Auditing Course Material

Part 42 of 61 (Chapters 4101-4200)

2. Stages of economic integration

A **free trade area** encourages trade among its members by eliminating trade barriers (tariffs, quotas, and other non-tariff barriers) among them. Although a free trade area reduces trade barriers among its members, each member is free to establish its own trade policies against nonmembers. As a result, members of free trade areas are often vulnerable to the problem of trade deflection, in which nonmembers reroute (or deflect) their exports to the member nation with the lowest external trade barriers. To prevent trade deflection from destroying their members' trade policies toward nonmembers, most free trade agreements specify rules of origin, which detail the conditions under which a good is classified as a member good or a nonmember good.

2. Stages of economic integration

Parties to the economic integration agreement trade on duty and quota free basis and also agree on a common external tariff. They agree on common regulations and measures of trade to apply on goods from third parties. A customs union combines the elimination of internal trade barriers among its members with the adoption of common external trade policies toward nonmembers. Because of the uniform treatment of products from nonmember countries, a customs union avoids the trade deflection problem. A firm from a nonmember country pays the same tariff rate on exports to any member of the customs union.

2. Stages of economic integration

This is a deeper stage of economic integration. As in a customs union, members of a common market eliminate internal trade barriers among themselves and adopt a common external trade policy toward nonmembers. A common market goes a step further by eliminating barriers that inhibit the movement of factors of production labor, capital, and technology among its members. Workers may move from their homeland and practice their profession or trade in any of the other member nations. Firms may locate production facilities, invest in other businesses, and use their technologies anywhere within the common market. Productivity within the common market is expected to rise because factors of production are free to locate where the returns to them are highest. This is the next level of economic integration. If the members also have a common currency and common fiscal policies, it is called as Monitory Union.

2. Stages of economic integration

This is the highest level of the stages of economic integration. Member countries coordinate macro-economic and exchange rate policies. An economic union represents full integration of the economies of two or more countries. In addition to eliminating internal trade barriers, adopting common external trade policies, and abolishing restrictions on the mobility of factors of production among members, an economic union requires its members to coordinate their economic policies (monetary policy, fiscal policy, taxation, and social welfare programs) to blend their economies into a single entity.

2. Stages of economic integration

A **political union** is the complete political as well as economic integration of two or more countries, thereby effectively making them one country. An example of a political union is the integration of the 13 separate colonies operating under the Articles of Confederation into a new country, the United States of America.

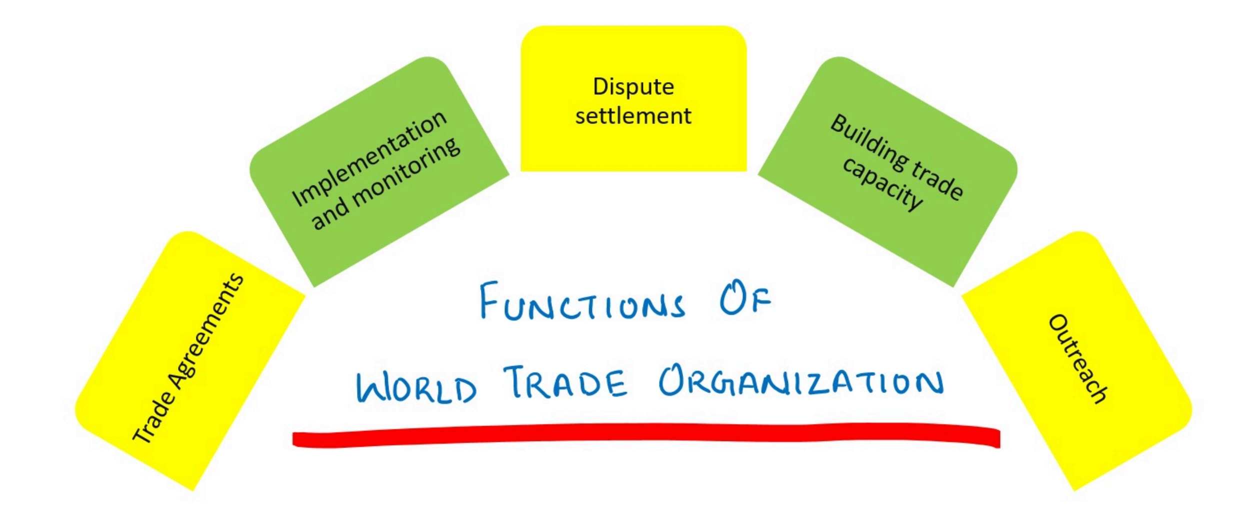
1. Introduction

The World Trade Organization (WTO) is the only body making global trade rules with binding effects on its Members. It is not only an institution, but also a set of agreements. The WTO regime is known as the rules-based multilateral trading system. The history of the organization dates back to 1947, when the General Agreement on Tariffs and Trade (GATT), was set up to reduce tariffs, remove trade barriers and facilitate trade in goods.

The fundamental principle of GATT was that each member nation must open its markets equally to every other member nation. This principle of ‘trade without discrimination’ was embodied in GATT’s most-favored-nation (MFN) clause which states that once a country and its trading partners had agreed to reduce a tariff, that tariff cut was automatically extended to every other member country, irrespective of whether the country was a signatory to the agreement.

Over the years, GATT evolved through 8 rounds of multilateral trade negotiations, the last and most extensive being the Uruguay Round (1986-1994). The WTO came into being at Marrakesh on 1 January 1995, following the conclusion of the Uruguay Round. GATT then ceased to exist, and its legal texts were incorporated into the WTO as GATT 1994.

2. Functions of World Trade Organization



The functions of WTO are given below:

1. Trade agreements: The WTO agreements cover goods, services and intellectual property. They spell out the principles of liberalization, and the permitted exceptions. They include individual countries' commitments to lower customs tariffs and other trade barriers, and to open and keep open services markets.

2. Implementation and monitoring: WTO agreements require governments to make their trade policies transparent by notifying the WTO about laws in force and measures adopted. All WTO members must undergo periodic review of their trade policies and practices, each review containing reports by the country concerned and the WTO Secretariat.

3. Dispute settlement: The WTO's procedure for resolving trade quarrels under the Dispute Settlement Understanding is vital for enforcing the rules and therefore for ensuring that trade flows smoothly. The countries bring disputes to the WTO if they think their rights under the agreements are being infringed.

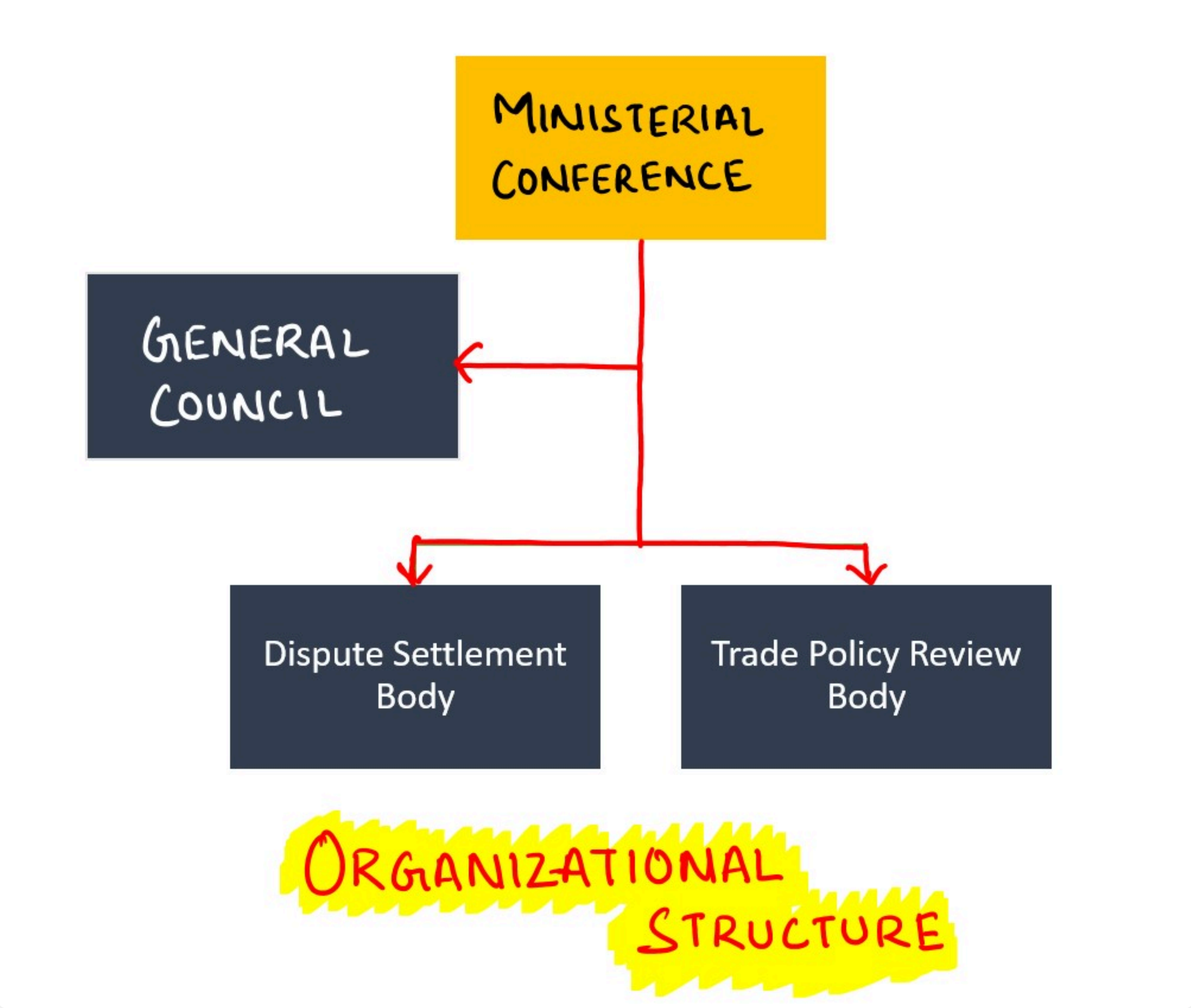
4. Building trade capacity: WTO agreements contain special provisions for developing countries, including longer time periods to implement agreements and commitments, measures to increase their trading opportunities, and support to help them build their trade capacity, to handle disputes and to implement technical standards. The WTO organizes hundreds of technical cooperation missions to developing countries annually.

5. Outreach: The WTO maintains regular dialogue with non-governmental organizations, parliamentarians, other international organizations, the media and the general public on various aspects of the WTO.

Most of the issues that the WTO focuses on, are derived from previous trade negotiations. The Agreement of 1994 focuses on 6 main parts:

- Agreement establishing the WTO
- Goods and investment: The Multilateral Agreements on Trade in Goods including the GATT 1994 and the Trade Related Investment Measures (TRIMs)
- Services: The General Agreement on Trade in Services (GATS)
- Intellectual property: Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)
- Dispute Settlement Understanding (DSU)
- Reviews of governments' trade policies through Trade Policy Review Mechanism (TPRM)

3. Organizational Structure



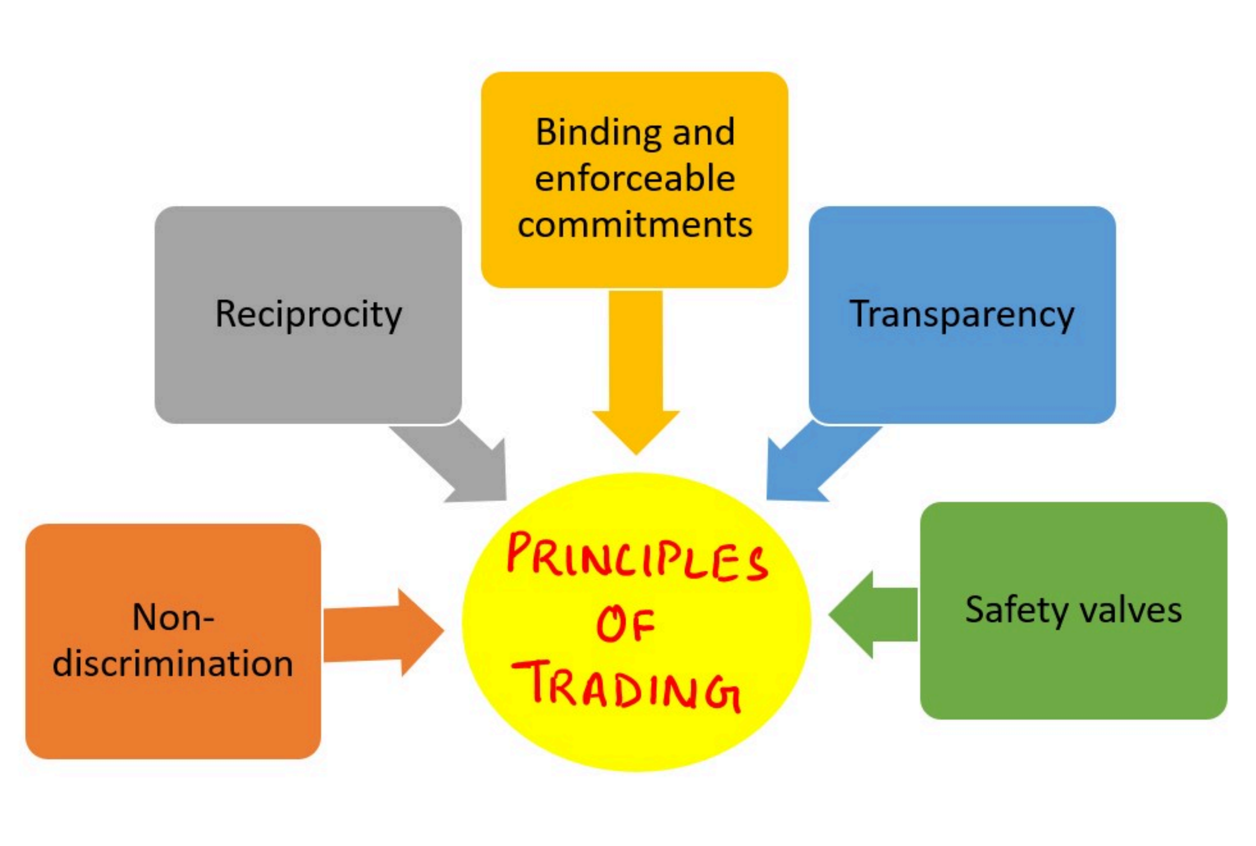
The structure of the WTO is dominated by its highest authority, the **Ministerial Conference**, composed of representatives of all WTO members, which is required to meet at least every 2 years and which can take decisions on all matters under any of the multilateral trade agreements. The 12th Ministerial Conference (MC12) of WTO, was to be at Nur-Sultan, Kazakhstan in June 2020, got cancelled, due to Covid-19. Later it was held in Geneva in June 2022.

The day-to-day work of the WTO, however, falls to a number of subsidiary bodies; principally the **General Council**, also composed of all WTO members, which is required to report to the Ministerial Conference. As well as conducting its regular work on behalf of the Ministerial Conference, the General Council convenes in 2 particular forms - as the **Dispute Settlement Body**, DSB to oversee the dispute settlement procedures and as the **Trade Policy Review Body, TPRB** to conduct regular reviews of trade policies of WTO members.

