IIBF & NISM Adda

Certificate Examination in

International Trade Finance

(IIBF & Other Exams)

2020-2021

Compiled by

Srinivas Kante B.Tech, CAIIB

CERTIFICATE EXAMINATION IN INTERNATIONAL TRADE FINANCE

Rules & Syllabus 2020
OBJECTIVE
Trade Finance is one of the traditional forms of bank finance in India. In view of reforms and liberalisation, this has gained a new significance. Many of the practices in trade finance have evolved over a period of time and some are guided by Ministry of Commerce and Reserve Bank of India, besides WTO and International Chamber of Commerce through UCPDC 600.
With the increase in the volume of trade both domestically and internationally, there is a need for trade finance professionals from banks as well as corporates.
This comprehensive course aims :
(i) To provide candidates with competencies required to function as trade finance practitioners.
(ii) To enable candidates to possess the needed skill and knowledge to understand clients' needs.
(iii) To enable candidates to handle trade bills of individual clients.

(iv) To enable candidates to attain high ethical and professional standards.

ELIGIBILITY
1. Members and Non-Members of the Institute
2. Candidates must have passed the 12th standard examination in any discipline or its equivalent.

SUBJECT OF EXAMINATION
INTERNATIONAL TRADE FINANCE
PASSING CRITERIA :
Minimum marks for pass in the subject is 60 out of 100.

EXAMINATION FEES* : Particulars	**For Members**	**For Non-Members**
First attempt	Rs.1,000/- *	Rs.1,500/- *
Subsequent each attempt	Rs.1,000/- *	Rs.1,500/- *

MEDIUM OF EXAMINATION :
Examination will be conducted in English only.
PATTERN OF EXAMINATION :
(i) Question Paper will contain 120 objective type multiple choice questions for 100 marks.
(ii) The examination will be held in Online Mode only
(iii) There will NOT be negative marking for wrong answers.
DURATION OF EXAMINATION :
The duration of the examination will be of 2 hours.
PERIODICITY AND EXAMINATION CENTRES :
a) Examination will be conducted on pre-announced dates published on IIBF Web Site. Institute conducts examination on half yearly basis, however periodicity of the examination may be changed depending upon the requirement of banking industry.

b) List of Examination centers will be available on the website. (Institute will conduct examination in those centers where there are 20 or more candidates.)
PROCEDURE FOR APPLYING FOR EXAMINATION
Application for examination should be registered online from the Institute's website www.iibf.org.in. The schedule of examination and dates for registration will be published on IIBF website.
PROOF OF IDENTITY
Non-members applying for Institute's examinations / courses are required to attach / submit a copy of any one of the following documents containing Name, Photo and Signature at the time of registration of Examination Application. Application without the same shall be liable to be rejected.
1) Photo I / Card issued by Employer or 2) PAN Card or 3) Driving Licencse or 4) Election Voter's I/Card or 5) Passport 6) Aadhaar Card

STUDY MATERIAL / COURSEWARE

The Institute has developed a courseware to cover the syllabus. The courseware (book) for the subject/s will be available at outlets of publisher/s. Please visit IIBF website www.iibf.org.in under the menu "Exam Related" for details of book/s and address of publisher/s outlets. Candidates are advised to make full use of the courseware. However, as banking and finance fields are dynamic, rules and regulations witness rapid changes. Therefore, the courseware should not be considered as the only source of information while preparing for the examinations. Candidates are advised to go through the updates put on the IIBF website from time to time and go through Master Circulars / Master Directions issued by RBI and publications of IIBF like IIBF Vision, Bank Quest, etc. All these sources are important from the examination point of view. Candidates are also to visit the websites of organizations like RBI, SEBI, BIS, IRDAI, FEDAI etc. besides going through other books & publications covering the subject / exam concerned etc. Questions based on current developments relating to the subject / exam may also be asked.

Cut-off Date of Guidelines / Important Developments for Examinations

The Institute has a practice of asking questions in each exam about the recent developments / guidelines issued by the regulator(s) in order to test if the candidates keep themselves abreast of the current developments. However, there could be changes in the developments / guidelines from the date the question papers are prepared and the dates of the actual examinations.

In order to address these issues effectively, it has been decided that:

(i) In respect of the examinations to be conducted by the Institute for the period February to July of a calendar year, instructions / guidelines issued by the regulator(s) and important developments in banking and finance up to 31st December will only be considered for the purpose of inclusion in the question papers".

(ii) In respect of the examinations to be conducted by the Institute for the period August to January of a calendar year, instructions / guidelines issued by the regulator(s) and important developments in banking and finance up to 30th June will only be considered for the purpose of inclusion in the question papers.

The table given below further clarifies the situation.

Particulars Developments for Examination/s	**Cut-off Date of Guidelines / Important Developments for Examination/s**
For the examinations to be conducted by the Institute for the period February 2018 to July 2018	31st December 2017
For the examinations to be conducted by the Institute for the period August 2018 to January 2019	30th June 2018

Syllabus

Bank -to- bank reimbursements under Documentary Credits ICC Brochure no 725 (URR 725)

• URC – Uniform customs Rules for Collection

• URDG - Uniform Rules for Demand Guarantee

• URR 525 - Uniform Rules for Reimbursement

• Foreign Trade Policy 2015-2020.

• Customs Procedures – Imports / Exports

• Role of FEDAI, EXIM Bank, ECGC

• Various facilities to Exporters and Importers including forfaiting and factoring.

• Counter trade and Merchanting trade.

• Theories of International Trade.

• Terms of Trade.

• WTO - Its Impact

• Exchange Control / relating to International Trade

• Inco terms Meaning - Obligation of buyers and sellers

• Letter of Credit and UCPDC 600 - Meaning Parties to LC, Different types of LC, Mechanics of LC, Articles of UCPDC

• Exports s

• Pre Shipment - Credit
• Post Shipment - CreditImports
• Bilateral trade, counter trade, high seas sales.
• Maritime frauds, modus operandi and prevention initiatives
• International Finance - method of finance
• Buyers Credit
• Suppliers Credit
• Packing Credit
• LIBOR
• Documents used in Trade - Bill of Exchange, Invoice, Bill of Lading, Airway Bill, Insurance Policy etc.
• Insurance including marine insurance.

Trade finance

Trade finance is the financing of international trade flows. It exists to mitigate, or reduce, the risks involved in an international trade transaction.

There are two players in a trade transaction: (1)an exporter, who requires payment for their goods or services, and (2)an importer who wants to make sure they are paying for the correct quality and quantity of goods.

WHAT ARE THE RISKS?

As international trade takes place across borders, with companies that are unlikely to be familiar with one another, there are various risks to deal with. These include:

Payment risk: Will the exporter be paid in full and on time? Will the importer get the goods they wanted?

Country risk: A collection of risks associated with doing business with a foreign country, such as exchange rate risk, political risk and sovereign risk. For example, a company may not like exporting goods to certain countries because of the political situation, a deteriorating economy, the lack of legal structures, etc.

Corporate risk: The risks associated with the company (exporter/importer): what is their credit rating? Do they have a history of non-payment?

To reduce these risks, banks – and other financiers – have stepped in to provide trade finance products.

TYPES OF TRADE FINANCE PRODUCTS

The market distinguishes between short-term (with a maturity of normally less than a year) and medium to long-term trade finance products (with tenors of typically five to 20 years)

Trade finance signifies financing for trade, and it concerns both domestic and international trade transactions. A trade transaction requires a seller of goods and services as well as a buyer. Various intermediaries such as banks and financial institutions can facilitate these transactions by financing the trade.

While a seller (or exporter) can require the purchaser (an importer) to prepay for goods shipped, the purchaser (importer) may wish to reduce risk by requiring the seller to document the goods that have been shipped. Banks may assist by providing various forms of support. For example, the importer's bank may provide a letter of credit to the exporter (or the exporter's bank) providing for payment upon presentation of certain documents, such as a bill of lading. The exporter's bank may make a loan (by advancing funds) to the exporter on the basis of the export contract.

Other forms of trade finance can include Documentary Collection, Trade Credit Insurance, Finetrading, Factoring or Forfaiting. Some forms are specifically designed to supplement traditional financing.

Secure trade finance depends on verifiable and secure tracking of physical risks and events in the chain between exporter and importer. The advent of new information and communication technologies allows the development of risk mitigation models which have developed into advance finance models. This allows very low risk of advance payment given to the Exporter, while preserving the Importer's normal payment credit terms and without burdening the importer's balance sheet. As trade transactions become more flexible and increase in volume, demand for these technologies has grown.

Products and services

Banks and financial institutions offer the following products and services in their trade finance branches.

- Letter of credit: It is an undertaking/promise given by a Bank/Financial Institute on behalf of the Buyer/Importer to the Seller/Exporter, that, if the Seller/Exporter presents the complying documents to the Buyer's designated Bank/Financial Institute as specified by the Buyer/Importer in the Purchase Agreement then the Buyer's Bank/Financial Institute will make payment to the Seller/Exporter.
- Bank guarantee: It is an undertaking/promise given by a Bank on behalf of the Applicant and in favour of the Beneficiary. Whereas, the Bank has agreed and undertakes that, if the Applicant failed to fulfill his obligations either Financial or Performance as per the Agreement made between the Applicant and the Beneficiary, then the Guarantor Bank on behalf of the Applicant will make payment of the guarantee amount to the Beneficiary upon receipt of a demand or claim from the Beneficiary.

Bank guarantee has various types like 1. Tender Bond 2. Advance Payment 3. Performance Bond 4. Financial 5. Retention 6. Labour

- Export
- Import
- Collection and discounting of bills: It is a major trade service offered by the Banks. The Seller's Bank collects the payment proceeds on behalf of the Seller, from the Buyer or Buyer's Bank, for the goods sold by the Seller to the Buyer as per the agreement made between the Seller and the Buyer.

Supply Chain intermediaries have expanded in recent years to offer importers a funded transaction of individual trades from foreign supplier to importers warehouse or customers designated point of receipt. The Supply Chain products offer importers a funded transaction based on customer order book.

New developments

Trade finance is going through a revolution. New technologies and development are energizing traditional players, transforming their offerings and pulling trade into the 21st century. One of the main developments is the introduction of blockchain technology into the trade finance ecosystem. The promise of blockchain is that it has the ability to streamline the trade finance process. In the past, trade finance has been provided primarily by financial institutions, unchanged for years, with many manual processes on old-legacy systems that are expensive and costly to update. Such structures are mostly managed manually or through antiquated systems, which are not scalable and result in higher operational costs for financial institutions.

Blockchain technology can provide enormous benefits to solve these technological challenges in trade finance. It can be used to provide the basic services that are essential in trade finance. At its core, blockchain relies on a decentralized, digitalized ledger model, which by its nature is more robust and secure than the proprietary, centralized models which are currently used in trade finance. As a consequence, blockchain can lead to radical simplification and cost reduction for large parts of transactions in trade finance, whilst making it more secure and reliable. It keeps an immutable record of all the transactions, back to the originating point of a transaction, also known as the provenance, which is essential in trade finance as it allows financial institutions to review all transaction steps and reduce the risk of fraud. One of the blockchain's advantages is the speeding up of transaction settlement time which currently takes days, increasing transparency between all parties, and unlocking capital that would otherwise be tied up waiting to be transferred between parties in the transaction. Several companies are working on trade finance solutions leveraging blockchain technology such as the R3 consortium, which brings together the world's biggest financial institutions and TradeIX, which developed a connected and secured platform infrastructure for corporates, financial institutions, and B2B networks through standard communication channels (APIs) leveraging blockchain technology.

Methods of payment

International trade financing is required especially to get funds to carry out international trade operations. Depending on the types and attributes of financing, there are five major methods of transactions in international trade. In this chapter, we will discuss the methods of transactions and finance normally utilized in international trade and investment operations.

International Trade Payment Methods

The five major processes of transaction in international trade are the following −

Prepayment

Prepayment occurs when the payment of a debt or installment payment is done before the due date. A prepayment can include the entire balance or any upcoming part of the entire payment paid in advance of the due date. In prepayment, the borrower is obligated by a contract to pay for the due amount. Examples of prepayment include rent or loan repayments.

Letter of Credit

A Letter of Credit is a letter from a bank that guarantees that the payment due by the buyer to a seller will be made timely and for the given amount. In case the buyer cannot make payment, the bank will cover the entire or remaining portion of the payment.

Drafts

Sight Draft − It is a kind of bill of exchange, where the exporter owns the title to the transported goods until the importer acknowledges and pays for them. Sight drafts are usually found in case of air shipments and ocean shipments for financing the transactions of goods in case of international trade.

Time Draft − It is a type of foreign check guaranteed by the bank. However, it is not payable in full until the duration of time after it is obtained and accepted. In fact, time drafts are a short-term credit vehicle used for financing goods' transactions in international trade.

Consignment

It is an arrangement to leave the goods in the possession of another party to sell. Typically, the party that sells receives a good percentage of the sale. Consignments are used to sell a variety of products including artwork, clothing, books, etc. Recently, consignment dealers have become quite trendy, such as those offering specialty items, infant clothing, and luxurious fashion items.

cash with order(CWO)-the buyers pay cash when he places an order.

cash on delivery(COD)-the buyer pays cash when the goods are delivered.

documentary credit(L/C)-a Letter of credit (L/C) is used; gives the seller two guarantees that the payment will be made by the buyer:one guarantee from the buyer's bank and another from the seller's bank.

bills for collection(B/E or D/C) -here a Bill of Exchange (B/E)is used; or documentary collection (D/C) is a transaction whereby the exporter entrusts the collection of the payment for a sale to its bank (remitting bank), which sends the documents that its buyer needs to the importer's bank (collecting bank), with instructions to release the documents to the buyer for payment.

open account-this method can be used by business partners who trust each other; the two partners need to have their accounts with the banks that are correspondent banks.

Methods of payment: Cash in Advance (Prepayment) Documentary Collections Letters of Credit Open Account Combining Methods of Payment Summary Resources Activities Assessment

Open account is a method of making payments for various trade transactions. In this arrangement, the supplier ships the goods to the buyer. After receiving and checking the concerned shipping documents, the buyer credits the supplier's account in their own books with the required invoice amount.

The account is then usually settled periodically; say monthly, by sending bank drafts by the buyer, or arranging through wire transfers and air mails in favor of the exporter.

Trade Finance Methods

The most popular trade financing methods are the following −

Accounts Receivable Financing

It is a special type of asset-financing arrangement. In such an arrangement, a company utilizes the receivables – the money owed by the customers – as a collateral in getting a finance.

In this type of financing, the company gets an amount that is a reduced value of the total receivables owed by customers. The time-frame of the receivables exert a large influence on the amount of financing. For older receivables, the company will get less financing. It is also, sometimes, referred to as "factoring".

Letters of Credit

As mentioned earlier, Letters of Credit are one of the oldest methods of trade financing.

Banker's Acceptance

A banker's acceptance (BA) is a short-term debt instrument that is issued by a firm that guarantees payment by a commercial bank. BAs are used by firms as a part of the commercial transaction. These instruments are like T-Bills and are often used in case of money market funds.

BAs are also traded at a discount from the actual face value on the secondary market. This is an advantage because the BA is not required to be held until maturity. BAs are regular instruments that are used in international trade.

Working Capital Finance

Working capital finance is a process termed as the capital of a business and is used in its daily trading operations. It is calculated as the current assets minus the current liabilities. For many firms, this is fully made up of trade debtors (bills outstanding) and the trade creditors (the bills the firm needs to pay).

Forfaiting

Forfaiting is the purchase of the amount importers owe the exporter at a discounted value by paying cash. The forfaiter that is the buyer of the receivables then becomes the party the importer is obligated to pay the debt.

Countertrade

It is a form of international trade where goods are exchanged for other goods, in place of hard currency. Countertrade is classified into three major categories – barter, counter-purchase, and offset.

- Barter is the oldest countertrade process. It involves the direct receipt and offer of goods and services having an equivalent value.
- In a counter-purchase, the foreign seller contractually accepts to buy the goods or services obtained from the buyer's nation for a defined amount.
- In an offset arrangement, the seller assists in marketing the products manufactured in the buying country. It may also allow a portion of the assembly of the exported products for the manufacturers to carry out in the buying country. This is often practiced in the aerospace and defense industries.

MACRO PERSPECTIVE

Smith theory (1723-90) contribution is known as the theory of absolute advantage.
Theory of absolute advantage means producer needs to produce the goods at low cost and than export
Example if any foreign country is trying to produce goods at low cost than domestic country it is better to import from them.
Vice versa situation also plays
And also mutual exchange of goods between the countries looks good
David Ricardo (1772-1823) given the idea of comparative advantage
In case of comparative advantage we need to look into productiveness of industries and productiveness of countries
Productive ness means labour which are involved in producing goods
Hechscherohlin theory looks after the production factors like land labour capital and natural resources
It will export abundant used factors and import scarce resources
Factor price equalisation theory states that the most abundant resource price may rise and scare may fall so there is need of equalisation
Factor price equalisation eliminates comparative advantage based on factor price

Policy Framework for International Trade

1. Introduction to India's Foreign Trade:

International business operations at firm level are considerably influenced by various policy measures employed to regulate trade, both by home and host countries. Exportability and importability of a firm's goods are often determined by trade policies of the countries involved. Price-competitiveness of traded goods is affected by import and export tariffs.

The host country's trade and FDI policies often influence entry decisions in international markets. Policy incentives help exporters increase their profitability through foreign sales. High import tariffs and other import restrictions distort free market forces guarding domestic industry against foreign competition and support indigenous manufacturing.

Therefore, a thorough understanding of the country's trade policy and incentives are crucial to the development of a successful international business strategy.

Trade policy refers to the complete framework of laws, regulations, international agreements, and negotiating stances adopted by a government to achieve legally binding market access for domestic firms. It also seeks to develop rules providing predictability and security for firms. To be effective, trade policy needs to be supported by domestic policies to foster innovation and international competitiveness.

Besides, the trade policy should have flexibility and pragmatism.

Trade in developing countries is characterized by heavy dependence on developed countries, dominance of primary products, over-dependence on few markets and few products, and worsening of terms of trade and global protectionism, all of which make formulation and implementations of trade policy critical to economic development.

The strategic options for trade policy may either be inward or outward looking. As a result of liberalization and integration of national policies with WTO agreements, there has been a strategic shift in trade policies. Like other developing countries, India's trade policies have also made a gradual shift from highly restrictive policies with emphasis on import substitution to more liberal policies geared towards export promotion.

India's foreign trade policy is formulated under the Foreign Trade (Development and Regulation) Act, for a period of five years by the Ministry of Commerce, Government of India. The government is empowered to prohibit or restrict subject to conditions, export of certain goods for reasons of national security, public order, morality, prevention of smuggling, and safeguarding balance of payments.

Policy measures to promote international trade, such as schemes and incentives for duty-free and concessional imports, augmenting export production, and other export promotion measures are discussed in-depth

The multilateral trading system under the WTO trade regime significantly influences trade promotion measures and member countries need to integrate their trade policies with the WTO framework. The WTO trade policy review mechanism provides an institutional framework to review trade policies of member countries at regular intervals.

Trade Policy Options for Developing Countries:

There exists a huge gap in per capita income between the developed and the developing countries. Most of the world's population lives in countries that are considerably poor.

Efforts to bridge the income gap between developed and developing countries, to raise living standards by increasing income levels, and to cope with the uneven development in the domestic economy, remain the central concern of economic and trade policies of developing countries. With low production base and constraints in value addition, most developing countries remain marginal players in international trade

Key characteristics of developing countries' trade include the following:

(i) Heavy Dependence Upon Developed Countries:

Developing countries' trade is often dependent upon developed countries which form export destinations for the majority of their goods. Moreover, developing countries also heavily depend on developed countries for their imports. Trade among developing countries is relatively meagre.

(ii) Dominance of Primary Products:

Exports from developing countries traditionally comprised primary products, such as agricultural goods, raw materials and fuels or labour-intensive manufactured goods, such as textiles. However, over recent years, dependence on primary products has considerably decreased, especially for newly industrialized countries, such as South Korea and Hong Kong.

India's dependence on agro exports has also declined considerably from 44.2 per cent in 1960-61 to about 10 per cent in 2006-07.

(iii) Over-dependence on a Few Markets and a Few Products:

A large number of developing countries are dependent on just a few markets and products for their exports. For instance, Mexico is heavily dependent on the US which is the destination for 89 per cent of its total exports whereas the Dominican Republic exports 80 per cent and Trinidad and Tobago 68 per cent of its goods to the US.

In terms of product composition, petroleum accounts for 96 per cent of total exports from Nigeria, 86 per cent of total exports from Saudi Arabia, and 86 per cent of total exports from Venezuela. Over the years, India's basket of export products has widened remarkably with decreased dependence on any single product category

(iv) Worsening Terms of Trade:

Distribution of gains from trade has always been disproportionate and therefore, a controversial issue. Developing countries often complain of deterioration in their terms of trade, mainly due to high share of primary products in their exports.

(v) Global Protectionism:

Developed countries often provide heavy subsidies to their farmers for agricultural production and shield them from competition from imported products, besides imposing tariffs. Moreover, a number of non-tariff barriers such as quality requirements, sanitary and phytosanitary measures, and environmental and social issues, such as child labour offers considerable obstacles to products emanating from developing countries.

Trade Policy Strategic Options for International Trade:

'Economic dualism', where a high-wage capital-intensive industrial sector co-exists with a low-wage unorganized traditional sector, prevails in most developing countries. Promoting indigenous industrialization and employment generation become key concerns of their economic policies. A country may adopt any of the following strategic options for its trade policy

i) Inward Looking Strategy (Import Substitution):

Emphasis is laid on extensive use of trade barriers to protect domestic industries from import competition under the import-substitution strategy. Domestic production is encouraged so as to achieve self-sufficiency and imports are discouraged.

Import- substitution trade strategy is often justified by the 'infant industry argument', which advocates the need of a temporary period of protection for new industries from competition from well-established foreign competitors.

Most developing countries, such as Brazil, India, Mexico, Argentina, etc., during the 1950s and 1960s employed an inward-looking trade strategy. The uses of high tariff structure and quota restrictions along with reserving domestic industrial activities for local firms rather than foreign investors were the key features of this import substitution policy. The pros and cons of such strategy are given below.

Pros:

i. Protecting start-up industries so as to enable them to grow to a size where they can compete with the industries of developed nations

ii. Low risk in establishing domestic industry to replace imports especially when the size of domestic market is large enough to support such industries

iii. High import tariffs that discourage imports but provide foreign firms an inbuilt incentive to establish manufacturing facilities, leading to industrial development, growth in economic activities, and employment generation

iv. Relative ease for developing countries to protect their manufacturers against foreign competition compared to getting protectionist trade barriers reduced by developed countries, in which they have little negotiating power

Cons:

i. Overprotection of domestic industries against international competition tends to make them inefficient

ii. Protection primarily available to import substituting industries which discriminates against other industries

iii. Manufacturers based in countries with relatively small market size find it difficult to take advantage of economies of scale and therefore have to incur high per unit costs

iv. Industries that substitute imports become competitive because of government incentives and import prohibitions, leading to considerable investment. Any attempt to reduce incentives or liberalize trade restrictions face strong resistance

v. Government subsidies and trade restrictions tend to breed corruption

Since independence, India's trade strategy had been largely inclined to import substitution rather than export promotion. Earning foreign exchange through exports and conservation thereof had always been a high-priority task for various governments, irrespective of their political ideologies. Till 1991, India followed a strong inward-oriented trade policy to conserve foreign exchange

In order to facilitate industrialization with the objective of import substitution, important instruments used by the government included outright ban on import of some commodities, quantitative restriction, prohibitive tariff structure, which was one of the highest in the world and administrative restrictions, such as import licensing, foreign exchange regulations, local content requirements, export obligations, etc.

The policy makers of India had long believed that these policy measures would make India a leading exporter with comfortable balance of trade. In reality, these initiatives did not yield the desired results, rather gave rise to corruption, complex procedures, production inefficiency, poor product quality, and delay in shipment, and, in turn, decline in India's share in world exports.

The protectionist measures of the inward-oriented economy increased the profitability of domestic industries, especially in the import substitution sector. The investment made to serve the domestic market was less risky due to proven demand potential by the existing level of imports.

Formidable tariff structure and trade policy barriers discouraged the entry of foreign goods into the Indian market. There was little pressure on domestic firms to be internationally competitive.

(ii) Outward Looking Strategy (Export-led Growth):

Under the outward looking strategy, the domestic economy is linked to the world economy, promoting economic growth through exports. The strategy involves incentives to promote exports rather than restrictions to imports.

Major benefits of an outward looking strategy include:

i. Industries wherein a country has comparative advantage are encouraged, for instance labour-intensive industries in developing countries

ii. Increase in competition in the domestic market leads to competitive pressure on the industry to increase its efficiency and upgrade quality

iii. Facilitating companies to benefit from economies of scale as large output can be sold in international markets

The economic liberalization during the last decade paved the way for access of foreign goods to Indian market, applying competitive pressure even on purely domestic companies. In order to make exports, the engine of growth, export promotion, gained major thrust in India's trade policies, especially in recent years

With the integration of national trade policies and export promotion incentives with the WTO, promotional measures to encourage international marketing efforts, rather than export subsidization, have gained increased significance.

Accordingly, policies were aimed at creating a business-friendly environment by eliminating redundant procedures, increasing transparency by simplifying the processes involved in the export sector, and moving away from quantitative restrictions, thereby improving the competitiveness of Indian industry and reducing the anti-export bias.

Steps were taken to promote exports through multilateral and bilateral initiatives. With the decline in restrictions on trade and investment, constraints related to infrastructure and regulatory bottlenecks became increasingly evident.

Instruments of Trade Policy for International Trade:

Various methods employed to regulate trade are known as instruments of trade policy, which include tariffs, non-tariff measures, and financial controls

(i) Tariffs:

These are official constraints on import or export of certain goods and services and are levied in the form of customs duties or tax on products moving across borders. However, tariffs are more commonly imposed on imports rather than exports. The tariff instruments may be classified as below.

On the basis of direction of trade: import vs. exports tariffs:

Tariffs may be imposed on the basis of direction of product movement, i.e., either on exports or imports. Generally, import tariffs or customs duties are more common than tariffs on exports However, countries sometimes resort to impose export tariffs to conserve their scarce resources. Such tariffs are generally imposed on raw materials or primary products rather than on manufactured or value-added goods.

On the basis of purpose: protective vs. revenue tariffs:

The tariffs imposed to protect the home industry, agriculture, and labour against foreign competitors is termed as protective tariffs which discourage foreign goods. Historically, India had very high tariffs so as to protect its domestic industry against foreign competition.

A tariff rate of 200 to 300 per cent, especially on electronic and other consumer goods

created formidable barriers for foreign products to enter the Indian market.

The government may impose tariffs to generate tax revenues from imports which are generally nominal. For instance, the UAE imposes 3-4 per cent tariffs on its imports which may not be termed as protective tariffs.

On the basis of time length: tariff surcharge vs. countervailing duty:

On the basis of the duration of imposition, tariffs may be classified either as surcharge or countervailing duty. Any surcharge on tariffs represents a short term action by the importing country while countervailing duties are more or less permanent in nature. The raison d'etre for imposition of countervailing duties is to offset the subsidies provided by the governments of the exporting countries.

On the basis of tariff rates: specific, ad-valorem, and combined:

Duties fixed as a specific amount per unit of weight or any other measures are known as specific duties. For instance, these duties are in terms of rupees or US dollars per kg weight or per meter or per liter of the product. The cost, insurance, and freight (c.i.f.) value, product cost, or prices are not taken into consideration while deciding specific duties.

Specific duties are considered to be discriminatory but effective in protection of cheap- value products because of their lower unit value.

Duties levied 'on the basis of value' are termed as ad-valorem duties. Such duties are levied as a fixed percentage of the dutiable value of imported products. In contrast to specific duties, it is the percentage of duty that is fixed. Duty collection increases or decreases on the basis of value of the product. Ad-valorem duties help protect against any price increase or decrease for an import product.

A combination of specific and ad-valorem duties on a single product is known as combined or compound duty. Under this method, both specific as well as ad-valorem rates are applied to an import product.

On the basis of production and distribution points:

These are as below:

Single stage sales tax:

Tax collected only at one point in the manufacturing and distribution chain is known as single stage sales tax. Single stage sales tax is generally not collected unless products are purchased by the final consumer.

Value added tax:

Value added tax (VAT) is a multi-stage non-cumulative tax on consumption levied at each stage of production, distribution system, and value addition. A tax has to be paid at each time the product passes from one hand to the other in the marketing channel.

However, the tax collected at each stage is based on the value addition made during the stage and not on the total value of the product till that point. VAT is collected by the seller in the marketing channel from a buyer, deducted from the VAT amount already paid by the seller on purchase of the product and remitting the balance to the government.

Since VAT applies to the products sold in domestic markets and imported goods, it is considered to be non-discriminatory. Besides, VAT also conforms to the WTO norms.

Cascade tax:

Taxes levied on the total value of the product at each point in manufacturing and distribution channel, including taxes borne by the product at earlier stages, are known as cascade taxes. India had a long regime of cascade taxes wherein the taxes were levied at a later stage of marketing channel over the taxes already borne by the product.

Such a taxation system adds to the cost of the product, making goods non-competitive in the market.

Excise tax:

Excise tax is a one-time tax levied on the sale of a specific product. Alcoholic beverages and cigarettes in most countries tend to attract more excise duty.

Turnover tax:

In order to compensate for similar taxes levied on domestic products, a turnover or equalization tax is imposed. Although the equalization or turnover tax hardly equalizes prices, its impact is uneven on domestic and imported products.

(ii) Non-Tariff Measures:

Contrary to tariffs, which are straightforward, non-tariff measures are non-transparent and obstruct trade on discriminatory basis. As the WTO regime calls for binding of tariffs wherein the member countries are not free to increase the tariffs at their will, non-tariff barriers in innovative forms are emerging as powerful tools to restrict imports on discriminatory basis. The major non-tariff policy instruments include.

Government participation in trade:

State trading, governments' procurement policies, and providing consultations to foreign companies on a regular basis are often used as disguised protection of national interests and barrier to foreign firms. A subsidy is a financial contribution provided directly or indirectly by a government that confers a benefit.

Various forms of subsides include cash payment, rebate in interest rates, value added tax, corporate income tax, sales tax, insurance, freight and infrastructure, etc. As subsidies are discriminatory in nature, direct subsidies are not permitted under the WTO trade regime.

Customs and entry procedure:

Custom classification, valuation, documentation, various types of permits, inspection requirements, and health and safety regulations are often used to hinder free flow of trade and discriminate among the exporting countries. These constitute an important non-tariff barrier.

Quotas:

Quotas are the quantitative restrictions on exports/imports intended at protecting local industries and conserving foreign exchange. The various types of quotas include

Absolute quota:

These quotas are the most restrictive, limiting in absolute terms, the quantity imported during the quota period. Once the quantity of the import quota is fulfilled, no further imports are allowed.

Tariff quotas:

They allow import of specified quantity of quota products at reduced rate of duty. However, excess quantities over the quota can be imported subject to a higher rate of import duty. Using such a combination of quotas and tariffs facilitates some import, but at the same time discourages through higher tariffs, excessive quantities of imports.

Voluntary quotas:

Voluntary quotas are unilaterally imposed in the form of a formal arrangement between countries or between a country and an industry. Such agreements generally specify the import limit in terms of product, country, and volume.

The multi-fibre agreement (MFA) had been the largest voluntary quota arrangement wherein developed countries forced an agreement on economically weaker countries so as to provide artificial protection to their domestic industry.

However, with the integration of multi-fibre agreement with the WTO, the quota regime got scrapped by 1 January 2005. Summarily, all sorts of quotas have a restrictive effect on free flow of goods across countries.

Other trade restrictions:

Other trade restrictions include minimum export price (MEP), wherein the government may fix a minimum price for exports so as to safeguard the interests of domestic consumers. Presently, India's trade policy does not impose any restriction of minimum export price.

(iii) Financial Controls:

Governments often impose a variety of financial restrictions to conserve the foreign currencies restricting their markets. Such restrictions include exchange control, multiple exchange rates, prior import deposit, credit restrictions, and restriction on repatriation of profits. India had long followed a stringent exchange control regime to conserve foreign currencies.

(iv) Demand vs Supply Side Policy Measures:

Policy instruments for promoting exports may also operate on the supply and demand side. Initiatives for creating and expanding export production, developing transportation networks, port facilities, tax and investment systems form parts of supply side policies.

The demand side initiatives for export promotion include programmes to alert companies to the opportunities present in international markets and to strengthen the commitment and skills of those already involved.

Policy Initiatives and Incentives by the State Governments for International Business:

State governments generally do not distinguish between production for domestic market and production for export market. Therefore, there had been few specific measures taken by state governments targeted at exporting units.

Though, state governments have taken a number of policy measures so as to encourage industrial activity in the state which mainly relate to:

i. Capital investment subsidy or subsidy for preparation of feasibility reports, project reports, etc.

ii. Waiver or deferment of sales tax or providing loans for sales tax purposes

iii. Exemption from entry tax, octroi, etc.

iv. Waiver of electricity duty

v. Power subsidy

vi. Exemption from taxes for certain captive power generation units

vii. Exemptions from stamp duties

viii. Provision of land at concessional rate

These concessions extended by state governments vary among policies of individual state governments and have broadly been based on the following criteria:

(a) Size of the unit proposed (cottage, small and medium industry)

(b) Backwardness of the districts or area

(c) Employment to weaker sections of society

(d) Significance of the sector, for example, software, agriculture

(e) Investment source, such as foreign direct investment (EDI) or investment by NRIs

(f) Health of the unit (sick), etc.

Therefore, it may be noted that most of the exemptions tend to encourage capital- or power-intensive units though some concessions are linked to turnover. Most of the concessions in the state industrial policies have been designed keeping in view the manufacturing industries.

An analysis of industrial policies of various states indicates that most state governments do compete among themselves in extending such concessions. On examination of export promotion initiatives by the state governments, it is difficult to find commonality among various states.

However, some of the common measures taken by the state governments are:

i. Attempting to provide information on export opportunities

ii. Preference in land allotment for starting an EOU

iii. Planning for development of Export Promotion Industrial Parks

iv. Exemption from entry-tax on supplies to EOU/EPZ/SEZ units

v. Exemption from sales tax or turnover tax for supplies to EOU/EPZ/SEZ units and inter-unit transfers between them.

WTO and India's Export Promotion Measures for International Business:

The emergence of the rule-based multilateral trading system under the WTO trade regime has affected India's trade policies and promotional efforts. It provides a rule based framework as to which subsidies are prohibited, which can face countervailing measures, and which are allowed. The impact of WTO agreements on trade policy and export promotion measures is examined here.

The framework of the GATT is based on four basic rules:

(i) Protection to Domestic Industry Through Tariffs:

Even though GATT stands for liberal trade, it recognizes that its member countries may have to protect domestic production against foreign competition. However, it requires countries to keep such protection at low levels and to provide it through tariffs. To ensure that this principle is followed in practice, the use of quantitative restrictions is prohibited, except in a limited number of situations.

(ii) Binding of Tariffs:

Countries are urged to reduce and, where possible, eliminate protection to domestic production by reducing tariffs and removing other barriers to trade in multilateral trade negotiations. The tariffs so reduced are bound against further increase by being listed in each country's national schedule. The schedules are integral part of the GATT legal system.

(iii) Most-Favoured-Nation Treatment:

This important rule of GATT lays down the principle of non-discrimination. The rule requires that tariffs and other regulations should be applied to imported or exported goods without discrimination among countries. Thus it is not open to a country to levy customs duties on imports from one country, at a rate higher than it applies to imports from other countries. There are, however, some exceptions to the rule.

Trade among members of regional trading arrangements, which are subject to preferential or duty-free rates, is one such exception. Another is provided by the Generalized System of Preferences; under this system, developed countries apply preferential or duty-free rates to imports from developing countries, but apply MFN rates to imports from other countries.

(iv) National Treatment Rule:

While the MFN rule prohibits countries from discriminating among goods originating in different countries, the national treatment rule prohibits them from discriminating between imported products and equivalent domestically produced products, both in the matter of the levy of internal taxes and in the application of internal regulations.

Thus it is not open to a country, after a product has entered its markets on payment of customs duties, to levy an internal tax (for example, sales tax or VAT) at rates higher than those payable on a product of national or domestic origin.

The four basic rules are complemented by rules of general application, governing goods entering the customs territory of an importing country.

These include rules which countries must follow:

i. In determining the dutiable value of imported goods where customs duties are collected on an ad-valorem basis

ii. In applying mandatory product standards, and sanitary and phytosanitary regulations to imported products

iii. In issuing authorizations for imports

In addition to the rules of general application described above, the GATT multilateral system has rules governing:

i. The grant of subsidies by governments

ii. Measures which governments are ordinarily permitted to take if requested by industry

iii. Investment measures that could have adverse effects on tirade

The rules further stipulate that certain types of measures which could have restrictive effects on imports can ordinarily be imposed by governments of importing countries only if the domestic industry which is affected by increased import petitions that such actions be taken.

These include:

i. Safeguard actions

ii. Levy of anti-dumping and countervailing duties

Under safeguard action the importing country is allowed to restrict imports of a product for a temporary period by either increasing tariffs or imposing quantitative restrictions. However, the safeguard measures can only be taken after it is established through proper investigation that increased imports are causing serious injury to the domestic industry.

The anti-dumping duties can be imposed if the investigation establishes that the goods are 'dumped'.

The agreement stipulates that a product should be treated as being 'dumped' where its export price is less than the price at which it is offered for sale in the domestic market of the exporting country, whereas the countervailing duties can be levied in cases where the foreign company has charged low export price because its product has been subsidized by the government.

The WTO's Trade Policy Review Mechanism:

In order to enhance transparency of members' trade policies and facilitate smooth functioning of the multilateral trading system, the WTO members established the Trade Policy Review Mechanism (TPRM) to review trade policies of member countries at regular intervals.

Under annexure 3 of the Marrakesh Agreement, the four members with largest shares of world trade (i.e., European communities, the US, Japan, and China) are to be reviewed every two years, the next sixteen to be reviewed every four years, and the others be reviewed every six years. For the least developed countries a longer period may be fixed.

Reviews are conducted by the Trade Policy Review (TPR) Body on the basis of a policy statement by the member under review and a report prepared by staff in the WTO Secretariat's TPR Division. Although the secretariat seeks cooperation of the members in preparing the report, it has the sole responsibility for the facts presented and the views expressed.

The TPR reports contain detailed reports examining the trade policies and practices of the member and describing policy-making institutions and the macroeconomic situation. The member's subsidies contained in the TPR is of particular interest for the purpose of the report.

Information on subsidies distinguished in the subsidies and countervailing measures (SCM) can be found in the following three parts of the TPR report:

i. Measures directly affecting exports

ii. Trade policies and practices by sector

iii. Government incentives or subsidies that do not directly target imports and exports but nevertheless have an impact on trade flows

The contents of the report are mainly driven by the member's main policy changes and constraints rather than subsidy-related issues and problems. Besides, the coverage of the report is determined to a large extent by the availability of data.

As a result, the amount of information contained in the reports varies from member to member. The TPR reports normally do not attempt to assess the effects of the subsidies on trade.

Due to limited availability of detailed information, in many cases, it is difficult to identify the extent to which a benefit is actually being conferred or the identity of the recipient of the subsidy.

Despite the shortcomings, especially with respect to cross-country comparability, the TPR report constitutes one of the few sources that systematically collects and compiles information on subsidies for a broad range of countries and economic activities.

Organizational bodies

WTO

The World Trade Organization (WTO) is an intergovernmental organization that regulates international trade. The WTO officially commenced on 1 January 1995 under the Marrakesh Agreement, signed by 124 nations on 15 April 1994, replacing the General Agreement on Tariffs and Trade (GATT), which commenced in 1948. It is the largest international economic organization in the world.

The WTO deals with regulation of trade in goods, services and intellectual property between participating countries by providing a framework for negotiating trade agreements and a dispute resolution process aimed at enforcing participants' adherence to WTO agreements, which are signed by representatives of member governments and ratified by their parliaments. The WTO prohibits discrimination between trading partners, but provides exceptions for environmental protection, national security, and other important goals. Trade-related disputes are resolved by independent judges at the WTO through a dispute resolution process.

WTO came into being on 1995.
It has come into existence after GAAT General Agreement on Tariffs and Trade (GAAT)
It helps producers of good and services, importer, exporters to do their business
Uruguay rounds of talks made for the formation of WTO
Totally 164 countries present in WTO as of July 29th 2016
In 2000 agriculture and services discussions started in Doha round of talks
Fourth ministerial conference held in Doha Qatar in november20001
In the fourth conference non-agricultural tariff antidumping details are discussed
World bank identified 32 major regional trade blocks

Trade block means group of countries that have established preferential trade agreements among

member countries

PTA stands for preferential trade agreements
Most commonly used PTA is Free Trade agreement
Free Trade Agreement means reducing or removing the tariff and non-tariff barrier between member nations but not with the non-member nations
A step forward for the FTA is the Custom Union (CU) where not only removing trade barrier with the member nations but also maintaining the identical trade with non-members.
Regional and Bi lateral trade agreements can cause trade diversion and trade distortions
List of RTB:
ASEAN: It was founded in August 8th 1967
Meeting will be held annually
APEC: Asia Pacific Economic Cooperation
It has 21 members called Member Economies
EAEC: East Asia Economic Caucus
It is known as Asian Plus Three
ASEM: Asia Europe Meeting
It is established in 1996
CHOGM: Common Wealth Heads of Government Meetings

EU: European Union strong international trade
There are five EU institutions namely European Parliament, Council of EU, E Commission, Court of Justice, Court of Auditors
NAFTA: North America Free Trade Agreement
CIS: Common Wealth of Independent States
COMESA: Common Market for Eastern and Southern Africa
SAARC: South Asian Association of Regional Cooperation established on Dec 8th 1985
ITR: Intellectual Property rights
It will be held annually.
MERCOSUR: It is a tariff union of South American Countries
It is the fastest growing trading blocks
G-15 group established in 1989
G7 economic power group became G8 after adding Russia

G77 is the third largest world coalition in United Nations

D8 is the group of developing eight countries

IOR-ARC (Indian Ocean Rim Association for Regional Cooperation) established in Mauritius March 1995

International Chamber Of Commerce - ICC

The International Chamber of Commerce is the largest, most diverse business organization in the world. The ICC has hundreds of thousands of member companies from more than 100 countries and broad business interests. The ICC's vast networks of committees and experts belong to all sectors and keep members fully informed of all issues that affect their industries. They also maintain contact with the United Nations, the World Trade Organization and other intergovernmental agencies.

BREAKING DOWN 'International Chamber Of Commerce - ICC'

The ICC fosters international trade and commerce to promote and protect open markets for goods and services, and the free flow of capital. The ICC performs three primary activities: establishment of rules, dispute resolution and policy advocacy. The ICC also wages war on commercial crime and corruption to bolster economic growth, create jobs and stabilize employment, and ensure overall economic prosperity. Because members of the ICC and their associates engage in international business, the ICC has unparalleled authority in setting rules that govern cross-border business. While these rules are voluntary, thousands of daily transactions abide by the ICC-established rules as part of regular international trade.

The History of the ICC

The ICC was founded in Paris, France in 1919. The organization’s international secretariat was also established in Paris, and its International Court of Arbitration was formed in 1923. The first chairman of the chamber was Etienne Clementel, the early-20th-century French politician.

The ICC’s Governing Bodies

There are four primary governing bodies of the ICC. The lead governing body is the World Council, which is composed of national committee representatives. The highest officers of the ICC, the chairman and vice-chairman, are elected by the World Council every two years.

The executive board provides strategic direction for the ICC. The board is elected by the World Council, and it is comprised of 30 business leaders and ex-officio members. The executive board's prominent duties are the development of ICC strategies and policy implementation.

The international secretariat is the operational arm of the ICC and is responsible for developing and implementing the ICC’s work program and introducing business perspectives to intergovernmental organizations. The secretary-general, who is appointed by the World Council, oversees this governing body.

