. On the other hand - a niche product may have less competition and higher margin - but there will be far less buyers.
Fact of the matter is - all products sell, though in varying degrees and there are positive as well as flip sides in whatever decision you take - popular or niche product.
Key Factors in Product Selection
• The product should be manufactured or sourced with consistent standard quality, comparable to your competitors. ISO or equivalent certification helps in selling the product in the international market. • If possible, avoid products which are monopoly of one or few suppliers. If you are the manufacturer - make sure sufficient capacity is available in-house or you have the wherewithal to outsource it at short notice. Timely supply is a key success factor in export business, • The price of the exported product should not fluctuate very often - threatening profitability to the export business. • Strictly check the government policies related to the export of a particular product. Though there are very few restrictions in export - it is better to check regulatory status of your selected product.
• Carefully study the various government incentive schemes and tax exemption like duty drawback and DEPB.
• Import regulation in overseas markets, especially tariff and non-tariff barriers. Though a major non-tariff barrier (textile quota) has been abolished - there are still other tariff and non-tariff barriers. If your product attracts higher duty in target country - demand obviously falls.
• Registration/Special provision for your products in importing country. This is especially applicable for processed food and beverages, drugs and chemicals.
• Seasonal vagaries of selected products as some products sell in summer, while others in winter. Festive season is also important factor, for example certain products are more sellable only during Christmas.
• Keep in mind special packaging and labeling requirements of perishable products like processed food and dairy products.
• Special measures are required for transportation of certain products, which may be bulky or fragile or hazardous or perishable.
Market Selection:
After evaluation of company’s key capabilities, strengths and weaknesses, the next step is to start evaluating opportunities in promising export markets. It involves the screening of large lists of countries in order to arrive at a short list of four to five. The shorting method should be done on the basis of various political, economic and cultural factors that will potentially affect export operations in chosen market.
Some factors to consider include:
1. Geographical Factors
o Country, state, region,
o Time zones,
o Urban/rural location logistical considerations e.g. freight and distribution channels
2. Economic, Political, and Legal Environmental Factors
o Regulations including quarantine,
o Labelling standards,
o Standards and consumer protection rules,
o Duties and taxes
3. Demographic Factors
o Age and gender,
o Income and family structure,
o Occupation,
o Cultural beliefs,
o Major competitors,
o Similar products,
o Key brands.

4. Market Characteristics

- o Market size,
- o Availability of domestic manufacturers,
- o Agents, distributors and suppliers.

Foreign Market Research: Understanding a market’s key characteristics requires gathering a broad range of primary and secondary research, much of which you can source without cost from the internet.

Primary research, such as population figures, product compliance standards, statistics and other facts can be obtained without any cost from international organizations like United Nations (UN) and World Trade Organizations (WTO). Analysis of export statistics over a period of several years helps an individual to determine whether the market for a particular product is growing or shrinking. Secondary research, such as periodicals, studies, market reports and surveys, can be found through government websites, international organisations, and commercial market intelligence firms.

Foreign Market Selection Process

Step 1: Gather Information on a Broad Range of Markets

Market selection process requires a broad range of information depending upon the products or services to be exported, which includes:

- The demand for product/service.
- The size of the potential audience.
- Whether the target audience can afford product.
- What the regulatory issues are that impact on exports of product.
- Ease of access to this market – proximity/freight.
- Are there appropriate distribution channels for product or service?
- The environment for doing business – language, culture, politics etc.
- Is it financially viable to export to selected market?

You can gather much of the first step information yourself from a variety of sources at little or no cost. Sources of information include:

- Talking to colleagues and other exporters.
- Trade and Enterprise – web site, publications, call centre.
- The library.
- The Internet.

Step 2: Research a Selection of Markets In-Depth

From the results of the first stage, narrow your selection down to three to five markets and undertake some in-depth research relating specifically to your product. While doing so, some of the questions that may arise at this stage are:

- What similar products are in the marketplace (including products that may not be similar but are used to achieve the same goal, e.g. the product in our sample matrix at the end of this document is a hair removal cream. As well as undertaking competitor research on other hair removal creams, we would also need to consider other products that are used for hair removal, i.e. razors, electrolysis, wax).
- What is your point of difference? What makes your product unique? What are the key selling points for your product?
- How do people obtain/use these products?
- Who provides them?
- Are they imported? If so from which countries?
- Is there a local manufacturer or provider?
- Who would your major competitors be? What are the key brands or trade names?

- What is the market’s structure and shape?
- What is the market’s size?
- Are there any niche markets, and if so how big are they?
- Who are the major importers/stockists / distributors / agencies or suppliers?
- What are the other ways to obtain sales/representation?
- What are the prices or fees in different parts of the market?

- What are the mark-ups at different distribution levels?
- What are the import regulations, duties or taxes, including compliance and professional registrations if these apply?
- How will you promote your product or service if there is a lot of competition?
- Are there any significant trade fairs, professional gathers or other events where you can promote your product or service?
- Packaging – do you need to change metric measures to imperial; do you need to list ingredients?
- Will you need to translate promotional material and packaging?
- Is your branding – colours, imagery etc., culturally acceptable?

Foreign Market Selection Entry

Having completed the market selection process and chosen your target market, the next step is to plan your entry strategy.

There are a number of options for entering your chosen market. Most exporters initially choose to work through agents or distributors. In the longer term, however, you may consider other options, such as taking more direct control of your market, more direct selling or promotion, or seeking alliances or agreements.

SWOT Analysis.

Introduction

SWOT analysis is a useful method of summaries all the information generated during the export planning. SWOT stands for strengths, weakness, opportunities and threats, which helps to isolate the strong and week areas within an export strategy. SWOT also indicates the future opportunities or threats that may exist in the chosen markets and is instrumental in strategy formulation and selection.

To apply your own SWOT analysis, start by creating a heading for each category – ‘Strengths’, ‘Weaknesses’, ‘Opportunities’, and ‘Threats’. Under each of these, write a list of five relevant aspects of your business and external market environment. Strengths and weaknesses apply to internal aspects of your business; opportunities and threats relate to external research.

Your final analysis should help you develop short and long term business goals and action plans, and help guide your market selection process.

Environmental factors internal to the company can be classified as strengths or weaknesses, and those external to the company can be classified as opportunities or threats.

Strengths

Business strengths are its resources and capabilities that can be used as a basis for developing a competitive-advantage. Examples of such strengths include:

- Patents
- Strong brand names.
- Good reputation among customers.
- Cost advantages from proprietary know-how.
- Exclusive access to high grade natural resources.
- Favorable access to distribution networks.

Weaknesses : The absence of certain strengths may be viewed as a weakness. For example, each of the following may be considered weaknesses:

- Lack of patent protection.
- A weak brand name.
- Poor reputation among customers.
- High cost structure.
- Lack of access to the best natural resources.
- Lack of access to key distribution channels.

Opportunities : The external environmental analysis may reveal certain new opportunities for profit and growth. Some examples of such opportunities include:

- An unfulfilled customer need.
- Arrival of new technologies.
- Loosening of regulations.

• Removal of international trade barriers.
Threats : Changes in the external environmental also may present threats to the firm. Some examples of such threats include:
• Shifts in consumer tastes away from the firm's products
• Emergence of substitute products.
• New regulations.
• Increased trade barriers

Successful SWOT Analysis

Simple rules for successful SWOT analysis:
• Be realistic about the strengths and weaknesses of the organization.
• Analysis should distinguish between where the organization is today, and where it could be in the future.
• Be specific.
• Always analyse in relation to your competition i.e. better than or worse than your competition.
• Keep your SWOT short and simple.

A SWOT analysis can be very subjective, and is an excellent tool for indicating the negative factors first in order to turn them into positive factors.

Registration of Exporters.

Registration with Reserve Bank of India (RBI)
• Registration with Director General of Foreign Trade (DGFT)
• Registration with Export Promotion Council
• 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.

Export License.

Introduction

- Canalisation
- Application for an Export License
- Exports Free Unless Regulated

Introduction

An export license is a document issued by the appropriate licensing agency after which an exporter is allowed to transport his product in a foreign market. The license is only issued after a careful review of the facts surrounding the given export transaction. Export license depends on the nature of goods to be transported as well as the destination port. So, being an exporter it is necessary to determine whether the product or good to be exported requires an export license or not. While making the determination one must consider the following necessary points:

- What are you exporting?
- Where are you exporting?
- Who will receive your item?
- What will your items will be used?

Canalisation

Canalisation is an important feature of Export License under which certain goods can be imported only by designated agencies. For an example, an item like gold, in bulk, can be imported only by specified banks like SBI and some foreign banks or designated agencies.

Application for an Export License

To determine whether a license is needed to export a particular commercial product or service, an exporter must first classify the item by identifying what is called ITC (HS) Classifications. Export license are only issued for the goods mentioned in the Schedule 2 of ITC (HS) Classifications of Export and Import items. A proper application can be submitted to the Director General of Foreign Trade (DGFT). The Export Licensing Committee under the Chairmanship of Export Commissioner considers such applications on merits for issue of export licenses.

Exports Free unless regulated

The Director General of Foreign Trade (DGFT) from time to time specifies through a public notice according to which any goods, not included in the ITC (HS) Classifications of Export and Import items may be exported without a license. Such terms and conditions may include Minimum Export Price (MEP), registration with specified authorities, quantitative ceilings and compliance with other laws, rules, regulations.

Myths About Exporting Products.

Introduction

- 1. Myth: I Am Too Small to Export
- 2. Myth: I Cannot Afford to Export
- 3. Myth: I Cannot Compete With Large Overseas Companies
- 4. Myth: Exporting is Too Risky
- 5. Myth: Exporting is Too Complicated

Introduction : Many first time exporters or firm managers believe the myths about exporting that it’s too difficult or too costly to sell their product in a foreign country. But given below the some of the important facts that will help a first time exporter to clear all his misconceptions.

1. Myth: I Am Too Small to Export

Only large firms with name recognition, abundant resources, and formal export departments can export successfully. : It is true that large firms typically account for far more total exports but the real fact is that vast majority of exporting firms in most countries are small and medium-sized enterprises (SMEs).

2. Myth: I Cannot Afford to Export : I don't have the money for hiring new employees, for marketing abroad, or expanding production for new business.

There are various low-cost ways to market and promote abroad, handle new export orders, and finance receivables. This does not require hiring new staff or setting up an export department. At little or no cost for example, you can receive product and country market research, worldwide market exposure, generate trade leads, and find qualified overseas distributors through various Commodity Boards and Export Promotion Councils.

3. Myth: I Cannot Compete With Large Overseas Companies

My products are unknown and my prices are too high for foreign markets.

If the product is known in the domestic market then it’s a plus point but even an unknown product can be exported in a foreign market. Low demand of a product doesn’t indicates that it will be also not accepted in the international market.

Price is also an important, but it is not the only selling point. Other competitive factors play a large role including quality, service, and consumer taste - these may override price. Also prices of a product may not be relatively high in countries with a strong currency, as in the European Union.

4. Myth: Exporting is Too Risky

I might not get paid.

Selling anywhere has risks even in the domestic market, but it can be reduced with reasonable precautions. To assure you get paid, use Letters of Credit (L/Cs). A L/C is a letter from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. In the event that the buyer is unable to make payment on the purchase, the bank will be required to cover the full or remaining amount of the purchase. Proper documentation can minimize the risk associated with the export business.

5. Myth: Exporting is Too Complicated

Exporting is too complicated; I won’t understand the laws and documentation requirements.

You don't need to be an expert to export. There is an abundance of resources available online that helps the first time exporter about all ins and outs of the export operations. Government of India and its associated agencies like Commodity Boards and Export Promotion Councils also provide guidelines to the exporters.

Export Sales Leads.

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Introduction

- Generating Sales Leads
- Qualifying sales leads
- Sending Acknowledgement
- Responding with quality products
- Follow Ups

Introduction

Export Sales leads are initial contacts a seller or exporter seeks in order to finalize a deal or agreement for export of goods and are considered as the first step in the entire sales process. After getting the first lead, a company should respond to that lead in a very carefully manner in order to convert that opportunity into real export deal.
Generating Sales Leads
Sales leads can be generated either through a word-of-mouth or internet research or trade show participation.
Qualifying sales leads
As the buyer is far away and sometimes communication process can be difficult, so it’s always better to make an extra effort to understand the exact need of the customer.
Sending Acknowledgement
After receiving a lead it is quite important to acknowledge the enquirer within 48 hours of receiving the enquiry either through e-mail or fax. Acknowledgement also gives an option to provide further detail about the product or to make an enquiry about the buyer.
Responding with quality products
Quality products strengthen buyer seller relationship, so it’s always better to provide quality products to the buyers.
Follow Ups
Always try to be in touch with the buyer or customer. For this purpose one can ask a phone number and a convenient time to call. It is always better to make the call in the presence of an Export Adviser. One should avoid high pressure call during follow up.
Exporting Product Samples.
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Introduction
- Sending Export Samples from India
- Export Samples against Payment
- Export of Garment Samples
- Export of Software

Introduction
The foreign customer may ask for product samples before placing a confirmed order. So, it is essential that the samples are made from good quality raw materials and after getting an order, the subsequent goods are made with the same quality product.

Extra care should be taken in order to avoid the risk associated in sending a costly product sample for export. Secrecy is also an important factor while sending a sample, especially if there is a risk of copying the original product during export.

Before exporting a product sample an exporter should also know the Government policy and procedures for export of samples.

While sending a product sample to an importer, it is always advised to send samples by air mail to avoid undue delay. However, if the time is not an issue then the product sample can also be exported through proper postal channel, which is cheaper as compared to the air mail.
Sending Export Samples from India

Samples having permanent marking as “sample not for sale” are allowed freely for export without any limit. However, in such cases where indelible marking is not available, the samples may be allowed for a value not exceeding US $ 10,000, per consignment.

For export of sample products which are restricted for export as mentioned in the ITC (HS) Code, an application may be made to the office of Director General of Foreign Trade (DGFT).

Export of samples to be sent by post parcel or air freight is further divided into following 3 categories, and under each category an exporter is required to fulfill certain formalities which are mentioned below :

1. Samples of value up to Rs.10, 000- It is necessary for the exporter to file a simple declaration that the sample does not involve foreign exchange and its value is less than Rs. 10,000.
2. Samples of value less than Rs. 25,000- It is necessary for the exporter to obtain a value certificate from the authorised dealer in foreign exchange (i.e. your bank). For this purpose, an exporter should submit a commercial invoice certifying thereon that the parcel does not involve foreign exchange and the aggregate value of the samples exported by you does not exceed Rs. 25,000 in the current calendar year.
3. Samples of value more than Rs. 25,000- It becomes necessary for the exporter to obtain GR/PP waiver from the Reserve Bank of India

Export Samples against Payment

A sample against which an overseas buyer agrees to make payment is exported in the same manner as the normal goods are exported. Sample can also be carried personally by you while travelling abroad provided these are otherwise permissible or cleared for export as explained earlier. However, in case of precious jewellery or stone the necessary information should be declared to the custom authorities while leaving the country and obtain necessary endorsement on export certificate issued by the Jewelry Appraiser of the Customs.

Export of Garment Samples

As per the special provision made for the export of garment samples, only those exporters are allowed to send samples that are registered with the Apparel export Promotion Council (AEPC). Similarly, for export of wool it is necessary for the exporter to have registration with the Woolen Export Promotion Council.

Export of Software

All kinds electronic and computer software product samples can only be exported abroad, if the exporter dealing with these products is registered with the Electronics and Computer Software Export Promotion Council (ESC)

Similarly samples of other export products can be exported abroad under the membership of various Export Promotion Councils (EPC) of India.

Export Pricing And Costing.

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Introduction

• Determining Export Pricing
• Export Costing

Introduction

Pricing and costing are two different things and an exporter should not confuse between the two. Price is what an exporter offer to a customer on particular products while cost is what an exporter pay for manufacturing the same product. Export pricing is the most important factor in for promoting export and facing international trade competition. It is important for the exporter to keep the prices down keeping in mind all export benefits and expenses. However, there is no fixed formula for successful export pricing and is differ from exporter to exporter depending upon whether the exporter is a merchant exporter or a manufacturer exporter or exporting through a canalising agency.

Determining Export Pricing

Export Pricing can be determine by the following factors:

• Range of products offered.

- Prompt deliveries and continuity in supply.
- After-sales service in products like machine tools, consumer durables.
- Product differentiation and brand image.
- Frequency of purchase.
- Presumed relationship between quality and price.
- Specialty value goods and gift items.
- Credit offered.
- Preference or prejudice for products originating from a particular source.
- Aggressive marketing and sales promotion.
- Prompt acceptance and settlement of claims.
- Unique value goods and gift items.

Export Costing

Export Costing is basically Cost Accountant's job. It consists of fixed cost and variable cost comprising various elements. It is advisable to prepare an export costing sheet for every export product.

As regards quoting the prices to the overseas buyer, the same are quoted in the following internationally accepted terms which are commonly known as Incoterm.

Understanding of Foreign Exchange Rates.

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Introduction

- Spot Exchange Rate
- Forward Exchange Rate
- Method of Quoting Exchange Rates
- Exchange Rate Regime
- Forward Exchange Contracts
- Benefits of Forward Exchange Contract
- Foreign Currency Options
- Flexible Forwards
- Currency Swap
- Foreign Exchange Markets

Introduction

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. In this section, we have discussed various topics related to foreign exchange rates in detail.

Spot Exchange Rate

Also known as "benchmark rates", "straightforward rates" or "outright rates", spot rates represent the price that a buyer expects to pay for a foreign currency in another currency. Settlement in case of spot rate is normally done within one or two working days.

Forward Exchange Rate

The forward exchange rate refers to an exchange rate that is quoted and traded today but for delivery and payment on a specific future date.

Method of Quoting Exchange Rates

There are two methods of quoting exchange rates:

- Direct Quotation: In this system, variable units of home currency equivalent to a fixed unit of foreign currency are quoted.

For example: US $ 1= Rs. 42.75

- Indirect Quotation: In this system, variable units of foreign currency as equivalent to a fixed unit of home currency are quoted.

For example: US $ 2.392= Rs. 100

Before 1993, banks were required to quote all the rates on indirect basis as foreign currency equivalent to RS. 100 but after 1993 banks are quoting rates on direct basis only.

Exchange Rate Regime

The exchange rate regime is a method through which a country manages its currency in respect to foreign currencies and the foreign exchange market.

- Fixed Exchange Rate

A fixed exchange rate is a type of exchange rate regime in which a currency's value is matched to the value of another single currency or any another measure of value, such as gold. A fixed exchange rate is also known as pegged exchange rate. A currency that uses a fixed exchange rate is known as a fixed currency. The opposite of a fixed exchange rate is a floating exchange rate.

- Floating Exchange Rate

A Floating Exchange Rate is a type of exchange rate regime wherein a currency's value is allowed to fluctuate according to the foreign exchange market. A currency that uses a floating exchange rate is known as a floating currency. A Floating Exchange Rate or a flexible exchange rate and is opposite to the fixed exchange rate.

- Linked Exchange Rate

A linked exchange rate system is used to equlise the exchange rate of a currency to another. Linked Exchange Rate system is implemented in Hong Kong to stabilise the exchange rate between the Hong Kong dollar (HKD) and the United States dollar (USD).

Forward Exchange Contracts

A Forward Exchange Contract is a contract between two parties (the Bank and the customer). One party contract to sell and the other party contracts to buy, one currency for another, at an agreed future date, at a rate of exchange which is fixed at the time the contract is entered into.

Benefits of Forward Exchange Contract

- Contracts can be arranged to either buy or sell a foreign currency against your domestic currency, or against another foreign currency.
- Available in all major currencies.
- Available for any purpose such as trade, investment or other current commitments.
- Forward exchange contracts must be completed by the customer. A customer requiring more flexibility may wish to consider Foreign Currency Options.

Foreign Currency Options

Foreign Currency Options is a hedging tool that gives the owner the right to buy or sell the indicated amount of foreign currency at a specified price before a specific date. Like forward contracts, foreign currency options also eliminate the spot market risk for future transactions. A currency option is no different from a stock option except that the underlying asset is foreign exchange. The basic premises remain the same: the buyer of option has the right but no obligation to enter into a contract with the seller. Therefore the buyer of a currency option has the right, to his advantage, to enter into the specified contract.

Flexible Forwards

Flexible Forward is a part of foreign exchange that has been developed as an alternative to forward exchange contracts and currency options. The agreement for flexible forwards is always singed between two parties (the ‘buyer’ of the flexible forward and the 'seller' of the flexible forward) to exchange a specified amount (the ‘face value’) of one currency for another currency at a foreign exchange rate that is determined in accordance with the mechanisms set out in the agreement at an agreed time and an agreed date (the ‘expiry time’ on the ‘expiry date’). The exchange then takes place approximately two clear business days later on the ‘delivery date’).

Currency Swap

A currency swap which is also known as cross currency swap is a foreign exchange agreement between two countries to exchange a given amount of one currency for another and, after a specified period of time, to give back the original amounts swapped.

Foreign Exchange Markets

The foreign exchange markets are usually highly liquid as the world's main international banks provide a market around-the-clock. The Bank for International Settlements reported that global foreign exchange market turnover daily averages in April was $650 billion in 1998 (at constant exchange rates) and increased to $1.9 trillion in 2004 [1]. Trade in global currency markets has soared over the past three years and is now worth more than $3.2 trillion a day. The biggest foreign exchange trading centre is London, followed by New York and Tokyo.
Appointing a Sales Agent.

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Introduction
• Merits of Appointing a Sales Agent
• Demerits of Appointing a Sales Agent
• Important Points While Appointing a Sales Agent
• Some source of Information on Agents
• Agent v Distributor

Introduction

Selling a product through an overseas agent is a very successful strategy. Sales agents are available on commission basis for any sales they make. The key benefit of using an overseas sales agent is that you get the advantage of their extensive knowledge of the target market. Sales agent also provides support to an exporter in the matter of transportation, reservation of accommodation, appointment with the government as and when required. It is, therefore, essential that one should very carefully select overseas agent.

Merits of Appointing a Sales Agent

There are various types of merits associated with appointed a sales agent for export purpose are as follow:
• Sales agent avoids the recruitment, training, time and payroll costs of using own employees to enter an overseas market.
• An agent is a better option to identify and exploit opportunities in overseas export market.
• An agent already have solid relationships with potential buyers, hence it saves the time of the exporter to build own contacts.
• An agent allows an exporter to maintain more control over matters such as final price and brand image - compared with the other intermediary option of using a distributor.

Demerits of Appointing a Sales Agent

There are also certain disadvantages associated with appointing a sales agent for export purpose which are as follows:
• After-sales service can be difficult when selling through an intermediary.
• There is a risk for exporter to lose some control over marketing and brand image.

Important Points While Appointing a Sales Agent:

Appointing right sales agent not only enhance the profit of an exporter but also avoid any of risks associated with a sales agent. So it becomes important for an exporter to take into consideration following important points before selection an appropriate sales agent for his product.
• Size of the agent's company.
• Date of foundation of the agent's company.
• Company's ownership and control.
• Company's capital, funds, available and liabilities.
• Name, age and experience of the company's senior executives.
• Number, age and experience of the company's salesman.
• Oher agencies that the company holds, including those of competing products and turn-over of each.

- Length of company's association with other principal.
- New agencies that the company obtained or lost during the past year.
- Company's total annual sales and the trends in its sales in recent years.
- Company's sales coverage, overall and by area.
- Number of sales calls per month and per salesman by company staff.
- Any major obstacles expected in the company's sales growth.
- Agent's capability to provide sales promotion and advertising services
- Agent's transport facilities and warehousing capacity.
- Agent's rate of commission; payment terms required.
- References on the agents from banks, trade associations and major buyers.

Some source of Information on Agents is:

- Government Departments Trade Associations.
- Chambers of Commerce.
- Banks.
- Independent Consultants.
- Export Promotion Councils.
- Advertisement Abroad.

Agent v Distributor

There is a fundamental legal difference between agents and distributors and an exporter should not confuse between the two. An agent negotiates on the behalf of an exporter and may be entitled to create a legal relationship between exporter and the importer

A distributor buys goods on its own account from exporter and resells those products to customers. It is the distributor which has the sale contract with the customer not the exporter. In the case of distributor, an exporter is free from any kinds of risks associated with the finance.

Expot Risk Management.

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Introduction

- Credit Risk
- Poor Quality Risk
- Transportation Risks
- Logistic Risk
- Legal Risks
- Political Risk
- Unforeseen Risks
- Exchange Rate Risks
- Export Risk Management Plan
- Export Risk Mitigation

Introduction

Export pricing is the most important factor in for promoting export and facing international trade competition. It is important for the exporter to keep the prices down keeping in mind all export benefits and expenses. However, there is no fixed formula for successful export pricing and is differ from exporter to exporter depending upon whether the exporter is a merchant exporter or a manufacturer exporter or exporting through a canalising agency.

Like any business transaction, risk is also associated with good to be exported in an overseas market. Export is risk in international trade is quite different from risks involve in domestic trade. So, it becomes important to all the risks related to export in international trade with an extra measure and with a proper risk management.

The various types of export risks involve in an international trade are as follow:

Credit Risk

Sometimes because of large distance, it becomes difficult for an exporter to verify the creditworthiness and reputation of an importer or buyer. Any false buyer can increase the risk of non-payment, late payment or even straightforward fraud. So, it is necessary for an exporter to determine the creditworthiness of the foreign buyer. An exporter can seek the help of commercial firms that can provide assistance in credit-checking of foreign companies.

Poor Quality Risk

Exported goods can be rejected by an importer on the basis of poor quality. So it is always recommended to properly check the goods to be exported. Sometimes buyer or importer raises the quality issue just to put pressure on an exporter in order to try and negotiate a lower price. So, it is better to allow an inspection procedure by an independent inspection company before shipment. Such an inspection protects both the importer and the exporter. Inspection is normally done at the request of importer and the costs for the inspection are borne by the importer or it may be negotiated that they be included in the contract price. Alternatively, it may be a good idea to ship one or two samples of the goods being produced to the importer by an international courier company. The final product produced to the same standards is always difficult to reduce.

Transportation Risks

With the movement of goods from one continent to another, or even within the same continent, goods face many hazards. There is the risk of theft, damage and possibly the goods not even arriving at all.

Logistic Risk

The exporter must understand all aspects of international logistics, in particular the contract of carriage. This contract is drawn up between a shipper and a carrier (transport operator). For this an exporter may refer to Incoterms 2000, ICC publication.

Legal Risks

International laws and regulations change frequently. Therefore, it is important for an exporter to drafts a contract in conjunction with a legal firm, thereby ensuring that the exporter's interests are taken care of.

Political Risk

Political risk arises due to the changes in the government policies or instability in the government sector. So it is important for an exporter to be constantly aware of the policies of foreign governments so that they can change their marketing tactics accordingly and take the necessary steps to prevent loss of business and investment.

Unforeseen Risks

Unforeseen risk such as terrorist attack or a natural disaster like an earthquake may cause damage to exported products. It is therefore important that an exporter ensures a force majeure clause in the export contract.

Exchange Rate Risks

Exchange rate risk is occurs due to the uncertainty in the future value of a currency. Exchange risk can be avoided by adopting Hedging scheme.

Export Risk Management Plan

Risk management is a process of thinking analytically about all potential undesirable outcomes before they happen and setting up measures that will avoid them. There are six basic elements of the risk management process:

- Establishing the context
- Identifying the risks
- Assessing probability and possible consequences of risks
- Developing strategies to mitigate these risks
- Monitoring and reviewing the outcomes
- Communicating and consulting with the parties involved

A risk management plan helps an exporter to broaden the risk profile for foreign market. For a small export business, an exporter must keep his risk management analysis clear and simple.

Export Risk Mitigation

Export risk mitigations are the various strategies that can be adopted by an exporter to avoid the risks associated with the export of goods.

- Direct Credit: Export Credit Agencies support exports through the provision of direct credits to either the importer or the exporter.
  - Importer: a buyer credit is provided to the importer to purchase goods.
  - Exporter: makes a deferred payment sale; insurance is used to protect the seller or bank.
- Guarantees
  - Bid bond (tender guarantee): protects against exporter's unrealistic bid or failure to execute the contract after winning the bid.
  - Performance bond: guarantees exporter's performance after a contract is signed.
  - Advance payment guarantee (letter of indemnity): in the case where an importer advances funds, guarantees a refund if exporter does not perform.
  - Standby letter of credit: issuing bank promises to pay exporter on behalf of importer.
- Insurance
  - Transportation insurance: Covers goods during transport; degree of coverage varies.
  - Credit Insurance: Protects against buyer insolvency or protracted defaults and/or political risks.
  - Seller non-compliance (credit insurance): Covers advance payment risk.
  - Foreign exchange risk insurance: Provides a hedge against foreign exchange risk.
- Hedging

Instruments used to Hedge Price Risk

- Stabilization programs and funds.
- Timing of purchase/sale.
- Fixed price long-term contracts.
- Forward contracts.
- Swaps

Packing and Labeling of Goods.

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Introduction

- Packaging
- Labeling

Introduction

An important stage after manufacturing of goods or their procurement is their preparation for shipment which involves packaging and labelling of goods to be exported. Proper packaging and labelling not only makes the final product look attractive but also save a huge amount of money by saving the product from wrong handling the export process.