The General Council of WTO has the following subsidiary bodies which oversee committees in different areas:

- Council for Trade in Goods
- Council for Trade-Related Aspects of Intellectual Property Rights (TRIPs)
- Council for Trade in Services
- Trade Negotiations Committee: The Trade Negotiations Committee (TNC) is the committee that deals with the current trade talks round. This committee is also tasked with the Doha Development Round.
- Service Council has three subsidiary bodies: financial services, domestic regulations, GATS rules and specific commitments. The council has several different committees, working groups, and working parties.
- There are committees on the following: Trade and Environment; Trade and Development (Subcommittee on Least-Developed Countries); Regional Trade Agreements; Balance of Payments Restrictions; and Budget, Finance and Administration.
- There are working parties on the following: Accession.
- There are working groups on the following: Trade, debt and finance; and Trade and technology transfer.

4. Principles of the Trading System



The WTO establishes a framework for trade policies; it does not define or specify outcomes. That is, it is concerned with setting the rules of the trade policy games. Five principles are of particular importance in understanding both the pre-1994 GATT and the WTO:

1. Non-discrimination: It has two major components, MFN rule, and the National Treatment Policy.
The **Most Favoured Nation (MFN)** rule requires that a WTO member must apply the same conditions on all trade with other WTO members, i.e. a WTO member has to grant the most favorable conditions under which it allows trade in a certain product type to all other WTO members. "Grant someone a special favour and you have to do the same for all other WTO members".

National treatment means that imported goods should be treated no less favorably than domestically produced goods (at least after the foreign goods have entered the market) and was introduced to tackle non-tariff barriers to trade (e.g. technical standards, security standards et al. discriminating against imported goods).

2. Reciprocity: It reflects both a desire to limit the scope of free-riding that may arise because of the MFN rule, and a desire to obtain better access to foreign markets. A related point is that for a nation to negotiate, it is necessary that the gain from doing so be greater than the gain available from unilateral liberalization; reciprocal concessions intend to ensure that such gains will materialize.

3. Binding and enforceable commitments: The tariff commitments made by WTO members in a multilateral trade negotiation and on accession are enumerated in a schedule (list) of concessions. These schedules establish "ceiling bindings": a country can change its bindings, but only after negotiating with its trading partners, which could mean compensating them for loss of trade. If satisfaction is not obtained, the complaining country may invoke the dispute settlement procedures.

4. Transparency: The WTO members are required to publish their trade regulations, to maintain institutions allowing for the review of administrative decisions affecting trade, to respond to requests for information by other members, and to notify changes in trade policies to the WTO. These internal transparency requirements are supplemented and facilitated by periodic country-specific reports (trade policy reviews) through the Trade Policy Review Mechanism (TPRM).

The purpose of the **Trade Policy Review Mechanism (TPRM)** is to contribute to improved adherence by all Members to rules, disciplines and commitments made under the Multilateral Trade Agreements and, Plurilateral Trade Agreements. The reviews take place in the **Trade Policy Review Body (TPRB)** which is actually the WTO General Council comprising the WTO's full membership operating under special rules and procedures. The reviews are therefore essentially peer-group assessments, although much of the factual leg-work is done by the WTO Secretariat.

5. Safety valves: In specific circumstances, governments are able to restrict trade. The WTO's agreements permit members to take measures to protect not only the environment but also public health, animal health and plant health.

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5. Agreements in WTO

The WTO oversees about many different agreements which have the status of international legal texts. Member countries must sign and ratify all WTO agreements on accession. Some of the important agreements are:

Agreement on Agriculture

The Agreement on Agriculture, AOA came into effect with the establishment of the WTO at the beginning of 1995. The AOA has 3 central concepts, or 'pillars': domestic support, market access and export subsidies.

General Agreement on Trade in Services

The General Agreement on Trade in Services, GATS was created to extend the multilateral trading system to service sector, in the same way as the General Agreement on Tariffs and Trade (GATT) provided such a system for merchandise trade. The agreement came into force in January 1995.

Agreement on Trade-Related Aspects of Intellectual Property Rights

The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) sets down minimum standards for many forms of intellectual property (IP) regulation. It was negotiated at the end of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) in 1994, where following were included in TRIPS:

- Copyright and Related Rights
- Trademarks
- Geographical Indications
- Industrial Designs
- Patents
- Layout-Designs (Topographies)

On 20 December 1991 the Director-General Arthur Dunkel produced a compromise legislative draft, the 'Draft Final Act embodying the result of the Uruguay Round of Multilateral Trade Negotiations'. It became known as the **Dunkel Draft** or the DFA. The Dunkel Draft tried to draw the somewhat stalled IP talks towards a compromise agreement. Dunkel attempted to build consensus on contentious areas by awarding the major states each some success, while balancing it with the wishes of the others.

Agreement on Trade-Related Investment Measures

The Agreement on Trade-Related Investment Measures (TRIMs) are rules that apply to the domestic regulations that a country applies to foreign investors, often as part of an industrial policy. TRIMs are rules that restrict preference of domestic firms and thereby enable international firms to operate more easily within foreign markets. Policies such as local content requirements and trade balancing rules that have traditionally been used to both promote the interests of domestic industries and combat restrictive business practices are now banned.

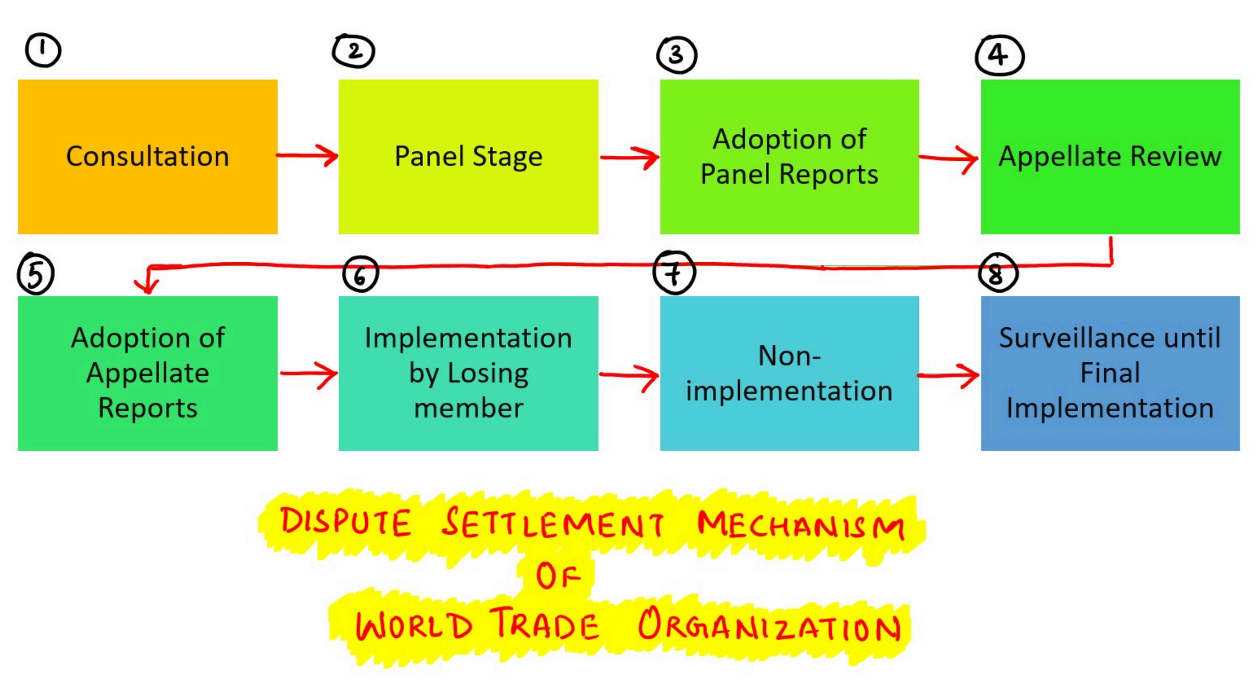
Agreement on the Application of Sanitary and Phytosanitary Measures

Also known as the SPS Agreement was negotiated during the Uruguay Round of GATT, and entered into force with the establishment of the WTO at the beginning of 1995. Under the SPS agreement, the WTO sets constraints on members' policies relating to food safety (bacterial contaminants, pesticides, inspection and labelling) as well as animal and plant health (imported pests and diseases).

Agreement on Technical Barriers to Trade

This is an international treaty of the World Trade Organization. It was negotiated during the Uruguay Round of the General Agreement on Tariffs and Trade and entered into force with the establishment of the WTO at the end of 1994. The objective is to ensure that technical negotiations and standards, as well as testing and certification procedures, do not create unnecessary obstacles to trade.

6. Dispute Settlement Mechanism of WTO



There are two main ways to settle a dispute once a complaint has been filed in the WTO:

1. the parties find a mutually agreed solution, particularly during the phase of bilateral consultations; and
2. through adjudication, including the subsequent implementation of the panel and Appellate Body reports, which are binding upon the parties once adopted by the DSB.

There are three main stages to the WTO dispute settlement process:

1. Consultations between the parties;
2. Adjudication by panels and, if applicable, by the Appellate Body; and
3. Implementation of the ruling, which includes the possibility of countermeasures in the event of failure by the losing party to implement the ruling.

6. Dispute Settlement Mechanism of WTO

The bilateral consultations between the parties are the first stage of formal dispute settlement. They give the parties an opportunity to discuss the matter and to find a satisfactory solution without resorting to litigation. Even when consultations have failed to resolve the dispute, it always remains possible for the parties to find a mutually agreed solution at any later stage of the proceedings.

Together with good offices, conciliation and mediation, consultations are the key non-judicial/diplomatic feature of the dispute settlement system of the WTO. Consultations typically take place in Geneva and are confidential.

Unless otherwise agreed, the respondent must reply to the request within 10 days and must enter into consultations in good faith within a period of no more than 30 days after the date of receipt of the request for consultations. If the respondent fails to meet any of these deadlines, the complainant may immediately proceed to the adjudicative stage of dispute settlement and request the establishment of a panel.

If the respondent engages in consultations, the complainant can proceed to the request for establishment of a panel at the earliest 60 days after the date of receipt of the request for consultations, provided that no satisfactory solution has emerged from the consultations. However, the consultation stage can also be concluded earlier if the parties jointly consider that consultations have failed to settle the dispute.

In cases of urgency, including those that concern perishable goods, Members must enter into consultations within a period of no more than 10 days after the date of receipt of the request. If the consultations fail to settle the dispute within a period of 20 days after the date of receipt of the request, the complaining party may request the establishment of a panel.

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6. Dispute Settlement Mechanism of WTO

The request for establishment of a panel initiates the phase of adjudication. A request for the establishment of a panel must be made the Chairman of the DSB. This request becomes an official document in the dispute in question and is circulated to the entire (WTO) membership. The complaining and the responding Members are the parties to the disputes. Other Members have an opportunity to be heard by panels and to make written submissions as third parties, even if they have not participated in the consultations.

Even after a panel has been established by the DSB, it still must be composed because there are no permanent panels nor permanent panelists in the (WTO). Instead, panels must be composed ad hoc for each individual dispute, with the selection of 3 or 5 members.

As a general rule, a panel is required to issue the final report to the parties within 6 months from the date when it was composed (and, as the case may be, the terms of reference agreed).

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6. Dispute Settlement Mechanism of WTO

Although the panel report contains the findings and conclusions ruling on the substance of the dispute, it only becomes binding when the DSB has adopted it. The DSB must adopt the report no earlier than 20 days, but no later than 60 days after the date of its circulation to the Members, unless a party to the dispute formally notifies the DSB of its decision to appeal or the DSB decides by consensus not to adopt the report.

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6. Dispute Settlement Mechanism of WTO

If the panel report is appealed, the dispute is referred to the Appellate Body and, for the time being, the panel report cannot be adopted by the DSB. There is no clear deadline for the filing of an appeal. Rather the appellant must notify the DSB of its decision to appeal before the adoption of the panel report. Since the appeal must be filed before adoption actually occurs, the effective deadline for filing an appeal is variable and could be as short as 20 days, but it can also be longer, e.g. 60 days.

Third parties cannot appeal a panel report.

An Appellate Body report has two sections: the descriptive part and the findings section.

Appellate review proceedings must generally be completed within 60 days, and in no case take longer than 90 days from the date when the notice of appeal was filed.

6. Dispute Settlement Mechanism of WTO

The DSB must adopt, and the parties must unconditionally accept, the Appellate Body report unless the DSB decides by consensus not to adopt the Appellate Body report within 30 days following its circulation to Members. The deadline for adoption of an Appellate Body report is only 30 days.

6. Dispute Settlement Mechanism of WTO

With the DSB's adoption of the Panel and Appellate Body report(s), there is now a "recommendation and ruling" by the DSB addressed to the losing party to bring itself into compliance with WTO law. The first duty of the losing Member is to inform the DSB, at a meeting within 30 days after the adoption of the report(s), of its intentions to implement the recommendations and rulings of the DSB.

As for the determination of the reasonable period of time of implementation, which is counted as of the day of adoption of the report(s), there are three different ways. This time-period can be:

(i) proposed by the Member concerned and approved by consensus by the DSB;
(ii) mutually agreed by the parties to the dispute within 45 days after adoption of the report(s); or
(iii) determined by an arbitrator.

The reasonable period of time to implement panel or Appellate Body recommendations should not exceed 15 months from the date of adoption of the report(s).

The DSB keeps implementation by a member of its recommendations or rulings under surveillance. Any Member can raise the issue of implementation at any time in the DSB.

6. Dispute Settlement Mechanism of WTO

If the losing Member fails to bring its measure into conformity with its (WTO) obligations within the reasonable period of time, the prevailing complainant is entitled to resort to temporary measures, which can be either compensation or suspension of obligations.

If the implementing Member does not achieve full compliance by the end of the reasonable period of time, it has to enter into negotiations with the complaining party with a view to agreeing a mutually acceptable compensation.

If, within 20 days after the expiry of the reasonable period of time, the parties have not agreed on satisfactory compensation, the complainant may ask the DSB for permission to impose trade sanctions against the respondent that has failed to implement. Technically, this is called "suspending concessions or other obligations under the covered agreements".

The complainant is thus allowed to impose countermeasures that would otherwise be inconsistent with the WTO Agreement, in response to a violation or to non-violation nullification or impairment. This is informally also called "retaliation" or "sanctions". Such suspension of obligations takes place on a discriminatory basis only against the Member that failed to implement.

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6. Dispute Settlement Mechanism of WTO

The DSB's surveillance continues (even where compensation has been agreed or obligations have been suspended) as long as the recommendation to bring a measure into conformity with the covered agreements has not yet been implemented.