The finance committee acts as an advisor to the executive board on all financial aspects. This committee prepares the budget on behalf of the board, submits regular reports, reviews the financial implications of ICC activities and oversees all expenses and revenue flow.

TRADE TRANSACTIONS

Trade transactions are generally divided into three categories namely
Movement of goods, Movement of Documents, Movement of Funds.
Banks play an important role in Movement of Documents and funds but Movement of goods is dependent on persons involved in between
When it comes to international trade there will be risks they are classified as country risk, foreign exchange risk, and commercial risk
Under Country Risk factor that are effecting the trade transactions are Political Environment, Economic Environment, Legal Infrastructure, Foreign Exchange Restrictions.
Foreign exchange risk comes when there is uncertainty in the value of future payments in that currency
Under Commercial Risk the factors that are effecting are Reliability of information which means as the parties are staying in different locations so financial status information of each parties will be limited
Trade dispute: Domestic Trade dispute is different from the International Trade disputes so in solving the issues legal proceedings will be expensive

INTERNATIONALCOMMERCIAL TERMS (INCOTERMS)

The Incoterms 2010 rules

The Incoterms 2010 rules are standard sets of trading terms and conditions designed to assist traders when goods are sold and transported. INCOTERMS are generally used in both International trade and Domestic Trade . INCO terms are a series of international sales terms, published by International Chamber Of Commerce
(ICC) and widely used in international commercial transactions. These are accepted by governments, legal
authorities and practitioners worldwide for the interpretation of most commonly used terms in international trade. This reduces or removes altogether, uncertainties arising from different interpretation of such terms in different countries. They closely correspond to the U.N. Convention on contracts for the international sale of goods. The first version of INCO terms was introduced in 1936. INCO terms 2010 (8th edition) were
published on Sept 27, 2010 and these came into effect wef Jan 1, 2011.
Main changes in **INCOTERMS 2010**
1. Removal of 4 terms (DAF, DES, DEQ and
DDU) and introduction of 2 new terms (DAP - Delivered at Place and DAT - Delivered at Terminal). As a result, there are a total of 11
terms instead of 13 (2 additions, DAP and DAT and 4 deletions, DAF, DDU, DEQ and DES).
2. Creation of 2 classes of INCOTERMS - (1)
rules for any mode or modes of transport and (2) rules for sea and inland waterway [INCOTERMS 2000 had 4 categories namely E (covering departure), F (covering main carriage unpaid), C (covering main carriage paid) and D (covering arrival)

Each Incoterms rule specifies:

*the obligations of each party (e.g. who is responsible for services such as transport; import and export clearance etc)

*the point in the journey where risk transfers from the seller to the buyer

So by agreeing on an Incoterms rule and incorporating it into the sales contract, the buyer and seller can achieve a precise understanding of what each party is obliged to do, and where responsibility lies in event of loss, damage or other mishap.

The Incoterms rules are created and published by the International Chamber of Commerce (ICC) and are revised from time to time. The most recent revision is Incoterms 2010 which came into force on 1st January 2011.

The definitive publication on the Incoterms 2010 rules is the ICC publication number 715, which is available from various national bookshops.

This is essential reading for those with responsibility for setting a corporate policy or negotiating contracts with trading partners or service providers.

The logic of the Incoterms 2010 rules

The **eleven**rules are divided into two main groups

Rules for any transport mode

• Ex Works EXW

• Free Carrier FCA

• Carriage Paid To CPT

• Carriage & Insurance Paid to CIP

• Delivered At Terminal DAT

• Delivered At Place DAP

• Delivered Duty Paid DDP

Rules for sea & inland waterway only

• Free Alongside Ship FAS

• Free On Board FOB

• Cost and Freight CFR

• Cost Insurance and Freight CIF

In general the "transport by sea or inland waterway only" rules should only be used for bulk cargos (e.g. oil, coal etc) and non-containerised goods, where the exporter can load the goods directly onto the vessel. Where the goods are containerised, the "any transport mode" rules are more appropriate.A critical difference between the rules in these two groups is the point at which risk transfers from seller to buyer. For example, the "Free on Board" (FOB) rule specifies that risk transfers when the goods have been loaded on board the vessel. However the "Free Carrier" (FCA) rule specifies that risk transfers when the goods have been taken in charge by the carrier.

Another useful way of classifying the rules is by considering:

Who is responsible for the main carriage – the buyer or the seller?

If the seller is responsible for the main carriage, where does the risk pass from the seller to the buyer – before the main carriage, or after it?

This gives us these **four**groups:

Buyer responsible for all carriage – EXW

Buyer arranges main carriage – FAS; FOB; FCA

Seller arranges main carriage, risk passes after main carriage – DAT; DAP; DDP

Seller arranges main carriage, but risk passes before main carriage – CFR; CIF; CPT; CIP

Eleven terms

Group-1 INCO terms

1. EXW means that a seller has the goods ready for collection at his premises (works, factory, warehouse, plant) on the date agreed upon. The buyer pays transportation costs and bears the risks for
bringing the goods to their final destination. This term places the greatest responsibility on the buyer and
minimum obligations on the seller.
2.FCA — Free Carrier (named places) : The seller hands over the goods, cleared for export, into the
custody of the first carrier (named by the buyer) at the named place. This term is suitable for all modes of
transport, including carriage by air, rail, road, and containerized / multi-modal sea transport.
3. CPT — Carriage Paid To (named place of destination): (The general/containerized/multimodal
equivalent of CFR) The seller pays for carriage to the named point of destination, but risk passes when
the goods are handed over to the first carrier.
4. CIP — Carriage and Insurance Paid (To) (named
place of destination): The containerized transport/multimodal equivalent of CIF. Seller pays for carriage
and insurance to the named destination point, but risk passes when the goods are handed over to the first
carrier,
5. DAP : delivered at place
6. DAT I. delivered at terminal
7. DDP — Delivered Duty Paid (named destination place): This term means that the seller pays for all
transportation costs and bears all risk until the goods have been delivered and pays the duty. Also used
interchangeably with the term "Free Domicile". It is the most comprehensive term for the buyer. In most of
the importing countries, taxes such as (but not limited to) VAT and excises should not be considered
prepaid being handled as a "refundable" tax. Therefore VAT and excise usually are not representing a
direct cost for the importer since they will be recovered against the sales on the local (domestic) market.

Group-2 INCO terms

8. FAS — Free Alongside Ship (named loading port): The seller must place the goods alongside the ship
at the named port. The seller must clear the goods for export. Suitable for maritime transport only but NOT
for multimodal sea transport in containers. This term is typically used for heavy-lift or bulk cargo.
9. FOB — Free on board (named loading 'port): The seller must themselves load the goods on board the
ship nominated by the buyer, cost and risk being divided at ship's rail. The buyer must instruct the seller
the details of the vessel and port where the goods are to be loaded, and there is no reference to, or
provision for, the use of a carrier or forwarder.
10.CFR or CNF — Cost and Freight (named destination port): Seller must pay the costs and freight to
bring the goods to the port of destination. The risk is transferred to the buyer once the goods have
crossed the ship's rail. Maritime transport only and Insurance for the goods is NOT included. Insurance is
at the Cost of the Buyer.
11.CIF — Cost, Insurance and Freight (named destination port): Exactly the same as CFR except that theseller must in addition procure and pay for insurance for the buyer (Maritime transport only).

Ten common mistakes in using the Incoterms rules

Here are some of the most common mistakes made by importers and exporters:

• Use of a traditional "sea and inland waterway only" rule such as FOB or CIF for containerised goods, instead of the "all transport modes" rule e.g. FCA or CIP. This exposes the exporter to unnecessary risks. A dramatic recent example was the Japanese tsunami in March 2011, which wrecked the Sendai container terminal. Many hundreds of consignments awaiting despatch were damaged. Exporters who were using the wrong rule found themselves responsible for losses that could have been avoided!
• Making assumptions about passing of title to the goods, based on the Incoterms rule in use. The Incoterms rules are silent on when title passes from seller to buyer; this needs to be defined separately in the sales contract
• Failure to specify the port/place with sufficient precision, e.g. "FCA Chicago", which could refer to many places within a wide area
• Attempting to use DDP without thinking through whether the seller can undertake all the necessary formalities in the buyer's country, e.g. paying GST or VAT
• Attempting to use EXW without thinking through the implications of the buyer being required to complete export procedures – in many countries it will be necessary for the exporter to communicate with the authorities in a number of different ways
• Use of CIP or CIF without checking whether the level of insurance in force matches the requirements of the commercial contract – these Incoterms rules only require a minimal level of cover, which may be inadequate.
• Where there is more than one carrier, failure to think through the implications of the risk transferring on taking in charge by the first carrier – from the buyer's perspective, this may turn out to be a small haulage company in another country, so redress may be difficult in the event of loss or damage
• Failure to establish how terminal handling charges (THC) are going to be treated at the point of arrival. Carriers' practices vary a good deal here. Some carriers absorb THC's and include them in their freight charges; however others do not.

- Where payment is with a letter of credit or a documentary collection, failure to align the Incoterms rule with the security requirements or the requirements of the banks.
- When DAT or DAP is used with a “post-clearance” delivery point, failure to think through the liaison required between the carrier and the customs authorities – can lead to delays and extra costs

In India there is a special form introduced by RBI related to remittances against exports of software and related IT service by name SOFTEX
Bilateral trade means instead of payment of money the trade will be done on the basis of exchange of goods and services
Merchant trading means buying the good from one country by another country and suppling those goods to an another country so between the three countries the trade exist
Condition for merchant trading: good should not enter domestic tariff area and good should not undergo transformation
Goods that are to be exported should follow the foreign trade policy on the date of shipment
Under merchant trading the transaction should be routed to same bank
Merchant trade transaction should be completed in 9 months
Outlay of foreign exchange should not be more than 4 months
Any import leg beyond 200000 per transaction should be made against bank guarantee
Any deviation in the transaction should be reported to RBI
Any merchant trader whose outstanding is 5% than he should be shortlisted
High seal sale: It means the ownership is transferred to other party when the goods are still in transit

Modes of International Trade

The three way to do international trade are
Clean Payments: All trading documents, title documents are under the control of trading parties
They are two types of clean Payments
Advance payment: Exporter send the goods only after the receiving the payment form the importer

Open Account:
Importer pays to exporter only after the receiving the good from exporter.
Bills for Collection:
The official documents which will be given by exporter to banks and give instruction to release the documents to the importer
Document against Payment: Document will be released only after payment to exporter.
Documents against Acceptance: only against the acceptance of draft documents are released
Documentary Letter of Credit: It is the underwriting given by the Importer bank on behalf of the customer promising the payment to the exporter
Revocable LC: Can be cancelled without the consent of exporter
Irrevocable LC: Both parties should accept for cancellation
If the payment is made at the time of presentation of documents it is called sight LC
If the payment is made at future date from the date of presentation of documents it is called as Term LC
Confirming LC: The bank under this will give confirmation to issuing bank that payment will reach the exporter. The confirming bank can be as per the choice of Exporter. Like if he has bank which is well known to him

Clean payment Transactions

Clean payments are classified in two types
1.Payment in advance
2.Open account
Advantages of open account to importer: no risk, delays use of company cash resources
Advantages of Advance payment to importer: low cost

Risk Spectrum will summarize the risk that is associated with the payment methods in relation to the exporter and importer
No risk will be assumed in case of advance payment to exporter

Documentary collection and credit

Documentary letter of credit means exporter gives the instructions to the bank to release the documents to the importer
Documentary letter of credit is also called as collection against bills
In the case of Documentary collection the exporter is Drawer and Importer is Drawee
The exporter Bank and remitting bank need not be the same
Collecting bank and presenting bank need not be the same
There are different parties involved namely
Exporter: He will submit the documents to bank in that details of payment of importer will be present (When and How)
Exporter Bank is called as Remitting Bank which it send the documents to Buyers Country bank and give the instructions to pay for the exporter when payment is received from the collecting bank
Buyer duty is to pay the bill and take the documents
Importer Bank is the collecting bank and act as an agent for remitting bank
It release the documents to importer when received the payment.
If suppose importer did not pay than the collecting bank will provide the storage and insurance for the goods till the due is paid
In case of dishonour than the collecting bank will protest the bill
Settlement of Bills will be done in two ways D/P or D/A
D/P Documents against payment: It is also called as Cash against Documents/ Cash on Delivery
The importer should pay usually within 3 days from the date of presentation of documents
In the above case if the importer does not pay exporter can go for court.
CASE OF NEED is something who can help or do arrangements in the importer country if the importer do not pay the bill
D/A Documents against Acceptance: There will be an small agreement between two parties where the importer is required to accept the bill. In this case importer will pay on some date in future
Generally exporter provide credit to importer this credit is called as Usance
Term here implies Multiples of 30 days
Risk here is exporter loses the control on the goods
Few risk for the exporter here is importer may be bankruptcy, may say some good are damaged, may cheat the importer
Usance Bill means importer accepts the bill payable at a specific future date but does not receive the documents until the payment is done

Documentary Credits

'Letters of Credit' also known as 'Documentary Credits' is the most commonly accepted instrument of settling international trade payments

Why Documentary Credits
• Exchange of goods and services across national boundaries brings greater problems to both buyer and seller than does domestic business.
• Diversity of customs, standards, currencies, local regulations, languages and legal systems
• The Documentary Letter of Credit is widely used to reduce the financial risks of trade.
• Importer wants to ensure performance while exporter wants to secure payment.
• Few of the rules are subject to any national or international law. Provisions of International Chamber of Commerce & Industry (ICC) important, but not foolproof.
• Generally adopted set of rules for credits known as the Uniform Customs and Practice for Letters of Credit (UCP) issued by ICC, publication no.600, 2007 (earlier version no. 500, 1993).

Introduction
• This revision of the Uniform Customs and Practice for Documentary Credits (commonly called "UCP") is the sixth revision of the rules since they were first promulgated in 1933.
• The objective of UCP, since attained, was to create a set of contractual rules that would establish uniformity in that practice, so that practitioners would not have to cope with a plethora of often conflicting national regulations. The universal acceptance of the UCP by practitioners in countries with widely divergent economic and judicial systems is a testament to the rules' success.
• It is important to recall that the UCP represent the work of a private international organization, not a governmental body.

'Letters of Credit' also known as 'Documentary Credits' is the most commonly accepted instrument of settling international trade payments. A Letter of Credit is an arrangement whereby Bank acting at the request of a customer (Importer / Buyer), undertakes to pay for the goods / services, to a third party (Exporter / Beneficiary) by a given date, on documents being presented in compliance with the conditions laid down.

PARTIES TO A LETTER OF CREDIT (LC)
A letter of credit transaction normally involves the following parties :
i) **APPLICANT / OPENER** – the buyer of the goods / services (Importer) on whose behalf the credit is issued
ii) **ISSUING BANK** - the Bank which issues the credit and undertakes to make the payment on behalf of the applicant as per terms of the L/C.
iii) **BENEFICIARY** - the seller of the goods / services (exporter) in whose favour the credit is issued and who obtains payment on presentation of documents complying with the terms and conditions of the LC.
iv) **ADVISING BANK** – Banks which advises the LC, certifying its authenticity to beneficiary and is generally a bank operating in the country of the beneficiary.
v) **CONFIRMING BANK** – A bank which adds its guarantee to the LC opened by another Bank and thereby undertakes responsibility for payment/acceptance/negotiation/incurring deferred payment under the credit in addition to that of the Issuing Bank. It is normally a bank operating in the country of the beneficiary and hence it's guarantee adds to the acceptability of the LC for the beneficiary. This is being done at the request / authorization of the Issuing Bank.
vi) **NOMINATED BANK** – A Bank in exporter's country which is specifically authorized by the Issuing Bank to receive, negotiate, etc., the documents and pays the amount to the exporter under the LC.

vii) **REIMBURSING BANK –** Bank authorised to honour the reimbursement claim made by the paying, accepting or negotiating bank. It is normally the bank with which Issuing Bank has Nostro Account from which the payment is made to the nominated bank.
viii) **TRANSFERRING BANK** – In a transferable LC, the 1st Beneficiary may request the nominated bank to transfer the LC in favour of one or more second beneficiaries. Such a bank is called Transferring Bank. In the case of a freely negotiable credit, the bank specifically authorised in the LC as a Transferring Bank, can transfer the LC.

TYPES OF LETTERS OF CREDIT

1. REVOCABLE LETTER OF CREDIT
A revocable letter of credit is one which can be cancelled or amended by the issuing bank at any time and without prior notice to or consent of the beneficiary. From the exporter's point of view such LCs are not safe. Besides exporter cannot get such LCs confirmed as no bank will add confirmation to Revocable LCs. However, if any bank has negotiated bills

before receipt of notice of revocation, opening bank is liable to honour its commitments. The LC should clearly state that the same is revocable. As per Article-3 of UCP 600, a credit is irrevocable even if there is no indication to that effect. Further UCP 600 does not provide for revocable LCs and therefore such credits no longer exist.

2. IRREVOCABLE LETTER OF CREDIT

An Irrevocable Letter of Credit is one which cannot be cancelled or amended without the consent of all parties concerned.

3. REVOLVING LETTER OF CREDIT

A Revolving Letter of Credit is one where, under terms and conditions thereof, the amount is renewed or reinstated without specific amendments to the credit being needed. It can revolve in relation to time and value. This type of credit is generally used in local trade and sometimes for import also. Such credits are opened for a stated amount and the drawings under the LC are reinstated as soon as the documents are paid. The LC can be restricted to the individual amount of drawing at a time as well as aggregate amount of drawings. The Issuing bank has to confirm to the negotiating bank about the acceptance / payment of the documents for reinstatement of the amount in the LC. In revolving LC for import, the maximum drawings and the validity would be to the extent permitted by the import licence, if such imports are backed by Import Licence. Generally, we do not open Revolving LCs for import. However in exceptional cases such L/C may be opened with adequate safeguards / conditions subject to strict compliance of Foreign Trade Policy and Exchange Control Regulations particularly with reference to aggregate drawings under such L/C & shipment dates etc.

4. TRANSFERABLE LETTER OF CREDIT

A Transferable Credit is one that can be transferred by the original (first) beneficiary to one or more second beneficiaries. When the sellers of goods are not the actual suppliers or manufacturers, but are dealers/middlemen, such credits may be opened, giving the sellers the right to instruct the advising bank to make the credit available in whole or in part to one or more second beneficiaries. The LC can be transferred to more than one second beneficiary provided LC permits partial shipment and aggregate value of amounts so transferred does not exceed value of original LC. The LC can be transferred only once and only on terms stated in the credit, with the exception of :

- The amount of the Credit,

Any unit price stated therein,

- The expiry date,
- The latest shipment date or given period for shipment,
- The period for presentation of documents,

any or all of which may be reduced or curtailed.

The percentage for which insurance cover must be effected may be increased to provide the amount of cover stipulated in the credit.

The LC is deemed to be transferable only if it is stated to be 'Transferable' in the LC. Second beneficiary has no right to transfer to third beneficiary. However, he can retransfer to the first beneficiary. As per our Bank's policy, Transferable Import LCs is normally not opened. However, transferable LCs can be opened in exceptional case, by specifying the second beneficiaries in the LC itself or by amendment, provided.

i) Second beneficiaries should be specific and limited in number,

ii) Satisfactory credit report on second beneficiary should have been received. Further the second beneficiary must be a shipper / manufacturer or supplier of goods.

iii) Second beneficiary should normally be residing in the same country. If resident of another country, method of payment of

second beneficiary's country should conform to Exchange Control Regulations.
iv) Underlying contract indent/order should provide for such transfers.

5. BACK TO BACK LETTER OF CREDIT

In case of a transferrable LC, the beneficiary can ask the nominated Bank to transfer the credit in favour of his suppliers. But, where the

credit is not transferrable and in cases where in a middle man enters into a contract to supply goods to be obtained from other suppliers but is unwilling to disclose the identity of the buyer and the buyer also is unwilling to open a Transferable Letter of Credit, such Back to Back credits are opened. Irrevocable letter of credit opened by the buyer, is used by the beneficiary as security with his bank against which it agrees to open LC in favour of the actual supplier / manufacturer. The beneficiary of the original L/C will become the applicant for the second set of L/C (back to back L/C). The terms of back to back L/C will be almost identical to the L/C received from the buyer except to the extent of amount, unit price and delivery dates, which will be prior to the expiry of original L/C.
The original credit which is offered as security / backing is called the PRINCIPAL CREDIT or OVERRIDING CREDIT and the credit opened on its backing is called the BACK TO BACK credit or COUNTERVAILING CREDIT.

6.RED CLAUSE LETTER OF CREDIT

Such letters of credit contain a clause which enables the beneficiary to avail of an advance before effecting shipment to the extent stated in the LC. The clause used to be printed in red, hence the LC is called Red Clause LC. The nominated bank provides the pre-shipment credit to the beneficiary as per the authority given by the issuing Bank. In case the beneficiary fails to export the goods or fails to repay the advance the nominated bank gets the amount paid by the issuing bank.

7.GREEN CLAUSE LETTER OF CREDIT

This is an extension of Red Clause Letter of Credit, in that it provides for advance not only for purchase of raw materials, processing and/or packing but also for warehousing and insurance charges at the port

pending availability of shipping space. Generally advance is granted under this LC only after goods are put in bonded warehouses etc. up to the period of eventual shipment. In such cases warehouse receipts are obtained as security / documentary evidence.

8.PAYMENT LETTER OF CREDIT

Payment credit is a sight credit which is available for payment at sight basis against presentation of requisite documents to the issuing bank or the nominated bank. In a payment credit, beneficiary may or may not be called upon to draw a Bill of Exchange. In many countries, because of stamp duties even on sight bills, drawing Bill of Exchange is dispensed with.

9. DEFERRED PAYMENT LETTER OF CREDIT

Deferred Payment Credit is an usance credit where, payment will be made by Issuing bank, on respective due dates, determined in accordance with the stipulations of the credit, without the drawing of Bill of Exchange. In a way, it is an extended payment credit. Under deferred payment credit, no Bill of Exchange will be called upon to be drawn, but it must specify the maturity at which payment is to be made and how such maturity is to be determined. Deferred payment arrangements for Imports, providing for payment beyond 6 months from the date of shipment up to a period of less than three years are treated as Trade Credits for which procedural guidelines laid down by RBI for External Commercial Borrowing and Trade Credits are required to be followed.

10.ACCEPTANCE LETTER OF CREDIT

Acceptance Credit is similar to deferred payment credit except for the fact that in this credit drawing of a usance Bill of Exchange is a must. Under this credit, Bill of Exchange must be drawn on the specified bank for specified tenor, and the designated bank will accept and honour the same, by making payment on the due dates.

11.NEGOTIATION LETTER OF CREDIT

Negotiation Credit can be a sight credit or a usance credit. A Bill of Exchange is usually drawn in negotiation credit. The draft can be drawn as per credit terms. In a negotiation credit, the negotiation can be restricted to a specific bank or it may allow free negotiation, in which case it is called as 'Freely Negotiable Credit' whereby any bank who is willing to negotiate can do so. Under a negotiation credit, if the bank nominated as a negotiating bank refuses to negotiate, then the responsibility of issuing bank would be to pay as per terms of that credit. However, if the Bill of Exchange is drawn at a tenor (on DA basis) the issuing bank can pay less discount. In other words, in all circumstances under a negotiation credit, responsibility of the issuing bank is to pay and it cannot say that it is the responsibility of the negotiating bank. A bank which effectively negotiates draft(s)/document(s) buys them from the beneficiary, thereby becoming a holder in due course.

12.CONFIRMED LETTER OF CREDIT

Confirmed Letter of Credit is a Letter of Credit to which another bank (bank other than the issuing bank) has added its confirmation. This is to say, in a Confirmed Letter of Credit the beneficiary will have a firm undertaking of not only the bank issuing the credit, but also of confirming bank. The bank which adds its confirmation is called a confirming bank and it becomes a party to the contract of LC. Generally the confirmation to a credit is desired by beneficiary from a bank known to him, preferably the one located in his country so that his risk becomes localised and he can deal easily with a local bank rather than deal with a bank abroad which has issued the credit. But this type of LC is costlier to the parties concerned, since there would be charges of confirming bank. The LC will be confirmed by another bank with prior arrangement, only when it is advised to do so by the opening bank. Confirmation can be added only to irrevocable credits and not to revocable credits. When a bank acts as an advising bank, it has the only responsibility to verify the genuineness of the credit. But when it adds its confirmation, it becomes a prime obligor like the issuing bank and undertakings to pay / negotiate / accept the documents as per the terms of the credit.

13. STANDBY CREDIT

The standby credit is a documentary credit or similar arrangement however named or described which represents an obligation to the beneficiary on the part of the issuing bank to make payment on account of any indebtedness undertaken by the applicant, money borrowed or for any default by the applicant in the performance of an obligation.

These credits are generally used as a substitute for financial guarantees. In countries like USA, Japan it is not permissible to issue bank guarantees. Therefore, banks in these countries issue standby letter of credit in situations where normally a letter of guarantee should have been issued. The document generally called for under such credits is a simple statement of claim as

certificate of non performance. The standby works as a guarantee in the background of the underlying transaction and it is expected that it will never be drawn.
This facility may be extended on a selective banks for applicants with good track record. The nature of transaction is clean and hence is risky.

SWIFT:
It is a worldwide interbank financial telecommunications
It is two fold
It allows the customers to exchange the information reliably and securely
It helps in settling the transactions fast and with low cost and reducing operational risk
It head Quarters is in Brussels, Belgium
It transport the messages the information from two financial institutions and maintain the integrity and confidentiality
Swift messages are categorised by numbers called MT numbers
MT 800 deals with traveller's cheque
MT 300 deals with foreign exchange deals
Swift India services started in India on 7th march 2014
In case of LC the following are the documents that are required namely Bill of Exchange, Commercial Invoice, Transportation Document, Insurance Document, Inspection Certificate, and Certificate of Origin
The documents should be prepared in the language of LC
Modifications in the LC can be done but with the acceptance of the both parties
Confirmed LC is costlier to the parties concerned since there would be charges of confirming bank
Back to Back LC is also called as Countervailing Credit
On one LC if another LC is drawn than it is termed as Back To Back LC
The original Credit is referred to as Overriding Credit or Principal Credit
Back to Back LC is not preferable by the banks because the person who open the Back to Back LC may not produce the same documents at the other end

Transferable LC means transfer of Ownership of documents is shifted to second Beneficiary from first beneficiary. Here first beneficiary will become intermediary
Import Operations will takes place when the resident in India is importing goods into India
There are two types of charges when a Importer LC is opened
Opening charges: This include LC opening charges, fee charged by the LC opening Bank during the commitment period is referred to as Commitment fees
Usance period may vary from 7 days to 90/180 days
The fees will be charged by the bank during usance period is called as Usance Charges
After the Retirement of LC the retirement charges will be collected from the beneficiary
The following are the risk while opening import LC

a) The financial status of importer
b) The goods
c) The status of the exporter
d) Country risk
e) Foreign exchange risk

The LC is opened by the person staying abroad on the name of person in India is called as Export LC
Under the Scheme of ECGC both Commercial and Political Risk are covered
The reimbursement bank always earn the commission per transaction for the balance kept with the reimbursement bank by the issuing bank
It will look after the payment details not the documentation
Roles and responsibilities of Reimbursement are governed by ICC uniform rules for Reimbursement
Trade Control in India will look after the physical movement of goods and make sure that are doing as per the Foreign Trade policy guidelines
ICC Publications name ISBP International Standard Banking Practice for examining the documents under Documentary LC
First ISBP is in 2002
Now 2013 publication is running and it covers Packing list, weigh list, Beneficiary Certificate, Non-negotiable Sea Waybill, Inspection, health etc.

FEDAI Self-Regulated Organisation
It authorise the bank to do foreign transactions

Important Trade documents

Generally there are few documents which we need to take while doing LC
Air Waybill: This is the receipt given from the Airline Company. It is not any Document and also not considered as Negotiable Document.
Bill of Lading: Transport by means of Ship. It is negotiable documents as goods will be handover to the destination person only after the producing the goods
2 or 3 copies of bill of lading will be taken when one is presented the others will be considered as void
There are some parties in Bill Of lading:
Shipper, Consignee, Notify Party, Carrier
Certificate of Origin: shows that goods are originated in a particular country
Combined Transport Document: This List contain place of receipt place of delivery and different modes of transport.
Another name of this transport is multimodal transport document, inter modal transport document or combined transport bill of lading
The liability will lies from the starting and end place of delivery
Commercial invoice: It is statement of goods shipped and also includes statement of payment due
Draft: This is the demand for payment issued by the exporter to the importer
They are issued in the set of two: first of exchange/second of exchange OR Singly(Sola bill of exchange)
Insured amount must be the same currency as the credit and usually for the bill amount plus 10 percent
As per the UCPDC guidelines if the LC does not stipulate the value insurance value that should be specified is 110 percent of CIF value
Packing List/ Specification means packing material that is used for packing and also labelling is also done after packing
Exporter need to submit the inspection certificate

Documents under LC

1. Bill of exchange.
2. Invoice
3. Transport Documents: Bill of Lading & Airway Bill
4. Insurance Documents (Insurance is done at 110% of CIF value)
5. Certificate of Origin
Short Bill of Lading: Which does not carry detailed terms and conditions
Thorough Bill of Lading covers entire voyage with several modes of transport
Straight Bill of Lading is issued directly in the name of consignee.
Clause Bill of Lading: It bears super imposed clause that declared defective condition of Goods.
Clean Bill of Lading: It has no such super imposed clause declaring goods or packaging as defective.

.

Bill of Lading

A bill of lading is a receipt issued by a carrier for goods to be transported to a named destination, which details
the terms and conditions of transit. In the case of goods shipped by sea, it is the document of title which controls
the physical custody of the goods. There are two different types of bill of lading:

• A STRAIGHT BILL OF LADING is one that names a specific consignee to whom goods are to be delivered.
It is a non-negotiable document.

• An ORDER BILL OF LADING is one that is written "to order" or to order of a named party making the instrument negotiable by endorsement. Letters of credit usually call for an order bill of lading blank endorsed, meaning the holder of the bill of lading has title to the goods.

Given that each bill of lading must be either "straight" or "order", the following is a list of more common types of bill of lading:

• An OCEAN BILL OF LADING is one issued by an ocean carrier in sets, usually three signed originals comprising a complete set, any one of which gives title to the goods. Ocean bills of lading may be issued in "straight" or "order" form.

• A SHORT FORM BILL OF LADING is one issued by a carrier which does not indicate all the conditions of
the contract of carriage. This is acceptable unless otherwise specified in the letter of credit.

• A CHARTER PARTY BILL OF LADING, is one which shippers may, when large or bulk cargoes are concerned, lease the carrying vessel for a stated time or specific voyage under a charter party contract with the owner. Goods carried are then covered under a form of bill of lading issued by the charterer and indicate as being shipped, subject to the term and conditions of the charter party. Charter party bills of lading are not acceptable unless specifically authorized by the letter of credit.

• A MULTIMODAL TRANSPORT DOCUMENT is one covering shipments by at least two different modes of transport.

Checklist

• Ensure that the port of loading and port of discharge are as stipulated in the letter of credit.
• The shipment must be consigned in the manner stipulated in the letter of credit.
• A general description of the goods is acceptable if consistent with but not necessarily identical with the description specified in the letter of credit and other documents.
• If the letter of credit calls for an "on board" bill of lading, it must be evidenced by a "shipped on board" bill of lading, or by marked or stamped "on board" notation indicating the date the goods were loaded on board.
• If the letter of credit stipulates that freight is to be prepaid; or if the invoice is priced CIF or CFR; or if the ocean freight has been added to the FOB or FAS value: the bill of lading must be marked "freight paid" or "freight prepaid". Expressions such as "freight to be paid" or "freight payable" are not acceptable.

• The bill of lading must be "clean". Any superimposed marking indicating a defect in the packaging or condition of the goods renders the bill of lading "unclean" and unacceptable.
• Bills of lading indicating goods shipped "on deck" are not acceptable unless specifically allowed in the letter of credit.
• The total number of packages comprising the shipment, shipping marks and numbers, and any gross weight must agree with those on the commercial invoice and other documents.
• Letters of credit should stipulate a period of time after date of issue of the bill of lading or other shipping document for presentation of drawings. If no such period is specified, banks will refuse documents and consider them to be stale dated if presented later than 21 days after the date of "on board" endorsement, or, in the case of a shipped bill of lading or other shipping document, 21 days after the date of issue.
• The bill of lading is to cover only goods described in the invoice and specified in the letter of credit.
• Any correction or alteration must be initialled by the party signing the bill of lading.
• The name of the carrier must appear on the front of the bill of lading where the particulars of the shipment are shown.
• If the bill of lading is signed by an agent, the name of the agent as well as the name of the carrier must be shown.

Air Waybill

An air waybill is a receipt issued by an air carrier indicating receipt of goods to be transported by air and showing goods consigned to a named party. Being a non-negotiable receipt it is not a document of title.
Checklist
• Only the goods invoiced and specified in the letter of credit may be covered by the air waybill.
• If the letter of credit stipulates that freight is to be prepaid; or if the invoice is priced CIF or CFR; or if freight is otherwise included in the invoice: the air waybill must indicate that freight has been paid.
• The airport of departure and airport of destination must be as stipulated in the letter of credit.
• The number of packages and gross weight shown on the air waybill must be consistent with the other documents.
• An air waybill issued by a forwarder is not acceptable

Certificate of Origin

As the name suggests, a certificate of origin certifies as to the country of origin of the goods described and
should comply with any stipulations in the letter of credit as to originating country and by whom the certificate
is to be issued. The certificate should be consistent with and identified with the other shipping documents by
shipping marks and numbers, and must be signed.

Commercial Invoice

The commercial invoice is an itemized account issued by the beneficiary and addressed to the applicant, and
must be supplied in the number of copies specified in the letter of credit.
Checklist
• The invoice description of the goods must be identical to that stipulated in the letter of credit.
• Unit prices and shipping terms, ie., CIF, FOB, etc., must be as stipulated in the letter of credit. Extensions
and totals should be checked for arithmetical correctness. For definitions of CIF, FOB etc.,

Draft

A draft is a bill of exchange and a legally enforceable instrument which may be regarded as the formal evidence of debt under a letter of credit. Drafts drawn at sight are payable by the drawee on presentation. Term (usance) drafts, after acceptance by the drawee, are payable on their indicated due date.
Checklist
• Drafts must show the name of the issuing bank and the number and date of the letter of credit under which they are drawn.
• Drafts must be drawn and signed by the beneficiary of the letter of credit.
• The terms of the draft must be expressed in accordance with the tenor shown in the letter of credit; e.g., at sight or at a stated number of days after bill of lading/shipment date.
• The amount in words and figures must agree and be within the available balance of the letter of credit and in the same currency as the letter of credit.
• The amount must agree with the total amount of the invoices unless the letter of credit stipulates that drafts are to be drawn for a given percentage of the invoice amount.

Insurance Policy or Certificate

Under the terms of a CIF contract, the beneficiary is obliged to arrange insurance and furnish the buyer with
the appropriate insurance policy or certificate. The extent of coverage and risks should be agreed upon between the buyer and seller in their initial negotiations and be set out in the sales contract.
Since the topic of marine insurance is extremely specialized and with conditions varying from country to country, the services of a competent marine insurance broker are useful and well-advised.
Checklist

• If the letter of credit calls for an insurance policy, an insurance certificate is not acceptable and the policy
must be provided. Broker's cover notes are not acceptable unless specifically allowed in the letter of credit.
• If the insurance policy or certificate indicates that it is issued in duplicate, both copies must be presented.
• Unless the amount to be insured is stipulated in the letter of credit, the amount should cover at least the CIF value plus 10 percent if invoiced in those terms. Otherwise, the amount should be for the greater of the draft amount or the total invoice value plus 10%.
• The amount insured must be expressed in the same currency as the letter of credit.

• The description of the goods insured must be consistent with that in the other documents although not necessarily identical.
• The number of packages comprising the shipment and shipping marks and numbers must agree with those shown on the invoice and bill of lading.
• The name of the carrying vessel, port of loading and port of discharge must agree with those shown on the bill of lading.
• The insurance document must cover transshipment if transshipment is indicated on the bill of lading.
• The insurance document must cover specifically those risks stipulated in the letter of credit. The "all risks"
clause in the insurance document does not cover risks of war, which must be separately shown as covered,
if required by the letter of credit.
• Unless the letter of credit specifies to whom loss is to be payable, the insurance document must be endorsed by the party to whose order it is made so as to be in negotiable form.
• The date of the insurance document should not be later than the date of shipment as shown by the bill of lading or other transport document. However, the insurance document may be dated after the date of shipment provided it evidences that cover is effective from date of dispatch ie., by way of "warehouse to warehouse" clause.
• Any alterations or corrections to the insurance document must be initialed by the party signing the document.
• The insurance document must be signed by an authorized person.
The foregoing are the most common documents usually called for in an export letter of credit. The following may
also be asked for to satisfy government requirements or for the convenience of the buyer.

Packing List
A packing list is usually requested by the buyer to assist in identifying the contents of each package or container. It must show the shipping marks and number of each package. It is not usually required to be signed.

Inspection Certificate
When a letter of credit calls for an inspection certificate it will usually specify by whom the certificate is to be
issued; otherwise, the same general comments as in the case of the certificate of origin apply.
As a preventative measure against fraud or as a means of protecting the buyer against the possibility of receiving substandard or unwanted goods, survey or inspection certificates issued by a reputable third party
may be deemed prudent. Such certificates indicate that the goods have been examined and found to be as
ordered.

Summary of Major Issues in LC Transactions

Check List for Issuing/Accepting L/C

• Quality of Issuing Bank

• Method of Payment: Sight or Deferred Basis

• Transport Documents

• Other Documents

• Documents: Banks deal in documents not in goods, services or performance

• Should not refer to underlying contract

• Timing: UCP norm is max. 21 days after shipment date for presentation of documents

Responsibilities and Obligations of Banks

• Irrevocable unless otherwise mentioned

• Issuing Bank: Prime obligation

• Advising Bank: Only obligation to authenticate the credit and passing it on promptly to beneficiary

• Confirming Bank: takes over payment responsibilities of the issuing bank as far as the beneficiary is concerned

• Reimbursing Bank: Responsibility of Issuing Bank to provide proper reimbursement instructions

• Applicability of Force Majeure clause limiting banks' liability on account of Acts of God, riots, etc.

• Banks have five banking days to examine documents after receipt of documents

• Banks will examine documents with reasonable care

• Documents should be consistent with each other and complete

• Documents should conform with the terms of the credit

• Documents should comply with the provisions of UCP

Common Defects in Documentation

Commonly found discrepancies between the letter of credit and supporting documents include:

• Letter of Credit has expired prior to presentation of draft.

• Bill of Lading evidences delivery prior to or after the date range stated in the credit.

• Stale dated documents.

• Changes included in the invoice not authorized in the credit.

• Inconsistent description of goods.

• Insurance document errors.

• Invoice amount not equal to draft amount.

• Ports of loading and destination not as specified in the credit.

• Description of merchandise is not as stated in credit.

• A document required by the credit is not presented.

• Documents are inconsistent as to general information such as volume, quality, etc.

• Names of documents not exact as described in the credit. Beneficiary information must be exact.

• Invoice or statement is not signed as stipulated in the letter of credit.

Options for Banks dealing in Discrepant Documents

• Ask beneficiaries to make corrections

• Accept minor discrepancies and pay under reserve

• Obtain indemnity from seller

• Telex/fax details of discrepancies to the issuing bank and request permission to pay

• Send the documents on collection

Marine or Ocean Bill of Lading

• They are documents of title. Should be signed by ship's master or his named agent

• If stated that goods are on board, then dated

• Load port and disport should be named

• `On Deck' transport document not allowed

• Clean Transport Document

• Quasi-negotiable: transferable by endorsement and physical delivery, but no recourse

• Transhipment allowed unless prohibited in L/C

Other Transport Documents

• Some multi-modal transport operators (MTOs) also issue negotiable documents for transport operations where the goods are carried by several different modes of transport.

• Today goods often travel faster than the related documents. Rail, road and air transport documents are issued only in non-negotiable form with the goods consigned direct to a named consignee. Usually this will be the buyer unless the goods are consigned to a bank

Non-Transport Documents

• Insurance Documents (Article 28): Same currency as the Credit, Minimum amount to be CIF or CIP plus 10%,

• Commercial Invoices (Article 18)

• Consular Invoice

• Certificate of Origin

• Weight List

• Packing List

• Inspection or Survey Certificate

• Test Certificates

Trade Finance

Trade finance provide alternate solutions that balance risk and payments

Pre-shipment finance means the material and labour that is required to meet sales order

Post shipment finance means generate cash while offering payment terms to buyers

The factor that apply for the financing are

Financing can make a sale
Financing cost
Financing terms
Risk management

In case any additional guarantee is need government programs will help the lender to provide additional financing

Trade financing refers to financing the individual transaction or series of revolving transactions

Working capital loans are normally associated with pre shipment financing

Labour material and inventory generally requires loans

Prepayment by clean remittance means importer will pay before the shipment of the goods

Pre shipment

Pre shipment is the finance given by financial institution for exporter and is a part of working capital finance.

The advantages of Pre shipment finance is to enable the exporter to have the facilities like buy raw material , warehouse of good and raw material, process and pack the goods, shipping.

There are three types of Pre shipment finance namely packing credit , Advance against Receivables, Advance against cheque/draft

It is extended to packing credit in Indian rupees and foreign rupees

Condition for the exporter to export are, he need to have 10 digit importer exporter code number, should not be caution list of RBI and ECGC

If there are any good that are restricted in exporting he has to take permission from DGFT

If the export order is divided between more than one exporter pre shipment credit can be shared between them

Percentage of margin will be decided by the bank based on nature of order, nature of commodity, and capability of exporter.
There are different stages of Pre shipment Finance
1) Appraisal and Sanction of limits
2) Disbursement of Packing Credit Advance
3) Follow up of Packing Credit Advance
4) Liquidation of Packing Credit Advance
5) Overdue Packing credit
6) Packing Credit to Sub Supplier
7) Running Account Facility
8) Pre shipment credit in Foreign Currency

RCC stands for Restricted Cover Countries

If the good are send to the countries where this countries are restricted, need a approval from ECGC

Packing credit should not exceed 180 days, but bank may extend 90 days and further extension of 90 days on its own discretion without permission from RBI

MDF: Market Development Fund

If the export does not takes place entire advance is recovered with commercial interest rate Plus penal rate

Packing credit can be adjusted from EEFC Funds of exporter or local funds

EOH: Export Order Holder

Banks will collect interest on PCFC at monthly intervals against sale of foreign currency

PCFC maximum period 360 days

If there is export takes place in 360 days PCFC will be adjusted to TT selling Rate

PCFC balances can be placed in the EEFC, RFC(D) and Foreign Currency (Non Residents) Accounts

Deemed exports should be liquidated with in 30 days

LIBOR: London interbank offered rate

There are 7 tenors ranging from overnight LIBOR to months LIBOR

ECB are benchmarked against LIBOR

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:

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.
Firm order or irrevocable L/C or original cable / fax / telex message exchange between the exporter and the buyer.
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"

The exporter is a regular customer, a bona fide exporter and has a goods standing in the market.
Whether the exporter has the necessary license and quota permit (as mentioned earlier) or not.
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"

Name of buyer
Commodity to be exported
Quantity
Value (either CIF or FOB)
Last date of shipment / negotiation.
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 Advanceneeds 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

Packing credit has the following features:
1. Calculation of FOB value of order/LC amount or Domestic cost of production (whichever is lower).
2. IEC allotted by DGFT.
3. Exporter should not be on the “Caution List” of RBI.
4. He should not be under “Specific Approval list” of ECGC.
5. There must be valid Export order or LC.
6. Account should be KYC compliant.

Liquidation of Pre-shipment credit
- Out of proceeds of the bill.
- Out of negotiation of export documents.
- Out of balances held in EEFC account
- Out of proceeds of Post Shipment credit.

Concessional rate of interest is allowed on Packing Credit up to 270 days. Previously, the period was 180 days. Running facility can also be allowed to good customers**.**

Post shipment

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.