Packaging

The primary role of packaging is to contain, protect and preserve a product as well as aid in its handling and final presentation. Packaging also refers to the process of design, evaluation, and production of packages. The packaging can be done within the export company or the job can be assigned to an outside packaging company. Packaging provides following benefits to the goods to be exported:

- Physical Protection – Packaging provides protection against shock, vibration, temperature, moisture and dust.
- Containment or agglomeration – Packaging provides agglomeration of small objects into one package for reason of efficiency and cost factor. For example it is better to put 1000 pencils in one box rather than putting each pencil in

separate 1000 boxes.
- Marketing: Proper and attractive packaging play an important role in encouraging a potential buyer.
- Convenience - Packages can have features which add convenience in distribution, handling, display, sale, opening, use, and reuse.
- Security - Packaging can play an important role in reducing the security risks of shipment. It also provides authentication seals to indicate that the package and contents are not counterfeit. Packages also can include anti-theft devices, such as dye-packs, RFID tags, or electronic article surveillance tags, that can be activated or detected by devices at exit points and require specialized tools to deactivate. Using packaging in this way is a means of loss prevention.

Labeling

Like packaging, labeling should also be done with extra care. It is also important for an exporter to be familiar with all kinds of sign and symbols and should also maintain all the nationally and internationally standers while using these symbols. Labelling should be in English, and words indicating country of origin should be as large and as prominent as any other English wording on the package or label.

Labelling on product provides the following important information:
- Shipper's mark
- Country of origin
- Weight marking (in pounds and in kilograms)
- Number of packages and size of cases (in inches and centimeters)
- Handling marks (international pictorial symbols)
- Cautionary markings, such as "This Side Up."
- Port of entry
- Labels for hazardous materials

Labelling of a product also provides information like how to use, transport, recycle, or dispose of the package or product. With pharmaceuticals, food, medical, and chemical products, some types of information are required by governments.

It is better to choose a fast dyes for labelling purpose. Only fast dyes should be used for labeling. Essential data should be in black and subsidiary data in a less conspicuous colour; red and orange and so on. For food packed in sacks, only harmless dyes should be employed, and the dye should not come through the packing in such a way as to affect the goods.

Inspection Certificates and Quality Control.

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Introduction
- ISI Certification
- AgMmark Certification
- Benefits of ISI and Agmark Certification
- In-Process Quality Control (IPQC)
- Self Certification Scheme
- ISO 9000

Introduction

An important aspect about the goods to be exported is compulsory quality control and pre-shipment inspection. For this purpose, Export Inspection Council (EIC) was set up by the Government of India under Section 3 of the Export (Quality Control and Inspection) Act, 1963. It includes more than 1000 commodities which are organized into various groups for a compulsory pre-shipment inspection. It includes Food and Agriculture, Fishery, Minerals, Organic and Inorganic Chemicals, Rubber Products, Refractoriness, Ceramic Products, Pesticides, Light Engineering, Steel Products, Jute Products, Coir and Coir Products, Footwear and Footwear Products.

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ISI Certification

Indian Standards Institute now known as Bureau of Indian Standard (BIS) is a registered society under a Government of India. BIS main functions include the development of technical standards, product quality and management system certifications and consumer affairs. Founded by Professor P.C. Mahalanobis in Kolkata on 17th December, 1931, the institute gained the status of an Institution of National Importance by an act of the Indian Parliament in 1959.

AgMmark Certification

AgMark is an acronym for Agricultural Marketing and is used to certify the food products for quality control. Agmark has been dominated by other quality standards including the non manufacturing standard ISO 9000.

Benefits of ISI and Agmark Certification

Products having ISI Certification mark or Agmark are not required to be inspected by any agency. These products do not fall within the purview of the export inspection agencies network. The Customs Authorities allow export of such goods even if not accompanied by any pre-shipment inspection certificate, provided they are otherwise satisfied that the goods carry ISI Certification or the Agmark.

In-Process Quality Control (IPQC)

In-Process Quality Control (IPQC) inspection is mainly done for engineering products and is applied at the various stages of production. Units approved under IPQC system of in-process quality control may themselves issue the certificate of inspection, but only for the products for which they have been granted IPQC facilities. The final certificate of inspection on the end-products is then given without in-depth study at the shipment stage.

Self Certification Scheme

Under the self Certification Scheme, large exporters and manufacturers are allowed to inspect their product without involving any other party. The facility is available to manufacturers of engineering products, chemical and allied products and marine products. Self-Certification is given on the basis that the exporter himself is the best judge of the quality of his products and will not allow his reputation to be spoiled in the international market by compromising on quality. Self-Certification Scheme is granted to the exporter for the period of one year. Exporters with proven reputation can obtain the permission for self certification by submitting an application to the Director (Inspection and Quality Control), Export Inspection Council of India, 11th Floor, Pragati Tower, 26 Rajendra Place, New Delhi.

ISO 9000

The discussion on inspection certificate and quality control is incomplete without ISO-9000. Established in 1987, ISO 9000 is a series of international standards that has been accepted worldwide as the norm assuring high quality of goods. The current version of ISO 9000 is ISO 9000:2000.

Export Documents.

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- Introduction
- Shipping Bill / Bill of Export
- Customs Declaration Form
- Dispatch Note
- Commercial invoice
- Consular Invoice
- Customs Invoice
- Legalised / Visaed Invoice

- Certified Invoice
- Packing List
- Certificate of Inspection
- Black List Certificate
- Manufacturer's Certificate
- Certificate of Chemical Analysis
- Certificate of Shipment
- Health/ Veterinary/ Sanitary Certification
- Certificate of Conditioning
- Antiquity Measurement
- Shipping Order
- Cart/ Lorry Ticket
- Shut Out Advice
- Short Shipment Form

Introduction
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. In this section, we have discussed various topics related to foreign exchange rates in detail.
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.

Customs Procedure for Export.

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Registration

- Processing of Shipping Bill
- Quota Allocation
- Arrival of Goods at Docks
- System Appraisal of Shipping Bills
- Customs Examination of Export Cargo
- Stuffing / Loading of Goods in Containers
- Drawal of Samples
- Amendments
- Export of Goods under Claim for Drawback
- Generation of Shipping Bills

In India custom clearance is a complex and time taking procedure that every export face in his export business. Physical control is still the basis of custom clearance in India where each consignment is manually examined in order to impose various types of export duties. High import tariffs and multiplicity of exemptions and export promotion schemes also contribute in complicating the documentation and procedures. So, a proper knowledge of the custom rules and regulation becomes important for the exporter. For clearance of export goods, the exporter or export agent has to undertake the following formalities:

Registration

Any exporter who wants to export his good need to obtain PAN based Business Identification Number (BIN) from the Directorate General of Foreign Trade prior to filing of shipping bill for clearance of export goods. The exporters must also register themselves to the authorised foreign exchange dealer code and open a current account in the designated bank for credit of any drawback incentive.

Registration in the case of export under export promotion schemes:

All the exporters intending to export under the export promotion scheme need to get their licences / DEEC book etc.

Processing of Shipping Bill - Non-EDI:

In case of Non-EDI, the shipping bills or bills of export are required to be filled in the format as prescribed in the Shipping Bill and Bill of Export (Form) regulations, 1991. An exporter need to apply different forms of shipping bill/ bill of export for export of duty free goods, export of dutiable goods and export under drawback etc.

Processing of Shipping Bill - EDI:

Under EDI System, declarations in prescribed format are to be filed through the Service Centers of Customs. A checklist is generated for verification of data by the exporter/CHA. After verification, the data is submitted to the System by the Service Center operator and the System generates a Shipping Bill Number, which is endorsed on the printed checklist and returned to the exporter/CHA. For export items which are subject to export cess, the TR-6 challans for cess is printed and given by the Service Center to the exporter/CHA immediately after submission of shipping bill. The cess can be paid on the strength of the challan at the designated bank. No copy of shipping bill is made available to exporter/CHA at this stage.

Quota Allocation

The quota allocation label is required to be pasted on the export invoice. The allocation number of AEPC (Apparel Export Promotion Council) is to be entered in the system at the time of shipping bill entry. The quota certification of export invoice needs to be submitted to Customs along-with other original documents at the time of examination of the export cargo. For determining the validity date of the quota, the relevant date needs to be the date on which the full consignment is presented to the Customs for examination and duly recorded in the Computer System.

Arrival of Goods at Docks:

On the basis of examination and inspection goods are allowed enter into the Dock. At this stage the port authorities check the quantity of the goods with the documents.

System Appraisal of Shipping Bills:

In most of the cases, a Shipping Bill is processed by the system on the basis of declarations made by the exporters without any human intervention. Sometimes the Shipping Bill is also processed on screen by the Customs Officer.

Customs Examination of Export Cargo:

Customs Officer may verify the quantity of the goods actually received and enter into the system and thereafter mark the Electronic Shipping Bill and also hand over all original documents to the Dock Appraiser of the Dock who many assign a Customs Officer for the examination and intimate the officers’ name and the packages to be examined, if any, on the check list and return it to the exporter or his agent.

The Customs Officer may inspect/examine the shipment along with the Dock Appraiser. The Customs Officer enters the examination report in the system. He then marks the Electronic Bill along with all original documents and check list to the Dock Appraiser. If the Dock Appraiser is satisfied that the particulars entered in the system conform to the description given in the original documents and as seen in the physical examination, he may proceed to allow "let export" for the shipment and inform the exporter or his agent.

Stuffing / Loading of Goods in Containers

The exporter or export agent hand over the exporter’s copy of the shipping bill signed by the Appraiser “Let Export" to the steamer agent. The agent then approaches the proper officer for allowing the shipment. The Customs Preventive Officer supervising the loading of container and general cargo in to the vessel may give "Shipped on Board" approval on the exporter’s copy of the shipping bill.

Drawal of Samples:
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 the particulars thereof along with details of the testing agency in the ICES/E system. There is no separate register for recording dates of samples drawn. Three copies of the test memo are prepared by the Customs Officer and are signed by the Customs Officer and Appraising Officer on behalf of Customs and the exporter or his agent. The disposal of the three copies of the test memo is as follows:-

- Original – to be sent along with the sample to the test agency.
- Duplicate – Customs copy to be retained with the 2nd sample.
- 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.
Amendments:
Any correction/amendments in the check list generated after filing of declaration can be made at the service center, if the documents have not yet been submitted in the system and the shipping bill number has not been generated. In situations, where corrections are required to be made after the generation of the shipping bill number or after the goods have been brought into the Export Dock, amendments is carried out in the following manners.

1. The goods have not yet been allowed "let export" amendments may be permitted by the Assistant Commissioner (Exports).
2. Where the "Let Export" order has already been given, amendments may be permitted only by the Additional/Joint Commissioner, Custom House, in charge of export section.

In both the cases, after the permission for amendments has been granted, the Assistant Commissioner / Deputy Commissioner (Export) may approve the amendments on the system on behalf of the Additional /Joint Commissioner. Where the print out of the Shipping Bill has already been generated, the exporter may first surrender all copies of the shipping bill to the Dock Appraiser for cancellation before amendment is approved on the system.
Export of Goods under Claim for Drawback:
After actual export of the goods, the Drawback claim is processed through EDI system by the officers of Drawback Branch on first come first served basis without feeling any separate form.
Generation of Shipping Bills:
The Shipping Bill is generated by the system in two copies- one as Custom copy and one as exporter copy. Both the copies are then signed by the Custom officer and the Custom House Agent.
Invisible Export.

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- Introduction
- Export Performance of the Indian service Industry
- Government Initiatives
- Strengths and Weaknesses of Indian Consulting Industry

Introduction
Invisible export is the part of international trade that does not involve the transfer of goods or tangible objects, which mostly include service sectors like banking, advertising, copyrights, insurance, consultancy etc. invisible exort also known as invisible trade is basically associated with the person's own skill and knowledge is what is 'sold' rather than a piece of software or books.
Invisible trade is composed of invisible imports and invisible exports. Since nothing tangible is transferred, the importer is defined as the person, group or country that receives the service. The exporter is defined as the supplier of the service. The net total of a country's invisible imports and invisible exports is called the invisible balance of trade and is a part of the country's balance of trade. For countries that rely on service exports or on tourism, the invisible

balance is particularly important.

Export Performance of the Indian service Industry

An analysis of the consultancy contracts secured by Indian project in the foreign market has been carried out by Exim Bank of India. As per the analysis, done during 1995-96 to 2000-01 indicates that consultancy contracts were secured largely in West Asia which accounted for 39% number wise and 46% value wise followed by South East Asia and Pacific & South Asia.

South East Asia constituted 22% both by number and by value whereas South Asia was 18% number wise and 16% value wise. According to the 2002 data of the Federation of Indian Export Organizations (FIEO), India's share in global trade in services was about 1.3%. India’s share of consultancy exports is about 0.5% of global trade in services.

Government Initiatives

In the recent years the Government of India has take some important step for the improvement of service based export. The Foreign Trade Policy, 2004 – 09 is one of them, which has announced the setting up of Services Export Promotion Council for promoting the Indian service sector in the foreign market. Government of India has also introduced Market Development Assistance (MDA), Market Access Initiative (MAI) scheme, proactive EXIM Policy and EXIM Bank schemes. Government also provides exemption on service tax for export of consultancy services. However due to lack of clarity in the provisions in the present notification, consultancy export may be affected.

Strengths and Weaknesses of Indian Consulting Industry

- The major strengths of Indian invisible export or invisible trade include professional competence, low cost structure, diverse capabilities, high adaptability and quick learning capability of Indian consultants.
- The major weaknesses of Indian invisible trade or invisible export include low quality assurance, low local presence overseas, low equity base, lack of market intelligence and low level of R&D.

Export to SAARC Member Countries.

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Introduction

- South Asian Free Trade Area (SAFTA)
- Preferential Trade Agreement (PTA)
- Export to Afghanistan
- Export to Bangladesh
- Export to Bhutan
- Export to Sri Lanka
- Export to Nepal
- Export to Maldives
- Export to Pakistan

Introduction

Established in 1985, SAARC or South Asian Association for Regional Cooperation is a group of eight countries including India, Pakistan, Sri Lanka, Afghanistan, Maldives, Bhutan, Bangladesh, and Nepal. They all are neighbor countries that share a lot of similarities in terms of religion and culture. Because of this Indian has adopted a liberal trade policy with these countries.

Apart from SAARAC, India is also a member of BIMSTEC (Bangladesh, India, Myanmar, Sri Lanka, and Thailand Economic Co-operation), International Monetary Fund (IMF), the World Bank and the Asian Development Bank (ADB). India is even a founding member of GATT and the World Trade Organisation (WTO).

South Asian Free Trade Area (SAFTA)

The Agreement on South Asian Free Trade Area (SAFTA) was signed at Islamabad during the Twelfth SAARC Summit on 6 January 2004. The Agreement on South Asian Free Trade Area (SAFTA) was signed by all the member states of the South Asian Association for Regional Cooperation (SAARC), namely, India, Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Sri Lanka. India, Pakistan and Sri Lanka are categorized as Non-Least Developed Contracting States (NLDCS) and Bangladesh, Bhutan, Maldives and Nepal are categorized as Least Developed Contracting States (LDCS).

Article 7 of the SAFTA Agreement provides for a phased tariff liberalization programme (TLP) under which, in two years, NLDCS would bring down tariffs to 20%, while LDCS will bring them down to 30%. Non-LDCS will then bring down tariffs from 20% to 0-5% in 5 years (Sri Lanka 6 years), while LDCS will do so in 8 years. NLDCs will reduce their tariffs for L.D.C. products to 0-5% in 3 years. This TLP covers all tariff lines except those kept in the sensitive list (negative list) by the member states.

Preferential Trade Agreement (PTA)

Preferential Trade Agreement (PTA) is a special type of agreement that gives access to only certain goods. Preferential Trade Agreement is done by reducing tariffs, but it does not abolish them completely. PTA is established through trade pact and it is the weakest form of economic integration. Among the SAARC countries, India enjoys PTA with the Afghanistan. Other countries that have PTA with India are Chile and MERCOSUR (a trading bloc in Latin America comprising Brazil, Argentina, Uruguay and Paraguay).

Export to Afghanistan

India has a signed a Preferential Trade Agreement (PTA) on March 6,2003 with the Afghanistan, according to which preferential tariff is granted by the Government of Afghanistan on eight items exported from India including tea, medicines, sugar, cement.

Export to Bangladesh

Bangladesh is one of the largest export markets for Indian trade. The bilateral trade between the two nations is carried out as per guidelines given in the Bangladesh Trade Agreement which provides beneficial arrangement for the use of waterways, railways and roadways passage of goods between two places in one country through the territory of the other.

Major items exported from India to Bangladesh include wheat other cereals, dairy products, oils meals, cotton yarn, fabrics, made ups, petroleum crude and products, plastic and linoleum products rice machinery and instruments and primary and semi finished iron and steel, pulses transport equipments drugs pharmaceuticals and fine chemicals processed mineral manmade yarn, fabrics, made ups manufactures of metal and fresh fruits and vegetables.

Export to Bhutan

The Free Trade Agreement between India and Bhutan provides for free trade between the two countries. Under this agreement India also provides shipment facilities through Indian Territory for Bhutan's Trade with third countries. All the export transactions are carried out in Indian Rupees and Bhutanese Ngultrum. Major items exported from India to Bangladesh include metals machinery and instruments, machine tools transport equipments, electronics goods rice (other than basmati), spirit and beverages, miscellaneous processed items primary and semi finished iron and steel and cereals.

Export to Sri Lanka

After Bangladesh, Sri Lanka is the biggest export market for India. Trade between the two countries is carried out as per guidelines mention in the Indo-Sri Lanka Free Trade Agreement (SAFTA). Major items of export from India have been pulses, wheat, other cereal spices, oil meals, fresh vegetables, miscellaneous processed items, drugs pharmaceuticals and fine chemicals inorganic/ organic agro chemicals rubber manufactured goods except footwear, glass , glassware ceramic and allied products paper/wood products plastic and linoleum products non ferrous metals manufactures of metals, machinery and instruments, iron and steel bar/rod etc. primary and semi finished iron and steel, electronic goods, cotton yarn, fabric, made ups, and petroleum crude and products.

Export to Nepal

India-Nepal Trade Treaty between India and Nepal is signed for the time period of five years. Under this trade agreement major items exported from India include drugs , pharmaceuticals and fine chemicals, petroleum product, pulses, transport equipment, rice other than basmati, tobacco, manufactured, spices, oil meals fresh fruits and vegetables, miscellaneous processed items, ores and minerals glassware/ceramics, manufactures of metals, primary and semi finished iron and steel and cotton yarn fabrics made ups.

Export to Maldives

Trade between India and Maldives is governed by the rules as mentioned in the Indo-Maldives Trade Agreement signed on 31st March 1981. Under this agreement Indian major exports itmes to Maldives include rice other than basmati, sugar, fresh vegetables, miscellaneous processed item, drugs, pharmaceuticals and fine chemicals plastic and linoleum products, manufactures of metals and machinery equipment. India and Maldives also shares the status of “Most Favored Nation” with each other.

Export to Pakistan

No trade agreement has been signed between India and Pakistan till 2007. Although India has granted the status of “Most Favoured Nation” to Pakistan since 1996 but Pakistan has yet to reciprocate by granting this status to India.

Indian exports to Pakistan are restricted to a list 773 items known as Positive List and include rice other than basmati, spices, oil meals, iron ore, drugs, pharmaceuticals and fine chemicals rubber manufactured products except footwear, plastic and linoleum products, manufactures of metals and petroleum crude and products.

Export From India to CIS Countires.

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Introduction

- Major Trading Partners in the CIS Region
- Major Items of Exports
- India CIS Trade Relations - Armenia
- India CIS trade relations – Georgia
- India CIS Trade Relations – Ukraine
- India CIS Trade Relations – Latvia
- India CIS Trade Relations – Estonia
- India CIS Trade Relations – Lithuania
- India CIS Trade Relations – Belarus

Introduction

Commonwealth of Independent States (CIS) was founded in 1991 after the dissolution of the Soviet Union. At present the CIS includes Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan and Ukraine. Relations between India and countries of the CIS Region have remained close and cordial since the Soviet era. However, bilateral trade and commercial relations of India have not grown commensurately with these newly formed countries. Due to the factors like distance, language barrier, inadequate transport facility, inadequacy of information about business opportunities CIS only constitutes 1.2% share in India's total exports.

Major Trading Partners in the CIS Region

Russia, Ukraine, Kazakhstan, Uzbekistan, Kyrgyzstan, and Belarus are India's major trading partners, constituting more than 90% of India's total bilateral trade with the CIS countries.

Major Items of Exports

India's major items of export to this region are : cotton, drugs, pharmaceuticals coffee, tea tobacco machinery & instrument, processed mineral, plastic and Linoleum products gem & jewellery, transport equipment, etc.

India CIS Trade Relations - Armenia

Despite a trade agreement being signed, India's trade with Armenia after independence has been not worth mentioning. Indian exports to Armenia in 2002 were worth US$ 5.6 million which mainly includes car batteries, chemical goods, pharmaceuticals, and electrical equipments.

India CIS trade relations – Georgia

Trade relations between India and Georgia were established in 1992, according to which two countries agreed that there would be cooperation within the framework of Indian Council for Cultural Relations and Indian Technical and Economic Cooperation. Trade turnover between India and Georgia in 2006 was US$ 20,521,700. Laws on tariffs have been simplified and so far the trend has been such that India's exports to Georgia have been more than Georgia's exports to India.

India CIS Trade Relations – Ukraine

Ukraine is the second largest trade partner of India in the CIS region, after the Russian Federation. Diplomatic relations between India and Ukraine were established way back in the 1960s. In March, 1992 a treaty on friendship and cooperation was signed to strengthen bilateral trade. More than 17 bilateral Agreements have been signed between India and Ukraine, including agreements on Cooperation in Science and Technology, Foreign Office Consultation, Cooperation in Space Research, Avoidance of Double Taxation and Promotion and Protection of Investments. The amount of bilateral trade that took place between the two countries in 2004 was worth more than $500,000. India mainly exports pharmaceutical products to Ukraine.

India CIS Trade Relations – Latvia

In 1991, diplomatic relations between the two countries were formed. Bilateral trade relations between these two countries are not very intense due to inaction on both sides. Import to Latvia amounted to US$ 16,954,219 and the export stood at US$ 2,554,392 in 2005. The major export items from India include pharmaceuticals and healthcare products, telecommunications, IT and software, development; heavy engineering; export of textiles gems and jewellery, chemicals and dyes, vegetables and fruits, leather and leather products and third country exports.

India CIS Trade Relations – Estonia

Diplomatic relations between the two countries were established in December, 1991. In 2005, the total amount of bilateral trade that took place was €19.6 million. India mainly exports vegetables, chemical, and textile products to Estonia.

India CIS Trade Relations – Lithuania

In July, 1993 an Agreement on Trade and Economic Cooperation was signed between India and Lithuania. India mainly exports pharmaceuticals, paper, and textiles items to Lithuania. The major items imported from India include pharmaceuticals, paper, and textiles. Lithuania exports cement, metals, sulphur, and base metals. The total bilateral trade between the two countries stands at US$ 47.06.

India CIS Trade Relations – Belarus

In 2005, India's trade turnover with Belarus amounted to around US$ 118.3 million. The export items from India include pharmaceuticals, tea, rice, pepper, yarn, organic dyes, machine and electrical equipments.

Organisations Supporting to Exporters.

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Introduction

- Export Promotion Councils (EPC)
- Commodity Boards
- Federation of Indian Export Organisations (FIEO)
- Indian Institute of Foreign Trade (IIFT)
- Indian Institution of Packaging (IIP)
- Export Inspection Council (EIC)
- Indian Council of Arbitration (ICA)
- India Trade Promotion Organisation (ITPO)
- Chamber of Commerce & Industry (CII)
- Federation of Indian Chamber of Commerce & Industry (FICCI)
- Bureau of Indian Standards (BIS)

- Marine Products Export Development Authority (MPEDA)
- India Investment Centre (IIC)
- Directorate General of Foreign Trade (DGFT)
- Director General of Commercial Intelligence Statistics (DGCIS)

Introduction
In India there are a number of organisation and agencies that provides various types of support to the exporters from time to time. These export organisations provides market research in the area of foreign trade, dissemination of information arising from its activities relating to research and market studies. So, exporter should contact them for the necessary assistance.
Export Promotion Councils (EPC)
Export Promotion Councils are registered as non -profit organisations under the Indian Companies Act. At present there are eleven Export Promotion Councils under the administrative control of the Department of Commerce and nine export promotion councils related to textile sector under the administrative control of Ministry of Textiles. The Export Promotion Councils perform both advisory and executive functions. These Councils are also the registering authorities under the Export Import Policy, 2002-2007.
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. There are five statutory Commodity Boards, which are responsible for production, development and export of tea, coffee, rubber, spices and tobacco.

Federation of Indian Export Organisations (FIEO)
FIEO was set up jointly by the Ministry of Commerce, Government of India and private trade and industry in the year 1965. FIEO is thus a partner of the Government of India in promoting India’s exports.
Address: Niryaat Bhawan, Rao Tula Ram Marg, Opp. Army Hospital. Research & Referral, New Delhi 110057
Indian Institute of Foreign Trade (IIFT)
The Indian Institute of Foreign Trade (IIFT) was set up in 1963 by the Government of India as an autonomous organisation to help Indian exporters in foreign trade management and increase exports by developing human resources, generating, analysing and disseminating data and conducting research.
Address: B-21 Kutub Institutional Area, Mehrauli Road, New Delhi-110016
Indian Institution of Packaging (IIP)
The Indian Institute of Packaging or IIP in short was established in 1966 under the Societies Registration Act (1860). Headquartered in Mumbai, IIP also has testing and development laboratories at Calcutta, New Delhi and Chennai. The Institute is closely linked with international organisations and is recognized by the UNIDO (United Nations Industrial Development Organisation) and the ITC (International Trading Centre) for consultancy and training. The IIP is a member of the Asian Packaging Federation (APF), the Institute of Packaging Professionals (IOPP) USA, the Insitute of Packaging (IOP) UK, Technical Association of PULP AND Paper Industry (TAPPI), USA and the World Packaging Organisation (WPO).
Address: B-2, MIDC Area, P.B. 9432, Andheri (E), Mumbai 400096.
Export Inspection Council (EIC)
The Export Inspection Council or EIC in short, was set up by the Government of India under Section 3 of the Export (Quality Control and Inspection) Act, 1963 in order to ensure sound development of export trade of India through Quality Control and Inspection.
Address: 3rd Floor, ND YMCA, Cultural Centre Bldg., 1, Jai Singh Road, New Delhi-110001.
Indian Council of Arbitration (ICA)
The Indian Council for Arbitration (ICA) was established on April 15, 1965. ICA provides arbitration facilities for all types of Indian and international

commercial disputes through its international panel of arbitrators with eminent and experienced persons from different lines of trade and professions.
Address: Federation House, Tansen Marg, New Delhi-110001

India Trade Promotion Organisation (ITPO)
ITPO is a government organisation for promoting the country's external trade. Its promotional tools include organizing of fairs and exhibitions in India and abroad, Buyer-Seller Meets, Contact Promotion Programmes, Product Promotion Programmes, Promotion through Overseas Department Stores, Market Surveys and Information Dissemination.
Address: Pragati Bhawan Pragati Maidan, New Delhi-10001

Chamber of Commerce & Industry (CII)
CII play an active role in issuing certificate of origin and taking up specific cases of exporters to the Govt.

Federation of Indian Chamber of Commerce & Industry (FICCI)
Federation of Indian Chambers of Commerce and Industry or FICCI is an association of business organisations in India. FICCI acts as the proactive business solution provider through research, interactions at the highest political level and global networking.

Address: Federation House, Tansen Marg, New Delhi-110001

Bureau of Indian Standards (BIS)
The Bureau of Indian Standards (BIS), the National Standards Body of India, is a statutory body set up under the Bureau of Indian Standards Act, 1986. BIS is engaged in standard formulation, certification marking and laboratory testing.

Address: 9, Manak Bhavan, Bahadur Shah Zafar Marg, New Delhi-110002

Textile Committee
Textile Committee carries pre-shipment inspection of textiles and market research for textile yarns, textile machines etc.
Address: Textile Centre, second Floor, 34 PD, Mello Road, Wadi Bandar, Bombay-400009
Marine Products Export Development Authority (MPEDA)
The Marine Products Export Development Authority (MPEDA) was constituted in 1972 under the Marine Products Export Development Authority Act 1972 and plays an active role in the development of marine products meant for export with special reference to processing, packaging, storage and marketing etc.
Address: P.B No.4272 MPEDA House, pannampilly Avenue, Parampily Nagar, Cochin-682036
India Investment Centre (IIC)
Indian Investment Center (IIC) was set up in 1960 as an independent organization, which is under the Ministry of Finance, Government of India. The main objective behind the setting up of IIC was to encourage foreign private investment in the country. IIC also assist Indian Businessmen for setting up of Industrial or other Joint ventures abroad.
Address: Jeevan Vihar, 4th Floor, Parliament Street, New Delhi-110001
Directorate General of Foreign Trade (DGFT)
DGFT or Directorate General of Foreign Trade is a government organisation in India responsible for the formulation of guidelines and principles for importers and exporters of country.
Address: Udyog Bhawan, H-Wing, Gate No.2, Maulana Azad Road, New Delhi -110011
Director General of Commercial Intelligence Statistics (DGCIS)
DGCIS is the Primary agency for the collection, compilation and the publication of the foreign inland and ancillary trade statistics and dissemination of various

types of commercial informations.
Address: I, Council House Street Calcutta-700001,

EXPORT FINANCE :
Export Finance Pre Shipment and Post Shipment
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The Exim Guide to Export Finance has been developed for our exporter as well as importer from the team of Infodrive India Pvt. Ltd. We are export-import based company working for the benefits of exporters and importer through a strong and balance relationship among our clients.
Exim Guide to Export Finance offers a wide variety of financial measures to promote exports. The guide also deals with the role of commercial banks and export credit agencies and private-sector credit insurance. This complete guide offers entrepreneurs practical information on how identify the most suitable payment methods and required credit facilities. The guide also provides information on finance related legal documentation and models of the most common forms and agreements.