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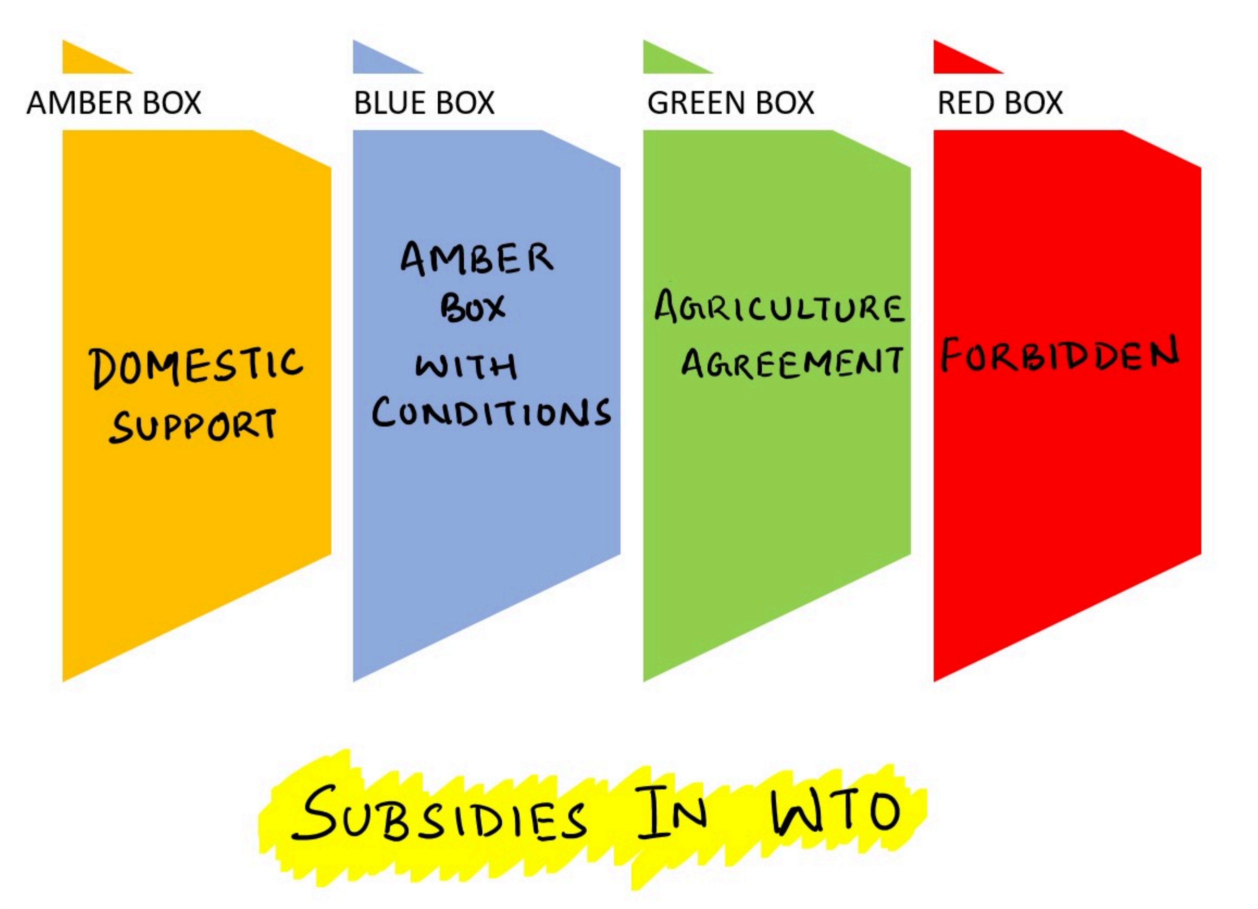
7. Subsidies in WTO



In WTO terminology, subsidies in general are identified by "boxes" which are given the colors of traffic lights.

Nearly all domestic support measures considered to distort production and trade (with some exceptions) fall into the **Amber box**, which is defined in the Agriculture Agreement as all domestic supports except those in the blue and green boxes. These include measures to support prices, or subsidies directly related to production quantities.

Blue Box is the "amber box with conditions" conditions designed to reduce distortion. Any support that would normally be in the amber box, is placed in the blue box if the support also requires farmers to **limit production**.

The **Green Box** is defined in the Agriculture Agreement as those subsidies that do not distort trade, or at most cause minimal distortion. They have to be government-funded (not by charging consumers higher prices) and must not involve price support.

The **Red box** are those subsidies, which are totally forbidden.

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8. Doha Round

The Doha Development Round or Doha Development Agenda (DDA) is the current trade-negotiation round of the World Trade Organization (WTO) which commenced in November 2001. Its objective is to lower trade barriers around the world, and thus facilitate increased global trade. Since 2008, talks have stalled over a divide on major issues. There are 4 major areas of negotiation in the Doha round: Agriculture, Non-Agricultural Market Access (NAMA), Services, and Trade Facilitation. The negotiations also include other areas such as Rules and Dispute Settlement.

The most significant differences are between **developed nations** led by the European Union (EU), the United States (USA), and Japan and the major **developing countries** led and represented mainly by India, Brazil, China, South Korea, and South Africa. The main reason the Doha talks collapsed was that the United States and EU were “not willing to give up their agricultural subsidies”. The **developing countries** depend on exporting basic agricultural products to developed nations, but struggle to compete against developed nations that support their farmers with huge subsidies.

A key element of the Doha Round of trade negotiations is the liberalisation of trade in industrial products, commonly known as **Non-Agricultural Market Access (NAMA)**. Negotiations under NAMA focus on market access for all products that are not covered under the negotiations on agriculture or services. The aim is to reduce/eliminate tariff and non-tariff barriers that restrict trade in these products.

The developed countries demand that the developing countries should lower their tariffs on NAMA products. According to them, industrial tariffs in developing countries at present are much higher than those in developed countries. The developing countries argue that it is very difficult to make substantial tariff reduction because of development priorities. Rather, the developing countries want to keep the Special and Differential Treatment (S&D) that is incorporated under other agreements. In response, developed countries oppose granting of S&D to developing countries. The differences in opinion between emerging and developed country members about the package is the main stumbling block for NAMA negotiations since 2008.

The Doha Round began with a ministerial-level meeting in Doha, Qatar in 2001. The July 2008 negotiations broke down after failing to reach a compromise on agricultural import rules.

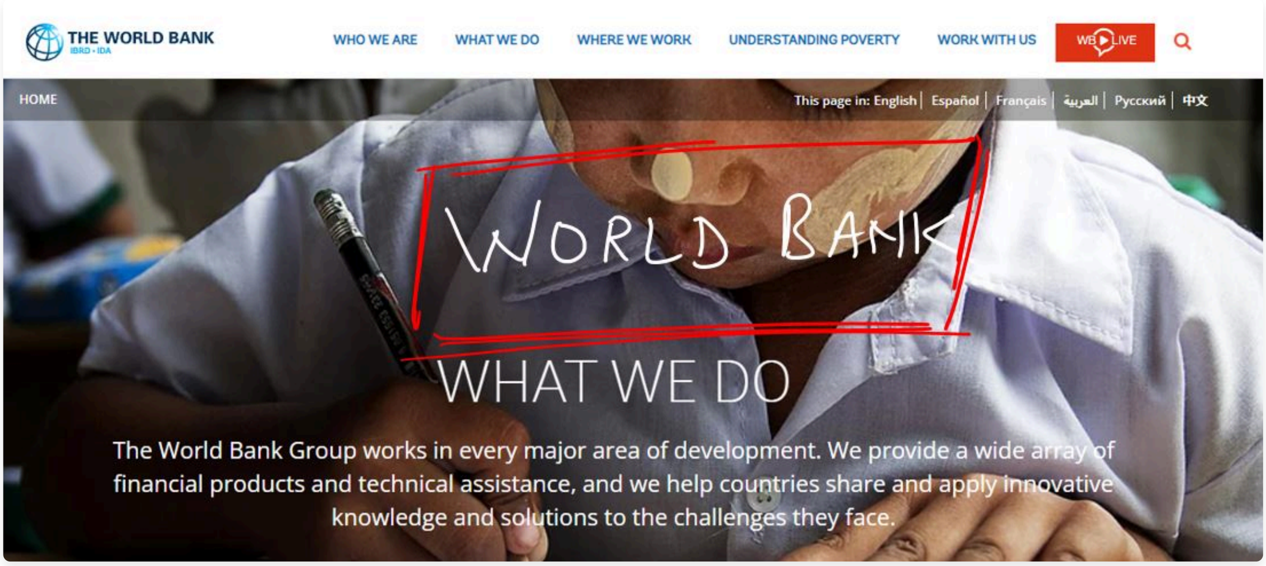
In 2013, the Ministerial Conference (MC9) in Bali, Indonesia, first multilateral agreement, since the creation of the WTO was signed. This was the **Trade Facilitation Agreement (TFA)**, which aims to speed up customs procedures and make trade easier, faster, and cheaper. The TFA was only a small slice of the larger Doha agenda.

1. Introduction

International Financial Institutions (IFIs) are organizations that provide financial and technical assistance to countries around the world. These institutions play a crucial role in promoting economic development, stability, and poverty reduction. Next, we will study some prominent international financial institutions.

1. World Bank
2. IMF
3. Asian Development Bank
4. G-20
5. Shanghai Cooperation Organisation
6. Asian Infrastructure Investment Bank
7. New Development Bank

2. World Bank



The World Bank is an international financial institution that provides loans (usually loans for development) to countries of the world for capital projects. It comprises of 2 institutions:

1. International Bank for Reconstruction and Development (IBRD), and
2. International Development Association (IDA).

The World Bank is like a cooperative, made up of around 189 member countries. These member countries, or shareholders, are represented by a **Board of Governors**, who are the ultimate policymakers at the World Bank. Generally, the governors are member countries' ministers of finance or ministers of development. They meet once a year.

The governors delegate specific duties to 25 Executive Directors, who work on-site at the Bank. The 5 largest shareholders appoint an executive director, while other member countries are represented by elected executive directors. The Executive Directors make up the **Boards of Directors** of the World Bank. They normally meet at least twice a week to oversee the Bank's business, including approval of loans and guarantees, new policies, the administrative budget, country assistance strategies and borrowing and financial decisions.

The World Bank Group President chairs meetings of the Boards of Directors and is responsible for overall management of the Bank. The President is selected by the Board of Executive Directors for 5 years, renewable term.

The World Bank was created at the 1944 Bretton Woods Conference along with the International Monetary Fund (IMF). The World Bank and the IMF are both based in Washington, and work closely with each other.

In 2010, the voting powers at the World Bank were revised to increase the voice of developing countries, notably China. The countries with most voting power are now the United States, Japan, and China. This restructuring was termed as **Voice Reform – Phase 2**. In the Resolution of Capital Increase of the IBRD (adopted on October 1, 2018) India was allocated additional 15,252 shares. India became the 7th largest shareholder in IBRD with voting Power of 3.00%.

The World Bank Group has set 2 goals for the world to achieve by 2030:

1. End extreme poverty by decreasing the percentage of people living on less than $1.90 a day to no more than 3%
2. Promote shared prosperity by fostering the income growth of the bottom 40% population in every country

2. World Bank

The World Bank Group comprises 5 institutions managed by their member countries:

1. International Bank for Reconstruction and Development (Headquarters: Washington, Founded: 1944)
The International Bank for Reconstruction and Development (IBRD) lends to governments of middle-income and creditworthy low-income countries.

2. International Development Association (Headquarters: Washington, Founded: 1960)
The International Development Association (IDA) provides interest-free loans (called credits) and grants to the poorest countries. It is also called **Soft Loan Window**. Together, IBRD and IDA make up the World Bank.

3. International Finance Corporation (Headquarters: Washington, Founded: 1956)
The International Finance Corporation (IFC) is the largest global development institution focused exclusively on the private sector. We help developing countries achieve sustainable growth by financing investment, mobilizing capital in international financial markets, and providing advisory services to businesses and governments.

4. Multilateral Investment Guarantee Agency (Headquarters: Washington, Founded: 1988)
The Multilateral Investment Guarantee Agency (MIGA) was created in 1988 to promote foreign direct investment into developing countries to support economic growth, reduce poverty, and improve people's lives. MIGA fulfills this mandate by offering political risk insurance (guarantees) to investors and lenders.

5. International Centre for Settlement of Investment Disputes (Headquarters: Washington, Founded: 1966)
The International Centre for Settlement of Investment Disputes (ICSID) provides international facilities for conciliation and arbitration of investment disputes.

2. World Bank

In its lending operations, the Bank is guided by certain policies which have been formulated on the basis of the Articles of Agreement.

1. The Bank properly assesses the repayment prospects of the loans it provides. For this purpose, it considers the availability of natural possessions, the existing productive plant capability to exploit the possessions and operate the plant, as well as the country's debt.
2. The Bank lends only for specific projects which are economically and technically sound and of a high priority nature.
3. The Bank lends only to enable a country to meet the foreign exchange content of any project cost; it normally expects the borrowing country to mobilize its domestic possessions.
4. The Bank does not expect the borrowing country to spend the loan in a scrupulous country; in fact, it encourages the borrowers to procure machines and goods for Bank financed projects in the cheapest possible market, constant with satisfactory performance.
5. The Bank maintains regular contact with borrowers with a view to check the progress of projects and to keep in touch with financial and economic developments in borrowing countries. (vi) The Bank indirectly attaches special importance to the promotion of local private enterprise.

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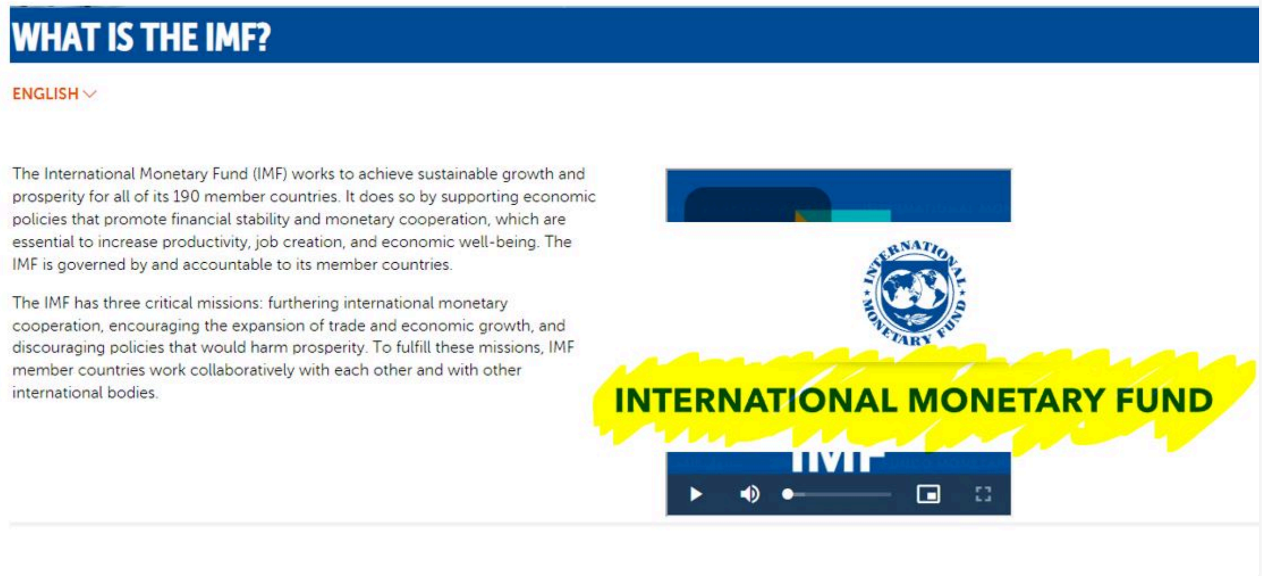
3. International Monetary Fund (IMF)



The International Monetary Fund (IMF) was formed in July 1944 at the United Nations Bretton Woods Conference in New Hampshire, United States. As of now, it has 190 member countries. The IMF's primary purpose is to ensure the stability of the international monetary system i.e., the system of exchange rates and international payments that enables countries (and their citizens) to transact with each other. The headquarters is in Washington, D.C.