Post shipment finance is made available to exporters on the following conditions:
- IEC accompanied by prescribed declaration on GR/PP/Softex/SDF form must be submitted.
- Documents must be submitted by exporter within **21 days** of shipment.
- Payment must be made in approved manner within **6 months.**
- Normal Transit Period is **25 days.**
- The margin is NIL normally. But in any case, it should not exceed 10% if LC is there otherwise it can be up to 25%.

Types of Post Shipment Finance:
- Export Bills Purchased for sights bills and Discounting for Usance bills.
- Export bills negotiation.

Discrepancies of Documents
Late Shipment, LC expired, Late presentation of shipping documents, Bill of Lading not signed properly, Incomplete Bill of Lading, Clause Bill of Lading , Short Bill of Lading or Inadequate Insurance.

Advance against Un-drawn Balance
Undrawn balance is the amount less received from Importers. Bank can finance up to 10% undrawn amount up to maximum period of 90 days.

Advance against Duty Drawback
Duty drawback is the support by Government by way of refund of Excise/Custom duty in case the domestic cost of the product is higher than the Price charged from the importer. This is done to boost exports despite

international competition. Bank can make loan to exporter against Duty Drawback up to maximum period of 90 days.

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 :

Export Bills purchased/discounted.
Export Bills negotiated
Advance against export bills sent on collection basis.
Advance against export on consignment basis
Advance against undrawn balance on exports
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:

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.
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.

Forfeiting and factoring

Factoring is financing and collection of Receivables. The client sells Receivables at discount to Factor in order to raise finance for Working Capital. **It may be with or without recourse**. Factor finances about 80% and balance of **20% is paid** after collection from the borrower. Bill should carry LR/RR. Maximum Debt period permitted is 150 days inclusive of grace period of 60 days. Debts are assigned in favour of Factor. There are 2 factors in International Factoring. One is Export Factor and the other is Import Factor. Importer pays to Import factor who remits the same to Export Factor. **Forfaiting** is Finance of Export Receivables to exporter by the Forfaitor. It is also called discounting of Trade Receivablessuch as drafts drawn under LC, B/E or PN.**It is always No Recourse Basis** (i.e. without recourse to exporter). Forfaitor after sending documents to Exporters‟ Bank makes **100% payment** to exporter after deducting applicable discount. Maximum period of Advance is 180 days.

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.

2. 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

Bank Guarantees

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.

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.

Risk Elements

Transport risk

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.

Contract risk and credit risk

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 risk

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 ofassets, 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

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 123Japanese yen (JPY, ¥) to theUnited 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

Regulatory frame work

RBI controls Foreign Exchange and DGFT (Directorate General of Foreign

Trade) controls Foreign Trade. Exim Policy as framed in accordance with FEMA is implemented by DGFT. DGFT functions under direct control of Ministry of Commerce and Industry. It regulates Imports and Exports through EXIM Policy.
On the other hand, RBI keeps Forex Reserves, Finances Export trade and Regulates exchange control. Receipts and Payments of Forex are also handled by RBI.

IEC – Importer Exporter Code

One has to apply for IEC to become eligible for Imports and Exports. DGFT allots IEC to Exporters and Importers in accordance with RBI guidelines and FEMA regulations. EXIM Policy is also considered before allotting IEC.

Export Declaration Form

All exports (physically or otherwise) shall be declared in the following Form.
1. GR form--- meant for exports made otherwise than by post.
2. PP Form---meant for exports by post parcel.
3. Softex form---meant for export of software.
4. SDF (Statutory Declaration Form)----replaced GR form in order to submit declaration electronically.

SDF is submitted in duplicate with Custom Commissioned who puts its stamp and hands over the same to exporter marked "Exchange Control Copy" for submission thereof to AD.

Exemptions

- Up to USD 25000 (value) – Goods or services as declared by the exporter.
- Trade Samples, Personal effects and Central Govt. goods.
- Gift items having value up to Rs. 5.00 lac.
- Goods with value not exceeding USD 1000 value to Myanmar.
- Goods imported free of cost for re-export.
- Goods sent for testing.

ADs may consider waiver for export of goods free of cost for export promotion up to 2% of average annual exports of previous 3 years subject to ceiling of Rs. 5.00 lac. The limit is Rs. 10.00 lac for Status Holder Exporters

EXIM Policy

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
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).
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.
Status holder in STPI shall be permitted free movement of professional equipments like laptop/computer.
3. Hardware/Software
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.
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.
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
Diamonds & Jewellery Dollar Account for exporters dealing in purchase /sale of diamonds and diamond studded jewellery .
Nominated agencies to accept payment in dollar for cost of import of precious metals from EEFC account of exporter.
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
Import of 69 items covering animals products, vegetables and spice antibiotics and films removed from restricted list
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
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.
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.
Foreign bound passengers will now be allowed to take goods from SEZs to promote trade, tourism and exports.
Domestics sales by SEZ units will now be exempt from SAD.
Restriction of one year period for remittance of export proceeds removed for SEZ units.
Netting of export permitted for SEZ units provided it is between same exporter and importer over a period of 12 months.
SEZ units permitted to take job work abroad and exports goods from there only.
SEZ units can capitalize import payables.
Wastage for sub contracting/exchange by gem and jewellery units in transactions between SEZ and DTA will now be allowed.
Export/Import of all products through post parcel /courier by SEZ units will now be allowed.
The value of capital goods imported by SEZ units will now be amortized uniformly over 10 years.
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.
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:

EOUs are now required to be only net positive foreign exchange earner and there will now be no export performance requirement.
Period of Utilization raw materials prescribed for EOUs increased from 1 years to 3 years.
Gems and jewellery EOUs are now being permitted sub contracting in DTA.
Gems and jewellery EOUs will now be entitled to advance domestic sales.
8. EPCG Scheme
The Export Promotion Capital Goods (EPCG) Scheme shall allow import of capital goods for preproduction and post production facilities also.

The Export Obligation under the scheme shall be linked to the duty saved and shall b 8 times the duty saved.
To facilities upgradation of existing plant and machinery, import of spares shall be allowed under the scheme.
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.
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.
Capital goods up to 10 years old shall also be allowed under the Scheme.
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.
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
Facility for pro visional Duty Entitlement Pass Book(DEPB) rates introduced to encourage diversification and promote export of new products.
DEPB rates rationalize in line with general reduction in Customs duty.
10. DFRC Scheme
Duty Free Replenishment Certificate (DFRC) scheme extended to deemed export to provide a boost to domestic manufacturer.
Value addition under DFRC scheme reduced from 33% to 25%.
11. Miscellaneous
Actual user condition for import of second hand capital goods up to 10 years old dispensed with.
Reduction in penal interest rate from 24% to 15% for all old cases of default under Exim policy
Restriction on export of warranty spares removed.
IEC holder to furnish online return of importers/exporters made on yearly basis.
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 Trade Policy 2015-20

The Foreign Trade Policy (FTP), 2015-20, is notified by Central Govt., in exercise of powers conferred under Section 5 of the Foreign Trade (Development & Regulation) Act, 1992 (No. 22 of 1992).
Duration of FTP : 2015-20 FTP, incorporating provisions relating to export and import of goods and services, came Into force w.e.f. 01.04.2015 and shall remain in force up to 31st March, 2020, unless otherwise specified. All exports and imports made upto the date of notification shall, accordingly, be governed by the relevant FTP.
Director General of Foreign Trade (DGFT) can, by means of a Public Notice, notify Hand Book of Procedures, including Appendices and Aayat Niryat Forms or amendment thereto, if any, laying down the procedure to be followed by an exporter or importer or by any Licensing/Regional Authority or by any other authority for purposes
of implementing provisions of FT (D&R) Act, the Rules and the Orders made there under and provisions of FTP.
IMPORTER EXPORTER CODE (IEC): No export or import can be made by any person without obtaining an IEC number unless specifically exempted. Further, only one IEC is permitted against one Permanent Account Number (PAN). If any PAN card holder has more than one IEC, the extra IECs is disabled.
IEC : An IEC is a 10-digit number allotted to a person that is mandatory for undertaking any export/import activities. The facility for IEC in electronic form or e-IEC has also been operationalised.
Exports from India Schemes: There are two schemes for exports of Merchandise and Services respectively: (I) Merchandise Exports from India Scheme (MEIS).
(ii) Service Exports from India Scheme (SEIS).
Niryat Bandhu - Handholding Scheme for new Exporters / Importers: As per provisions of Foreign Trade Policy 2015-20, DGFT is implementing the Niryat Bandhu Scheme for mentoring new and potential exporter on the inbicades of foreign trade through counselling, training and outreach

programs.
Towns of Export Excellence (TEE): Selected towns producing goods of Rs. 750 cr or more may be notified as TEE, based on potential for growth in exports. For TEE in Handloom, Handicraft, Agriculture and Fisheries sector, threshold limit would be Rs.150
EOU, EHTP, STP, BTP: Units undertaking to export their entire production of goods and services (except permissible sales in Domestic Tariff Area-DTA), may be set up under Export Oriented Unit (EOU) Scheme, Eledronics Hardware Technology Park (EHTP) Scheme, Software Technology Park (STP) Scheme or 1310-Technology Park (BTP) Scheme for manufacture of goods, rendering of services, development of software, agriculture induding bio-tedinology. Trading units are not covered under these schemes.
Export Promojion Capital Goods Scheme: (a) Scheme allows import of capital goods for pre-production, production and post-production, at Zero customs duty. The Authorisation holder may also procure Capital Goods from indigenous sources: Capital goods shall indude capital goods as defined in foreign trade policy; (ii) Computer software systems; (iii) Spares, moulds, dies, jigs, fixtures, tools & refractories and spare refractories; and (iv) catalysts for initial charge-i- one subsequent charge.
(b) Import of capital goods for Project Imports notified by CBEC.
Second hand capital goods are not permitted.
Interest Equalisation Scheme on Pre and Post Shipment Rupee Export Credit (December 4, 2015): The scheme is effective from April 1, 2015. (a) The rate of interest equalisation would be 3 percent and will be available on Pre Shipment Rupee Export Credit and Post Shipment Rupee Export Credit; (b) The scheme would be applicable w.e.f 01.04.2015 for 5 years. (c) The scheme will be available to all exports under 416 tariff lines [at ITC (HS) code of 4 digit] and exports made by Micro, Small & Medium Enterprises (MSMEs) across all ITC(HS) codes; (d) Scheme would not be available to merchant exporters; (e) A study may be initiated on the impact of the scheme on export promotion on completion of 3 years of the operation of the scheme. The study may be done through one of the IIMs
Export Refinance
1. Who will provide? Export Refinance is provided by RBI.
2. Maximum period of refinance is 180 days.
3. Extent of Refinance: 15% (w.e.f. 27.10.2009) of eligible export finance outstanding on the reporting Friday
of the preceding fortnight. Outstanding Export Credit for the purpose of working out refinance limits will be aggregate outstanding export credit minus export bills rediscounted with other banks/Exim Bank/Financial Institutions, export credit against which refinance has been obtained from NABARD/Exim Bank, pre-shipment
credit in foreign currency (PCFC), export bills discounted/rediscounted under the scheme of 'Rediscounting of
Export Bills Abroad', overdue rupee export credit and other export credit not eligible for refinance.

Interest rate is Repo Rate. 5. Packing Credit in Foreign Currency is not eligible for export refinance
EXPORTS FROM INDIA
Export trade is regulated by DGFT under Govt. of India, which announces policies and procedures for exports from India. AD-I banks conduct export transactions in conformity with the Foreign Trade Policy, the Rules framed by the Govt. of India and the directions issued by RBI. Manner of receipt of export proceeds: (i) The amount can be received through AD Banks in the form of (a) Bank draft, pay order, banker's or personal cheques (b) Foreign currency notes/travellers' cheques from the buyer during his visit to India. (c) Payment out of funds held in the FCNR/NRE account maintained by the buyer
(d) International Credit Cards of the buyer (e) Wef Jan 01, 2009, Asian Clearing Union participants can settle their transactions in ACU Dollar or in ACU Euro (equivalent in value to one US Dollar and one Euro, respectively). Payment can be received from 3rd parties named by exporters in EGF, subject to compliance of certain conditions (RBI-Nov 08, 2013).
Time limits for realisation and repatriation of export proceeds:
(a) Units in SEZs, Status Holders, 100% Export Oriented Units and Units in EHTPs/STPsIBTPs: max 9 months
(b) Exported to a warehouse established outside India : Max 15 months from the date of shipment of goods; and
(c) Other cases: Max 9 months.
Offices and Immovable Property for Overseas Offices: For setting up of the office, AD-I banks may allow remittances towards initial expenses up to 15% of the average annual sales/income or turnover during the last 2 financial years or up to 25% of the net worth, whichever is higher. For recurring expenses, remittances up to 10% of the average annual sales/income or turnover during the last 2

financial years may be sent.
Advance Payments against Exports: The exporter shall ensure that -
i. the shipment of goods is made within one year (ADs can allow period above one year also w.e.f. 21.2.12 subject
to the condition that refund during the last 3 years is not more than 10% of advance payments received);
ii. the rate of interest payable on the advance payment does not exceed London Inter-Bank Offered Rate (LIBOR) + 100 basis points.
(ADs to sent quarterly report to RBI, within 21 days, for delay in utilization of advance payments — 09.02.15)
LONG TERM EXPORT ADVANCE : RBI allowed (May 21, 2014) AD banks to permit exporters, having a minimum of 3 years' satisfactory track record, to receive long term export advance up to a maximum tenor of 10 years for execution of long term supply contracts for export of goods. The rate of interest should not exceed LIBOR plus 200 basis points. Receipt of advance of USD 100 million or more should be immediately reported RBI. Where AD banks issue bank guarantee (BG) / Stand by Letter of Credit (SBLC) for export performance, BG / SBLC may be issued for a term not exceeding 2 years at a time and further rollover of not more than 2 years at a time may be allowed subject to satisfaction with relative export performance as per the contract.
Part Drawings /Undrawn Balances: Where it is the practice to leave a small part of the invoice value (maximum of 10% of the full export value) undrawn for payment after adjustment due to differences in weight, quality, etc. to be ascertained after arrival AD-I banks may negotiate the bills.
Opening / Hiring of Ware houses abroad: Banks may grant permission for opening / hiring warehouses abroad if export outstanding does not exceed 5% of exports made during the previous financial year and applicant has a minimum export turnover of USD 100,000/- during the last financial year.
Supplier's Credit
Under supplier credit contracts the exporter supplier extends a credit to the buyer importer of capital goods. The
terms can be down payment with the balance payable in instalments. The interest on such deferred payments
will have to be paid on the rates determined at the time of entering Into such arrangement. The deferred payments are supported by the promissory notes or bills of exchange often carrying the guarantee of importer's
bank. To finance the credit given to the Importer under such arrangement, the exporter raises a loan from his
banker under the export credit schemes in force. In general, the export credit insurance will be an inherent part
of the mechanism.
Buyer's credit
In a buyer credit transaction, the buyer importer raises a loan from a bank in the exporter's country under the
export credit scheme in force on the terms conforming to the OECD consensus. The loan Is drawn to pay the
exporter in full and thus for the exporter, the transaction is a cash sale. Another form of the buyer credit arrangement is, for a bank in the exporter's country, to establish a line of credit in favour of a bank or financial
institutions, in the importing country. The later makes available, loans under the line of credit to its importer
clients for the purchase of capital goods from the credit giving country. In India BUM Bank makes available
supplier/buyer credits and also extends line of credit to foreign financial institutions to promote exports of capital
goods from India.
Interest rate is Repo Rate. 5. Packing Credit in Foreign Currency is not eligible for export refinance

Export Credit Guarantee Corporation of India Ltd. (ECGC)
Export Credit Guarantee Corporation of India **Ltd.** (ECGC) is a Government of India Enterprise which provides export credit insurance facilities to exporters and banks in India. It functions under the administrative control of Ministry of Commerce & Industry, and is managed by a Board of Directors comprising representatives of the Government, Reserve Bank of India, banking, insurance

and exporting community. Over the years, it has evolved various export credit risk insurance products to suit the requirements of Indian exporters and commercial banks. ECGC is the seventh largest credit insurer of the world in terms of coverage of national exports. Its present paid up capital is Rs. 1200 Crores and the authorized capital is Rs. 5000 Crores.
ECGC is essentially an export promotion organization, seeking to improve the competitive capacity of Indian exporters by giving them credit insurance covers comparable to those available to their competitors from most other countries. It keeps it's premium rates at the lowest level possible Provides a range of credit risk insurance covers to exporters against loss in export of goods and services Offers export credit insurance cover to banks and financial institutions to enable exporters to obtain better facilities from them Provides Overseas Investment Insurance to Indian companies investing in joint ventures abroad in the form of equity or loan

How ECGC helps exporters

• Offers insurance protection to exporters against payment risks
• Provides guidance in export-related activities
• Makes available information on different countries with its own credit ratings
• Makes it easy to obtain export finance from banks/financial institutions
• Assists exporters in recovering bad debts
• Provides information on credit-worthiness of overseas buyers..

Foreign Exchange Management Act

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 .

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.
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.
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.
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

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).

Foreign Exchange association of India is a non-profit body
. All public sector banks, Private Banks, Foreign Banks and
Cooperative banks are its members. The functions of FEDAI are:

- Forming uniform rules
- Providing training to bankers; and
- Providing guidance and information from time to time.

The important rules are:
1. Export TransactionsForex liability must be crystallized into Indian rupees on 30th day after expiry of NTP at TT selling rate(Notional Transit Period) in case of Sight bills and **on 30th day** after notional due date in case of Usance bills. **The rule has since been relaxed and bank can frame its own rule for nos. of days for crystallization.**
2. Concessional rate of interest is applied up to Notional due date or up to value date of realization of export dues (whichever is earlier)
3. Import Transactions: For retirement of Import bills whether under LC or otherwise, **Bill selling rate or Contracted selling rate**

whichever is higher, will be applied.
DP Bills (sight) are retired after crystallization on 10th day after receipt.
DA Bills are retired (crystallized) on Due Date.
4. All Foreign Currency bills under LC, if not retired on receipt, shall be crystallized into Rupee liability on **10th day** after date of receipt of documents at**Bill Selling Rate or** contracted rate whichever is higher.
Normal Transit Period is:
- 25 days for export bills,
- 3 days for Rupee bills drawn under LC and payable locally
- 7 days for rupee bills drawn under LC and payable at other centers
- 20 days for Rupee bills not drawn under LC.
- For exports to Iraq, normal transit period is 60 days.

Compensation on Delayed payment:
All Foreign Inward remittances up to **Rs.1.00 lac** should be converted into Indian Rupees immediately
The proceeds of any Inward remittance should be credited to the account within 10 days and advice of receipt is to be sent within 3 days, failing which, compensation @2% above SB rate will be paid to the beneficiary.
Forward Contracts
Exchange contracts will be for definite amount and period.
Contracts must state first and last date of contracts e.g. from 1-31 Jan or from 17th Jan to 16th Feb.
For contracts up to 1 month, option period for delivery may be Specified In case of extension of contract, previous contract will be cancelled at TT Buying rate or TT selling rate as the case may be.
Overdue contracts are liable to be cancelled on **7th working day** after maturity date if no instructions are received. The contracts must state first and last date of the contract.
Banks are now free to fix their own rates of commission and margin etc.
AP may be imposed penalty up to 3 times of contravention amount. If amount is not quantifiable, up to 2.00 lac and up to 5000/- per day is imposed, if the contravention continues.

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

ICC UPCDC Guidelines

UCP 600

Why Documentary Credits
• Exchange of goods and services across national boundaries brings greater problems to both buyer and seller than does domestic business.
• Diversity of customs, standards, currencies, local regulations, languages and legal systems
• The Documentary Letter of Credit is widely used to reduce the financial risks of

trade.
• Importer wants to ensure performance while exporter wants to secure payment.
• Few of the rules are subject to any national or international law. Provisions of International Chamber of Commerce & Industry (ICC) important, but not foolproof.
• Generally adopted set of rules for credits known as the Uniform Customs and Practice for Letters of Credit (UCP) issued by ICC, publication no.600, 2007 (earlier version no. 500, 1993).
Introduction
• This revision of the Uniform Customs and Practice for Documentary Credits (commonly called "UCP") is the sixth revision of the rules since they were first promulgated in 1933.
• The objective of UCP, since attained, was to create a set of contractual rules that would establish uniformity in that practice, so that practitioners would not have to cope with a plethora of often conflicting national regulations. The universal acceptance of the UCP by practitioners in countries with widely divergent economic and judicial systems is a testament to the rules' success.
• It is important to recall that the UCP represent the work of a private international organization, not a governmental body.

Important Articles
Article 1 Application of UCP
• The Uniform Customs and Practice for Documentary Credits, 2007 Revision, ICC Publication no. 600 ("UCP") are rules that apply to any documentary credit ("credit") (including, to the extent to which they may be applicable, any standby letter of credit) when the text of the credit expressly indicates that it is subject to these rules. They are binding on all parties thereto unless expressly modified or excluded by the credit.
Article 2: Definitions
• Advising bank means the bank that advises the credit at the request of the issuing bank.
• Applicant means the party on whose request the credit is issued.
• Beneficiary means the party in whose favour a credit is issued.

Confirmation means a definite undertaking of the confirming bank, in addition to that of the issuing bank, to honour or negotiate a complying presentation.
Confirming bank means the bank that adds its confirmation to a credit upon the issuing bank's authorization or request.
• Issuing bank means the bank that issues a credit at the request of an applicant or on its own behalf.
• Negotiation means the purchase by the nominated bank of drafts (drawn on a bank other than the nominated bank) and/or documents under a complying presentation, by advancing or agreeing to advance funds to the beneficiary on or before the banking day on which reimbursement is due to the nominated bank.
• Nominated bank means the bank with which the credit is available or any bank in the case of a credit available with any bank.
Article 3: Interpretations
• The expression "on or about" or similar will be interpreted as a stipulation that an event is to occur during a period of five calendar days before until five calendar days after the specified date, both start and end dates included.
• The words "to", "until", "till", "from" and "between" when used to determine a period of shipment include the date or dates mentioned, and the words "before" and "after" exclude the date mentioned.
• The terms "first half" and "second half" of a month shall be construed respectively as the 1st to the 15th and the 16th to the last day of the month, all dates inclusive.
• The terms "beginning", "middle" and "end" of a month shall be construed respectively as the 1st to the 10th, the 11th to the 20th and the 21st to the last day of the month, all dates inclusive.
Article 4: Credits vs Contracts
• A credit by its nature is a separate transaction from the sale or other contract on which it may be based. Banks are in no way concerned with or bound by such

contract, even if any reference whatsoever to it is included in the credit.
Article 5: Documents v. Goods, Services or Performance
• Banks deal with documents and not with goods, services or performance to which the documents may relate.
Article 6 Availability, Expiry Date and Place for Presentation
• A credit must state the bank with which it is available or whether it is available with any bank. A credit available with a nominated bank is also available with the issuing bank.
• A credit must state whether it is available by sight payment, deferred payment, acceptance or negotiation.
• A credit must state an expiry date for presentation.
• The place of the bank with which the credit is available is the place for presentation.

Article 9 Advising of Credits and Amendments
• A credit and any amendment may be advised to a beneficiary through an advising bank. An advising bank that is not a confirming bank advises the credit and any amendment without any undertaking to honour or negotiate.
• By advising the credit or amendment, the advising bank signifies that it has satisfied itself as to the apparent authenticity of the credit or amendment and that the advice accurately reflects the terms and conditions of the credit or amendment received.
• A bank utilizing the services of an advising bank or second advising bank to advise a credit must use the same bank to advise any amendment thereto.
Article 10 Amendments
• The terms and conditions of the original credit (or a credit incorporating previously accepted amendments) will remain in force for the beneficiary until the beneficiary communicates its acceptance of the amendment to the bank that advised such amendment. The beneficiary should give notification of acceptance or rejection of an amendment. If the beneficiary fails to give such notification, a presentation that complies with the credit and to any not yet accepted amendment will be deemed to be notification of acceptance by the beneficiary of such amendment. As of that moment the credit will be amended.
• Partial acceptance of an amendment is not allowed and will be deemed to be notification of rejection of the amendment.
Article 11 Teletransmitted and Pre-Advised Credits and Amendments
• An authenticated teletransmission of a credit or amendment will be deemed to be the operative credit or amendment, and any subsequent mail confirmation shall be disregarded.
• If a teletransmission states "full details to follow" (or words of similar effect), or states that the mail confirmation is to be the operative credit or amendment, then the teletransmission will not be deemed to be the operative credit or amendment. The issuing bank must then issue the operative credit or amendment without delay in terms not inconsistent with the teletransmission.
Article 13 Bank-to-Bank Reimbursement Arrangements
• An issuing bank must provide a reimbursing bank with a reimbursement authorization that conforms with the availability stated in the credit. The reimbursement authorization should not be subject to an expiry date.
• An issuing bank will be responsible for any loss of interest, together with any expenses incurred, if reimbursement is not provided on first demand by a reimbursing bank in accordance with the terms and conditions of the credit.
• A reimbursing bank's charges are for the account of the issuing bank.
Article 14 Standard for Examination of Documents
• A nominated bank acting on its nomination, a confirming bank, if any, and the issuing bank must examine a presentation to determine, on the basis of the documents alone, whether or not the documents appear on their face to constitute a complying presentation.

• A nominated bank acting on its nomination, a confirming bank, if any, and the issuing bank shall each have a maximum of five banking days following the day of presentation to determine if a presentation is complying. This period is not curtailed

or otherwise affected by the occurrence on or after the date of presentation of any expiry date or last day for presentation.
• A presentation must be made by or on behalf of the beneficiary not later than 21 calendar days after the date of shipment as described in these rules, but in any event not later than the expiry date of the credit.
Article 16 Discrepant Documents, Waiver and Notice
• When a nominated bank acting on its nomination, a confirming bank, if any, or the issuing bank determines that a presentation does not comply, it may refuse to honour or negotiate.
• When an issuing bank determines that a presentation does not comply, it may in its sole judgement approach the applicant for a waiver of the discrepancies.
• When a nominated bank acting on its nomination, a confirming bank, if any, or the issuing bank decides to refuse to honour or negotiate, it must give a single notice to that effect to the presenter.
• The notice must state:
• i. that the bank is refusing to honour or negotiate; and
• ii. each discrepancy in respect of which the bank refuses to honour or negotiate; and
• iii. a) that the bank is holding the documents pending further instructions from the presenter; or
• b) that the issuing bank is holding the documents until it receives a waiver from the applicant and agrees to accept it, or receives further instructions from the presenter prior to agreeing to accept a waiver; or
• c) that the bank is returning the documents; or
• d) that the bank is acting in accordance with instructions previously received from the presenter.
• The notice required in sub-article 16 (c) must be given by telecommunication or, if that is not possible, by other expeditious means no later than the close of the fifth banking day following the day of presentation.
Article 20 Bill of Lading
• A bill of lading, however named, must appear to:
• i. indicate the name of the carrier and be signed by:
• the carrier or a named agent for or on behalf of the carrier, or
• the master or a named agent for or on behalf of the master.
• ii. indicate that the goods have been shipped on board a named vessel at the port of loading stated in the credit by:
• pre-printed wording, or
• an on board notation indicating the date on which the goods have been shipped on board.
• be the sole original bill of lading or, if issued in more than one original, be the full set as indicated on the bill of lading.

Other Transport Documents
• Non-Negotiable Sea Waybill (Article 21)
• Charter Party Bill of Lading (Article 22)
• Multimodal Transport Document (Article 19)
• Air Transport Document (Article 23)
• Road, Rail or Inland Waterway Transport Documents (Article 24)
• Courier Receipts, Post Receipt or Certificate of Posting (Article 25)
Article 26 "On Deck"
• A transport document must not indicate that the goods are or will be loaded on deck. A clause on a transport document stating that the goods may be loaded on deck is acceptable.
Article 27 Clean Transport Document
• A bank will only accept a clean transport document. A clean transport document is one bearing no clause or notation expressly declaring a defective condition of the goods or their packaging. The word "clean" need not appear on a transport document, even if a credit has a requirement for that transport document to be "clean on board".
Article 28 Insurance Document and Coverage

• Cover notes will not be accepted.
• The date of the insurance document must be no later than the date of shipment, unless it appears from the insurance document that the cover is effective from a date not later than the date of shipment.
• The insurance document must indicate the amount of insurance coverage and be in the same currency as the credit.
• If there is no indication in the credit of the insurance coverage required, the amount of insurance coverage must be at least 110% of the CIF or CIP value of the goods.

Article 29 Extension of Expiry Date or Last Day for Presentation

• If the expiry date of a credit or the last day for presentation falls on a day when the bank to which presentation is to be made is closed for reasons other than those referred to in article 36, the expiry date or the last day for presentation, as the case may be, will be extended to the first following banking day.

Article 30 Tolerance in Credit Amount, Quantity and Unit Prices

• The words "about" or "approximately" used in connection with the amount of the credit or the quantity or the unit price stated in the credit are to be construed as allowing a tolerance not to exceed 10% more or 10% less than the amount, the quantity or the unit price to which they refer.
• A tolerance not to exceed 5% more or 5% less than the quantity of the goods is allowed, provided the credit does not state the quantity in terms of a stipulated number of packing units or individual items and the total amount of the drawings does not exceed the amount of the credit.

Article 31 Partial Drawings or Shipments

• Partial drawings or shipments are allowed.

Article 34 Disclaimer on Effectiveness of Documents

• A bank assumes no liability or responsibility for the form, sufficiency, accuracy, genuineness, falsification or legal effect of any document, or for the general or particular conditions stipulated in a document or superimposed thereon; nor does it assume any liability or responsibility for the description, quantity, weight, quality, condition, packing, delivery, value or existence of the goods, services or other performance represented by any document, or for the good faith or acts or omissions, solvency, performance or standing of the consignor, the carrier, the forwarder, the consignee or the insurer of the goods or any other person.

Article 35 Disclaimer on Transmission and Translation

• A bank assumes no liability or responsibility for the consequences arising out of delay, loss in transit, mutilation or other errors arising in the transmission of any messages or delivery of letters or documents, when such messages, letters or documents are transmitted or sent according to the requirements stated in the credit, or when the bank may have taken the initiative in the choice of the delivery service in the absence of such instructions in the credit.
• If a nominated bank determines that a presentation is complying and forwards the documents to the issuing bank or confirming bank, whether or not the nominated bank has honoured or negotiated, an issuing bank or confirming bank must honour or negotiate, or reimburse that nominated bank, even when the documents have been lost in transit between the nominated bank and the issuing bank or confirming bank, or between the confirming bank and the issuing bank.
• A bank assumes no liability or responsibility for errors in translation or interpretation of technical terms and may transmit credit terms without translating them.

Article 36 Force Majeure

• A bank assumes no liability or responsibility for the consequences arising out of the interruption of its business by Acts of God, riots, civil commotions, insurrections, wars, acts of terrorism, or by any strikes or lockouts or any other causes beyond its control.
• A bank will not, upon resumption of its business, honour or negotiate under a credit that expired during such interruption of its business.

Article 37 Disclaimer for Acts of an Instructed Party

• A bank utilizing the services of another bank for the purpose of giving effect to the instructions of the applicant does so for the account and at the risk of the applicant.

• An issuing bank or advising bank assumes no liability or responsibility should the instructions it transmits to another bank not be carried out, even if it has taken the initiative in the choice of that other bank.

Article 38 Transferable Credits

• A bank is under no obligation to transfer a credit except to the extent and in the manner expressly consented to by that bank.

• Transferable credit means a credit that specifically states it is "transferable". A transferable credit may be made available in whole or in part to another beneficiary ("second beneficiary") at the request of the beneficiary ("first beneficiary").

• Transferring bank means a nominated bank that transfers the credit or, in a credit available with any bank, a bank that is specifically authorized by the issuing bank to transfer and that transfers the credit. An issuing bank may be a transferring bank. Transferred credit means a credit that has been made available by the transferring bank to a second beneficiary.

• A credit may be transferred in part to more than one second beneficiary provided partial drawings or shipments are allowed.

• A transferred credit cannot be transferred at the request of a second beneficiary to any subsequent beneficiary. The first beneficiary is not considered to be a subsequent beneficiary.

• Any request for transfer must indicate if and under what conditions amendments may be advised to the second beneficiary. The transferred credit must clearly indicate those conditions.

• The transferred credit must accurately reflect the terms and conditions of the credit, including confirmation, if any, with the exception of:

- the amount of the credit,
- any unit price stated therein,
- the expiry date,
- the period for presentation, or
- the latest shipment date or given period for shipment,

any or all of which may be reduced or curtailed.

• The first beneficiary has the right to substitute its own invoice and draft, if any, for those of a second beneficiary for an amount not in excess of that stipulated in the credit, and upon such substitution the first beneficiary can draw under the credit for the difference, if any, between its invoice and the invoice of a second beneficiary.

Summary of Major Issues in LC Transactions

Check List for Issuing/Accepting L/C

• Quality of Issuing Bank
• Method of Payment: Sight or Deferred Basis
• Transport Documents
• Other Documents
• Documents: Banks deal in documents not in goods, services or performance
• Should not refer to underlying contract
• Timing: UCP norm is max. 21 days after shipment date for presentation of documents

Responsibilities and Obligations of Banks

• Irrevocable unless otherwise mentioned
• Issuing Bank: Prime obligation
• Advising Bank: Only obligation to authenticate the credit and passing it on promptly to beneficiary

• Confirming Bank: takes over payment responsibilities of the issuing bank as far as the beneficiary is concerned
• Reimbursing Bank: Responsibility of Issuing Bank to provide proper reimbursement instructions
• Applicability of Force Majeure clause limiting banks' liability on account of Acts of God, riots, etc.
• Banks have five banking days to examine documents after receipt of documents
• Banks will examine documents with reasonable care

• Documents should be consistent with each other and complete
• Documents should conform with the terms of the credit
• Documents should comply with the provisions of UCP
Common Defects in Documentation
Commonly found discrepancies between the letter of credit and supporting documents include:
• Letter of Credit has expired prior to presentation of draft.
• Bill of Lading evidences delivery prior to or after the date range stated in the credit.
• Stale dated documents.
• Changes included in the invoice not authorized in the credit.
• Inconsistent description of goods.
• Insurance document errors.
• Invoice amount not equal to draft amount.
• Ports of loading and destination not as specified in the credit.
• Description of merchandise is not as stated in credit.
• A document required by the credit is not presented.
• Documents are inconsistent as to general information such as volume, quality, etc.
• Names of documents not exact as described in the credit. Beneficiary information must be exact.
• Invoice or statement is not signed as stipulated in the letter of credit.
Options for Banks dealing in Discrepant Documents
• Ask beneficiaries to make corrections
• Accept minor discrepancies and pay under reserve
• Obtain indemnity from seller
• Telex/fax details of discrepancies to the issuing bank and request permission to pay
• Send the documents on collection
Marine or Ocean Bill of Lading
• They are documents of title. Should be signed by ship's master or his named agent
• If stated that goods are on board, then dated
• Load port and disport should be named
• `On Deck' transport document not allowed
• Clean Transport Document
• Quasi-negotiable: transferable by endorsement and physical delivery, but no recourse
• Transhipment allowed unless prohibited in L/C

Other Transport Documents
• Some multi-modal transport operators (MTOs) also issue negotiable documents for transport operations where the goods are carried by several different modes of transport.
• Today goods often travel faster than the related documents. Rail, road and air transport documents are issued only in non-negotiable form with the goods consigned direct to a named consignee. Usually this will be the buyer unless the goods are consigned to a bank
Non-Transport Documents
• Insurance Documents (Article 28): Same currency as the Credit, Minimum amount to be CIF or CIP plus 10%,
• Commercial Invoices (Article 18)
• Consular Invoice
• Certificate of Origin
• Weight List
• Packing List
• Inspection or Survey Certificate
• Test Certificates

EXIM Bank

Exim Bank – its functions

Exim Bank (Export/Import Bank) was established in 1981 with the objective of financing Import Export Trade especially on Long term basis. The functions of Exim bank are as under:

- Offering Finance for Exports at competitive rates.
- Developing alternate financial solution
- Data and Information about new export opportunities.
- Respond to export problems and pursue Policy solutions.

The finance activities of Exim bank consist of :

1. Arranging Suppliers" credit and Buyers" credit
2. Consultancy and Technical services for exporters
3. Pre-shipment credit – over 6 months
4. Setting up of EOU in EPZ (Export Processing Zones)
5. Finance for DTA (Domestic Tariff Area) units exporting minimum 25% of annual sales.
6. Finance for Import of Computer System and Development of Software. Plant and Machinery and Technical up-gradations etc.
7. Services for Overseas Investments.
8. Line of Credit to exporters on the basis of which they receive export orders.

EXIM Bank performs following functions for Commercial Banks:

- Export Bills Rediscounting – Usance period should not exceed 180 days.
- SSI Export Bills Rediscounting.
- Refinance of Export credit
- Refinance of TL to EOU, Software Capital goods up to 100%
- Participates with banks in Issuance of Guarantees.

Besides above, the EXIM bank arranges Relending facilities for Overseas Banks, sanctions direct credit to foreign importers and arranges line of credit for foreign importers.

DPG (Deferred Payment Guarantees

It is normally beyond 6M and meant for SHE (Status Holder Exporters) only.

Banks can approve proposals up to 25 crore.

Above 25 crore up to 100 crore are referred to EXIM bank.

Above 100 crore proposals will be considered by Inter institutional Working Group consisting of members from RBI, FEDAI, ECGC and EXIM.

Other services of EXIM bank

Besides above, the EXIM bank provides assistance for :

1. Project Exports – export of Engineering goods on Deferred Payment terms
2. Turnkey Projects- supply of equipment along with related services like design, detailed engineering etc.
3. Construction Projects
4. Funded facilities.

EXIM Bank is nodal agency designated by GOI to manage Export Marketing Fund (EMF) which consists of loan made available to India by World bank to promote International Trade.

EXPORT CREDIT GUARRANTEE CORPORATION OF INDIA

ECGC was established in 1964. Export Credit and Guarantee Corporation provides guarantee cover for risks which can be availed by the banks after making payment of Premium. Its activities are governed by **IRDA.**
The functions of ECGC are 3 fold:
1. It rates the different countries.
2. It issues Insurance Policies.
3. It guarantees proceeds of Exports.

Types of Policies:

1. Standard Policies

It provides cover for exporters for short term exports. These cover **Commercial and Political Risks**. The different types of Policies are:
- Shipment (Comprehensive Risk) Policy – to cover commercial and political risks from date of shipment. **Default of 4 months.**
- Shipment (Political Risks) Policy.
- Contracts (Comprehensive Risk) Policy for both commercial and Political risks.
- Contracts (Political Risks) Policy

2. Small Exporters' policy

A small exporter is defined whose anticipated total export **turnover** for the period of 12 M is **not more than 50 lac**. The policy is issued to cover shipments 24 M ahead.
The policy provides cover against Commercial risks and Political risks covering insolvency of the buyer , failure of the borrower to make payment due within 2 months from due date, borrower‟s failure to accept the goods due to no fault of exporter.

3. Specific Shipment Policy

Commercial risks – Failure to pay within 4M. It covers short term credit not exceeding 180 days.

4. Exports Specific Buyer Policy

Commercial risks – Failure to pay within 4M and Political Risks
The other Policies are Exports (specific buyers‟ Policy), Buyers‟ Exposure Policy, Export Turnover Policy (exporters who pay minimum 10 lac premium to ECGC are eligible) and Consignment export Policy.

Financial Guarantees

ECGC issues following types of Guarantees for the benefit of Exporters:

Packing Credit Insurance

ECIB (WT-PC) – Exporters Credit Insurance for Banks (whole Turnover Packing Credit)
This policy is issued to banks to guarantee export risks:
- For all exporters
- Minimum 25 accounts should be there.
- Minimum assured premium is Rs. 5.00 lac.
- Period of cover is 12M.
- The claim is payable if there is default of 4 Months.
- Premium for fresh covers is 8 paisa per month and for others is 6-9.5 paisa percent per month. It is calculated on average outstanding.
- Percentage of cover ranges from 50-75%
- If due date of export proceeds is extended beyond 360 days, approval of ECGC is required.
- Claim is to be filed within 6M of report of default to ECGC.

DGFT Directorate General of foreign Trade

DGFT is responsible for implementing the Foreign Trade Policy or Exim Policy with the main objective of promoting Indian exports.

The Directorate General of Foreign Trade (DGFT) is the agency of the Ministry of Commerce and Industry of the Government of India responsible for administering laws regarding foreign trade and foreign investment in India.

IEC
DGFT provides a complete searchable[1] database of all exporters and importers of India. The search can be completed only if full IEC code and first three letters of company name are entered

The Directorate General of foreign Trade (DGFT) is the agency of the Ministry of Commerce and Industry of the Government of India, responsible for execution of the import and export Policies of India. It was earlier known as Chief Controller of Imports & Exports (CCI&E) till 1991. DGFT plays a very important role in the development of trading relations with various other nations and thus help in improving not only the economic growth but also provides a certain impetus needed in the trade industry. For promoting exports and imports DGFT establish its regional offices across the country.

Directorate General of Foreign Trade is an attached office of the Department of Commerce, Ministry of Commerce and Industry. It’s headquartered in Udyog Bhavan, New Delhi. Under its jurisdiction, there are four Zonal Offices at Delhi, Mumbai, Kolkata and Chennai headed by Zonal Joint Director General of Foreign Trade. There are 35 Regional Authorities all over the country.

Functions and responsibilities of DGFT:

DGFT entrusted with the responsibility of implementing various policies regarding trade for example, Foreign Trade Policy.
DGFT is the licensing authority for exporters, importers, and export and import business.
DGFT can prohibit, restrict and regulate exports and imports.
DGFT has important role to issue Notifications, Public notices, Circulars, etc.
DGFT grant 10 digit IEC (Importer Exporter Code), which is a primary requirement to Import Export
DGFT introduces different schemes from time to time regarding trade benefits throughout the country.
DGFT has introduced ITC (HS CODE) schedule-1 for import items in India and Schedule-2 for Export items from India.

DGFT or Directorate General of Foreign Trade is a government organization in India responsible for the formulation of exim guidelines and principles for indian importers and indian exporters of the country. Before 1991, DGFT was known as the Chief Controller of Imports & Exports (CCI&E).

Functions of DGFT

Some of the major functions of DGFT and its regional offices through out the country are as follows:

To implement the Exim Policy or Foreign Trade Policy of India by introducing various schemes and guidelines through its network ofdgft regional offices thought-out the country. DGFT perform its functions in coordination with state governments and all the other departments of Ministry of Commerce and Industry, Government of India.
To Grant Exporter Importer Code Number to Indian Exporter and Importers. IEC Number is a unique 10 digit code required by the traders or manufacturers for the purpose of import and export in India. DGFT IEC Codes are mandatory for carrying out import export trade operations and enable companies to acquire benefits on their imports/exports, indian customs, export promotion councils council etc in India.
DGFT permits or regulate Transit of Goods from India or to countries adjacent to India in accordance with the bilateral treaties between India and other countries.
To promote trade with neighboring countries.
To grant the permission of free export in Export Policy Schedule 2.

DGFT also play an important role in controlling DEPB Rates.
Setting standard input-output norms is also controlled by the DGFT.
Any changes or formulation or addition of new codes in ITC-HS Codes are also carried out by DGFT (Directorate General of Foreign Trade).
Apart from the above, DGFT also acts as a trade facilitator. It also deals with the quality complaints of the foreign buyers. Officials DGFT works in close coordination with other related economic offices like Customs Commissionerates, Central Excise authorities, DRI authorities and Enforcement Directorate.

DGFT Digital Signature

In the year 2004, DGFT has also introduced the digital signature. DGFT

Trade finance recollected questions::

2 marks qstn from ecgc,export promotion capital goods scheme. exim ,lc, eefc, urr725 ,pcfc
1 marks from forfating, factoring, pre and post shipment ,Fedai dutydrawback urc522 heckscher ohlin theory buyers and suppliers credit forward contract , lc., channel financing merchanting trade as well these topics in .5 marks qstn bid bondand performance guarantee currency and credit risk , wharfage documentry credit time period related qstn , status holder starhouse . SEIS , liberalized remittance . NEIA (national export insurance account), ssp, src. Scp related to ECIE-ST red clause

Extra Information for DGFT

CHAPTER 1

LEGAL FRAMEWORK AND TRADE FACILITATION

A. LEGAL FRAMEWORK

1.00 Legal Basis of Foreign Trade Policy (FTP)

The Foreign Trade Policy, 2015-20, (as updated) w.e.f. 05.12.2017is notified by Central Government, in exercise of powers conferred under Section 5 of the Foreign Trade (Development & Regulation) Act, 1992 (No. 22 of 1992) [FT (D&R) Act], as amended.

