TOPIC: PREPARING EXPORT CONTRACT - SALIENT FEATURES

1) PRODUCT DESCRIPTION HS/ITC

2) EXPORT WORTHY PACKING / PACKAGING

3) QUANTITY

4) PRICE DENOMINATION

5) SHIPMENT

6) PAYMENT TERMS

7) DOCUMENTATION

8) FORCE MEJEURE CLAUSE

9) VALIDITY OF THE OFFER

EXPORT GUIDANCE CENTRE

TOPIC - PREPARING EXPORT CONTRACT

There is no specific format for preparing export contract. It can be offer/estimate/ profoma invoice. Exporter prepares any of these containing terms and conditions. Overseas client accepts it and it becomes a contract

The important points in your offer/profoma shoutd be as under

1. Product description with specification, technical characterizes with 8 digit code number-Hs/ITc Harmanised system, Indian trade control
2. Export worthy packing/packaging
3. Quantity- in suitable number kgs-MT, litre, Kl
4. Price-denomination-export contract can denominate in INR or convertible foreign currency i.e US $- Euro pound sterling japanese Yen Y, German DM Deutse mark

In case of denomination in INR, the payment has to be received in convertible foreign exchange

Note to be included in the price that prices are based on current rate of exchange, sea-freight insurance etc. Any variation will result into variation in price

Specify terms FOB C&F CIF etc. followed by name of port e.g FOB nhava seva, C&F London CIF New,york also in INCOTERMS

5. Shipment- In export trade word shipment is to be indicated and not delivery as exporter has to ensure shipment as per schedule in terms of weeks/months
6. Payment term - DP (document against payment)
   DA (document against acceptance)
   Through L/C (letter of credit) name and address of bank to be provided, along with provision to be included in LC

7. Labelling, packaging, packing, case marking

8. Document to be specific such as number of copies of commercial invoice, packing list, bill of lading certificate of origin and quality assurance certificate etc
9. References - indicate details of correspondence- email exchanged between yourself and prospective foreign client
10. Force mejeur clause
11. Validity of the offer

EXPORT GUIDANCE CENTRE

TOPIC: EXPORT TERMS OF DELIVERY

1) EX - WORK

2) FAS

3) FOB

4 C& F

5) CIF

INCOTERMS:

1) EXW

2) FCA

3) CIP

4) DAF

5) DDU

6) DDP

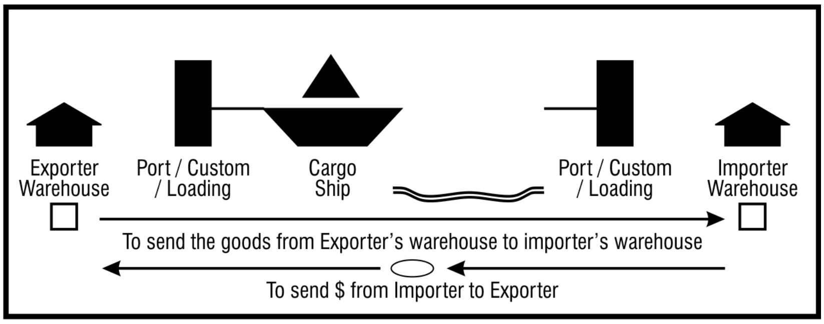
EXPORT GUIDANCE CENTRE

TOPIC- EXPORT TERMS OF DELIVERY AND INCOTERMS

Guided Imports		DAP Incoterm 2020 Delivered At Place (place) Any Mode or Modes of Transport								Transfer of Risk:	At Named Place
Export Packaging	Loading Charges	Delivery to Port/Place	Export Duty, Taxes & Customs Clearance	Origin Terminal Handling Charges	Loading on Carriage	Freight Charges	Insurance	Destination Terminal Handling Charges	Delivery to Destination	Unloading at Destination	Import Duty, Taxes & Customs Clearance
SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	*Negotiable*	SELLER	SELLER	BUYER	BUYER

EXPORT TERMS OF DELIVERY

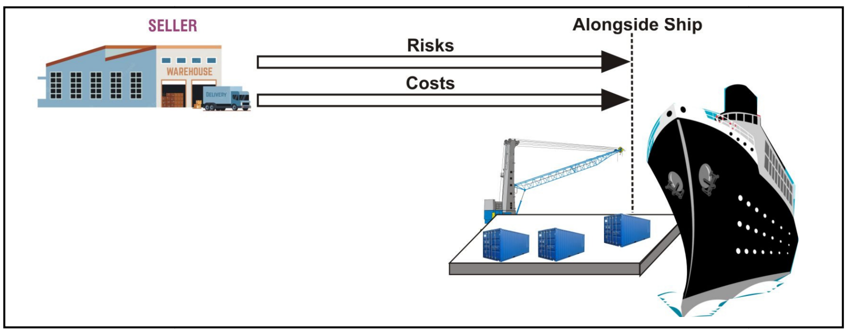
In export trade, both exporter and importer (your foreign client) decide delivery terms mutually, to understand their responsibilities in dealing with export consignment