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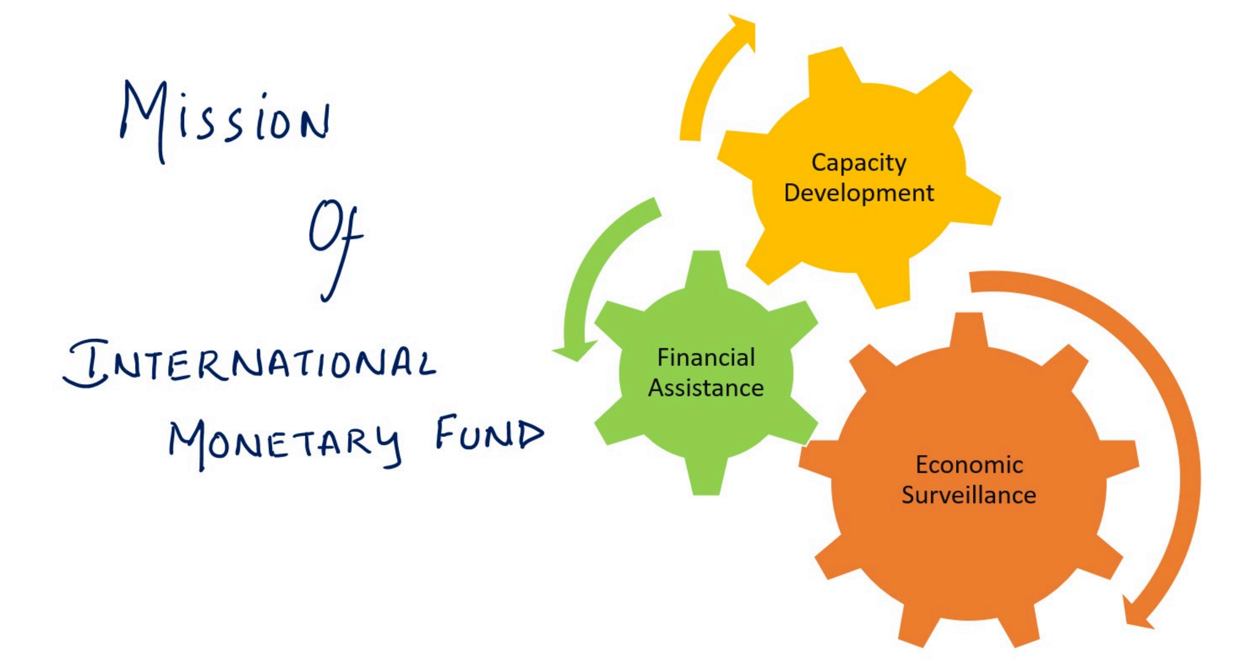
3. International Monetary Fund (IMF)



The IMF's fundamental mission is to ensure the stability of the international monetary system. It does so in 3 ways:

1. Economic Surveillance: The IMF oversees the international monetary system and monitors the economic and financial policies of its member countries. As part of this process, which takes place both at the global level and in individual countries, the IMF highlights possible risks to stability and advises on needed policy adjustments. It also provides periodic assessments of global prospects in its **World Economic Outlook**, of financial markets in its **Global Financial Stability Report**, of public finance developments in its **Fiscal Monitor**, and of external positions of the largest economies in its **External Sector Report**, in addition to a series of regional economic outlooks.

2. Financial Assistance: Providing loans to member countries that are experiencing actual or potential balance of payments problems is a core responsibility of the IMF. Individual country adjustment programs are designed in close cooperation with the IMF.

3. Capacity Development: The IMF provides technical assistance and training to help member countries build better economic institutions and strengthen related human capacities. This includes, for example, designing and implementing more effective policies for taxation and administration, expenditure management, monetary and exchange rate policies, banking and financial system supervision and regulation, legislative frameworks, and economic statistics.

Thus, the primary aims of IMF are:

- To promote international monetary cooperation;
- To facilitate the expansion and balanced growth of international trade;
- To promote exchange stability;
- To assist in the establishment of a multilateral system of payments; and
- To make resources available to members experiencing balance-of-payments difficulties.

3. International Monetary Fund (IMF)

The **Board of Governors** consists of one governor and one alternate governor for each member country. Each member country appoints its two governors. The Board normally meets once a year and is responsible for electing or appointing executive directors to the **Executive Board**. While the Board of Governors is officially responsible for approving quota increases, Special Drawing Right allocations, the admittance of new members, compulsory withdrawal of members, and amendments to the Articles of Agreement and By-Laws, in practice it has delegated most of its powers to the IMF's Executive Board.

Of the IMF's current 24 Executive Directors, 5 are appointed (US, Japan, Germany, France, and the United Kingdom), and a further 3 represent a single country (Saudi Arabia, Russia, and the People's Republic of China). The remaining 16 are elected by groups of countries (known as Constituencies) for 2 years. India has 3 other countries in its constituency at the IMF that are Bangladesh, Bhutan and Sri Lanka.

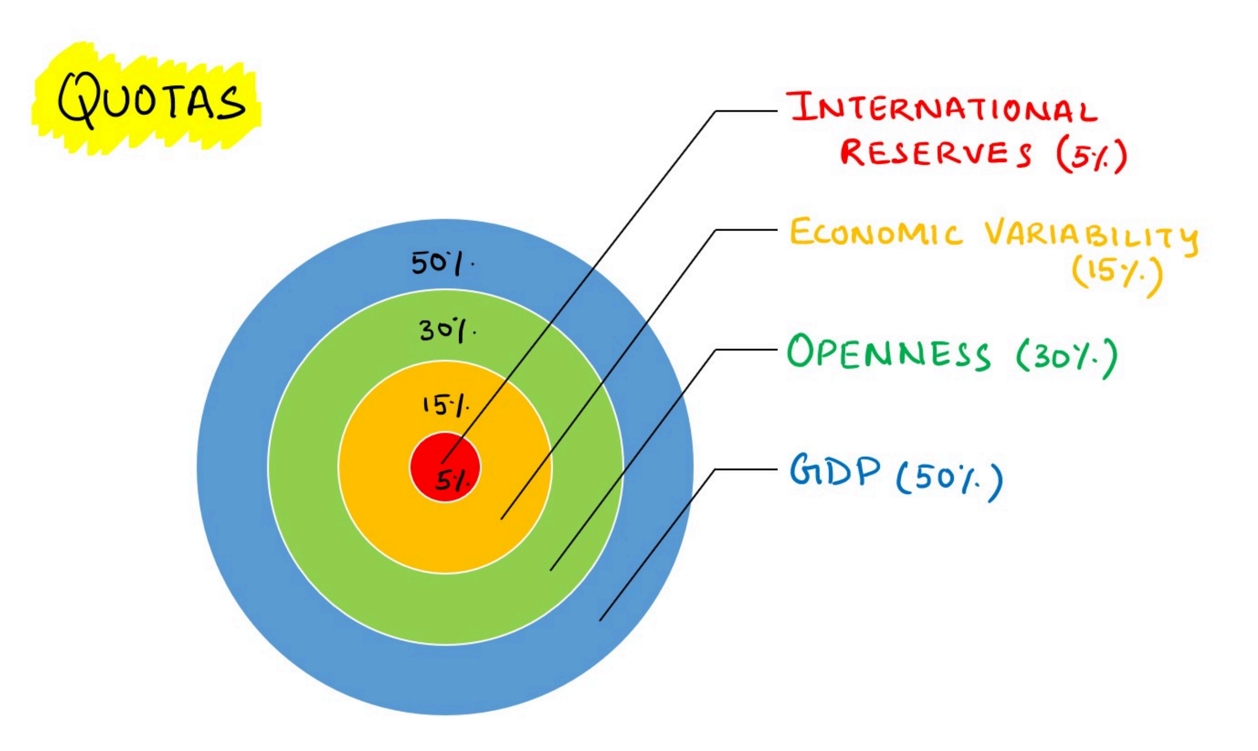
The Board of Governors is advised by the International Monetary and Financial Committee and the Development Committee. The **International Monetary and Financial Committee** has 24 members and monitors developments in global liquidity and the transfer of resources to developing countries. The **Development Committee** has 25 members and advises on critical development issues and on financial resources required to promote economic development in developing countries. They also advise on trade and environmental issues.

The IMF has a Managing Director, who is head of the staff and Chairperson of the Executive Board. The Managing Director is appointed by the Executive Board for a renewable term of 5 years and is assisted by a First Deputy Managing Director and 3 Deputy Managing Directors. The Board of Governors reports directly to the Managing Director of the IMF.

From India, the Finance Minister is the ex-officio Governor on the Board of Governors of the IMF. RBI Governor is the Alternate Governor at the IMF. India is represented at the IMF by an Executive Director.

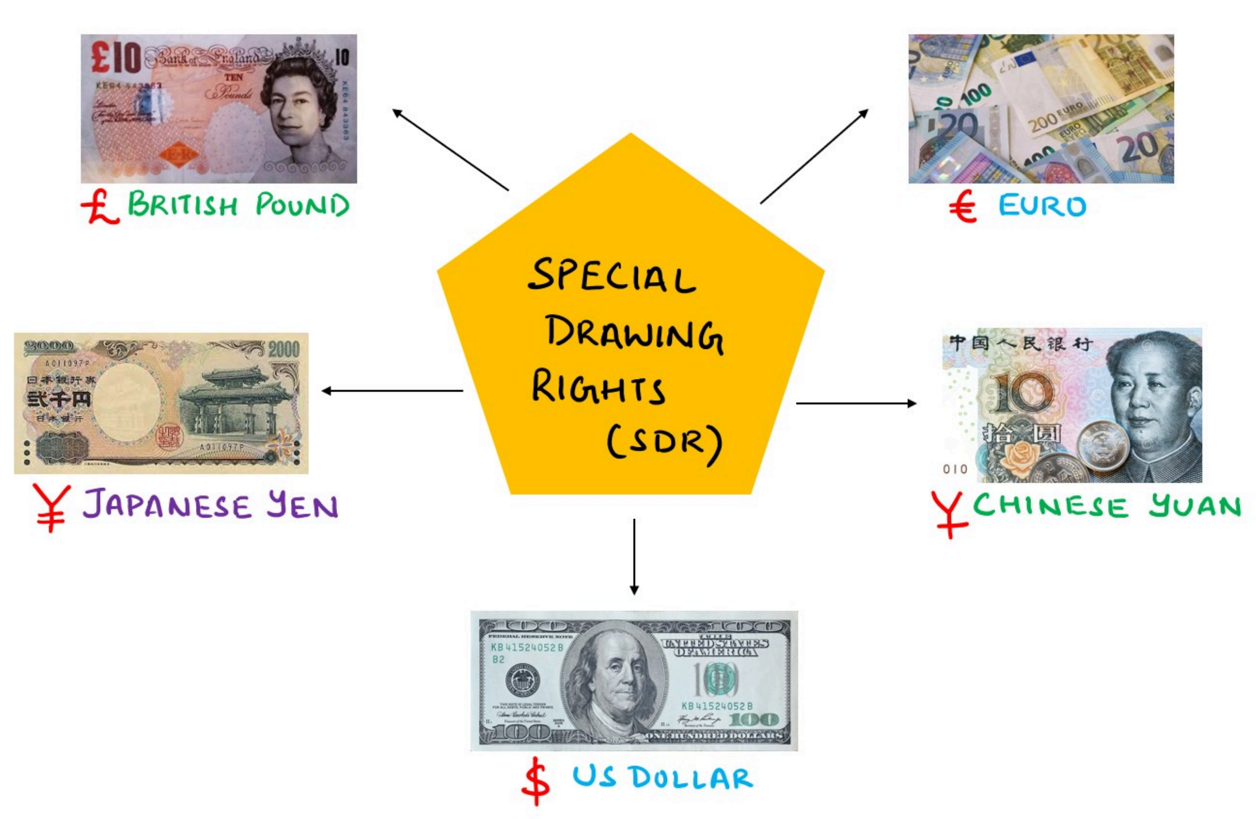
3. International Monetary Fund (IMF)

When a country joins the IMF, it contributes a certain sum of money, called a quota, broadly based on its relative size in the global economy. The IMF can draw on this pool of money to lend to countries, and it uses the quota as the basis of how much a country can borrow from the Fund. It is also the basis on which the IMF allocates special drawing rights (SDRs). The quota also determines the voting rights of the individual members.



The IMF uses a quota formula to help assess a member's relative position. The current quota formula is a weighted average of GDP (weight of 50%), openness (30%), economic variability (15%), and international reserves (5%). For this purpose, GDP is measured through a blend of GDP based on market exchange rates (weight of 60%) and on purchase power parity exchange rates (40%). The formula also includes a "compression factor" that reduces the dispersion in calculated quota shares across members.

3. International Monetary Fund (IMF)



Quotas are denominated in Special Drawing Rights (SDRs). SDR value is set using a basket of 5 currencies; U.S. dollar 41.73%, Euro 30.93%, Renminbi (Chinese yuan) 10.92%, Japanese yen 8.33%, British pound 8.09%. The SDR Basket is reviewed every 5 years. The largest member of the IMF is the United States. The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. Also called **paper gold**, an SDR is neither paper nor gold but an accounting entry.

A member's quota determines the country's financial and organizational relationship with the IMF, through:

Subscriptions: It can be called subscription fee that a member have to pay when member joins IMF and subscription is decided with the help of IMF quota. A member must pay its subscription in full upon joining the Fund: up to 25% must be paid in SDRs or widely accepted currencies (such as the U.S. dollar, the euro, the yen, or the pound sterling), while the rest is paid in the member's own currency.

Voting power: IMF quota determines voting power of any member in IMF decisions. Each IMF member's votes are comprised of basic votes plus one additional vote for each SDR 100,000 of quota. The number of basic votes is fixed at 5.502% of total votes under 2008 reforms which is almost 3 times higher than basic votes percentage in previous quota system.

Access to finance from IMF: IMF quota is used to decide amount of finance a member can obtain from IMF. For example, under Stand-By and Extended Arrangements, a member can borrow up to 200% of its quota annually and 600% cumulatively. However, access may be higher in exceptional circumstances.

Quotas of all Fund members are reviewed at intervals of not more than 5 years. India's quota is 2.76%. In January 2016, India's voting rights were increased to 2.6% from earlier 2.3%.

Gold remains an important asset in the reserve holdings of several countries, and the IMF is still one of the world's largest official holders of gold.

New Arrangements to Borrow (NAB) acts as the second line of defense i.e. after quota resources are exhausted substantially. **Bilateral Borrowing Arrangements (BBA)** are used as a third line of defense after quota and NAB resources are exhausted substantially.

South Asia Regional Training and Technical Assistance Center (SARTTAC) was set up in India in 2017 after an agreement between India and IMF. SARTTAC serves 6 member countries Bangladesh, Bhutan, India, Maldives, Nepal & Sri Lanka. It provides training to government & public sector employees, enhance their technical and analytical skills and improve the quality of their inputs into policy.

3. International Monetary Fund (IMF)

IMF loans are usually provided under an "arrangement", which stipulates the conditions the country must meet in order to gain access to the loan. All arrangements must be approved by the Executive Board. Arrangements are based on economic programs formulated by countries in consultation with the IMF and presented to the Executive Board in a '**letter of intent**'. Loans are then released in phased installments as the program is carried.

Over the years, the IMF has developed a number of loan instruments, or facilities, that are tailored to address the specific circumstances of its diverse membership. Low-income countries may borrow at a **concessional interest rate** through the Poverty Reduction and Growth Facility (PRGF).

Non-concessional loans are provided through five main facilities: Stand-By Arrangements (SBA), the Extended Fund Facility (EFF), the Supplemental Reserve Facility (SRF), the Contingent Credit Lines (CCL), and the Compensatory Financing Facility (CFF). Except for the PRGF, all facilities are subject to the IMF's market-related interest rate, known as the 'rate of charge', and some carry an interest rate premium, a 'surcharge'.