Payment Methods in Export Import Trade.

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- Clean Payments
  - Advance Payment
  - Open Account
- Payment Collection of Bills in International Trade
  - Documents Against Payment D/P
  - Documents Against Acceptance D/A
  - Letter of Credit L/c
    - Revocable & Irrevocable Letter of Credit (L/c)
    - Sight & Time Letter of Credit
    - Confirmed Letter of Credit (L/c)

There are 3 standard ways of payment methods in the export import trade international trade market:
1. Clean Payment
2. Collection of Bills
3. Letters of Credit L/c

1. Clean Payments
In clean payment method, all shipping documents, including title documents are handled directly between the trading partners. The role of banks is limited to clearing amounts as required. Clean payment method offers a relatively cheap and uncomplicated method of payment for both importers and exporters.

There are basically two type of clean payments:
Advance Payment
In advance payment method the exporter is trusted to ship the goods after receiving payment from the importer.
Open Account
In open account method the importer is trusted to pay the exporter after receipt of goods.
The main drawback of open account method is that exporter assumes all the risks while the importer get the advantage over the delay use of company's cash resources and is also not responsible for the risk associated with goods.
2. Payment Collection of Bills in International Trade
The Payment Collection of Bills also called “Uniform Rules for Collections” is published by International Chamber of Commerce (ICC) under the document number 522 (URC522) and is followed by more than 90% of the world's banks.
In this method of payment in international trade the exporter entrusts the handling of commercial and often financial documents to banks and gives the banks necessary instructions concerning the release of these documents to the Importer. It is considered to be one of the cost effective methods of evidencing a transaction for buyers, where documents are manipulated via the banking system.
There are two methods of collections of bill :
Documents Against Payment D/P
In this case documents are released to the importer only when the payment has been done.
Documents Against Acceptance D/A
In this case documents are released to the importer only against acceptance of a draft.
3. Letter of Credit L/c
Letter of Credit also known as Documentary Credit is a written undertaking by the importers bank known as the issuing bank on behalf of its customer, the importer (applicant), promising to effect payment in favor of the exporter (beneficiary) up to a stated sum of money, within a prescribed time limit and against stipulated documents. It is published by the International Chamber of Commerce under the provision of Uniform Custom and Practices (UCP) brochure number 500.
Various types of L/Cs are :
Revocable & Irrevocable Letter of Credit (L/c)
A Revocable Letter of Credit can be cancelled without the consent of the exporter.

An Irrevocable Letter of Credit cannot be cancelled or amended without the consent of all parties including the exporter.
Sight & Time Letter of Credit
If payment is to be made at the time of presenting the document then it is referred as the Sight Letter of Credit. In this case banks are allowed to take the necessary time required to check the documents.
If payment is to be made after the lapse of a particular time period as stated in the draft then it is referred as the Term Letter of Credit.
Confirmed Letter of Credit (L/c)
Under a Confirmed Letter of Credit, a bank, called the Confirming Bank, adds its commitment to that of the issuing bank. By adding its commitment, the Confirming Bank takes the responsibility of claim under the letter of credit, assuming all terms and conditions of the letter of credit are met.

Payments collection methods in Export Import International Trade.
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- Role of Various Parties
  - Exporter
  - Exporter's Bank

- o Buyer/Importer
- o Importe's Bank
- Documents Against Payments (D/P)
- Docuemts Against Aceptance (D/A)
- Usance D/P Bills

Introduction

Payment Collection Against Bills also known documentary collection as is a payment method used in international trade all over the world by the exporter for the handling of documents to the buyer's bank and also gives the banks necessary instructions indicating when and on what conditions these documents can be released to the importer.

Collection Against Bills is published by International Chambers of Commerce (ICC), Paris, France. The last updated issue of its rule was published on January 1, 1966 and is know as the URC 522.

It is different from the letters of credit, in the sense that the bank only acts as a medium for the transfer of documents but does not make any payment guarantee. However, collection of documents are subjected to the Uniform Rules for Collections published by the International Chamber of Commerce (ICC).

Role of Various Parties

Exporter

The seller ships the goods and then hands over the document related to the goods to their banks with the instruction on how and when the buyer would pay.

Exporter's Bank

The exporter's bank is known as the remitting bank , and they remit the bill for collection with proper instructions. The role of the remitting bank is to :

- Check that the documents for consistency.
- Send the documents to a bank in the buyer's country with instructions on collecting payment.
- Pay the exporter when it receives payments from the collecting bank.

Buyer/Importer

The buyer / importer is the drawee of the Bill.

The role of the importer is to :

- Pay the bill as mention in the agreement (or promise to pay later).
- Take the shipping documents (unless it is a clean bill) and clear the goods.

Importer's Bank

This is a bank in the importer's country : usually a branch or correspondent bank of the remitting bank but any other bank can also be used on the request of exporter.

The collecting bank act as the remitting bank's agent and clearly follows the instructions on the remitting bank's covering schedule. However the collecting bank does not guarantee payment of the bills except in very unusual circumstance for undoubted customer , which is called availing.

Importer's bank is known as the collecting / presenting bank. The role of the collecting banks is to :

- Act as the remitting bank's agent
- Present the bill to the buyer for payment or acceptance.
- Release the documents to the buyer when the exporter's instructions have been followed.
- Remit the proceeds of the bill according to the Remitting Bank's schedule instructions.

If the bill is unpaid / unaccepted, the collecting bank :

- May arrange storage and insurance for the goods as per remitting bank instructions on the schedule.
- Protests on behalf of the remitting bank (if the Remitting Bank's schedule states Protest)

- Requests further instruction from the remitting bank, if there is a problem that is not covered by the instructions in the schedule.
- Once payment is received from the importer, the collecting bank remits the proceeds promptly to the remitting bank less its charges.

Documents Against Payments (D/P)

This is sometimes also referred as Cash against Documents/Cash on Delivery. In effect D/P means payable at sight (on demand). The collecting bank hands over the shipping documents including the document of title (bill of lading) only when the importer has paid the bill. The drawee is usually expected to pay within 3 working days of presentation. The attached instructions to the shipping documents would show "Release Documents Against Payment"

Risks :

Under D/P terms the exporter keeps control of the goods (through the banks) until the importer pays. If the importer refuses to pay, the exporter can:

- Protest the bill and take him to court (may be expensive and difficult to control from another country).
- Find another buyer or arrange a sale by an auction.

With the last two choices, the price obtained may be lower but probably still better than shipping the goods back, sometimes, the exporter will have a contact or agent in the importer's country that can help with any arrangements. In such a situation, an agent is often referred to as a CaseofNeed, means someone who can be contacted in case of need by the collecting bank.

If the importers refuses to pay, the collecting bank can act on the exporter's instructions shown in the Remitting Bank schedule. These instructions may include:

- Removal of the goods from the port to a warehouse and insure them.
- Contact the case of need who may negotiate with the importer.
- Protesting the bill through the bank's lawyer.

Docuemts Against Aceptance (D/A)

Under Documents Against Acceptance, the Exporter allows credit to Importer, the period of credit is referred to as Usance, The importer/ drawee is required to accept the bill to make a signed promise to pay the bill at a set date in the future. When he has signed the bill in acceptance, he can take the documents and clear his goods.

The payment date is calculated from the term of the bill, which is usually a multiple of 30 days and start either from sight or form the date of shipment, whichever is stated on the bill of exchange. The attached instruction would show "Release Documents Against Acceptance".

Risk

Under D/A terms the importer can inspect the documents and , if he is satisfied, accept the bill for payment o the due date, take the documents and clear the goods; the exporter loses control of them.

The exporter runs various risk. The importer might refuse to pay on the due date because :

- He finds that the goods are not what he ordered.
- He has not been able to sell the goods.
- He is prepared to cheat the exporter (In cases the exporter can protest the bill and take the importer to court but this can be expensive).
- The importer might have gone bankrupt, in which case the exporter will probably never get his money.

Usance D/P Bills

A Usance D/P Bill is an agreement where the buyer accepts the bill payable at a specified date in future but does not receive the documents until he has actually paid for them. The reason is that airmailed documents may arrive much earlier than the goods shipped by sea.

The buyer is not responsible to pay the bill before its due date, but he may want to do so, if the ship arrives before that date. This mode of payments is less usual, but offers more settlement possibility.

These are still D/P terms so there is no extra risk to the exporter or his bank. As an alternative the covering scheduled may simply allow acceptance or payments to be deferred awaiting arrival of carrying vessel.

There are different types of usance D/P bills, some of which do not require acceptance specially those drawn payable at a fix period after date or drawn payable at a fixed date.
Bills requiring acceptance are those drawn at a fix period after sight, which is necessary to establish the maturity date. If there are problems regarding storage of goods under a usance D/P bill, the collecting bank should notify the remitting bank without delay for instructions.

However, it should be noted that it is not necessary for the collecting bank to follow each and every instructions given by the Remitting Banks.
Letter of Credit(L/c) Documentry Collection.
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- Parties to Letters of Credit
- Types of Letter of Credit
- Standby Letter of Credit L/c
- Import Operations Under L/c
- Export Operations Under L/c
- Fees And Reimbursements
- Regulatory Requirements
- Trade Control Requirements
- Exchange Control Requirements
- UCPDC Guidelines
- ISBP 2002
- FEDAI Guidelines
- Fixing limits for Commercial Stand by Letter of Credit L/c

Introduction
Letter of Credit L/c also known as Documentary Credit is a widely used term to make payment secure in domestic and international trade. The document is issued by a financial organization at the buyer request. Buyer also provide the necessary instructions in preparing the document.
The International Chamber of Commerce (ICC) in the Uniform Custom and Practice for Documentary Credit (UCPDC) defines L/C as:
"An arrangement, however named or described, whereby a bank (the Issuing bank) acting at the request and on the instructions of a customer (the Applicant) or on its own behalf :
1. Is to make a payment to or to the order third party (the beneficiary) or is to accept bills of exchange (drafts) drawn by the beneficiary.
2. Authorised another bank to effect such payments or to accept and pay such bills of exchange (draft).
3. Authorised another bank to negotiate against stipulated documents provided that the terms are complied with.
A key principle underlying letter of credit (L/C) is that banks deal only in documents and not in goods. The decision to pay under a letter of credit will be based entirely on whether the documents presented to the bank appear on their face to be in accordance with the terms and conditions of the letter of credit.
Parties to Letters of Credit
- Applicant (Opener): Applicant which is also referred to as account party is normally a buyer or customer of the goods, who has to make payment to beneficiary. LC is initiated and issued at his request and on the basis of his instructions.
- Issuing Bank (Opening Bank) : The issuing bank is the one which create a

letter of credit and takes the responsibility to make the payments on receipt of the documents from the beneficiary or through their banker. The payments has to be made to the beneficiary within seven working days from the date of receipt of documents at their end, provided the documents are in accordance with the terms and conditions of the letter of credit. If the documents are discrepant one, the rejection thereof to be communicated within seven working days from the date of of receipt of documents at their end.

- Beneficiary : Beneficiary is normally stands for a seller of the goods, who has to receive payment from the applicant. A credit is issued in his favour to enable him or his agent to obtain payment on surrender of stipulated document and comply with the term and conditions of the L/c.

If L/c is a transferable one and he transfers the credit to another party, then he is referred to as the first or original beneficiary.

- Advising Bank : An Advising Bank provides advice to the beneficiary and takes the responsibility for sending the documents to the issuing bank and is normally located in the country of the beneficiary.
- Confirming Bank : Confirming bank adds its guarantee to the credit opened by another bank, thereby undertaking the responsibility of payment/negotiation acceptance under the credit, in additional to that of the issuing bank. Confirming bank play an important role where the exporter is not satisfied with the undertaking of only the issuing bank.
- Negotiating Bank: The Negotiating Bank is the bank who negotiates the documents submitted to them by the beneficiary under the credit either advised through them or restricted to them for negotiation. On negotiation of the documents they will claim the reimbursement under the credit and makes the payment to the beneficiary provided the documents submitted are in accordance with the terms and conditions of the letters of credit.
- Reimbursing Bank : Reimbursing Bank is the bank authorized to honor the reimbursement claim in settlement of negotiation/acceptance/payment lodged with it by the negotiating bank. It is normally the bank with which issuing bank has an account from which payment has to be made.
- Second Beneficiary : Second Beneficiary is the person who represent the first or original Beneficiary of credit in his absence. In this case, the credits belonging to the original beneficiary is transferable. The rights of the transferee are subject to terms of transfer.

Types of Letter of Credit

1. Revocable Letter of Credit L/c

A revocable letter of credit may be revoked or modified for any reason, at any time by the issuing bank without notification. It is rarely used in international trade and not considered satisfactory for the exporters but has an advantage over that of the importers and the issuing bank.

There is no provision for confirming revocable credits as per terms of UCPDC, Hence they cannot be confirmed. It should be indicated in LC that the credit is revocable. if there is no such indication the credit will be deemed as irrevocable.

2. Irrevocable Letter of CreditL/c

In this case it is not possible to revoked or amended a credit without the agreement of the issuing bank, the confirming bank, and the beneficiary. Form an exporters point of view it is believed to be more beneficial. An irrevocable letter of credit from the issuing bank insures the beneficiary that if the required documents are presented and the terms and conditions are complied with, payment will be made.

3. Confirmed Letter of Credit L/c

Confirmed Letter of Credit is a special type of L/c in which another bank apart from the issuing bank has added its guarantee. Although, the cost of confirming by two banks makes it costlier, this type of L/c is more beneficial for the beneficiary as it doubles the guarantee.

4. Sight Credit and Usance Credit L/c
Sight credit states that the payments would be made by the issuing bank at sight, on demand or on presentation. In case of usance credit, draft are drawn on the issuing bank or the correspondent bank at specified usance period. The credit will indicate whether the usance draft are to be drawn on the issuing bank or in the case of confirmed credit on the confirming bank.
5. Back to Back Letter of Credit L/c
Back to Back Letter of Credit is also termed as Countervailing Credit. A credit is known as backtoback credit when a L/c is opened with security of another L/c.
A backtoback credit which can also be referred as credit and countercredit is actually a method of financing both sides of a transaction in which a middleman buys goods from one customer and sells them to another.
The parties to a BacktoBack Letter of Credit are:

1. The buyer and his bank as the issuer of the original Letter of Credit.
2. The seller/manufacturer and his bank,
3. The manufacturer's subcontractor and his bank.

The practical use of this Credit is seen when L/c is opened by the ultimate buyer in favour of a particular beneficiary, who may not be the actual supplier/ manufacturer offering the main credit with near identical terms in favour as security and will be able to obtain reimbursement by presenting the documents received under back to back credit under the main L/c.

The need for such credits arise mainly when :
1. The ultimate buyer not ready for a transferable credit
2. The Beneficiary do not want to disclose the source of supply to the openers.
3. The manufacturer demands on payment against documents for goods but the beneficiary of credit is short of the funds
6. Transferable Letter of Credit L/c
A transferable documentary credit is a type of credit under which the first beneficiary which is usually a middleman may request the nominated bank to transfer credit in whole or in part to the second beneficiary.

The L/c does state clearly mentions the margins of the first beneficiary and unless it is specified the L/c cannot be treated as transferable. It can only be used when the company is selling the product of a third party and the proper care has to be taken about the exit policy for the money transactions that take place.

This type of L/c is used in the companies that act as a middle man during the transaction but don’t have large limit. In the transferable L/c there is a right to substitute the invoice and the whole value can be transferred to a second beneficiary.

The first beneficiary or middleman has rights to change the following terms and conditions of the letter of credit:
1. Reduce the amount of the credit.
2. Reduce unit price if it is stated
3. Make shorter the expiry date of the letter of credit.
4. Make shorter the last date for presentation of documents.
5. Make shorter the period for shipment of goods.
6. Increase the amount of the cover or percentage for which insurance cover must be effected.
7. Substitute the name of the applicant (the middleman) for that of the first beneficiary (the buyer).
Standby Letter of Credit L/c
Initially used by the banks in the United States, the standby letter of credit is very much similar in nature to a bank guarantee. The main objective of issuing such a credit is to secure bank loans. Standby credits are usually issued by the applicant’s bank in the applicant’s country and advised to the beneficiary by a

bank in the beneficiary's country.
Unlike a traditional letter of credit where the beneficiary obtains payment against documents evidencing performance, the standby letter of credit allow a beneficiary to obtains payment from a bank even when the applicant for the credit has failed to perform as per bond.

A standby letter of credit is subject to "Uniform Customs and Practice for Documentary Credit" (UCP), International Chamber of Commerce Publication No 500, 1993 Revision, or "International Standby Practices" (ISP), International Chamber of Commerce Publication No 590, 1998.

Import Operations Under L/c

The Import Letter of Credit guarantees an exporter payment for goods or services, provided the terms of the letter of credit have been met.
A bank issue an import letter of credit on the behalf of an importer or buyer under the following Circumstances

- When a importer is importing goods within its own country.
- When a trader is buying good from his own country and sell it to the another country for the purpose of merchandizing trade.
- When an Indian exporter who is executing a contract outside his own country requires importing goods from a third country to the country where he is executing the contract.

The first category of the most common in the day to day banking

Fees And Reimbursements

The different charges/fees payable under import L/c is briefly as follows
1. The issuing bank charges the applicant fees for opening the letter of credit. The fee charged depends on the credit of the applicant, and primarily comprises of :

(a) Opening Charges This would comprise commitment charges and usance charged to be charged upfront for the period of the L/c.
The fee charged by the L/c opening bank during the commitment period is referred to as commitment fees. Commitment period is the period from the opening of the letter of credit until the last date of negotiation of documents under the L/c or the expiry of the L/c, whichever is later.

Usance is the credit period agreed between the buyer and the seller under the letter of credit. This may vary from 7 days usance (sight) to 90/180 days. The fee charged by bank for the usance period is referred to as usance charges

(b)Retirement Charges
1. This would be payable at the time of retirement of LCs. LC opening bank scrutinizes the bills under the LCs according to UCPDC guidelines , and levies charges based on value of goods.

2. The advising bank charges an advising fee to the beneficiary unless stated otherwise The fees could vary depending on the country of the beneficiary. The advising bank charges may be eventually borne by the issuing bank or reimbursed from the applicant.

3. The applicant is bounded and liable to indemnify banks against all obligations and responsibilities imposed by foreign laws and usage.

4. The confirming bank's fee depends on the credit of the issuing bank and would be borne by the beneficiary or the issuing bank (applicant eventually) depending on the terms of contract.

5. The reimbursing bank charges are to the account of the issuing bank.

Risk Associated with Opening Imports L/cs

The basic risk associated with an issuing bank while opening an import L/c are :

1. The financial standing of the importer

As the bank is responsible to pay the money on the behalf of the importer, thereby the bank should make sure that it has the proper funds to pay.

2. The goods

Bankers need to do a detail analysis against the risks associated with perishability of the goods, possible obsolescence, import regulations packing and storage, etc. Price risk is the another crucial factor associated with all modes of international trade.

3. Exporter Risk

There is always the risk of exporting inferior quality goods. Banks need to be protective by finding out as much possible about the exporter using status report and other confidential information.

4. Country Risk

These types of risks are mainly associated with the political and economic scenario of a country. To solve this issue, most banks have specialized unit which control the level of exposure that that the bank will assumes for each country.

5. Foreign exchange risk

Foreign exchange risk is another most sensitive risk associated with the banks. As the transaction is done in foreign currency, the traders depend a lot on exchange rate fluctuations.

Export Operations Under L/c

Export Letter of Credit is issued in for a trader for his native country for the purchase of goods and services. Such letters of credit may be received for following purpose:

1. For physical export of goods and services from India to a Foreign Country.
2. For execution of projects outside India by Indian exporters by supply of goods and services from Indian or partly from India and partly from outside India.
3. Towards deemed exports where there is no physical movements of goods from outside India But the supplies are being made to a project financed in foreign exchange by multilateral agencies, organization or project being executed in India with the aid of external agencies.
4. For sale of goods by Indian exporters with total procurement and supply from outside India. In all the above cases there would be earning of Foreign Exchange or conservation of Foreign Exchange.

Banks in India associated themselves with the export letters of credit in various capacities such as advising bank, confirming bank, transferring bank and reimbursing bank.

In every cases the bank will be rendering services not only to the Issuing Bank as its agent correspondent bank but also to the exporter in advising and financing his export activity.

1. Advising an Export L/c

The basic responsibility of an advising bank is to advise the credit received from its overseas branch after checking the apparent genuineness of the credit recognized by the issuing bank.

It is also necessary for the advising bank to go through the letter of credit, try to understand the underlying transaction, terms and conditions of the credit and advice the beneficiary in the matter.

The main features of advising export LCs are:

1. There are no credit risks as the bank receives a onetime commission for the advising service.
2. There are no capital adequacy needs for the advising function.

2. Advising of Amendments to L/Cs

Amendment of LCs is done for various reasons and it is necessary to fallow all the necessary the procedures outlined for advising. In the process of advising the amendments the Issuing bank serializes the amendment number and also ensures that no previous amendment is missing from the list. Only on receipt of satisfactory information/ clarification the amendment may be advised.

3. Confirmation of Export Letters of Credit

It constitutes a definite undertaking of the confirming bank, in addition to that of the issuing bank, which undertakes the sight payment, deferred payment, acceptance or negotiation.

Banks in India have the facility of covering the credit confirmation risks with ECGC under their “Transfer Guarantee” scheme and include both the commercial and political risk involved.

4. Discounting/Negotiation of Export LCs

When the exporter requires funds before due date then he can discount or negotiate the LCs with the negotiating bank. Once the issuing bank nominates the negotiating bank, it can take the credit risk on the issuing bank or confirming bank.

However, in such a situation, the negotiating bank bears the risk associated with the document that sometimes arises when the issuing bank discover discrepancies in the documents and refuses to honor its commitment on the due date.

5. Reimbursement of Export LCs

Sometimes reimbursing bank, on the recommendation of issuing bank allows the negotiating bank to collect the money from the reimbursing bank once the goods have been shipped. It is quite similar to a cheque facility provided by a bank.

In return, the reimbursement bank earns a commission per transaction and enjoys float income without getting involve in the checking the transaction documents.

reimbursement bank play an important role in payment on the due date (for usance LCs) or the days on which the negotiating bank demands the same (for sight LCs)

Regulatory Requirements

Opening of imports LCs in India involve compliance of the following main regulation:

Trade Control Requirements

The movement of good in India is guided by a predefined se of rules and regulation. So, the banker needs to assure that make certain is whether the goods concerned can be physically brought in to India or not as per the current EXIM policy.

Exchange Control Requirements

The main objective of a bank to open an Import LC is to effect settlement of payment due by the Indian importer to the overseas supplier, so opening of LC automatically comes under the policies of exchange control regulations.

UCPDC Guidelines

Uniform Customs and Practice for Documentary Credit (UCPDC) is a set of predefined rules established by the International Chamber of Commerce (ICC) on Letters of Credit. The UCPDC is used by bankers and commercial parties in more than 200 countries including India to facilitate trade and payment through LC.

UCPDC was first published in 1933 and subsequently updating it throughout the years. In 1994, UCPDC 500 was released with only 7 chapters containing in all 49 articles .

The latest revision was approved by the Banking Commission of the ICC at its meeting in Paris on 25 October 2006. This latest version, called the UCPDC600, formally commenced on 1 July 2007. It contain a total of about 39 articles covering the following areas, which can be classified as 8 sections according to their functions and operational procedures.

Serial No. Article Area Consisting

1. 1 to 3 General Application, Definition and
Interpretations
2. 4 to 12 Obligations Credit vs. Contracts, Documents
vs. Goods
3. 13 to 16 Liabilities and
responsibilities. Reimbursement, Examination of
Documents, Complying,
Presentation, Handling
Discrepant Documents
4. 17 to 28 Documents Bill of Lading, Chapter Party Bill of
Lading, Air Documents, Road Rail
etc. Documents, Courier , Postal etc.
Receipt. On board, Shippers' count,
Clean Documents, Insurance documents
5. 29 to 33 Miscellaneous
Provisions Extension of dates, Tolerance in
Credits, Partial Shipment and
Drawings. House of Presentation
6 34 to 37 Disclaimer Effectiveness of Document
Transmission and Translation
Force Majeure
Acts of an Instructed Party
7 38 & 39 Others Transferable Credits
Assignment of Proceeds

ISBP 2002

The widely acclaimed International Standard Banking Practice(ISBP) for the Examination of Documents under Documentary Credits was selected in 2007 by the ICCs Banking Commission.

First introduced in 2002, the ISBP contains a list of guidelines that an examiner needs to check the documents presented under the Letter of Credit. Its main objective is to reduce the number of documentary credits rejected by banks.

FEDAI Guidelines

Foreign Exchange Dealer's Association of India (FEDAI) was established in 1958 under the Section 25 of the Companies Act (1956). It is an association of banks that deals in Indian foreign exchange and work in coordination with the Reserve Bank of India, other organizations like FIMMDA, the Forex Association of India and various market participants.

FEDAI has issued rules for import LCs which is one of the important area of foreign currency exchanges. It has an advantage over that of the authorized dealers who are now allowed by the RBI to issue stand by letter of credits towards import of goods.

As the issuance of stand by of letter of Credit including imports of goods is susceptible to some risk in the absence of evidence of shipment, therefore the importer should be advised that documentary credit under UCP 500/600 should be the preferred route for importers of goods.

Below mention are some of the necessary precaution that should be taken by authorised dealers While issuing a stands by letter of credits:

1. The facility of issuing Commercial Standby shall be extended on a selective basis and to the following category of importers
   i. Where such standby are required by applicant who are independent power producers/importers of crude oil and petroleum products
   ii. Special category of importers namely export houses, trading houses, star trading houses, super star trading houses or 100% Export Oriented Units.
2. Satisfactory credit report on the overseas supplier should be obtained by the issuing banks before issuing Stands by Letter of Credit.

3. Invocation of the Commercial standby by the beneficiary is to be supported by proper evidence. The beneficiary of the Credit should furnish a declaration to the effect that the claim is made on account of failure of the importers to abide by his contractual obligation along with the following documents.

i. A copy of invoice.

ii. Nonnegotiable set of documents including a copy of non negotiable bill of lading/transport document.

iii. A copy of Lloyds /SGS inspection certificate wherever provided for as per the underlying contract.

4. Incorporation of a suitable clauses to the effect that in the event of such invoice /shipping documents has been paid by the authorised dealers earlier, Provisions to dishonor the claim quoting the date / manner of earlier payments of such documents may be considered.

5. The applicant of a commercial stand by letter of credit shall undertake to provide evidence of imports in respect of all payments made under standby. (Bill of Entry)

Fixing limits for Commercial Stand by Letter of Credit L/c

1. Banks must assess the credit risk in relation to stand by letter of credit and explain to the importer about the inherent risk in stand by covering import of goods.

2. Discretionary powers for sanctioning standby letter of credit for import of goods should be delegated to controlling office or zonal office only.

3. A separate limit for establishing stand by letter of credit is desirable rather than permitting it under the regular documentary limit.

4. Due diligence of the importer as well as on the beneficiary is essential .

5. Unlike documentary credit, banks do not hold original negotiable documents of titles to gods. Hence while assessing and fixing credit limits for standby letter of credits banks shall treat such limits as clean for the purpose of discretionary lending powers and compliance with various Reserve Bank of India's regulations.

6. Application cum guarantee for stand by letter of credit should be obtained from the applicant.

7. Banks can consider obtaining a suitable indemnity/undertaking from the importer that all remittances towards their import of goods as per the underlying contracts for which stand by letter of credit is issued will be made only through the same branch which has issued the credit.

8. The importer should give an undertaking that he shall not raise any dispute regarding the payments made by the bank in standby letter of credit at any point of time howsoever, and will be liable to the bank for all the amount paid therein. He importer should also indemnify the bank from any loss, claim, counter claims, damages, etc. which the bank may incur on account of making payment under the stand by letter of credit.

9. Presently, when the documentary letter of credit is established through swift, it is assumed that the documentary letter of credit is subject to the provisions of UCPDC 500/600 Accordingly whenever standby letter of credit under ISP 98 is established through SWIFT, a specific clause must appear that standby letter of credit is subject to the provision of ISP 98.

10. It should be ensured that the issuing bank, advising bank, nominated bank. etc, have all subscribed to SP 98 in case stand by letter of credit is issued under ISP 98.

11. When payment under a stand by letter of credit is effected, the issuing bank to report such invocation / payment to Reserve Bank of India.

Export Finance and Documentation.