1.01 Duration of FTP

The Foreign Trade Policy (FTP), 2015-2020,(as updated) w.e.f. 05.12.2017 incorporating provisions relating to export and import of goods and services, shall come into force with effect from the date of notification and shall remain in force up to 31st March, 2020, unless otherwise specified. All exports and imports made upto the date of notification shall, accordingly, be governed by the relevant FTP, unless otherwise specified.

1.02 Amendment to FTP

Central Government, in exercise of powers conferred by Section 5 of FT (D&R) Act, 1992, as amended from time to time, reserves the right to make any amendment to the FTP, by means of notification, in public interest.

1.03 Hand Book of Procedures (HBP) and Appendices & Aayat Niryat Forms (AANF)

Director General of Foreign Trade (DGFT) may, by means of a Public Notice, notify Hand Book of Procedures, including Appendices and Aayat Niryat Forms or amendment thereto, if any, laying down the procedure to be followed by an exporter or importer or by any Licensing/Regional Authority or by any other authority for purposes of implementing provisions of FT (D&R) Act, the Rules and the Orders made there under and provisions of FTP.

1.04 Specific provision to prevail over the general

Where a specific provision is spelt out in the FTP/Hand Book of Procedures (HBP), the same shall prevail over the general provision.

1.05 Transitional Arrangements

(a) Any License / Authorisation / Certificate / Scrip / instrument bestowing financial or fiscal benefit issued before commencement of FTP, 2015-20 (as updated) w.e.f. 05.12.2017shall continue to be valid for the purpose and duration for which it was issued, such License/Authorisation/ Certificate / Scrip / any instrument bestowing financial or fiscal benefit Authorisation was issued, unless otherwise stipulated.

(b) In case an export or import that is permitted freely under FTP is subsequently subjected to any restriction or regulation, such export or import will ordinarily be permitted, notwithstanding such restriction or regulation, unless otherwise stipulated. This is subject to the condition that the shipment of export or import is made within the original validity period of an irrevocable commercial letter of credit, established before the date of imposition of such restriction and it shall be restricted to the balance value and quantity available and time period of such irrevocable letter of credit. For operationalising such irrevocable letter of credit, the applicant shall have to register the Letter of Credit with jurisdictional Regional Authority (RA) against computerized receipt, within 15 days of the imposition of any such restriction or regulation.

B. TRADE FACILITATION& EASE OF DOING BUSINESS

1.06 Objective

Trade facilitation is a priority of the Government for cutting down the transaction cost and time, thereby rendering Indian exports more competitive. The various provisions of FTP and measures taken by the Government in the direction of trade facilitation are consolidated under this chapter for the benefit of stakeholders of import and export trade.

1.07 DGFT as a facilitator of exports/imports

DGFT has a commitment to function as a facilitator of exports and imports. Focus is on good governance, which depends on efficient, transparent and accountable delivery systems. In order to facilitate international trade, DGFT consults various Export Promotion Councils as well as Trade and Industry bodies from time to time.

1.08 Niryat Bandhu - Hand Holding Scheme for new export / import entrepreneurs

(a) DGFT is implementing the Niryat Bandhu Scheme for mentoring new and potential exporter on the intricacies of foreign trade through counselling, training and outreach programmes.

(b) Considering the strategic significance of small and medium scale enterprises in the manufacturing sector and in employment generation, 'MSME clusters' have been identified, based on the export potential of the product and the density of industries in the cluster, for focussed interventions to boost exports.

(c) Outreach activities shall be organized in a structured way with the help of Export Promotion Councils as 'industry partners' and other willing 'knowledge partners' in academia and research community to achieve the objective of Niryat Bandhu Scheme. Further, in order to ensure optimum utilization of resources, efforts would be made to associate all the stakeholders, including Customs, ECGC, Banks and concerned Ministries.

1.09 Citizen's Charter

DGFT has in place a Citizen's Charter, giving time schedules for providing various services to clients. Time line for disposal of an Application is given in Para 9.10 of HBP.

1.10 Online Complaint Registration and Monitoring System

An EDI Help Desk is available to assist the exporters in filing online applications on the DGFT portal and resolving other EDI related issues. For assistance an email may be sent at dgftedi@nic.in or Toll Free number 1800111550 can be used. Help Desk facility is also operational at the 4 DGFT Zonal Offices (details at http://dgft.gov.in). An Online Complaint registration and monitoring system allows users to register complaint and receive status/ reply online (details are at http://dgft.gov.in).

1.11 Issue of e-IEC (Electronic-Importer Exporter Code)

(a) Importer Exporter Code (IEC) is mandatory for export/import from/to India as detailed in paragraph 2.05 of this Policy. DGFT issues Importer Exporter Code in electronic form (e-IEC). For issuance of e-IEC an application can be made on DGFT (http//:dgft.gov.in). Applicant can upload the documents and pay the requisite fee through Net banking. Applicant shall, however, submit the application duly signed digitally.

(b) Processing of such applications by Regional Authority (RAs) of DGFT would be done online and a digitally signed e-IEC would normally be issued/ e-mailed to the applicant within 2 working days.

(c) In case the application is incomplete or otherwise ineligible, the same shall be rejected and a Rejection letter/email (with reasons for rejection) would be sent to the applicant.

(d) Application for issue of e-IEC can also be made from eBiz platform (https://www.ebiz.gov.in).

1.12 e-BRC

(a) One prominent initiative in recent times has been the e-BRC (Electronic Bank Realisation Certificate) project and its successful implementation by DGFT. It has enabled DGFT to capture details of realisation of export proceeds directly from the Banks through secured electronic mode. This has facilitated the implementation of various export promotion schemes without any physical interface with the stake holders.

(b) RBI has also developed a comprehensive IT-based system called Export Data Processing and Monitoring System (EDPMS) for monitoring of export of goods and software and facilitating AD banks to report various returns through a single platform.

1.13 MoU with State Governments for sharing of e-BRC data

MOU has been signed with 14 state governments for sharing of e-BRC data to facilitate refund of VAT/GST by the state government to exporters. MOU has also been signed with Enforcement Directorate, Agricultural Directorate, Agricultural Processed Food Products Export Development Authority and Goods & Services Tax Network (GSTN).

1.14 Exporter Importer Profile

An electronic procedure has been created to upload various documents in exporter importer profile. Once uploaded, there will be no need to submit these documents / copies of these documents to Regional Authority repeatedly with each application. It intends to reduce the transaction cost and time and is a step towards paperless processing of different applications in DGFT.

1.15 Reduction in mandatory documents required for Export and Import

The number of mandatory documents required for exports and imports of goods from/into India have been reduced to three each, as prescribed under paragraph 2.06 of FTP.

1.16 Facility of online filing of applications

All the Regional Authorities (RA) of DGFT and extension counters have been networked with high speed internet. The applications are received and processed electronically. DGFT under the EDI initiatives has provided the facility of on line filing of applications to obtain Importer Exporter Code and various Authorisations /scrip's. DGFT is one of the first digital signature enabled organisation of the Government of India (GOI), which has introduced a higher level of Encrypted 2048bit digital signature. There is a web interface for online filing of application after accessing DGFT website (http://dgft.gov.in). The application can be filed by exporter/CHA sitting at home or office in 24X7 environments. Application fee can also be paid online from linked banks or by using debit/credit card. The applications are signed with a digital signature and submitted electronically to the concerned Regional Authority of DGFT, which are then processed on computer by the Regional Authority and Authorisations/ scrip's are issued. Online filing of Application has minimized the physical interface with RA.

1.17 Online Inter-ministerial consultation

Presently, the exporters are required to file applications online on the website of DGFT under the Icon E-COM and are required to submit the duly signed and stamped printout of the online application along with all the necessary documents viz. technical specifications, literature etc. Now, a facility is being provided to upload copies of all the required documents including technical specifications, literature etc in PDF/JPG/JPEG/GIF format in the online filing system in respect of (a) Fixation of norms under Advance Authorisation by Norms Committees (b) Export of Restricted Items (c) Import of Restricted Items (d) SCOMET Items. The exporters would not be required to submit the hard copy of application except architectural drawings, machine drawings etc which may be difficult to scan and upload. The processing of the applications will also be done online.

1.18 Facility to upload documents by CA/ CS / Cost Accountant

In order to move towards paperless processing, an electronic procedure is being developed to upload digitally signed documents by Chartered Accountant / Company Secretary / Cost Accountant. To start with, this facility would be created for Export From India Schemes under Chapter 3. Such documents like Annexure Attached to ANF 3B, ANF 3C and ANF 3D, which are at present signed by these signatories, can be facilitated by this procedure. Exporter shall link digitally uploaded annexure with his online applications after creation of such facility. These facilities may be extended in phased manner to upload documents pertaining to other schemes like Advance Authorisation, DFIA and EPCG.

1.19 Electronic Data Interchange (EDI)

DGFT has put in place a robust EDI system for the purpose of export facilitation and good governance. DGFT has set up a secured EDI message exchange system for various documentation related activities including import and export Authorisations established with other administrative departments, namely, Customs, Banks and EPCs. This has reduced the physical interface of exporters and importers with the Government Departments and is a significant measure in the direction of reduction of transaction cost. The endeavour of DGFT has been to enlarge the scope of EDI to achieve higher level of integration with partner departments.

1.20 Message Exchange with Community partners

Customs, Banks, Export Promotion Councils (EPCs) are major community partners of DGFT for message exchange. An effective message exchange system is in place with various community partners which is as follows:

(a) Message Exchange with Customs

(i) Importer Exporter Code Number.

(ai) Authorisations/Scrips for DFIA, AA, EPCG.

(iii) Shipping Bills for Duty Free Import Authorisation (DFIA), Advance Authorisation (AA), Export Promotion Capital Goods (EPCG), Reward Scrips.

(b) Message Exchange with eBiz (https://www.ebiz.gov.in): Application for e-IEC.

(c) Message Exchange with Banks

(i) Application Fee

(ai) electronic Bank Realisation Certificate (e-BRC) data

(d) Message Exchange with EPCs

Registration cum Membership Certificate (RCMC) data.

(e) Message exchange with GSTN and RBI.

1.21 Encouraging development of Third Party API

DGFT will encourage development of third party software for integration with its system to offer users multiple options for interfacing with the DGFT.

1.22 Forthcoming e-Governance Initiatives

DGFT is currently working on the following EDI initiatives:

(i) Message exchange for transmission of Bills of Entry (import details) from Customs to DGFT.

(ii) Online issuance of Export Obligation Discharge Certificate (EODC).

(iii) Message exchange with Ministry of Corporate Affairs for CIN & DIN Information.

(iv) Message exchange with CBDT for PAN.

(v) Open API for submission of e-IEC Application.

(vi) Mobile Applications for FTP.

1.23 Free passage of Export consignment

Consignments of items meant for exports shall not be withheld/ delayed for any reason by any agency of Central/ State Government. In case of any doubt, authorities concerned may ask for an undertaking from exporter and release such consignment.

15

1.24 No seizure of export related Stock

No seizure shall be made by any agency so as to disrupt manufacturing activity and delivery schedule of exports. In exceptional cases, concerned agency may seize the stock on the basis of prima facie evidence of serious irregularity. However, such seizure should be lifted within 7 days unless the irregularities are substantiated.

1.25 24 X 7 Customs clearance

CBEC introduced the facility of 24 X 7 customs clearance in the year 2012 for facilitated Bills of Entry and factory stuffed container and goods exported under free Shipping Bills. At present, this facility is available at 19 sea port and 17 air cargo complexes. The 24 X 7 Customs clearance facility has now been extended to all Bills of Entry (not only facilitated Bills of Entry) at 19 sea port and 17 Air Cargo Complexes. Further, no MOT charges are required to be collected in respect of the services provided by the Customs officers at 24 X 7 Customs Ports and Airports.

1.26 Single Window in Customs

Indian Customs has introduced SWIFT (Single Window Interface for Facilitating trade) w.e.f. 01.04.2016 for ensuring ease of doing business. Under SWIFT, the Importers electronically lodge Integrated Declaration at a single point only with Customs. The required permission, if any, from other regulatory agencies (such as Animal quarantine, Plant quarantine, Drug Controller, Textile Committee etc.) is obtained online without the importer/exporter having to separately approach these agencies. Benefits of Single Window Scheme include:

a. Reduced Cost of doing business;

b. Enhanced transparency;

c. Reduced duplicity and cost of compliance;

d. Optimal utilization of man power.

1.27 Self-Assessment of Customs Duty

(a) **Self-Assessment of Customs duty by importers or exporters was introduced vide Finance Act, 2011. The system is trust based. The objective is to expedite release of imported / export goods. The system operates on an electronic Risk Management System (RMS)**

(b) **The Finance Act, 2017 has amended Section 47 of the Customs Act, 1962 to Authorize an importer to pay duty/tax/cess on the date of presentation of self-assessed Bill of Entry.**

1.28 Authorised Economic Operator (AEO) Programme

(a) **Based upon WCO's SAFE Framework of Standards (FoS), 'Authorised Economic Operator (AEO) programme' has been developed by Indian Customs to enable business involved in the international trade to reap the following benefits:**

(i) **Secure supply chain from point of export to import;**

(ii) **Ability to demonstrate compliance with security standards when contracting to supply overseas importers / exporters;**

(iii) **Enhanced border clearance privileges in Mutual Recognition Agreement (MRA) partner countries;**

(iv) **Minimal disruption to flow of cargo after a security related disruption;**

(v) **Reduction in dwell time and related costs; and**

(vi) **Customs advice / assistance if trade faces unexpected issues with Customs of countries with which India have MRA.**

(b) **The AEO programmes have been implemented by other Customs administrations that give AEO status holders preferential Customs treatment in terms of reduced examination, faster clearances and other benefits. Thus, the AEO programme is expected to result in Mutual Recognition Agreements (MRA) with these Customs administrations. MRAs would ensure export goods get due Customs facilitation at the point of entry in the foreign country. Apart from securing supply chain, the benefits include reduction in dwell time and consequent cost of doing business. Indian Customs has signed MRA with Hong Kong Customs to recognise respective AEO Programmes to enable trade to get benefits on reciprocal basis.**

Indian Customs is also engaged in finalising MRA with other counties such as South Korea, Taiwan, USA etc.

(c) As a step further towards trust based compliance, Indian Customs has introduced the new/revamped Authorised Economic Operator (AEO) Programme wherein extensive benefits, including greater facilitation and self-certification, have been provided to those entities who have demonstrated internal strong control system and compliance with CBEC.

1.29 Prior filing facility for Shipping Bills

To facilitate processing of shipping bills before actual shipment, prior online filing facility for shipping bills has been provided by the Customs - 7 days for air shipments & ICDs and 14 days for shipments by sea.

1.30 Cutting down delay in filing of Export General Manifest (EGM) for duty drawback

To facilitate quicker filing of EGMs and quicker rectification of EGM errors, there is a mechanism of monthly monitoring of EGMs by Chief Commissioners of Customs to ensure that facilitation does not lag on this account (Instruction No. 603/01/2011-DBK dated 31.07.2013).

1.31 Facility of Common Bond / LUT against Authorisations issued under different EP Schemes

CBEC Circular 11(A)/2011-Cus dated 25.02.2011 has provided the financial year-wise facility of executing common Bond/LUT against Advance Authorisation (AA)/Export Promotion Capital Goods (EPCG) Authorisation which is usable across all EDI ports/locations.

1.32 Exemption from Service Tax on Services received abroad

(Deleted)

1.33 Export of perishable agricultural Products

To reduce transaction and handling costs, a single window system to facilitate export of perishable agricultural produce has been introduced. The system will involve creation of multi-functional nodal agencies to be accredited by Agricultural and Processed Food Products Export Development Authority (APEDA), New Delhi. The detailed procedure has been notified at Appendix 1C to Appendices & ANFs.

1.34 Time Release Study (TRS)

Customs Authority has decided to undertake 'Time Release Study' (TRS) as per WCO guidelines at major Customs locations on six monthly basis. WCO Time Release Study (TRS) is a unique tool and method for measuring the actual performance of Customs. The underlying objectives of Time Release Study are:

(i) Identifying bottlenecks in the international supply chain / or constraints affecting Customs release.

(ii) Establishing baseline trade facilitation performance measurement.

1.35 Towns of Export Excellence (TEE)

(a) Objective: Development and growth of export production centres. A number of towns have emerged as dynamic industrial clusters contributing handsomely to India's exports. It is necessary to grant recognition to these industrial clusters with a view to maximize their potential and enable them to move up the value chain and also to tap new markets.

(b) Selected towns producing goods of Rs. 750 Crore or more may be notified as TEE based on potential for growth in exports. However, for TEE in Handloom, Handicraft, Agriculture and Fisheries sector, threshold limit would be Rs.150 Crore. The following facilities will be provided to such TEE's:

(i) Recognized associations of units will be provided financial assistance under MAI scheme, on priority basis, for export promotion projects for marketing, capacity building and technological services.

(ii) Common Service Providers in these areas shall be entitled for Authorisation under EPCG scheme.

(c) Notified Towns (TEEs) are listed in Appendix 1 B of Appendices & ANFs.

1.36 DGCI&S, Kolkata as the provider of trade data

Director General of Commercial Intelligence and Statistics(DGCI&S) is an ISO certified organization under the administrative control of DGFT . It is the provider of trade data which is a source of guidance and direction for export & import trade and which help the exporters and importers formulate their trade strategy. Foreign trade data is disseminated by DGCI&S through (i) Monthly & Quarterly publications in CD form and (ii) Generation of data from the Foreign Trade database as per user's request. The DGCI&S has a Priced Information System (PIS) for disseminating data except for purely Central and State Governments and United Nations bodies. DGCI&S has put in place a Data Suppression Policy. The aim of this policy is to maintain confidentiality of importer's and exporter's commercially sensitive business data. Transaction level data would not be made publicly available to protect privacy. DGCI&S trade data shall be made available at aggregate level with a minimum possible time lag on commercial criteria. DGCI&S can be visited at http://dgciskol.nic.in.

1.37 Reducing/eliminating printout in Customs Clearance

With the aim of ease of doing business and promoting paperless clearance, CBEC has done away with routine print-outs of several documents including GAR 7 Forms/TR6 Challans, TP copy, Exchange Control copy of Bill of Entry and Shipping Bills and Export Promotion copy of Shipping Bill.

However, hard copy of EP copy of shipping Bill/ Bill of Entry may be provided on request only.

1.38 National Committee on Trade Facilitation (NCTF)

Consequent to India's ratification of the WTO Agreement on Trade Facilitation (TFA) in April 2016, the National Committee on Trade Facilitation (NCTF) has been constituted. The establishment of the Committee is part of mandatory, institutional arrangement of the TFA. This inter-ministerial body on trade facilitation will be chaired by the Cabinet Secretary. Its Secretariat will be housed within the Central Board of Excise and Customs (CBEC), in the Directorate General of Export Promotion, New Delhi. The defined objective behind setting up the NCTF is to have national level body that will facilitate domestic co-ordination and implementation of TFA provisions. It will play the lead role in developing the Pan-India road map for trade facilitation. It will be instrumental in synergizing the various

trade facilitation perspectives across the country and will also focus on an outreach programmes for sensitization of all stakeholders about TFA.

1.39 e-mail initiatives

CBEC has initiated e-mail notification service to importers for information related to all important stages of import clearances.

1.40 Facility of deferred payment

As a trade facilitation measure, CBEC has introduced facility of deferred payment of customs duty. Further, Deferred Payment of Import Duty Rules, 2016 have been notified and the same have come into effect from 16.11.2016. The importers certified under AEO Programme (Tier-two) and (Tier-Three) have been notified for availing the benefit of these Rules.

CHAPTER 2

GENERAL PROVISIONS REGARDING IMPORTS AND EXPORTS

2.00 Objective

The general provisions governing import and export of goods and services are dealt with in this chapter.

2.01 Exports and Imports – 'Free', unless regulated

(a) Exports and Imports shall be 'Free' except when regulated by way of 'prohibition', 'restriction' or 'exclusive trading through State Trading Enterprises (STEs)' as laid down in Indian Trade Classification (Harmonized System) [ITC (HS)] of Exports and Imports. The list of 'Prohibited', 'Restricted', and STE items can be viewed by clicking on 'Downloads' at http://dgft.gov.in

(b) Further, there are some items which are 'free' for import/export, but subject to conditions stipulated in other Acts or in law for the time being in force.

2.02 Indian Trade Classification (Harmonised System) [ITC (HS)] of Exports and Imports.

(a) ITC (HS) is a compilation of codes for all merchandise / goods for export/ import. Goods are classified based on their group or sub-group at 2/4/6/8 digits.

(b) ITC (HS) is aligned at 6 digit level with international Harmonized System goods nomenclature maintained by World Customs Organization (http://www.wcoomd.org). However, India maintains national Harmonized System of goods at 8 digit level which may be viewed by clicking on 'Downloads' at http://dgft.gov.in

(c) The import/export policies for all goods are indicated against each item in ITC (HS).Schedule 1 of ITC (HS) lays down the Import Policy regime while Schedule 2 of ITC (HS) details the Export Policy regime.

(d) Except where it is clearly specified, Schedule 1 of ITC (HS), Import Policy is for new goods and not for th e Second Hand goods. For Second Hand goods, the Import Policy regime is given in Para 2.31 in this FTP.

2.03 Compliance of Imports with Domestic Laws

(a) Domestic Laws/ Rules/ Orders/ Regulations/ technical specifications/ environmental/safety and health norms applicable to domestically produced goods shall apply, mutatis mutandis, to imports, unless specifically exempted.

(b) However, Goods to be utilized/ consumed in manufacture of export products, as notified by DGFT, may be exempted from domestic standards/ quality specifications.

2.04 Authority to specify Procedures

DGFT may, specify Procedures to be followed by an exporter or importer or by any licensing/Regional Authority (RA) or by any other authority for purposes of implementing provisions of FT (D&R) Act, the Rules and the Orders made there under and FTP. Such procedures, or amendments if any, shall be published by means of a Public Notice.

Importer-Exporter Code/e-IEC

2.05 Importer-Exporter Code (IEC)

24

(I) An IEC is a 10-character alpha-numeric number allotted to a person that is mandatory for undertaking any export/import activities. With a view to maintain the unique identity of an entity (firm/company/LLP etc.), consequent upon introduction / implementation of GST, IEC will be equal to PAN and will be separately issued by DGFT based on an application.

(a) Application for obtaining IEC may be filed online in ANF 2A with applicable fees and submitted with digital signature.

(b) When an e-IEC is approved by the competent authority, applicant is informed through e-mail that a computer generated e-IEC is available on the DGFT website. By clicking on "Application Status" after having filled and submitted the requisite details in "Online IEC Application" webpage, applicant can view and print his e-IEC.

(c) The applicant may submit online application with the following details /documents (scanned copies to be submitted/ uploaded) along with the IEC application:

(i) Digital photograph of the signatory applicant;

(ii) Copy of the PAN card of the business entity in whose name Import/Export would be done (Applicant individual in case of Proprietorship firms);

(iii) Cancelled cheque bearing entity's pre-printed name or Bank certificate in prescribed format ANF-2A(I)

(d) For modification in IEC, applicants may submit online application through digital signature (Class-II or Class-III), by paying applicable fees and uploading requisite documents, corresponding to the changes sought.

(e) Detailed guidelines for applying for e-IEC is available at http://dgft.gov.in/exim/2000/iec_anf/iecanf.htm

(AI) No Export/Import without IEC:

(i) No export or import shall be made by any person without obtaining an IEC number unless specifically exempted.

(ii) Exempt categories and corresponding permanent IEC numbers are given in Para 2.07 of Handbook of Procedures.

2.06 Mandatory documents for export/import of goods from/into India:

(a) Mandatory documents required for export of goods from India:

1. Bill of Lading/ Airway Bill/ Lorry Receipt/ Railway Receipt/Postal Receipt
2. Commercial Invoice cum Packing List*
3. Shipping Bill/Bill of Export/ Postal Bill of Export

(b) Mandatory documents required for import of goods into India

1. Bill of Lading/Airway Bill/Lorry Receipt/ Railway Receipt/Postal Receipt in form CN-22 or CN 23 as the case may be.
2. Commercial Invoice cum Packing List*
3. Bill of Entry

[Note: *(i) As per CBEC Circulars issued under the Customs Act, 1962

(ai) Separate Commercial Invoice and Packing List would also be accepted.]

(c) For export or import of specific goods or category of goods, which are subject to any restrictions/policy conditions or require NOC or product specific compliances under any statute, the regulatory authority concerned may notify additional documents for purposes of export or import.

(d) In specific cases of export or import, the regulatory authority concerned may electronically or in writing seek additional documents or information, as deemed necessary to ensure legal compliance.

(e) The above stipulations are effective from 1st April, 2015.

2.07 Principles of Restrictions

DGFT may, through a Notification, impose restrictions on export and import, necessary for: -

(a) Protection of public morals;

(b) Protection of human, animal or plant life or health;

(c) Protection of patents, trademarks and copyrights, and the prevention of deceptive practices;

(d) Prevention of use of prison labour;

(e) Protection of national treasures of artistic, historic or archaeological value;

(f) Conservation of exhaustible natural resources;

(g) Protection of trade of fissionable material or material from which they are derived;

(h) Prevention of traffic in arms, ammunition and implements of war

(i) Relating to the importation or exportation of gold or silver.

2.08 Export/Import of Restricted Goods/Services

Any goods /service, the export or import of which is 'Restricted' may be exported or imported only in accordance with an Authorisation / Permission or in accordance with the Procedures prescribed in a Notification / Public Notice issued in this regard.

2.09 Export of SCOMET Items

Export of Special Chemicals, Organisms, Materials, Equipment and Technologies (SCOMET), as indicated in Appendix-3 of Schedule 2 of ITC(HS) Classification of Export & Import Items, shall be governed by the specific provisions of (i) Chapter IV A of the FT(D&R) Act, 1992 as amended from

time to time (ii) Sl. No. 4 & 5 of Table A and Appendix-3 of Schedule 2 of ITC(HS) Classification of Export & Import Items (iii) Para 2.16, Para 2.17, Para 2.18 of FTP and (iv) Para 2.73 -2.82 of Hand Book of Procedures, in addition to the other provisions of FTP and Handbook of Procedures governing export Authorisations.

2.10 Actual User Condition

Goods which are importable freely without any 'Restriction' may be imported by any person. However, if such imports require an Authorisation, actual user alone may import such good(s) unless actual user condition is specifically dispensed with by DGFT.

2.11 Terms and Conditions of an Authorisation

Every Authorisation shall, inter alia, include either all or some of the following terms and conditions (as applicable in terms of the para under which the Authorisation has been issued), in addition to such other conditions as may be specified:

(a) Description, quantity and value of goods;

(b) Actual User condition (as defined in Chapter 9);

(c) Export Obligation;

(d) Minimum Value addition to be achieved;

(e) Minimum export/import price;

(f) Bank guarantee/ Legal undertaking / Bond with Customs Authority/RA (as in para 2. 35 of FTP).
(g) Validity period of import/export as specified in Handbook of Procedures.

2.12 Application Fee

Application for IEC/ Authorisation / License / Scrips must be accompanied by application fees as indicated in the Appendix 2K of Appendices and Aayat

Niryat Forms. Fees must be paid online through electronic fund transfer (EFT) mechanism or through Credit/Debit Cards, unless provided otherwise.

2.13 Clearance of Goods from Customs against Authorisation

Goods already imported / shipped / arrived, in advance, but not cleared from Customs may also be cleared against an Authorisation issued subsequently. However, such goods already imported/shipped/arrived, in advance are first warehoused against Bill of Entry for Warehousing and then cleared for home consumption against an Authorisation issued subsequently. This facility will however be not available to "restricted" items or items traded through STEs.

2.14 Authorisation - not a Right

No person can claim an Authorisation as a right and DGFT or RA shall have power to refuse to grant or renew the same in accordance with provisions of FT (D&R) Act, Rules made there under and FTP.

2.15 Penal action and placing of an entity in Denied Entity List (DEL)

a) If an Authorisation holder violates any condition of such Authorisation or fails to fulfill export obligation, or fails to deposit the requisite amount within the period specified in demand notice issued by Department of Revenue and /or DGFT, he shall be liable for action in accordance with FT (D&R) Act, the Rules and Orders made there under, FTP and any other law for time being in force.

b) With a view to raising ethical standards and for ease of doing business, DGFT has provided for self certification system under various schemes. In such cases, applicants shall undertake self certification with sufficient care and caution in filling up information/particulars. Any information/particulars subsequently found untrue/incorrect will be

liable for action under FTDR Act, 1992 and Rules therein in addition to penal action under any other Act/Order.

c) **A firm may be placed under Denied Entity List (DEL), by the concerned RA, under the provision of Rule 7 of Foreign Trade (Regulation) Rules, 1993. On issuance of such an order, for reasons to be recorded in writing, a firm may be refused grant or renewal of a license, certificate, scrip or any instrument bestowing financial or fiscal benefits. If a firm is placed under DEL all new licences, scrips, certificates, instruments etc will be blocked from printing/ issue/renewal.**

d) **DEL orders may be placed in abeyance, for reasons to be recorded in writing by the concerned RA. DEL order can be placed in abeyance, for a period not more than 60 days at a time.**

e) **A firm's name can be removed from DEL, by the concerned RA for reasons to be recorded in writing, if the firm completes Export Obligation/ pays penalty/ fulfils requirement of Demand Notice(s) issued by the RA/submits documents required by the RA.**

Prohibitions (Country, Organisations, Groups, Individuals etc. and

Product Specific):

2.16 Prohibition on Import and Export of 'Arms and related material' from / to Iraq

Notwithstanding the policy on Arms and related materials in Chapter 93 of ITC(HS), the import/export of Arms and related material from/to Iraq is 'Prohibited'. However, export of Arms and related material to Government of Iraq shall be permitted subject to 'No Objection Certificate' from the Department of Defence Production.

2.16 A Prohibition on Trade with the Islamic State in Iraq and the Levant [ISIL, also known as Daesh], Al Nusrah Front [ANF]

and other individuals, groups, undertakings and entities associated with Al Qaida.

In compliance with United Nations Security Council Resolution No. 2199 [2015] (full text of the Resolution is available at http://www.un.org/press/en/2015/ sc11775.doc.htm), trade in oil andrefined oil products, modular refineries and related materials, besides items of cultural (including antiquities), scientific and religious importance is prohibited with the Islamic State in Iraq and the Levant [ISIL], Al Nusrah Front [ANF] and other individuals, groups, undertakings and entities associated, directly or indirectly, with Al Qaida.

2.17 Prohibition on direct or indirect import and export from/to

DPRK

Direct or Indirect export and import of items, whether or not originating in Democratic People's Republic of Korea (DPRK) to/from DPRK is detailed in Appendix – I of FTP.

2.18 Direct or Indirect Export/Import to/from Iran

(a) Direct or indirect export to Iran or import from Iran of any item, material, equipment, goods and technology mentioned in the following documents would be permitted subject to the provisions contained in Annex-B to the United Nations Security Council Resolution 2231 (2015):

(i) Items listed in INFCIRC/254/Rev.9/Part 1 and INFCIRC /254/Rev.7 /Part 2 (IAEA Documents) as updated by the IAEA from time to time.

(ii) Items listed in S/2006/263 (UN Security Council document) as updated by the Security Council from time to time.

(b) All the UN Security Council Resolutions/Documents and IAEA Documents referred to above are available on the UN Security Council website (www.un.org/Docs/sc) and IAEA website (www.iaea.org).

2.19 Prohibition on Import of Charcoal from Somalia

Direct or indirect import of charcoal is prohibited from Somalia, irrespective of whether or not such charcoal has originated in Somalia [United Nations Security Council Resolution 2036 (2012)]. Importers of Charcoal shall submit a declaration to Customs that the consignment has not originated in Somalia.

Import / Export through State Trading Enterprises:

2.20 State Trading Enterprises (STEs)

(a) State Trading Enterprises (STEs) are governmental and non-governmental enterprises, including marketing boards, which deal with goods for export and /or import. Any good, import or export of which is governed through exclusive or special privilege granted to State Trading Enterprise (STE), may be imported or exported by the concerned STE as per conditions specified in ITC (HS). The list of STEs notified by DGFT is in Appendix-2J.

(b) Such STE(s) shall make any such purchases or sales involving imports or exports solely in accordance with commercial considerations, including price, quality, availability, marketability, transportation and other conditions of purchase or sale in a non discriminatory manner and shall afford enterprises of other countries adequate opportunity, in accordance with customary business practices, to compete for participation in such purchases or sales.

(c) DGFT may, however, grant an authorisation to any other person to import or export any of the goods notified for exclusive trading through STEs.

Trade with Specific Countries:

2.21 Trade with Neighbouring Countries

DGFT may issue instructions or frame schemes as may be required to promote trade and strengthen economic ties with neighboring countries.

2.22 Transit Facility

Transit of goods through India from/ or to countries adjacent to India shall be regulated in accordance with bilateral treaties between India and those countries and will be subject to such restrictions as may be specified by DGFT in accordance with International Conventions.

2.23 Trade with Russia under Debt-Repayment Agreement

In case of trade with Russia under Debt Repayment Agreement, DGFT may issue instructions or frame schemes as may be required, and anything contained in FTP, in so far as it is inconsistent with such instructions or schemes, shall not apply.

Import of Specific Categories of Goods:

2.24 Import of Samples

Import of samples shall be governed by Para 2.65 of Handbook of Procedures.

2.25 Import of Gifts

Import of gifts shall be 'free' where such goods are otherwise freely importable under ITC (HS). In other cases, such imports shall be permitted against an Authorisation issued by DGFT.

2.26 Passenger Baggage

(a) Bona-fide household goods and personal effects may be imported as part of passenger baggage as per limits, terms and conditions thereof in Baggage Rules notified by Ministry of Finance.

(b) Samples of such items that are otherwise freely importable under FTP may also be imported as part of passenger baggage without an Authorisation.

(c) Exporters coming from abroad are also allowed to import drawings, patterns, labels, price tags, buttons, belts, trimming and embellishments required for export, as part of their passenger baggage without an Authorisation.

2.27 Re – import of goods repaired abroad

Capital goods, equipments, components, parts and accessories, whether imported or indigenous, except those restricted under ITC (HS) may be sent abroad for repairs, testing, quality improvement or upgradation or standardization of technology and re-imported without an Authorisation.

2.28 Import of goods used in projects abroad

Project contractors after completion of projects abroad, may import without an Authorisation, goods including capital goods used in the project, provided they have been used for at least one year.

2.29 Import of Prototypes

Import of new / second hand prototypes / second hand samples may be allowed on payment of duty without an Authorisation to an Actual User (industrial) engaged in production of or having industrial license / letter of intent for research in item for which prototype is sought for product development or research, as the case may be, upon a self- declaration to that effect, to satisfaction of customs authorities

2.30 Import through courier service/Post

Imports through a registered courier service or post are permitted as per Notification(s) issued under the Customs Act, 1962. However, importability of such items shall be regulated in accordance with FTP/ ITC (HS), 2017.

Import Policy for Second Hand Goods:

2.31 Second Hand Goods

S.No	Categories of Second Hand Goods	Import Policy	Conditions, if any
I	Second Hand Capital Goods		
(a)	i. Personal computers/ laptops including their refurbished/ re-conditioned spares ii. Photocopier machines/ Digital multifunction Print & Copying Machines iii. Air conditioners iv. Diesel generating sets.	Restricted	Importable against Authorisation
(b)	Refurbished / re-conditioned spares of Capital Goods	Free	Subject to production of Chartered Engineer

			certificate to the effect that such spares have at least 80% residual life of original spare.
(c)	All other second hand capital goods {other than (a) & (b) above}	Free	

II	Second Hand Goods other than capital goods	Restricted Importable against Authorisation

Import Policy for Metallic Waste and Scraps:

2. 32 Import of Metallic waste and Scrap

(a) Import of any form of metallic waste, scrap will be subject to the condition that it will not contain hazardous, toxic waste, radioactive contaminated waste/scrap containing radioactive material, any types of arms, ammunition, mines, shells, live or used cartridge or any other explosive material in any form either used or otherwise as detailed in Para 2.54 of Handbook of Procedures.

(b) The types of metallic waste and scrap which can be imported freely, and the Procedures of import in the shredded form; unshredded compressed and loose form is laid down in Para 2.54 of Handbook of Procedures.

2.33 Removal of Scrap/waste from SEZ

A SEZ unit/Developer/ Co-developer may be allowed to dispose of in DTA any waste or scrap, including any form of metallic waste and scrap, generated during manufacturing or processing activity, without an Authorisation, on payment of applicable Customs Duty.

Other Provisions Related to Imports:

2.34 Import under Lease Financing

No specific permission of RA is required for lease financed capital goods.

2.35 Execution of Legal Undertaking (LUT) / Bank Guarantee (BG)

(a) Wherever any duty free import is allowed or where otherwise specifically stated, importer shall execute, Legal Undertaking (LUT) / Bank Guarantee (BG) / Bond with the Customs Authority, as prescribed, before clearance of goods.

(b) In case of indigenous sourcing, Authorisation holder shall furnish LUT/BG/Bond to RA concerned before sourcing material from indigenous supplier/nominated agency as prescribed in Chapter 2 of Handbook of Procedures.

2.36 Private/Public Bonded Warehouses for Imports

(a) Private/ Public bonded warehouses may be set up in DTA as per rules, regulations and notifications issued under the Customs Act, 1962. Any person may import goods except prohibited items, arms and ammunition, hazardous waste and chemicals and warehouse them in such bonded warehouses.

(b) Such goods may be cleared for home consumption in accordance with provisions of FTP and against Authorisation, wherever required. Customs duty as applicable shall be paid at the time of clearance of such goods.

(c) The clearance of the warehoused goods shall be as per the provisions of the Customs Act, 1962.

2.37 Special provision for Hides Skins and semi-finished goods

Hides, Skins and semi-finished leather may be imported in the Public/ Private Bonded warehouse for the purpose of DTA sale and the unsold items thereof can be re-exported from such bonded warehouses on payment of the applicable rate of export duty.

2.38 Sale on High Seas

Sale of goods on high seas for import into India may be made subject to FTP or any other law in force.

Exports:

2.39 Free Exports

All goods may be exported without any restriction except to the extent that such exports are regulated by ITC (HS) or any other provision of FTP or any other law for the time being in force. DGFT may, however, specify through a public notice such terms and conditions according to which any goods, not included in ITC (HS), may be exported without an Authorisation.

2.40 Deleted

2.41 Benefits for Supporting Manufacturers

For any benefit to accrue to the supporting manufacturer (as defined in Para 9.58 of FTP), the names of both supporting manufacturer as well as the merchant exporter must figure in the concerned export documents, especially in ARE-1 / ARE-3 / Shipping Bill / Bill of Export/ Airway Bill.

2.42 Third Party Exports

Third party exports (except Deemed Export) as defined in Chapter 9 shall be allowed under FTP. In such cases, export documents such as shipping bill shall indicate name of both manufacturing exporter/manufacturer and third party exporter(s). Bank Realization Certificate (BRC), Export Order and

Invoice should be in the name of third party exporter.

Exports of Specific Categories:

2.43 Export of Samples

Export of Samples and Free of charge goods shall be governed by provisions given in Para 2.66 of Handbook of Procedures.

2.44 Export of Gifts

Goods including edible items, of value not exceeding Rs.5,00,000/- in a licensing year, may be exported as a gift. However, items mentioned as restricted for exports in ITC (HS) shall not be exported as a gift, without an Authorisation.

2.45 Export of Passenger Baggage

(a) Bona-fide personal baggage may be exported either along with passenger or, if unaccompanied, within one year before or after passenger's departure from India. However, items mentioned as restricted in ITC (HS) shall require an Authorisation. Government of India officials proceeding abroad on official postings shall, however, be permitted to carry along with their personal baggage, food items (free, restricted or prohibited) strictly for their personal consumption. The Provisions of the Para shall be subject to Baggage Rules issued under Customs Act, 1962.

(b) Samples of such items that are otherwise freely exportable under FTP may also be exported as part of passenger baggage without an Authorisation.

2.46 Import for export

I. (a) Goods imported, in accordance with FTP, may be exported in same or substantially the same form without an Authorisation provided that item to be imported or exported is not in the restricted for import or export in ITC (HS).

(b) Goods, including capital goods (both new and second hand), may be imported for export provided:

i. Importer clears goods under Customs Bond;

ii. Goods are freely exportable, i.e., are not "Restricted"/ "Prohibited"/ subject to "exclusive trading through State Trading Enterprises" or any conditionality/ requirement as may be required under Schedule 2 – Export Policy of the ITC (HS);

iii. Export is against freely convertible currency.

(c) Goods in (b) above will include 'Restricted' goods for import (except 'Prohibited' items).

(d) Capital goods, which are freely importable and freely exportable, may be imported for export on execution of LUT/BG with Customs Authority.

(e) Notwithstanding the above, goods which are freely importable may be re-exported except items as in the Prohibited or SCOMET List of exports, in same or substantially same form even though such goods are under "restricted list" for export, subject to the following conditions:

(i) Goods are not of Indian Origin;

(ii) Goods imported shall be kept in bonded warehouse under supervision of Customs;
(iii) Goods to be exported have never been cleared for home consumption;
(iv) Export of goods shall be subjected to Section 69 of Customs Act, 1962.

AI. (a) Goods imported against payment in freely convertible currency would be permitted for export only against payment in freely convertible currency, unless otherwise notified by DGFT.

(b) Export of such goods to the notified countries (presently only Iran) would be permitted against payment in Indian Rupees, subject to minimum 15% value addition.

(c) However, re-export of food, medicine and medical equipments, namely, items covered under ITC(HS) Chapters 2 to 4, 7 to 11, 15 to 21, 23, 30 and items under headings 9018, 9019, 9020, 9021 & 9022 of Chapter-90 of ITC(HS) will not be subject to minimum value addition requirement for export to Iran. Exports of these items to Iran shall, however, be subject to all other conditions of FTP 2015-20 and ITC (HS) 2017, as applicable. Bird's eggs covered under ITC (HS) 0407 & 0408 and Rice covered under ITC (HS) 1006 are not covered under this dispensation, as at II (a) above.

(d) Exports under this dispensation, as at I (e) and II (a), (b) and (c) above shall not be eligible for any export incentives.

2.47 Export through Courier Service/Post

Exports through a registered courier service is permitted as per Notification issued by DoR. However, exportability of such items shall be regulated in accordance with FTP/ ITC (HS), 2017.

2.48 Export of Replacement Goods

Goods or parts thereof on being exported and found defective/damaged or otherwise unfit for use may be replaced free of charge by the exporter and such goods shall be allowed for export by Customs authorities, provided that replacement goods are not mentioned as restricted/SCOMET items for exports in ITC (HS). If the export item is 'restricted'/ under SCOMET, the exporter shall require a export license for replacement.

2.49 Export of Repaired Goods

Goods or parts thereof, except restricted under ITC (HS), on being exported and found defective, damaged or otherwise unfit for use may be imported for repair and subsequent re-export. Such goods shall be allowed clearance without an Authorisation and in accordance with customs notification. To that extent the exporter shall return the benefits /incentive availed on the returned goods. If the item is 'restricted' for import, the exporter shall require an import license.

However, re-export of such defective parts/spares by the Companies/firms and Original Equipment Manufacturers shall not be mandatory if they are imported exclusively for undertaking root cause analysis, testing and evaluation purpose."

2.50 Export of Spares

Warranty spares (whether indigenous or imported) of plant, equipment, machinery, automobiles or any other goods [except those restricted under ITC (HS)] may be exported along with main equipment or subsequently but within contracted warranty period of such goods, subject to approval of RBI.