- **Stand-By Arrangements (SBA):** The SBA is designed to address short-term balance of payments problems and is the most widely used facility of the IMF. The length of SBA is typically 12-18 months.
- **Extended Fund Facility (EFF):** This facility was established to help countries address more protracted balance-of-payments problems with roots in the structure of the economy. Arrangements under the EFF are thus longer (3 years).
- **Supplemental Reserve Facility (SRF):** The SRF was introduced to meet a need for very short-term financing on a large scale. Countries must repay the loan after a maximum of 2.5 years, but are expected to repay one year earlier. All SRF loans carry a substantial surcharge of 3-5 percentage points.
- **Contingent Credit Lines (CCL):** The CCL differs from other IMF facilities in that it aims to help members prevent crises. Established in 1997, it is designed for countries implementing sound economic policies, which may find themselves threatened by a crisis elsewhere in the world economy — a phenomenon known as "financial contagion". The CCL is subject to the same repayment conditions as the SRF, but carries a smaller surcharge.
- **Compensatory Financing Facility (CFF):** The CFF was established to assist countries experiencing either a sudden shortfall in export earnings or an increase in the cost of food imports caused by fluctuating world commodity prices. The financial terms are the same as those applying to the SBA, except that CFF loans carry no surcharge.

The rate of charge is based on the SDR interest rate, which is revised weekly to take account of changes in short-term interest rates in the major international money markets. The IMF discourages excessive use of its resources by imposing a surcharge on large loans, and countries are expected to repay loans early if their external position allows them to do so.

3. International Monetary Fund (IMF)

The IMF for many years provided assistance to low-income countries through the Enhanced Structural Adjustment Facility (ESAF). In 1999, however, a decision was made to strengthen the focus on poverty, and the ESAF was replaced by the PRGF. Loans under the PRGF are based on a Poverty Reduction Strategy Paper (PRSP), which is prepared by the country in cooperation with civil society and other development partners, in particular the World Bank. The interest rate levied on PRGF loans is only 0.5%, and loans may be repaid over a maximum period of 10 years.

3. International Monetary Fund (IMF)

The IMF provides emergency assistance to countries that have experienced a natural disaster or are emerging from conflict. Emergency loans are subject to the basic rate of charge and must be repaid within 5 years.

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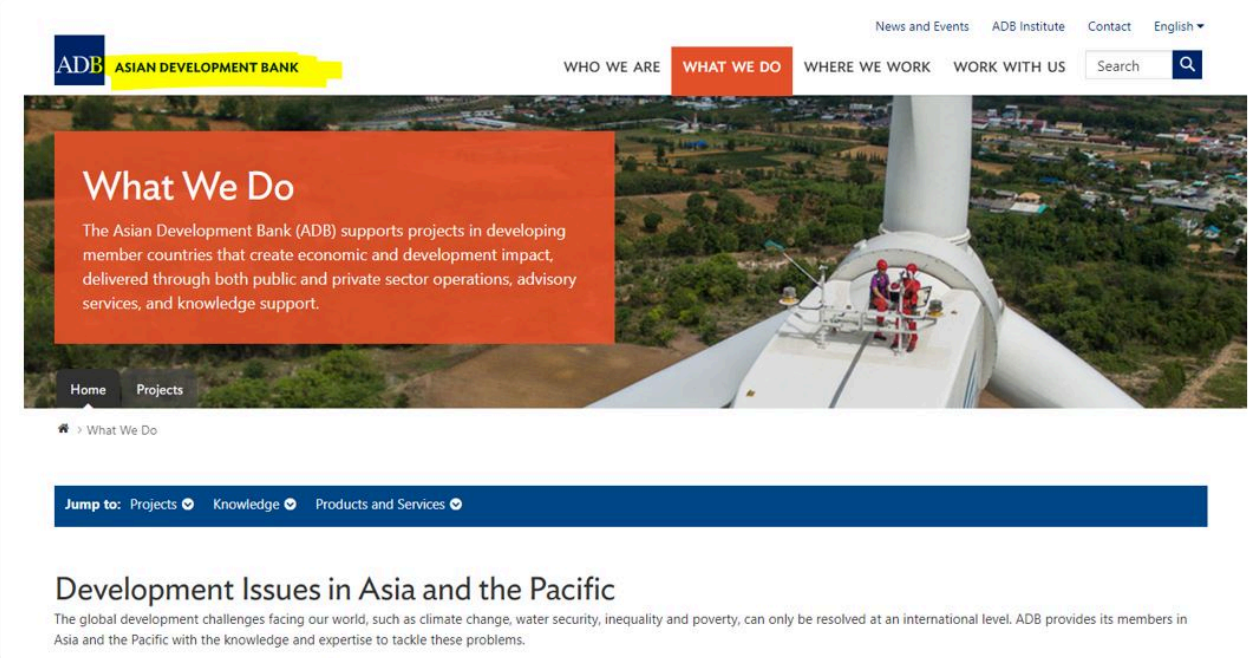
4. Asian Development Bank



The Asian Development Bank, ADB is a regional development bank, established in 1966, with headquarters at Manila, Philippines. As in Nov 2023, the ADB has 68 members, of which 49 are from within Asia and the Pacific and 19 are from other countries. In March 2019, Niue was added as new member country of ADB.

The ADB defines itself as a social development organization that is dedicated to reducing poverty in Asia and the Pacific through inclusive economic growth, environmentally sustainable growth, and regional integration. This is carried out through investments in the form of loans, grants and information sharing.

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4. Asian Development Bank

The Agreement establishing the Asian Development Bank, known as the ADB Charter, vests all the powers of the institution in the Board of Governors, which in turn delegates some of these powers to the Board of Directors. The Board of Governors meets formally once a year during ADB's Annual Meeting. The Finance Minister of India is the India’s governor on the Board of the Governors of the Asian Development Bank and in his absence the finance secretary is the alternate governor.

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4. Asian Development Bank

The 12 Directors of the ADB Board of Directors are elected by the Board of Governors. 8 of the 12 are elected from within Asia and the Pacific and 4 others are elected from outside the region.

The ADB is modeled closely on the World Bank, and has a similar weighted voting system where votes are distributed in proportion with members' capital subscriptions. Japan holds the largest proportion of shares in ADB followed by the USA.

The **Green Bond program** enables ADB to support its developing member countries seeking to mitigate greenhouse gas (GHG) emissions and adapt to the consequences of climate change, whilst delivering environmentally sustainable growth to help reduce poverty and improve the quality of life of their people.

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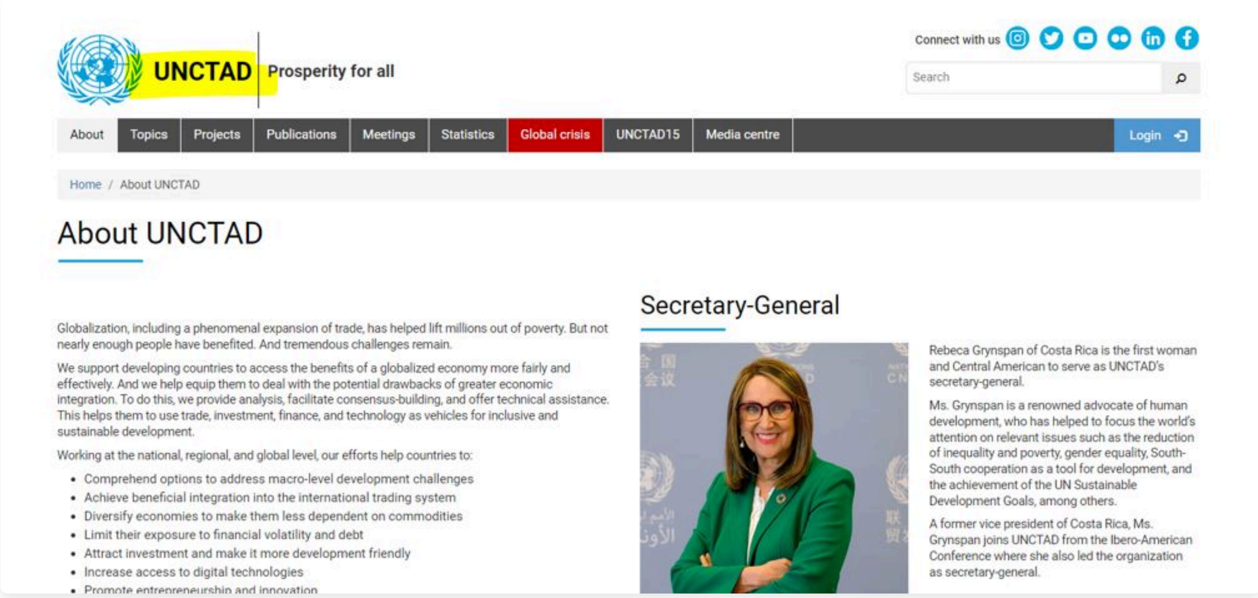
5. UNCTAD



The United Nations Conference on Trade and Development (UNCTAD) was established in 1964 as a permanent intergovernmental body. Its headquarters is in Geneva, Switzerland. The current Secretary-General **Mukhisa Kituyi** took office on 1st September 2013.

UNCTAD is the part of the United Nations Secretariat dealing with trade, investment, and development issues. The organization's goals are to: "maximize the trade, investment and development opportunities of developing countries and assist them in their efforts to integrate into the world economy on an equitable basis".

UNCTAD was established by the United Nations General Assembly in 1964 and it reports to the UN General Assembly and United Nations Economic and Social Council. It is also part of the United Nations Development Group.

In 2024, United Nations Conference on Trade and Development (UNCTAD) was rebranded as UN Trade and Development.

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5. UNCTAD

UNCTAD members are divided into four lists, the division being based on United Nations Regional Groups.

- List A consists mostly of countries in the African and Asia-Pacific Groups of the UN.
- List B consists of countries of the Western European and Others Group.
- List C consists of countries of the Group of Latin American and Caribbean States (GRULAC).
- List D consists of countries of the Eastern European Group.

India is member of List A.

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5. UNCTAD

The UNCTAD conferences take place once in 4 years. UNCTAD XIV was held in Nairobi, Kenya in 2016. UNCTAD II was held in New Delhi in 1968.

Trade and Development Report is issued every year by UNCTAD. It analyses current economic trend and major policy issues of international concern and makes suggestions for addressing these issues at various levels. Other reports published by UNCTAD are World Investment Report, Commodities and Development Report, Digital Economy Report, The Least Developed Countries Report.

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6. G-20

The G20 was formed in 1999, as a forum of Finance Ministers and Central Bank Governors, in recognition of the fact that there was a major shift in the global economic weight from the advanced economies to emerging market economies. However, G20 rose in to prominence in 2008 when it was elevated from a forum of Finance Ministers and Central Bank Governors to that of G20 Heads of Nations in order to effectively respond to the global financial crisis of 2008 and insulate the world from major economic collapse. The first G20 Summit was held in November 2008 in Washington DC under the shadow of the greatest financial crisis.

India hosted G20 Presidency in 2022-23. The African Union (AU) has been made a permanent member of the G20 in 2023.The Presidency of G20 is usually a year-long event of various meetings (across a range of policy issues) culminating with a Leaders' Summit.

The work of the G20 is generally divided into two tracks.

The **Finance track** comprises all meetings with G20 finance ministers and central bank governors, and their deputies. Convening several times throughout the year, they focus on financial and economic issues, such as monetary, fiscal and exchange rate policies, infrastructure investment, financial regulation, financial inclusion and international taxation.

The **Sherpa track** focuses on broader issues such as political engagement, anti-corruption, development, trade, energy and climate change, gender equality, among others. Each G20 country is represented at these meetings by its relevant minister and by its designated Sherpa, or Emissary. The Sherpa engages in planning, negotiation and implementation tasks on behalf of the leader of their respective country. Each Sherpa guides their minister and head of State or Government accordingly on the progress of the G20, and delegates' dialogue and topics to relevant working groups.

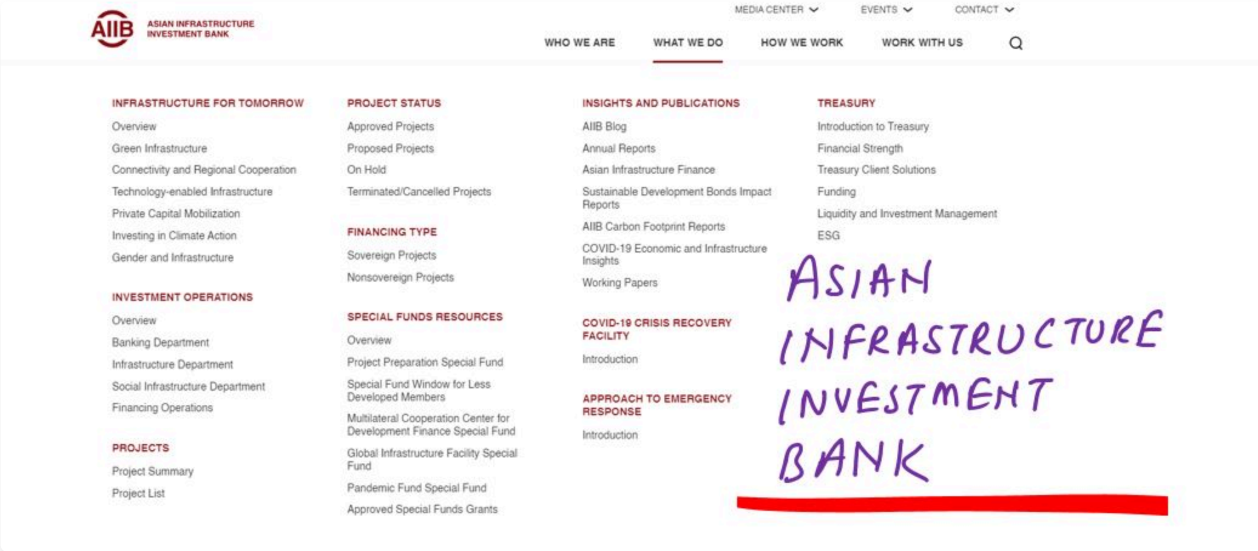
7. Shanghai Cooperation Organisation

The Shanghai Cooperation Organisation (SCO), or Shanghai Pact, was formed in 2001 by the leaders of China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan. The organisation has expanded its membership to 8 countries when India and Pakistan joined it in 2017. It has accorded Observer status to 4 countries; Afghanistan, Belarus, Iran and Mongolia. The SCO is widely regarded as the alliance of the East, due to its growing centrality in Asia-Pacific.

The Heads of State Council (HSC) is the supreme decision-making body in the SCO, it meets once a year and adopts decisions and guidelines on all important matters of the organisation. The SCO's official languages are Russian and Chinese.

The organisation has 2 permanent bodies — the SCO Secretariat based in Beijing and the Executive Committee of the Regional Anti-Terrorist Structure (RATS) based in Tashkent. The SCO Secretary General and the Director of the Executive Committee of the SCO RATS are appointed by the Council of Heads of State for a term of 3 years.

8. Asian Infrastructure Investment Bank



The Asian Infrastructure Investment Bank (AIIB) is a multilateral development bank. It is headquartered in Beijing, and began operations in January 2016. It has approx. 103 member countries.

The Board of Governors consists of one Governor and one Alternate Governor appointed by each member country. From India, the Governor is the Minister of Finance and the Alternate Governor is Secretary (Economic Affairs).

The non-resident Board of Directors is responsible for the direction of the Bank's general operations, exercising all powers delegated to it by the Board of Governors.

Unlike most other multilateral development banks set up by advanced economies, AIIB is the first major multilateral development bank where principal contributors are the borrowing members themselves. India is the Second Largest shareholder in the AIIB and its Largest borrower.

The objective is to foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors.

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9. New Development Bank

The New Development Bank (NDB), formerly referred to as the BRICS Development Bank, is a multilateral development bank established by the BRICS states (Brazil, Russia, India, China and South Africa). The NDB is currently headquartered in Shanghai. During the sixth BRICS Summit in Fortaleza (2014), the leaders signed the Agreement establishing the New Development Bank (NDB). All 5 member countries have equal shareholding and voting share of 20% each. In Sep 2021, the NDB approved the United Arab Emirates, Uruguay and Bangladesh as its first new member countries. Egypt joined in 2023.

