Plus One Business Studies Notes Chapter 12

Contents

Export Procedure:

1. Receipt of enquiry and sending quotations:
The prospective buyer of a product sends an enquiry to different exporters requesting them to send information about price, quality, terms of payment etc. The exporter sends a reply to the enquiry in the form of a quotation referred to as proforma invoice.

2. Receipt of order or indent:
If the buyer is satisfied with the export price and other terms and conditions, he places the order or indent for the goods.

3. Assessing importer's creditworthiness and securing a guarantee for payments:
After receipt of the indent, the exporter makes necessary enquiry about the creditworthiness of the importer. To mimimise the risk, most exporters demand a letter of credit from the importer.

4. Obtaining export license:
The exporter must apply for export license to the appropriate authority. The following procedure is followed for obtaining the export license.

- •Opening a bank account in any bank authorised by the Reserve Bank of India

- •Obtaining Import Export Code (IEC) number

- •Registration cum Membership Certificate (RCMC) from appropriate export promotion council

•Registering with Export Credit and Guarantee Corporation (ECGC) in order to safeguard against risks of non payments.

5. Obtaining pre-shipment finance:
After obtaining the export license, the exporter approaches his banker in order to obtain pre-shipment finance for carrying out production.

6. Production or procurement of goods:
Exporter, after obtaining the pre-shipment finance from the bank, proceeds to get the goods ready as per the orders of the importer.

7. Pre-shipment inspection:
Quality control and pre shipment inspection is compulsory in India as per Quality Control and Inspection Act. Inspection certificate is provided by Export Inspection Council. The customs authority permits the shipment of goods only if there is inspection certificate.

8. Excise clearance:
According to Central Excise Tariff Act, excise duty on the material used in manufacturing goods is to be paid. For this purpose exporter apply to the concerned Excise Commissioner in the region with an invoice.

But in many cases the government exempts payment of excise duty or later on refunds it if the goods so manufactured are meant for exports. The refund of excise duty is known as duty drawback.

9. Obtaining certificate of origin:
In order to obtain Tariff concessions or other exemptions, the importer may ask the exporter to send certificate of origin.

10. Reservation of shipping space:
The exporting firm applies to the shipping company for provision of shipping space. Then the shipping company issues a shipping order. A shipping order is an instruction to the captain of the ship that the specified goods after their customs clearance at a designated port be received on board.

11. Packing and forwarding:
The goods are then properly packed and marked with necessary details such as name and address of the importer, gross and net weight, port of shipment and destination, country of origin, etc. The exporter then makes necessary arrangement for transportation of goods to the port,

12.Insurance of goods:
In order to protect the goods against the risk of loss or damage the exporter gets the goods insured with an insurance company.

13.Customs clearance:
The goods must be cleared from the customs before these can be loaded on the ship. For obtaining customs clearance, the exporter prepares the shipping bill. Shipping bill contains particulars of the goods being exported, the name of the ship, the port at which goods are to be discharged, exporter’s name and address, etc. Five copies of the shipping bill along with the following documents are then submitted to the Customs Appraiser at the Customs House.

- •Export Contract or Export Order
- •Letter of Credit
- •Commercial Invoice
- •Certificate of Origin
- •Certificate of Inspection, where necessary
- •Marine Insurance Policy

14. Obtaining mates receipt:
A mate receipt is a receipt issued by the commanding officer of the ship when the cargo is loaded on board, and contains the information about the name of the vessel, berth, date of shipment, description of packages, condition of the cargo at the time of receipt on board the ship etc.

15. Payment of freight and issuance of bill of lading:
The clearing & forwarding agent (C&F agent) hands overthe mate s receipt to the shipping company for the computation of freight. After receipt of the freight, the shipping company issues a bill of lading which serves as an evidence that the shipping company has accepted the goods for carrying to the designated destination.

16. Preparation of invoice:
The exporter prepares an invoice for the dispatched goods. Invoice contains information regarding the quantity of goods sent & the amount to be paid by the importer. It is duly attested by the customs.