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Introduction

- Air Waybill
- Bill of Lading
- Certificate of Origin

- Combined Transport Document
- Draft (or Bill of Exchange)
- Insurance Policy (or Certificate)
- Packing List/Specification
- Inspection Certificate

Introduction

International market involves various types of trade documents that need to be produced while making transactions. Each trade document is differ from other and present the various aspects of the trade like description, quality, number, transportation medium, indemnity, inspection and so on. So, it becomes important for the importers and exporters to make sure that their documents support the guidelines as per international trade transactions. A small mistake could prove costly for any of the parties.

For example, a trade document about the bill of lading is a proof that goods have been shipped on board, while Inspection Certificate, certifies that the goods have been inspected and meet quality standards. So, depending on these necessary documents, a seller can assure a buyer that he has fulfilled his responsibility whilst the buyer is assured of his request being carried out by the seller.

The following is a list of documents often used in international trade:

- Air Waybill
- Bill of Lading
- Certificate of Origin
- Combined Transport Document
- Draft (or Bill of Exchange)
- Insurance Policy (or Certificate)
- Packing List/Specification
- Inspection Certificate

Air Waybills

Air Waybills make sure that goods have been received for shipment by air. A typical air waybill sample consists of of three originals and nine copies. The first original is for the carrier and is signed by a export agent; the second original, the consignee's copy, is signed by an export agent; the third original is signed by the carrier and is handed to the export agent as a receipt for the goods.

Air Waybills serves as:

- Proof of receipt of the goods for shipment.
- An invoice for the freight.
- A certificate of insurance.
- A guide to airline staff for the handling, dispatch and delivery of the consignment.

The principal requirement for an air waybill are :

- The proper shipper and consignee must be mention.
- The airport of departure and destination must be mention.
- The goods description must be consistent with that shown on other documents.

- Any weight, measure or shipping marks must agree with those shown on other documents.
- It must be signed and dated by the actual carrier or by the named agent of a named carrier.
- It must mention whether freight has been paid or will be paid at the destination point.

Bill of Lading (B/L)

Bill of Lading is a document given by the shipping agency for the goods shipped for transportation form one destination to another and is signed by the representatives of the carrying vessel.

Bill of landing is issued in the set of two, three or more. The number in the set will be indicated on each bill of lading and all must be accounted for. This is done due to the safety reasons which ensure that the document never comes into the hands of an unauthorised person. Only one original is sufficient to take possession of goods at port of discharge so, a bank which finances a trade transaction will need to control the complete set. The bill of lading must be signed by the shipping company or its agent, and must show how many signed originals were issued.

It will indicate whether cost of freight/ carriage has been paid or not :

"Freight Prepaid" : Paid by shipper
"Freight collect" : To be paid by the buyer at the port of discharge

The bill of lading also forms the contract of carriage.

To be acceptable to the buyer, the B/L should :
- Carry an "On Board" notation to showing the actual date of shipment, (Sometimes however, the "on board" wording is in small print at the bottom of the B/L, in which cases there is no need for a dated "on board" notation to be shown separately with date and signature.)
- Be "clean" have no notation by the shipping company to the effect that goods/ packaging are damaged.

The main parties involve in a bill of lading are:
- Shipper
  - The person who send the goods.
- Consignee
  - The person who take delivery of the goods.
- Notify Party
  - The person, usually the importer, to whom the shipping company or its agent gives notice of arrival of the goods.
- Carrier
  - The person or company who has concluded a contract with the shipper for conveyance of goods

The bill of lading must meet all the requirements of the credit as well as complying with UCP 500. These are as follows :
- The correct shipper, consignee and notifying party must be shown.
- The carrying vessel and ports of the loading and discharge must be stated.
- The place of receipt and place of delivery must be stated, if different from port of loading or port of discharge.
- The goods description must be consistent with that shown on other documents.

- Any weight or measures must agree with those shown on other documents.
- Shipping marks and numbers and /or container number must agree with those shown on other documents.
- It must state whether freight has been paid or is payable at destination.
- It must be dated on or before the latest date for shipment specified in the credit.
- It must state the actual name of the carrier or be signed as agent for a named carrier.

Certificate of Origin

The Certificate of Origin is required by the custom authority of the importing country for the purpose of imposing import duty. It is usually issued by the Chamber of Commerce and contains information like seal of the chamber, details of the good to be transported and so on.

The certificate must provide that the information required by the credit and be consistent with all other document, It would normally include :
- The name of the company and address as exporter.
- The name of the importer.
- Package numbers, shipping marks and description of goods to agree with that on other documents.
- Any weight or measurements must agree with those shown on other documents.
- It should be signed and stamped by the Chamber of Commerce.

Combined Transport Document

Combined Transport Document is also known as Multimodal Transport Document, and is used when goods are transported using more than one mode of transportation. In the case of multimodal transport document, the contract of carriage is meant for a combined transport from the place of shipping to the place of delivery. It also evidence receipt of goods but it does not evidence on board shipment, if it complies with ICC 500, Art. 26(a). The liability of the combined transport operator starts from the place of shipment and ends at the place of delivery. This documents need to be signed with appropriate number of originals in the full set and proper evidence which indicates that transport charges have been paid or will be paid at destination port.

Multimodal transport document would normally show :
- That the consignee and notify parties are as the credit.
- The place goods are received, or taken in charges, and place of final destination.
- Whether freight is prepaid or to be collected.
- The date of dispatch or taking in charge, and the "On Board" notation, if any must be dated and signed.
- Total number of originals.
- Signature of the carrier, multimodal transport operator or their agents.

Commercial Invoice

Commercial Invoice document is provided by the seller to the buyer. Also known as export invoice or import invoice, commercial invoice is finally used by the custom authorities of the importer's country to evaluate the good for the purpose of taxation.

The invoice must :
- Be issued by the beneficiary named in the credit (the seller).
- Be address to the applicant of the credit (the buyer).
- Be signed by the beneficiary (if required).
- Include the description of the goods exactly as detailed in the credit.
- Be issued in the stated number of originals (which must be marked "Original) and copies.
- Include the price and unit prices if appropriate.
- State the price amount payable which must not exceed that stated in the credit
- include the shipping terms.

Bill of Exchange

A Bill of Exchange is a special type of written document under which an exporter ask importer a certain amount of money in future and the importer also agrees to pay the importer that amount of money on or before the future date. This document has special importance in wholesale trade where large amount of money involved.

Following persons are involved in a bill of exchange:

Drawer: The person who writes or prepares the bill.
Drawee: The person who pays the bill.
Payee: The person to whom the payment is to be made.
Holder of the Bill: The person who is in possession of the bill.

On the basis of the due date there are two types of bill of exchange:

• Bill of Exchange after Date: In this case the due date is counted from the date of drawing and is also called bill after date.
• Bill of Exchange after Sight: In this case the due date is counted from the date of acceptance of the bill and is also called bill of exchange after sight.

Insurance Certificate

Also known as Insurance Policy, it certifies that goods transported have been insured under an open policy and is not actionable with little details about the risk covered.

It is necessary that the date on which the insurance becomes effective is same or earlier than the date of issuance of the transport documents.

Also, if submitted under a LC, the insured amount must be in the same currency as the credit and usually for the bill amount plus 10 per cent.

The requirements for completion of an insurance policy are as follow :

• The name of the party in the favor which the documents has been issued.
• The name of the vessel or flight details.
• The place from where insurance is to commerce typically the sellers warehouse or the port of loading and the place where insurance cases usually the buyer's warehouse or the port of destination.
• Insurance value that specified in the credit.
• Marks and numbers to agree with those on other documents.
• The description of the goods, which must be consistent with that in the credit and on the invoice.
• The name and address of the claims settling agent together with the place where claims are payable.
• Countersigned where necessary.
• Date of issue to be no later than the date of transport documents unless cover is shown to be effective prior to that date.

Packing List

Also known as packing specification, it contain details about the packing materials used in the shipping of goods. It also include details like measurement and weight of goods.

The packing List must :

• Have a description of the goods ("A") consistent with the other documents.
• Have details of shipping marks ("B") and numbers consistent with other documents

Inspection Certificate

Certificate of Inspection is a document prepared on the request of seller when he wants the consignment to be checked by a third party at the port of shipment before the goods are sealed for final transportation.

In this process seller submit a valid Inspection Certificate along with the other trade documents like invoice, packing list, shipping bill, bill of lading etc to the bank for negotiation.

On demand, inspection can be done by various world renowned inspection agencies on nominal charges.

Export Pre Shipment and Post Shipment Finance.

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• Types of Pre Shipment Finance
• Requirment for Getting Packing Credit
o Eligibility
o Quantum of Finance
• Different Stages of PreShipment Finance
o Appraisal and Sanction of Limits
• Disbursement of Packing Credit Advance
• Follow up of Packing Credit Advance
• Liquidation of Packing Credit Advance

- Overdue Packing
- Special Cases
- Packing Credit to Sub Supplier
- Running Account facility
- Preshipment Credit in Foreign Currency (PCFC)
- Packing Credit Facilities to deemed Exports
- Packing Credit facilities for Consulting Services
- Advance against Cheque / Drafts received as advance payment

Pre Shipment Finance is issued by a financial institution when the seller want the payment of the goods before shipment. The main objectives behind preshipment finance or pre export finance is to enable exporter to:

- Procure raw materials.
- Carry out manufacturing process.
- Provide a secure warehouse for goods and raw materials.
- Process and pack the goods.
- Ship the goods to the buyers.
- Meet other financial cost of the business.

Types of Pre Shipment Finance

- Packing Credit
- Advance against Cheques/Draft etc. representing Advance Payments.

Preshipment finance is extended in the following forms :

- Packing Credit in Indian Rupee
- Packing Credit in Foreign Currency (PCFC)

Requirment for Getting Packing Credit

This facility is provided to an exporter who satisfies the following criteria

- A ten digit importerexporter code number allotted by DGFT.
- Exporter should not be in the caution list of RBI.
- If the goods to be exported are not under OGL (Open General Licence), the exporter should have the required license /quota permit to export the goods.

Packing credit facility can be provided to an exporter on production of the following evidences to the bank:

1. Formal application for release the packing credit with undertaking to the effect that the exporter would be ship the goods within stipulated due date and submit the relevant shipping documents to the banks within prescribed time limit.
2. Firm order or irrevocable L/C or original cable / fax / telex message exchange between the exporter and the buyer.
3. Licence issued by DGFT if the goods to be exported fall under the restricted or canalized category. If the item falls under quota system, proper quota allotment proof needs to be submitted.

The confirmed order received from the overseas buyer should reveal the information about the full name and address of the overseas buyer, description quantity and value of goods (FOB or CIF), destination port and the last date of payment.

Eligibility

Pre shipment credit is only issued to that exporter who has the export order in his own name. However, as an exception, financial institution can also grant credit to a third party manufacturer or supplier of goods who does not have export orders in their own name.

In this case some of the responsibilities of meeting the export requirements have been out sourced to them by the main exporter. In other cases where the export order is divided between two more than two exporters, pre shipment credit can be shared between them

Quantum of Finance

The Quantum of Finance is granted to an exporter against the LC or an expected order. The only guideline principle is the concept of NeedBased Finance. Banks determine the percentage of margin, depending on factors such as:

- The nature of Order.

- The nature of the commodity.
- The capability of exporter to bring in the requisite contribution.

Different Stages of Pre Shipment Finance

Appraisal and Sanction of Limits

1. Before making any an allowance for Credit facilities banks need to check the different aspects like product profile, political and economic details about country. Apart from these things, the bank also looks in to the status report of the prospective buyer, with whom the exporter proposes to do the business. To check all these information, banks can seek the help of institution like ECGC or International consulting agencies like Dun and Brad street etc.

The Bank extended the packing credit facilities after ensuring the following"

a. The exporter is a regular customer, a bona fide exporter and has a goods standing in the market.
b. Whether the exporter has the necessary license and quota permit (as mentioned earlier) or not.
c. Whether the country with which the exporter wants to deal is under the list of Restricted Cover Countries(RCC) or not.

Disbursement of Packing Credit Advance

2. Once the proper sanctioning of the documents is done, bank ensures whether exporter has executed the list of documents mentioned earlier or not. Disbursement is normally allowed when all the documents are properly executed.

Sometimes an exporter is not able to produce the export order at time of availing packing credit. So, in these cases, the bank provide a special packing credit facility and is known as Running Account Packing.

Before disbursing the bank specifically check for the following particulars in the submitted documents"

a. Name of buyer
b. Commodity to be exported
c. Quantity
d. Value (either CIF or FOB)
e. Last date of shipment / negotiation.
f. Any other terms to be complied with

The quantum of finance is fixed depending on the FOB value of contract /LC or the domestic values of goods, whichever is found to be lower. Normally insurance and freight charged are considered at a later stage, when the goods are ready to be shipped.

In this case disbursals are made only in stages and if possible not in cash. The payments are made directly to the supplier by drafts/bankers/cheques.

The bank decides the duration of packing credit depending upon the time required by the exporter for processing of goods.

The maximum duration of packing credit period is 180 days, however bank may provide a further 90 days extension on its own discretion, without referring to RBI.

Follow up of Packing Credit Advance

3. Exporter needs to submit stock statement giving all the necessary information about the stocks. It is then used by the banks as a guarantee for securing the packing credit in advance. Bank also decides the rate of submission of this stocks.

Apart from this, authorized dealers (banks) also physically inspect the stock at regular intervals.

Liquidation of Packing Credit Advance

4. Packing Credit Advance needs be liquidated out of as the export proceeds of the

relevant shipment, thereby converting preshipment credit into postshipment credit.

This liquidation can also be done by the payment receivable from the Government of India and includes the duty drawback, payment from the Market Development Fund (MDF) of the Central Government or from any other relevant source.

In case if the export does not take place then the entire advance can also be recovered at a certain interest rate. RBI has allowed some flexibility in to this regulation under which substitution of commodity or buyer can be allowed by a bank without any reference to RBI. Hence in effect the packing credit advance may be repaid by proceeds from export of the same or another commodity to the same or another buyer. However, bank need to ensure that the substitution is commercially necessary and unavoidable.

Overdue Packing

5. Bank considers a packing credit as an overdue, if the borrower fails to liquidate the packing credit on the due date. And, if the condition persists then the bank takes the necessary step to recover its dues as per normal recovery procedure.

Special Cases

Packing Credit to Sub Supplier

1. Packing Credit can only be shared on the basis of disclaimer between the Export Order Holder (EOH) and the manufacturer of the goods. This disclaimer is normally issued by the EOH in order to indicate that he is not availing any credit facility against the portion of the order transferred in the name of the manufacturer.

This disclaimer is also signed by the bankers of EOH after which they have an option to open an inland L/C specifying the goods to be supplied to the EOH as a part of the export transaction. On basis of such an L/C, the subsupplier bank may grant a packing credit to the subsupplier to manufacture the components required for exports.

On supply of goods, the L/C opening bank will pay to the sub supplier's bank against the inland documents received on the basis of the inland L/C opened by them.

The final responsibility of EOH is to export the goods as per guidelines. Any delay in export order can bring EOH to penal provisions that can be issued anytime.

The main objective of this method is to cover only the first stage of production cycles, and is not to be extended to cover supplies of raw material etc. Running account facility is not granted to subsuppliers.

In case the EOH is a trading house, the facility is available commencing from the manufacturer to whom the order has been passed by the trading house.

Banks however, ensure that there is no double financing and the total period of packing credit does not exceed the actual cycle of production of the commodity.

Running Account facility

2. It is a special facility under which a bank has right to grant preshipment advance for export to the exporter of any origin. Sometimes banks also extent these facilities depending upon the good track record of the exporter.

In return the exporter needs to produce the letter of credit / firms export order within a given period of time.

Preshipment Credit in Foreign Currency (PCFC)

3. Authorised dealers are permitted to extend Preshipment Credit in Foreign Currency (PCFC) with an objective of making the credit available to the exporters at internationally competitive price. This is considered as an added advantage under which credit is provided in foreign currency in order to facilitate the

purchase of raw material after fulfilling the basic export orders.

The rate of interest on PCFC is linked to London Interbank Offered Rate (LIBOR). According to guidelines, the final cost of exporter must not exceed 0.75% over 6 month LIBOR, excluding the tax.

The exporter has freedom to avail PCFC in convertible currencies like USD, Pound, Sterling, Euro, Yen etc. However, the risk associated with the cross currency truncation is that of the exporter.

The sources of funds for the banks for extending PCFC facility include the Foreign Currency balances available with the Bank in Exchange, Earner Foreign Currency Account (EEFC), Resident Foreign Currency Accounts RFC(D) and Foreign Currency(NonResident) Accounts.

Banks are also permitted to utilize the foreign currency balances available under Escrow account and Exporters Foreign Currency accounts. It ensures that the requirement of funds by the account holders for permissible transactions is met. But the limit prescribed for maintaining maximum balance in the account is not exceeded. In addition, Banks may arrange for borrowings from abroad. Banks may negotiate terms of credit with overseas bank for the purpose of grant of PCFC to exporters, without the prior approval of RBI, provided the rate of interest on borrowing does not exceed 0.75% over 6 month LIBOR.

Packing Credit Facilities to Deemed Exports

4. Deemed exports made to multilateral funds aided projects and programmes, under orders secured through global tenders for which payments will be made in free foreign exchange, are eligible for concessional rate of interest facility both at pre and post supply stages.

Packing Credit facilities for Consulting Services

5. In case of consultancy services, exports do not involve physical movement of goods out of Indian Customs Territory. In such cases, Preshipment finance can be provided by the bank to allow the exporter to mobilize resources like technical personnel and training them.

Advance against Cheque/Drafts received as advance payment

6. Where exporters receive direct payments from abroad by means of cheques/drafts etc. the bank may grant export credit at concessional rate to the exporters of goods track record, till the time of realization of the proceeds of the cheques or draft etc. The Banks however, must satisfy themselves that the proceeds are against an export order.

Export Post Shipment Finance.

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Introduction

- Basic Features
- Financing For Various Types of Export Buyer's Credit
- Supplier's Credit
- Types of Post Shipment Finance
- Crystallization of Overdue Export Bills

Introduction

Post Shipment Finance is a kind of loan provided by a financial institution to an exporter or seller against a shipment that has already been made. This type of export finance is granted from the date of extending the credit after shipment of the goods to the realization date of the exporter proceeds. Exporters don’t wait for the importer to deposit the funds.

Basic Features

The features of postshipment finance are:

- Purpose of Finance

Postshipment finance is meant to finance export sales receivable after the date of shipment of goods to the date of realization of exports proceeds. In cases of deemed exports, it is extended to finance receivable against supplies made to designated agencies.

- Basis of Finance

Postshipment finances is provided against evidence of shipment of goods or supplies made to the importer or seller or any other designated agency.

- Types of Finance

Postshipment finance can be secured or unsecured. Since the finance is extended against evidence of export shipment and bank obtains the documents of title of goods, the finance is normally self liquidating. In that case it involves advance against undrawn balance, and is usually unsecured in nature.

Further, the finance is mostly a funded advance. In few cases, such as financing of project exports, the issue of guarantee (retention money guarantees) is involved and the financing is not funded in nature.

- Quantum of Finance

As a quantum of finance, postshipment finance can be extended up to 100% of the invoice value of goods. In special cases, where the domestic value of the goods increases the value of the exporter order, finance for a price difference can also be extended and the price difference is covered by the government. This type of finance is not extended in case of preshipment stage.

Banks can also finance undrawn balance. In such cases banks are free to stipulate margin requirements as per their usual lending norm.

- Period of Finance

Postshipment finance can be off short terms or long term, depending on the payment terms offered by the exporter to the overseas importer. In case of cash exports, the maximum period allowed for realization of exports proceeds is six months from the date of shipment. Concessive rate of interest is available for a highest period of 180 days, opening from the date of surrender of documents. Usually, the documents need to be submitted within 21days from the date of shipment.

Financing For Various Types of Export Buyer's Credit

Postshipment finance can be provided for three types of export :

- Physical exports: Finance is provided to the actual exporter or to the exporter in whose name the trade documents are transferred.
- Deemed export: Finance is provided to the supplier of the goods which are supplied to the designated agencies.
- Capital goods and project exports: Finance is sometimes extended in the name of overseas buyer. The disbursal of money is directly made to the domestic exporter.

Supplier's Credit

Buyer's Credit is a special type of loan that a bank offers to the buyers for large scale purchasing under a contract. Once the bank approved loans to the buyer, the seller shoulders all or part of the interests incurred.

Types of Post Shipment Finance

The post shipment finance can be classified as :

1. Export Bills purchased/discounted.
2. Export Bills negotiated
3. Advance against export bills sent on collection basis.
4. Advance against export on consignment basis
5. Advance against undrawn balance on exports
6. Advance against claims of Duty Drawback.

1. Export Bills Purchased/ Discounted.(DP & DA Bills)

Export bills (Non L/C Bills) is used in terms of sale contract/ order may be discounted or purchased by the banks. It is used in indisputable international trade transactions and the proper limit has to be sanctioned to the exporter for purchase of export bill facility.

2. Export Bills Negotiated (Bill under L/C)

The risk of payment is less under the LC, as the issuing bank makes sure the payment. The risk is further reduced, if a bank guarantees the payments by confirming the LC. Because of the inborn security available in this method, banks often become ready to extend the finance against bills under LC.

However, this arises two major risk factors for the banks:

1. The risk of nonperformance by the exporter, when he is unable to meet his terms and conditions. In this case, the issuing banks do not honor the letter of credit.
2. The bank also faces the documentary risk where the issuing bank refuses to honour its commitment. So, it is important for the for the negotiating bank, and the lending bank to properly check all the necessary documents before submission.

3. Advance Against Export Bills Sent on Collection Basis

Bills can only be sent on collection basis, if the bills drawn under LC have some discrepancies. Sometimes exporter requests the bill to be sent on the collection basis, anticipating the strengthening of foreign currency.

Banks may allow advance against these collection bills to an exporter with a concessional rates of interest depending upon the transit period in case of DP Bills and transit period plus usance period in case of usance bill.

The transit period is from the date of acceptance of the export documents at the banks branch for collection and not from the date of advance.

4. Advance Against Export on Consignments Basis

Bank may choose to finance when the goods are exported on consignment basis at the risk of the exporter for sale and eventual payment of sale proceeds to him by the consignee.

However, in this case bank instructs the overseas bank to deliver the document only against trust receipt /undertaking to deliver the sale proceeds by specified date, which should be within the prescribed date even if according to the practice in certain trades a bill for part of the estimated value is drawn in advance against the exports.

In case of export through approved Indian owned warehouses abroad the times limit for realization is 15 months.

5. Advance against Undrawn Balance

It is a very common practice in export to leave small part undrawn for payment after adjustment due to difference in rates, weight, quality etc. Banks do finance against the undrawn balance, if undrawn balance is in conformity with the normal level of balance left undrawn in the particular line of export, subject to a maximum of 10 percent of the export value. An undertaking is also obtained from the exporter that he will, within 6 months from due date of payment or the date of shipment of the goods, whichever is earlier surrender balance proceeds of the shipment.

6. Advance Against Claims of Duty Drawback

Duty Drawback is a type of discount given to the exporter in his own country. This discount is given only, if the inhouse cost of production is higher in relation to international price. This type of financial support helps the exporter to fight successfully in the international markets.

In such a situation, banks grants advances to exporters at lower rate of interest for a maximum period of 90 days. These are granted only if other types of export finance are also extended to the exporter by the same bank.

After the shipment, the exporters lodge their claims, supported by the relevant documents to the relevant government authorities. These claims are processed and eligible amount is disbursed after making sure that the bank is authorized to receive the claim amount directly from the concerned government authorities.

Crystallization of Overdue Export Bills

Exporter foreign exchange is converted into Rupee liability, if the export bill purchase / negotiated /discounted is not realize on due date. This conversion occurs on the 30th day after expiry of the NTP in case of unpaid DP bills and on 30th day after national due date in case of DA bills, at prevailing TT selling rate ruling on the day of crystallization, or the original bill buying rate, whichever is higher.

Foreifting and Factoring.

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Introduction

- Definition of Forfeiting
- How forfeiting Works in International Trade
- Documentary Requirements
- Forfeiting
- Benefits to Exporter
- Benefits to Banks
- Definition of Factoring
- Characteristics of Factoring
- Different Types of Factoring

Introduction

Forfeiting and factoring are services in international market given to an exporter or seller. Its main objective is to provide smooth cash flow to the sellers. The basic difference between the forfeiting and factoring is that forfeiting is a long term receivables (over 90 days up to 5 years) while factoring is a shorttermed receivables (within 90 days) and is more related to receivables against commodity sales.

Definition of Forfeiting

The terms forfeiting is originated from a old French word ‘forfait’, which means to surrender ones right on something to someone else. In international trade, forfeiting may be defined as the purchasing of an exporter’s receivables at a discount price by paying cash. By buying these receivables, the forfeiter frees the exporter from credit and the risk of not receiving the payment from the importer.

How forfeiting Works in International Trade

The exporter and importer negotiate according to the proposed export sales contract. Then the exporter approaches the forfeiter to ascertain the terms of forfeiting. After collecting the details about the importer, and other necessary documents, forfeiter estimates risk involved in it and then quotes the discount rate.

The exporter then quotes a contract price to the overseas buyer by loading the discount rate and commitment fee on the sales price of the goods to be exported and sign a contract with the forfeiter. Export takes place against documents guaranteed by the importer’s bank and discounts the bill with the forfeiter and presents the same to the importer for payment on due date.

Documentary Requirements

In case of Indian exporters availing forfeiting facility, the forfeiting transaction is to be reflected in the following documents associated with an export transaction in the manner suggested below:

- Invoice : Forfeiting discount, commitment fees, etc. needs not be shown separately instead, these could be built into the FOB price, stated on the invoice.
- Shipping Bill and GR form : Details of the forfeiting costs are to be included along with the other details, such FOB price, commission insurance, normally included in the "Analysis of Export Value "on the shipping bill. The claim for duty drawback, if any is to be certified only with reference to the FOB value of the exports stated on the shipping bill.

Forfeiting

The forfeiting typically involves the following cost elements:

1. Commitment fee, payable by the exporter to the forfeiter ‘for latter’s’ commitment to execute a specific forfeiting transaction at a firm discount rate with in a specified time.
2. Discount fee, interest payable by the exporter for the entire period of credit involved and deducted by the forfaiter from the amount paid to the exporter

against the availised promissory notes or bills of exchange.

Benefits to Exporter
- 100 per cent financing : Without recourse and not occupying exporter's credit line That is to say once the exporter obtains the financed fund, he will be exempted from the responsibility to repay the debt.
- Improved cash flow : Receivables become current cash in flow and its is beneficial to the exporters to improve financial status and liquidation ability so as to heighten further the funds raising capability.
- Reduced administration cost : By using forfeiting , the exporter will spare from the management of the receivables. The relative costs, as a result, are reduced greatly.
- Advance tax refund: Through forfeiting the exporter can make the verification of export and get tax refund in advance just after financing.
- Risk reduction : forfeiting business enables the exporter to transfer various risk resulted from deferred payments, such as interest rate risk, currency risk, credit risk, and political risk to the forfeiting bank.
- Increased trade opportunity : With forfeiting, the export is able to grant credit to his buyers freely, and thus, be more competitive in the market.

Benefits to Banks
Forfeiting provides the banks following benefits:
- Banks can offer a novel product range to clients, which enable the client to gain 100% finance, as against 8085% in case of other discounting products.
- Bank gain fee based income.
- Lower credit administration and credit follow up.

Definition of Factoring
Definition of factoring is very simple and can be defined as the conversion of credit sales into cash. Here, a financial institution which is usually a bank buys the accounts receivable of a company usually a client and then pays up to 80% of the amount immediately on agreement. The remaining amount is paid to the client when the customer pays the debt. Examples includes factoring against goods purchased, factoring against medical insurance, factoring for construction services etc.

Characteristics of Factoring
1. The normal period of factoring is 90150 days and rarely exceeds more than 150 days.
2. It is costly.
3. Factoring is not possible in case of bad debts.
4. Credit rating is not mandatory.
5. It is a method of offbalance sheet financing.
6. Cost of factoring is always equal to finance cost plus operating cost.

Different Types of Factoring
1. Disclosed
2. Undisclosed

1. Disclosed Factoring
In disclosed factoring, client’s customers are aware of the factoring agreement. Disclosed factoring is of two types:
Recourse factoring: The client collects the money from the customer but in case customer don’t pay the amount on maturity then the client is responsible to pay the amount to the factor. It is offered at a low rate of interest and is in very common use.
Nonrecourse factoring: In nonrecourse factoring, factor undertakes to collect the debts from the customer. Balance amount is paid to client at the end of the credit period or when the customer pays the factor whichever comes first. The advantage of nonrecourse factoring is that continuous factoring will eliminate the need for credit and collection departments in the organization.

3. Undisclosed
In undisclosed factoring, client's customers are not notified of the factoring

arrangement. In this case, Client has to pay the amount to the factor irrespective of whether customer has paid or not.
Export Bank Guarantees.

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Introduction
• Benefits of Bank Guarantees
• Types of Bank Guarantees
• How to Apply for Bank Guarantee
• Bank Guarantees vs. Letters of Credit

Introduction
A bank guarantee is a written contract given by a bank on the behalf of a customer. By issuing this guarantee, a bank takes responsibility for payment of a sum of money in case, if it is not paid by the customer on whose behalf the guarantee has been issued. In return, a bank gets some commission for issuing the guarantee.

Any one can apply for a bank guarantee, if his or her company has obligations towards a third party for which funds need to be blocked in order to guarantee that his or her company fulfils its obligations (for example carrying out certain works, payment of a debt, etc.).