2.50A Re-export of imported Goods found defective and unsuitable for use:

Imported goods found defective after Customs clearance, or not found as per specifications or requirements may be re-exported back as per Customs Act, 1962.

2.51 Private Bonded Warehouses for Exports

(a) Private bonded warehouses exclusively for exports may be set up in DTA as per terms and conditions of notifications issued by DoR.

(b) Such warehouses shall be entitled to procure goods from domestic manufacturers without payment of duty. Supplies made by a

domestic supplier to such notified warehouses shall be treated as physical exports provided payments are made in free foreign exchange.

Payments and Receipts on Imports / Exports:

2.52 Denomination of Export Contracts

(a) All export contracts and invoices shall be denominated either in freely convertible currency or Indian rupees but export proceeds shall be realized in freely convertible currency.

(b) However, export proceeds against specific exports may also be realized in rupees, provided it is through a freely convertible Vostro account of a non resident bank situated in any country other than a member country of Asian Clearing Union (ACU) or Nepal or Bhutan. Additionally, rupee payment through Vostro account must be against payment in free foreign currency by buyer in his non- resident bank account. Free foreign exchange remitted by buyer to his non-resident bank (after deducting bank service charges) on account of this transaction would be taken as export realization under export promotion schemes of FTP.

(c) Contracts (for which payments are received through Asian Clearing Union (ACU) shall be denominated in ACU Dollar. However, participants in the ACU may settle their transactions in ACU Dollar or in ACU Euro as per RBI Notifications. Central Government may relax provisions of this paragraph in appropriate cases. Export contracts and invoices can be denominated in Indian rupees against EXIM Bank/Government of India line of credit.

2.53 Export to Iran –Realisations in Indian Rupees to be eligible for FTP benefits / incentives

Notwithstanding the provisions contained in para 2.52 (a) above, export proceeds realized in Indian Rupees against exports to Iran are permitted to

avail exports benefits / incentives under the Foreign Trade Policy (2015-20), at par with export proceeds realized in freely convertible currency.

2.54 Non-Realisation of Export Proceeds

(a) If an exporter fails to realize export proceeds within time specified by RBI, he shall, without prejudice to any liability or penalty under any law in force, be liable to return all benefits / incentives availed against such exports and action in accordance with provisions of FT (D&R) Act, Rules and Orders made there under and FTP.

(b) In case an Exporter is unable to realize the export proceeds for reasons beyond his control (force-majeure), he may approach RBI for writing off the unrealised amount as laid down in Para 2.87 of Handbook of Procedures.

(c) The payment realized through insurance cover, would be eligible for benefits under FTP as per Procedures laid down in Para 2.85 of Handbook of Procedures.

2.54A Export Credit Agencies (ECAs)

(i) Export Credit Agencies (ECAs) are policy instrument for Government to support exports. ECAs support exports by insurance, guarantee and also direct lending. Export Credit Agencies (ECAs) like Export Credit Guarantee Corporation of India Ltd. (ECGC) provides credit insurance support to exports and export credit lending. Covers issued by ECGC to exporters, protect against losses arising out of payment failures due to insolvency or default of the buyers or due to political risks. Exporters can diversify their markets in addition to protecting existing markets through such covers. ECGC also supports Medium and Long term (MLT) exports including project exports. Exim Bank is the other ECA in the business of lending for MLT exports and fronting the government's line of credit.

(ii) ECGC indemnifies losses of exporters in export trade due to insolvency or default of the buyer. Additionally losses due to political

risk like war, sudden import restriction, promulgation of law or decree after the shipment has been effected are also covered. Some of the anti- dumping measures or non-tariff barriers introduced after a shipment has been made will come under the purview of the political risk. In such cases exporter's interest are protected by ECGC.

Export Promotion Councils:

2.55 Recognition of EPCs to function as Registering Authority for issue of RCMC

(a) Export Promotion Councils (EPCs) are organizations of exporters, set up with the objective to promote and develop Indian exports. Each Council is responsible for promotion of a particular group of products/ projects/services as given in Appendix 2T of AANF.

(b) EPCs are also eligible to function as Registering Authorities to issue Registration-cum-Membership Certificate (RCMC) to its members. The criteria for EPCs to be recognized as Registering Authorities for issue of RCMC to its members are detailed in Para 2.92 of the Handbook of Procedures.

2.56 Registration-cum-Membership Certificate (RCMC)

Any person, applying for:

(a) An Authorisation to import/export (except items) listed as 'Restricted' items in ITC (HS)

Or

(b) Any other benefit or concession under FTP shall be required to furnish or upload on DGFT's website in the Importer Exporter Profile, the RCMC granted by competent authority in accordance with Procedures specified in Handbook of Procedures unless specifically exempted under FTP. Certificate of Registration as Exporter of Spices (CRES) issued by Spices Board and Certificate of Registration as

Exporter of coir & coir products issued by the Coir Board shall be treated as Registration-Cum-Membership Certificate (RCMC) for the purposes under this Policy.

Policy Interpretation and Relaxations:

2.57 Interpretation of Policy

(a) The decision of DGFT shall be final and binding on all matters relating to interpretation of Policy, or provision in Handbook of Procedures, Appendices and Aayat Niryat Forms or classification of any item for import / export in the ITC (HS).

(b) A Policy Interpretation Committee (PIC) may be constituted to aid and advice DGFT. The composition of the PIC would be as follows:

(i) DGFT: Chairman

(ii) All Additional DGFTs in Headquarters: Members

(iii) All Joint DGFTs in Headquarters looking after Policy matters: Members

(iv) Joint DGFT (PRC/PIC): Member Secretary

(v) Any other person / representative of the concerned Ministry / Department, to be co-opted by the Chairman.

2.58 Exemption from Policy/Procedures

DGFT may in public interest pass such orders or grant such exemption, relaxation or relief, as he may deem fit and proper, on grounds of genuine hardship and adverse impact on trade to any person or class or category of persons from any provision of FTP or any Procedures. While granting such exemption, DGFT may impose such conditions as he may deem fit after consulting the Committees as under:

Sl. No.	Description	Committee
(a)	Fixation / modification of product norms	Norms Committees

(b)	Nexus with Capital Goods (CG) and benefits under EPCG Schemes	EPCG Committee
(c)	All other issues	Policy Relaxation Committee (PRC)

2.59 Personal Hearing by DGFT for Grievance Redressal

(a) Government is committed to easy and speedy redressal of grievances from Trade and Industry. Paragraph 2.58 of FTP provides for relaxation of Policy and Procedures on grounds of genuine hardship and adverse impact on trade. If an importer/exporter is aggrieved by any decision taken by Policy Relaxation Committee (PRC), or a decision/order by any authority in the Directorate General of Foreign Trade, a specific request for Personal Hearing (PH) along with the prescribed application fee as per Appendix-2K has to be made to DGFT. DGFT may consider request for relaxation after consulting concerned Norms Committee, EPCG Committee or Policy Relaxation Committee (PRC) and the decision conveyed in pursuance to the personal hearing shall be final and binding.

(b) The opportunity for Personal Hearing will not apply to a decision/order made in any proceeding, including an adjudication proceeding, whether at the original stage or at the appellate stage, under the relevant provisions of FT (D&R) Act, 1992, as amended from time to time.

2.60 Regularization of EO default and settlement of Customs duty and interest through Settlement Commission

With a view to providing assistance to firms who have defaulted under FTP for reasons beyond their control as also facilitating merger, acquisition and rehabilitation of sick units, it has been decided to empower Settlement Commission in Department of Revenue to decide such cases also with effect from 01.04.2005.

Self Certification of Originating Goods:

2.61 Approved Exporter Scheme for Self Certification of Certificate of Origin.

(i) **Currently, Certificates of Origin under various Preferential Trade Agreements [PTA], Free Trade Agreements [FTAs], Comprehensive Economic Cooperation Agreements [CECA] and Comprehensive Economic Partnerships Agreements [CEPA] are issued by designated agencies as per Appendix 2B of Appendices and Aayat and Niryat Forms. A new optional system of self certification is being introduced with a view to reducing transaction cost.**

(ii) **The Manufacturers who are also Status Holders shall be eligible for Approved Exporter Scheme. Approved Exporters will be entitled to self-certify their manufactured goods as originating from India with a view to qualifying for preferential treatment under different PTAs/FTAs/ CECAs/CEPAs which are in operation. Self-certification will be permitted only for the goods that are manufactured as per the Industrial Entrepreneurs Memorandum (IEM) / Industrial License (IL) /Letter of Intent (LOI) issued to manufacturers.**

(iii) **Status Holders will be recognized by DGFT as Approved Exporters for self-certification based on availability of required infrastructure, capacity and trained manpower as per the details in Para 2.109 of Handbook of Procedures 2015-20 read with Appendix 2F of Appendices & Aayaat Niryat Forms.**

(iv) **The details of the Scheme, along with the penalty provisions, are provided in Appendix 2F of Appendices and Aayaat Niryat Forms and will come into effect only when India incorporates the scheme into a specific agreement with its partner/s and the same is appropriately notified by DGFT.**

2.62 Certification of Origin of Goods EU-GSP

Exporters can self-certify the Statement on Origin of their goods, as per the self-certification scheme , Certification of Origin of Goods for European Union Generalised System of Preferences (EU-GSP) , of the

European Union (EU) under the Registered Exporter System (REX) as in Para 2.104 (c) of the Handbook of Procedures.

CHAPTER 3

EXPORTS FROM INDIA SCHEMES

3.00 Objective

The objective of schemes under this chapter is to provide rewards to exporters to offset infrastructural inefficiencies and associated costs.

3.01 Exports from India Schemes

There shall be following two schemes for exports of Merchandise and

Services respectively:

(i) Merchandise Exports from India Scheme (MEIS).

(ii) Service Exports from India Scheme (SEIS).

3.02 Nature of Rewards

Duty Credit Scrips shall be granted as rewards under MEIS and SEIS. The Duty Credit Scrips and goods imported / domestically procured against them shall be freely transferable. The Duty Credit Scrips can be used for :

(i) Payment of Basic Customs Duty and Additional Customs Duty specified under sections 3 (1), 3 (3) and 3 (5) of the Customs Tariff Act, 1975 for import of inputs or goods, including capital goods, as per DoR Notification, except items listed in Appendix 3A.

(ii) Payment of Central excise duties on domestic procurement of inputs or goods,

(iii) Deleted

(iv) Payment of Basic Customs Duty and Additional Customs Duty specified under Sections 3 (1), 3 (3) and 3 (5) of the Customs Tariff Act, 1975 and fee as per paragraph 3.18 of this Policy.

Merchandise Exports from India Scheme (MEIS)

3.03 Objective

Objective of the Merchandise Exports from India Scheme (MEIS) is to promote the manufacture and export of notified goods/ products.

3.04 Entitlement under MEIS

Exports of notified goods/products with ITC[HS] code, to notified markets as listed in Appendix 3B, shall be rewarded under MEIS. Appendix 3B also lists the rate(s) of rewards on various notified products [ITC (HS) code wise]. The basis of calculation of reward would be on realised FOB value of exports in free foreign exchange, or on FOB value of exports as given in the Shipping Bills in freely convertible foreign currencies, whichever is less, unless otherwise specified.

3.05 Export of goods through courier or foreign post offices using e-Commerce

(i) Exports of goods through courier or foreign post office using e-commerce, as notified in Appendix 3C, of FOB value upto Rs. 25000 per consignment shall be entitled for rewards under MEIS.

(ii) If the value of exports using e-commerce platform is more than Rs 25000 per consignment then MEIS reward would be limited to FOB value of Rs.25000 only.

(iii) Such goods can be exported in manual mode through Foreign Post Offices at New Delhi, Mumbai and Chennai.

(iv) Export of such goods under Courier Regulations shall be allowed manually on pilot basis through Airports at Delhi, Mumbai and Chennai as per appropriate amendments in regulations to be made by Department of Revenue. Department of Revenue shall fast track the implementation of EDI mode at courier terminals.

3.06 Ineligible categories under MEIS

The following exports categories /sectors shall be ineligible for Duty Credit Scrip entitlement under MEIS

(i) Supplies made from DTA units to SEZ units

(ii) Export of imported goods covered under paragraph 2.46 of FTP;

(iii) Exports through trans-shipment, meaning thereby exports that are

originating in third country but trans-shipped through India; (iv) Deemed Exports;

(v) SEZ/ EOU /EHTP/ BTP /FTWZ products exported through DTA units;

(vi) Export products which are subject to Minimum export price or export duty.

(vii) Exports made by units in FTWZ.

Service Exports from India Scheme (SEIS)

3.07 Objective

Objective of Service Exports from India Scheme (SEIS) is to encourage and maximize export of notified Services from India.

3.08 Eligibility

(a) **Service Providers of notified services, located in India, shall be rewarded under SEIS. Only Services rendered in the manner as per Para 9.51(i) and Para 9.51(ii) of this policy shall be eligible. The notified services and rates of rewards are listed in Appendix 3D.**

(b) **Such service provider should have minimum net free foreign**

exchange earnings of US$15,000 in preceding financial year to be eligible for Duty Credit Scrip. For Individual Service Providers and sole proprietorship, such minimum net free foreign exchange earnings criteria would be US$10,000 in preceding financial year.

(c) **Payment in Indian Rupees for service charges earned on specified services, shall be treated as receipt in deemed foreign exchange as per guidelines of Reserve Bank of India. The list of such services is indicated in Appendix 3E.**

(d) **Net Foreign exchange earnings for the scheme are defined as under:**

Net Foreign Exchange = Gross Earnings of Foreign Exchange minus Total expenses / payment / remittances of Foreign Exchange by the IEC holder, relating to service sector in the Financial year.

(e) **If the IEC holder is a manufacturer of goods as well as service provider, then the foreign exchange earnings and Total expenses / payment / remittances shall be taken into account for service sector only.**

(f) **In order to claim reward under the scheme, Service provider shall have to have an active IEC at the time of rendering such services for which rewards are claimed.**

3.09 Ineligible categories under SEIS

Foreign exchange remittances other than those earned for rendering of notified services would not be counted for entitlement. Thus, other sources of foreign exchange earnings such as equity or debt participation, donations, receipts of repayment of loans etc. and any other inflow of foreign exchange, unrelated to rendering of service, would be ineligible.

3.10 Entitlement under SEIS

Service Providers of eligible services shall be entitled to Duty Credit Scrip at notified rates (as given in Appendix 3D) on net foreign exchange earned.

3.11 Remittances through Credit Card and other instruments for MEIS and SEIS

Free Foreign Exchange earned through international credit cards and other instruments, as permitted by RBI shall also be taken into account for computation of value of exports.

3.12 Effective date of schemes (MEIS and SEIS)

The schemes shall come into force with effect from the date of notification of this Policy, i.e. the rewards under MEIS/SEIS shall be admissible for exports made/services rendered on or after the date of notification of this Policy.

3.13 Special Provisions

(a) Government reserves the right in public interest, to specify export products or services or markets, which shall not be eligible for computation of entitlement of duty credit scrip.

(b) Government reserves the right to impose restriction / change the rate/ceiling on Duty Credit Scrip under this chapter.

(c) Government may also notify goods in Appendix 3A which shall not be allowed for debiting through Duty Credit Scrips in case of import.

(d) Government may prescribe value cap of any kind for a product(s) or limit total reward per IEC holder under this chapter at any time.

3.14 Transitional Arrangement

For the goods exported or services rendered upto the date of notification of this Policy, which were otherwise eligible for issuance of scrips under erstwhile Chapter 3 of the earlier Foreign Trade Policy(ies) and scrip is applied / issued on or after notification of this Policy against such export of goods or services rendered, the then prevailing policy and procedure regarding eligibility, entitlement, transferability, usage of scrip and any other condition in force at the time of export of goods or rendering of the services, shall be applicable to such scrips.

3.15 CENVAT/ Drawback

Additional Customs duty specified under Sections 3(1), 3(3) and 3(5) of the Customs Tariff Act, 1975 /Central excise duty paid in cash or through debit under Duty Credit scrip shall be adjusted as CENVAT Credit or Duty Drawback as per DoR rules or notifications. Basic Custom duty paid in cash or through debit under Duty Credit scrip shall be adjusted for Duty Drawback as per DoR rules or notifications.

3.16 Import under lease financing

Utilization of Duty Credit Scrip shall be permitted for payment of duty in case of import of capital goods under lease financing in terms of provision in paragraph 2.34 of FTP.

3.17 Transfer of export performance

(a) Transfer of export performance from one IEC holder to another IEC holder shall not be permitted. Thus, a shipping bill containing name of applicant shall be counted in export performance / turnover of applicant only if export proceeds from overseas are realized in applicant's bank account and this shall be evidenced from e - BRC / FIRC.

(b) However, MEIS, rewards can be claimed either by the supporting manufacturer (along with disclaimer from the company / firm who has realized the foreign exchange directly from overseas) or by the company/ firm who has realized the foreign exchange directly from overseas.

3.18 Facility of payment of custom duties and fee through duty credit scrips

(a) Duty Credit Scrip can be utilized / debited for payment of Custom Duties in case of EO defaults for Authorisations issued under Chapters 4 and 5 of Foreign Trade Policy. Such utilization /usage shall be in respect of those goods which are permitted to be imported under the respective reward schemes. However, penalty / interest shall be required to be paid in cash.

(b) Duty credit scrips can also be used for payment of composition fee under FTP, for payment of application fee under FTP, if any and for payment of value shortfall in EO under Para 4.49 of HBP 2015-20.

3.19 Risk Management System

(a) A Risk Management System shall be in operation whereby every month Computer system in DGFT Headquarters, on random basis and on the basis of guidelines issued by the DGFT from time to time, will select 10% of applications for each RA where scrips and Status Holder Certificates have already been issued, under each scheme. RA in turn may call for original documents in all such selected cases for further examination in detail. In case any discrepancy and/ or over claim is found on such examination, the applicant shall be under obligation to rectify such discrepancy and/or refund over claim in cash with interest at the rate prescribed under section 28 A A of the Customs Act 1962, from the date of issue of scrip in the relevant Head of Account of Customs within one month. The original holder of scrip, however, may refund such over claim by surrendering the same scrip whether partially utilized or fully unutilized, without interest.

(b) Regional Authority may ask for original proof of landing certificate (wherever required under the policy), annexures attached to ANFs or any other document, which has been uploaded digitally or any other export related documents related to the application such as Export Invoices at any time within three years from the date of issue of scrip. Failure to submit such documents in original would make applicant liable to refund the reward granted along with interest at the rate prescribed under section 28 A A of the Customs Act 1962, from the

date of issuance of scrip. If an applicant is found to have mis-declared the Item description under any ITC HS Code, appropriate action under FT(D&R) Act, would be taken. It would be the responsibility of applicant to maintain such documents, certificate etc. for a period of at least three years from the date of issuance of scrips or the completion of scrutiny under RMS initiated by the RA whichever is later.

3.20 Status Holder

(a) **Status Holders are business leaders who have excelled in international trade and have successfully contributed to country's foreign trade. Status Holders are expected to not only contribute towards India's exports but also provide guidance and handholding to new entrepreneurs.**

(b) **All exporters of goods, services and technology having an import-export code (IEC) number shall be eligible for recognition as a status holder. Status recognition will depend on export performance. An applicant shall be categorized as status holder on achieving export performance during the current and previous three financial years (for Gems& Jewellery Sector the performance during the current and previous two financial years shall be considered for recognition as status holder) as indicated in paragraph 3.21 of Foreign Trade Policy. The export performance will be counted on the basis of FOB of export earning in freely convertible foreign currencies**

(c) **For deemed export, FOR value of exports in Indian Rupees shall be converted in US$ at the exchange rate notified by CBEC, as applicable on 1st April of each Financial Year.**

(d) **For granting status, export performance is necessary in at least two out of four years.**

3.21 Status Category

Status Category	Export Performance FOB / FOR (as converted) Value (in US $ million)
One Star Export House	3
Two Star Export House	25
Three Star Export House	100
Four Star Export House	500
Five Star Export House	2000

3.22 Grant of Double Weightage

(a) The exports by IEC holders under the following categories shall be granted double weightage for calculation of export performance for grant of status.

(i) Micro, Small & Medium Enterprises (MSME) as defined in Micro, Small & Medium Enterprises Development (MSMED) Act 2006.

(ii) Manufacturing units having ISO/BIS.

(iii) Units located in North Eastern States including Sikkim and Jammu & Kashmir.

(iv) Units located in Agri Export Zones.

(b) Double Weightage shall be available for grant of One Star Export House Status category only. Such benefit of double weightage shall not be admissible for grant of status recognition of other categories

namely Two Star Export House, Three Star Export House, Four Star export House and Five Star Export House.

(c) A shipment can get double weightage only once in any one of above categories.

3.23 Other conditions for grant of status

(a) Export performance of one IEC holder shall not be permitted to be transferred to another IEC holder. Hence, calculation of exports performance based on disclaimer shall not be allowed.

(b) Exports made on re-export basis shall not be counted for recognition.

(c) Export of items under Authorisation, including SCOMET items, would be included for calculation of export performance.

3.24 Privileges of Status Holders

A Status Holder shall be eligible for privileges as under:

(a) Authorisation and Customs Clearances for both imports and exports may be granted on self-declaration basis;

(b) Input-Output norms may be fixed on priority within 60 days by the Norms Committee ;Special scheme in respect of Input Output Norms to be notified by DGFT from time to time, for specified status holder

(c) Exemption from furnishing of Bank Guarantee for Schemes under FTP, unless specified otherwise anywhere in FTP or HBP;

(d) Exemption from compulsory negotiation of documents through banks. Remittance / receipts, however, would be received through banking channels;

(e) Two star and above Export houses shall be permitted to establish Export Warehouses as per Department of Revenue guidelines.

(f) Three Star and above Export House shall be entitled to get benefit of Accredited Clients Programme (ACP) as per the guidelines of CBEC (website: http://cbec.gov.in).

(g) The status holders would be entitled to preferential treatment and priority in handling of their consignments by the concerned agencies.

(h) Manufacturers who are also status holders (Three Star/Four Star/Five Star) will be enabled to self-certify their manufactured

goods (as per their IEM/IL/LOI) as originating from India with a view to qualify for preferential treatment under different preferential trading agreements (PTA), Free Trade Agreements (FTAs), Comprehensive Economic Cooperation Agreements (CECA) and Comprehensive Economic Partnership Agreements (CEPA). Subsequently, the scheme may be extended to remaining Status Holders.

(i) Manufacturer exporters who are also Status Holders shall be eligible to self-certify their goods as originating from India as per Para 2.108
(d) of Hand Book of Procedures.

(j) Status holders shall be entitled to export freely exportable items (excluding Gems and Jewellery, Articles of Gold and precious metals) on free of cost basis for export promotion subject to an annual limit of Rupees One Crore or 2% of average annual export realization during preceding three licensing years, whichever is lower. For export of pharma products by pharmaceutical companies, the annual limit would be 2% of the average annual export realisation during preceding three licensing years. In case of supplies of pharmaceutical products, vaccines and lifesaving drugs to health programmes of international agencies such as UN, WHO-PAHO and Government health programmes, the annual limit shall be upto 8% of the average annual export realisation during preceding three licensing years. Such free of cost supplies shall not be entitled to Duty Drawback or any other export incentive under any export promotion scheme.

CHAPTER 4

DUTY EXEMPTION /REMISSION SCHEMES

4.00 Objective

Schemes under this Chapter enable duty free import of inputs for export production, including replenishment of inputs or duty remission.

4.01 Schemes

(a) Duty Exemption Schemes.

The Duty Exemption schemes consist of the following:

Advance Authorisation (AA) (which will include Advance Authorisation for Annual Requirement).

Duty Free Import Authorisation (DFIA).

(b) Duty Remission Scheme.

Duty Drawback (DBK) Scheme, administered by Department of Revenue.

4.02 Applicability of Policy & Procedures

Authorisation under this Chapter shall be issued in accordance with the Policy and Procedures in force on the date of issue of the Authorisation.

4.03 AdvanceAuthorisation

(a) **Advance Authorisation is issued to allow duty free import of input, which is physically incorporated in export product (making normal allowance for wastage). In addition, fuel, oil, catalyst which is consumed / utilized in the process of production of export product, may also be allowed.**

(b) **Advance Authorisation is issued for inputs in relation to resultant product, on the following basis:**

(i) As per Standard Input Output Norms (SION) notified (available in Hand Book of Procedures);

OR

(ii) On the basis of self declaration as per paragraph 4.07 of Handbook of Procedures.

OR

(iii) Applicant specific prior fixation of norm by the Norms Committee.

OR

(iv) On the basis of Self Ratification Scheme in terms of Para 4.07A of Foreign Trade Policy.

4.04 Advance Authorisation for Spices

Duty free import of spices covered under Chapter-9 of ITC (HS) shall be permitted only for activities like crushing/grinding / sterilization/ manufacture of oils or oleoresins. Authorisation shall not be available for simply cleaning, grading, re-packing etc.

4.04 A Special Advance Authorisation Scheme for export of Articles of Apparel and Clothing accessories.

Duty free import of fabric under 'Special Advance Authorisation Scheme for export of Articles of Apparel and Clothing Accessories' shall be allowed, as per Customs Notification issued for this scheme, for export of items covered under Chapter 61 and 62 of ITC(HS) Classification of Export and Import, subject to the following terms and conditions:

(i) The authorisation shall be issued based on Standard Input Output Norms (SION) or prior fixation of norms by Norms Committee.

(ii) The authorisation shall be issued for the import of relevant fabrics including inter lining only as input. No other input, packing material, fuel, oil and catalyst shall be allowed for import under this authorisation.

(iii) **Exporters shall be eligible for All Industry Rate of Duty Drawback, for non fabric inputs, as determined by Central Government for this scheme. For the purpose of value addition norm of Para 4.08 of FTP, the value of any other input used on which benefit of Drawback is claimed or intended to be claimed shall be equal to 22% of the FOB value of export realised. Minimum value addition shall be as per Para 4.09 of FTP.**

(iv) **Where the exporter desires to claim drawback determined and fixed by Jurisdictional Customs Authority (brand rate), he shall follow Para 4.15 of FTP regarding declarations to be made in application for the authorisation and make export under claim for brand rate. In such cases the value addition shall be as per Para 4.08 of FTP. Minimum value addition shall be as per Para 4.09 of FTP.**

(v) **Authorisation, and the fabric imported, shall be subject to actual user condition. The same shall be non transferable even after completion of export obligation. However fabric imported may be transferred for job work in terms of provisions of GST Acts under intimation to the Customs authority at the port of registration (excluding to units located in areas eligible for area based exemption from Central Excise Duty). Invalidation of the Authorisation shall not be permitted.**

(vi) **The fabric imported shall be subject to pre-import condition and it shall be physically incorporated in the export product (making normal allowance for wastage). Only Physical exports shall fulfil the export obligation.**

(vii) **Provisions of paragraphs 4.02, 4.05(a), 4.13(i), 4.13(ii), 4.14, 4.15, 4.17, 4.19, 4.21(i), 4.21(ii), 4.21 (iii), 4.21(v), 4.22(i), and**

4.24 of Foreign Trade Policy shall be applicable in so far as they are not inconsistent with this scheme.

4.05 Eligible Applicant / Export / Supply

(a) **Advance Authorisation can be issued either to a manufacturer exporter or merchant exporter tied to supporting manufacturer.**

(b) **Advance Authorisation for pharmaceutical products manufactured through Non-Infringing (NI) process (as indicated in paragraph 4.18**

of Handbook of Procedures) shall be issued to manufacturer exporter only.

(c) Advance Authorisation shall be issued for:

(i) Physical export (including export to SEZ);

(ii) Intermediate supply; and/or

(iii) Supply of goods to the categories mentioned in paragraph 7.02 (b), (c), (e), (f), (g) and (h) of this FTP.

(iv) Supply of 'stores' on board of foreign going vessel / aircraft, subject to condition that there is specific Standard Input Output Norms in respect of item supplied.

4.06 Advance Authorisation for Annual Requirement

(i) Advance Authorisation for Annual Requirement shall only be issued for items notified in Standard Input Output Norms (SION), and it shall not be available in case of adhoc norms under paragraph 4.03 (b)(ii) of FTP.

(ii) Advance Authorisation for Annual Requirement shall also not be available in respect of SION where any item of input appears in Appendix 4-J.

4.07 Eligibility Condition to obtain Advance Authorisation for Annual Requirement

(i) Exporters having past export performance (in at least preceding two financial years) shall be entitled for Advance Authorisation for Annual requirement.

(ii) Entitlement in terms of CIF value of imports shall be upto 300% of the FOB value of physical export and / or FOR value of deemed export in preceding financial year or Rs 1 crore, whichever is higher.

4.07A Self Ratification Scheme

i. Where there is no SION/valid Adhoc Norms for an export product and where SION has been notified but exporter intends to use additional inputs in the manufacturing process, eligible exporter can apply for an Advance Authorisation under this scheme on self declaration and self ratification basis. RA may

issue Advance Authorisations and such cases need not be referred to Norms Committees for ratification of norms. Application under this scheme shall be made along with a Certificate from Chartered Engineer in the prescribed format.

ii. **A Certificate from a Chartered Engineer who has been not been penalised in the last five years under FT(D&R) Act 1992, Customs Act 1962, Central Excise Act 1944, GST Acts and allied acts and rules made there under shall only be accepted for grant of Authorisation under this scheme.**

iii. **Detailed procedure for administering the scheme shall be prescribed in the Handbook of Procedures.**

iv. **An exporter (manufacturer or merchant) who holds AEO Certificate under Common Accreditation Programme of CBEC is eligible to opt for this scheme.**

v. **The scheme shall not be available for the following export products.**

   a) **All items covered under Chapter-1 to 24 and Chapter-71 of ITC(HS) Classification;**
   b) **Biotechnology items and related products; and**
   c) **SCOMET items.**

vi. **The scheme shall not be available for the following inputs.**

   a) **All vegetable / edible oils classified under Chapter-15 and all types of oilseeds classified under Chapter-12 of ITC (HS) book;**
   b) **All types of cereals classified under Chapter–10 of ITC (HS) book;**
   c) **Horn, hoof and any other organ of animal;**
   d) **Wild animal products, organs and waste thereof;**
   e) **Honey;**
   f) **All items with basic customs duty of 30% or more;**
   g) **All types of fruits/ nuts/ vegetables classified under Chapter-7 and Chapter-8 of ITC (HS) book;**
   h) **Items covered under heading 2515, 2516, 3301, 3302, 3303 6801 and 6802 of ITC(HS) Classification;**
   i) **Items covered under Chapter 50 to 63 of ITC(HS) classification.**
   j) **Acetic Anhydride, Ephedrine and Pseudoephedrine;**
   k) **Vitamins;**

l) **Biotechnology items and related products;**

m) **Insecticides, Rodenticides, Fungicides, herbicides, Anti sprouting products, and plant growth regulators, disinfectants and similar products of all forms, types and grades;**

n) **Waste/Scrap of all types; and**

o) **Second hand goods.**

vii. **Inputs imported shall be subject to pre import condition and they shall be physically incorporated in the export product (making normal allowance for wastage). In case of local procurement under invalidation/ARO, the inputs shall be procured prior to manufacture of export item and shall be physically incorporated in the export product.**

viii. **Wherever value of by-products and recoverable wastage generated during manufacturing process is more than 5% of CIF value, corresponding quantity of main input shall be reduced from the entitlement to the extent that value of disallowed quantity is equal to the value of by-products and recoverable wastage generated during manufacturing process.**

ix. **DGFT or any person authorised by him may conduct audit of the manufacturer. The frequency and manner of audit shall be prescribed by DGFT in Handbook of Procedures. The manufacturer shall be required to provide the necessary facility to verify the books of account/other documents as required, give information and assistance for timely completion of the audit. Non-availability of production and consumption documents/data shall be treated as misdeclaration and indulgence in fraudulent activities and shall be penalised under FT(D&R) Act, as amended and rules made there under.**

x. **DGFT or any person authorised by him may initiate special audit, considering the nature and complexity of the case and revenue of government, if he is of the opinion at any stage of scrutiny/enquiry/investigation that the norms have not been claimed correctly or the excess benefit has been availed. Special audit can be conducted even if the manufacturer has already been audited before.**

xi. **If the audit results in detection of misdeclaration and/or instances of claiming of inputs which are not used in manufacturing process or excess quantity of inputs than consumed, demand and recovery actions will be initiated in addition to initiation of action against the authorisation holder, manufacturer and Chartered Engineer in terms of Foreign Trade Development and Regulation Act 1992 and/or Customs Act 1962, as amended and rules made there under.**

xii. **In cases where Chartered Engineer has not exercised due diligence or has willfully become party to misdeclaration action will be initiated under against such person under FT(D&R) Act 1992, as amended and rules made there under. In addition, such cases shall also be referred to 'The Institute of Engineers India for taking action as warranted under the bylaws of the institute.**

xiii. **All the provisions applicable for Advance Authorisation Scheme shall be applicable to this scheme also in so far they are not inconsistent with this scheme.**

4.08 Value Addition

Value Addition for the purpose of this Chapter (except for Gems and Jewellery sector for which value addition is prescribed in paragraph 4.38 of FTP) shall be:-

$$VA = \frac{A-B}{B} \times 100, \text{ where}$$

A =FOB value of export realized/FOR value of supply received.

B =CIF value of inputs covered by Authorisation, plus value of any other input used on which benefit of DBK is claimed or intended to be claimed.

4.09 Minimum Value Addition

(i) **Minimum value addition required to be achieved under Advance Authorisation is 15%.**

(ii) Export Products where value addition could be less than 15% are given in Appendix 4D.

(iii) Deleted

(iv) Minimum value addition for Gems & Jewellery Sector is given in paragraph 4.61 of Handbook of Procedures.

(v) In case of Tea, minimum value addition shall be 50%.

4.10 Import of Mandatory Spares

Import of mandatory spares which are required to be exported / supplied with the resultant product shall be permitted duty free to the extent of 10% of CIF value of Authorisation.

4.11 Ineligible categories of import on Self Declaration basis

(a) Import of following products shall not be permissible on self-declaration basis:

- (i) All vegetable / edible oils classified under Chapter-15 and all types of oilseeds classified under Chapter-12 of ITC (HS) book;
- (ii) All types of cereals classified under Chapter–10 of ITC (HS) book;
- (iii) All Spices other than light black pepper (light berries) having a basic customs duty of more than 30%, classified under Chapter-9 and 12 of ITC (HS) book;
- (iv) All types of fruits/ vegetables having a basic customs duty of more than 30%, classified under Chapter-7 and Chapter-8 of ITC (HS) book;
- (v) Horn, Hoof and any other organ of animal;
- (vi) Honey;
- (vii) Rough Marble Blocks/Slabs; and
- (viii) Rough Granite.
- (ix) Vitamins except for use in pharmaceutical industry.

(b) For export of perfumes, perfumery compounds and various feed ingredients containing vitamins, no Authorisation shall be issued by Regional Authority under paragraph 4.07 of Handbook of Procedures and applicants shall be required to apply under paragraph 4.06 of Hand Book of Procedures to the Norms Committee.

(c) Where export and/or import of biotechnology items and related products are involved, Authorisation under paragraph 4.07 of Handbook of Procedures shall be issued by Regional Authority only on submission of a “No Objection Certificate” from Department of Biotechnology.

4.12 Accounting of Input

(i) Wherever SION permits use of either (a) a generic input or (b) alternative input, unless the name of the specific input together with quantity [which has been used in manufacturing the export product] gets indicated / endorsed in the relevant shipping bill and these inputs, so endorsed, within quantity specified and match the description in the relevant bill of entry, the concerned Authorisation will not be redeemed. In other words, the name/description of the input used (or to be used) in the Authorisation must match exactly with the name/description endorsed in the shipping bill.

(ii) In addition, if in any SION, a single quantity has been indicated against a number of inputs (more than one input), then quantities of such inputs to be permitted for import shall be in proportion to the quantity of these inputs actually used/consumed in production, within overall quantity against such group of inputs. Proportion of these inputs actually used/consumed in production of export product shall be clearly indicated in shipping bills.

(iii) At the time of discharge of export obligation (issue of EODC) or at the time of redemption, Regional Authority shall allow only those inputs which have been specifically indicated in the shipping bill together with quantity.

(iv) The above provisions will also be applicable for supplies to SEZs and supplies made under Deemed exports. Details as given above will have to be indicated in the relevant Bill of Export, ARE-3, Central Excise certified Invoice / import document / Tax Invoice for export prescribed under the GST rules

4.13 Pre-import condition in certain cases

(i) DGFT may, by Notification, impose pre-import condition for inputs under this Chapter.

(ii) Import items subject to pre-import condition are listed in Appendix 4-J or will be as indicated in Standard Input Output Norms (SION).

(iii) **Import of drugs from unregistered sources shall have pre-import condition.**

4.14 Details of Duties exempted

Imports under Advance Authorisation are exempted from payment of Basic Customs Duty, Additional Customs Duty, Education Cess, Anti-dumping Duty, Countervailing Duty, Safeguard Duty, Transition Product Specific Safeguard Duty, wherever applicable. Import against supplies covered under paragraph 7.02 (c), (d) and (g) of FTP will not be exempted from payment of applicable Anti-dumping Duty, Countervailing Duty, Safeguard Duty and Transition Product Specific Safeguard Duty, if any. However, imports under Advance Authorisation for physical exports are also exempt from whole of the integrated tax and Compensation Cess leviable under sub-section (7) and sub-section (9) respectively, of section 3 of the Customs Tariff Act, 1975 (51 of 1975), as may be provided in the notification issued by Department of Revenue, and such imports shall be subject to pre-import condition. Imports against Advance Authorisations for physical exports are exempted from Integrated Tax and Compensation Cess upto 31.03.2018 only.

4.15 Admissibility of Drawback

Drawback as per rate determined and fixed by Customs authority in terms of DoR Rules shall be available for duty paid imported or indigenous inputs (not specified in the norms) used in the export product. For this purpose, applicant shall indicate clearly details of duty paid input in the application for Advance Authorisation. As per details mentioned in the application, Regional Authority shall also clearly endorse details of such duty paid inputs in the condition sheet of the Advance Authorisation.

4.16 Actual User Condition for Advance Authorisation

(i) **Advance Authorisation and / or material imported under Advance Authorisation shall be subject to 'Actual User' condition. The same shall not be transferable even after completion of export obligation. However, Authorisation holder will have option to dispose of product manufactured out of duty free input once export obligation is completed.**

(ii) **In case where CENVAT/input tax credit facility on input has been availed for the exported goods, even after completion of export**

obligation, the goods imported against such Advance Authorisation shall be utilized only in the manufacture of dutiable goods whether within the same factory or outside (by a supporting manufacturer). For this, the Authorisation holder shall produce a certificate from either the jurisdictional Customs Authority or Chartered Accountant, at the option of the exporter, at the time of filing application for Export Obligation Discharge Certificate to Regional Authority concerned.

(iii) Waste / Scrap arising out of manufacturing process, as allowed, can be disposed off on payment of applicable duty even before fulfillment of export obligation.

4.17 Validity Period for Import and its Extension

Validity period for import under Advance Authorisation shall be as prescribed in Handbook of Procedures.

4.18 Importability/Exportability of items that are Prohibited/Restricted/ STE

(i) No export or import of an item shall be allowed under Advance Authorisation / DFIA if the item is prohibited for exports or imports respectively. Export of a prohibited item may be allowed under Advance Authorisation provided it is separately so notified, subject to the conditions given therein.

(ii) Items reserved for imports by STEs cannot be imported against Advance Authorisation / DFIA. However, those items can be procured from STEs against ARO or Invalidation letter. STEs are also allowed to sell goods on High Sea Sale basis to holders of Advance Authorisation / DFIA holder. STEs are also permitted to issue "No Objection Certificate(NOC)" for import by Advance

Authorisation / DFIA holder. Authorisation Holder would be required to file Quarterly Returns of imports effected against such NOC to concerned STE and STE would submit half-yearly import figures of such imports to concerned administrative Department for monitoring with a copy endorsed to DGFT.

(iii) Items reserved for export by STE can be exported under Advance Authorisation / DFIA only after obtaining a 'No Objection Certificate' from the concerned STE.

(iv) Import of restricted items shall be allowed under Advance Authorisation/ DFIA.

(v) Export of restricted / SCOMET items however, shall be subject to all conditionalities or requirements of export authorisation or permission, as may be required, under Schedule 2 of ITC (HS).

4.19 Free of Cost Supply by Foreign Buyer

Advance Authorisation shall also be available where some or all inputs are supplied free of cost to exporter by foreign buyer. In such cases, notional value of free of cost input shall be added in the CIF value of import and FOB value of export for the purpose of computation of value addition. However, realization of export proceeds will be equivalent to an amount excluding notional value of such input.

4.20 Domestic Sourcing of Inputs

(i) Holder of an Advance Authorisation / Duty Free Import

Authorisation can procure inputs from indigenous supplier/ State Trading Enterprise/EOU/EHTP/BTP/STP in lieu of direct import. Such procurement can be against Advance Release Order (ARO), or Invalidation Letter.

(ii) When domestic supplier intends to obtain duty free material for inputs through Advance Authorisation for supplying resultant product to another Advance Authorisation / DFIA / EPCG Authorisation, Regional Authority shall issue Invalidation Letter.

(iii) Regional Authority shall issue Advance Release Order if the domestic supplier intends to seek refund of duties exempted through Deemed Exports mechanism as per provisions under Chapter-7 of FTP.

(iv) Regional Authority may issue Advance Release Order or Invalidation Letter at the time of issue of Authorisation simultaneously or subsequently.

(v) Advance Authorisation holder under DTA can procure inputs from / SEZ units without obtaining Advance Release Order or Invalidation Letter.

(vi) Deleted

(vii) Validity of Advance Release Order / Invalidation Letter shall be co-terminous with validity of Authorisation.

4.21 Currency for Realisation of Export Proceeds.

(i) Export proceeds shall be realized in freely convertible currency except otherwise specified. Provisions regarding realisation and non realisation of export proceeds are given in paragraph 2.52, 2.53 and 2.54 of FTP.

(ii) Deleted

(iii) Export to SEZ Units shall be taken into account for discharge of export obligation provided payment is realised from Foreign Currency Account of the SEZ unit.

(iv) Export to SEZ Developers / Co-developers can also be taken into account for discharge of export obligation even if payment is realised in Indian Rupees.

(v) Authorisation holder needs to file Bill of Export for export to SEZ unit / developer / co-developer in accordance with the procedures given in SEZ Rules, 2006.

4.22 Export Obligation Period and its Extension

Period for fulfilment of export obligation and its extension under Advance Authorisation shall be as prescribed in Handbook of Procedures.

4.23 Deleted

4.24 Re-import of exported goods under Duty Exemption / Remission Scheme

Goods exported under Advance Authorisation/ Duty Free Import Authorisation may be re-imported in same or substantially same form subject to such conditions as may be specified by Department of Revenue. Authorisation holder shall also inform about such re-importation to the Regional Authority which had issued the Authorisation within one month from date of re-import.

DUTY FREE IMPORT AUTHORISATION SCHEME (DFIA)

4.25 DFIA Scheme

(a) **Duty Free Import Authorisation is issued to allow duty free import of inputs. In addition, import of oil and catalyst which is consumed / utilised in the process of production of export product, may also be allowed.**

(b) **Provisions of paragraphs 4.12, 4.18, 4.20, 4.21 and 4.24 of FTP shall be applicable to DFIA also.**

(c) **Duty Free Import Authorisation Scheme shall not be available for import of raw sugar.**

4.26 Duties Exempted

(i) **Duty Free Import Authorisation shall be exempted only from payment of Basic Customs Duty (BCD).**

(ii) **Deleted**

(iii) **Drawback as per rate determined and fixed by Customs authority shall be available for duty paid inputs, whether imported or indigenous, used in the export product. However, in case such drawback is claimed for inputs not specified in SION, the applicant should have indicated clearly details of such duty paid inputs also in the application for Duty Free Import Authorisation, and as per the details mentioned in the application, the Regional Authority should also have clearly endorsed details of such duty paid inputs in the condition sheet of the Duty Free Import Authorisation.**

4.27 Eligibility

(i) **Duty Free Import Authorisation shall be issued on post export basis for products for which Standard Input Output Norms have been notified.**

(ii) **Merchant Exporter shall be required to mention name and address of supporting manufacturer of the export product on the export document viz. Shipping Bill/ Bill of Export / Tax Invoice for export prescribed under the GST rules.**

(iii) **Application is to be filed with concerned Regional Authority before effecting export under Duty Free Import Authorisation.**

(iv) No Duty Free Import Authorisation shall be issued for an input which is subjected to pre-import condition or where SION prescribes 'Actual User' condition or Appendix-4J prescribes pre import condition for such an input.