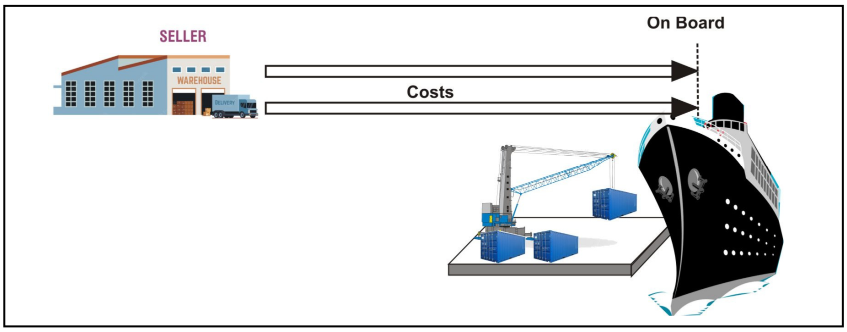
These are from port to port basis i.e from JN port to NewYork/Tokyo

1. Ex work, ex factory, Ex mills- this means price of your export product plus packing suitable for your product. The expenses onwards from your works or your factory will be borne by your foreign buyer. This term is not now generally used in export trade

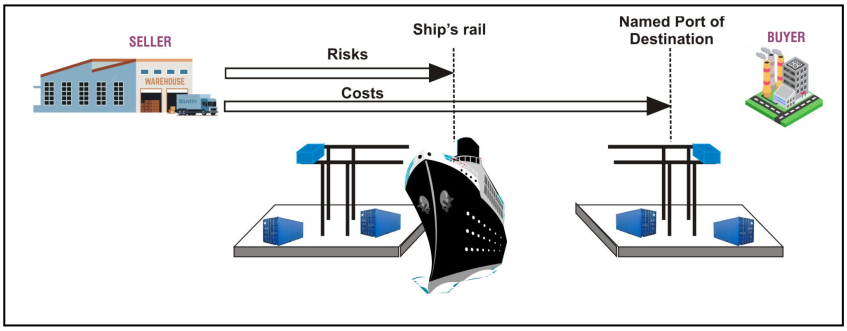
2. FAS - Free alongside ship. This term is not used in India but is widely used in other countries. Exporter has to place merchandise alongside the vessel at the named port. This term is suitable for product like locomotives and heavy steel cargo etc.



3. FOB - Free on board- this includes ex work price, export worthy packing charges, inland transportation cost from your factory to the port of shipment, clearing and forwarding charges, customs duties and cost of examination/ checking of goods,. if any. In this term sea-freight/ air freight, marine insurance are covered by your client(importer) This is price upto port of shipment

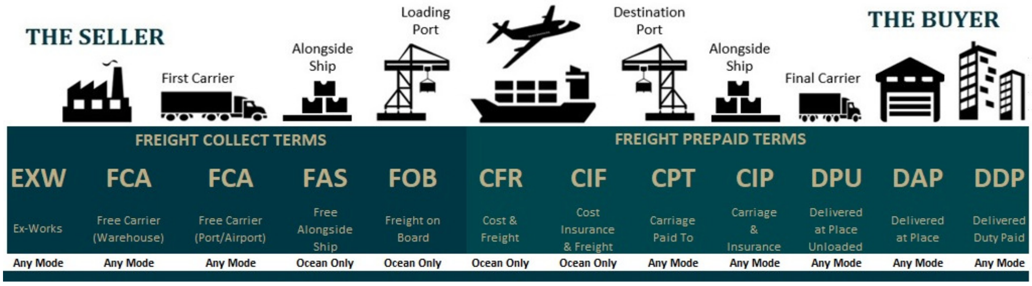


4. C&F -COST AND FREIGHT- This term includes FOB cost plus freight from port of shipment to the port of destination. All other cost after this will be to buyer's account, BY C&F terms we mean that sea freight/air freight included in price and foreign client/ importer covers marine insurance



5. CIF-COST INSURANCE FREIGHT- this includes cost of goods, sea/air freight and marine insurance that is total cost up to the port of destination. In case of this term the exporter has to arrange payment of freight as well cover marine insurance

EXPORT GUIDANCE CENTRE



INCOTERMS.

INCO TERMS mean international commercial terms. These are introduced because of increasing use of electronic data inter change and new transport techniques i.e multimodal transport. The multi modal transport includes transportation by vessel, by roads by railways and the delivery of export cargo is made up to final point of the foreign client. These terms are used for delivery from point to point.