In case of any changes or cancellation during the transaction process, a bank guarantee remains valid until the customer dully releases the bank from its liability.

In the situations, where a customer fails to pay the money, the bank must pay the amount within three working days. This payment can also be refused by the bank, if the claim is found to be unlawful.

Benefits of Bank Guarantees

For Governments
1. Increases the rate of private financing for key sectors such as infrastructure.
2. Provides access to capital markets as well as commercial banks.
3. Reduces cost of private financing to affordable levels.
4. Facilitates privatizations and public private partnerships.
5. Reduces government risk exposure by passing commercial risk to the private sector.

For Private Sector
1. Reduces risk of private transactions in emerging countries.
2. Mitigates risks that the private sector does not control.
3. Opens new markets.
4. Improves project sustainability.

Legal Requirements
Bank guarantee is issued by the authorised dealers under their obligated authorities notified vide FEMA 8/ 2000 dt 3rd May 2000. Only in case of revocation of guarantee involving US $ 5000 or more need to be reported to Reserve Bank of India (RBI).

Types of Bank Guarantees
1. Direct or Indirect Bank Guarantee: A bank guarantee can be either direct or indirect.

Direct Bank Guarantee It is issued by the applicant's bank (issuing bank) directly to the guarantee's beneficiary without concerning a correspondent bank. This type of guarantee is less expensive and is also subject to the law of the country in which the guarantee is issued unless otherwise it is mentioned in the guarantee documents.

Indirect Bank Guarantee With an indirect guarantee, a second bank is involved, which is basically a representative of the issuing bank in the country to which beneficiary belongs. This involvement of a second bank is done on the demand of the beneficiary. This type of bank guarantee is more time consuming and expensive too.

2. Confirmed Guarantee

It is cross between direct and indirect types of bank guarantee. This type of bank guarantee is issued directly by a bank after which it is send to a foreign bank for confirmations. The foreign banks confirm the original documents and thereby assume the responsibility.

3. Tender Bond

This is also called bid bonds and is normally issued in support of a tender in international trade. It provides the beneficiary with a financial remedy, if the applicant fails to fulfill any of the tender conditions.

4. Performance Bonds

This is one of the most common types of bank guarantee which is used to secure the completion of the contractual responsibilities of delivery of goods and act as security of penalty payment by the Supplier in case of nondelivery of goods.

5. Advance Payment Guarantees

This mode of guarantee is used where the applicant calls for the provision of a sum of money at an early stage of the contract and can recover the amount paid in advance, or a part thereof, if the applicant fails to fulfill the agreement.

6. Payment Guarantees

This type of bank guarantee is used to secure the responsibilities to pay goods and services. If the beneficiary has fulfilled his contractual obligations after delivering the goods or services but the debtor fails to make the payment, then after written declaration the beneficiary can easily obtain his money form the guaranteeing bank.

7. Loan Repayment Guarantees

This type of guarantee is given by a bank to the creditor to pay the amount of loan body and interests in case of nonfulfillment by the borrower.

8. B/L Letter of Indemnity

This is also called a letter of indemnity and is a type of guarantee from the bank making sure that any kind of loss of goods will not be suffered by the carrier.

9. Rental Guarantee

This type of bank guarantee is given under a rental contract. Rental guarantee is either limited to rental payments only or includes all payments due under the rental contract including cost of repair on termination of the rental contract.

10. Credit Card Guarantee

Credit card guarantee is issued by the credit card companies to its customer as a guarantee that the merchant will be paid on transactions regardless of whether the consumer pays their credit.

How to Apply for Bank Guarantee

Procedure for Bank Guarantees are very simple and are not governed by any particular legal regulations. However, to obtained the bank guarantee one need to have a current account in the bank. Guarantees can be issued by a bank through its authorised dealers as per notifications mentioned in the FEMA 8/2000 date 3rd May 2000. Only in case of revocation of guarantee involving US $ 5000/ or more to be reported to Reserve Bank of India along with the details of the claim received.

Bank Guarantees vs. Letters of Credit

A bank guarantee is frequently confused with letter of credit (LC), which is similar in many ways but not the same thing. The basic difference between the two is that of the parties involved. In a bank guarantee, three parties are involved; the bank, the person to whom the guarantee is given and the person on whose behalf the bank is giving guarantee. In case of a letter of credit, there are normally four parties involved; issuing bank, advising bank, the applicant (importer) and the beneficiary (exporter).

Also, as a bank guarantee only becomes active when the customer fails to pay the necessary amount where as in case of letters of credit, the issuing bank does not wait for the buyer to default, and for the seller to invoke the undertaking.
Export International Trade Transport Risk.

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Introduction
• Transport Insurance
• Scope of Coverage
• Specialist Covers
• Seller's Buyer's Contingent Interest Insurance
• Loss of Profits/ Consequential Loss Insurance

Introduction

It is quite important to evaluate the transportation risk in international trade for better financial stability of export business. About 80% of the world major transportation of goods is carried out by sea, which also gives rise to a number of risk factors associated with transportation of goods.
The major risk factors related to shipping are cargo, vessels, people and financing. So it becomes necessary for the government to address all of these risks with broadbased security policy responses, since simply responding to threats in isolation to one another can be both ineffective and costly.
While handling transportation in international trade following precaution should be taken into consideration.
• In case of transportation by ship, and the product should be appropriate for containerization. It is worth promoting standard order values equivalent to quantities loaded into standard size containers.
• Work must be carried out in compliance with the international code concerning the transport of dangerous goods.
• For better communication purpose people involve in the handling of goods should be equipped with phone, fax, email, internet and radio.
• About the instructions given to the transport company on freight forwarder.
• Necessary information about the cargo insurance.
• Each time goods are handled; there risk of damage. Plan for this when packing for export, and deciding on choice of transport and route.
• The expected sailing dates for marine transport should be built into the production programme, especially where payments is to be made by Letter of Credit when documents will needs to be presented within a specified time frame.
• Choice of transport has Balance Sheet implications. The exporter is likely to received payments for goods supplied while they are in transit.
• Driver accompanied road transport provides peace of minds, but the ability to fill the return load will affect pricing.

Transport Insurance

Export and import in international trade, requires transportation of goods over a long distance. No matter whichever transport has been used in international trade, necessary insurance is must for ever good.
Cargo insurance also known as marine cargo insurance is a type of insurance against physical damage or loss of goods during transportation. Cargo insurance is effective in all the three cases whether the goods have been transported via sea,

land or air.
Insurance policy is not applicable if the goods have been found to be packaged or transported by any wrong means or methods. So, it is advisable to use a broker for placing cargo risks.
Scope of Coverage
The following can be covered for the risk of loss or damage:
- Cargoimport, export cross voyage dispatched by sea, river, road, rail post, personal courier, and including associated storage risks.
- Good in transit (inland).
- Freight service liability.
- Associated stock.

However there are still a number of general exclusion such loss by delay, war risk, improper packaging and insolvency of carrier. Converse for some of these may be negotiated with the insurance company. The Institute War Clauses may also be added.

Regular exporters may negotiate open cover. It is an umbrella marine insurance policy that is activated when eligible shipments are made. Individual insurance certificates are issued after the shipment is made. Some letters of Credit Will require an individual insurance policy to be issued for the shipment, While others accept an insurance certificate.
Specialist Covers
Whereas standard marine/transport cover is the answer for general cargo, some classes of business will have special requirements. General insurer may have developed specialty teams to cater for the needs of these business, and it is worth asking if this cover can be extended to export risks.

Cover may be automatically available for the needs of the trade.

Example of this are:
- Project Constructional works insurers can cover the movement of goods for the project.
- Fine art
- Precious stonesSpecial Cover can be extended to cover sending of precious stones.
- Stock through put cover extended beyond the time goods are in transit until when they are used at the destination.

Seller's Buyer's Contingent Interest Insurance
An exporter selling on, for example FOB (INCOTERMS 2000) delivery terms would according to the contract and to INCOTERMS, have not responsibility for insurance once the goods have passed the ship's rail. However, for peace of mind, he may wish to purchase extra cover, which will cover him for loss or will make up cover where the other policy is too restrictive . This is known as Seller's Interest Insurance.

Similarly, cover is available to importers/buyers.

Seller's Interest and Buyer's Interest covers usually extended cover to apply if the title in the goods reverts to the insured party until the goods are recovered resold or returned.
Loss of Profits/ Consequential Loss Insurance
Importers buying goods for a particular event may be interested in consequential loss cover in case the goods are late (for a reason that id insured) and (expensive) replacements have to be found to replace them. In such cases, the insurer will pay a claim and receive may proceeds from the eventual sale of the delayed goods.
Credit Risk in Export Business.

Introdcution

- Credit Insurance
- Payment Risk
- Bad Debt Protection
- Confirmation of LC
- Factoring and Forfeiting
- Credit Limit
- Benefits of Credit Cover

Introduction

Contract risk and credit risk are the part of international trade finance and are quite different from each other.

A contract risk is related to the Latin law of "Caveat Emptor", which means "Buyer Beware" and refers directly to the goods being purchase under contract, whether it's a car, house land or whatever.

On the other hand a credit risk may be defined as the risk that a counter party to a transaction will fail to perform according to the terms and conditions of the contract, thus causing the holder of the claim to suffer a loss.

Banks all over the world are very sensitive to credit risk in various financial sectors like loans, trade financing, foreign exchange, swaps, bonds, equities, and inter bank transactions.

Credit Insurance

Credit Insurance is special type of loan which pays back a fraction or whole of the amount to the borrower in case of death, disability, or unemployment. It protects open account sales against nonpayment resulting from a customer's legal insolvency or default. It is usually required by manufacturers and wholesalers selling products on credit terms to domestic and/or foreign customers.

Benefits of Credit Insurance

1. Expand sales to existing customers without increased risk.
2 Offer more competitive credit terms to new customers in new markets.
3. Help protect against potential restatement of earnings.
4. Optimize bank financing by insuring trade receivables.
5. Supplement credit risk management.

Payment Risk

This type of risk arises when a customer charges in an organization or if he does not pay for operational reasons. Payment risk can only be recovered by a well written contract. Recovery can not be made for payment risk using credit insurance.

Bad Debt Protection

A bad debt can effect profitability. So, it is always good to keep options ready for bad debt like Confirmation of LC, debt purchase (factoring without recourse of forfeiting) or credit insurance.

Confirmation of LC

In an international trade, the confirmation of letter of credit is issued to an exporter or seller. This confirmation letter assures payment to an exporter or seller, even if the issuing bank defaults on its payment once the beneficiary meets his terms and conditions.

Factoring and Forfaiting

Where debt purchase is without recourse, the bank will already have advanced the funds in the debt purchase transaction. The bank takes the risk of nonpayment.

Credit Limit

Companies with credit insurance need to have proper credit limits according to the terms and conditions. This includes fulfilling the administrative requirements, including notification of overdoes and also terms set out in the credit limit decision.

Payment of the claim can only be done after a fix period, which is about 6 months for slow pay insurance. In case of economic and political events is six or more than six months, depending on the exporter markets.

Credit insurance covers the risk of non payment of trade debts. Each policy is different, some covering only insolvency risk on goods delivered, and others covering a wide range of risk such as :

- Local sales, export sales, or both.
- Protracted default.
- Political risk, including contract frustration, war transfer.
- Predelivery risks.
- Cover for sales from stock.
- Non honoring of letters of credits.
- Bond unfair calling risks.

Like all other insurance, credit insurance covers the risk of fortuitous loss. Key features of credit insurance are:

- The company is expected to assess that its client exists and is creditworthy . This might be by using a credit limit service provided by the insurer. A Credit limit Will to pay attention to the company's credit management procedures, and require that agreed procedures manuals be followed at all times.
- While the credit insurer underwrites the risk of non payment and contract frustration the nature of the risk is affected by how it is managed. The credit insurer is likely to pay attention to the company's credit managements procedures, and require that agreed procedures manuals be followed at all times.
- The credit insurer will expect the sales contract to be written effectively and invoices to be clear.
- The company will be required to report any overdue or other problems in a timely fashion.
- The credit insurer may have other exposure on the same buyers or in the same markets. A company will therefore benefits if other policyholder report that a particular potential customer is in financial difficulties.
- In the event that the customer does not pay, or cannot pay, the policy reacts. There may be a waiting period to allow the company to start collection procedures, and to resolve nay quality disputes.
- Many credit insurer contribute to legal costs, including where early action produces a full recovery and avoids a claim.

Benefits of Credit Cover

- Protection for the debtor asset or the balance sheet.
- Possible access to information on credit rating of foreign buyer.
- Access to trade finance
- Protection of profit margin
- Advice on customers and levels of credit.
- Disciplined credit management.
- Assistance and /or advice when debts are overdue or there is a risk of loss.

- Provides confidence to suppliers, lenders and investors.
- Good corporate governance.

Country Political Risk in Export.

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Introduction

- Measuring Country Risk
- Political Risk
- PreDelivery Risks
- Pre Delivery Cover
- Binding contracts cover and noncancelable limits

Introduction

Country risk includes a wide range of risks, associated with lending or depositing funds, or doing other financial transaction in a particular country. It includes economic risk, political risk, currency blockage, expropriation, and inadequate access to hard currencies. Country risk can adversely affect operating profits as

well as the value of assets.
With more investors investing internationally, both directly and indirectly, the political, and therefore economic, stability and viability of a country's economy need to be considered.

Measuring Country Risk

Given below are the lists of some agencies that provide services in evaluating the country risk.

- Bank of America World Information Services
- Business Environment Risk Intelligence (BERI) S.A.
- Control Risks Information Services (CRIS)
- Economist Intelligence Unit (EIU)
- Euromoney
- Institutional Investor
- Standard and Poor's Rating Group
- Political Risk Services: International Country Risk Guide (ICRG)
- Political Risk Services: CoplinO'Leary Rating System
- Moody's Investor Services

Political Risk

The risk of loss due to political reasons arises in a particular country due to changes in the country's political structure or policies, such as tax laws, tariffs, expropriation of assets, or restriction in repatriation of profits. Political risk is distinct from other commercial risks, and tends to be difficult to evaluate.

Some example of political risks are:

- Contract frustration by another country, government resulting in your inability to perform the contract, following which the buyer may not make payment and or / on demand bonds may be called.
- Government buyer repudiating the contract this may be occur if there is a significant political or economic change within the customer's country.
- Licence cancellation or non renewal or imposition of an embargo.
- Sanctions imposed against a particular country or company.
- Imposition of exchange controls causing payments to be blocked.
- General moratorium decreed by an overseas government preventing payment
- Shortage of foreign exchange/transfer delay.
- War involving either importing or exporting country.
- Forced abandonment
- Revoking of Import/ Exports licence.
- Changes in regulations.

The following are also considered as political risks in relation to exporting :

- Confiscation of assets by a foreign government.
- Unfair calling of bonds.

Insurance companies provide political risk covers. These may be purchased:

- On their own, covering only political risk on the sale to a particular country.
- For a portfolio of political risks.
- For the political risks in relation to the sale to another company in your group (where there is a common shareholding and therefore insolvency cover is not available).
- As part of a credit insurance policy.

PreDelivery Risks

A company can suffer financial loss, if export contract is cancelled due to commercial or political reasons, even before the goods and services are dispatched or delivered. In such a situation, the exposure to loss will depends on:

- The nature of the contract.
- If the company can salvage any products and resell them quickly, with a small amount of re working
- Any stage payments
- If servicing staff have left the country.

- The extent of the commitments to suppliers.
- The horizon of pre delivery risk
- The customer and country risks

Pre Delivery Cover
Credit insurance can be extended to cover predelivery risk, in particular, the risk of customer insolvency predelivery or political frustration predelivery.

Some times predelivery cover can be extended included the frustration of a contract caused by non payment of a pre delivery milestone, and or non payment of a termination account, and or bond call.

Predelivery risks are often complicated and the wording of the cover is worth careful examination.

It is to be noted that in the event that it was clearly unwise to dispatch goods, credit risk (payment risk) cover would not automatically apply if the company nonetheless went ahead and dispatched head them.
Binding contracts cover and NonCancelable Limits
Binding contracts cover and noncancelable limits are not included in predelivery cover. However, they provide a commitment from the credit insurer that the cover for dispatches / invoices will not be withdrawn without a prior notice.
If the company's customer is overdue, or it is imprudent to dispatch, there is no credit insurance cover for dispatches subsequently made, even where the company holds binding contract cover or noncancelable limits.
Currency Risk in Export International Trade.
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Introduction

- Currency Hedging
- FOREX Market
- Spot Rate
- Forward Price
- Forward Price vs. Spot Price
- RBI Reference Rate
- Inter Bank Rates
- Telegraphic Transfer
- Currency Rate
- Cross Rate
- Long and Short
- Bid and Ask
- Buying and Selling
- FOREX Rates vs. Interest Rates
- Calculating the Forward Rates

Introduction
Currency risk is a type of risk in international trade that arises from the fluctuation in price of one currency against another. This is a permanent risk that will remain as long as currencies remain the medium of exchange for commercial transactions. Market fluctuations of relative currency values will continue to attract the attention of the exporter, the manufacturer, the investor, the banker, the speculator, and the policy maker alike.

While doing business in foreign currency, a contract is signed and the company quotes a price for the goods using a reasonable exchange rate. However, economic events may upset even the best laid plans. Therefore, the company would ideally wish to have a strategy for dealing with exchange rate risk.
Currency Hedging
Currency hedging is technique used to avoid the risks associated with the changing value of currency while doing transactions in international trade. It is possible to take steps to hedge foreign currency risk. This may be done through one of the

following options:

- Billing foreign deals in Indian Rupees: This insulates the Indian exporter from currency fluctuations. However, this may not be acceptable to the foreign buyer. Most of international trade transactions take place in one of the major foreign currencies USD, Euro, Pounds Sterling, and Yen.
- Forward contract. You agree to sell a fixed amount of foreign exchange (to convert this into your currency) at a future date, allowing for the risk that the buyer's payments are late.
- Options: You buy the right to have currency at an agreed rate within an agreed period. For example, if you expect to receive $35,000 in 3 months, time you could buy an option to convert $35,000 into your currency in 3 months. Options can be more expensive than a forward contract, but you don't need to compulsorily use your option.
- Foreign currency bank account and foreign currency borrowing: These may be suitable where you have cost in the foreign currency or in a currency whose exchange rate is related to that currency.

FOREX Market

Forex market is one of the largest financial markets in the world, where buyers and sellers conduct foreign exchange transactions. Its important in the international trade can be estimated with the fact that average daily trade in the global forex markets is over US $ 3 trillion. We shall touch upon some important topics that affect the risk profile of an International transaction.

Spot Rate

Also known as "benchmark rates", "straightforward rates"or "outright rates", spot rates is an agreement to buy or sell currency at the current exchange rate. The globally accepted settlementcycle for foreignexchange contracts is two days. Foreignexchange contracts are therefore settled on the second day after the day the deal is made.

Forward Price

Forward price is a fixed price at which a particular amount of a commodity, currency or security is to be delivered on a fixed date in the future, possibly as for as a year ahead. Traders agree to buy and sell currencies for settlement at least three days later, at predetermined exchange rates. This type of transaction often is used by business to reduce their exchange rate risk.

Forward Price vs. Spot Price

Theoretically it is possible for a forward price of a currency to equal its spot price However, interest rates must be considered . The interest rate can be earned by holding different currencies usually varies, therefore forward price can be higher or lower than (at premium or discount to) the spot prices.

RBI Reference Rate

There reference rate given by RBI is based on 12 noon rates of a few selected banks in Mumbai.

Inter Bank Rates

Interbank rates rates quotes the bank for buying and selling foreign currency in the inter bank market, which works on wafer thin margins . For inter bank transactions the quotation is up to four decimals with the last two digits in multiples of 25.

Telegraphic Transfer

Telegraphic transfer or in short TT is a quick method of transfer money from one bank to another bank. TT method of money transfer has been introduced to solve the delay problems caused by cheques or demand drafts. In this method, money does not move physically and order to pay is wired to an institutions' casher to make payment to a company or individual. A cipher code is appended to the text of the message to ensure its integrity and authenticity during transit. The same principle applies with Western Union and Money Gram.

Currency Rate

The Currency rate is the rate at which the authorized dealer buys and sells the currency notes to its customers. It depends on the TC rate and is more than the TC rate for the person who is buying them.

Cross Rate

In inter bank transactions all currencies are normally traded against the US dollar, which becomes a frame of reference. So if one is buying with rupees a currency X which is not normally traded, one can arrive at a rupeeexchange rate by relating the rupee $ rate to the $X rate . This is known as a cross rate.

Long and Short

When you go long on a currency, its means you bought it and are holding it in the expectation that it will appreciate in value. By contrast, going short means you reselling currency in the expectation that what you are selling will depreciate in value.

Bid and Ask

Bids are the highest price that the seller is offering for the particular currency. On the other hand, ask is the lowest price acceptable to the buyer.Together, the two prices constitute a quotation and the difference between the price offered by a dealer willing to sell something and the price he is willing to pay to buy it back.

The bidask spread is amount by which the ask price exceeds the bid. This is essentially the difference in price between the highest price thata buyer is willing to pay for an asset and the lowest price for whicha seller is willing to sell it.

For example, if the bid price is $20 and the ask price is $21 then the "bidask spread" is $1.

The spread is usually rates as percentage cost of transacting in the forex market, which is computed as follow :

Percent spread =(Ask priceBid price)/Ask price *100

The main advantage of bid and ask methods is that conditions are laid out in advance and transactions can proceed with no further permission or authorization from any participants. When any bid and ask pair are compatible, a transaction occurs, in most cases automatically.

Buying and Selling

In terms of foreign exchange, buying means purchasing a certain amount of the foreign currency at the bid or buying price against the delivery /crediting of a second currency which is also called counter currency.

On the other hand, selling refers to a fix amount of foreign currency at the offered or selling price against the receipt / debiting of another currency.

FOREX Rates vs. Interest Rates

Forex rates or exchange rate is the price of a country's currency in terms of another country's currency. It specifies how much one currency is worth in terms of the other. For example a forex rate of 123 Japanese yen (JPY, •) to the United States dollar (USD, $) means that JPY 123 is worth the same as USD 1.

Choice of currency and its interest rate is a major concern in the international trade. Investors are easily attracted by the higher interest rates which in turns also effects the economy of a nation and its currency value.

For an example, if interest rate on INR were substantially higher than the interest rate on USD, more USD would be converted into INR and pumped into the Indian economic system. This would result in appreciation of the INR, resulting in lower conversion rates of USD against INR, at the time of reconversion into USD.

Calculating the Forward Rates

A forward rate is calculated by calculating the interest rate difference between the two currencies involved in the transactions. For example, if a client is buying a 30 days US dollar then, the difference between the spot rate and the forward rate will be calculated as follow:

The US dollars are purchased on the spot market at an appropriate rate, what causes the forward contract rate to be higher or lower is the difference in the interest rates between India and the United States.

The interest rate earned on US dollars is less than the interest rate earned on Indian Rupee (INR). Therefore, when the forward rates are calculated the cost of this interest rate differential is added to the transaction through increasing the rate.

USD 100,000 X 1.5200 = INR 152,000
INR 152,000 X 1% divided by 12 months = INR 126.67
INR 152,000 + INR 126.67 = INR 152,126.67
INR 152,126.67/USD 100,000 = 1.5213

Export Import (Exim) Policy Benifits for Export Business.
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Introduction
- Highlight of Exim Policy 200207
- Service Exports
- Status Holders
- Hardware/Software
- Gem & Jewellery Sector
- Removal of Quantitative Restrictions
- Special Economic Zones Scheme
- EOU Scheme
- EPCG Scheme
- DEPB Scheme
- DFRC Scheme
- Miscellaneous

Introduction

Export Import Policy or better known as Exim Policy is a set of guidelines and instructions related to the import and export of goods. The Government of India notifies the Exim Policy for a period of five years (1997 2002) under Section 5 of the Foreign Trade (Development and Regulation Act), 1992. The current policy covers the period 2002 2007. The Export Import Policy is updated every year on the 31st of March and the modifications, improvements and new schemes becames effective from 1st April of every year. All types of changes or modifications related to the Exim Policy is normally announced by the Union Minister of Commerce and Industry who coordinates with the Ministry of Finance, the Directorate General of Foreign Trade and its network of regional offices.

Highlight of Exim Policy 2002 - 07

1. Service Exports

Duty free import facility for service sector having a minimum foreign exchange earning of Rs. 10 lakhs. The duty free entitlement shall be 10% of the average foreign exchange earned in the preceding three licensing years.

However, for hotels the same shall be 5 % of the average foreign exchange earned in the preceding three licensing years. Imports of agriculture and dairy products shall not be allowed for imports against the entitlement. The entitlement and the goods imported against such entitlement shall be non transferable.

2. Status Holders

a. Duty free import entitlement for status holder having incremental growth of more than 25% in FOB value of exports (in free foreign exchange). This facility shall however be available to status holder having a minimum export turnover of Rs. 25 crore (in free foreign exchange).

b. Annual Advance Licence facility for status holder to be introduced to enable them to plan for their imports of raw material and component on an annual basis and take advantage of bulk purchase.

c. Status holder in STPI shall be permitted free movement of professional equipments like laptop/computer.

3. Hardware/Software

a. To give a boost to electronic hardware industry, supplies of all 217 ITA1

items from EHTP units to Domestic Tariff Area (DTA) shall qualify for fulfillment of export obligation.
b. To promote growth of exports in embedded software, hardware shall be admissible for duty free import for testing and development purpose. Hardware up to a value of US$ 10,000 shall be allowed to be disposed off subject to STPI certification.
c. 100% depreciation to be available over a period of 3 years to computer and computer peripherals for units in EOU/EHTP/STP/SEZ.
4. Gem & Jewellery Sector
a. Diamonds & Jewellery Dollar Account for exporters dealing in purchase /sale of diamonds and diamond studded jewellery .
b. Nominated agencies to accept payment in dollar for cost of import of precious metals from EEFC account of exporter.
c. Gem & Jewellery units in SEZ and EOUs can receive precious metal Gold/silver/platinum prior to export or post export equivalent to value of jewellery exported. This means that they can bring export proceeds in kind against the present provision of bringing in cash only.
5. Removal of Quantitative Restrictions
a. Import of 69 items covering animals products, vegetables and spice antibiotics and films removed from restricted list
b. Export of 5 items namely paddy except basmati, cotton linters, rare, earth, silk, cocoons, family planning device except condoms, removed from restricted list.
6. Special Economic Zones Scheme
a. Sales from Domestic Tariff Area (DTA) to SEZ to be treated as export. This would now entitle domestic suppliers to Duty Drawback / DEPB benefits, CST exemption and Service Tax exemption.
b. Agriculture/Horticulture processing SEZ units will now be allowed to provide inputs and equipments to contract farmers in DTA to promote production of goods as per the requirement of importing countries.
c. Foreign bound passengers will now be allowed to take goods from SEZs to promote trade, tourism and exports.
d. Domestics sales by SEZ units will now be exempt from SAD.
e. Restriction of one year period for remittance of export proceeds removed for SEZ units.
f. Netting of export permitted for SEZ units provided it is between same exporter and importer over a period of 12 months.
g. SEZ units permitted to take job work abroad and exports goods from there only.
h. SEZ units can capitalize import payables.
i. Wastage for sub contracting/exchange by gem and jewellery units in transactions between SEZ and DTA will now be allowed.
j. Export/Import of all products through post parcel /courier by SEZ units will now be allowed.
k. The value of capital goods imported by SEZ units will now be amortized uniformly over 10 years.
l. SEZ units will now be allowed to sell all products including gems and jewellery through exhibition and duty free shops or shops set up abroad.
m. Goods required for operation and maintenance of SEZ units will now be allowed duty free.
7. EOU Scheme
Provision b,c,i,j,k and l of SEZ (Special Economic Zone) scheme , as mentioned above, apply to Export Oriented Units (EOUs) also. Besides these, the other important provisions are:
a. EOUs are now required to be only net positive foreign exchange earner and there will now be no export performance requirement.
b. Period of Utilization raw materials prescribed for EOUs increased from 1 years to 3 years.

c. Gems and jewellery EOUs are now being permitted sub contracting in DTA.
d. Gems and jewellery EOUs will now be entitled to advance domestic sales.

8. EPCG Scheme

a. The Export Promotion Capital Goods (EPCG) Scheme shall allow import of capital goods for preproduction and post production facilities also.
b. The Export Obligation under the scheme shall be linked to the duty saved and shall b 8 times the duty saved.
c. To facilities upgradation of existing plant and machinery, import of spares shall be allowed under the scheme.
d. To promote higher value addition in export, the existing condition of imposing an additional Export Obligation of 50% for products in the higher product chain to be done away with.
e. Greater flexibility for fulfillment of export obligation under the scheme by allowing export of any other product manufactured by the exporter. This shall take care of the dynamics of international market.
f. Capital goods up to 10 years old shall also be allowed under the Scheme.
g. To facilitate diversification in to the software sector, existing manufacturer exporters will be allowed of fulfill export obligation arising out of import of capital goods under the scheme for setting up of software units through export of manufactured goods of the same company.
h. Royalty payments received from abroad and testing charges received in free foreign exchange to be counted for discharge of export obligation under EPCG Scheme.

9. DEPB Scheme

a. Facility for pro visional Duty Entitlement Pass Book(DEPB) rates introduced to encourage diversification and promote export of new products.
b. DEPB rates rationalize in line with general reduction in Customs duty.