4.28 Minimum Value Addition

Minimum value addition of 20% shall be required to be achieved.

4.29 Validity &Transferability of DFIA

(i) Applicant shall file online application to Regional Authority concerned before starting export under DFIA.

(ii) Export shall be completed within 12 months from the date of online filing of application and generation of file number.

(iii) While doing export/supply, applicant shall indicate file number on the export /supply documents viz. Shipping Bill / / Bill of Export / Tax invoice for supply prescribed under GST rules.

(iv) In terms of Para 4.12 of FTP, Wherever SION permits use of either (a) a generic input or (b) alternative input, the specific input together with quantity [which has been used in manufacturing the export product] should be indicated / endorsed in the relevant Shipping Bill / Bill of Export / Tax invoice for supply prescribed under GST rules . Only such inputs may be permitted for import in the authorisation in proportion to the quantity of these inputs actually used/consumed in production, within overall quantity against such generic input/alternative input.

(v) In addition, if in any SION, a single quantity has been indicated against a number of inputs (more than one input), then quantities of such inputs to be permitted for import shall be in proportion to the quantity of these inputs actually used/consumed in production and declared in Shipping Bill / Bill of Export / Tax invoice for supply prescribed under GST rules within overall quantity against such group of inputs. Proportion of these inputs actually used/consumed in production of export product shall be clearly indicated in Shipping Bill / Bill of Export / Tax invoice for supply prescribed under GST rules.

(vi) Separate DFIA shall be issued for each SION and each port.

(vii) Exports under DFIA shall be made from a single port as mentioned in paragraph 4.37 of Handbook of Procedures.

(viii) Regional Authority shall issue transferable DFIA with a validity of 12 months from the date of issue. No further revalidation shall be granted by Regional Authority.

4.30 Sensitive Items under Duty Free Import Authorisation

(a) In respect of following inputs, exporter shall be required to provide declaration with regard to technical characteristics, quality and specification in Shipping Bill:

"Alloy steel including Stainless Steel, Copper Alloy, Synthetic Rubber, Bearings, Solvent, Perfumes / Essential Oil/ Aromatic Chemicals, Surfactants, Relevant Fabrics, Marble, Articles made of Polypropylene, Articles made of Paper and Paper Board, Insecticides, Lead Ingots, Zinc Ingots, Citric Acid, Relevant Glass fibre reinforcement (Glass fibre, Chopped / Stranded Mat, Roving Woven Surfacing Mat), Relevant Synthetic Resin (unsaturated Polyester Resin, Epoxy Resin, Vinyl Ester Resin, Hydroxy Ethyl Cellulose), Lining Material".

(b) While issuing Duty Free Import Authorisation, Regional Authority shall mention technical characteristics, quality and specification in respect of above inputs in the Authorisation.

SCHEMES FOR EXPORTERS OF GEMSAND JEWELLERY

4.31 Import of Input

Exporters of gems and Jewellery can import / procure duty free (excluding Integrated Tax and Compensation Cess leviable under Section 3(7) and 3(9) of customs Tariff Act) input for manufacture of export product.

4.32 Items of Export

Following items, if exported, would be eligible:

(i) Gold jewellery, including partly processed jewellery and articles

including medallions and coins (excluding legal tender coins), whether plain or studded, containing gold of 8 carats and above up to a maximum limit of 22 carats;

(ii) Silver jewellery including partly processed jewellery, silverware, silver strips and articles including medallions and coins (excluding legal tender coins and any engineering goods) containing more than 50% silver by weight;

(iii) Platinum jewellery including partly processed jewellery and articles including medallions and coins (excluding legal tender coins and any engineering goods) containing more than 50% platinum by weight.

4.33 Schemes

The schemes are as follows:

(i) Advance Procurement / Replenishment of Precious Metals from Nominated Agencies;

(ii) Replenishment Authorisation for Gems;

(iii) Replenishment Authorisation for Consumables;

(iv) Advance Authorisation for Precious Metals.

4.34 Advance Procurement/ Replenishment of Precious Metals from Nominated Agencies

(i) Exporter of gold / silver / platinum jewellery and articles thereof including mountings and findings may obtain gold / silver / platinum as an input for export product from Nominated Agency, in advance or as replenishment after export in accordance with the procedure specified in this behalf.

No replenishment of the precious metal shall be available to the exporter/manufacturer where the exporter/manufacturer avails any of the benefits in respect of exported product.

a. CENVAT Credit is availed on inputs or services by the manufacturer.
b. Finished goods stage rebate is availed under Notification No 19/2004-CE (NT) dated 06.09.2004.

c. **Input stage rebate is availed in respect of duty of excise paid on the precious metal bar or articles of precious metal under Notification No 21/2004-CE(NT) dated 06.09.2004.**

d. **Precious metal or articles of precious metal are procured by the manufacturer under rule 19(2) of the Central Excise Rules, 2002.**

e. **Input Tax Credit is availed on inputs or services or both by the exporter under Chapter V of CGST Act; or refund of ITC or refund of IGST is availed under section 54 of the CGST Act.**

(ii) The export would be subject to wastage norms and minimum value addition as prescribed in paragraph 4.60 and 4.61 respectively in the Handbook of Procedures.

4.35 Replenishment Authorisation for Gems

(i) Exporter may obtain Replenishment Authorisation for Gems from Regional Authority in accordance with procedure specified in Handbook of Procedures as per the replenishment rate prescribed in Appendix 4F. Replenishment Authorisation for Gems shall be freely transferable.

(ii) Replenishment Authorisation for Gems may be issued against export including that made against supply by Nominated Agency (paragraph 4.41 of FTP) and against supply by foreign buyer (paragraph 4.45 of FTP).

(iii) In the case of studded gold/silver/platinum jewellery and articles thereof, the value of Gem Replenishment Authorisation shall be on the remaining FOB value of exports after deducting the value of gold/ silver/ platinum including admissible wastage. The scale of replenishment and the item of import will be as prescribed in Appendix 4G.

4.36 Replenishment Authorisation for Consumables

(i) Replenishment Authorisation for duty free (excluding Integrated Tax and Compensation cess leviable under Section 3(7) and 3(9) of Customs Tariff Act)import of Consumables, Tools and other items namely, Tags and labels, Security censor on card, Staple wire, Poly bag (as notified by Customs) for Jewellery made out of precious metals (other than Gold & Platinum) equal to 2% and for Cut and Polished Diamonds and Jewellery made out of Gold and Platinum

equal to 1% of FOB value of exports of the preceding year, may be issued on production of Chartered Accountant Certificate indicating the export performance. However, in case of Rhodium finished Silver jewellery, entitlement will be 3% of FOB value of exports of such jewellery. This Authorisation shall be non-transferable and subject to actual user condition.

(ii) Application for import of consumables as given above shall be filed online to the concerned Regional Authority in ANF 4H.

4.37 Advance Authorisation for Precious Metals

(a) Advance Authorisation shall be granted on pre-import basis with 'Actual User' condition for duty free (excluding Integrated Tax and Compensation cess leviable under Section 3(7) and 3(9) of Customs Tariff Act)import of:

(i) Gold of fineness not less than 0.995 and mountings, sockets, frames and findings of 8 carats and above;

(ii) Silver of fineness not less than 0.995 and mountings, sockets, frames and findings containing more than 50% silver by weight;

(iii) Platinum of fineness not less than 0.900 and mountings, sockets, frames and findings containing more than 50% platinum by weight.

(b) Advance Authorisation shall carry an export obligation which shall be fulfilled as per procedure indicated in Chapter 4 of Handbook of Procedures.

(c) Value Addition shall be as per paragraph 4.38 of FTP and 4.61 of Handbook of Procedures.

4.38 Value Addition

Minimum Value Addition norms for gems and jewellery sector are given in paragraph 4.61 of Handbook of Procedures. It would be calculated as under:

$$VA = \frac{A-B}{B} \times 100\text{, where}$$

A = FOB value of the export realised/ FOR value of supply received.

B= Value of inputs (including domestically procured) such as gold/silver/platinum content in export product plus admissible wastage along with value of other items such as gemstone etc. Wherever gold has been obtained on loan basis, value shall also include interest paid in free foreign exchange to foreign supplier.

4.39 Wastage Norms

Wastage or manufacturing loss for gold/silver/platinum jewellery shall be admissible as per paragraph 4.60 of Handbook of Procedures.

4.40 DFIA not available

Duty Free Import Authorisation scheme shall not be available for Gems and Jewellery sector.

4.41 Nominated Agencies

(i) **Exporters may obtain gold / silver / platinum from Nominated Agency. Exporter in EOU and units in SEZ would be governed by the respective provisions of Chapter-6 of FTP / SEZ Rules, respectively.**

(ii) **Nominated Agencies are MMTC Ltd, The Handicraft and Handlooms Exports Corporation of India Ltd, The State Trading Corporation of India Ltd, PEC Ltd, STCL Ltd, MSTC Ltd, and Diamond India Limited.**

(iii) **Notwithstanding any provision relating to import of gold by Nominated Agencies under Foreign Trade Policy (2015-2020), the import of gold by Four Star and Five Star Houses with Nominated Agency Certificate is subjected to actual user condition and are permitted to import gold as input only for the purpose of manufacture and export by themselves during the remaining validity period of the Nominated Agency certificate.**

(iv) **Reserve Bank of India can authorize any bank as Nominated Agency.**

(iv) **Procedure for import of precious metal by Nominated Agency (other than those authorized by Reserve Bank of India and the Gems & Jewellery units operating under EOU and SEZ schemes) and the**

monitoring mechanism thereof shall be as per the provisions laid down in Hand Book of Procedures.

(v) A bank authorised by Reserve Bank of India is allowed export of gold scrap for refining and import standard gold bars as per Reserve Bank of India guidelines.

4.42 Import of Diamonds for Certification / Grading & Re- export

Following agencies are permitted to import diamonds to their laboratories without any import duty, for the purpose of certification / grading reports, with a condition that the same should be re-exported with the certification/grading reports, as per the procedure laid down in Hand Book of Procedures:

(1) Gemological Institute of America (GIA), Mumbai, Maharashtra.

(2) Indian Diamond Institute, Surat, Gujarat, India.

(3) International Institute of Diamond Grading & Research India Pvt. Ltd., Surat, Gujarat, India.

(4) HRD Diamond Institute Private Limited, Mumbai, Maharashtra, India

(5) International Gemological Institute (India) Pvt. Ltd, Bandra Kurla Complex, Mumbai

4.43 Export of Cut & Polished Diamonds for Certification/ Grading & Re-import

List of authorized laboratories for certification / grading of diamonds of 0.25 carat and above are given in paragraph 4.74 of Handbook of Procedures.

4.44 Export of Cut & Polished Diamonds with Re-import Facility at Zero Duty

An exporter (with annual export turnover of Rs 5 crores for each of the last three years) or the authorized offices/agencies in India of laboratories mentioned under paragraph 4.74 of Hand Book of Procedures may export cut & polished diamonds (each of 0.25 carat or above) to any of the agencies/laboratories mentioned under paragraph 4.74 of Handbook of Procedures with re-import facility at zero duty within 3months from the date of export. Such facility of re-import at zero duty will be subject to guidelines issued by Central Board of Customs & Excise, Department of Revenue.

4.45 Export against Supply by Foreign Buyer

(i) Where export orders are placed on nominated agencies / status holder / exporters of three years standing having an annual average turnover of Rupees five crores during preceding three financial years, foreign buyer may supply in advance and free of charge, gold / silver / platinum, alloys, findings and mountings of gold / silver / platinum for manufacture and export.

(ii) Such supplies can also be in advance and may involve semi-finished jewellery including findings / mountings / components for repairs / re-make and export subject to minimum value addition as prescribed under paragraph 4.61 of Handbook of Procedures. In such cases of export, wastage norms as per paragraph 4.60 of Handbook of Procedures shall apply.

(iii) Exports may be made by nominated agencies directly or through their associates or by status holder / exporter. Import and Export of findings shall be on net to net basis.

4.46 Export Promotion Tours/ Export of Branded Jewellery

(i) Nominated Agencies and their associates, with approval of Department of Commerce and with approval of Gem & Jewellery Export Promotion Council (GJEPC), may export gold / silver / platinum jewellery and articles thereof for exhibitions abroad.

(ii) Personal carriage of gold / silver / platinum jewellery, precious, semi-precious stones, beads and articles and export of branded jewellery is also permitted, subject to conditions as in Handbook of Procedures.

4.47 Personal Carriage of Export /Import Parcels

Personal carriage of gems and jewellery export parcels by foreign bound passengers and import parcels by an Indian importer/foreign national may be permitted as per the Handbook of Procedures.

4.48 Export by Post

Export of jewellery through Foreign Post Office including via Speed Post is allowed. The jewellery parcel shall not exceed 20 kgs by weight.

4.49 Private / Public Bonded Warehouse

Private / Public Bonded Warehouses may be set up in SEZ/DTA for import and re-export of cut and polished diamonds, cut and polished coloured gemstones, uncut & unset precious & semi-precious stones, subject to achievement of minimum value addition of 5% by DTA units.

4.49(A)

Import, auction/sale and re-export of rough diamonds by entities, as notified vide RBI Notification 116 of 1st April, 2014, as amended from time to time, on consignment or outright basis, will be permitted in Special Notified Zone (SNZ) administered by the operator of SNZ, under supervision of Customs. The procedure of import, auction/ sale and re-export of rough diamonds (unsold) would be as specified by CBEC.

4.50 Diamond & Jewellery Dollar Accounts

(a) **Firms and companies dealing in purchase / sale of rough or cut and polished diamonds / precious metal jewellery plain, minakari and / or studded with / without diamond and / or other stones with a track record of at least two years in import or export of diamonds / coloured gemstones / diamond and coloured gemstones studded**

jewellery / plain gold jewellery and having an average annual turnover of Rs.3 crore or above during preceding three licensing years may also carry out their business through designated Diamond Dollar Accounts (DDA).

(b) **Dollars in such accounts available from bank finance and / or export proceeds shall be used only for:**

(i) **Import / purchase of rough diamonds from overseas/ local sources;**

(ii) **Purchase of cut and polished diamonds, coloured gemstones and plain gold jewellery from local sources;**

(iii) **Import / purchase of gold from overseas / nominated agencies and repayment of dollar loans from the bank; and**

(iv) **Transfer to Rupee Account of exporter. Details of this DDA Scheme are given in Handbook of Procedures.**

(c) A non DDA holder is also permitted to supply cut and polished diamonds to DDA holder, receive payment in dollars and convert the same into Rupees within 7 days. Cut and polished diamonds and coloured gemstones so supplied by non-DDA holder will also be counted towards discharge of his export obligation and/ or entitle him to replenishment Authorisation.

4.51 Export of cut & polished precious and semi-precious stones for treatment and re-import

Gems and Jewellery exporters shall be allowed to export cut and polished precious and semi-precious stones for the treatment and re-import as per customs rules and regulations. In case of re-export, the exporter shall be entitled for duty drawback as per rules.

4.52 Re-import of rejected Jewellery

Gems & Jewellery exporters shall be allowed to re-import rejected precious metal jewellery as per paragraph 4.91 of Handbook of Procedures.

4.53 Export and import on consignment basis

Gems & Jewellery exporters shall be allowed to export and import diamond, gemstones & jewellery on consignment basis as per Handbook of Procedures and Customs Rules and Regulations.

CHAPTER 5

EXPORT PROMOTION CAPITAL GOODS (EPCG) SCHEME

5.00 Objective

The objective of the EPCG Scheme is to facilitate import of capital goods for producing quality goods and services and enhance India's manufacturing competitiveness.

5.01 EPCG Scheme

(a) EPCG Scheme allows import of capital goods (except those specified in negative list in Appendix 5 F) for pre-production, production and post-production at zero customs duty. Capital goods imported under EPCG Authorisation for physical exports

are also exempt from IGST and Compensation Cess upto 31.3.2018 only, leviable thereon under the subsection(7) and subsection (9) respectively, of section 3 of the Customs Tariff Act, 1975 (51 of 1975), as provided in the notification issued by Department of Revenue. Alternatively, the Authorisation holder may also procure Capital Goods from indigenous sources in accordance with provisions of paragraph 5.07 of FTP. Capital goods for the purpose of the EPCG scheme shall include:

(i) Capital Goods as defined in Chapter 9 including in CKD/SKD condition thereof;

(ii) Computer systems and software which are a part of the Capital Goods being imported;

(iii) Spares, moulds, dies, jigs, fixtures, tools & refractories; and

(iv) Catalysts for initial charge plus one subsequent charge.

(b) Import of capital goods for Project Imports notified by Central Board of Excise and Customs is also permitted under EPCG Scheme.

(c) Import under EPCG Scheme shall be subject to an export obligation equivalent to 6 times of duties, taxes and cess saved on capital goods, to be fulfilled in 6 years reckoned from date of issue of Authorisation.

(d) **Authorisation shall be valid for import for 18 months from the date of issue of Authorisation. Revalidation of EPCG Authorisation shall not be permitted.**

(e) **In case Integrated Tax and Compensation Cess are paid in cash on imports under EPCG, incidence of the said Integrated Tax and Compensation Cess would not be taken for computation of net duty saved provided Input Tax Credit is not availed.**

(f) **Deleted.**

(g) **Deleted.**

(h) **Import of items which are restricted for import shall be permitted under EPCG Scheme only after approval from Exim Facilitation Committee (EFC) at DGFT Headquarters.**

(i) **If the goods proposed to be exported under EPCG authorisation are restricted for export, the EPCG authorisation shall be issued only after approval for issuance of export authorisation from Exim Facilitation Committee at DGFT Headquarters.**

5.02 Coverage

(a) **EPCG scheme covers manufacturer exporters with or without supporting manufacturer(s), merchant exporters tied to supporting manufacturer(s) and service providers. Name of supporting**

manufacturer(s) shall be endorsed on the EPCG Authorisation before installation of the capital goods in the factory / premises of the supporting manufacturer (s). In case of any change in supporting manufacturer (s) the RA shall intimate such change to jurisdictional Customs Authority of existing as well as changed supporting manufacturer(s) and the Customs at port of registration of Authorisation.

(b) **Export Promotion Capital Goods (EPCG) Scheme also covers a service provider who is designated / certified as a Common Service Provider (CSP) by the DGFT, Department of Commerce or State Industrial Infrastructural Corporation in a Town of Export Excellence subject to provisions of Foreign Trade Policy/Handbook of Procedures with the following conditions:-**

(i) **Export by users of the common service, to be counted towards fulfillment of EO of the CSP shall contain the EPCG Authorisation details of the CSP in the respective Shipping bills and concerned RA must be informed about the details of the Users prior to such export;**

(ii) **Such export will not count towards fulfillment of specific export obligations in respect of other EPCG Authorisations (of the CSP/User); and**

(iii) **Authorisation holder shall be required to submit Bank Guarantee (BG) which shall be equivalent to the duty saved. BG can be given by CSP or by any one of the users or a combination thereof, at the option of the CSP.**

5.03 Actual User Condition

Imported capital goods shall be subject to Actual User condition till export obligation is completed and EODC is granted.

5.04 Export Obligation (EO)

Following conditions shall apply to the fulfilment of EO:-

(a) **EO shall be fulfilled by the authorisation holder through export of goods which are manufactured by him or his supporting manufacturer / services rendered by him, for which the EPCG authorisation has been granted.**

(b) **EO under the scheme shall be, over and above, the average level of exports achieved by the applicant in the preceding three licensing years for the same and similar products within the overall EO period including extended period, if any; except for categories mentioned in paragraph 5.13(a) of HBP. Such average would be the arithmetic mean of export performance in the preceding three licensing years for same and similar products.**

(c) **In case of indigenous sourcing of Capital Goods, specific EO shall be 25% less than the EO stipulated in Para 5.01.**

(d) **Shipments under Advance Authorisation, DFIA, Drawback scheme or reward schemes under Chapter 3 of FTP; would also count for fulfillment of EO under EPCG Scheme.**

(e) Export shall be physical export. However, supplies as specified in paragraph 7.02 (a), (b), (e), (f) & (h) of FTP shall also be counted towards fulfillment of export obligation, along with usual benefits available under paragraph 7.03 of FTP.

(f) EO can also be fulfilled by the supply of ITA-I items to DTA, provided realization is in free foreign exchange.

(g) Royalty payments received by the Authorisation holder in freely convertible currency and foreign exchange received for R&D services shall also be counted for discharge under EPCG.

(h) Payment received in rupee terms for such Services as notified in Appendix 5D shall also be counted towards discharge of export obligation under the EPCG scheme.

5.05 Deleted

5.06 LUT/Bond/BG in case of Agro units

LUT/Bond or 15% BG, as applicable, may be furnished for EPCG authorisation granted to units in Agri-Export Zones provided EPCG authorisation is taken for export of primary agricultural product(s) notified or their value added variants.

5.07 Indigenous Sourcing of Capital Goods and benefits to Domestic Supplier

A person holding an EPCG authorisation may source capital goods from a domestic manufacturer. Such domestic manufacturer shall be eligible for deemed export benefits under paragraph 7.03 of FTP and as may be provided under GST Rules under the category of deemed exports. Such domestic sourcing shall also be permitted from EOUs and these supplies shall be counted for purpose of fulfilment of positive NFE by said EOU as provided in Para 6.09 (a) of FTP.

5.08 Calculation of Export Obligation

In case of direct imports, EO shall be reckoned with reference to actual duty saved amount. In case of domestic sourcing, EO shall be reckoned with reference to notional Customs duties saved on FOR value.

5.09 Incentive for early EO fulfilment

With a view to accelerating exports, in cases where Authorisation holder has fulfilled 75% or more of specific export obligation and 100% of Average Export Obligation till date, if any, in half or less than half the original export obligation period specified, remaining export obligation shall be condoned and the Authorisation redeemed by RA concerned. However no benefit under Para 5.21 of HBP shall be permitted where incentive for early EO fulfillment has been availed.

5.10 Reduced EO for Green Technology Products

For exporters of Green Technology Products, Specific EO shall be 75% of EO as stipulated in Para 5.01. There shall be no change in average EO imposed, if any, as stipulated in Para 5.04. The list of Green Technology Products is given in Para 5.29 of HBP.

5.11 Reduced EO for North East Region and Jammu & Kashmir

For units located in Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura and Jammu & Kashmir, specific EO shall be 25% of the EO, as stipulated in Para 5.01. There shall be no change in average EO imposed, if any, as stipulated in Para 5.04.

5.12 Post Export EPCG Duty Credit Scrip(s)

(a) Post Export EPCG Duty Credit Scrip(s) shall be available to exporters who intend to import capital goods on full payment of applicable duties, taxes and cess in cash and choose to opt for this scheme.

(b) Basic Customs duty paid on Capital Goods shall be remitted in the form of freely transferable duty credit scrip(s), similar to those issued under Chapter 3 of FTP.

(c) Specific EO shall be 85% of the applicable specific EO under the EPCG Scheme. However, average EO shall remain unchanged.

(d) Duty remission shall be in proportion to the EO fulfilled.

(e) **All provisions for utilization of scrips issued under Chapter 3 of FTP shall also be applicable to Post Export EPCG Duty Credit Scrip (s).**

(f) **All provisions of the existing EPCG Scheme shall apply insofar as they are not inconsistent with this scheme.**

CHAPTER 6

EXPORT ORIENTED UNITS (EOUs), ELECTRONICS HARDWARE TECHNOLOGY PARKS (EHTPs), SOFTWARE TECHNOLOGY PARKS (STPs) AND BIO-TECHNOLOGY PARKS (BTPs)

6.00 Introduction and Objective

(a) **Units undertaking to export their entire production of goods and**

services(except permissible sales in DTA), may be set up under the Export Oriented Unit (EOU) Scheme, Electronics Hardware Technology Park (EHTP) Scheme, Software Technology Park(STP) Scheme or Bio-Technology Park (BTP) Scheme for manufacture of goods, including repair, re-making, reconditioning, re-engineering, rendering of services, development of software, agriculture including agro-processing, aquaculture, animal husbandry, bio-technology, floriculture, horticulture, pisciculture, viticulture, poultry and sericulture. Trading units are not covered under these schemes.

(b) **Objectives of these schemes are to promote exports, enhance foreign exchange earnings, attract investment for export production and employment generation.**

6.01 Export and Import of Goods

(a) **An EOU / EHTP / STP / BTP unit may export all kinds of goods and services except items that are prohibited in ITC (HS). However export of gold jewellery, including partly processed jewellery, whether plain or studded, and articles, containing gold of 8 carats and above upto a maximum limit of 22 carats only shall be permitted.**

(b) **Export of Special Chemicals, Organisms, Materials, Equipment and Technologies (SCOMET) shall be subject to fulfilment of the conditions indicated in ITC (HS). In respect of an EOU, permission to export a prohibited item may be considered, by BOA, on a case to case basis, provided such raw materials are imported and there is no procurement of such raw material from DTA.**

(c) **Procurement and supply of export promotion material like brochure**

/ literature, pamphlets, hoardings, catalogues, posters etc up to a maximum value limit of 1.5% of FOB value of previous years exports shall also be allowed.

(d) **(i) An EOU / EHTP/ STP/ BTP unit may import and / or procure, from DTA or bonded warehouses in DTA / international exhibition held in India, all types of goods, including capital goods, required for its activities, provided they are not prohibited items of import in the ITC (HS) subject to conditions given at para (ii) & (iii) below. Any permission required for import under any other law shall be applicable. Units shall also be permitted to import goods including capital goods required for approved activity, free of cost or on loan / lease from clients. Import of capital goods will be on a self-certification basis. Goods imported by a unit shall be with actual user condition and shall be utilized for export production.**

(ii) **The imports and/ or procurement from bonded warehouse in DTA or from international exhibition held in India shall be without payment of duty of customs leviable thereon under the First Schedule to the Customs Tariff Act, 1975 and additional duty, if any, leviable thereon under Section 3(1), 3(3) and 3(5) of the said Customs Tariff Act. Such imports and/ or procurements shall be made without payment of integrated tax**

and compensation cess leviable thereon under section 3(7) and 3(9) of the Customs Tariff Act, 1975 as per notification issued by the Department of Revenue and such exemptions would be available upto 31.03.2018 only.

(bi) **The procurement of goods covered under GST from DTA would be on payment of applicable GST and compensation cess. The refund of GST paid on such supply from DTA to EOU would be available to the supplier subject to such conditions and documentations as specified under GST rules and notifications issued there under. EOUs can also procure excisable goods falling under the Fourth Schedule of Central Excise Act, 1944 from DTA without payment of applicable duty of excise.**

(e) **State Trading regime shall not apply to EOU manufacturing units. However, in respect of Chrome Ore/Chrome concentrate, State**

Trading Regime as stipulated in export policy of these items, will be applicable to EOUs.

(f) EOU/EHTP/STP/BTP units may import/procure from DTA, with or without payment of duties/taxes as provided at Para 6.01 (d)(ii) and 6.01(d)(iii) above, certain specified goods for creating a central facility. Software EOU/ DTA units may use such facility for export of software.

(g) An EOU engaged in agriculture, animal husbandry, aquaculture, floriculture, horticulture, pisciculture, viticulture, poultry or sericulture may be permitted to remove specified goods in connection with its activities for use outside the premises of the unit.

(h) Gems and jewellery EOUs may source gold / silver / platinum through nominated agencies on loan / outright purchase basis. Units obtaining gold / silver / platinum from nominated agencies, either on loan basis or outright purchase basis shall export gold / silver / platinum within 90 days from date of release.

(i) EOU / EHTP / STP / BTP units, other than service units, may export to Russian Federation in Indian Rupees against repayment of State Credit/ Escrow Rupee Account of buyer subject to RBI clearance, if any.

(j) Procurement and export of spares / components, upto 5% of FOB value of exports, may be allowed to same consignee / buyer of the export article, subject to the condition that it shall not count for NFE and direct tax benefits.

(k) BOA may allow, on a case to case basis, requests of EOU / EHTP / STP/ BTP units in sectors other than Gems & Jewellery, for consolidation of goods related to manufactured articles and export thereof along with manufactured article. Such goods may be allowed to be imported / procured from DTA by EOU with or without payment of duty and/or taxes as provided at Para 6.01 (d) (ii) and (iii) above, as the case may be to the extent of 5% FOB value of such manufactured articles exported by the unit in preceding financial year. Details of procured / imported goods and articles manufactured by the EOU will be listed separately in the export documents. In such cases, value of procured / imported goods will not be taken into account for calculation of NFE and DTA sale entitlement. Such procured / imported goods shall not be allowed to be sold in DTA. BOA may also specify any other conditions.

6.02 Second hand Capital goods

Second hand capital goods, without any age limit, may also be imported with or without payment of duty/ taxes as provided under Para 6.01(d)(ii) above.

6.03 Leasing of Capital Goods

(a) An EOU/EHTP/STP/BTP unit may, on the basis of a firm contract between parties, source capital goods from a domestic/ foreign leasing company with or without payment of duties/taxes as provided at Para 6.01 (d) (ii) and (iii) above, as the case may be in such a case, EOU/EHTP /STP / BTP unit and domestic/ foreign leasing company shall jointly file documents to enable import/ procurement of capital goods.

(b) An EOU/EHTP/BTP/STP unit may sell capital goods and lease back the same from a Non Banking Financial Company (NBFC), subject to the following conditions:

(i) The unit should obtain permission from the jurisdictional Deputy /Assistant Commissioner of Customs for entering into transaction of 'Sale and Lease Back of Assets', and submit full details of the goods to be sold and leased back and the details of NBFC;

(ii) The goods sold and leased back shall not be removed from the unit's premises;

(iii) The unit should be NFE positive at the time when it enters into sale and lease back transaction with NBFC;

(iv) A joint undertaking by the unit and NBFC should be given to pay duty on goods in case of violation or contravention of any provision of the notification under which these goods were imported or procured, read with Customs Act, 1962 or Central Excise Act, 1944, and that the lien on the goods shall remain with the Customs Department, which will have first charge over the said goods for recovery of sum due from the

unit to Government under provision of Section 142(b) of the Customs Act, 1962 read with the Customs (Attachment of Property of Defaulters for Recovery of Govt. Dues) Rules, 1995.

6.04 Net Foreign Exchange Earnings

EOU / EHTP / STP / BTP unit shall be a positive net foreign exchange earner. In addition sector specific provision of Appendix 6 B of Appendices

& ANFs, where a higher value addition and other conditions are given, shall be required to be followed. NFE Earnings shall be calculated cumulatively in blocks of five years, starting from commencement of production. Whenever a unit is unable to achieve NFE due to prohibition / restriction imposed on export of any product mentioned in LoP, the five year block period for calculation of NFE earnings may be suitably extended by BoA. Further, wherever a unit is unable to achieve NFE due to adverse market condition or any grounds of genuine hardship having adverse impact on functioning of the unit, the five year block period for calculation of NFE earnings may be extended by BOA for a period of upto one year, on a case to case basis. The method of calculation of NFE in detail is given in Para 6.10 of Handbook of Procedures 2015-20

6.05 Applications & Approvals/Letter of Permission / Letter of Intent and Legal Undertaking

(a) (i) Application for setting up an EOU shall be considered by Unit Approval Committee (UAC)/ Board of Approval (BoA) as the case may be, as detailed in the Hand Book of Procedure. A detail of administration of EOUs and power of DC is given in HBP.

(ii)In case of units under EHTP / STP schemes, necessary approval / permission under relevant paras of this Chapter shall be granted by officer designated by Ministry of Communication and Information Technology, Department of Electronics & Information Technology, instead of DC, and by Inter-Ministerial Standing Committee (IMSC) instead of BOA.

(iii)Bio-Technology Parks (BTP) would be notified by DGFT on recommendations of Department of Biotechnology. In case of units in BTP, necessary approval / permission under relevant provisions of this chapter will be granted by designated officer of Department of Biotechnology.

(iv)On approval, a Letter of Permission (LoP) / Letter of Intent (LoI) shall be issued by DC / designated officer to EOU / EHTP / STP / BTP unit. The validity of LoP/LoI shall be given in the Hand Book of Procedures.

(b) LoP / LoI issued to EOU / EHTP / STP / BTP units by concerned authority, subject to compliance of provision in Para 6.01 above, would be construed as an Authorisation for all purposes.

(c) Unit shall execute an LUT with DC concerned. Failure to ensure positive NFE or to abide by any of the terms and conditions of LoP / LoI / IL / LUT shall render the unit liable to penal action under provisions of the FT (D&R) Act, as amended, and Rules and Orders made there under, without prejudice to action under any other law / rules and cancellation or revocation of LoP / LoI / IL.

6.06 Investment Criteria

Only projects having a minimum investment of Rs.1 Crore in plant & machinery shall be considered for establishment as EOUs. However, this shall not apply to existing units, units in EHTP / STP/ BTP, and EOUs in Handicrafts /Agriculture/ Floriculture/Aquaculture/Animal Husbandry /Information Technology, Services, Brass Hardware and Handmade jewellery sectors. BOA may allow establishment of EOUs with a lower investment criteria.

6.07 Applications & Approvals

(a) Deleted

(b) Deleted

(c) Deleted

(d) Deleted

6.08 DTA Sale of Finished Products / Rejects / Waste/ Scrap / Remnants and By-products

Entire production of EOU/EHTP/STP/BTP units shall be exported. However, the following are allowed as exceptions subject to the conditions specified.

(a) (i) Units, other than gems and jewellery units may sell finished goods manufactured by them as specified in LoP (including by-products, rejects, waste and scraps arising in the course of production, manufacture, processing or packaging of such goods) which are freely importable under FTP in DTA, subject to fulfillment of positive NFE, on payment of excise duty, if applicable, and/ or payment of GST and compensation cess along with reversal of duties of Custom leviable under First Schedule to the Customs Tariff Act, 1975 availed as exemption, if any on the inputs utilized for the purpose of manufacturing of such finished goods (including by-products, rejects, waste and scraps arising in the course of production, manufacture, processing or packaging of such goods). No DTA sale shall be permissible in respect of, pepper & pepper products, marble and such other items as may be notified from time to time.

(ai) Such DTA sale shall also not be permissible to units engaged in activities of packaging / labeling / segregation / refrigeration / compacting / micronisation / pulverization / granulation / conversion of monohydrate form of chemical to anhydrous form or vice-versa.

(iii)(a) Sales made to a unit in SEZ shall also be taken into account for purpose of arriving at FOB value of export by EOU provided payment for such sales are made from Foreign Currency Account of SEZ unit.

(b) Sale to DTA would also be subject to mandatory requirement of registration of pharmaceutical products (including bulk drugs).

(iv) An amount equal to Anti Dumping duty under section 9A of the Customs Tariff Act, 1975 leviable at the time of import, shall be payable on the goods used for the purpose of manufacture or processing of the goods cleared into DTA from the unit.

(v) The DTA sale by EOU/EHTP/STP/BTP units shall be subject to payment of excise duty, if applicable, and/or payment of GST and compensation cess along with reversal of duties of Custom leviable under First Schedule to the Customs Tariff Act, 1975 availed as exemption, if any on the inputs utilized for the purpose of manufacturing of such finished goods (including by-products, rejects, waste and scraps arising in the course of production, manufacture, processing or packaging of such goods). This reversal of Customs Duty would be as per prevailing SION norms or norms fixed by Norms Committee (where no SION norms are fixed).

(vi) Such DTA sale shall also be subject to refund of any benefits under Chapter 7 of FTP availed by the EOU/supplier as per FTP, on the goods used for manufacture of the goods cleared into the DTA.

(b) For services, including software units, sale in DTA in any mode, including on line data communication, shall also be permissible up to 50% of FOB value of exports and /or 50% of foreign exchange earned, where payment of such services is received in foreign exchange.

(c) Gems and jewellery units may sell upto 10% of FOB value of exports of the preceding year in DTA, subject to fulfillment of positive NFE. The unit shall pay applicable GST and compensation cess along with reversal of duties of Customs leviable under First Schedule of the Customs Tariff Act, 1975 availed as exemption, on inputs used in such jewellery.

(d) Unless specifically prohibited in LoP, rejects may be sold in DTA on payment of excise duty, if applicable, and/or payment of GST and compensation cess along with reversal of duties of Customs leviable under First Schedule of the Customs Tariff Act, 1975 availed as exemption on inputs on prior intimation to Customs authorities. Sale of rejects upto 5% of FOB value of exports shall not be subject to achievement of NFE.

(e) Scrap / waste / remnants arising out of production process or in connection therewith may be sold in DTA, as per SION notified under Duty Exemption Scheme, on payment of applicable duties and/ or taxes and compensation cess. Such sales of scrap / waste / remnants shall not be subject to achievement of positive NFE. In respect of

items not covered by norms, DC may fix ad - hoc norms for a period of six months and within this period, norms should be fixed by Norms Committee. Ad-hoc norms will continue till such time norms are fixed by Norms Committee. Scrap / waste / remnants may also be exported.

(f) **There shall be no duties / taxes on scrap / waste / remnants, in case same are destroyed with permission of Customs authorities. The expression "no duties/ taxes" shall not include applicable taxes and cess under the GST laws.**

(g) **By-products included in LoP may also be sold in DTA subject to achievement of positive NFE, on payment of excise duty, if applicable, and/or payment of GST and compensation cess along with reversal of duties of Custom leviable under First Schedule to the Customs Tariff Act, 1975, if availed on inputs.**

(h) **Deleted**

(i) **In case of units manufacturing electronics hardware and software, NFE and DTA sale entitlement shall be reckoned separately for hardware and software.**

(j) **Deleted**

(k) **In case of new EOUs, advance DTA sale will be allowed not exceeding 50% of its estimated exports for first year, except pharmaceutical units where this will be based on its estimated exports for first two years.**

(l) **Deleted**

(m) **Procurement of spares / components, up to 2% of the value of manufactured articles, cleared into DTA, during the preceding year, may be allowed for supply to the same consignee / buyer for the purpose of after-sale-service. The same can be cleared in DTA on payment of applicable GST and compensation cess along with reversal of duties of Customs leviable under First Schedule of the Customs Tariff Act, 1975 availed as exemption, if any**

6.09 Other Supplies

Following supplies effected from EOU / EHTP / STP / BTP units will be counted for fulfillment of positive NFE. Such supplies shall not include "marble", except if such supply of marble is an inter unit supply as provided at Sub - Para(c) below:

(a) **Supplies effected in DTA to holders of Advance Authorisation / Advance Authorisation for annual requirement / DFIA under duty exemption / remission scheme / EPCG scheme. However, printing sector EOUs (or any other sector that may be notified in HBP), can't supply goods, where basic customs duty and CVD is nil or exempted otherwise, to holders of Advance Authorisation / Advance Authorisation for annual requirement.**

(b) **Supplies effected in DTA against foreign exchange remittance received from overseas.**

(c) **Supplies to other EOU / EHTP / STP / BTP / SEZ units, provided that such goods are permissible for procurement in terms of Para 6.01 of FTP.**

(d) **Supplies made to bonded warehouses set up under FTP and / or under section 65 of Customs Act and free trade and warehousing zones, where payment is received in foreign exchange.**

(e) **Supplies of goods and services to such organizations which are entitled for duty free import of such items in terms of general exemption notification issued by MoF, as may be provided in HBP.**

(f) **Supplies of Information Technology Agreement (ITA-1) items and notified zero duty telecom / electronics items.**

(g) **Supplies of items like tags, labels, printed bags, stickers, belts, buttons or hangers to DTA unit for export.**

(h) **Supply of LPG produced in an EOU refinery to Public Sector domestic oil companies for being supplied to household domestic consumers at subsidized prices under the Public Distribution System (PDS) Kerosene and Domestic LPG Subsidy Scheme, 2002, as notified by the Ministry of Petroleum and Natural Gas vide notification No. E-**

20029/18/2001 -PP dated 28.01.2003 (hereinafter referred to as PDS Scheme) subject to the following conditions:-

(i) Only supply of such quantity of LPG would be eligible for which Ministry of Petroleum and Natural Gas declines permission for export and requires the LPG to be cleared in DTA; and

(ii) The Ministry of Finance by a notification has permitted duty free imports of LPG for supply under the aforesaid PDS Scheme.

6.10 Export through others

An EOU/ EHTP/ STP/BTP unit may export goods manufactured/ software developed by it through another exporter or any other EOU/EHTP/STP/SEZ unit subject to conditions mentioned in Para 6.19 of HBP.

6.11 Entitlement for Supplies from the DTA

(a) Supplies from DTA to EOU/EHTP/STP/ BTP units for use in their manufacture for exports will be eligible for "benefits under Chapter 7 of FTP". DTA supplier shall be eligible for relevant entitlements under chapter 7 of FTP, besides discharge of export obligation, if any, on the supplier.

The refund of GST paid on such supply from DTA to EOU would be available to the supplier subject to such conditions and documentations as specified under GST rules and notifications issued there under.

(b) Suppliers of precious and semi-precious stones, synthetic stones and processed pearls from DTA to EOU shall be eligible for grant of Replenishment Authorisations at rates and for items mentioned in HBP.

(c) In addition, EOU / EHTP / STP / BTP units shall be entitled to following:-

(i) Reimbursement of Central Sales Tax (CST) on goods manufactured in India. Simple interest @ 6% per annum will be payable on delay in refund of CST, if the case is not settled within 30 days of receipt of complete application (as in Para 9.10 (b) of HBP).

(ii) **Exemption from payment of Central Excise Duty on goods, falling in Fourth Schedule of Central Excise Act, procured from DTA on such goods manufactured in India.**

(iii) **Deleted**

(iv) **Deleted**

6.12 Other Entitlements

Other entitlements of EOU/EHTP/STP/BTP units are as under:

(a) **Exemption from industrial licensing for manufacture of items reserved for SSI sector.**

(b) **Export proceeds will be realized within nine months.**

(c) **Units will be allowed to retain 100% of its export earnings in the EEFC account.**

(d) **Unit will not be required to furnish bank guarantee at the time of import or going for job work in DTA, where:**

(i) **The unit has turnover of Rs. 5 crore or above;**

(ii) **The unit is in existence for at least three years; and**

(iii) **The unit:**

(1) **has achieved positive NFE / export obligation wherever applicable;**

(2) **has not been issued a show cause notice or a confirmed demand, during the preceding 3 years, on grounds other than procedural violations, under the penal provision of the Customs Act, the Central Excise Act, the Foreign Trade (Development & Regulation) Act, the Foreign Exchange Management Act, the Finance Act, 1994 covering Service Tax or any allied Acts or the rules made thereunder, on account of fraud / collusion / wilful**

mis-statement / suppression of facts or contravention of any of the provisions thereof;

(e) 100% FDI investment permitted through automatic route similar to SEZ units.

(f) Deleted

(g) The Units Approval Committee may consider on a case-to-case basis request for sharing of infrastructural facilities among EOUs and it shall forward its recommendation to the Board of Approval for its consideration. While accepting such proposals, the NFE obligations of the Units shall not be altered. Such facilities will be available to Units in EHTP / STP after getting approval from IMSC. However, sharing of facilities between EOUs and SEZ Units shall not be permitted.

6.13 Inter Unit Transfer

(a) Transfer of manufactured goods from one EOU/ EHTP/STP/BTP unit to another EOU / EHTP/ STP/ BTP unit is allowed on payment of applicable GST and compensation cess with prior intimation to concerned Development Commissioners of the transferor and transferee units as well as concerned Customs authorities, as per following procedure for movement of goods:

i . The supplier EOU shall endorse on usual commercialdocuments, such as, tax invoice and delivery challan, the amount of duties of Custom leviable under First Schedule to the Customs Tariff Act, 1975 availed as exemption on inputs used in the manufacture of such finished goods (including by-products, rejects, waste and scraps arising in the course of production, manufacture, processing or packaging of such goods) supplied to another EOU. The recipient EOU shall pay such endorsed Customs duty besides his own liability of reversal of Customs duty as provided in Para 6.08 above, before clearance of such finished goods in DTA and as provided under DoR notifications/circulars/ guidelines in this regard.

i i . Upon receipt of goods, the recipient EOU shall submit endorsed copies of tax invoice to their jurisdictional Customs authority as well as to the jurisdictional Customs authorities of the supplier EOU.