Exporter (Godown in India)	→	Truck	→	Custom Clearance	→	Loading on Ship (Terminal Handling charges)	→	Ship (Freight)
(1)		(2)		(3)		(4)		(5)

1) Loading on Truck
2) Truck Charges
3) Custom Clearance
4) Loading on Ship
5) Freight from New York
6) Insurance
7) Custom Clearance
8) Import Duty
9) Local Transport
10) To final destination

FAS

FOB

CFR

CIP
CIF

DDP

	↓
	New York Port
	↓
6)	Insurance
	↓
7)	Custom Clearance
	↓
8)	Import Duty
	↓
9)	Local Transport
	↓
10)	To Final Destination

INCOTERMS 2020 RULES - are the official term published by the international chambers of commerce (ICC) these are voluntary, authoritative, globally-accepted, and adhered-to text for determining the responsibilities of buyers and sellers for the delivery of goods under sales contract for international trade. Inco-terms closely correspond to the U.N. convention on contracts for the international sales of goods. Inco terms are known and implemented by all the major trading nations. These terms facilitates importer to calculate his total handling of his cargo with one agency who operates on international bases

EXW (EX WORKS NAMED PLACE) - this means exporter fulfills obligation to deliver at his premises i.e factory or warehouse, the foreign buyer bear all cost and risk.

1. **FCA (FREE CARRIER NAMED PLACE) -** This means the exporter has fulfilled his obligation to deliver when he hands over goods for export in to the charge of carrier. Carrier means a person who is in a contract of carriage and undertake the performance of carriage by rail road and sea
2. **CPT (CARRIAGE PAID TO)-** this means that exporter pays freight of carriage of goods to the named destination

3. **CIP (CARRIAGE INSURANCE PAID)** this means the exporter has same obligation under CPT with addition that exporter has to cover cargo insurance

4. **DAF (DELIVERED AT FRONTEIR)-** this means exporter fulfills his obligation to deliver when goods have made available, cleared for export at the named, point, place of the frontier but before custom border of the adjoining country.

5. **DDU (DELIVERED DUTY UNPATD)** - This mean that exporter fulfills his obligation to deliver when goods have been made available at the named place of the country of importer. The exporter has to bear the cost and risk involved in bringing the goods there as well as cost and risk and carrying out custom formalities. Duties, taxes and other official chargers paid by the importer/buyer

6. **DDP (DELIVERED DUTY PAID) -** This means that exporter fulfils his obligation to deliver when the goods have been made available at the name place in the country of importation. The exporter has to bear the risk and cost including duties, taxes and other charges of delivering the goods there to clear for importation.

EXPORT GUIDANCE CENTRE

TOPIC: EXPORT PAYMENT TERMS

1) CASH AND CARRY

2) ADVANCE PAYMENT

3) DP TERMS

4) DA TERMS

5) THROUGH DOCUMENTARY LETTER OF CREDIT

6) TYPES OF L/C

1) REVOCABLE

2) IRREVOCABLE

3) CONFIRMED AND UNCONFIRMED

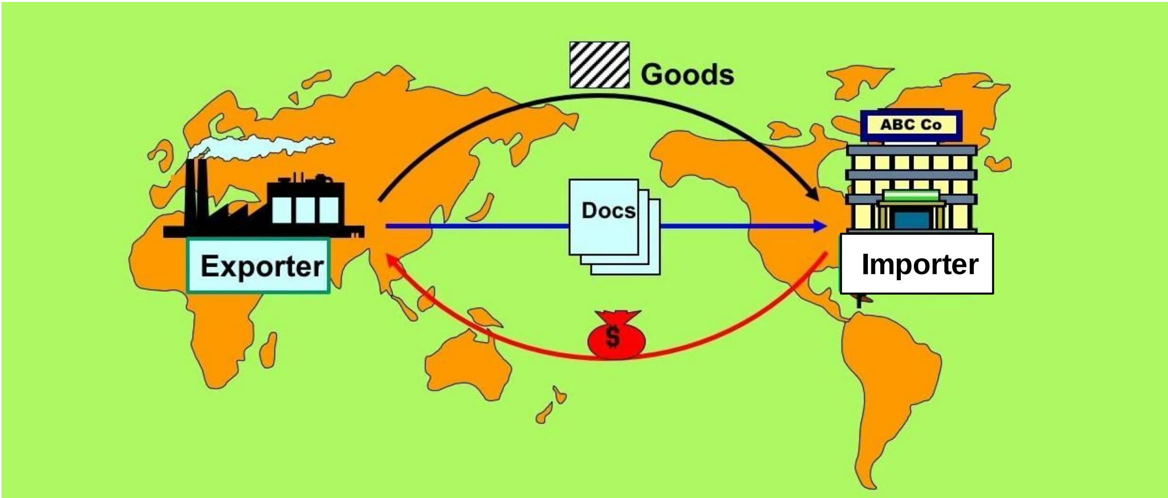
4) WITH RECOURSE AND WITHOUT RECOURSE

5) TRANSFERABLE

6) RED CLAUSE

7) BACK TO BACK

8) L/C CHECK POINTS



TOPIC - EXPORT PAYMENT TERMS

In export all payments are received through banking channel. i.e exporters bank in India and foreign buyers (importer) bank in his country.