From India, the Governor is the Minister of Finance and the Alternate Governor is Secretary (Economic Affairs). K. V. Kamath, from India, is the first president of the NDB.

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1. Introduction

An export or import manager plays a crucial role in ensuring the smooth flow of goods across international borders by overseeing the necessary documentation requirements. Documentation is the backbone of any export transaction, as it facilitates legal compliance, confirms the terms of the agreement, and ensures that goods reach their destination without delays or issues.

Here are some key points explaining the importance of documentation for an export or import manager:

1. **Legal Compliance**: Each country has its own set of regulations, tariffs, and customs requirements. Proper documentation ensures adherence to these regulations, preventing legal issues and potential fines or delays.

2. **Facilitating Customs Clearance**: Accurate and complete documentation expedites the customs clearance process. It includes documents like the bill of lading, commercial invoice, packing list, and certificates of origin, among others.

3. **Payment and Financial Aspects**: Documentation plays a crucial role in the financial transactions related to international trade. Documents like letters of credit, bills of exchange, and certificates of insurance facilitate payments and financial transactions between the parties involved.

4. **Risk Mitigation**: Comprehensive documentation minimizes the risk of disputes between the exporter and the importer. Clear terms and conditions outlined in the documents help in resolving potential conflicts.

5. **Logistics and Shipment Tracking**: Documents like the packing list and bill of lading provide essential information for tracking and managing the shipment, ensuring that the goods reach the intended destination.

6. **Communication and Information Sharing**: Documentation serves as a means of communication between various parties involved in the transaction, including exporters, importers, banks, customs officials, and freight forwarders.

2. Export Documentation Requirements in India

Export documentation in India has evolved a great deal particularly since 1990. Efforts are on a faster footing to streamline and modernize the system further. Prior to 1990, the documentation was all manual and not at all coordinated. The result was lot of delays and mistakes, rendering the task very clumsy, tiresome, repetitive and truly frustrating. India adopted the **ADS (Aligned Documentation System)** in 1991. ADS is the internationally accepted documentation system. ADS uses a Master Document that contains the information common to all documents forming part of the aligned series.

Before exporting goods, it is mandatory for exporters and export firms to fulfill the legal formalities, including securing an export license. The following are the formalities to obtain an export license.

1. **Bank account number:** An exporter must open an account in a bank authorised by the RBI and get an account number.
2. **IEC code:** An export firm must obtain an IEC (Importer Exporter Code) from the Directorate General for Foreign Trade (DGFT) or the Regional Import Export Licensing Authority by submitting documents such as the exporter's profile, prescribed certificates, two attested photographs and details of non-resident interest. It is a 10 digit number.
3. **Registration-cum-membership certificate:** An export firm should get itself registered with the appropriate Export Promotion Council, such as the Engineering Export Promotion Council (EEPC) and the Apparel Export Promotion Council (AEPC), and obtain a Registration Cum Membership Certificate (RCMC).
4. **Registration with ECGC:** An export firm must also get itself registered with the ECGC (Export Credit and Guarantee Corporation) in order to protect itself from any uncertainties in payments brought upon by political or commercial risks.

3. Key Documents

Let us discuss some of important documents in the process of exports or imports.

Bill of Lading (B/L): Bill of Lading is a document given by the shipping agency for the goods shipped for transportation from one destination to another and is signed by the representatives of the carrying vessel. A Bill of lading is an undertaking from the shipping company to transfer the goods to the port of destination. It is freely transferable. In case the Goods are transported by the air, then Airway Bill is issued in place of Bill of Lading.

Shipping Bill: Shipping Bill contains information about the goods that are exported. That is, it contains particulars such as, name of the vessel, port at which the goods are to be discharged, country of final destination and exporter's name and address. A Shipping Bill is essential for an export transaction as it is on the basis of this document that the customs grants clearance to the export.

Mate's Receipt: It is issued by the captain or commanding officer of a ship to an exporter. This receipt acts as evidence that the exporter's cargo has been loaded on the ship. It contains information such as the name of the vessel, berth, date of shipment, condition of the cargo when it was loaded, description of the packages of the cargo, number of packages and marks on the packages. Once the port dues are received, the port superintendent gives the Mate's Receipt to the C and F agent concerned. It is only after the Mate's Receipt has been obtained that the shipping company will issue the bill of lading.

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

The certificate must provide that the information required by the credit and should be consistent with all other documents. It would normally include :

1. The name of the company and address of the exporter.
2. The name of the importer.
3. Package numbers, shipping marks and description of goods to agree with that on other documents.
4. Any weight or measurements must agree with those shown on other documents.
5. It should be signed and stamped by the Chambers of Commerce.

Commercial Invoice: Commercial Invoice document is provided by the seller to the buyer. Also known as export invoice or import invoice, commercial invoice is finally used by the custom authorities of the importer's country to evaluate the good for the purpose of taxation. It is a seller's bill which contains information about the quantity of goods, total value of goods, number and marks of packaging, name of the ship, etc.

Inspection Certificate: Certificate of Inspection is proof that the goods being exported are of good quality. The exporter contacts the Export Inspection Agency (EIA) or another designated agency and obtains the certificate of inspection after getting the goods inspected.

Letter of Credit (L/C): Letter of Credit is issued by the bank of an importer guaranteeing to honor a draft of a certain amount drawn on it by the exporter. It is an important document because, in international transactions, there is always a risk of the importer defaulting on payment once the goods are received. Thus, to minimize the risk of such defaults, the exporter often demands a letter of credit. A letter of credit enables the exporter to assess the credit worthiness of the importer. It is the most appropriate and secure method of payment for settling an international transaction.

Trade Enquiry: It refers to a document sent by an importer to an exporter, seeking information about the price of goods, terms and conditions for supply of goods, etc. On receipt of a trade enquiry, the exporter prepares a quotation containing the information sought, and sends it to the importer.

Import License: An import license is issued by the Government, permitting an importer to bring in goods from outside the country. In India, for securing an import license, an importer requires an IEC (Importer Expert Code)
number, which is obtained after the importer's registration with the Directorate General for Foreign Trade (DGFT) or the Regional Import Export Licensing Authority.

Shipment Advice: Shipment Advice is a document sent by an exporter to an importer as a proof that the goods ordered have been shipped. It contains information about the bill of lading, name of the vessel, date, port of export, description of goods, etc.

Import General Manifest: It is a document which contains the details of the imported goods. It is a document on the basis of which uploading of cargo takes place.

Bill of Entry: It is a form supplied by the customs office and filled by the importer once the goods are received. Bill of Entry is submitted at the customs office with information such as the name and address of the importer, name of the ship in which the goods were transported, number of packages, marks on the package, description of imported goods, quantity and value of the imported goods, name and address of the exporter, port of destination and customs duty payable.

Packing List: Also known as packing specification, it contains details about the packing materials used in the shipping of goods. It also includes details like measurement and weight of goods. The Packing List must:

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

Marine Insurance Policy: Marine Insurance Policy is an insurance contract under which the insurance company concerned, in return for a premium, agrees to pay an exporter a specified amount in case of loss of goods or damage caused during transport by sea.

Cart Ticket: Also known as a cart chit or a gate pass, it is prepared by an exporter and includes information about the exporter's cargo.

Bill of Exchange: A draft, sometimes referred to as a bill of exchange is the instrument normally used in international commerce for payments. A draft is simply an order written by an exporter instructing an importer, or an importer's agent, to pay a specified amount of money at a specified time. The person or business initiating the draft is known as the maker (exporter). The party to whom the draft is presented is known as the drawee (either importer or the bank of importer).

Drafts fall into two categories, sight drafts and time drafts. A **sight draft** is payable on presentation to the drawee. A **time draft** allows for a delay in payment, normally 30, 60, 90, or 120 days. It is presented to the drawee, who signifies acceptance of it by writing or stamping a notice of acceptance on its face. Once accepted, the time draft becomes a promise to pay by the accepting party. When a time draft is drawn on and accepted by a bank, it is called a **banker's acceptance**. When it is drawn on and accepted by a business firm, it is called a **trade acceptance**.

On the basis of the due date there are two types of Bill of Exchange:

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

Time drafts are negotiable instruments; that is, once the draft is stamped with an acceptance, the maker can sell the draft to an investor at a discount from its face value.

Bank Certificate of Payment: Bank Certificate of Payment indicates that the necessary documents, along with the bill of exchange, which have been presented to the importer, and that payment from the importer has been received in accordance with the exchange control regulations.

Indent: It is a document in which the importer orders for supply of requisite goods to the exporter and contains information on quantity and quality of goods, price to be charged, mode of forwarding the goods, type of packing and mode of payment etc.

Dock Challan: When all formalities of customs are completed then dock charges are required to be paid. When exporter pays these charges, the importer or his clearing agent specifies the amount of dock dues in a challan or in any form. It is called Dock Challan.

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4. Process of Exports and Imports

The process of exports and imports in India involves several steps, regulatory requirements, and documentation. We will discuss the process of Exports and Imports next.

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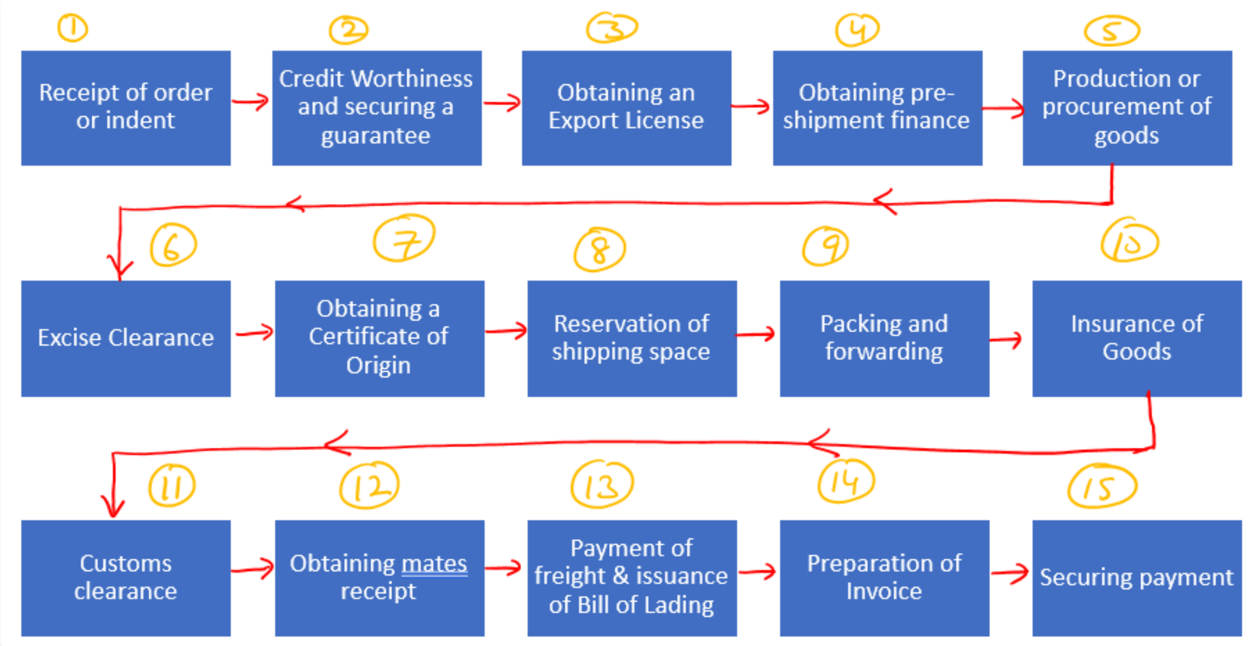
4. Process of Exports and Imports

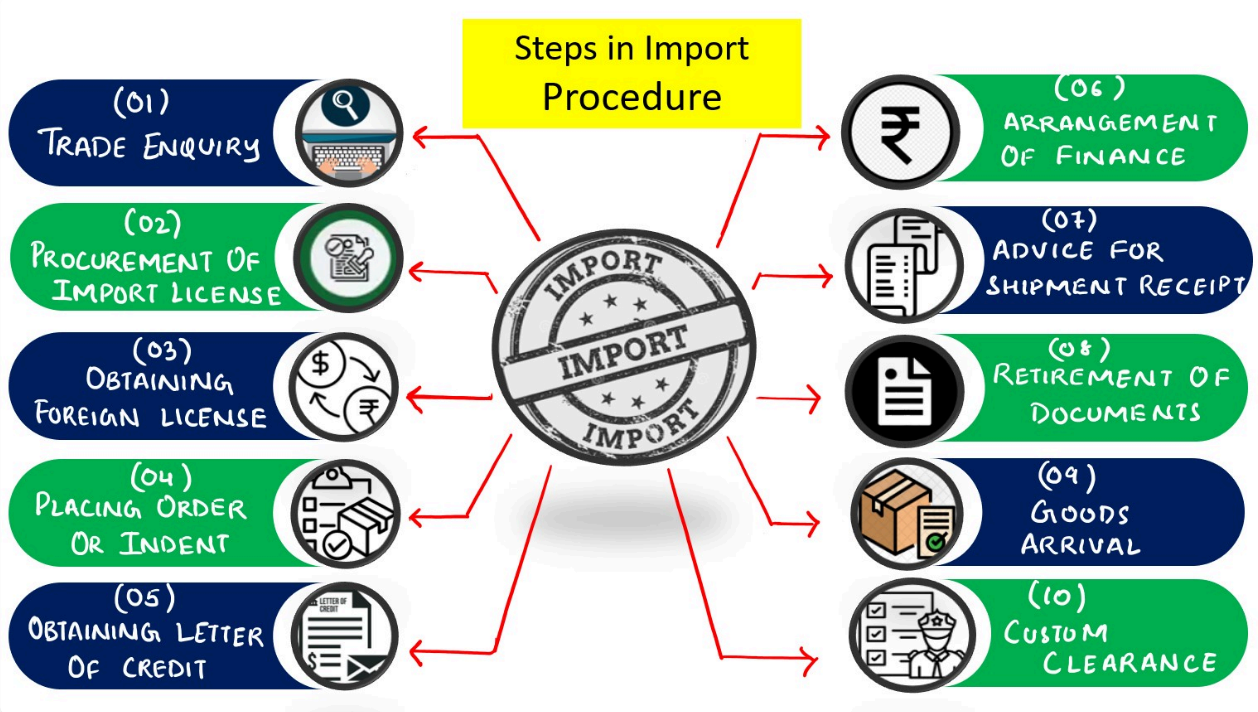


Let us understand step by step process of exporting. XYZ firm will have to adopt the following procedures given below to execute the export order:

1. As the exporter, it should first assess the credit worthiness of the importer. It should then ask for a letter of credit from the importer's bank, guaranteeing to honor a draft of a specified amount drawn on it by the exporter.
2. Once XYZ is assured that it will be paid for the goods, it will need to register itself and secure an Importer Exporter Code number in order to obtain an export license.
3. After obtaining the license, it should acquire pre-shipment finance from a bank in order to purchase raw materials to undertake production and packaging.
4. With the finance made available, XYZ can procure the raw materials and other inputs required and start the production process.
5. After the goods are produced, XYZ must get them inspected before exporting them. For this inspection, it must contact the Export Inspection Agency (EIA) or another designated agency and obtain a certificate of inspection.
6. The exporter then needs to secure excise clearance, for which it must submit an invoice to the regional excise commissioner. The excise commissioner then examines the invoice and, if satisfied, issues the excise clearance to the exporter.
7. Once the excise clearance is received, XYZ needs a certificate of origin, which specifies the country in which the goods are being produced. It allows the importer to claim tariff concessions and other exemptions, if any.
8. The next step is for the exporter to submit an application to a shipping company for booking shipping space in a vessel. In the application, it must provide details such as the type of goods to be shipped and the port of destination. After the application is received, the shipping company will issue a shipping order to the captain of its ship to inform him or her that the specified goods will be received on board after the customs clearance.
9. The goods are then properly packed and labelled with the necessary information such as the importer's name, port of destination, and gross and net weight of the goods.
10. Once the goods are ready for export, XYZ must insure the goods against perils of the sea or any related damage.
11. It must then secure customs clearance before loading the goods on the ship. For getting customs clearance, the exporter must submit the necessary documents to the customs appraiser at Customs House.
12. After Customs clearance, a mate's receipt will be issued by the captain of the ship to the exporter, as evidence that the cargo has been loaded on the ship.
13. Then a bill of lading is issued by the shipping company to the exporter.
14. After the goods are shipped, the exporter will prepare an invoice, which will have quantity of goods and amount to be paid by the importer.
15. The exporter then needs to send a set of documents to the banker, which is to be handed over to the importer on acceptance of a bill of exchange. After receiving the bill of exchange, the importer will instruct its bank to transfer money to the exporter's bank.
16. Last, the exporter would be required to collect a bank certificate of payment, which will state that the necessary documents, along with the bill of exchange, have been presented to the importer for payment, and that the payment has been received in

accordance with the exchange control regulations.