17.Securing payment:
After the shipment of goods, the exporter informs the importer about the shipment of goods. Various documents like certified copy of invoice, bill of lading, packing list, insurance policy, certificate of origin and letter of credit are sent by the exporter through his bank.

These documents are required by the importer for getting the goods cleared from customs. The exporter get payment from his bank on the submission of necessary documents called negotiations of the documents.

Documents for Export Transaction:
A. Documents related to goods:
1. Export Invoice:
It is a seller's bill which contains information about goods like quantity, number of packages, marks on packing, name of ship, port of destination, terms of delivery &, payments etc.

2. Packing List:
A packing list is a statement of the number of cases or packs and the details of the goods contained in these packs.

3. Certificate of Origin:
This is a certificate which specifies the country in which the goods are being produced. This certificate enables the importer to claim tariff concessions or other exemptions.

4. Certificate of Inspection:
For ensuring quality, the government has made inspection of certain goods compulsory by some authorised agency like export Inspection council of India (EICI) etc. After inspecting the goods, the agency issues a certificate of inspection that the consignment has been inspected as required under the export (Quality Control & Inspection) Act, 1963.

B. Documents Related to Shipment:
1. Mate's Receipt:
A mate receipt is a receipt Issued by the commanding officer of the ship when the cargo is loaded on board, and contains the information about the name of the vessel, berth, date of shipment, description of packages, condition of the cargo at the time of receipt on board the ship etc.

2. Shipping Bill:
The shipping bill is the main document on the basis of which customs office grants permission for the export. It contains full details regarding the goods being exported name of the vessel, exporter s name & address, country of final destination etc.

3. Bill of lading:
It is a document issued by the shipping company after the cargo is loaded on the ship. It is an acknowledgement of goods by the shipping company. It is a document which shows the title to the goods and is freely transferable by endorsement and delivery.

4. Airway Bill:
It is a document issued by the airline company acknowledging the receipt of goods for transshipment through air carriage.

5. Marine Insurance Policy:
It is a certificate of insurance contract whereby the insurance company agrees in consideration of premium to indemnify the insured against loss incurred by perils of the sea.

6. Cart Ticket:
It is also known as cart chit or gate pass. It is prepared by the exporter and contains details regarding export cargo like number of packages, shipping bill number, port of destination etc.

C. Document related to payment:
1. Letter of credit:
A letter of credit is a guarantee issued by the importer's bank that it will honour up to a certain amount the payment of export bills to the bank of the exporter.

2. Bill of Exchange:
In export & import transaction, exporter draws the bill on the importer asking him to pay a specified amount to a certain person or the bearer of the instrument. The documents required by the importer for claiming title of exported goods are passed on to him only when the importer accepts this bill.

3. Bank Certificate of Payment:
It is a certificate that the necessary documents relating to the particular export consignment have been negotiated and payment has been received in accordance with the exchange control regulations.

Import Procedure:
1. Trade enquiry:
It is a written request by the importer to the exporters for supply of relevant information regarding the price, quality, quantity and various terms and conditions of export etc. Then, the exporter prepares the quotation and sends it to the importer. The quotation is known as proforma invoice.

2. Obtaining import license:
In India it is compulsory to get the IEC number from the Directorate General Foreign Trade (DGFT).

3. Obtaining foreign exchange:
As foreign exchange transactions are controlled by Reserve Bank of India, the importer has to submit an application along with necessary documents to the RBI to issue foreign exchange.

4. Placing order or indent:
After obtaining the import license, the importer places an import order or indent with the exporter for supply of the specified products. It contains information about the price, quality, quantity of goods ordered, ports of shipment and destination, etc.

5. Obtaining letter of credit:
The importer must obtain a letter of credit from his bank and send it to the exporter.

6. Arranging for finance:
The importer should make arrangements in advance to pay the exporter on the arrival of goods at the port.

7. Receipt of shipment advice:
After loading the goods on the ship, the exporter dispatches the shipment advice to the importer. Shipment advice contains information about the shipment of goods.