(b) **Capital goods may be transferred or given on loan to other EOU / EHTP / STP / BTP / SEZ units, with prior intimation to concerned DC and Customs authorities on payment of applicable GST and compensation cess. Such transferred goods may also be returned by the second unit to the original unit in case of rejection or for any reason on payment of applicable GST and compensation cess.**

(c) **Goods supplied by one unit of EOU/EHTP/STP/ BTP to another unit shall be on payment of applicable GST and compensation cess as per following procedure for movement of goods:**

(i) **The supplier EOU shall endorse on usual commercial documents, such as, tax invoice and delivery challan, the amount of duties of Customs leviable under First Schedule to the Customs Tariff Act, 1975 availed as exemption on such goods supplied to another EOU. The recipient EOU shall pay such endorsed Customs duty and applicable GST and compensation cess before clearance of such goods or finished goods manufactured or produced from such goods in DTA.**

(ii) **Upon receipt of goods, the recipient EOU shall submit endorsed copies of tax invoice to their jurisdictional Customs authority as well as to the jurisdictional Customs authorities of the supplier EOU.**

(d) **In respect of a group of EOUs / EHTPs / STPs / BTP Units which source inputs centrally in order to obtain bulk discount and / or reduce cost of transportation and other logistics cost and / or to maintain effective supply chain, inter unit transfer of goods and services may be permitted on a case-to-case basis by the Unit Approval Committee. In case inputs so sourced are imported and then transferred to another unit, then value of the goods so transferred shall be taken as inflow for the unit transferring these goods and as outflow for the unit receiving these goods, for the purpose of calculation of NFE.**

6.14 Sub-Contracting

(a) **(i)EOU/EHTP/STP /BTP units, including gems and jewellery units, may on the basis of annual permission from Customs authorities, sub - contract production processes to DTA**

through job work which may also involve change of form or nature of goods, through job work by units in DTA.

(ai) **These units may sub – contract upto 50% of overall production of previous year in value terms in DTA with permission of Customs authorities.**

(b) **(i)EOU may, with annual permission from Customs authorities, under take job work for export, on behalf of DTA exporter, provided that goods are exported directly from EOU and export document shall jointly be in name of DTA/ EOU. For such exports, DTA units will be entitled for refund of duty paid on inputs by way of brand rate of duty drawback. However, such brand rate of drawback shall be as per Customs and Central Excise Duties Drawback Rules, 2017 and shall be limited to Customs duties and Central Excise Duties (in respect of eligible items covered under Schedule IV of Central Excise Act, 1944).**

(ii) **Import of goods for execution of export order placed on EOU by foreign supplier on job work basis, would be allowed with or without payment of duties and/or taxes as provided under Para 6.01(d)(ii) above subject to condition that no DTA clearance shall be allowed.**

(iii) **Sub - contracting of both production and production processes may also be under taken without any limit through other EOU/EHTP/ STP/ BTP/ SEZ units, on the basis of records maintained in unit.**

(iv) **EOU/EHTP/STP/BTP units may sub - contract part of production process abroad and send intermediate products abroad as mentioned in LoP. No permission would be required when goods are sought to be exported from sub - contractor premises abroad. When goods are sought to be brought back, prior intimation to concerned DC and Customs authorities shall be given.**

(c) **Scrap/waste/remnants generated through job work may either be cleared from job worker's premises on payment of applicable duty and/or taxes, as provided under Para 6.08 above on transaction value or destroyed in presence of Customs authority or returned to unit. Destruction shall not apply to gold, silver, platinum, diamond, precious and semi-precious stones.**

(d) **Sub - contracting/ exchange by gem sand jewellery EOUs through other EOUs or SEZ units or units in DTA, shall be as per procedure indicated in HBP.**

6.15 Sale of Unutilized Material

(a) **In case an EOU / EHTP/ STP/BTP unit is unable to utilize goods and services, imported or procured from DTA,it maybe:**

(i) **Transferred to another EOU / EHTP / STP / BTP / SEZ unit; or**

(ii) **Disposed of in DTA with intimation to Customs authorities on payment of applicable duties and/ or taxes and compensation cess. In addition, exemption of duties of Customs leviable under First Schedule of the Customs Tariff Act, 1975 availed, if any on the goods , at the time of import will also be payable and submission of import Authorisation; or**

(iii) **Exported.**

Such transfer from EOU/EHTP/ STP/ BTP unit to another such unit would be treated as import for receiving unit.

(b) **Capital goods and spares that have become obsolete/ surplus, may be exported or transferred to SEZ unit, transferred to another EOU/EHTP/STP/BTP/on payment of applicable GST and compensation cessor disposed of in DTA on payment of applicable GST and compensation cess and duties of Customs leviable under First Schedule of the Customs Tariff Act, 1975. Benefit of depreciation will be available in case of disposal in DTA only when the unit has achieved positive NFE taking into consideration the depreciation allowed. No duty shall be payable other than the applicable taxes under GST laws incase capital goods, raw material consumables, spares, goods manufactured, processed or packaged, and scrap/ waste/remnants /rejects are destroyed within unit after intimation to Customs authorities or destroyed outside unit with permission of Customs authorities. Destruction as stated above shall not apply to gold, silver, platinum, diamond, precious and semi-precious stones.**

(c) In case of textile sector, disposal of left over material/ fabrics upto 2% of CIF value or quantity of import, whichever is lower, on payment of duty on transaction value, may be allowed, subject to certification of Central Excise/Customs officers that these are left over items.

(d) Disposal of used packing material will be allowed on payment of duty on transaction value.

6.16 Reconditioning/Repair and Re - engineering

(a) EOUs shall be set up with approval of UAC to carry out reconditioning, repair, remaking, testing, calibration, quality improvement, upgradation of technology and re-engineering activities for export in foreign currency. Provisions of paragraphs 6.08, 6.09, 6.10, 6.13, 6.14 of FTP and Para 6.29(a), (b), (c) and (d) of HBP shall not, however, apply to such activities.

(b) EHTP/STP/BTP units shall be set up with approval of IMSC to carry out reconditioning, repair, remaking, testing, calibration, quality improvement, upgradation of technology and re-engineering activities for export in foreign currency. Provisions of paragraphs 6.08, 6.09, 6.10, 6.13, 6.14 of FTP and Para 6.29(a), (b), (c) and (d) of HBP shall not, however, apply to such activities.

6.17 Replacement / Repair of Imported / Indigenous Goods

(a) General provisions of FTP relating to export /import of replacement/repair of goods would also apply equally to EOU/EHTP/STP/BTP units. Cases not covered by these provisions shall be considered on merits by DC.

(b) Goods sold in DTA and not accepted for any reasons, maybe brought back for repair/replacement, under intimation to concerned jurisdictional customs authorities.

(c) Goods or parts thereof, on being imported / indigenously procured and found defective or otherwise unfit for use or which have been damaged or become defective subsequently, may be returned and replacement obtained or destroyed. In the event of replacement, goods may be brought back from foreign suppliers or their authorized agents in India or indigenous suppliers. The unit can take free of cost replacement (duty paid) from the authorized agents in India of foreign suppliers, provided the defective part is re – exported or destroyed. However, destruction shall not apply to precious and semi-precious stones and precious metals.

6.18 Exit from EOU Scheme

(a) With approval of DC, an EOU may opt out of scheme. Such exit shall be subject to payment of applicable Excise and Customs duties and on payment of applicable IGST/ CGST/ SGST/ UTGST and compensation cess, if any, and industrial policy in force.

(b) If unit has not achieved obligations, it shall also be liable to penalty at the time of exit.

(c) In the event of a gems and jewellery unit ceasing its operation, gold and other precious metals, alloys, gems and other materials available for manufacture of jewellery, shall be handed over to an agency nominated by DoC, at price to be determined by that agency.

(d) An EOU / EHTP / STP / BTP unit may also be permitted by DC to exit from the scheme at any time on payment of applicable duties and taxes and compensation cess on capital goods under the prevailing EPCG Scheme for DTA Units. This will be subject to fulfillment of positive NFE criteria under EOU scheme, eligibility criteria under EPCG scheme and standard conditions indicated in HBP.

(e) Unit proposing to exit out of EOU scheme shall intimate DC and Customs authorities in writing. Unit shall assess duty liability arising out of exit and submit details of such assessment to Customs authorities. Customs authorities shall confirm duty liabilities on priority basis, subject to the condition that the unit has achieved positive NFE, taking into consideration the depreciation allowed. After payment of duty and clearance of all dues, unit shall obtain “No Dues Certificate” from Customs authorities. On the basis of “No Dues Certificate” so issued by the Customs authorities, unit shall apply to DC for final exit. In case there is no proceeding pending under FT (D&R) Act, as amended, DC shall issue final exit order within a period of 7 working days. Between “No Dues Certificate” issued by Customs authorities and final exit order by DC, unit shall not be entitled to claim any exemption for procurement of capital goods or inputs. However, unit can claim Advance Authorisation / DFIA / Duty Drawback.

Since the duty calculations and dues are disputed and take a long time, a BG / Bond / Installment processes backed by BG shall be provided for expediting the exit process.

(f) In cases where a unit is initially established as DTA unit with

machines procured from abroad after payment of applicable import duty, or from domestic market after payment of excise duty/GST, and unit is subsequently converted to EOU, in such cases removal of such capital goods to DTA after exit would be without payment of duty. Similarly, in cases where a DTA unit imported capital goods under EPCG Scheme and after completely fulfilling export obligation gets converted into EOU, unit would not be charged customs duty on capital goods at the time of removal of such capital goods in DTA when exit.

(g) An EOU / EHTP / STP / BTP unit may also be permitted by DC to exit under Advance Authorisation as one time option. This will be subject to fulfillment of positive NFE criteria.

(h) A simplified procedure may be provided to fast track the De-bonding/ Exit of the STP / EHTP Unit which has not availed any duty benefit on procurement of raw material, capital goods etc.

6.19 Conversion

(a) Existing DTA units may also apply for conversion into an EOU / EHTP / STP / BTP unit.

(b) Existing EHTP / STP units may also apply for conversion / merger to EOU unit and vice-versa. In such cases, units will avail exemptions in duties and taxes as applicable.

(c) Applications for conversion into an EOU / EHTP / STP / BTP unit from existing DTA units, having an investment of Rs. 50 crores and above in plant and machinery or exporting Rs. 50 crores and above annually, shall be placed before BOA for a decision.

6.20 Monitoring of NFE

Performance of EOU/EHTP/STP/ BTP units shall be monitored by Units Approval Committee as per guidelines in HBP.

6.21 Export through Exhibitions / Export Promotion Tours/ Showrooms Abroad /Duty Free Shops

EOU / EHTP/STP/BTP are permitted to:

(i) Export goods for holding/participating in E xhibitions abroad with permission of DC.

(ii) Personal carriage of gold / silver / platinum jewellery, precious, semi-precious stones, beads and articles.

(iii) Export goods for display / sale in permitted shops set up abroad.

(iv) Display / sell in permitted shops set up abroad, or in showrooms of their distributors / agents.

(v) Set up showrooms / retail outlets at International Airports.

6.22 Personal Carriage of Import / Export Parcels including through Foreign Bound Passengers

Import/ export through personal carriage of gems and jewellery items may be undertaken as per Customs procedure. However, export proceeds shall be realized through normal banking channel. Import/ export through personal carriage by units, other than gems and jewellery units, shall be allowed provided goods are not in commercial quantity. An authorized person of Gems & Jewellery EOU may also import gold in primary form, upto10Kgs in a financial year through personal carriage, as per guidelines prescribed by RBI and DoR.

6.23 Export / Import by Post / Courier

Goods including free samples, may be exported/imported by air freight or through foreign post office or through courier, as per Customs procedure.

6.24 Administration of EOUs / Powers of DC

Details of administration of EOUs and power of DC is given in HBP.

6.25 Revival of Sick Units

Subject to a unit being declared sick by appropriate authority, proposals for revival of the unit or its takeover may be considered by BOA.

6.26 Approval of EHTP/ STP

Deleted

6.27 Approval of BTP

Deleted

6.28 Warehousing Facilities

Deleted

CHAPTER 7

DEEMED EXPORTS

7.00 Objective

To provide a level-playing field to domestic manufacturers in certain specified cases, as may be decided by the Government from time to time.

7.01 Deemed Exports

(i) "Deemed Exports" for the purpose of this FTP refer to those transactions in which goods supplied do not leave country, and payment for such supplies is received either in Indian rupees or in free foreign exchange. Supply of goods as specified in Paragraph 7.02 below shall be regarded as "Deemed Exports" provided goods are manufactured in India.

(ii) "Deemed Exports" for the purpose of GST would include only the supplies notified under Section 147 of the CGST/SGST Act, on the recommendations of the GST Council. The benefits of GST and conditions applicable for such benefits would be as specified by the GST Council and as per relevant rules and notification.

7.02 Categories of Supply

Supply of goods under following categories (a) to (d) by a manufacturer and under categories (e) to (h) by main / sub-contractors shall be regarded as "Deemed Exports":

A. Supply by manufacturer:

(a) Supply of goods against Advance Authorisation / Advance Authorisation for annual requirement / DFIA;

(b) Supply of goods to EOU / STP / EHTP / BTP;

(c) Supply of capital goods against EPCG Authorisation;

(d) Deleted

B. Supply by main / sub-contractor (s):

(e) (i) Supply of goods to projects financed by multilateral or bilateral Agencies / Funds as notified by Department of

Economic Affairs (DEA), MoF, where legal agreements provide for tender evaluation without including customs duty.

(ii) Supply and installation of goods and equipment (single responsibility of turnkey contracts) to projects financed by multilateral or bilateral Agencies/Funds as notified by Department of Economic Affairs (DEA), MoF, for which bids have been invited and evaluated on the basis of Delivered Duty Paid (DDP) prices for goods manufactured abroad.

(iii) Supplies covered in this paragraph shall be under International Competitive Bidding (ICB) in accordance with procedures of those Agencies / Funds.

(iv) A list of agencies, covered under this paragraph, for deemed export benefits, is given in Appendix 7A.

(f) (i)Supply of goods to any project or for any purpose in respect of which the Ministry of Finance, by erstwhile Notification No. 12/2012 –Customs dated 17.3.2012, as amended from time to time, had permitted import of such goods at zero customs duty (with exemption of both BCD and CVD) subject to conditions specified therein and which are continued under the Customs Notification No. 50/2017-Customs dated 30.6.2017 with exemption of zero basic customs duty and subject to conditions mentioned in the said new notification. Benefits of deemed exports shall be available only if the supply is made under procedure of ICB.

(ii) Supply of goods required for setting up of any mega power project, as specified in the list 31 at Sl. No. 598 of Department of Revenue Notification No. 50/2017-Customs dated 30.6.2017, as amended from time to time and subject to conditions mentioned therein, shall be eligible for deemed export benefits provided such mega power project conforms to the threshold generation capacity specified in the above said Notification.

(iii) For mega power projects, ICB condition would not be mandatory if the requisite quantum of power has been tied up through tariff based competitive bidding or if the project has been awarded through tariff based competitive bidding.

(g) Supply of goods to United Nations or International organization for their official use or supplied to the projects financed by the said

United Nations or an International organization approved by Government of India in pursuance of section 3 of United Nations (Privileges and Immunities Act), 1947. List of such organization and conditions applicable to such supplies is given in the Customs notification no. 84/97-Customs dated 11.11.1997, as amended from time to time. A list of Agencies, covered under this paragraph, is given in Appendix-7B.

(h) Supply of goods to nuclear power projects provided:

(i) Such goods are required for setting up of any Nuclear Power Project as specified in the list 32 at Sl. No. 602, Customs notification no. 50/2017-Customs dated 30.6.2017, as amended from time to time and subject to conditions mentioned therein.

(ii) The project should have a capacity of 440 MW or more.

(iii) A certificate to the effect is required to be issued by an officer not below the rank of Joint Secretary to Government of India, in Department of Atomic Energy.

(iv) Tender is invited through National competitive bidding (NCB) or through ICB.

7.03 Benefits for Deemed Exports

Deemed exports shall be eligible for any / all of following benefits in respect of manufacture and supply of goods, qualifying as deemed exports, subject to terms and conditions as given in HBP and ANF-7A:

(a) Advance Authorisation / Advance Authorisation for annual requirement / DFIA.

(b) Deemed Export Drawback for BCD.

(c) Refund of terminal excise duty for excisable goods mentioned in Schedule 4 of Central Excise Act 1944 provided the supply is eligible under that category of deemed exports and there is no exemption.

7.04 Benefits to the Supplier /Recipient

Categories of supplies as per Para 7.02	Benefits on supplies, as given in Para 7.03 above, whichever is applicable.		
	Para 7.03 (a) Advance Authorisation	Para 7.03 (b) Duty Drawback	Para 7.03 (c) Terminal Excise Duty
(a)	Yes (for inter mediate supplies against an invalidation letter)	Yes (against ARO)	Yes
(b)	Yes	Yes	Yes
(c)	Yes	Yes	NA
(d)	deleted	deleted	deleted
(e)	Yes	Yes	NA
(f)	Yes	Yes	Yes, only for para 7.08(iii)(a)
(g)	Yes	Yes	NA
(h)	Yes	Yes	NA

7.05 Conditions for refund of terminal excise duty

(i) **Supply of goods will be eligible for refund of terminal excise duty as per Para 7.03 (c) of FTP, provided recipient of goods does not avail CENVAT credit/rebate on such goods.**

(ii) **Deleted**

(a) **Deleted**

(b) **Deleted**

(c) **Deleted**

(d) **Deleted**

7.06 Conditions for refund of deemed export drawback

Supplies will be eligible for deemed export drawback as per para 7.03 (b) of

FTP, as under:

The refund of drawback in the form of Basic Customs duty of the inputs used in manufacture and supply under the said category shall be given on brand rate basis upon submission of documents evidencing actual payment of basic custom duties.

7.07 Common conditions for deemed export benefits

(i) Supplies shall be made directly to entities listed in the Para 7.02. Third party supply shall not be eligible for benefits/exemption.

(ii) In all cases, supplies shall be made directly to the designated Projects / Agencies/ Units/ Advance Authorisation/ EPCG Authorisation holder. Sub-contractors may, however, make supplies to main contractor instead of supplying directly to designated Projects/ Agencies. Payments in such cases shall be made to sub-contractor by main-contractor and not by project Authority.

(iii) Supply of domestically manufactured goods by an Indian Sub-contractor to any Indian or foreign main contractor, directly at the designated project's/ Agency's site, shall also be eligible for deemed export benefit provided name of sub-contractor is indicated either originally or subsequently (but before the date of supply of such goods) in the main contract. In such cases payment shall be made directly to sub-contractor by the Project Authority.

7.08 Benefits on specified supplies

(i) Deemed export benefits shall be available for supplies of 'Cement" under Para 7.02 (e) only.

(ii) Deemed export benefit shall be available on supply of "Steel":

(a) As an inputs to Advance Authorisation/ Annual Advance Authorisation/DFIA holder/ an EOU.

(b) To multilateral/ bilateral funded Agencies as per sub-Para 7.02(e).

(bi) Deemed export benefit shall be available on supply of "Fuel" (in respect of eligible fuel items covered under Schedule 4 of Central Excise Act 1944) provided supplies are made to:

a. Project listed for petroleum operations in the Customs Notification No. 50/2017-Customs dated 30.6.2017 under Sr. No. 404, as amended from time to time and subject to conditions mentioned therein and covered in Para 7.02 (f) of FTP.

b. EOUs;

c. Advance Authorisation holder / Annual Advance Authorisation holder.

7.09 Liability of Interest

Incomplete/deficient application is liable to be rejected. However, simple interest @ 6% per annum will be payable on delay in refund of duty drawback and terminal excise duty under the scheme, provided the claim is not settled within 30 days from the date of issue of final Approval Letter by RA.

7.10 Risk Management and Internal Audit mechanism

(a) A Risk Management system shall be in operation, wherein every month, Computer system in DGFT headquarters, on random basis, will select 10% of cases, for each RA, where benefit(s) under this chapter has/have already been granted. Such cases shall be scrutinized by an internal Audit team, headed by a Joint DGFT, in the office of respective Zonal Addl. DGFT. The team will be responsible to audit claims of not only for its own office but also the claims of all RAs falling under the jurisdiction of the Zone.

(b) The respective RA may also, either on the basis of report from Internal Audit/ External Audit Agency(ies) or suo-motu, reassess any case, where any erroneous/in-eligible payment has been made/claimed. RA will take necessary action for recovery of payment

along with interest at the rate of 15% per annum on the recoverable amount.

7.11 Penal Action

In case, claim is filed by submitting mis-declaration/mis-representation of facts, then in addition to effecting recovery under Para 7.10(b) above, the applicant shall be liable for penal action under the provisions of F.T. (D&R) Act, Rules and orders made there under.

7.12 Transitional Para

Deemed exports benefits contained in FTP 2015-20 shall be available for supplies effected till 30.06.2017 in terms of FTP 2015-20 provisions as it stood till 30.06.2017. In respect of supply made after 30.6.2017, new provision shall apply.

CHAPTER 8

QUALITY COMPLAINTS AND TRADE DISPUTES

8.00 Objective

Exporters need to project a good image of the country abroad to promote exports. Maintaining an enduring relationship with foreign buyers is of utmost importance, and complaints or trade disputes, whenever they arise, need to be settled amicably as soon as possible. Importers too may have grievances as well.

In an endeavour to resolve such complaints or trade disputes and to create confidence in the business environment of the country, a mechanism is being laid down to address such complaints and disputes in an amicable way.

8.01 Quality Complaints/ Trade disputes

The following type of complaints may be considered:

(a) Complaints received from foreign buyers in respect of poor quality of the products supplied by exporters from India;

(b) Complaints of importers against foreign suppliers in respect of quality of the products supplied; and

(c) Complaints of unethical commercial dealings categorized mainly as non-supply/ partial supply of goods after confirmation of order; supplying goods other than the ones as agreed upon; non-payment; non-adherence to delivery schedules, etc.

8.02 Obligation on the part of importer/ exporter

(a) Rule 11 of the Foreign Trade (Regulation) Rules, 1993, requires that on the importation into, or exportation out of, any customs ports of any goods, whether liable to duty or not, the owner of such goods shall in the Bill of Entry or the Shipping Bill or any other documents prescribed under the Customs Act, 1962 (52 of 1962), state the value, quality and description of such goods to the best of his knowledge and belief and in case of exportation of goods, certify that the quality

and specification of the goods as stated in those documents, are in accordance with the terms of the export contract entered into with the buyer or consignee in pursuance of which the goods are being exported and shall subscribe a declaration of the truth of such statement at the foot of such Bill of Entry or Shipping Bill or any other documents. Violation of this provision renders the exporter liable for penal action.

(b) Certain export commodities have been notified for Compulsory Quality Control & Pre-shipment Inspection prior to their export. Penal action can be taken under the Export (Quality Control & Inspection) Act, 1963 as amended in 1984, against exporters who do not conform to these standards and/ or provisions of the Act as laid down for such products.

8.03 Provisions in FT (D&R) Act & FT (Regulation) Rules for necessary action against erring exporters/ importers

Action against erring exporters can be taken under the Foreign Trade (Development and Regulation) Act, 1992, as amended and under Foreign Trade (Regulation) Rules, 1993, as follows:-

(a) Section 8 of the Act empowers the Director General of Foreign Trade or any other person authorized by him to suspend or cancel the Importer Exporter Code Number for the reasons as given therein.

(b) Section 9 (2) of the Act empowers the Director General of Foreign Trade or an officer authorised by him to refuse to grant or renew a license, certificate, scrip or any other instrument bestowing financial or fiscal benefit granted under the Act.

(c) Section 9(4) empowers the Director General of Foreign Trade or the officer authorized by him to suspend or cancel any License, certificate, scrip or any instrument bestowing financial or fiscal benefit granted under the Act.

(d) Section 11(2) of the Act provides for imposition of fiscal penalty in cases where a person makes or abets or attempts to make any import or export in contravention of any provision of the Act, any Rules or Orders made there under or the Foreign Trade Policy.

8.04 Mechanism for handling of Complaints/ Disputes

(a) Committee on Quality complaints and Trade Disputes (CQCTD)

To deal effectively with the increasing number of complaints and disputes, a 'Committee on Quality Complaints and Trade Disputes' (CQCTD) will be constituted in the 22 offices of the RA's of DGFT. Names of RAs, where CQCTD has been constituted and jurisdiction of CQCTD is given in Chapter 8 of the Handbook of Procedures.

(b) Composition of the CQCTD

The CQCTD would be constituted under the Chairpersonship of the Head of Office. The constitution of CQCTD is given in Chapter 8 of the Hand Book of Procedures.

(c) Functions of CQCTD

The Committee (CQCTD) will be responsible for enquiring and investigating into all Quality related complaints and other trade related complaints falling under the jurisdiction of the respective RAs. It will take prompt and effective steps to redress and resolve the grievances of the importers, exporters and overseas buyers, preferably within three months of receipt of the complaint. Wherever required, the Committee (CQCTD) may take the assistance of the Export Promotion Councils/FIEO/Commodity Boards or any other agency as considered appropriate for settlement of these disputes.

8.05 Proceedings under CQCTD

CQCTD proceedings are only reconciliatory in nature and the aggrieved party, whether the foreign buyer or the Indian importer, is free to pursue any legal recourse against the other erring party.

8.06 Procedures to deal with complaints and trade disputes

The procedure for making an application for such complaints or trade disputes and the procedure to deal with such quality complaints and disputes is given in the Handbook of Procedures.

8.07 Corrective Measures

The Committee at RA level can authorize the Export Inspection Agency or any technical authority to assess whether there has been any technical failure of not meeting the standards, manufacturing/ design defects, etc. for which complaints have been received.

8.08 Nodal Officer

Director General of Foreign Trade would appoint an officer, not below the rank of Joint Director General, in the Headquarters, to function as the 'Nodal Officer' for coordinating with various Regional Authorities of DGFT.

CHAPTER 9

DEFINITIONS

	For purpose of FTP, unless context otherwise requires, the following words and expressions shall have the following meanings attached to them:-
9.01	**"Accessory" or "Attachment" means apart, sub-assembly or assembly that contributes to efficiency or effectiveness of a piece of equipment without changing its basic functions.**
9.02	**"Act" means Foreign Trade (Development and Regulation) Act, 1992 (No.22 of 1992) [FT (D&R) Act] as amended from time to time.**
9.03	**“Actual User” is a person (either natural & legal) who is authorized to use imported goods in his/its own premise which has a definitive postal address.** **(a) "Actual User (Industrial)" is a person (either natural & legal) who utilizes imported goods for manufacturing in his own industrial unit or manufacturing for his own use in another unit including a jobbing unit which has a definitive postal address.**
	(b) "Actual User (Non-Industrial)" is a person (either natural & legal) who utilizes the imported goods for his own use in. **(i) any commercial establishment, carrying on any business, trade or profession, which has a definitive postal address; or** **(ii)any laboratory, Scientific or Research and Development(R&D) institution, university or other**

	educational institution or hospital which has a definitive postal address; or (iii) Any service industry which has a definitive postal address.
9.04	"AEZ" means Agricultural Export Zones notified by DGFT in Appendix 2V of Appendices and Aayat Niryat Forms.
9.05	"Appeal" is an application filed under section 15 of the Act and includes such applications preferred by DGFT officials in government interest against decision by designated adjudicating/appellate authorities.
9.06	"Applicant" means person on whose behalf an application is made and shall, wherever context so requires, includes person signing the application.
9.07	"Authorisation" means permission as included in Section 2(g) of the Act to import or export as per provisions of FTP.
9.08	"Capital Goods" means any plant, machinery, equipment or accessories required for manufacture or production, either directly or indirectly, of goods or for rendering services, including those required for replacement, modernisation, technological up-gradation or expansion. It includes packaging machinery and equipment, refrigeration equipment, power generating sets, machine tools, equipment and instruments for testing, research and development, quality and pollution control. Capital goods may be for use in manufacturing, mining, agriculture, aquaculture, animal husbandry, floriculture, horticulture, pisciculture, poultry, sericulture and viticulture as well as for use in services sector.

9.09	"Competent Authority" means an authority competent to exercise any power or to discharge any duty or function under the Actor the Rules and Orders made there under or under FTP.
9.10	"Component" means one of the parts of a sub-assembly or assembly of which a manufactured product is made up and into which it may be resolved. A component includes an accessory or attachment to another component.
9.11 9.12	"Consumables" means any item, which participates in or is required for a manufacturing process, but does not necessarily form part of end-product. Items, which are substantially or totally consumed during a manufacturing process, will be deemed to be consumables. "Consumer Goods" means any consumption goods, which can directly satisfy human needs without further processing and includes consumer durable sand accessories thereof.
9.13	"Counter Trade" means any arrangement under which exports/imports from /to India are balanced either by direct imports/exports from importing/exporting country or through a third country under a Trade Agreement or otherwise. Exports/Imports under Counter Trade may be carried out through Escrow Account, Buy Back arrangements, Barter trade or any similar arrangement. Balancing of exports and imports could wholly or partly be in cash, goods and/or services.
9.14	"Developer" means a person or body of persons, company, firm and such other private or government undertaking, who develops, builds, designs, organises, promotes, finances, operates, maintains or manages a part or whole of infrastructure and other facilities in SEZ as approved by Central Government and also includes a co- developer.

9.15	"Development Commissioner" means Development Commissioner of SEZ
9.16	"Domestic Tariff Area (DTA)" means area within India which is outside SEZs and EOU/ EHTP/STP/BTP.
9.17	Deleted
9.17A	"e – commerce" for the purpose of Merchandise Exports from India Scheme (MEIS) under Foreign Trade Policy (2015-20) (FTP) shall mean the export of goods hosted on a website accessible through the internet to a purchaser. While the dispatch of goods shall be made through courier or postal mode, as specified under the MEIS, the payment for goods purchased on e-commerce platform shall be done through international credit /debit cards and as per the Reserve Bank of India Circular (RBI/2015-16/185) [A.P.(DIR Series) Circular No. 16 dated September 24, 2015.] as amended from time to time.
9.18	"EOU" means Export Oriented Unit for which a letter of permit has been issued by Development Commissioner.
9.19	"Excisable goods" means any goods produced or manufactured in India and subject to duty of excise under Central Excise and Salt Act 1944(1of 1944).
9.20	"Export" is as defined in FT (D&R) Act, 1992, as amended from time to time.

9.21 "Exporter" means a person who exports or intends to export and hold san IEC number, unless otherwise specifically exempted.

9.22	"Export Obligation" means obligation 6 to export product or products covered by Authorisation or permission in terms of quantity, value or both, as may be prescribed or specified by Regional or competent authority.
9.23	"Free" as appearing in context of import/export policy for items means goods which do not need any 'Authorisation'/ License or permission for being imported into the country or exported out.
9.24	"FTP" means the Foreign Trade Policy which specifies policy for exports and imports under Section 5 of the Act.
9.25	"Import" is as defined in FT (D&R) Act, 1992 as amended from time to time.
9.26	"Importer" means a person who imports or intends to import and holds an IEC number, unless otherwise specifically exempted.
9.27	ITC (HS) refers to Indian Trade Classification (Harmonized System) at 8 digits.
9.28	"Jobbing" means processing or working upon of raw materials or semi-finished goods supplied to job worker, so as to complete a part of process resulting in manufacture or finishing of an article or any operation which is essential for aforesaid process.
9.29	"LicensingYear"meansperiodbeginningonthe1st April of a year and ending on the 31st March of the following year.

9.30 **"Managed Hotel" means hotels managed by a three star or above**

	hotel/ hotel chain under an operating management contract for a duration of at least three years between operating hotel/ hotel chain and hotel being managed. Management contract must necessarily cover the entire gamut of operations/management of managed hotel.
9.31	"Manufacture" means to make, produce, fabricate, assemble, process or bring into existence, by hand or by machine, a new product having a distinctive name, character or use and shall include processes such as refrigeration, re-packing, polishing, labelling, Re-conditioning repair, remaking, refurbishing, testing, calibration, re-engineering. Manufacture, for the purpose of FTP, shall also include agriculture, aquaculture, animal husbandry, floriculture, horticulture, pisciculture, poultry, sericulture, viticulture and mining.
9.32	"Manufacturer Exporter" means a person who exports goods manufactured by him or intends to export such goods.
9.33	"Merchant Exporter" means a person engaged in trading activity and exporting or in tending to export goods.
9.34	"NC" means the Norms Committee in the Directorate General of Foreign Trade for approval of adhoc input –output norms in cases where SION does not exist and recommend SION to be notified in DGFT.
9.35	"Notification" means a notification published in Official Gazette.

9.36	**"Order" means an Order made by Central Government under the Act.**
9.37	**"Part" means an element of a sub-assembly or assembly not normally useful by itself, and not amenable to further disassembly for maintenance purposes. Apart may be a component, spare or an accessory.**
9.38	**"Person" means both natural and legal and includes an individual, firm, society, company, corporation or any other legal person including the DGFT officials.**
9.39	**"Policy" means Foreign Trade Policy (2015-2020) as amended from time to time.**
9.40	**"Prescribed" means prescribed under the Actor the Rules or Orders made there under or under FTP.**
9.41	**“Prohibited” indicates the import/export policy of an item, as appearing in ITC (HS) or elsewhere, whose import or export is not permitted.**
9.42	**"Public Notice" means a notice published under provisions of paragraph2.55 of FTP**

9.42A	"Project Exports" refers to export of engineering goods on deferred payment terms and execution of turnkey projects and civil construction contracts abroad collectively. Project Exports would encompass (i) Civil construction contracts; (ii) Turnkey Engineering contracts including supply of Capital Goods on deferred payment terms; (iii) Process and Engineering Consultancy Services; and (iv) Project Construction items (excluding Steel and Cement).
9.43	"Quota" means the quantity of goods of a specific kind that is permitted to be imported without restriction or imposition of additional Duties.
9.44	"Raw material" means input(s) needed for manufacturing of goods. These inputs may either be in a raw/natural/unrefined/unmanufactured or manufactured state.
9.45	"Regional Authority" means authority competent to grant an Authorisation under the Act/Order.
9.46	"Registration-Cum-Membership Certificate"(RCMC) means certificate of registration and membership granted by an Export Promotion Council/Commodity Board/Development Authority or other competent authority as prescribed in FTP or Handbook of Procedure.
9.47	"Restricted" is a term indicating the import or export policy of an item, which can be imported into the country or exported outside, only after obtaining an Authorisation from the offices of DGFT.
9.48	"Rules" means Rules made by Central Government under Section 19 of the FT (D&R) Act.

9.49	**“SCOMET” is the nomenclature for dual use items of Special Chemicals, Organisms, Materials, Equipment and Technologies (SCOMET). Export of dual-use items and technologies under India’s Foreign Trade Policy is regulated. It is either prohibited or is permitted under an Authorisation.**
9.50	**"Services" include all tradable services covered under General Agreement on Trade in Services (GATS) and earning free foreign exchange.**
9.51	**"Service Provider" means a person providing:** **(i) Supply of a ‘service’ from India to any other country; (Mode1- Cross border trade)** **(ii) Supply of a ‘service’ from India to service consumer(s)of any other country in India; (Mode 2-Consumption abroad)** **(iii)Supply of a ‘service’ from India through commercial presence in any other country. (Mode 3 – Commercial Presence.)** **(iv)Supply of a ‘service’ from India through the presence of natural persons in any other country (Mode 4- Presence of natural persons.)**
9.52	**"Ships" mean all types of vessels used for seaborne trade or coastal trade, and shall include second hand vessels.**

9.53 "SION" means Standard Input Output Norms notified by DGFT.

9.54	**"Spares" means a part or a sub-assembly or assembly for substitution that is ready to replace an identical or similar part or sub- assembly or assembly. Spares include a component or an accessory.**
9.55	**"Specified" means specified by or under the provisions of this Policy through Notification/Public Notice.**
9.56	**"Status holder" means an exporter recognized as One Star Trading House/ Two Star Trading House / Three Star Trading House/ Four Star Trading House/ Five Star Trading House by DGFT/Development Commissioner.**
9.57	**"Stores" means goods for use in a vessel or aircraft and includes fuel and spares and other articles of equipment, whether or not for immediate fitting.**
9.58	**(a) "Supporting Manufacturer" is one who manufactures goods/products or any part/accessories/components of a good/product for a merchant exporter or a manufacturer exporter under a specific Authorisation.** **(b) "Supporting Manufacturer" for the EPCG Scheme shall be one in whose premises/factory Capital Goods imported/ procured under EPCG Authorisation is installed.**
9.59	**State Trading Enterprises (STEs), for the purpose of this FTP, are those entities which are granted exclusive right/privileges export and /or import as per Para 2.20 (a) of FTP.**

134

9.60	**"Third-party exports" means exports made by an exporter or manufacturer on behalf of another exporter(s).** **In such cases, export documents such as shipping bills shall indicate names of both manufacturer exporter/manufacturer and third party exporter(s). Bank Realisation Certificate (BRC), Self Declaration Form (SDF), export order and invoice should be in the name of third party exporter.**
9.61	**"Transaction Value" is as defined in Customs Valuation Rules of Department of Revenue.**
9.62	**"Wild Animal" means any wild animal as defined in Section2 (36) of Wildlife (Protection) Act, 1972.**

Appendix I (Para 2.17)

2.17 Prohibition on direct or indirect import and export from/to Democratic People's Republic of Korea (DPRK)

Prohibition on export:

(A) The direct or indirect supply, sale, transfer or export of the following items to Democratic People's Republic of Korea (DPRK) is prohibited:-

(i) any battle tanks, armoured combat vehicles, large caliber artillery systems, combat aircraft, attack helicopters, warships, missiles or missile systems as defined for the purpose of the United Nations Register on Conventional Arms, or related materiel including spare parts;

(ii) All arms and related materiel, including small arms and light weapons and their related materiel;

(iii) all items, materials, equipment, goods and technology as set out in the UNSC United Nations Security Council and International Atomic Energy Agency (IAEA) documents, namely,

1. **S/2006/853*;**
2. **S/2006/853/Corr.1;**
3. **Part B of S/2009/364;**
4. **Annex III of Resolution 2094 (2013);**
5. **S/2016/1069;**
6. **Annex A to INFCIRC/254/Rev.12/Part1 (IAEA document);**
7. **Annex to INFCIRC/254/Rev.9/Part2 (IAEA document);**
8. **S/2014/253;**
9. **S/2016/308;**
10. **Annex III of Resolution 2321 (2016); and**
11. **other items, materials, equipment, goods and technology, as determined by the Central Government, which could contribute to DPRK's nuclear related, ballistic missile-related or other weapons of mass destruction related programmes;**

(iv) Luxury goods, including, but not limited to, the items specified in Annex IV of Resolution 2094 (2013), Annex IV of Resolution 2270 (2016) and Annex IV of Resolution 2321 (2016);

(v) Items as determined by the Central Government, except food or medicine that could directly contribute to the development of the Democratic People's Republic of Korea's operational capabilities of its armed forces. This measure is subject to the exemptions set out in paragraph 8 (a) and (b) of Resolution 2270 (2016);

Prohibition on import:

(B) The direct or indirect procurement or import from DPRK, of items, whether or not originating in DPRK, covered in sub-paragraphs (A)(i), (A)(ii), (A)(iii) and (A)(v) above is prohibited.

Sectoral prohibitions (export)

(C) The direct or indirect supply, sale, transfer or export of the following items to DPRK is prohibited:

(i) New helicopters and vessels, except as approved in advance by the Committee on a case-by-case basis;

(ii) Aviation fuel, including aviation gasoline, naphtha-type jet fuel, kerosene-type jet fuel, and kerosene-type rocket fuel. This measure is subject to the provisions of paragraph 31 of Resolution 2270 (2016) and paragraph 20 of Resolution of 2321 (2016);

(iii) Condensates and natural gas liquids;

(iv) Refined petroleum products. This measure is subject to the exemptions and procedures set out in paragraph 14 of Resolution 2375 (2017);

(v) Crude oil. This measure is subject to the exemptions and procedures set out in paragraph 15 of Resolution 2375 (2017);

Sectoral prohibitions (import)

(D) The direct or indirect procurement or import from DPRK, of the following items is prohibited:

(i) Coal, iron and iron ore. This measure is subject to the exemptions and procedures set out in paragraph 8 of Resolution 2371 (2017);

(ii) Gold, titanium ore, vanadium ore, and rare earth minerals;

(iii) Copper, nickel, silver and zinc;

(iv) Statues, unless the Committee approves on a case-by-case basis in advance;

(v) Seafood (including fish, crustaceans, molluscs, and other aquatic invertebrates in all forms). This measure is subject to the exemptions and procedures set out in paragraph 9 of Resolution 2371 (2017);

(vi) Lead and lead ore. This measure is subject to the exemptions and procedures set out in paragraph 10 of Resolution 2371 (2017);

(vii) Textiles (including but not limited to fabrics and partially or fully completed apparel products). This measure is subject to the exemptions and procedures set out in paragraph 16 of Resolution 2375 (2017);

Explanation.-

a) UNSC means the United Nations Security Council;

b) IAEA means the International Atomic Energy Agency;

c) Committee means the Committee of the UNSC set up in terms of paragraph 12 of Resolution 1718 (2006); and
Resolution, as the case may be, means the UNSC Resolutions under Chapter VII of the Charter of the United Nations on Democratic People's Republic of Korea, namely, 1718 (2006), 1874 (2009), 2087 (2013), 2094 (2013), 2094 (2013), 2270 (2016), 2231 (2016), 2356

(2017), 2371 (2017) and 2375 (2017).