10. DFRC Scheme

a. Duty Free Replenishment Certificate (DFRC) scheme extended to deemed export to provide a boost to domestic manufacturer.
b. Value addition under DFRC scheme reduced from 33% to 25%.

11. Miscellaneous

a. Actual user condition for import of second hand capital goods up to 10 years old dispensed with.
b. Reduction in penal interest rate from 24% to 15% for all old cases of default under Exim policy
c. Restriction on export of warranty spares removed.
d. IEC holder to furnish online return of importers/exporters made on yearly basis.
e. Export of free of cost goods for export promotion @ 2% of average annual exports in preceding three years subject to ceiling of Rs. 5 lakhs permitted.

Foreign Exchange Management Act (FEMA) for Export Import Foreign Exchange.

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Introduction
• Some Highlights of FEMA
• Buyers's /Supplier's Credit

Introduction

Foreign Exchange Management Act or in short (FEMA) is an act that provides guidelines for the free flow of foreign exchange in India. It has brought a new management regime of foreign exchange consistent with the emerging frame work of the World Trade Organisation (WTO). Foreign Exchange Management Act was earlier known as FERA (Foreign Exchange Regulation Act), which has been found to be unsuccessful with the proliberalisation policies of the Government of India.
FEMA is applicable in all over India and even branches, offices and agencies located outside India, if it belongs to a person who is a resident of India.

Some Highlights of FEMA

• It prohibits foreign exchange dealing undertaken other than an authorised person;

- It also makes it clear that if any person residing in India, received any Forex payment (without there being a corresponding inward remittance from abroad) the concerned person shall be deemed to have received they payment from a nonauthorised person.
- There are 7 types of current account transactions, which are totally prohibited, and therefore no transaction can be undertaken relating to them. These include transaction relating to lotteries, football pools, banned magazines and a few others.
- FEMA and the related rules give full freedom to Resident of India (ROI) to hold or own or transfer any foreign security or immovable property situated outside India.
- Similar freedom is also given to a resident who inherits such security or immovable property from an ROI.
- An ROI is permitted to hold shares, securities and properties acquired by him while he was a Resident or inherited such properties from a Resident.
- The exchange drawn can also be used for purpose other than for which it is drawn provided drawl of exchange is otherwise permitted for such purpose.
- Certain prescribed limits have been substantially enhanced. For instance, residence now going abroad for business purpose or for participating in conferences seminars will not need the RBI's permission to avail foreign exchange up to US$. 25,000 per trip irrespective of the period of stay, basic travel quota has been increased from the existing US$ 3,000 to US$ 5,000 per calendar year.

Buyers's /Supplier's Credit

Trade Credit have been subjected to dynamic regulation over a period of last two years. Now, Reserve Bank of India (RBI) vide circular number A.P. (DIR Series) Circular No. 24, Dated November 1, 2004, has given general permission to ADs for issuance of Guarantee/ Letter of Undertaking (LoU) / Letter of Comfort (LoC) subject to certain terms and conditions . In view of the above, we are issuing consolidated guidelines and process flow for availing trade credit .

1. Definition of Trade Credit : Credit extended for imports of goods directly by the overseas supplier, bank and financial institution for original maturity of less than three years from the date of shipment is referred to as trade credit for imports.

Depending on the source of finance, such trade credit will include supplier's credit or buyers credit , Supplier 's credit relates to credit for imports into India extended by the overseas supplier , while Buyers credit refers to loans for payment of imports in to India arranged by the importer from a bank or financial institution outside India for maturity of less than three years.

It may be noted that buyers credit and suppliers credit for three years and above come under the category of External Commercial Borrowing (ECB), which are governed by ECB guidelines. Trade credit can be availed for import of goods only therefore interest and other charges will not be a part of trade credit at any point of time.

2. Amount and tenor : For import of all items permissible under the Foreign Trade Policy (except gold), Authorized Dealers (ADs) have been permitted to approved trade credits up to 20 millions per import transaction with a maturity period (from the date of shipment) up to one year.

Additionally, for import of capital goods, ADs have been permitted to approved trade credits up to USD 20 millions transactions with a maturity period of more than one year and less than three years. No roll over/ extension will be permitted by the AD beyond the permissible period.

3. All in cost ceiling : The all in cost ceiling are as under: Maturity period up to one year 6 months LIBOR +50 basis points.

Maturity period more than one year but less than three years 6 months LIBOR* + 125 basis point

* for the respective currency of credit or applicable benchmark like EURIBOR., SIBOR, TIBOR, etc.

4. Issue of guarantee, letter of undertaking or letter of comfort in favour of overseas lender : RBI has given general permission to ADs for issuance of guarantee / Letter of Undertaking (LOU) / Letter of Comfort (LOC) in favour of overseas supplier, bank and financial instruction, up to USD 20 millions per transaction for a period up to one year for import of all non capital goods permissible under Foreign Trade Policy (except gold) and up to three years for import of capital goods.

In case the request for trade credit does not comply with any of the RBI stipulations, the importer needs to have approval from the central office of RBI.

FEMA regulations have an immense impact in international trade transactions and different modes of payments.RBI release regular notifications and circulars, outlining its clarifications and modifications related to various sections of FEMA.

FEDAI Guidelines for Foreign Exchange.
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Established in 1958, FEDAI (Foreign Exchange Dealers' Association of India) is a group of banks that deals in foreign exchange in India as a self regulatory body under the Section 25 of the Indian Company Act (1956).

The role and responsibilities of FEDAI are as follows:

- Formulations of FEDAI guidelines and FEDAI rules for Forex business.
- Training of bank personnel in the areas of Foreign Exchange Business.
- Accreditation of Forex Brokers.
- Advising/Assisting member banks in settling issues/matters in their dealings.
- Represent member banks on Government/Reserve Bank of India and other bodies.

- Rules of FEDAI also include announcement of daily and periodical rates to its member banks.

FEDAI guidelines play an important role in the functioning of the markets and work in close coordination with Reserve Bank of India (RBI), other organizations like Fixed Income Money Market and Derivatives Association (FIMMDA), the Forex Association of India and various other market participants.

How To Import

- Starting Imports
  - Starting Import Introduction
  - Preliminaries for Starting Import Business
  - Registration of Importers
  - Guidelines And Rules for Import
  - Selecting The Overseas Exporter
  - Import License
  - Import Trade Governing Bodies
  - Import of Samples
  - Finalizing The Terms of Import
  - Import Duties
  - Import Risks
  - Import Incentives under Special Schemes
  - Methods of Payment in Import Trade
  - Import of Personal Baggage
  - Import of Gifts
  - Impor of Cars Vehicle Commerical and Non Commercial
  - Import of Gold And Silver by NRI
  - Custom Clearance of Imported Goods
  - Import of Drugs And Medicine

- Import of Scrap And Waste Products
- Import Laptops And Computers
- Import Dos And Donts

Starting Import Business Introduction.

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Introduction
- Reasons for Import
- Import in India
- Import Regulatory Body

Introduction

Starting an import business is a goal of more than thousands of merchants and businessman. Like an export business, import business is also very profitable business, if an importer proceeds with the right strategies. However, the long term success and profitability of an import business greatly depends on the importer’s knowledge and understanding about the international market and foreign market analysis.

Today, importing goods from abroad has becomes a big business. Everything from beverages to cars--and a staggering list of other products that one might have never imagined has now become the part of the global import. Millions of products are bought, sold, represented and distributed somewhere in the world on a daily basis.

Reasons for Import

There are number of supporting reasons why import business and services is growing at such a fast rate:-

Availability: An individual or business man or an importer needs to import because there are certain things that he can’t grow or manufacture in his home country. For example Bananas in Alaska, Mahogany Lumber in Maine and Ball Park franks in France.

Cachet: A lot of things, like caviar and champagne, pack more cachet, more of an "image," if they're imported rather than home-grown. Think Scandinavian furniture, German beer, French perfume, Egyptian cotton. It all seems classier when it comes from distant place.

Price: Price factor is also an important reason for import of products. Some products are cheaper when imported from foreign country. For example Korean toys, Taiwanese electronics and Mexican clothing, to rattle off a few, can often be manufactured or assembled in foreign factories for far less money than if they were made on the domestic country.

Import in India

The rising middle income groups of consumers in India and their increasing levels on expenditure on various products has resulted a faster rising demand of the Indian import business. Major imports of India include cereals, edible oils, machineries, fertilizers and petroleum products. Total import from India estimated to be around US$187.9 billion. India is also a bulk importer of edible oil, sugar, pulp and paper, newsprint, crude rubber and Iron and steel.

Import Regulatory Body

In India, all the activities related to import are handled by the Directorate General of Foreign Trade (DGFT), a government organisation that also controls the export business in India. DGFT and all its regional offices work under the Ministry Commerce and Industries, Department of Commerce, Government of India. All the procedure and policies in matter related to the import is announced by the DGFT through its notification, appendices and forms.

Preliminaries for Starting Import Business.

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Introduction

- Selecting the Commodity Market
- State Trading Corporation of India

Introduction

Starting an import business needs a proper guidelines and understanding of the foreign market. Before starting an import, it is also important for an importer to obtain all the necessary information in matters associated with foreign trade agreement. Starting an import is not a get-rich-quick-scheme. Like an export, import also requires a lot of preparations.

Selecting the Commodity Market

Proper selection of the commodity market is an important factor before starting an import. Commodity market data and information collected during research helps to prepare the commodity market report. The right market can be selected by answering the following the following questions.

- Is the product(s) an importer need to conducting his business available domestically?
- Is there a lucrative and untapped domestic market for an imported product?
- Does importing a product increase competitiveness as a business?

An importer should only proceed; if he is determined that importing certain goods will definitely make his business profitable.

Once the importer is confirmed about his importing decision, then he should proceed towards the development of the proper import business plan. While making the import plan, importer of India must evaluate the various government policies and guidelines including the rules and regulation as mentioned in the Foreign Trade Policy Procedures, 2004-09.

An importer is always free to import goods in India provided that such goods are imported under the regulations of ITC- HS Classifications of Export Import items. ITC-HS codes are divided into two schedules. All the rules and regulations related to the Indian import is mentioned in the Schedule I of the ITC.

Prohibited goods and items are not at all allowed to import while restricted items are only allowed to import though a special license issued by the Ministry of Commerce, Government of India.

State Trading Corporation of India

There are certain goods that can be only imported outside the country through a recognize agency. State Trading Corporation of India is also one of them that import a number of essential commodities to cover the domestic shortfalls and hold the price line. STC serves the national objective by arranging timely imports at most competitive prices. In the process, the Corporation makes best use of its strength in handling bulk imports, vast infrastructure and above all an experience of over four decades in fulfilling the needs of the industry. The STC is responsible for the import of goods such as bullion, vanaspati and edible oils, pulses, hydro-carbons, metals and minerals and fertilizers.

Registration for Importers.

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- Introduction
- Application for IEC Number
- Process of Online Application
- Guidelines for filling up IEC Form
- Duplicate Copy of IEC No
- Surrender of IEC No

Introduction

Registration of importer is a pre-requisite for import of goods. The Customs will not allow clearance of goods unless the importer has obtained IEC Number from issuing authority. In India, IEC number or Importers Exporters Code is issued by the DGFT.

However, no such import business registration is necessary for persons importing goods from Nepal or Myamar through Indo-Myanmar border or from china, through Gunji, Namgaya, shipkila or Nathula ports provided that the Value of a single Consignment does not exceed Rs. 25000/-.

Application for IEC Number:

An application for grant of IEC Code Number should be made in the prescribed Performa given at Appendix 3.I. The application duly signed by the applicant should be supported by the following documents:

1. Bank Receipt (in duplicate) / Indian demand draft for payment of the fee of Rs.1000/- Certificate from the Banker of the applicant firm as per Annexure 1 to the form.
2. Two copies of passport size photographs of the applicant duly attested by the banker of the applicant.
3. A copy of Permanent Account Number issued by Income Tax Authorities, if PAN has not been allotted, a copy of the letter of legal authority may be furnished.
4. Declaration by the applicant that the proprietors/partners/directors of the applicant firm/company, as the case may be, are not associated as proprietor/partners/directors with any other firm/company the IEC No. is allotted with a condition that be can export only with the prior approval of the RBI India.

Process of Online Application

On-line form has been designed to ensure feeding of all the required information by prompting user wherever a field is left blank. Application has to submit scanned copies of PAN (Permanent Account Number) and bank certificate of deposits along with their application.

There are 2 options for payment of fee.

1. Demand Draft: If fee is paid by Demand Draft, IEC will be generated only after receipt of the physical copy of the application.
2. Electronic Fund Transfer: If IEC application fee is paid through Electronic Fund Transfer facility, IEC number will be generated by the licensing office automatically and the number can be viewed online by the applicant.

Guidelines for filling up IEC Form

1. All applications must be made in the prescribed form in duplicate, duly accompanied by Bank Receipt/ Demand Draft evidencing payment of fee.
2. Application form should be submitted in neatly typed bold letters. Handwritten forms are also accepted.
3. Each page of the document must have the signature of the authorised person with an ink pen.
4. Supporting documents in duplicate, duly self attested as specified earlier in this chapter must be enclosed wherever applicable.
5. Items of information relevant to applicant should only be filled in and remaining items may be marked 'Not Applicable'.
6. Two copies of the passport size photograph of the applicant duly attested by the applicant's banker shall be submitted.
7. Modifications of particulars of the applicant should also be furnished on this form by filling the relevant items.

Duplicate Copy of IEC No.

Duplicate copy of IEC Number is issued to those importer (or exporter) who has lost their original IEC number. Importers are required to submit an affidavit and a fee of Rs.200 to obtain a duplicate copy of IEC Number.

Surrender of IEC No.

Any importer who doesn’t want to continue his import business may surrender the IEC number to the issuing authority. On receipt of such intimation, the issuing authority shall immediately cancel the same and electronically transmit it to DGFT for onward transmission to the Customs and Regional Authorities.

Guidelines and Rules for Import Business

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Introduction
- Export- Import Policy (1997-2002)
- Handbook of Procedure
- SION
- ITC- HS Codes

Introduction

The various rules and guidelines in respect of various commodities and category of importers are mentioned in the following publications issued by the Ministry of Commerce, Government of India and revised from time to time:
- Import - Export Policy, 1997-2002 as modified up to 31.03.1999
- Handbook of Procedure
- Standard Input - Output Norms, 1997-2002.
- ITC (HS) Classification of Import and Export Items.

Export- Import Policy (1997-2002)

Export Import Policy or better known as Exim Policy is a set of guidelines and instructions related to the import and export of goods. The Government of India notifies the Exim Policy for a period of five years (1997-2002) under Section 5 of the Foreign Trade (Development and Regulation Act), 1992. The current policy covers the period 2002-2007. The Export Import Policy is updated every year on the 31st of March and the modifications, improvements and new schemes became effective from 1st April of every year. All types of changes or modifications related to the Exim Policy is normally announced by the Union Minister of Commerce and Industry who co-ordinates with the Ministry of Finance, the Directorate General of Foreign Trade and its network of regional offices.

Canalization is an important feature of Exim Policy under which certain goods can be imported only by designated agencies. For an example, canalised import items like gold, in bulk, can be imported only by specified banks like SBI (State Bank of India) and some foreign banks or designated agencies.

Handbook of Procedure

Handbook of Procedure (Volume I and Volume II), which is issued by the Director General of Foreign Trade (DGFT), is a book that contains all the necessary information about the rules and regulation in the matter related to Foreign Trade Policy. Handbook of Procedure is issued at the gap of every five year with change in the Foreign Trade Policy. Between the five years terms, any further changes or modifications in the Handbook of Procedure are carried out by notifications and amendments.

SION

Standard Input Output Norms or SION in short is standard norms which define the amount of input/inputs required to manufacture a unit of output for export purpose. Input output norms are applicable for the products such as electronics, engineering, chemical, food products including fish and marine products, handicraft, plastic and leather products etc. An application for modification of existing Standard Input-Output norms may be filed by manufacturer exporter and merchant-exporter.

The Directorate General of Foreign Trade (DGFT) from time to time issue notifications for fixation or addition of SION for different export products. Fixation of Standard Input Output Norms facilitates issues of Advance Licence to the exporters of the items without any need for referring the same to the Headquarter office of DGFT on repeat basis.

ITC- HS Codes

ITC- HS codes or better known as Indian Trade Clarification based on Harmonised System of Coding was adopted in India for import-export business. Indian custom uses an eight digit ITC HS Codes to suit the international trade requirements.

Harmonised System codes are divided into two schedules. Schedule I describe the rules and guidelines related to import policies where as Schedule II describe the rules and regulation related to export policies.

Schedule I of the ITC-HS code is divided into 21 sections and each section is further divided into chapters. The total number of chapters in the schedule I is 98. The chapters are further divided into sub-heading under which different HS codes are mentioned. Schedule II of the ITC-HS code contain 97 chapters giving all the details about the guidelines related to the export policies.
Selection of Overseas Exporters and Suppliers.

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- Introduction
- Legal considerations
- Other considerations
- Capability of Overseas Supplier
- Sources of Information
- Role of Overseas Agents in India
- Finalizing the Terms of Import

Introduction
Selecting an overseas exporter raises a number of issues for the importer such as language differences, payment methods and increased paperwork requirements. However, with a little research and proper planning these challenges can be easily overcome. In this chapter, we will discuss the various factors required for consideration of an overseas exporter or supplier and the methods for selecting overseas suppliers.
Legal considerations
Trading with overseas supplier is quite different from trading in India, particularly when dealing with a country outside Asia, so an importer should consider the following factor before import.

- Whether there are import or restricted trade at either end of the transaction.
- Whether technical standards in supplier's country meet Indian requirements.
- Who is liable if a product causes harm or loss?
- Whether imported goods infringe any intellectual property rights or not.
- Who bears insurance costs at each stage of transit?
- A well-drafted written contract will help to avoid disagreements or disputes.

Other considerations
There is a range of other factors that an importer should bear in mind:

- Language differences are important. It's not just a matter of communication - make sure any labelling or other printed materials are error-free.
- Payment methods for international trade transactions are an import issue for import. So, importer must take a proper care while selected a payment methods such as Letter of Credit (Documentary Credit, or Lc), Documentary Collection, Advance Payment Receipt.
- Shipping of goods is also a complicated process. Given the increased distances and the need to cross borders.
- Understanding the business and social practices of supplier's country can help build trust and develop relationships.
- The origin of your goods can affect the level of duty you pay. Some goods attract a preferential rate of duty, so you need to check where your supplier's raw materials have come from. Visiting suppliers is the best way of doing this.

Capability of Overseas Supplier
Successful completion of an import transaction mainly depends upon the capability

of the overseas supplier to fulfill that contact. Therefore, it becomes important for the importer to properly verify the foreign exporter before entering into a contract with the exporter. Confidential information about the exporter may obtain through the banks and Indian embassies abroad. The importer can also take the assistance of Credit Information Agencies for specific commercial information on overseas suppliers.

Sources of Information

The information regarding overseas exporter and suppliers can generally be obtained from the following sources:

- Trade Directories and Yellow pages, like Singapore yellow pages, Japan yellow pages, USA yellow pages etc. available from leading booksellers in India.
- Consulate Generals and Trade Representative of various countries in India and abroad.
- Friends and relatives in foreign countries.
- International Trade Fairs and Exhibitions for which you may contact: International Trade Promotions Organization (ITPO), Pragati Madian, New Delhi.
- Chambers of Commerce as per addresses.
- Directorates of Industries, etc.
- Indenting Agent of Foreign Suppliers.
- Visiting popular Web-sites.

Role of Overseas Agents in India

Some overseas suppliers have appointed their agents in India. These agents procure orders from the Indian parties and arrange for the supply of goods from abroad. It is advisable to import through such agents as they can be readily contacted in case of any difficulty with regards to quality of goods, payment and documentation, etc.

Finalizing the Terms of Import

Once importer is satisfied with the sample and the creditworthiness of the overseas exporter, importer can proceed further to finalization the terms of the import contract. Import's contract need to be carefully and comprehensively drafted incorporating there in precise terms, all relevant conditions of the trade deal. There should not be any ambiguity regarding the exact specifications of the goods and terms of the purchase including import price, mode of payment, type of packaging, port of shipment, delivery schedule, replacement of defective goods supplied, after sale services/warranty coverage etc.

Import License and IEC Code Number.

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- Introduction
- Import License Issuing Authority
- Validity of Import License
- Sample of Import License
- Categories of Import
- Category of Importer
- Custom Inspection

Introduction

While the majority of the goods are freely importable, the Exim Policy (2007) of India prohibits import of certain categories of products as well as conditional import of certain items. In such a situation it becomes important for the importer to have an import license issued by the issuing authorities of the Government of India.

Import License Issuing Authority

In India, Import License is issued by the Director General of Foreign Trade. DGFT Delhi office is situated in Udyog Bhawan, New Delhi 110011.

Validity of Import License

Import Licenses are valid for 24 months for capital goods and 18 months for raw materials components, consumable and spares, with the license term renewable.

Sample of Import License

A typical sample of import license consists of two copies-
Foreign Exchange Control Copy: To be utilised for effecting remittance to foreign seller or for opening letter of credit
Customs Copy: To be utilised for presenting to Customs authority enabling them to clear the goods. In the absence of custom copy, import will be declared as an unauthorised import, liable for confiscation and or penalty.
Categories of Import

All types of imported goods come under the following four categories:
- Freely importable items: Most capital goods fall into this category. Any product declared as Freely Importable Item does not require import licenses.
- Licensed Imports: There are number of goods, which can only be importer under an import license. This category includes several broad product groups that are classified as consumer goods; precious and semi-precious stones; products related to safety and security; seeds, plants and animals; some insecticides, pharmaceuticals and chemicals; some electronically items; several items reserved for production by the small-scale sector; and 17 miscellaneous or special-category items.
- Canalised Items: There are certain canalised items that can only be importer in India through specified channels or government agencies. These include petroleum products (to be imported only by the Indian Oil Corporation); nitrogenous phosphatic, potassic and complex chemical fertilizers (by the Minerals and Metals Trading Corporation) vitamin- A drugs (by the State Trading Corporation); oils and seeds (by the State Trading Corporation and Hindustan Vegetable Oils); and cereals (by the Food Corporation of India).
- Prohibited items: Only four items-tallow fat, animal rennet, wild animals and unprocessed ivory-are completely banned from importation.

Category of Importer
On the basis of product to be imported and its target buyer, importers categories are divided into three groups for the purpose of obtaining import licensing:
1. Actual Users- An actual user applies for and receives a license to import of any item for personal use rather than for business or trade purpose.
2. Registered exporters; defined as those who have a valid registration certificate issued by an export promotion council, commodity board or other registered authority designated by the Government for purposes of export-promotion.
3. Others.

The two types of actual user license are:
1. General Licenses : This license can be used for the imports of goods from all countries, except those countries from which imports are prohibited;
2. Specific Licenses: This license can only be used for imports from a specific country.

Custom Inspection

Any violation in the import license is usually scanned by the custom officials of the custom department. Customer inspector and other custom officials have authority to inspect and evaluate the goods to be imported. It’s a part of their job to determine whether imports conform to the description in the import License or not. Custom official even have right to charge fines and penalties if any violation in the import license is found to be done by the importer.
Import Trade Governing Bodies.

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Introduction
- Ministry of Commerce and Industry
- Directorate General of Foreign Trade (DGFT)
- Central Board of Excises Customs (CBEC)
- Objectives of Custom Duties

Introduction

Import in India is governed by the certain rules and regulation, which are issued by the import-export governing bodies. IImport Export government authorities decide which items will be imported and which item will be prohibited. The quantity of goods to be imported and tax imposed on the imported goods is also under the control of import governing body. Import-Export governing bodies also play an important role in settling the Foreign Trade Agreement in matters related to import of goods.

Ministry of Commerce and Industry

The Ministry of Commerce and Industry is the nodal authority for formulating and implementing the foreign trade policy in matter related to Import. The Department of Commerce play a key role in matters related to multilateral and bilateral commercial relations, state trading, export promotion measures and development and regulation of certain import oriented industries and commodities.

There are two departments under the Ministry of Commerce and Industry. The first one is the Department of Commerce and the second is Department of Industrial Policy & Promotion. The department of Ministry of Commerce which is sometimes also termed as Department of Industrial Policy & Promotion was established in the year 1995, and in the year 2000 Department of Industrial Development was merged with it.

Ministry of Commerce and Industry has its offices in all the major cities. Its Delhi office is located at Udyog Bhavan, New Delhi – 110011 India

Directorate General of Foreign Trade (DGFT)

DGFT or Directorate General of Foreign Trade is a government organisation in India responsible for the formulation of guidelines and principles for importers as well as exporters of country.

Preparation, formulation and implication of Exim Policies are one of the main functions of DGFT. Apart from Exim Policy, DGFT is also responsible for issuing IEC or Import Export Code. IEC codes are mandatory for carrying out import export trade operations and enable companies to acquire benefits on their imports/exports, customs, exports promotion council etc in India. DGFT also play an important role in controlling DEPB rates and setting standard input-output norms. Any changes or formulation or addition of new codes in ITC-HS Codes are also carried out by DGFT (Directorate General of Foreign Trade).

DGFT has its offices in all the major cities. Its Delhi office is located at IP Bhawan, New Delhi.

Central Board of Excises Customs (CBEC)

The Central Board of Excises Customs (CBEC) under Ministry of Finance is the controlling authority to handle custom duty related matters. CBEC regularly publishes the "Indian Customs Tariff Guide that provides all types of information on custom duty rules and regulation in India.

Custom duty not only raises money for the Central Government but also helps the government to prevent the illegal imports and exports of goods from India. The Central government has emergency powers to increase import or export duties whenever necessary after a notification in the session of Parliament.

Objectives of Custom Duties

- Regulating the amount of import in India in order to protect the domestic market.
- Protecting Indian Industry from undue competition
- Prohibiting certain imports of goods for achieving the policy objectives of the Government.

• Regulating imports
• 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" (Harmonised System Codes) 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.

Import of Samples.

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Introduction

- Import samples
- Geneva Convention, 1952
- Restriction on Import of Samples
- Value limit
- Machinery import
- Privacy of Import Samples
- Failure to re-export

Introduction

Before making a confirmed order, it is important for the importer to ask for a sample of the original manufactured product that can be shown or demonstrated for Customer appreciation and familiarisation. Import of samples help the importer to deciding the total quantity of product need to be imported as well as also allows importer to make any necessary changes in the final product.

Import samples

The import samples are basically specimens of the product, which is finally given to the importer. It may include consumer goods, consumer durables, prototypes of engineering goods or even high value equipment, machineries (including agricultural machinery) and their accessories. Import of samples can be done by the trade, industry, individuals, Companies, Associations, Research Institutes or Laboratories. These can also be brought by the Representatives of foreign Manufacturer as a part of their personal Baggage or through port or in Courier. They can also be sent by Manufacturers/Traders abroad to above parties in India.

Geneva Convention, 1952

Import of samples of goods is exempt from import duties under Geneva Convention of 7th November, 1952. India is also a signatory to a 1952 convention to facilitate the Importation of Commercial samples and Advertising materials. The notifications issued in this regard enable duty free import of genuine Commercial samples into the country for smooth flow of trade.

Restriction on Import of Samples

However, goods which are prohibited under Foreign Trade (Development and Regulation) Act, 1992 are not allowed to be imported as samples e.g. wild animals, wild birds and parts of wild animals and birds, ivory, arms & ammunitions, and Narcotic drugs.

Value limit

The bonafide trade samples can be imported by trade and industry provided the said goods have been supplied free of charge. For duty free clearance the value of individual sample should not exceed Rs.5000/- and aggregate value should not exceed Rs.60, 000/- per year or 15 units of samples in a year. This strategy avoids the risk of not paying Customs Duty through repeated imports of samples in smaller lots.

Machinery import

Import of machinery products, which are prototypes of engineering goods can also be imported duty free if the value does not exceed Rs.10000/-. In case the value of machinery exceeds more than Rs.10000/- then such goods are always chargeable to duty.

Privacy of Import Samples
In case of high valued machinery the importer can import a sample under privacy. On the request of importer, the Customs authority may also seal the machinery during its journey from the port of importation to the place of demonstration and it is unsealed only at the place of operation or place of demonstration.
Failure to re-export
In case of any damage to the previously send import sample of product, the same sample can be send again within the time period of 9 months. However, the Assistant Commissioner of Customs, may under special circumstances extend the period of 9 months for a further reasonable period.
Finalizing Terms of Import.
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Once an importer is satisfied with the product sample and creditworthiness of the supplier or exporter, the he can proceed to finalise the terms of the import contract. At this stage importer need to draft the contract terms and conditions very carefully and comprehensively. There should not be any ambiguity regarding the exact specifications of the goods and terms of the purchase including import price, mode of payment, type of packaging, port of shipment, delivery schedule, replacement of defective goods supplied, after sale services/warranty coverage etc.

The different aspect of an import contract is enumerated as under some of which may be relevant and other may not be:

Product Specifications: An importer should clearly mention every minute detail about the product. This factor sometimes became quite important while importing a special order product or item.
Product Standards: Importer should check weather the imported product meets the product standards like ISO certification and Agmark Certifications.
Quantity: Before making an import order, an importer should evaluate the domestic market. This will help the importer to judge the actual quantity of product to be imported.