8. Retirement of import documents:
After shipping the goods, the overseas supplier prepares necessary documents and hands over to his banker for their onward transmission to the importer when he accepts the bill of exchange. The acceptance of bill of exchange for the purpose of getting delivery of the documents is known as retirement of import documents.

9. Arrival of goods:
When the goods arrive in the importer’s country, the person in charge of the carrier informs the officer in charge at the dock or the airport about it. He provides a document called import general manifest for unloading of cargo. Import general manifest is a document that contains the details of the imported goods.

10. Customs clearance and release of goods:
All the goods imported into India have to pass through customs clearance after they cross the Indian borders. The importer must fulfill the following formalities for clearing the goods.

- Endorsement for delivery

•Payment of dock charges

•Bill of entry

Documents used in an Import Transaction:

1.Trade enquiry

2.Proforma invoice

3.Import order or indent

4.Letter of credit

5.Shipment advice

6.Bill of lading

7.Airway Bill

8.Bill of entry

Bill of entry:
It is a form supplied by the customs office to the importer who filled it at the time of receiving the goods. It has to be in triplicate and is to be submitted to the customs office. It contains information such as name and address of the importer, name of the ship, number of packages, description of goods, quantity and value of goods, name and address of the exporter, port of destinations, customs duty payable etc.

Foreign Trade Promotion Measures and Schemes:
1. Duty drawback scheme: it refers to the refund of customs and excise duties paid on imported inputs used in the manufacture of export goods.

2. Export manufacturing under bond scheme:
Under this facility firms can produce goods without payment of excise and other duties. The firms can avail this facility after giving an undertaking (i.e. bond) that they are manufacturing goods for export purposes.

3. Exemption from payment of sales taxes:
Goods meant for export purposes are not subject to sales tax. Income derived from export operations had been exempt from payment of income tax. Now, this benefit of exemption

from income tax is available only to 100 percent Export Oriented Units (100 percent EOUs) and units set up in Export Processing Zones (EPZs) or Special Economic Zones (SEZs) for selected years.

4. Advance license scheme:
It is a scheme under which an exporter is allowed the duty-free supply of domestic as well as imported inputs required for the manufacture of export goods.

5. Export Promotion Capital Goods Scheme (EPCG):
The main objective of this scheme is to encourage the import of capital goods for export production. This scheme allows export firms to import capital goods at zero or concessional rate of import duty.

6. Scheme of recognising export firms as an export house, trading house, and superstar trading house:
The registered exporters having a record of export performance over a number of years are granted the status of export houses/ trading houses/star trading houses/super star trading houses subject to the fulfillment of annual average export performance.

7. Export of Services:
In order to boost the export of services, various categories of service houses have been recognised, i.e. Service Export House, International Service Export House, International Star Service Export House.

8. Export finance:
Two types of export finances are made available to the exporters by authorized banks. They are termed as pre-shipment finance and post-shipment finance. Pre-shipment finance is provided to an exporter for financing the purchase, processing, manufacturing, or packaging of goods for export purposes. Post-shipment finance is provided to the exporter from the date of extending the credit after the shipment of goods to the export country.

9. Export Processing Zones (EPZs):
They are industrial estates, which form special enclaves separated from the domestic tariff areas. These are usually situated near seaports or airports. They are intended to provide an internationally competitive duty-free environment for export production at low cost. They can import capital goods and raw materials for the production of export goods without a license.

10. 100 percent Export Oriented Units (100 percent EOUs):
These units are established with the main purpose of exporting their entire production except those which are specifically permitted to be sold in the domestic market.

11. Special Economic Zone (SEZ):
It is specifically a delineated duty-free enclave, which is deemed to be foreign territory for the purpose of trading and imposing duties. It provided an internationally competitive and duty-free environment for the production of export of goods.

International Trade Institutions:
The government has set up from time to time various institutions in order to facilitate the process of foreign trade. The Department of Commerce in the Ministry of Commerce is the apex body responsible for regulation and administration of the country's external trade. Other organizations are:

1.Export Promotion Councils

2.Commodity Boards

3.Export Inspection Council

4.Indian Institute of foreign trade

5.State Trading Organisation.