GLOSSARY (ACRONYMS)

Acronym	Explanation
AA	Advance Authorisation

AANF	**Appendices and Aayaat Niryat Form**
ACU	**Asian Clearing Union**
AEZ	**Agri Export Zone**
ANF	**Aayat Niryaat Form**
ARE-1	**Application for Removal of Excisable Goods for Export (By Air/Sea/Post/Land)**
ARE-3	**Application for Removal of Excisable Goods from a factory or a warehouse to another warehouse**
ACP	**Accredited Clients Programme**
AEO	**Authorised Economic Operator**
AES	**Approved Exporter's Scheme**
APEDA	**Agricultural & Processed Food Products Export Development Authority**
ARO	**Advance Release Order**
ASEAN	**Association of South- East Asian Nations**
ASIDE	**Assistance to States for Infrastructure Development of Exports**
AU	**Actual User**
BCD	**Basic Customs Duty**
BG	**Bank Guarantee**
BIFR	**Board of Industrial and Financial Reconstruction**
BOA	**Board of Approval**
BOT	**Board of Trade**

BRC	**Bank Realisation Certificate**
BTP	**Biotechnology Park**
BIS	**Bureau of Indian Standards**
CBEC	**Central Board of Excise and Customs**
CCP	**Customs Clearance Permit**
CEA	**Central Excise Authority**
CEC	**Chartered Engineer Certificate**
CED	**Central Excise Duty**
CENVAT	**Central Value Added Tax**
CETF	**Common Effluent Treatment Facility**
CFCs	**Common Facility Centres**
CG	**Capital Goods**
CIF	**Cost, Insurance & Freight**
CIN	**Corporate Identification Number**
CIS	**Commonwealth of Independent States**

CKD	**Completely Knocked Down**
CoD	**Cash on Delivery**
CoO	**Certificate of Origin**
CQCTD	**Committee on Quality Complaints and Trade Disputes**
CRES	**Certificate of Registration as Exporter of Spices**
CST	**Central Sales Tax**
CIN	**Company Identification Number**
CRES	**Certification of Registration as Exporter of Spices**
CEPA	**Comprehensive Economic Partnership Agreement**
CBEC	**Central Board of Excise and Customs**
CSP	**Common Service Provider**
CECA	**Comprehensive Economic Cooperation Agreement**
CVD	**Countervailing Duty**
DA	**Document against Acceptance**
DBK	**Drawback**
DC	**Development Commissioner**
DDA	**Diamond Dollar Accounts**
DEA	**Department of Economic Affairs**
DEL	**Denied Entity List**
DES	**Duty Exemption Schemes**
DFIA	**Duty Free Import Authorisation**
DGCI&S	**Director General, Commercial Intelligence & Statistics.**
DIN	**Director Identification Number**
DPIN	**Designated Partner Identification Number**

DGFT	**Director General of Foreign Trade**
DIPP	**Department of Industrial Policy & Promotion**
DoBT	**Department of Bio-Technology**
DoC	**Department of Commerce**
DeitY	**Department of Electronics and Information Technology**
DoR	**Department of Revenue**
DoT	**Department of Telecommunications**
DRS	**Duty Remission Schemes**
DTA	**Domestic Tariff Area**
e-BRC	**Electronic Bank Realisation Certificate**
e-IEC	**Electronic Importer-Exporter Code**
ECA	**Enforcement- cum-Adjudication**
EDI	**Electronic Data Interchange**
ECGC	**Export Credit Guarantee Corporation**
EEFC	**Exchange Earners' Foreign Currency**
EFC	**Exim Facilitation Committee**
EFT	**Electronic Fund Transfer**
EGM	**Export General Manifest**
EHTP	**Electronic Hardware Technology Park**

EIC	**Export Inspection Council**
EO	**Export Obligation**
EODC	**Export Obligation Discharge Certificate**
EOP	**Export Obligation Period**
EOU	**Export Oriented Unit**
EPC	**Export Promotion Council**
EPCG	**Export Promotion Capital Goods**
EPO	**Engineering Process Outsourcing**
EXIM	**Export Import**
FDI	**Foreign Direct Investment**
FE	**Foreign Exchange**
FEMA	**Foreign Exchange Management Act**
FIEO	**Federation of Indian Export Organisation**
FIRC	**Foreign Exchange Inward Remittance Certificate**
FOB	**Free On Board**
FOR	**Freight on Road and Rails**
FT(D&R)Act	**Foreign Trade (Development & Regulation) Act, 1992 (22 of 1992)**
FTDO	**Foreign Trade Development Officer**
FTP	**Foreign Trade Policy**
FT(R)	**Rules Foreign Trade (Regulation) Rules**
FTWZ	**Free Trade and Warehousing Zone**
FTA	**Free Trade Agreement**
G&J EPC	**Gems & Jewellery Export Promotion Council**

GOI	Government of India
GATS	General Agreement on Trade in Services
GR	Guarantee of Realisation
HACCP	Hazard Analysis and Critical Control Process
HBP	Handbook of Procedures
HHEC	Handicraft & Handlooms Exports Corporation
ICB	International Competitive Bidding
ICD	Inland Container Depot
ICM	Indian Commercial Mission
IEC	Importer Exporter Code
ISO	International Organisation for Standardisation
IAEA	International Atomic Energy Agency
INFCIRC	International Atomic Energy Agency Information Circular
IEM	Industrial Entrepreneurial Memorandum
IMSC	Inter-Ministerial Standing Committee
IL	Industrial Licensing
ISO	International Standards Organisation
ITC (HS)	Indian Trade Classification (Harmonised System) for Export & Import Items

KVIC	**Khadi and Village Industries Commission**
LC	**Letter of Credit**
LCS	**Land Customs Station**
LLPIN	**Limited Liability Partnership Number**
LPG	**Liquefied Petroleum Gas**
LoC	**Line of Credit**
LoI	**Letter of Intent**
LoP	**Letter of Permit**
LUT	**Legal Undertaking**
MAI	**Market Access Initiative**
MDA	**Market Development Assistance**
MEA	**Ministry of External Affairs**
MEIS	**Merchandise Exports from India Scheme**
MRA	**Mutual Recognition Agreements**
MoD	**Ministry of Defence**
MoF	**Ministry of Finance**
MSME	**Ministry of Micro Small and Medium Enterprises**
MSMED	**Micro Small and Medium Enterprises Development**
MSTC	**Metal Scrap Trade Corporation**
NBFC	**Non- Banking Financial Company**
NC	**Norms Committee**
NFE	**Net Foreign Exchange**
NI	**Non-Infringing**
NCB	**National Competitive Bidding**

NOC	No Objection Certificate
PDS	Public Distribution System
PEC	Project and Equipment Corporation of India Ltd.
PIC	Policy Interpretation Committee
PRC	Policy Relaxation Committee
PAN	Permanent Account Number
PH	Personal Hearing
PTA	Preferential Trade Agreement
PSU	Public Sector Undertaking
R&D	Research and Development
RA	Regional Authority
RBI	Reserve Bank of India
RCMC	Registration-cum-Membership Certificate
REP	Replenishment
RPA	Rupee Payment Area
S/B	Shipping Bill
SAD	Special Additional Duty
SCOMET	Special Chemicals, Organisms, Materials, Equipment and Technology

SEI CMM	**Software Engineers Institute's Capability Maturity Model**
SEZ	**Special Economic Zone**
SEIS	**Service Exports from India Scheme**
SIA	**Secretariat for Industrial Assistance**
SIIC	**State Industrial Infrastructure Corporation**
SION	**Standard Input Output Norms**
SKD	**Semi- Knocked Down**
SLEPC	**State Level Export Promotion Committee**
STC	**State Trading Corporation**
STCL	**Spices Trading Corporation Limited**
STE	**State Trading Enterprise**
STH	**Star Trading House**
STPI	**Software Technology Park of India**
STR	**State Trading Regime**
SUVs	**Sports Utility Vehicles**
TED	**Terminal Excise Duty**
TEE	**Towns of Export Excellence**
TH	**Trading House**
TPO	**Trade Promotion Organization**
TRA	**Telegraphic Release Advice**
TRQ	**Tariff Rate Quota**
TUFS	**Technology Up gradation Fund Scheme**
UAC	**Units Approval Committee**

UN	**United Nations**
VA	**Value Addition**
WCO	**World Customs Organisation**
WHOGMP	**World Health Organisation Good Manufacturing Practices**

EXPORT - IMPORT FINANCE MCQs

Multiple Choice Questions.

1. Incoterms cover
A. trade in intangibles
B. ownership and transfer rights
C. contracts of carriage.
D. rights and obligations of parties to contract of sales
ANSWER: D
2. Which of the following term cannot be used for transportation of goods by sea?
A. CFR.
B. DDP.
C. DES
D. DEQ.
ANSWER: B
3. The incoterm providing least responsibility to seller is
A. EXW.
B. DDP.
C. FOB
D. CIF.
ANSWER: A
4. The group of incoterms under which the seller's responsibility is to obtain freight paid transport document for the main carriage is
A. E terms
B. C terms.
C. D terms
D. F tenns.
ANSWER: B
5. The incoterm should indicate the place of shipment in case of
A. F terms
B. E terms.
C. C terms.
D. D terms.
ANSWER: A
a
6. Incoterm is specific about the responsibility for marine insurance in case of
A. FOB and EXW
B. FOB and CIF.
C. CIF and CIP.
D. CPT and DDP.
ANSWER: C
7. The group of terms arranged in order of increasing responsibility of exporter is.
A. C,D,E and F terms.
B. D,E,F and C terms.
C. E,F,C and D terms.
D. F,C,E and D tenns.
ANSWER: C
8. The price quoted by the seller for the product
A. will vary depending upon the incoterm chosen.
B. irrespective of the incoterm.
C. will be the base price; the effect of incoterm to be added later.
D. will include only cost.
ANSWER: A

9. Adoption of incoterm is
A. compulsory for all international contracts
B. compulsory for all letter of credit transactions.
C. optional for the parties to the contract.
D. mandatory for transactions with Europe.
ANSWER: C
10. Which of the following term cannot be used for transportation of goods by Road or Air?
A. FAS.
B. DDR
C. EXW.
D. CIR
ANSWER: A
11. Packing credit is
A. an advance made for packing goods for export.
B. pre-shipment finance for export.
C. a priority sector advance.
D. advance for importer.
ANSWER: B
12. The amount of packing credit should not normally exceed
A. the local cost of manufacture for the exporter.
B. FOB value of the export contract.
C. CIF value of the export contract.
D. the cost of manufacture or FOB value of the export contract whichever is less.
ANSWER: D
13. Which of the following person is not eligible for packing credit?
A. a .merchant exporter.
B. a person making deemed exports.
C. sub-suppliers to manufacture exporter.
D. supplier to sub-supplier to manufacture exporter.
ANSWER: D
14. The running account facility for packing credit is available for
A. status holders only.
B. export for specified goods.
C. exporters with good track record
D. exporters with orders above Rs. 100 crores.
ANSWER: C
15. The advantage to the exporter of running account facility of packing credit is
A. production of letter of credit or firm order is completely waive
B. the period of facility need not be adhered to.
C. production of letter credit on firm order is waived immediately they must be produced within reasonable time.
D. the rate of interest is low.
ANSWER: C
16. The exemption from the condition credit should not exceed domestic cost of production is not waived for
A. commodity eligible for duty drawback.
B. commodity imported under advance licence
C. HPS groundnuts.
D. agro based productions like tobacco.
ANSWER: B
17. The substitution of commodity/fresh export of adjustment of packing credit is not available for
A. advance against sensitive commodities.
B. transactions of sister/associate/group concerns.
C. exports availing running account facility.
D. exports with imports.
ANSWER: B
18. Normally the maximum period for which packing credit advances are made is
A. 90 days.
B. 135 days.
C. 180 days.
D. 360 days.
ANSWER: C
19. A pre-shipment advance is not expected to be adjusted by
A. proceeds of export bill
B. export incentives.
C. post-shipment finance.
D. local funds.
ANSWER: D

20. A packing credit was granted against an export order but the export could not take place
A. It should be reported to the RBI

B. The exporter should be black list
C. Claim should be preferred with ECG
D. Interest at domestic rate should be charged on the advance from the date of advance
ANSWER: D
21. 2 For direct export the packing credit should normally be granted only against
A. a letter of credit.
B. firm order.
C. export licence.
D. a letter of credit or firm order.
ANSWER: D
22. For packing credit in rupees the interest of period up to 180 days is chargeable at
A. BPLR minus 2.5%.
B. BPLR minus 3%.
C. not exceeding BPLR minus 2.5%.
D. not less than BPLR minus 2.5%.
ANSWER: C
23. Pre-shipment credit in foreign currency is available for a period of
A. maximum 180 days.
B. minimum 180 days.
C. maximum 270 days.
D. maximum 360 days.
ANSWER: A
24. Pre-shipment credit in foreign currency can be availed in
A. US Dolor only.
B. the currency of export only.
C. the currency of import only.
D. any permitted currency.
ANSWER: D
25. Advising of letter ofcredit will be done by the bank
A. only to its customers
B. to any person provided the letter of the credit is issued by its correspondent bank.
C. free of charge to its customers and for a cost to others.
D. to any beneficiary and from any issuing bank.
ANSWER: B
26. The following is not a post-shipment advance
A. negotiation of bill under letter of credit
B. purchase of foreign bill.
C. advance against foreign bill for collection
D. packing credit.
ANSWER: D
27. A bill drawn under a letter of credit contains discrepancies
A. the bank should refuse to negotiate documents
B. take the bill on collection basis only.
C. must negotiate irrespective of discrepancies
D. may purchase it or take it for collection, but should not refuse to handle the bill.
ANSWER: D
28. If an export bill which was purchased /negotiated is not realized within reasonable time from the due date the bank should
A. reserve the bill from the export bill purchase portfolio.
B. make a claim with ECGC
C. report to RBI.
D. take further bills from the exporter only on collection basis.
ANSWER: A
29. The following is a must for an exporter
A. GR form.
B. EP form.
C. PP form.
D. GRX form.
ANSWER: C
30. Duty drawback is the refund of duty chargeable on
A. Exported material
B. Imported material
C. Damaged material
D. Exports to Indian owned warehouses in Europe.
ANSWER: B
31. Availing post-shipment credit in foreign currency is compulsory for
A. exporters who have not availed packing credit.
B. all exporters who have availed packing credit.
C. exporters who have availed pre-shipment credit in foreign currency.
D. exporters who have availed credit from banks.
ANSWER: C
32. Post-shipment credit in foreign currency can be availed by
A. use of on-shore foreign currency funds

B. banks raising foreign currency funds abroad
C. exporters arranging funds abroad
D. any of the above methods.
ANSWER: D
33. Advance remittance from importer can be accepted by an exporter in India provided
A. the advance does not carry interest payment.
B. shipment will be made only after one year from the date of receipt of advance.
C. advance does not exceed 25% of export value.
D. rate of interest,if payable, does not exceed Libor plus 1%.
ANSWER: D
34. A bank may refuse to accept an export bill for collection
A. when the customer has sufficient limits under bill discounting facility.
B. when the documents have discrepancies when compared to letter of credit requirements.
C. when the documents are received from a non customer
D. when the documents are received from a customer.
ANSWER: C
35. . If the importer refuses to accept the bill drawn on him the exporter
A. should reimport the goods.
B. must find an alternate buyer.
C. may reimport or sell to an alternate buyer depending upon commercial expediency
D. sue the importer.
ANSWER: C
36. If export cargo is lost in transit, the exporter should
A. claim under marine insurance.
B. claim with ECGC
C. seek write off of post-shipment credit.
D. seek refund of customs duty.
ANSWER: A
37. Pre-shipment rupee credit from Exim bank is available for
A. period upto 180 days.
B. period beyond 180 days.
C. trunkey proects only.
D. foreign currency components only.
ANSWER: B
38. For export oriented units, Exim bank finances
A. term loans only.
B. both working capital and term loans.
C. term loans, working capital and long term working capital.
D. for investment from overseas.
ANSWER: C
39. Which of the following is not a common feature of direct lending by Exim bank?
A. They are for medium or long term.
B. The size of the loan is high.
C. Security is not insisted upon.
D. Interest rates are relatively low.
ANSWER: C
40. Bid Bond issued as part of
A. Turnkey project
B. Post award clearance
C. supply bidding process
D. Deferred Payment
ANSWER: C
41. Exim bank lending to foreign governments take the form of
A. soft loans.
B. commercial loans.
C. lines of credit.
D. relending facility.
ANSWER: C
42. The facility that is available to commercial banks in India from Exim bank is
A. refinancing of export credit.
B. export bill re-discounting.
C. syndication of export credit risks.
D. all the above.
ANSWER: D
43. Exim bank issues guarantees on behalf of
A. all exporters from India.
B. exporters of construction and turnkey projects
C. banks in India.
D. Govt, of India.
ANSWER: B
44. Exim bank issues guarantees to commercial for
A. all export advances
B. all export advances repayable beyond one year.

C. post-shipment suppliers credit from one year to three years.
D. loans with refinance from Exim bank.
ANSWER: C
45. Export factoring is available for
A. short term exports.
B. medium term exports.
C. all exports.
D. export under consignment basis.
ANSWER: A
46. Which of the following service is not provided by an export factor?
A. invoice discounting.
B. providing credit information.
C. maintenance of debtors account.
D. none of the above.
ANSWER: D
47. Export factoring encourages the following method of payment
A. open account system.
B. letter of credit method
C. documentary bill.
D. advance payment.
ANSWER: A
48. Factoring refers to.
A. discounting of any export bill.
B. discounting of medium term export bill.
C. writing off unrealized export bill.
D. waiver of charges on export bills.
ANSWER: B
49. Under supplier's credit for deferred payment exports scheme of Exim bank
A. pre-shipment finance is available for periods beyond 180 days
B. post-shipment finance is available in Indian rupees for deferred payment exports.
C. post-shipment finance is available in foreign currency for deferred payment exports.
D. post-shipment finance is available in Indian rupees or foreign currency for deferred payment exports.
ANSWER: A
50. Which of the following statements relating to consultancy and technology services finance programme of Exim bank is wrong?
A. The exporter is expected to get an advance payment of 25%
B. The export should be covered byECGC policy.
C. Minimum period of the loan is seven years.
D. They should be secured by a government guarantee or letter of credit.
ANSWER: C
51. Pre-shipment credit is available from Exim bank is available for
A. period up to 180 days.
B. period beyond 180 days.
C. turnkey projects only.
D. foreign currency component only.
ANSWER: B
52. Extension period of credit for export
A. 180 days
B. 90 days
C. 220 days
D. 270 days
ANSWER: B
53. Which of the following is not a common feature of direct lending by Exm bank?
A. They are for medium or long term.
B. The size of the loan is high.
C. Security is not insisted upon.
D. Interest rates are relatively large.
ANSWER: C
54. The standard policy of ECGC covers the risk of
A. buyers failure to obtain import lisence
B. insolvency of the collecting bank
C. cancellation of the import licence in the buyers country.
D. all the above.
ANSWER: C
55. The standard policy of ECGC is issued
A. 90% for political risk and 60% for commercial risk.
B. 90% for both political and commercial risk.
C. 60% for political risk and 90% for commercial risk.
D. 60% for both political and commercial risk.
ANSWER: B
56. Loans above Rs 50 crores need clearance from
A. RBI, EXIM Bank, ECGC
B. RBI

C. EXIM Bank
D. ECGC
ANSWER: A
57. The small exporter's policy of ECGC is issued to
A. any exporter in the SSI category
B. any exporter who is exempt from excise duty.
C. an exporter with expected turnover of Rs. lcrore.
D. an exporter with an anticipated turnover in the next twelve months not exceeding of Rs. 50 lakhs.
ANSWER: D
58. Which of the following information about the small exporter's policy is wrong?
A. Risk coverage is 95% for commercial risks and 100% for political risk.
B. The policy issued for 12 months.
C. The premium payable is less than standard policy.
D. None of the above.
ANSWER: D
59. The maturity factoring facility of ECGC protects the exporters against
A. failure of the buyer to obtain authority as per the regulations of his country.
B. risk normally covered by General Insurance.
C. failure of the buyer to pay.
D. none of the above.
ANSWER: C
60. Cover under the guarantee of ECGC is available to
A. the bank against the default of the importer.
B. the bank against the default of the exporter.
C. the bank against the default of the importer and exporter.
D. the exporter against the default of the importer.
ANSWER: B
61. Pre-shipment advances granted in excess of FOB value of contract against duty drawback can be covered under
A. packing credit guarantee
B. whole turnover packing credit guarantee.
C. export production finance guarantee.
D. export finance guarantee.
ANSWER: C
62. Export finance guarantee of ECGC protects
A. banks providing foreign currency loans to correspondents.
B. banks providing foreign currency loans to contractors.
C. overseas branches financing Indian exports.
D. overseas branches financing Indian imports.
ANSWER: B
63. Pre-shipment advances against export incentives can be covered under
A. post shipment export credit guarantee
B. whole turnover post shipment credit guarantee
C. export production finance guarantee.
D. export finance guarantee.
ANSWER: D
64. The rate of premium payable to ECGC for eligible advances covered under whole turnover packing credit guarantee is
A. 6 paise per Rs.100 p. on daily average products
B. 6 paise per Rs.100 p.m. on daily average products.
C. 6 paise per Rs.100 p. on monthly average products.
D. 6 paise per Rs.100 p. on yearly average products.
ANSWER: A
65. The risk to a bank in confirming a letter of credit is covered by ECGC under
A. export performance guarantee
B. transfer guarantee.
C. export finance guarantee.
D. import and export finance guarantee.
ANSWER: B
66. Linder exchange fluctuation risk cover , the ECGC provides cover
A. to the exporters on deferred payment terms against exchange fluctuations.
B. to banks for advances made in foreign currency to importers abroad
C. to banks against advances made deferred payment export.
D. to banks for advances made in foreign currency to importers and exporters abroad
ANSWER: A
67. Working group consist of
A. RBI, ECGC and EXIM Bank
B. RBI
C. ECGC and EXIM Bank
D. EXIM and Commercial Baks
ANSWER: A
68. The percentage of contract value the exporter can avail as advance from importer
A. 15%

B. 25%
C. 30%
D. 35%
ANSWER: A
69. Commodity Boards do not differ from Export Promotion Councils in respect of the following
A. Commodity Boards deal with problems relating to production also.
B. Commodity Board is a statutory body.
C. Commodity Board covers a specific product.
D. None of the above.
ANSWER: C
70. . Which of the following organization does not specialize in training activity?
A. Indian institute of Foreign Trade.
B. Indian Trade Promotion Organization.
C. Indian Institute of Packaging.
D. None of the above.
ANSWER: B
71. The institution specializing in organizing fairs and exhibitions is
A. Indian Institute of Foreign Trade.
B. Federation of Indian Export Organization.
C. Indian trade Promotion Organization.
D. None of the above.
ANSWER: C
72. Funds allocated under ASIDE should be used for
A. developing infrastructure such as roads.
B. creation of free trade zone.
C. advertisements abroad
D. conducting trade tours.
ANSWER: A
73. The red clause letter of credit is also known as
A. Stand by credit
B. Anticipatory credit
C. Automatic credit
D. Back to Back credit
ANSWER: B
74. Duty drawback is available for
A. import duty on imported components.
B. central excess on indigenous companies.
C. both (a) and (b) above.
D. (c) above and VAT.
ANSWER: C
75. Excise duty exemption on exports is available for duty paid on
A. finished products only.
B. components only.
C. finished products and components.
D. imported item.
ANSWER: C
76. Submission to the bank of the bill of entry as evidence of import is mandatory where the value of import exceeds
A. USD 10,000.
B. USD 25,000.
C. USD 1,00,000.
D. USD 1,00,000 in a year.
ANSWER: C
77. A bank receives for collection a bill drawn on an importer who is not it's customer, for retirement of the bill, the bank
A. can accept payment in cash
B. should forward the bill to the importer's bank for delivery of documents
C. can accept cheque drawn by the importer on his bank.
D. can accept cheque drawn in the favor of the importer duly endorsed in bank's favor.
ANSWER: C
78. The currency in which payment for import is made depends upon
A. The country from which the goods are shipped
B. The country of origin of goods.
C. The arrangement between the buyer and seller.
D. The bank which the importer's bank has correspondent relationship.
ANSWER: A
79. The advance remittance against imports is subject to the conditions
A. the amount should not excess USD 25000.
B. it should earn interest at LIBOR.
C. the import should be capital goods.
D. none of the above.
ANSWER: D
80. Import license are required

A. for all imports.
B. for all capital imports.
C. import of goods covered by negative list.
D. none of the above.
ANSWER: C
81. A bank opening a letter credit gets charge over the imported goods till payment is made by the importer under the provisions of
A. application for the credit
B. the letter of credit.
C. the sale contract.
D. the import licence.
ANSWER: A
82. The maximum period of credit fixed by RBI depends on
A. Anticipated life of export goods
B. Extent of foreign competition
C. Nature of the foreign market
D. All the above
ANSWER: D
83. For deferred payment import remission should be sought from the Reserve Bank when
A. the period of credit beyond one user.
B. the imports in a year exceeds USD 20 millions.
C. the imports per transaction exceeds USD 20 millions.
D. all in the cost borrowing exceeds LIBOR.
ANSWER: C
84. Standby letters of credit can be used by authorized dealers in India for
A. exporters liability on account of exports from India.
B. selective importers
C. both A and B above.
D. none.
ANSWER: C
85. An exporter cannot obtain details about prospective buyers from
A. yellow pages.
B. web sites.
C. Indian embassy abroad
D. none of the above.
ANSWER: D
86. Under advance remittance as a method of payment the credit risk is borne by
A. the importer.
B. the exporter.
C. importer's bank.
D. none.
ANSWER: A
87. Open account was used as a method of payment indicates
A. the transactions are legal.
B. the buyer has no money to pay immediately.
C. the seller wants to sell desparately.
D. none of the above.
ANSWER: D
88. Open account method of payment is beneficial to
A. the buyer
B. the seller.
C. the buying agent.
D. both the buyer and seller.
ANSWER: A
89. Cash on delivery method is normally used for
A. bulk cargo with immediate market
B. slow moving terms.
C. small but valuable items sent by post.
D. exports to countries with balance of payments problem
ANSWER: C
90. Documents against payment term indicates
A. the documents are sent by post.
B. the export is risky.
C. the collecting bank will hand the documents to the buyer against payment.
D. the exporter delivers the documents to the bank against advance.
ANSWER: C
91. The best form of method of payment for an importer would be
A. advance remittance.
B. letter of credit.
C. documents against payment.
D. open account.
ANSWER: D
92. When goods are sent to an agent of an exporter in the importing country, the method of payment

adopted is
A. open account.
B. letter of credit.
C. consignment sale.
D. document against acceptance.
ANSWER: C
93. The method of payment where the exporter relies on the undertaking of a bank to pay is.
A. bank guarantee
B. letter of credit.
C. letter of comfort.
D. none of the above.
ANSWER: B
94. Letter of credit transactions are generally governed by the provisions of
A. Uniform customs and Procedures for Documentary Credits.
B. United Conference on Practices for Documentary Credits.
C. Uniform Customs and Practice for Documentary Credits
D. Uniform Code and Procedure for Documentary Credits.
ANSWER: C
95. The beneficiary under a letter of credit is
A. the bank opening the credit.
B. the customer of the opening bank.
C. the confirming bank.
D. the exporter.
ANSWER: D
96. A letter of credit is opened on behalf of
A. exporter customers.
B. importer customers.
C. any party wishing to make payment abroad
D. none of the above.
ANSWER: B
97. A letter of credit is addressed to
A. the beneficiary.
B. the negotiating bank.
C. the reimbursing bank.
D. none.
ANSWER: A
98. A letter of credit that provides for granting of pre-shipment finance as well as storage of goods in the name of the bank is
A. a red clause letter of credit
B. a standby letter of credit.
C. a green clause letter of credit.
D. a secured letter of credit.
ANSWER: C
99. When a letter of credit does not indicate whether it is revocable or irrevocable, it is treated as
A. revocable
B. irrevocable
C. revocable or irrevocable at the option of the beneficiary.
D. revocable or irrevocable at the option of the negotiating bank.
ANSWER: B
100. Payment for bills drawn under letter of credit should be made by the negotiating bank
A. after the documents are approved by the issuing bank.
B. immediately or on a future date depending upon the terms of credit.
C. only in foreign currency.
D. immediately in all cases.
ANSWER: B
101. Under an acceptance letter of credit, the responsibility of the issuing bank is
A. only to accept the bill
B. to pay against the bill
C. to accept the immediately and also to pay the amount of the bill on its due date.
D. to get the acceptance of the importer on the bill.
ANSWER: C
102. A confirmed letter of credit is one
A. confirmed to be authention
B. confirmed by the importer to be correct.
C. confirmed by the exporter that he agrees to the conditions.
D. confirmed by a bank (other than the opening bank) in the exporter's country.
ANSWER: D
103. Under the confirmed letter of credit the undertaking the confirming bank is
A. in addition to that of the opening bank.
B. in substitution of the undertaking of the opening bank.
C. subject to government policies to the exporter country.
D. none of the above.
ANSWER: A

104. A credit which provides for reinstatement of the amount as and when bills are drawn under it is called
A. reinstatement credit
B. reimbursement credit
C. revolving credit.
D. back-to-back credit.
ANSWER: C
105. Working Group for approval of project exports does not include
A. Reserve Bank of India.
B. Financing bank.
C. Exim bank.
D. DGFT.
ANSWER: D
106. For project exports fulfilling norms for period of credit, in principle sanction can be given by
A. the financing bank.
B. Exim bank.
C. The financing bank for contracts worth up to Rs 25 crores and Exim bank for contracts worth up to RS 100 crores.
D. the financing bank for contracts worth up to Rs 100 crores and Exin bank for contracts worth up to Rs 25 crores.
ANSWER: C
107. The following statement with respect to moratorium on repayment of principal on project export is not correct
A. For capital goods exports the maximum period of moratorium is 1 year.
B. For turnkey project exports the maximum period moratorium is 2 years.
C. For consumer goods export the maximum period moratorium is 3 years.
D. None of the above.
ANSWER: C
108. Export of services on deffered payment terms requires clearance of the Working Group for
A. contracts beyond Rs 5 crores.
B. contracts beyond 10 crores
C. contracts beyond 20 crores
D. all contracts.
ANSWER: D
109. In case of failure of the exporter, the liability of the bank which has issued the performance guarantee is to
A. compel the exporter to fulfill his obligation.
B. find alternative contractor who can execute the contract
C. financially compensate the beneficiary up to the value of the contract
D. financially compensate the beneficiary up to the guaranteed amount.
ANSWER: D
110. Advance payment guarantee assures
A. the beneficiary that the exporter will make advance payments.
B. the exporter that the importer will make advance payments.
C. the importer to refund the money he has advanced to the exporter, if the latter fails.
D. the exporter that the bank will extend credit for the contract.
ANSWER: C
111. Indian parties are prohibited from making investment in foreign entity engaged in the business of
A. real estate.
B. real estate or banking.
C. real estate or banking or agriculture.
D. none of the above.
ANSWER: B
112. Direct investment in a joint venture abroad can be made by an Indian party with ceiling on limit under automatic route if the investment is made from
A. balances in EEFC account
B. funds raised through ADR/GDR.
C. balances in EEFC account or funds raised through ADR/GDR.
D. no such provision.
ANSWER: C
113. Which of the following is not an approved method of funding direct investment in a foreigh joint venture?
A. Capitalisation of reserves
B. Issusing shares in foreign market.
C. Swap of shares.
D. Utilisation of ECB proceeds.
ANSWER: B
114. An Indian entity which has made direct investment abroad is not required to
A. repatriate to India the dues receivable from foreign entity.
B. submit annual performance report to Reserve Bank.
C. ensure return on investment is not less than the prime rate in the country of investment.
D. none of the above.
ANSWER: C
115. Export Credit Guarantee Corporation(ECGC) policies do not cover risk against

A. buyer's protracted default to pay for the goods.
B. war in buyer's country.
C. buyer's failure to obtain necessary import licence or exchange authorization from authorities in his country.
D. cancellation of export licence.
ANSWER: C
116. The standard policy of ECGC covers risk of
A. buyer's failure to obtain import licence.
B. insolvency of the collecting bank.
C. cancellation of import licence in the buyer's country.
D. all the above.
ANSWER: C
117. The standard policy of ECGC protects loss to the extent of
A. 90% for political risk and 60% for commercial risk.
B. 90% for both political and commercial risks.
C. 60% for political risk and 90% for commercial risk.
D. 60% for both political and commercial risks.
ANSWER: B
118. The maximum amount of claim against an individual buyer that ECGC will accept under its standard policy issued to an exporter is known as
A. maximum liability.
B. credit limit.
C. individual limit.
D. there is no such ceiling.
ANSWER: B
119. The standard policy of ECGC is issued
A. on whole turnover basis for 24 months.
B. on whole turnover for 12 months.
C. against each consignment separately.
D. on monthly basis.
ANSWER: A
120. Funds allocated under ASIDE should be used for
A. developing infrastructure such as roads.
B. creation of free trade zones
C. advertisements abroad
D. conducting trade tours.
ANSWER: A
121. Unless prohibited by letter of credit, a bank can accept
A. claused bill of lading.
B. received for shipment bill of lading.
C. bill of lading indicating that the carrying vessel is propelled by sail only
D. none of the above.
ANSWER: D
122. Market access initiative is not available for
A. conducting market studies
B. participation in international trade fairs
C. Testing charges for engineering products
D. None of the above
ANSWER: D
123. Guarantee credit is other name for
A. back to back credit
B. anticipatory credit
C. standby credit
D. Automatic credit
ANSWER: C
124. Amendment to a letter of credit should be advised through the
A. negotiating bank
B. advising bank.
C. issuing bank
D. none of the above.
ANSWER: B
125. 19 A guarantee issued by a bank in lieu of bid money to be deposited by the exporter to participate in the tender is a
A. bid bond guarantee
B. performance guarantee.
C. advance payment guarantee
D. retention money guarantee.
ANSWER: A
126. A guarantee issued in favour of an importer so that he releases entire contract amount instead of retaining a portion is
A. performance guarantee
B. retention money guarantee.
C. bid bond guarantee.

D. advance payment guarantee.
ANSWER: B
127. For export guarantees issued a bank may obtain cover from ECGC under its
A. export performance guarantee.
B. retention money guarantee.
C. bid bond guarantee.
D. advance payment guarantee.
ANSWER: A
128. The statutory basis for regulation of foreign trade in India is
A. Foreign Trade(Development and Regulation) Act.
B. Foreign Exchange Management Act.
C. Customs Act.
D. Director General of Foreign Trade.
ANSWER: A
129. Two parties agreeing to buy and sell from each other without involving payment is known as
A. Domestic trade.
B. foreign trade.
C. Countertrade.
D. non paying trade.
ANSWER: C
130. Banks can permit reduction in value of export bills up to
A. 1%.
B. 2%.
C. 5%.
D. 10%.
ANSWER: D
131. Undrawn balance on export bills are permitted up to
A. 10%
B. 15%
C. 5%
D. 2%
ANSWER: A
132. For imports from Pakistan, payment should be made in
A. US dollars.
B. Indian Rupee.
C. Pakistan currency.
D. any currency.
ANSWER: A
133. The time limit for export realization
A. is 2 months from the date of shipment.
B. is 3 months from the date of shipment
C. is 4 months from the date of shipment.
D. is 6 months from the date of shipment.
ANSWER: D
134. Comprehensive risk policy covers
A. only commercial risk.
B. only political risk.
C. both commercial and political risk
D. none of the above.
ANSWER: C
135. 21 Export turnover policy is for
A. large exporters who pay not less than Rs 10 lakhs per annum towards premium
B. large exporters who pay not less than 25 lakhs per annum towards premium.
C. small exports who pay less than 10 lakhs per annum.
D. small exporters who pay more than 10 lakhs premium per annum.
ANSWER: A
136. Which one of the following statements relating to Consultancy and Technology Services Finance Programme of Exim Bank is Wrong?
A. The exporter is expected to get an advance payment of 25%.
B. The export should be covered by ECGC policy.
C. Minimum period of loan is seven years.
D. They should be secured by a government guarantee or letter of credit.
ANSWER: C
137. For Export Oriented Units, Exim Bank finances
A. . term loans only.
B. both working capital and term loans.
C. term loans, working capital as long term working capital.
D. only investment overseas.
ANSWER: C
138. Which one of the following is not a common features of direct lending by Exim Bank?
A. They are for medium or long-term.
B. The size of the loan is high.
C. Security is not insisted upon.

D. Interest rates are relatively low.
ANSWER: C
139. The facility that is available to commercial banks in India from Exim Bank is
A. refinance of export credit.
D. all the above.
ANSWER: D
140. Exim bank issues guarantees on behalf of
A. all exporters from India.
B. exporters of construction and turnkey projects
C. banks in India.
D. Government of India.
ANSWER: B
141. Export factoring encourages the following method of payment
A. open account system
B. letter of credit method
C. documentary bills.
D. advance payment.
ANSWER: A
142. For availing discounting of bills with forfeiter, the exporter should produce
A. avalised bills of exchange or promissory notes accepted by importer's bank
B. avalised bills of exchange or promissory notes accepted by exporter's bank.
C. Reserve Bank permit.
D. no objection certificate from Exim bank.
ANSWER: A
143. Which of the following is not a basic objective of documentation in foreign trade?
A. to assure that the exporter will receive the payment.
B. to assure that the importer will receive the goods.
C. to reduce foreign exchange risk.
D. none of the above.
ANSWER: D
144. Which of the following is not an important document in foreign trade?
A. a check for the value of goods.
B. a draft.
C. bill of lading.
D. a letter of credit.
ANSWER: A
B. export bills rediscounting.
C. syndication of export credit
145. . risk is the potential exchange loss from outstanding obligations as a result of exchange-rate fluctuations.
A. Trade.
B. Exchange.
C. Finance.
D. Transaction.
ANSWER: D
146. Foreign exchange risk can be reduced by using .
A. forward contracts
B. futures contracts.
C. currency options.
D. all of the above.
ANSWER: D
147. Which of the following is not a condition for drafts to be negotiable?
A. must be in writing, signed by the drawer.
B. must contain a promise to pay a certain sum if goods are receive
C. must contain an order to pay.
D. must be payable on sight or at a specified date.
ANSWER: B
148. . If a draft is made to bearer, payment should be made to .
A. a bank.
B. drawer.
C. acceptor.
D. anyone who presents the draft.
ANSWER: D
149. If a draft is accepted by a bank, it becomes a .
A. valid draft.
B. demand draft
C. usance draft.
D. bankers acceptance.
ANSWER: D
150. Forms of countertrade include the following except .
A. simple barter.
B. clearing arrangement.
C. counter purchase.

D. mutual agreement.
ANSWER: D

****

Important terms

1. **Accounts receivable insurance (ARI)** An insurance policy purchased from a financial institution or export credit agency (ECA) that exporters may obtain to help secure their receivables in case of non-collection. Accounts receivable insurance can also help maintain regular cash flow.

2. **Advance payment** A payment to a seller in advance of the goods being shipped. Reasons for adopting this payment method include lack of finance to buy and/or prepare the goods for shipment or that exporters are unwilling to ship goods to the country of the buyer for reasons of country risk, or that the seller may not have the finance to buy and/or prepare the goods for shipment. Exporters sometimes require advance payments by importers as protection against non-payment or to purchase supplies to fulfill the order. In addition, higher advance payments may be required for specialized products, as a hedge against buyer default when it may be more difficult or not possible to sell the products to a secondary buyer

3. **Beneficiary** Someone who is eligible to receive distributions from an insurance policy or some other form of trade finance instrument. Beneficiaries are either named specifically in these documents or they have met the stipulations that make them eligible for whatever distribution is specified

4. **Blocked currency** A currency that is not available to be exchanged for any other currency, usually due to restrictions from the national government, also referred to as non-convertibility/transferability of currency.

5. **Contingency plan** An activity undertaken to plan the proper and immediate follow-up steps to be taken by management and employees in an emergency. Its major objectives are to ensure containment of damage or injury to, or loss of, personnel and property, and continuity of key operations of the organization.

6. **Crown corporation** A corporation that is established and regulated by a country's state or government. A Crown corporation is commercially owned by the government. Civil servants partially control and operate this type of company, which is meant to serve the public interest as determined by the current government.

7. **Demurrage Charges** incurred when a shipment must be stored in a warehouse during transit from the exporter to the importer. These charges may be incurred in the event of dispute between parties to a letter of credit (L/C) and can become substantial in a short period of time.

8. **Exchange rate** The price of one currency in terms of another, i.e. the number of units of one currency that may be exchanged for one unit of another currency as in 1 GBP (British Pound Sterling) = 1.65 CDN (Canadian Dollar).

9. **Expropriation** The act of taking possession of private property for government purposes.

10. **International Chamber of Commerce (ICC)** A Paris-based organization that plays a key role in international trade through its Uniform Customs and Practice for Documentary Credits (UCP) and other quasi-regulatory articles that provide the infrastructure for trade among over 160 nations that have

voluntarily agreed to be bound by these articles. The ICC has several key expert groups, and provides interpretations and opinions on the UCP as well as arbitration services in the event of disputes between parties involved in international commerce.

11. **Incoterms® rules** A set of standardized and internationally recognized trade terms established by the International Chamber of Commerce (ICC). They are routinely referenced in contracting and trade finance, and are critical for resolving contractual disputes.

12. **Price ceiling** A limit imposed through legislation to control price increases.

13. **Pricing strategy** A planned approach to pricing within the overall marketing strategy for the target market. Examples of pricing strategies include flexible, static, penetration and value-based pricing, market maintenance, and price skimming.

14. **Receivables** An asset designation applicable to all debts, unsettled transactions or other monetary obligations owed to a company by its debtors or customers. Receivables are recorded by a company's accountants and reported on the balance sheet, and they include all debts owed to the company, even if the debts are not currently due.

15. **Retention/holdback** A contractual condition in which money is withheld until a specified time frame passes that ensures the products received are satisfactory.

16. **Surety company** A financial entity, typically an insurance company, which assumes the risk of a surety bond project owner (obligee) by guaranteeing payment on the bond or performance of an underlying contract, in the event of a default or a failure of the contractor (principal) to perform its contracted services.

17. **Uniform Customs and Practice (UCP)** A set of quasi-regulatory articles governing all aspects of the use of letters of credit (L/Cs). The UCP is published and updated periodically by the International Chamber of Commerce (ICC) in Paris. While adherence is voluntary, the vast majority of L/Cs are issued explicitly subject to the UCP, and many legal traditions (including the Common Law) have given increasing weight to the UCP in adjudicating disputes involving international commerce conducted on the basis of an L/C.

18. **Uniform Rules for Collections (URC)** A set of rules published by the International Chamber of Commerce (ICC) to aid bankers, buyers, and sellers in the collections process. The URC have been prepared to resolve problems that practitioners have experienced in their everyday operations. Provisions of URC are not legal requirements but serve to establish common understanding of the collections terminology and expectations.

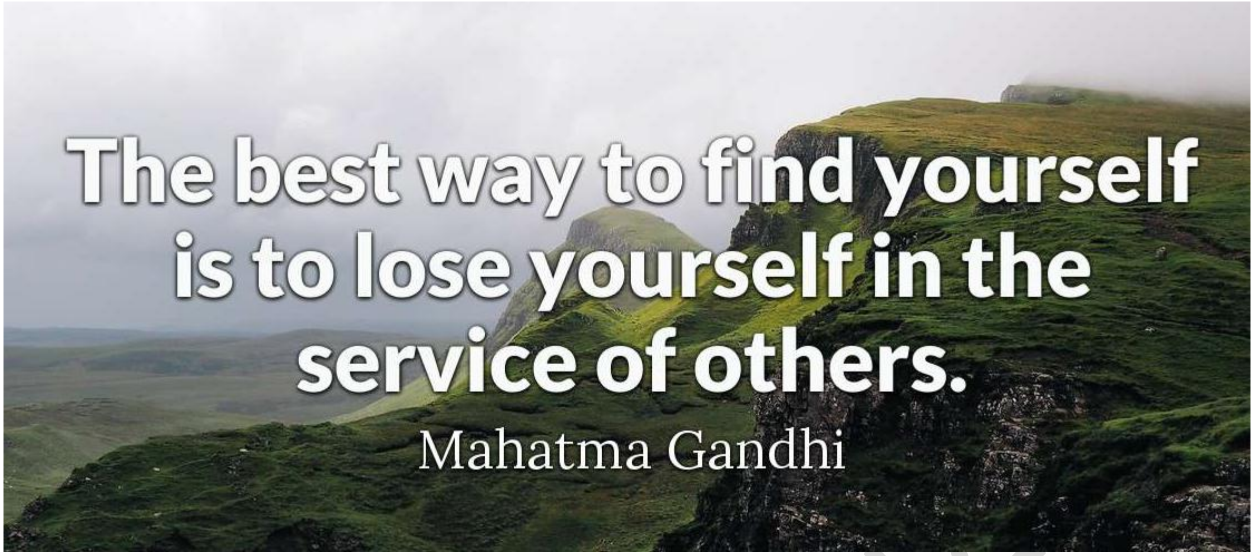
19. **Warranty** A contractual term that is less essential to a contract than a condition. A warranty may be expressed or implied. If breached, a warranty entitles the other party to claim damages for breach of contract but not to reject the goods or repudiate the contract.

20. **Wire transfer** The electronic transfer of funds through the cable and wireless networks that unite the world's banking system, also called cable transfer or bank wire.

Trade finance recollected questions::

2 marks qstn from ecgc,export promotion capital goods scheme. exim ,lc, eefc, urr725 ,pcfc
1 marks from forfating, factoring, pre and post shipment ,Fedai dutydrawback urc522 heckscher ohlin theory buyers and suppliers credit forward contract , lc., channel financing merchanting trade as well these topics in .5 marks qstn bid bondand performance guarantee currency and credit risk , wharfage documentry credit time period related qstn , status holder starhouse . SEIS , liberalized remittance . NEIA (national export insurance account), ssp, src. Scp related to ECIE-ST red clause

Special Thanks to Mr. Kumara Thejaswi Jamma from Andhra bank for providing some short notes for this pdf.


The best way to find yourself
is to lose yourself in the
service of others.
Mahatma Gandhi