Inspection: Importer should make clear weather the inspection of imported product will be done by the importer side or exporter side or by a third party agency. In case of inspection done by a third party, importer should also make clear that who will bear the inspection charges.

Terms of Delivery: Delivery terms define the obligations and the responsibilities of the buyer and seller during the delivery of goods. Importer should check all the terms of delivery as mentioned in the Incoterms to avoid any feature doubts.

Terms of Payments: The method of payment is an essential part of an import contract. The credit standing of the importer, previous history of payments, regulations on foreign exchange and licenses in different countries, as well as vested business practices all have an influence on selecting the method of payment.

Import License and Import Permits: Importer should check weather the goods to be imported need any license or not. Importer must also check weather the imported goods are prohibited or restricted.

Duties and Charges: It is better for an importer to have knowledge of all duties and charges imposed on the imported goods.

Periods of Delivery /Shipment: Importer must fix a particular date for the delivery of product, which is also acceptable to the exporter exporting the goods. Importer should also mention the charges that importer will imposed on the exporter in case of late delivery.

Packing, Labeling and Marketing: Proper packaging and labelling not only makes the final product look attractive but also save a huge amount of money by saving the product from wrong handling the export process. So, importer should mention his entire requirement in detail and with preference on labeling of products.

Insurance: Importer can ask the exporter to insure the goods and bear the cost of import insurance. Insurance can also be done from the importer side but it must be made clear on the document.
Custom Import Duty on Importing Goods.

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Introduction

- Import through Sea
- Basic duty
- Additional customs
- Special additional duty
- Anti-Dumping Duty

Introduction

The concept of import duty is very wide and is almost applicable to every product or item imported to India barring a few goods like food grains, fertilizer, life saving drugs and equipment etc. Import duties form a significant source of revenue for the country and are levied on the goods and at the rates specified in the Schedules to the Customs Tariff Act, 1975.

Import through Sea

Territorial water extends up to 12 nautical miles into the sea from the coast of India and so the liability to pay import duty commences as soon as goods enter the territorial waters of India. No duty is livable on goods which are in transit in the same ship or if goods are in transit from one ship to another.

Basic duty

Basic Duty is a type of duty or tax imposed under the Customs Act (1962). Basic Customs Duty varies for different items from 5% to 40%. The duty rates are mentioned in the First Schedule of the Customs Tariff Act, 1975 and have been amended from time to time under the Finance Act. The duty may be fixed on ad – valorem basis or specific rate basis. The Central Government has the power to reduce or exempt any good from these duties.

Additional customs

Additional duty also known as countervailing duty or C.V.D is equal to excise duty imposed on a like product manufactured or produced in India. It is implemented under the Section 3 (1) of the Indian Custom Tariff Act. The Government has exempted all goods, when imported into India for subsequent sale, from the whole of the additional duty of customs leviable thereon under Sub-Section (5) of Section 3 of the Customs Tariff Act vide Customs Tariff Notification No. 102/2007 dated 14th September 2007. However, the importers will be first required to pay the said duty and thereafter required to claim the refund.

Special additional duty

Special Additional Duty of Customs is imposed at the rate of 4% in order to provide a level playing field to indigenous goods which have to bear sales tax. This duty is to computed on the aggregate of –

- assessable value;
- basic duty of Customs;
- surcharge; and
- additional duty of Customs leviable under section 3 of the Customs Tariff Act, 1975 (c.v.d.)

Anti-Dumping Duty

Dumping means exporting goods in a foreign market at a price which is less than their cost of production or below their "fair" market value. Dumping gives a hard competition to a domestic goods manufacturer. So, to counteract this dumping, the

Indian government has formulated certain guidelines and policies. Imposing duty on imported goods is also one of them and is known as Anti-Dumping Duty.

All the laws related to anti-dumping duties are mention in the sections 9A, 9B and 9C of the Indian Customs Tariff Act (1975), and the Indian Customs Tariff Rules (1995). These laws are based on the Agreement on Anti-Dumping which is in pursuance of Article VI of GATT 1994.

Import Risk.

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- Introduction
- Transport Risk
- Quality risk
- Delivery Risk
- Exchange Risk

Introduction

Like an export, import of goods is also associated with various types of risks. Some of these are

- Transport Risk – This risk is associated with the loss of goods during transportation.
- Quality Risk – This risk is associated with the final quality of the products.
- Delivery Risk – This risk arises when the goods are not delivered on time.
- Exchange Risk – This risk arises due to the change in the value of currency.

These risks are explained more fully below.

Transport Risk

For a better transport risk management, an importer must ensure that the goods supplied by the exporter is insured. Whether the goods are transported by Sea or by Air, the risk can be covered by Insurance. It is always advisable to set out the agreement between the parties as to the type of cover to be obtained in the Contract of Sale. Often Importers will wish to obtain Insurance cover from their own Insurance Company under a 'blanket cover' called an 'Open Policy' thus taking advantage of bulk billing and other relationships.

Quality risk

The proper quality risk analysis is important for the importer to ensure that the final products are as good as the sample. Occasionally, it has been found that the goods are not in accordance with samples, quality is not as specified, or they are otherwise unsatisfactory. To handle such situations in future, importer must take necessary protective measures in advance. One the best method to avoid such situation is to investigate the reputation and standing of the supplier. Even before receiving the final product, inspection can be done from the importer side or exporter side or by a third party agency.

In case of Bill of Exchange, with documents released against acceptance, the Importer is able to inspect the goods before payment is made to the Supplier at the maturity date. In this method of payment, if the goods are not in accordance with the Contract of Sale the Importer is able to stop payment on the accepted draft prior to maturity. Importers should consider what measures can be taken to ensure that the need for legal action does not arise. If the Importer has an agent in the Supplier's country it may be possible for closer supervision to be maintained over shipments.

Delivery Risk

Delivery of goods on time is important factor for the importer to reach the target market. For example any product or item which has been ordered for Christmas is of no use if it is received after the Christmas. Importer must make the import contract very specific, so that importer always has an option of refusing payment if it is apparent that goods have not been shipped by the specific shipment date. Where an Importer is paying for goods by means of a Documentary Credit, the Issuing Bank can be instructed to include a 'latest date for shipment' in the terms of the Credit.

Exchange Risk

Before entering into a commercial contract, it is always advisable for the importer to determine the value of the product in domestic currency. As there is always a gap between the time of entering into the contract and the actual payment for the goods is received, so determining the value of the good in domestic currency will help an exporter to quote the right price for the product.

- Contracting to import in Indian Rupees.
- Entering into a Foreign Exchange Contract through Bank.
- Offsetting Export receivables against Import payables in the same currency by using a Foreign Currency Account.
- Where Pre / Post-Shipment Finance is provided with a Foreign Currency Loan in the currency of the transaction and Export receipts repay the loan.

Import Incentives under Special Schemes.

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- Introduction
- Preferential Rates
- DEPB
- Duty Drawback
- DFRC
- DFIA
- Deemed Exports
- Agri Export Zones
- Served from India
- Manufacture under Bond
- Export Promotion Capital Goods Scheme (EPCG)

Introduction

The Government of India offers many incentives to Indian importer under special schemes. These schemes are mostly available on those imported product, which will be latter on used for manufacturing of goods meant for export. This not only stimulates the industrial growth and development but also brings the foreign currency after the final export process. The following are some of the important import incentives offered by the Government of India, which significantly reduce the effective tax rates for the import companies:

Preferential Rates

Any type of import incentive under preferential rate is only applicable for the import o goods from certain preferential countries such as Mauritius, Seychelles and Tonga provided certain conditions are satisfied. The certificate of origin is very important in order to avail of the benefits of such concessional rates of duty.

DEPB

Duty Entitlement Pass Book in short DEPB is basically an export incentive scheme. The objective of DEPB scheme is to neutralize the incidence of basic custom duty on the import content of the exported products. Notified on 1/4/1997, the DEPB Scheme consisted of (a) Post-export DEPB and (b) Pre-export DEPB. The pre-export DEPB scheme was abolished w.e.f. 1/4/2000. Under the post-export DEPB, which is issued after exports, the exporter is given a Duty Entitlement Pass Book at a pre-determined credit on the FOB value. The DEPB allows import of any items except the items which are otherwise restricted for imports.

Duty Drawback

Duty Drawback rates in India is the special rebate given under the Section 75 of Indian Customs Act on exported products or materials. Duty drawback rates or concession are only applicable on products which are used in the processing of goods manufactured in India and then exported to foreign countries. Duty Drawback is not given on inputs obtained without payment of customs or excise duty. In case of re-export of goods, it should be done within 2 years from the date of payment of duty when they were imported. 98% of the duty is allowable as drawback, only after inspection. If the goods imported are used before its re-export, the drawback will be allowed as at reduced per cent.

All industry drawback rates are fixed by Directorate of Drawback, Dept. of Revenue, Ministry of Finance and Government of India and are periodically revised - normally on 1st June every year. Section 37 of Central Excise Act allows Central Government to frame rules for purpose of the Act. Under these powers, ‘Customs and Central Excise Duties Drawback Rules, 1995’ have been framed.

DFRC

Under the Duty Free Replenishment Certificate (DFRC) schemes, import incentives are given to the exporter for the import of inputs used in the manufacture of goods without payment of basic customs duty. Such inputs shall be subject to the payment of additional customs duty equal to the excise duty at the time of import. Duty Free Replenishment Certificate (DFRC) shall be available for exports only up to 30.04.2006 and from 01.05.2006 this scheme is being replaced by the Duty Free Import Authorisation (DFIA).

DFIA

Effective from 1st May, 2006, Duty Free Import Authorisation or DFIA in short is issued to allow duty free import of inputs which are used in the manufacture of the export product (making normal allowance for wastage), and fuel, energy, catalyst etc. which are consumed or utilised in the course of their use to obtain the export product. Duty Free Import Authorisation is issued on the basis of inputs and export items given under Standard Input and Output Norms (SION).

Deemed Exports

Deemed Export is a special type of transaction in which the payment is received before the goods are delivered. The payment can be done in Indian Rupees or in Foreign Exchange. As the deemed export is also a source of foreign exchange, so the Government of India has given the benefit duty free import of inputs.

Agri Export Zones

Various importers that come under the Agri Export Zones are entitled to all the import facilities and incentives.

Served from India

In order to create a powerful “Served from India” brand all over the world, the government has provided different type of import incentive to the invisible export providers. Under the Served from India Scheme, import incentive is given for import of any capital goods, spares, office equipment and professional equipment.

Manufacture under Bond

Under the Manufacture under Bond Scheme, all factories registered to produce their goods for export are exempted from import duty and other taxes on inputs used to manufacture such goods. Against this the manufacturer is allowed to import goods without paying any customs duty. The production is made under the supervision of customs or excise authority.

Export Promotion Capital Goods Scheme (EPCG)

EPCG is a special type of incentive given to the EPCG license holder. Capital goods imported under EPCG Scheme are subject to actual user condition and the same cannot be transferred /sold till the fulfillment of export obligation specified in the license. In order to ensure that the capital goods imported under EPCG Scheme, the license holder is required to produce certificate from the jurisdictional Central Excise Authority (CEA) or Chartered Engineer (CE) confirming installation of such capital goods in the declared premises. Under Export Promotion Capital Goods (EPCG) scheme, a license holder can import capital goods such as plant, machinery, equipment, components and spare parts of the machinery at concessional rate of customs duty of 5% and without CVD and special duty.

Methods of Payments in Import.

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Introduction

- Consignment Purchase

- Cash-in-Advance (Pre-Payment)
- Down Payment
- Open Account
- Documentary Collections
- Letter of Credit

Introduction

There is no predefined definition of personal import. In general a personal import is a direct purchase of foreign goods from overseas mail order companies, retailers, manufacturers or by an individual for the purpose of personal use.
The most common terms of purchase are as follows:

- Consignment Purchase
- Cash-in-Advance (Pre-Payment)
- Down Payment
- Open Account
- Documentary Collections
- Letters of Credit

Consignment Purchase

Consignment purchase terms can be the most beneficial method of payment for the importer. In this method of purchase, importer makes the payment only once the goods or imported items are sold to the end user. In case of no selling, the same item is returned to the foreign supplier. Consignment purchase is considered the most risky and time taking method of payment for the exporter.

Cash-in-Advance (Pre-Payment)

Cash in Advance is a pre-payment method in which, an importer the payment for the items to be imported in advance prior to the shipment of goods. The importer must trust that the supplier will ship the product on time and that the goods will be as advertised. Cash-in-Advance method of payment creates a lot of risk factors for the importers. However, this method of payment is inexpensive as it involves direct importer-exporter contact without commercial bank involvement.
In international trade, Cash in Advance methods of payment is usually done when-

- The Importer has not been long established.
- The Importer's credit status is doubtful or unsatisfactory.
- The country or political risks are very high in the importer’s country.
- The product is in heavy demand and the seller does not have to accommodate an Importer's financing request in order to sell the merchandise.

Down Payment

In the method of down payment, an importer pays a fraction of the total amount of the items to be imported in advance. The down payment methods have both advantages and disadvantages. The advantage is that it induces the exporter or seller to begin performance without the importer or buyer paying the full agreed price in advance and the disadvantage is that there is a possibility the Seller or exporter may never deliver the goods even though it has the Buyer's down payment.

Open Account

In case of an open account, an importer takes the delivery of good and ensures the supplier to make the payment at some specific date in the future. Importer is also not required to issue any negotiable instrument evidencing his legal commitment to pay at the appointed time. This type of payment methods are mostly seen where when the importer/buyer has a strong credit history and is well-known to the seller. Open Account method of payment offers no protection in case of non-payment to the seller.
There are many merits and demerits of open account terms. Under an open account payment method, title to the goods usually passes from the seller to the buyer prior to payment and subjects the seller to risk of default by the Buyer. Furthermore, there may be a time delay in payment, depending on how quickly documents are exchanged between Seller and Buyer. While this payment term involves the fewest restrictions and the lowest cost for the Buyer, it also presents the Seller with the highest degree of payment risk and is employed only between a Buyer and a Seller who have a long-term relationship involving a great level of

mutual trust.
Documentary Collections
Documentary Collection is an important bank payment method under, which the sale transaction is settled by the bank through an exchange of documents. In this process the seller's instructs his bank to forwards documents related to the export of goods to the buyer's bank with a request to present these documents to the buyer for payment, indicating when and on what conditions these documents can be released to the buyer.
The buyer may obtain possession of goods and clear them through customs, if the buyer has the shipping documents such as original bill of lading, certificate of origin, etc. However, the documents are only given to the buyer after payment has been made ("Documents against Payment") or payment undertaking has been given - the buyer has accepted a bill of exchange issued by the seller and payable at a certain date in the future (maturity date) ("Documents against Acceptance").
Documentary Collections make easy import-export operations within low cost. But it does not provide same level of protection as the letter of credit as it does not involve any kind of bank guarantee like letter of credit.
Letter of Credit
A letter of credit is the most well known method of payment in international trade. Under an import letter of credit, importer’s bank guarantees to the supplier that the bank will pay mentioned amount in the agreement, once supplier or exporter meet the terms and conditions of the letter of credit. In this method of payment, plays an intermediary role to help complete the trade transaction. The bank deals only in documents and does not inspect the goods themselves. Letters of Credit are issued subject to the Uniforms Customs & Practice for Documentary Credits (UCPDC)(UCP). This set of rules is produced by the International Chamber of Commerce and Industries (CII).
Documents Against Acceptance: Instructions given by an exporter to a bank that the documents attached to the draft for collection are deliverable to the drawee only against his or her acceptance of the draft.
Import Personal Baggage.
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Introduction
• Forms of Personal Import
• Importance of IEC Number for Personal Import
• Import of Baggage
• Items that can not be Imported for Personal Use
• Import of items by Registered Courier
• Import of items by UN Officials
• Import of items by Indian Professionals
• Import of Samples

Introduction
There is no predefined definition of personal import. In general a personal import is a direct purchase of foreign goods from overseas mail order companies, retailers, manufacturers or by an individual for the purpose of personal use.
Forms of Personal Import are:
There are two forms of personal import:
1. Direct Personal Import: An importer himself/herself places orders to foreign mail order companies, retailers or manufactures and imports directly from them.
2. Indirect Personal Import: An importer places orders to an import agent and imports goods via the agent.

In any case, since personal import is direct trade with foreign countries, a buyer must understand the various rules and regulation while importing such goods. For importing any good in India, a buyer must check the item in the ITC-HS code in order to know weather the item is free to import, restricted or prohibited.
Importance of IEC Number for Personal Import
Import Export Code Number or IEC number is not required for import of items for personal use.

Import of Baggage
While travelling passengers are allowed to carry certain items with them, which are governed by the Baggage Rules 1998. Baggage Rules contain separate concessions for resident tourist and person transferring their residence to India. Special provisions have also been made for unaccompanied baggage and application of the rules to the members of the crew.
Items that can not be Imported for Personal Use
There are certain items that can not be imported for personal use. These items are listed below-
- Vegetables and seeds exceeding one pound
- Beas
- Tea
- Books, magazines, journals and literature
- Items which has been Canalised under the Indian Exim Policy (2007) or Foreign Trade Policy.
- Arms and ammunitions
- Consumer electronic items, except hearing aid and other life saving equipments

Import of items by Registered Courier
For the purpose of taxation, import of goods by registered carrier is not included under the Baggage Rule Act (1998). Under a new system of assessment, the clearance of goods is governed by the Courier Imports and Exports Regulation Act (1998).
Import of items by UN Officials
UN Officials and its authorized agencies are exempted from payment of custom duty under the United Nation Act (1947).
Import of items by Indian Professionals
All the rules and regulation for the import of goods and item by the Indian professionals is mentioned in the Rule 5 and Appendix C of the Baggage Rule (1998).
Import of Samples
All samples are allowed for import mentioned in the ITC-HS Classification of export and import items are allowed without a license. However items like vegetables, seeds, bees, and new drugs are not listed under free import and need a special license.

Samples of tea not exceeding Rs. 2000 (CIF) in one consignment is allowed without any authorisation form the Custom or Tea Board of India. An individual is also free to bring a sample of worth Rs- 75,000 (except for gems and jewellery) and Rs- 300,000 for the samples of gems and jewellery.
Import of Gifts.
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Introduction
- Who can send the gifts?
- Custom Clearance Permit of Imported Gifts
- Application Procedure for Custom Clearance Permit (CCP)

Introduction
The Government has exempted gifts items received from foreign country to persons residing in India from the whole of custom duty under Foreign Trade Act. In the present scenario, import of goods up to the value of Rs. 5,000/- is allowed as gift, duty free. This exemption is allowed only for bonafide gifts imported by air or post. For the purpose of calculation of this value of Rs. 5,000/- the air freight or postal charges paid are not added. It is important to note that the value of Rs. 5,000/- is the value of the goods in the country from where the goods have been dispatched. The sender may not necessarily be residing in the country from where the goods have been dispatched.
Who can send the gifts?
Any person living abroad can send a gift to an individual living in India. There is no specific restriction that only relatives can send the gift items. Business

associated, friends, relatives, companies or acquaintances can also send the gifts to the people living in India.

Custom Clearance Permit of Imported Gifts

Import of gifts items, which is freely importable need no custom clearance permit. However, there are certain gift items that are not freely importable. In such a situation a special permit is required by the custom authorities. The main objective of the custom clearance permit is to allow the import of gift items which is other wise restricted or prohibited by Government of India for the use of charitable, religious or educational institute registered under a law or approved by the Central or State Government.

Application Procedure for Custom Clearance Permit (CCP)

An application for the grant of CCP for an item which is otherwise restricted or prohibited in the ITC-HS Classification may be made to Director General of Foreign Trade supported by the following documents.

1. Applicant's request on his compay’s letter head or plain paper duly signed with all the details.
2. Donor's letter in original duly signed and indicating his name, address and the purpose of offering gift.
3. Bank Receipt in original in duplicate/ Demand Draft / EFT details towards payments of application fee at the prescribed rate.
4. Self certified copy of proforma invoice.
5. Any other relevant document which applicant would like to enclose.

Import Cars and Commercial and Non Commercial Vehicles.

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Introduction

- Import of New Vehicles
- Import of old Vehicles
- Testing of Imported Vehicles
- Banned Vehicles
- Import of Motor Cars under transfer of residence
- Import of passenger cars / jeeps / multi utility vehicles etc

Introduction

Exim policy of India is quite strict in matters related to import of vehicle. Apart from the heavy custom duty on the automobile, the Exim policy of India also states that the Vehicle should not be manufactured/ assembled in India, not been sold, leased or loaned prior to being imported to India; or should have been registered for use in any country prior to being imported to India. It is also mentioned in the Exim policy that for new vehicles being imported into the country should be imported only from the country of manufacture and should comply with Central Motor Vehicles Rules (CMVR), 1989.

Import of New Vehicles

The import of vehicles shall be subject to the following guidelines of the Government of India:

1. A new imported vehicle shall mean a vehicle that:-
   - o has not been manufactured/assembled in India; and
   - o has not been sold, leased or loaned prior to importation into India; or
   - o has not been registered for use in any country according to the laws of that country, prior to importation into India.
2. The import of new vehicles shall be subject to the following conditions:
   - o The new vehicle shall-
     - have a speedometer indicating the speed in km / h;
     - have right hand steering, and controls (applicable on vehicles other than two and three wheelers);
     - have photometry of the headlamps to suit "keep-left" traffic; and
     - be imported from the country of manufacture.
   - o In addition, the new vehicle shall conform to the provisions of the Central Motor Vehicles Act, 1988 and the rules made thereunder, as applicable, on the date

of import.
o The import of new vehicles shall be permitted only through the Indian Customs Port at Nhava Sheva (Mumbai), Calcutta and Chennai.
Import of old Vehicles
The Government of India has allowed the entry of second hand vehicles into the country only through the Mumbai port. The Ministry of Commerce has identified six categories of second hand vehicles having cylinder capacity of up to 3000 cc that can be brought in the country through the Mumbai port.
1. A second hand or used vehicle shall mean a vehicle that :-
o has been sold, leased or loaned prior to importation into India; or
o has been registered for use in any country according to the laws of that country, prior to importation into India;
2. The import of second had or used vehicles shall be subject to the following conditions:-
o The second hand or used vehicle shall not be older than three years from the date of manufacture;
o The second hand or used vehicle shall:
have right hand steering, and controls (applicable on vehicles other than two and three wheelers);
have a speedometer indicating the speed km / h; and
have photometry of the headlamps to suit "keep left" traffic.
o In addition, the second hand or used vehicle shall conform to the provisions of the Motor Vehicle Act, 1988 and the rules made there under, as applicable, on the date of import.
o Import of second hand vehicles shall be allowed only through the customs port at Mumbai.
The second hand or used vehicles imported into India should have a minimum roadworthiness for a period of 5 years from the date of importation into India with assurance for providing service facilities within the country during the five year period.
Testing of Imported Vehicles
After import it is necessary to submit the imported vehicle to Vehicle Research and Development Establishment (VRDE), Ahmednagar, of the Ministry of Defence or the Automotive Research Association of India, Pune or the Central Farm and Machinery Training and Testing Institute, Budni, Madhya Pradesh, or other notified testing agency authorised by the Indian Government .
Banned Vehicles
The policy totally bans the import of cars whose engine capacity ranges from 1000 to 2500cc. As far as two-wheelers go, scooters with an engine capacity of over 50 cc to 500cc can be imported. Motorcycle engine capacity should be their engine capacity should be over 250 cc but not in excess of 800 cc.
Import of Motor Cars under transfer of residence
Any nonresident Indians or foreign nationals coming to India on a transfer basis are allowed to import one vehicle. The imported vehicle could be new or old. However, it is important that vehicle should be imported into India within six months of the arrival of the foreign individual. The imported car must also carry the condition of "No Sale" for the time periods of two years, which shall be endorsed by the Indian Customs Authorities on the passport/registration documents at the time of import and by the Regional Transport Authorities when such vehicles are presenter for registration in India.
Import of passenger cars / jeeps / multi utility vehicles etc

The conditions mentioned for import of new and used motor vehicles is not applicable for the import of passenger cars/jeeps/multi-utility vehicles etc and all these vehicles may be imported in India after the payment of full custom duty and fulfilling the following requirements.
1. Individuals coming to India for permanent settlement after two years' continuous stay abroad provided the car has been in possession of the individual

for a period of minimum one year abroad.
2. Resident Indians presented with a car as an award in any international event / match / competition.
3. Legal heirs/successors of deceased relatives residing abroad;
4. Physically handicapped persons;
5. Companies incorporated in India having foreign equity participation;
6. Branches/offices of foreign firms;
7. Charitable/Missionary/Religious institutions registered as per the law relating to the registration of the societies or trusts or otherwise approved by the Central or State Government.
8. Honorary Consuls of foreign countries on the recommendations of the Ministry of External Affairs, Government of India.
9. Journalists/Correspondents of foreign news agencies having accreditation certificate with the Press Information Bureau, Ministry of Information and Broadcasting, Govt. of India.

The DGFT may, however, permit relaxation of these conditions or imports by any other category not listed in this Public Notice in special circumstances.

Import Gold and Silver by NRI.

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Introduction

- Import of Gold
- Silver
- Selling of imported Gold and Silver
- Custom Bonded Warehouse

Introduction

Reserve Bank of India has granted general permission to persons of Indian nationality or origin to bring into India a limited amount of gold and silver. However, import of gold and silver is govern by certain rules and regulation and are given in detail below.

Import of Gold

A NRI who has been residing in a foreign country for over one year and is returning to India may be allowed to import jewellery without paying any custom duty in his use up to an aggregate value of ten thousand rupees in the case of a male passenger. In case of a female passenger, an individual can import gold of up to rupees twenty thousands.

If the amount of gold imported exceeds the import duty free range, then the custom duty charges an amount of Rs. 250 per 10 gms of gold. Even in such a situation, an individual is only permitted to import a maximum of 10 kg of Gold as a part of their baggage after paying the required customs duty. It should also be noted that that these facilities is given only to those passengers who is coming to India after a stay abroad of about six months.

Gold may be brought into India in any form, including ornaments; however, a declaration is needed to be filled by the importer for obtaining the permitted quantity of gold from customs bonded warehouse of State Bank of India or from Metal & Mineral Trading Corporation subject to other conditions.

In case where a passenger has declared the gold, but could not clear it for want of sufficient foreign exchange for paying Customs duty, then re-export of the same may be permitted.

Silver

A Non Resident Indian can import silver in any form up to 100 kilos at a time provided he is coming to India after 6 months stay abroad. Duty is payable @ Rs. 500/- per Kilo.

Selling of imported Gold and Silver

Gold and silver so brought by NRIs can be sold to residents against payment in rupees. But it should be credited in rupees and credited to Ordinary Non-resident Rupee (NRO) account of the NRI seller.

Custom Bonded Warehouse
This is an option to take delivery of the metals in India from the customs bonded warehouses to be operated by the State Bank of India and the Minerals and Metals Trading Corporation (MMTC)

1. Sometimes physical carriage of gold involved security hazards, particularly for passengers arriving by flights landing at odd hours during nights, it was thought fit to introduce Customs Bonded Warehouses.
2. This facility would be operated by SBI and MMTC in Delhi, Mumbai and Thiruvananthapuram and specified delivery centers.
3. Passengers availing of this facility would have the option to make the payment for the gold in foreign exchange either abroad or in India.
4. In cases where passengers had made the payment abroad and were found ineligible for import on their arrival in India, appropriate provision for refund would be provided under the scheme.
5. Passengers intending to avail of the facility of delivery of gold through such warehouses would be required to make a declaration to this effect before the customs authorities at the time of their arrival in the country at the respective airports – Sahar, IGI Delhi and Thiruvananthapuram.
6. The eligibility of the passengers would be decided by the customs authorities at the time of customs clearance of the passengers and such passengers would deposit the duty at the airport itself.

Import Drugs and Medicine.
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Introduction
- Form Sample
- Application for permission to import New Drug
- Central Drug Standard Control Organization

Introduction
Any type of life saving drugs and medicine except for those which is otherwise restricted for import can be imported free of any custom duty. An individual or importer is also not required for any import license and the item can be imported registered courier as well.

Customs Notification No. 21/2002-, dated 1.3.2002 exempt specified life saving drugs, medicines including their salts and easters and specified diagnostic test kits from the whole of basic customs and additional customs duties subject to certain conditions. Other life saving drugs or medicines can be imported free of whole of the basic customs and additional customs duties provided.

Its is certified in the Form below, by the Director General or Deputy Director General or Assistant Director General., Health Services, New Delhi, Director of Health Services of the State Government or the District Medical Officer/Civil Surgeon of the district, in each individual case, that the goods are life saving drugs or medicines.

Form Sample
- Certificate No. ------------ Of ---------------- (years)

Certified that the drug/medicine--------------------------------(name of the drug/medicine)
being imported by ------------------------------ is a life saving drugs/medicine and exemption fro the payment of customs duty is recommended.
Signature with date of Director General/Deputy Director General/Assistant Director General, Health Services,
New Delhi or
Director of Health Services or
District Medical Officer/Civil Surgeon
The importer produces the said certificate to the Deputy Commissioner of Customs or the Assistant Commissioner of Customs, as the case may be, at the time of clearance, or gives an undertaking as acceptable to furnish the said certificate

within such period as specified by the Deputy Commissioner or the Assistant Commissioner, failing which to pay duty livable thereon.
Application for permission to import New Drug

No new drug shall be imported, except under, and in accordance with, the permission granted by the Licensing Authority, accompanied by a fee of fifty thousand rupees. The Licensing Authority, after being satisfied that the drug if permitted to be imported as raw material (bulk drug substance) or as finished formulation shall be effective and safe for use in the country, may issue an import permission.
Central Drug Standard Control Organization

CDSCO is the leading organisation in India responsible for quality control of the drugs and medicine imported in India. Central Drug Standard Control Organization is also the licensing authority for the approval of new drugs proposed to be imported as well as the amount of drugs to be imported. The CDSCO functions from 4 zonal offices, 3 sub-zonal offices besides 7 port offices. The four Central Drug Laboratories carry out tests of samples of specific classes of drugs.
Custom Clearance of Imported Goods.