1. Cash and carry or advance payment: this is the most ideal method of payment to exporter. However cash and carry widely prevails only in case of foreign tourist purchasing goods in India. Advance payment in part or full is decided in case of Projects by Indian exporter

2. Documents against payment terms (DP TERMS) - in this method exporter draws bill of exchange (draft) and presents it to the client along with shipping documents like bill of landing, and invoice through his bank. Exporter's client obtains document from his bank after payment. In this method there is risk involved as exporter has already shipped the goods and goods are out of his control. In case foreign client (importer) fails to pay, or refuses to pay, the exporters is at a loss. This method is based on mutual trust where exporter and his client have established faith in each other and exporters has a guarantee to receive his payment on presentation of document.
3. Documents against Acceptance (DA terms) in this method draft and shipping document handed over by his bank to foreign client and by acceptance, the document are delivered to foreign client immediately and the payment may take place after sixty days ninety days depending upon the agreed terms between exporters and his client. After the period of credit bank approaches your foreign client for payment and collect the payments from him and transmits the same to exporter. This method involves giving credit of a specified period says 90 days, 120 days. This method is also risky as your foreign client receives the cargo but he may fail or refuse the payment and it is a risky proposition for exporter.
4. Payment through documentary letter of credit (L/C) A letter of credit is an instrument issued by bank in favour of exporter thereby the bank undertakes to pay the exporter

given sum of money against the evidence of trade document. Since bank deals in document and not in export of goods, it is called documentary credit.

L/C has four parties

a. Your client (buyer) applicant of L/C who opens the L/C through his bank is called opener of L/C
b. Yourself i.e exporter who is called beneficiary of L/C.
c. The bank issuing the L/C your foreign buyers bank
d. Advising or confirming bank

Under the L/C payment you have to submit all shipping document to your bank in India who will present the same to your client bank. Foreign client will retire document after making payment to his bank and remittance wilt be received in bank in India. In case of confirmed L/C you receive payment quickly after presentation of required document as per L/C terms. Here since the banker is the party, your payment is guaranteed by the bank and this is a safe method of receiving payment and is commonly used in export trade. Under L/C terms the exporter can as extend credit facility but payment is assured by bank

TYPES OF L/C

A. Revocable and irrevocable L/C - Revocable L/C can be cancelled and modified at any time by your client i.e opener of L/C without notice. This is risky and hence not acceptable. An irrevocable L/C cannot be cancelled or amended in any way without the beneficiaries prior approval.
B. Confirmed and unconfirmed L/C - when your bank in India adds its confirmation on receiving necessary advise from issuing bank, it binds itself to negotiate document there under. This is confirmed L/C. If corresponding bank does not receive authorisation from issuing bank, it is unconfirmed L/C it is advisable to get confirmed L/C.
C. With recourse or without recourse L/C- If buyer fails to pay after the specified period or unduly delays his payment of the draft, bank can have recourse to exporter to payment of not only amount but also expense. In case of L/C without recourse there is no such provision. Obviously without recourse L/C is safe for exporter.
D. Revolving in L/C - when there is regular flow of trade between an exporter and his client (importer) a revolving L/C of a specific amount is established. The term of L/C allows exporters to draw up to specific amount at any time against the shipment of goods. As soon as the payment is made to the exporter, the importer may reimburse his bank thereby restoring the L/C
E. Transferable L/C - the beneficiary of the L/C has right to give instruction to the bank to make credit available in whole or in part to one or more parties (second beneficiary)This type of L/C is mostly used by exporter who sources his product from Indian buyer. Exporter can transfer his L/C in part or in full.

F. Red clause L/C- it has special clause incorporated in documentary credit, which authorises his local bank to grant advance, if beneficiary opts of such facility
G. Back to back L/C- in this type of L/C, the beneficiary can request his bank to issue a local L/C in favour of supplier on the strength of L/C which has been established in his favour by his overseas buyer From the above it is understood that as far as exporter is concerned, confirmed LC which is irrevocable and without recourse is safe for his interest.

L/C CHECK POINTS
1. First and fore-most, LIC should be routed through your bank to verify its genuiness
2. Is the amount of currency of the L/C correct?
3. Is the tenor of the draft acceptable? is the merchandise described correctly?
4. Are the transportation details correct?
5. Can the shipping date be met?
6. Are the insurance instructions clear and correct?
7. Are the document requirements clear and understandable?
8. Does the LC contain reimbursement instruction?
9. Are the banking fees being paid by the correct parties?