4. Process of Exports and Imports



Let us understand the process from importer's point of view. ABC firm is planning to import textile machinery from Canada. The steps of import will be:

1. The ABC (the importer) should first make an enquiry about the price of the machinery, terms and conditions on which the selected Canadian exporter is willing to supply the goods and such related information. It should then send the trade enquiry to the exporter. On receipt of the trade enquiry, the exporter will prepare a quotation and send it to the importer.
2. The importer must find out whether the goods to be imported are subject to import licensing. If needed, it must secure an import license.
3. The firm must then convert domestic currency into foreign currency to make payment to the exporter. This is done by submitting an application to a bank in the prescribed form along with documents.
4. Once the import license is obtained, the importer can place an order with the exporter specifying the price, quantity and quality of the goods required.
5. The importer will be required to send a letter of credit to the Canadian exporter. This letter is obtained from the importer's bank and acts as a bank guarantee that a draft of a specified amount drawn on it by the exporter will be honored.
6. The next step is for the importer to arrange for finance in order to make payment to the exporter on the arrival of the goods. This is necessary to avoid penalties on account of any delay in payment.
7. Once the goods are shipped, the exporter will send a shipment advice to the importer. This document is proof of dispatch of the goods and contains information about the bill of lading, name of the vessel with date, port of export, description of goods, etc.
8. The importer must then prepare a bill of exchange that is to be handed over to the exporter's banker in exchange for the export documents. After this is done, the importer is required to instruct its bank to transfer money to the exporter's bank account.
9. An import general manifest will be issued by the person in charge of the carrier (ship or airliner) in which the goods are being imported. This is done in order to inform the officer in charge at the dock or the airport about the arrival of the goods. This document contains information about the goods being imported, and it is on the basis of this document that unloading of the cargo will take place.
10. Once the goods arrive at the port, the importer must get customs clearance, which in turn requires a delivery order, a port duty dues receipt and a bill of entry.

5. Process of Custom Clearance

Before the final loading of goods for export, it is necessary for the exporter to get the goods cleared by customs. This is known as Securing Customs Clearance.

In this regard, an exporter first requires to submit the following documents to the customs appraiser at the Customs House:

1. Shipping bill
2. Export order
3. Letter of credit
4. Commercial invoice
5. Certificate of origin
6. Certificate of inspection, if necessary
7. Marine insurance policy.

After the submission of the documents, a carting order is obtained from the superintendent of the port concerned. The carting order acts as a gate pass for the cargo to enter the dock as it gives the necessary instructions to the staff. The physical movement of cargo then takes place from the dock to the port area and finally the goods are stored in an appropriate storage. It may not be possible for the exporter to be present at all times for performing these activities, thus these are done by Clearing and Forwarding (C and F) agent.

A clearing and forwarding agent normally undertakes the following activities:

- Receiving the goods from the factories or premises of the principal or his agents
- Warehousing these goods
- Receiving dispatch orders from the principal
- Arranging dispatch of goods as per the directions of the principal by engaging transport on his own or through the authorised transporters of the principal
- Maintaining records of the receipt and dispatch of goods and the stock available at the warehouse

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6. Documentation during Import Process

The documents, which are used during import process are listed below:

1. Trade enquiry
2. Import license
3. Shipment of advice
4. Import general manifest
5. Bill of entry

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7. Process of Payment

Once the goods for export are shipped, the importer is informed about the shipment by the exporter. However, to claim the title of the goods, the importer is required to submit various documents, such as a copy of the invoice, bill of lading, packaging list, insurance policy, certificate of origin and letter of credit. These documents are sent by the exporter and provided by the exporter's bank only when the bill of exchange has been signed and accepted by the importer. The bill of exchange states the amount that the importer must pay to the bearer of the bill. Once the bill is received and accepted, the importer's bank is instructed by the importer to transfer money to the exporter's bank account.

In case the exporter wants immediate payment from his or her bank even if the payment has not been released by the importer, then he or she can secure payment by signing a letter of indemnity. This letter acts as an undertaking that the exporter will indemnify the bank, along with the accrued interest, in case of non-payment by the importer.

Last, when the exporter receives the payment from the bank, he or she obtains a bank certificate of payment. This certificate states that the necessary documents along with the bill of exchange have been presented to the importer for payment and that the payment has been received in accordance with the exchange control regulations.

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8. Factoring

Factoring is a receivables management and financing mechanism, which is designed to improve cash flows and cover the credit risk of the seller. Unlike other forms of receivables financing, like bills discounting and forfeiting; the Factoring involves a continuous relationship between a factor and a seller, to finance and administer the receivables of the latter. Factors are financial companies, which pay cash against the credit sales of the client, and obtain the right to receive the future payments on those invoices from the debtors of the client.

Factor companies in India offer various types of factoring services depending upon the requirement of the client. Various kind of factoring offered are: with recourse and without recourse factoring, domestic and international factoring; and disclosed and undisclosed factoring. A brief description of each of these factoring services is provided below, along with their relative share in the Indian factoring market.

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8. Factoring

Domestic factoring is undertaken for financing of receivables within the country, and involves only one factor. Factoring for cross-border sales transactions is called **international factoring**. It is also called export or import factoring depending on the location of the factoring customer. The factor either handles the transactions directly, or uses a cooperation partner in the respective country (Two factor arrangement).

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8. Factoring

A factoring arrangement can be entered into with recourse or without recourse to the seller. In case of **with recourse factoring,** the factor has legal recourse to the seller, in case the debtor fails to pay on maturity. Thus the factor acts as an agent for collection of bills and does not cover the risk of customer's failure to pay debt or interest on it.

Alternatively, in **non-recourse factoring**, the factor does not have recourse to the seller in case of default and bears the credit risk in case of the buyer's inability to pay. However, there is generally a limited recourse in case of non-recourse factoring in case of trade dispute between the buyer and the seller regarding quality and supply of goods.

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8. Factoring

Under **disclosed factoring**, the debtor is informed of the assignment of debts to the factor and is accordingly required to cooperate with the factor for future transactions and collections.

Alternatively, under **undisclosed factoring**, the debtor is not informed of the agreement entered into between the seller and the factor. In this case, the debtor makes payments directly to the seller's account, and the factor is not directly involved in the debt collection process

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9. Post-Shipment Credit

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.

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.

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9. Post-Shipment Credit

Export bills (non L/C Bills) is used in terms of sale contract/order that 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.

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9. Post-Shipment Credit

The risk of payment is less under the L/C, as the issuing bank makes sure the payment. The risk is further reduced, if a bank guarantees the payments by confirming the L/C. Because of the inborn security available in this method, banks often become ready to extend the finance against bills under L/C.
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 negotiating bank, and the lending bank to properly check all the necessary documents before submission.

9. Post-Shipment Credit

Bills can only be sent on collection basis, if the bills drawn under L/C 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 bank's branch for collection and not from the date of advance.

9. Post-Shipment Credit

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.

9. Post-Shipment Credit

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.

9. Post-Shipment Credit

Duty Drawback is a type of discount given to the exporter in his own country. This discount is given only, if the in-house 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.

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10. Pre-Shipment Credit

As soon as order is confirmed and letter of credit is received, the exporter approaches the bank to receive pre-shipment finance which he needs to buy raw materials and other inputs to produce good to be exported. Firms require finance for various activities such as purchase of raw material and manufacture of goods. In the case of exporters, this finance is obtained from banks in the form of advances known as pre-shipment finance. These advances are called pre-shipment finance as they are used in operations completed before the final shipment of goods takes place. The main objectives behind pre-shipment credit or pre export finance are 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.

There are 2 types of Pre-Shipment credit:

1. Packing Credit
2. Advance against Cheque/Drafts received as advance payment

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10. Pre-Shipment Credit

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

- A ten-digit importer exporter code number allotted by DGFT.
- Exporter should not be in the caution list of RBI (Reserve Bank of India).
- If the goods to be exported are not under OGL (Open General License), 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 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.
- License 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.

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10. Pre-Shipment Credit

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.

11. Countertrade

Countertrade is an alternative means of structuring an international sale when conventional means of payment are difficult, costly, or nonexistent. A government may restrict the convertibility of its currency to preserve its foreign exchange reserves so that they can be used to service international debt commitments and purchase crucial imports. This is problematic for exporters. Non-convertibility implies that the exporter may not be paid in his or her home currency; and few exporters would desire payment in a currency that is not convertible. Countertrade is a common solution.

The main attraction of countertrade is that it gives a firm a way to finance an export deal when other means are not available. A firm that insists on being paid in hard currency may be at a competitive disadvantage vis-à-vis one that is willing to engage in countertrade.

The main disadvantage of countertrade is that the firm may receive unusable or poor-quality goods that cannot be disposed of profitably.

11. Countertrade

With its roots in the simple trading of goods and services for other goods and services, countertrade has evolved into a diverse set of activities that can be categorized as 5 distinct types of trading arrangements, which are given below:

Barter: Barter is the direct exchange of goods or services between two parties without a cash transaction.

Counterpurchase: Counterpurchase is a reciprocal buying agreement. It occurs when a firm agrees to purchase a certain amount of materials back from a country to which it made a sale.

Offset: An offset is similar to a counterpurchase in so far as one party agrees to purchase goods or services with a specified percentage of the proceeds from the original sale. The difference is that this party can fulfill the obligation with any firm in the country to which it made the sale. From an exporter's perspective, this is more attractive than a straight counterpurchase agreement because it gives the exporter greater flexibility to choose the goods that it wishes to purchase.

Switch Trading: The term switch trading refers to the use of a specialized third-party trading house in a countertrade arrangement. When a firm enters a counterpurchase or offset agreement with a country, it often ends up with what are called counterpurchase credits , which can be used to purchase goods from that country. Switch trading occurs when a third-party trading house buys the firm's counterpurchase credits and sells them to another firm that can better use them.

Compensation or Buybacks: A buyback occurs when a firm builds a plant in a country or supplies technology, equipment, training, or other services to the country and agrees to take a certain percentage of the plant's output as partial payment for the contract.

12. INCOTERMS

Incoterms® (International Commercial Terms) serve as the standardized language of global trade. Developed by the International Chamber of Commerce (ICC), these terms are widely used in contracts to define the obligations, costs, and risks associated with the delivery of goods between buyers and sellers worldwide.

By providing clear guidelines, Incoterms help prevent costly misunderstandings and disputes in international transactions. They enhance clarity and predictability, ensuring smooth business operations across different regions.

The latest revision, Incoterms 2020, was introduced in 2019 and remains the most current version. However, some businesses continue to use Incoterms 2010 based on their preferences and contractual agreements.

There are a total of 11 Incoterms, with 7 applicable to all modes of transport and 4 specifically designed for sea and inland waterway transport.

Importance of Incoterms in International Trade

- Defines Responsibilities – Specifies who handles shipping, insurance, and customs clearance.
- Avoids Miscommunication – Standardized meanings prevent disputes in global transactions.
- Determines Cost Allocation – Clarifies who pays for transportation, duties, and taxes.
- Establishes Risk Transfer – Defines when the risk shifts from seller to buyer.
- Simplifies Documentation – Used in contracts, invoices, and shipping documents.

12. INCOTERMS

These 7 Incoterms can be used for any mode of transport, including road, rail, air, and sea. They provide flexibility in contracts and are suitable for international and domestic trade.

Summary of Multimodal Incoterms Responsibilities

Incoterm	Seller Pays for Transport?	Seller Pays for Insurance?	Seller Handles Customs?	Risk Transfers When...
EXW	❌ No	❌ No	❌ No	Buyer picks up goods.
FCA	❌ No	❌ No	✅ Export only	Goods delivered to carrier.
CPT	✅ Yes	❌ No	✅ Export only	Goods handed to first carrier.
CIP	✅ Yes	✅ Yes (min. cover)	✅ Export only	Goods handed to first carrier.
DAP	✅ Yes	❌ No	✅ Export only	Goods ready for unloading.
DPU	✅ Yes	❌ No	✅ Export only	Goods unloaded at destination.
DDP	✅ Yes	❌ No	✅ Export & Import	Goods delivered to buyer's location.

1. EXW (Ex Works)

Meaning: The seller makes the goods available at their premises, and the buyer assumes full responsibility for transportation, export/import duties, and risks.
Seller's Responsibility: Minimal (only making goods available).
Buyer's Responsibility: All costs, risks, and formalities from pickup to final destination.
Best For: Buyers who want complete control over shipping.
Example: A company in India sells machinery under EXW terms. The buyer from Germany must arrange for pickup, customs clearance, and transportation.

2. FCA (Free Carrier)

Meaning: The seller delivers the goods to a carrier or designated place chosen by the buyer. The risk transfers once the goods are handed over.
Seller's Responsibility: Packing, inland transport to carrier, export customs clearance.
Buyer's Responsibility: Main transportation, import clearance, final delivery.
Best For: Sellers who want limited responsibility beyond the export country.
Example: An Indian exporter delivers goods to a shipping company at Mumbai port under FCA terms. The buyer handles ocean freight and customs in the destination country.

3. CPT (Carriage Paid To)

Meaning: The seller pays for transport to a specified destination, but the risk transfers to the buyer once the goods are handed over to the first carrier.
Seller's Responsibility: Transportation costs up to the named place.
Buyer's Responsibility: Risk from when goods are handed to the first carrier.
Best For: Buyers who prefer cost certainty but can manage risks beyond the initial shipment.
Example: A supplier in China ships goods to a warehouse in France under CPT terms. The supplier pays for shipping, but if goods are damaged in transit, the buyer bears the loss.

4. CIP (Carriage and Insurance Paid To)

Meaning: Similar to CPT, but the seller also provides minimum insurance covering the buyer's risk.
Seller's Responsibility: Freight cost, insurance (minimum coverage), and export clearance.
Buyer's Responsibility: Any additional insurance, import customs, and final delivery.
Best For: Buyers who want cost predictability and some insurance coverage.

Example: A Japanese exporter ships electronics to a distributor in Brazil under CIP terms. The exporter arranges transport and insurance, but the risk passes once handed to the carrier.