All these organizations help exporters by way of promotion of specific export products, quality inspection, participation in trade fairs and exhibitions, conducting training programmes, carrying out overseas researches, disseminating product and market information, and providing packaging consultancy and testing.

Trade Agreements:
At the international level, there are various international organisations such as the World Bank, IMF and WTO for fostering economic cooperation, trade and investments . among the countries.
1. World Bank:
The International Bank for reconstruction and development i.e. World Bank was established in 1945, whose main objectives were to aid the task of reconstruction of the war affected economies of Europe and assist in the development of the underdeveloped nations of the world.
Functions:

•To bring about economic growth and widen the scope of international trade.

•To develop infrastructural facilities such as ‘ energy, transportation etc.

•To help different countries for raising cash crops so that their income rises.

- In addition to providing financial assistance for infrastructure development, agriculture, industry, health etc.

2. International Development Association (IDA):
International Development Association (IDA) was set up in 1960 as a part of the World Bank. IDA was established soft loans primarily to provide soft loans to the poorest countries. So it is called the Soft Loan Window of the IBRD.
Objectives of IDA:

1.To provide development finance on easy terms to the less developed countries

2.To provide assistance for poverty eradication in the poorest countries

3.To provide finance at concessional interest rates in order to promote economic development, raise productivity and living standards in less developed nations

4.To extend macro economic management services relating to health, education, nutrition, human resource development and population control.

3. International Finance Corporation (IFC):
IFC was established in July 1956 in order to provide finance to the private sector of developing countries. All the members of the World Bank are eligible to become members of IFC.

4. The Multinational Investment Guarantee Agency (MIGA)
The Multinational Investment Guarantee Agency was established in April 1988 to supplement the functions of the World Bank and IFC.
Objectives of MIGA:

- To encourage direct foreign investment into the developing countries

- To. provide insurance cover to investors against political risks

- To provide a guarantee against noncommercial risks

- To insure new investments and expansion of existing investments

- To provide promotional and advisory services

- To establish credibility.

5. International Monetary Fund (IMF) International Monetary Fund:
it is the second international organization next to the World Bank. It came into existence in 1945 and its objective is the maintenance of exchange rates and providing short-term loans to the countries facing short-term foreign exchange problems.
Objectives of IMF:

1.To provide international monetary cooperation through a permanent institution.

2.To facilitate the expansion of balanced growth of international trade and to promote and maintain high levels of employment.

3.To promote exchange rate stability among member countries.

4.To help in the establishment of the International Payment System.

World Trade Organisation:
The General Agreement for Tariffs and Trade (GATT) was transformed into the World Trade Organisation (WTO) with effect from 1 st January 1995. The headquarters of WTO are situated at Geneva, Switzerland.

The World Trade Organization deals with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible.

It is concerned with solving trade problems between countries and providing a forum for multilateral trade negotiations. It has a global status similar to that of the IMF and the World Bank. India is a founding member of WTO.
Objectives of WTO:

1.To ensure a reduction of tariffs and other trade barriers imposed by different countries

2.To engage in activities which improve the standards of living, create employment, increase Income, facilitate higher production and trade

3.To facilitate the optimal use of the world’s resources

4.To promote an integrated, more viable and durable trading system.

Functions of WTO:

1.To remove barriers of International trade.

2.To Act as a dispute settlement body.

3.To ensure that all the rules regulations prescribed in the Act are duly followed by the member countries for the settlement of their disputes.

4.Laying down a commonly accepted code of conduct for international trade.

5.To consult with IMF, IBRD and its affiliated agencies to bring better understanding and cooperation in global economic policy making.

Benefits of WTO:

1.It helps to promote international peace and facilitates international business

2.All disputes between member nations are settled with mutual consultations

3.It makes international trade and relations very smooth and predictable.

4.Free trade improves the standard of living of the people by increasing the income level

5.Free trade provides an opportunity for getting varieties of qualitative products

6.Economic growth has been increased

7.The system encourages good government.