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Introduction
- Bill of Entry
- Amendment of Bill of Entry
- Green Channel facility
- Payment of Duty
- Prior Entry for Shipping Bill or Bill of Entry
- Specialized Schemes
- Bill of Entry for Bond/Warehousing

Introduction
All goods imported into India have to pass through the procedure of customs for proper examination, appraisal, assessment and evaluation. This helps the custom authorities to charge the proper tax and also check the goods against the illegal import. Also it is important to note that no import is allowed in India if the importer doesn’t have the IEC number issued by the DFGT. There is no requirement of IEC number if the goods are imported for the personal use.
Bill of Entry
A Bill of Entry also known as Shipment Bill is a statement of the nature and value of goods to be imported or exported, prepared by the shipper and presented to a customhouse. The importer clearing the goods for domestic consumption has to file bill of entry in four copies; original and duplicate are meant for customs, third copy for the importer and the fourth copy is meant for the bank for making remittances.
If the goods are cleared through the EDI system, no formal Bill of Entry is filed as it is generated in the computer system, but the importer is required to file a cargo declaration having prescribed particulars required for processing of the entry for customs clearance.
In the non-EDI system along with the bill of entry filed by the importer or his representative the following documents are also generally required:-
- Signed invoice
- Packing list
- Bill of Lading or Delivery Order/Airway Bill
- GATT declaration form duly filled in
- Importers/ CHA’s declaration
- License wherever necessary
- Letter of Credit/Bank Draft/wherever necessary
- Insurance document
- Import license
- Industrial License, if required

- Test report in case of chemicals
- Adhoc exemption order
- DEEC Book/DEPB in original
- Catalogue, Technical write up, Literature in case of machineries, spares or chemicals as may be applicable
- Separately split up value of spares, components machineries
- Certificate of Origin, if preferential rate of duty is claimed
- No Commission declaration

Amendment of Bill of Entry

Whenever mistakes are noticed after submission of documents, amendments to the bill of entry is carried out with the approval of Deputy/Assistant Commissioner.

Green Channel facility

Some major importers have been given the green channel clearance facility. It means clearance of goods is done without routine examination of the goods. They have to make a declaration in the declaration form at the time of filing of bill of entry. The appraisement is done as per normal procedure except that there would be no physical examination of the goods.

Payment of Duty

Import duty may be paid in the designated banks or through TR-6 challans. Different Custom Houses have authorised different banks for payment of duty and is necessary to check the name of the bank and the branch before depositing the duty.

Prior Entry for Shipping Bill or Bill of Entry

For faster clearance of the goods, provision has been made in section 46 of the Act, to allow filing of bill of entry prior to arrival of goods. This bill of entry is valid if vessel/aircraft carrying the goods arrive within 30 days from the date of presentation of bill of entry.

Specialized Schemes

Import of goods under specialized scheme such as DEEC and EOU etc is required to execute bonds with the custom authorities. In case failure of bond, importer is required to pay the duty livable on those goods. The amount of bond would be equal to the amount of duty livable on the imported goods. The bank guarantee is also required along with the bond. However, the amount of bank guarantee depends upon the status of the importer like Super Star Trading House/Trading House etc.

Bill of Entry for Bond/Warehousing

A separate form of bill of entry is used for clearance of goods for warehousing. Assessment of this bill of entry is done in the same manner as the normal bill of entry and then the duty payable is determined.

Import of Scrap and Waste Products.

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Under the Exim Policy 2002-2007, following list of items are allowed to import in India without any license or certificate.

1. Any form of metallic waste, scrap or any defective item which is far below their original price.
2. Any material that does not contain any kind of hazardous waste or radioactive element in it.
3. Waste paper material.
4. Woolen Rags or shoddy wool in completely mutilated form.
5. PET bottle waste.
6. Import of any kind of old ships, which are now not in use can also be done in India under the guidelines issued by the Ministry of Shipping.

For the import of metal scrap, from a country involve in any kind of war or rebellion activities, following documents are required from the exporters side.

1. Pre-shipment inspection certificate from a reputed inspection or certification agencies as mentioned in the Handbook of Procedure Volume-1 to the effect that

1. The consignment does not contain any type of arms and ammunition or radioactive waste.

2. Imported item must be a metallic waste or scrap as per internationally defined parameters.
2. Contract agreement between the importer and the exporter does not contain any kind of arms, ammunition, mines, shells, cartridges, radioactive waste or any other explosive material in any form.

Import of Laptops and Personal Computers.

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- Introduction
- Export Certificate
- Import of Second hand computers etc

Introduction

According to the new rules, a person of 18 years of age and has stayed more then 3 days overseas can get a laptop to India duty free as a part of baggage. However, it should also be noted that an individual can only

Export Certificate

Laptops or any other goods of high value taken out from India by a passenger while going abroad can be imported again into India free of duty provided the passenger had received an export certificate from the Customs in respect of that particular item while going abroad.

Import of Second hand computers etc

The Government of India exempts second hand computers and computer peripherals including printer, plotter, scanner, monitor, keyboard and storage unit from the whole of duty and additional duty of customs liable thereon under the First Schedule of the Customs Tariff Act, 1975 (51 of 1975), when received as donation by –

- A School run by the Central Government or, Government of a State or, a Union territory or, a local body;
- An Educational Institution run on non-commercial basis by any organization;
- A Registered Charitable Hospital.
- A Public Library.
- A Public Funded Research and Development Establishment.
- A Community Information Centre run by, the Central Government or, Government of a State or, a Union territory or, local body.
- An Adult Education Centre run by the Central Government or, Government of a State or, a Union territory or, a local body.

The import duty for bringing laptops into India is zero. However you are limited to 1 laptop per passenger.For the second one, you need to pay customs duty.

Dos and Don't Dos in Imports.

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- Do's
- Don,ts

Do's

1. Open LC or import transactions only for customers and open only if the party has got sanction limit.
2. Allow import of restricted items as per procedure laid down in the Exim Policy.
3. Handover import documents only to drawee or his PA holder against property acknowledgement.
4. Allow payment for import by debit to customer’s account.
5. Allow payment for the bills beyond six months and also allow payment of overdue interest on sight bills for a period not exceeding six months.
6. Allow payment to local agents on commission basis. In case of overseas agent, allow commission as per FEMA guidelines.
7. Verify the imported items under the LC.
8. Issue amendments to LC only on the basis of written request.
9. Verify whether the payment method in Letter of Credit is done as per FEMA guidelines or not.
10. In case of default payment, crystallise the bill on 10th day of the month.

11. Allow import provided goods are consigned to bank account opener.
12. Insist for insurance cover at the time of opening the LC.
13. Allow opening of LC on DA basis provided the Usance does not exceed more than 180 days.
14. Allow opening of Transferable LCs provided transfer is restricted to specified second beneficiaries whose credit report is satisfactory.
15. Verify the Letter of Credit application form to ensure whether they are properly filled and stamped.
15. Report to the RBI (Reserve Bank of India) if the bill of entry is not received.
16. Sell the imported goods, only after getting permission from ITC authorities.

17. Keep one copy of shipping documents, invoice and other papers for future inspection by the custom inspector or the Reserve Bank of India.

Don'ts

1. Issue the Letter of Credit if the customer doesn’t have IEC number.
2. Open LC without proper transport documents.
3. Allow advance payment without proper documentation.
4. Forward the documents to third party without permission from the importer.
5. Import prohibited or restricted items without import license.
6. Allow direct remittance of import bills beyond the limit and without EC copy of bill of entry.
7. Open revolving LC without safety clause.
8. Amendments to the Letter of Credit for import of those items which is either restricted or prohibited.
9. Allow import documents received under collection paid without verifying importers line of business and financial standing.

Importer Exporter Code Number

Definition of IEC Code
Full form of IEC Code Number
India IEC Code No Notification
Eligibility, Legal Provisions and Conditions for IEC Code Number
Application for Grant of IEC Number
IEC Code Online Application Form
List Of Regional Authorities Of DGFT And The Corresponding Office of RBI, Exchange Control Department
Validity of IEC Code No
Duplicate Copy of IEC Code Number
Surrender of IEC Number
Application Fee For IEC Code Number
Territorial Jurisdiction of Regional Authorities
Filing of IEC Code Application
Profile of Importer/ Exporter
Self Addressed Stamped Envelope
IEC No: Exempted Categories
Guidelines for Application of IEC Code Number.

Definition of IEC Code

IEC Code is unique 10 digit code issued by DGFT – Director General of Foreign Trade , Ministry of Commerce, Government of India to Indian Companies.

Full form of IEC Code

Full From of IEC Code is : “Importer Exporter Code ”. To import or export in India, IEC Code is mandatory. No person or entity shall make any Import or Export without IEC Code Number.

IEC Code No Notification

Directorate General of Foreign Trade(DGFT) issued a Policy Circular No.15 (RE-2006)/2004-2009 Date: 27th July, 2006) for New System for issuance of Importer-Exporter Code Number.

Eligibility, Legal Provisions and Conditions for IEC Code Number

Eligibility condition and Legal Provisions are given for IEC Code Number Application in Foreign Trade (Regulation) Rules, 1993 Ministry of Commerce, Notification No. GSR 791 (E), dated 30-12-1993.

Application for Grant of IEC Number
An application for grant of IEC number shall be made by the Registered/Head Office of the applicant and apply to the nearest Regional Authority of Directorate General Foreign Trade, the Registered office in case of company and Head office in case of others, falls in the ‘Aayaat Niryaat Form - ANF2A’ and shall be accompanied by documents prescribed therein. In case of STPI/ EHTP/ BTP units, the Regional Offices of the DGFT having jurisdiction over the district in which the Registered/ Head Office of the STPI unit is located shall issue or amend the IECs.

Only one IEC would be issued against a single PAN number. Any proprietor can have only one IEC number and in case there are more than one IECs allotted to a proprietor, the same may be surrendered to the Regional Office for cancellation.
IEC Code Online Application Form
The application can be download Form in PDF or Word. This is called "Aayaat Niryaat Form - ANF2A". Along with IEC Code Number Application Form it is necessary to submit Appendix-18B Attested by Applicant's Banker in his letter head with two passport size photo).

List Of Regional Authorities Of DGFT And The Corresponding Office of Reserve Bank Of India, Exchange Control Department
You can find the list of Foreign Exchange Control Department of the RBI as given in Appendix-18D.
Validity of IEC Code No
An IEC number allotted to an applicant shall be valid for all its branches/divisions/units/factories as indicated in the format of IEC given in Appendix- 18B.
Duplicate Copy of IEC Number
Where an IEC Number is lost or misplaced, the issuing authority may consider requests for grant of a duplicate copy of IEC number, if accompanied by an affidavit.
Surrender of IEC Number
If an IEC holder does not wish to operate the allotted IEC number, he may surrender the same by informing the issuing authority. On receipt of such intimation, the issuing authority shall immediately cancel the same and electronically transmit it to DGFT for onward transmission to the Customs and Regional Authorities.
Application Fee For IEC Code Number
Application Fee : Rs 250.00
Mode of Payment : In Demand Draft of any Bank or Payment through EFT (Electronic Fund Transfer by Nominated Bank by DGFT Like HDFC Bank, ICICI Bank, State Bank of India, UTI Bank, Punjab National Bank, Central Bank etc) or Application fee can deposited by TR6 Challan with Duplicate Copy in any branch of Central Bank of India and TR6 Challan need to be submit along with IEC Code Application.

Specified fee shall be paid for making an application under any provision of the Policy and Handbook of Procedure Volume-I.. The scale of fee, mode of payment, procedure for refund of fee and the categories of persons exempted from the payment of fee are contained in Appendix-21B.
Territorial Jurisdiction of Regional Authorities
Every application, unless otherwise specified, shall be submitted to the Regional Authority of Directorate General Foreign Trade, as per the territorial jurisdiction of the Regional authorities indicated in Policy and Handbook of Procedure Volume-I.

Filing of Application
Application can be filed online in DGFT website, details of online links are given below.

Every application for an Import/Export licence/ certificate/ Authorisation/ permission or any other purpose should be complete in all respects as required under the relevant provisions of the Policy/Procedures and shall be signed by the applicant as defined in paragraph 9.9 of the Policy. An incomplete application is liable to be rejected giving specific reason for rejection. However in case of manual applications, the applicant would furnish a soft copy of the application in MS word format.
Profile of Importer/ Exporter
Each Importer/Exporter shall be required to file importer/ exporter profile once with the Regional Authority in Part 1 of ‘Aayaat Niryaat Form - ANF2A’. Regional Authority shall enter the information furnished in Part 1 of ‘Aayaat Niryaat Form ANF-2A’ in their database so as to dispense with the need for asking the repetitive information. In case of any change in the information given in Part 1 of ‘Aayaat Niryaat Form ANF-2A’, importer/exporter shall intimate the same to the Regional Authority.
Self Addressed Stamped Envelope
The applicant shall furnish a self addressed envelope of 40 x 15 cm with postal stamp affixed on the envelope as follows for all documents required to be sent by Speed Post:

a Within local area Rs. 20.00
b Up to 200 Kms. Rs. 25.00
c Between 200 to 1000 Kms Rs. 30.00
d Beyond 1000 Kms. Rs. 50.00

IEC No: Exempted Categories
The following categories of importers or exporters are exempted from obtaining Importer - Exporter Code (IEC) number:
i. Importers covered by clause 3 (1) [except sub-clauses (e) and (l)] and exporters covered by clause 3(2) [except sub-clauses (i) and (k)] of the Foreign Trade (Exemption from application of Rules in certain cases) Order, 1993.
ii. Ministries/Departments of the Central or State Government.
iii. Persons importing or exporting goods for personal use not connected with trade or manufacture or agriculture.
iv. Persons importing/exporting goods from/to Nepal provided the CIF value of a single consignment does not exceed Indian Rs.25,000.
v. Persons importing/exporting goods from/to Myanmar through Indo-Myanmar border areas provided the CIF value of a single consignment does not exceed Indian Rs.25,000.

However, the exemption from obtaining Importer-Exporter Code (IEC) number shall not be applicable for the export of Special Chemicals, Organisms, Materials, Equipments and Technologies (SCOMET) as listed in Appendix- 3, Schedule 2 of the ITC(HS) except in the case of exports by category(ii) above.
vi. The following permanent IEC numbers shall be used by the categories of importers/ exporters mentioned against them for import/ export purposes..
S.No Code Number Categories of Importers/ Exporters
1 0100000011 All Ministries/Departments of the Central Government and agencies wholly or partially owned by them.
2 0100000029 All Ministries/Departments of the State Government and agencies wholly or partially owned by them.
3 0100000037 Diplomatic personnel, Counselor officers in India and the officials of the UNO and its specialised agencies.
4 0100000045 Indians returning from/going abroad and claiming benefit under

the Baggage Rules.
5 0100000053 Persons/ Institutions/ Hospitals importing or exporting goods for personnel use, not connected with trade or manufacture or agriculture.
6 0100000061 Persons importing/ exporting goods from/to Nepal provided the CIF value of a single consignment does not exceed Indian Rupees 25000/-.
7 0100000070 Persons importing/ exporting goods from/to Myanmar through Indo-Myanmar border areas provided the CIF value of a single consignment does not exceed Indian Rupees 25000/-.
8 0100000088 Ford Foundation
9 0100000096 Importers importing goods for display or use in fairs/exhibitions or similar events under the provisions of ATA carnet.
10 0100000100 Director, National Blood Group Reference Laboratory, Bombay or their authorized offices.
11 0100000126 Individuals/Charitable Institutions/ Registered NGOs importing goods, which have been exempted from Customs duty under the Notification issued by Ministry of Finance for bonafide use by the victims affected by natural calamity.

12 0100000134 Persons importing / exporting permissible goods as notified from time to time, from/to China through Gunji and Namgaya Shipkila ports, provided the CIF value of a single consignment does not exceed Indian Rs.25,000. In case of Nathula port, the applicable value ceiling will be Rs.100,000.
13 0100000142 Ordinance factories under the Ordinance Factories Organisation.
14 0100000151 Deleted (Deleted (Ref. DGFT Public Notice No.36(RE-2008)/2004-2009, dated 01-07-2008.) [Old- The Directorate of Purchase and Stores, Department of Atomic Energy,Government of India.]
15 0100000169 Non-commercial imports and exports by entities who have been authorized by Reserve Bank of India.
Note: Commercial Public Sector Undertaking (PSU) who have obtained PAN will however be required to obtain Importer Exporter Code number. The permanent IEC number as mentioned above, shall be used by non-commercial PSUs.
Guidelines for Application of IEC Code Number.
Mandatory Requirements to apply for IEC Code Number
7. PAN Number
8. Current Bank Account
9. Bankers Certificate
10. IEC Code Number Application Fee Rs 250.00
(Expert TIP : Pay via EFT (Electronic Fund Transfer), and submit IEC Online Application form, If you wish to receive IEC Number instantly)
11. The physical application containing required documents should reach DGFT RLA concerned within 15 days of its online submission.
12. E-mail is not mandatory. If it is provided it will facilitate faster communication.
Check List of Documents to apply for IEC Code
13. Covering Letter on your company's letter head for issue of new IEC Code Number.
14. Two copies of the application in prescribed format (Aayaat Niryaat Form ANF 2A) must be submitted to your regional Jt.DGFT Office.
15. Each individual page of the application has to be signed by the applicant.
16. Part 1 & Part 4 has to be filled in by all applicants. In case of applications submitted electronically.
17. No hard copies of Part 1 may be submitted. However in cases where applications are submitted otherwise, hard copy of Part 1has to be submitted.
18. Only relevant portions of Part 2 need to be filled in.
19. Rs 250.00 Bank Receipt (in duplicate)/Demand Draft/EFT details evidencing payment of application fee in terms of Appendix 21B.
20. Certificate from the Banker of the applicant firm in the format given in Appendix 18A.
21. Self certified copy of PAN issuing letter or PAN (Permanent Account Number)

Card issued by Income Tax Authority.
22. Two copies of passport size photographs of the applicant duly attested by the Banker of the applicant.
23. Self addresses envelope with Rs.25/- postal stamp for delivery of IEC certificate by registered post or challan/DD of Rs.100/- for speed post.
IEC Code Number Related links
DGFT Online IEC Code Number Application Form -ANF-2A
View Your IEC Status : http://dgft.delhi.nic.in:8100/dgft/IecPrint
IEC Status at Custom(BIN) : http://164.100.9.176/iecstatus.html
International Commercial Terms - Incoterm 2000.

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Incoterms 2000 - International Commercial Terms used in Export Import

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- Objectives
- EXW-Ex Works
- FCA-Free Carrier
- FAS-Free Alongside ship
- FOB-Free On Board
- CFR-Cost And Freight
- CIF-Cost, Insurance And Freight
- CPT-Carriage Paid To
- CIP-Carriage And Insurance Paid To
- DAF-Delivered At Frontier
- DES-Delivered Ex-Ship
- DEQ-Delivered Ex-Quay
- DDU-Delivered Duty Unpaid
- DDP-Delivered Duty Paid

Objectives
Incoterms are internationally accepted commercial terms, developed in 1936 by the International Chamber of Commerce (ICC) in Paris. Incoterms 2000 define the respective roles of the buyer and seller in the agreement of transportation and other responsibilities and clarify when the ownership of the merchandise takes place. These terms are incorporated into export-import sales agreements and contracts worldwide and are a necessary part of foreign trade.

Incoterms are used in union with a sales agreement or other methods of sales transactions and define the responsibilities and obligations of both, the exporter and importer in Foreign Trade Transactions.

The main objectives of Incoterms 2000 revolve around the contract of Foreign Trade concerned with the loading, transport, insurance and delivery transactions. Its main function is the distribution of goods and regulation of transport charges.

Another significant role played by Incoterms is to identify and define the place of transfer and the transport risks involved in order to justify the ownership for support and damage of goods by shipments sent by the seller or the buyer in an event of execution of transport.

Incoterms make international trade easier and help traders in different countries to understand one another. These International Commercial Terms are the most widely used international contracts protected by the ICC copyright.

Incoterms safeguard the following issues in the Foreign Trade contract or International Trade Contract:
1. To determine the critical point of the transfer of the risks of the seller to the buyer in the process forwarding of the goods (risks of loss, deterioration, robbery of the goods) allow the person who supports these risks to make

arrangements in particular in term of insurance.
2. To specify who is going to subscribe the contract of carriage that is to say the seller (exporter) or the buyer (importer).
3. To distribute between the seller and the buyer the logistic and administrative expenses at the various stages of the process.
4. It is important to define who is responsible for packaging, marking, operations of handling, loading and unloading, inspection of the goods.
5. Need To confirm and fix respective obligations for the achievement of the formalities of exportation and importation, the payment of the rights and taxes of importation as well as the sending of the documents. In dealing Foreign Trade there are 13 Incoterms globally adopted by the International Chamber of Commerce.

INTERNATIONAL INCOTERMS

Incoterms or International commercial terms make trade between different countries easier. International Commercial Terms are a series of international trade terms that are used are used worldwide to divide he transaction costs and responsibilities between the seller and the buyer and reflect state-of-the-art transportation practices.

Incoterms directly deal with the questions related to the delivery of the products from the seller to the buyer. This includes the carriage of products, export and import responsibilities, who pays for what and who has the risk for the condition of the products at different locations within the transport process.

Incoterms and world customs Incoterms deal with the various trade transactions all over the world and clearly distinguish between the respective responsibilities of the seller and the buyers.

The 13 International Incoterms are:

Departure of goods by international transport with the risks and dangers to the Seller (Exporter) and Buyers (Importers)
1. "EXW"- Ex Works
Title and risk pass to buyer including payment of all transportation and insurance cost from the seller's door. Used for any mode of transportation.

Seller : In EXW shipment terms the Seller (Exporter) provides the goods for collection by the Buyer (Importer) on the seller or exporter's promise. Responsibility for the seller is to put the goods, in a good package which is adaptable and disposable by the transport.

Buyer : The buyer or Importer arranges insurance for damage transit goods. The Buyer or importer has to bear all costs and risks involved in shipment transactions.

(However, if the parties wish the seller to be responsible for the loading of the goods on departure and to bear the risks and all the costs of such loading, this should be made clear by adding explicit wording to this effect in the contract of sale.)
2. "FCA"- Free Carrier named point
"FCA"- Free Carrier named point: Title and risk pass to buyer including transportation and insurance cost when the seller delivers goods cleared for export to the carrier. Seller is obligated to load the goods on the Buyer's collecting vehicle; it is the Buyer's obligation to receive the Seller's arriving vehicle unloaded.

Seller : The Seller’s responsibility is to deliver the goods into the custody of the transporters at defined points. It is important for the chosen place of delivery to have an impact on the obligations of loading and unloading the goods.

Buyer : The Buyer nominates the means of transport or shipping mode and pays the shipment charges.

The seller and the buyer agree upon the place for delivery of goods. If the buyer nominates a person other than a carrier or transporter to receive the goods, the seller is deemed to fulfill his obligation to deliver the goods when they are delivered to that person.

3. "FAS"- Free Alongside Ship

FAS- Free Alongside ship: Title and risk pass to buyer including payment of all transportation and insurance cost once delivered alongside ship by the seller. Used for sea or inland waterway transportation. The export clearance obligation rests with the seller.

In FAS has price includes all the costs incurred in delivering the goods alongside the vessel at the port or nominated place of the buyer but there is not applicable charges to the seller for loading the goods on board of vessel and no ocean freight charges and marine insurance.

Seller: The responsibility of the seller are fulfilled when the goods are placed cleared along the ship.

Buyer: Buyer or Importer bear all the expenses and risks of loss or damage of transit goods which are delivered along the ship.

4. "FOB" - Free On Board

The FOB (Free on Board) price is inclusive of Ex-Works price, packing charges, transportation charges upto the place of shipment., Seller also responsible for o clear customs dues, quality inspection charges, weight measurement charges and other export related dues. It is important that the shipment term in the Bill of Lading must carry the wording "Shipped on Board' it must bear with signature of transporter or carrier or his authorized representative with the date on which goods were "Boarded".

Seller :Seller responsible for clear customs dues, quality inspection charges, weight measurement charges and other export related dues. It is important that the shipment term in the Bill of Lading must carry the wording "Shipped on Board' it must bear with signature of transporter or carrier or his authorized representative with the date on which goods were "Boarded".

Buyer : The buyer indicates the ship and pays freight, transfer expenses and risks is done when the goods passes or forwarding to the buyers warehouse by rail or ship.

5. "CFR"- Cost And Freight

In this term the exporter bears the cost of carriage or transport to the selected destination port, in this term the risk transferable to the buyers at the port of shipment.

Seller: The chooses the carrier, concludes and bears the expenses by paying freight to the agreed port of destination, unloading not included. The loading of the duty-paid goods on the ship falls on him as well as the formalities of forwarding. On the other hand, the transfer of risks is the same one as in FOB.

Buyer: The buyers supports all the risk of transport, when the goods are delivered aboard by ship at the loading port, buyer receives it from the carrier and takes delivery of the goods from nominated destination port.

6. "CIF"- Cost, Insurance And Freight

CIF- Cost, Insurance and Freight: Title and risk pass to buyer when delivered on board the ship by seller who pays transportation and insurance cost to destination port. Used for sea or inland waterway transportation.

This Term involves insurance with FOB price and ocean freight. The marine insurance is obtained by the exporter at his cost against the risk of loss or damage to the goods during the carriage.

Seller: The CFR extends additional obligation to the seller for providing a maritime So insurance against the risk of loss or damage to the goods. The seller pays the insurance premium.

Buyer: He supports the risk of transportation, when the goods have been delivered aboard the ship at the loading port. He takes delivery of the goods from the carrier to the appointed port or destination.

7. "CPT"- Carriage Paid To

CPT- Carriage Paid To: Title, risk and insurance cost pass to buyer when delivered to carrier by seller who pays transportation cost to destination. Used for any mode of transportation.

This term uses land transport by rail, road and inland waterways. The seller and exporter are responsible for the carriage of goods to the nominated destination and have to pay freight up the first carrier.

Seller: The seller or exporter controls the supply chain after paying customs clearance for export. Seller or Exporter select the carrier and pay the expenses up to the destination.

Buyer: The risks of goods damages or loss are supported by the buyer as goods are given by the first carrier. The buyer or importer has to pay importation customs clearance and the unloading costs.

8. "CIP"- Carriage And Insurance Paid To

CIP- Carriage and Insurance Paid To: Title and risk pass to buyer when delivered to carrier by seller who pays transportation and insurance cost to destination. Used for any mode of transportation.

This term is similar to Carriage Paid To but the seller has to arrange and pay for the insurance against the risk or loss or damage of the goods during the shipment.

Seller: The seller or buyer has to provide insurance and seller pays the freight and insurance premium.

Buyer: The buyer or importer supports the risks of damages or loss, as goods are given to the first carrier. The buyer has to pay customs clearance and unloading charges.

9. "DAF"- Delivered At Frontier

DAF- Delivered At Frontier: Title, risk and responsibility for import clearance pass to buyer when delivered to named border point by seller. Used for any mode of transportation.

This term is used when the goods are to be carried by rail or road.

Seller : The seller is responsible to make the goods available to the buyer by the carrier till the customs border as defined in sales contract.

Buyer : The buyer takes delivery of the goods at the contract agreed point border and he is responsible for bearing all customs formalities.

10. DES"- Delivered Ex-Ship

DES- Delivered Ex-Ship: Title, risk, responsibility for vessel discharge and import clearance pass to buyer when seller delivers goods on board the ship to destination port. Used for sea or inland waterway transportation.

Seller: The seller is responsible to make the goods available to the buyer up to the named quay or after crossing the customs border.

Buyer: The buyer takes delivery of the goods from ship at destination port and pays the expenses of unloading.

11. DEQ"- Delivered Ex-Quay

DEQ- Delivered Ex-Quay: Title and risk pass to buyer when delivered on board the ship at the destination point by the seller who delivers goods on dock at destination point cleared for import. Used for sea or inland waterway transportation.

12. "DDU"- Delivered Duty Unpaid

DDU- Delivered Duty Unpaid: Seller fulfills his obligation when goods have been made available at the named place in the country of importation.

Seller: The seller is responsible for all transportation cost and accept the customs duty and taxes as per defined in customs procedures.

Buyer: The buyer is responsible of the importation customs formalities.

13. "DDP"- Delivered Duty Paid

DDP- Delivered Duty Paid: Title and risk pass to buyer when seller delivers goods to the named destination point cleared for import. Used for any mode of transportation.

Seller: The seller is responsible to make the goods available to the buyer at his risk and cost as promised by the buyer. All the Taxes and duty on importation is promised by the buyer to the seller.

Buyer: The buyer is responsible to take delivery at a nominated place and pays the expenses for unloading of goods.

If you liked this please convey thanks to my friend rai.nemiraj@yahoo.com.