5. DAP (Delivered at Place)

Meaning: The seller delivers goods to a specified destination (usually the buyer's premises or a port). The risk is transferred once goods are ready for unloading.
Seller's Responsibility: All costs and risks up to the delivery point (excluding import duties).
Buyer's Responsibility: Import clearance, duties, and unloading at the destination.
Best For: Buyers who want hassle-free shipping but can manage customs and unloading.
Example: A German company sells machinery to a buyer in Canada under DAP terms. The seller arranges transport to the buyer's factory, but the buyer pays for import duties.

6. DPU (Delivered at Place Unloaded)

Meaning: Similar to DAP, but the seller is also responsible for unloading the goods at the destination.
Seller's Responsibility: Transport, risk, and unloading at the final destination.
Buyer's Responsibility: Import duties and customs clearance.
Best For: Buyers who want sellers to manage unloading.
Example: A furniture supplier in Vietnam ships goods under DPU terms to a warehouse in Australia. The supplier handles unloading at the warehouse, but the buyer manages import formalities.

7. DDP (Delivered Duty Paid)

Meaning: The seller bears all costs, risks, and import duties/taxes until the goods reach the buyer's location.
Seller's Responsibility: Full transportation, customs duties, and delivery to the final location.
Buyer's Responsibility: None (only unloading, if not included).
Best For: Buyers who want a risk-free, all-inclusive deal.
Example: A US supplier ships goods to a retailer in India under DDP terms. The supplier covers all costs, including customs duties, ensuring hassle-free delivery to the buyer's warehouse.

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12. INCOTERMS

These 4 Incoterms are specifically designed for goods transported via sea or inland waterways. They are not applicable to air, road, or rail transport. These terms are often used for bulk cargo, containerized shipments, and goods transported via ships.

Summary of Sea & Inland Waterway Incoterms Responsibilities

Incoterm	Seller Pays for Transport?	Seller Pays for Insurance?	Seller Handles Customs?	Risk Transfers When...
FAS	❌ No	❌ No	✅ Export only	Goods are placed **next to the ship**.
FOB	❌ No	❌ No	✅ Export only	Goods are **loaded onto the vessel**.
CFR	✅ Yes	❌ No	✅ Export only	Goods are **loaded onto the vessel**.
CIF	✅ Yes	✅ Yes (min. cover)	✅ Export only	Goods are **loaded onto the vessel**.

1. FAS (Free Alongside Ship)

Meaning: The seller delivers the goods next to the ship at the port of departure. The buyer assumes all costs and risks from that point forward.
Seller's Responsibility: Export clearance, delivering goods alongside the vessel.
Buyer's Responsibility: Loading onto the ship, ocean freight, insurance, import clearance.
Best For: Bulk cargo and heavy machinery that requires specialized loading.
Example: An Indian supplier selling coal to a buyer in China under FAS terms must deliver the coal next to the ship at Mumbai Port. The buyer is responsible for loading it onto the vessel and all subsequent costs.

2. FOB (Free On Board)

Meaning: The seller is responsible for delivering and loading the goods onto the vessel. The risk transfers to the buyer once the goods are on board the ship.
Seller's Responsibility: Export clearance, delivering goods onto the ship.
Buyer's Responsibility: Ocean freight, insurance, import duties, final delivery.
Best For: Buyers who want control over shipping and insurance but prefer sellers to handle export formalities.
Example: A furniture exporter in Vietnam ships wooden furniture under FOB Ho Chi Minh Port terms. The seller ensures the goods are loaded onto the vessel, but from that point, the buyer takes over costs and risks.

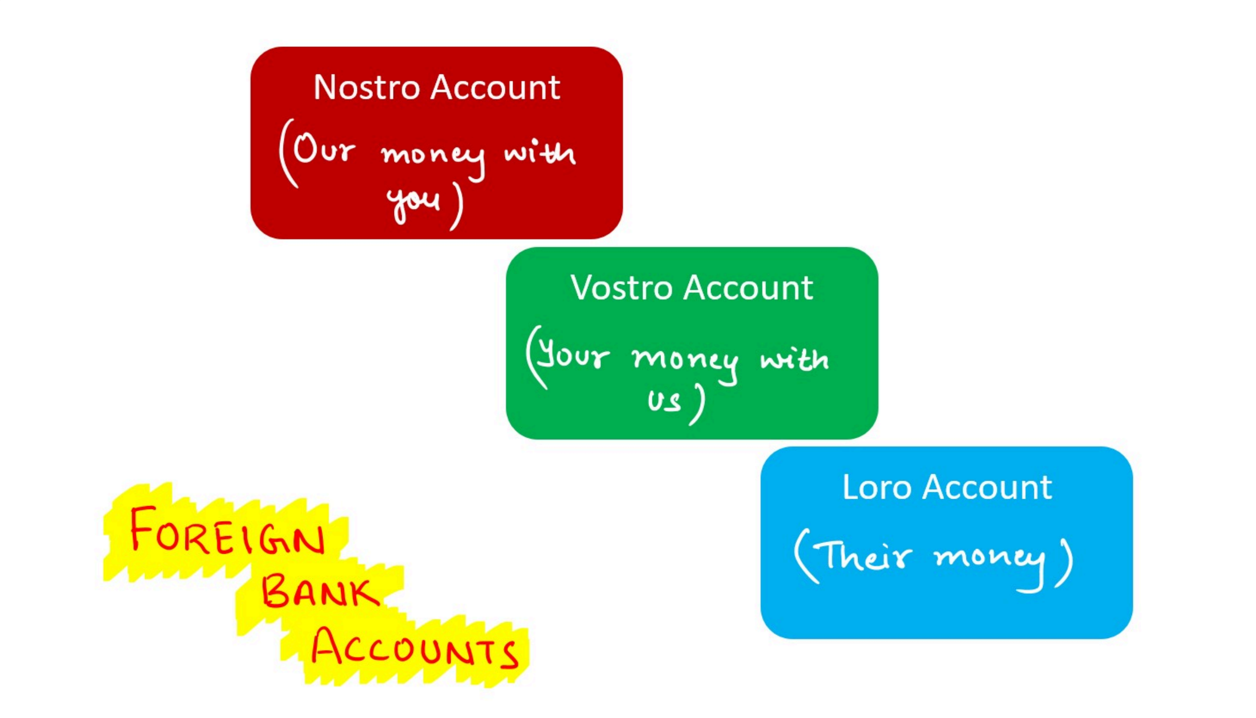
3. CFR (Cost and Freight)

Meaning: The seller pays for shipping costs to the destination port, but the risk transfers to the buyer once the goods are loaded onto the ship.
Seller's Responsibility: Ocean freight, export clearance.
Buyer's Responsibility: Insurance, import duties, final transportation.
Best For: Buyers who want sellers to arrange transport but prefer to handle insurance and final delivery.
Example: A steel manufacturer in Germany sells steel coils to a buyer in the USA under CFR New York Port. The seller pays for ocean freight to New York, but if the goods are damaged in transit, the buyer bears the risk.

4. CIF (Cost, Insurance, and Freight)

Meaning: Similar to CFR, but the seller must also provide minimum insurance covering the buyer's risk.
Seller's Responsibility: Ocean freight, insurance, export clearance.
Buyer's Responsibility: Import duties, final transportation.
Best For: Buyers who want sellers to handle freight and insurance.
Example: A coffee exporter in Brazil ships coffee beans to a buyer in France under CIF Le Havre Port. The seller pays for transport and insurance, but once the goods reach the port, the buyer takes over all responsibilities.

13. Foreign Bank Accounts



Next we will discuss some of Foreign Bank Accounts. These are:

1. NOSTRO Account
2. VOSTRO Account
3. LORO Account
4. Mirror Account

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13. Foreign Bank Accounts

NOSTRO is a Latin word and means 'Ours'. Thus, NOSTRO account means 'our account with you'. It is an account maintained by a bank with its branch or another bank at overseas centre and the account is maintained in foreign currency. An Indian bank in Mumbai maintaining a US dollar account with its branch or a correspondent bank in New York is said to have a NOSTRO account with the New York branch/bank. A bank with international operations has to maintain several NOSTRO accounts for different currencies in the country of the relative currencies in the country of the relative currency.

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13. Foreign Bank Accounts

In Latin, 'VOSTRO' means 'Yours'. Simply put, VOSTRO account means 'your account with us'. This account is maintained in rupees in the books of Indian banks. Suppose, the Chase Manhattan Bank, New York maintains an account in Indian rupees with the Bank of India, Mumbai. This account will be a VOSTRO account for the Bank of India, Mumbai. However, for Chase Manhattan Bank, New York, this is a NOSTRO account.

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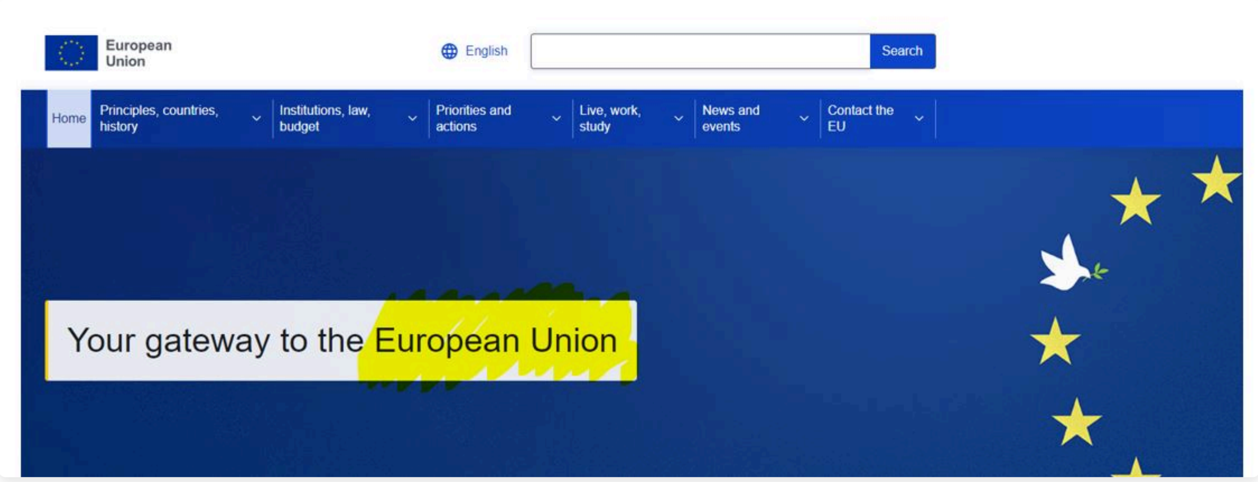
13. Foreign Bank Accounts

In the above mentioned NOSTRO and VOSTRO accounts, there are two parties, i.e., the bank maintaining the foreign currency account and the bank with whom the foreign currency account is maintained. Whereas, in a LORO account a third party is involved. For example, Midland Bank, London instructs Bank of India, Mumbai to debit their NOSTRO account and credit the account of Barclays Bank, London, which is also maintaining their NOSTRO account, with Bank of India, Mumbai. For Midland Bank, London, the account of Barclays Bank with the Bank of India, Mumbai is a LORO account, i.e., an account of the third party from the point of Midland Bank, London.

13. Foreign Bank Accounts

Mirror Account is the reflection of NOSTRO Account in the books of the principal bank. This is maintained for reconciliation purpose and is maintained in both foreign currency and rupees.

1. European Union



The European Union (EU) is a political and economic union of 27 (earlier there were 28 members, now Britain left EU in 2020) member states. The EU has developed an internal single market through a standardised system of laws that apply to all member states in those matters, and only those matters, where members have agreed to act as one. The EU policies aim to ensure the free movement of people, goods, services and capital within the internal market.

The EU and European citizenship were established when the **Maastricht Treaty** came into force in 1993. The treaty also gave the name European Community to the European Economic Community, EEC. The major amendment to the constitutional basis of the EU, the **Treaty of Lisbon**, came into force in 2009. As of the coming into force of the Treaty of Lisbon, the "European Community" seized to exist and legal personality was bestowed to the "European Union".

Two of the original core objectives of the European Economic Community were the development of a common market, subsequently becoming a single market, and a customs union between its member states. The single market involves the free circulation of goods, capital, people and services within the EU, and the customs union involves the application of a common external tariff on all goods entering the market.

European Parliament

The European Parliament shares the legislative and budgetary authority of the Union with the Council of the European Union. Its members are elected every 5 years by universal suffrage.

European Council

The European Council provides political direction. The European Council is the group of heads of state or government of the EU member states. It meets 4 times a year to define the Union's policy agenda and give impetus to integration. The President of the European Council is the person responsible for chairing and driving forward the work of the institution, which has been described as the highest political body of the European Union.

Council of Ministers

The Council of the European Union (informally known as the "Council of Ministers" or just "the Council") is a body holding legislative and some limited executive powers and is thus, the main decision making body of the Union. Its Presidency rotates between the states every 6 months, but every 3 Presidencies now cooperate on a common programme. This body is separate from the European Council, which is a similar body, but is composed of national leaders. The Council is composed of 27 national ministers (one per state).

European Commission

The European Commission (EC) is the executive arm of the Union. It is a body composed of one appointee from each state, but is designed to be independent of national interests. The body is responsible for drafting all law of the European Union and has the ability to propose new laws (bills).

European Central Bank

The European Central Bank (ECB) is the central bank for the eurozone (the states which have adopted the euro) and thus controls monetary policy in that area with an agenda to maintain price stability. It is at the centre of the European System of

Central Banks which comprises all EU national banks. The bank is governed by a Board of National Bank’s Governors and a President. The ECB is located in Frankfurt.

1. European Union

Brexit is the withdrawal of the United Kingdom (UK) from the European Union (EU). In a referendum on 23 June 2016, 51.9% of the participating UK electorate voted to leave the EU. The European Union (Withdrawal) Act 2018 declared "exit day" to be 29 March 2019. The deadline was extended multiple, and finally UK exited on 31 January 2020.

2. SAARC

The South Asian Association for Regional Cooperation (SAARC) is an economic and geopolitical organisation of 8 countries that are located in South Asia. It was founded in Dhaka on 8 December 1985. The SAARC Secretariat is based in Kathmandu, Nepal. The member states are Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. States with observer status include Australia, China, the European Union, Iran, Japan, Mauritius, Myanmar, South Korea and the United States.

The **South Asian Preferential Trading Arrangement (SAPTA)** came into existence in 1995.

The **South Asian Free Trade Area SAFTA Agreement** was signed on 6 January 2004 during 12th SAARC Summit held in Islamabad, Pakistan. The Agreement entered into force on 1 January 2006, and the Trade Liberalisation Programme commenced from 1 July 2006. The foreign ministers of the region signed a framework agreement on SAFTA to reduce customs duties of all traded goods to zero by the year 2016.

In March 2019, the India has withdrawn MFN (Most Favoured Nation) status and tariff concessions from Pakistan, under SAFTA regime. India granted MFN status to Pakistan in 1996, a year after the formation of WTO. Pakistan still has not granted MFN status to India. Pakistan argues it has no benefit of MFN status as on tariff barriers are creating hurdles for smooth exports of Pakistani products to Indian market.

The 19th SAARC summit was originally planned to be held in Islamabad, Pakistan in November 2016. Following the rising diplomatic tensions after the Uri terrorist attack, India announced its boycott of the summit, alleging Pakistan's involvement in the attack. Later, Bangladesh, Afghanistan, Bhutan, Sri Lanka and Maldives also pulled out of the summit, culminating in an indefinite postponement of the summit.

3. ASEAN

The **Association of Southeast Asian Nations (ASEAN)** is a political and economic organisation of 10 countries located in Southeast Asia, which was formed on 8 August 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand. Since then, membership has expanded to include Brunei, Cambodia, Laos, Myanmar (Burma) and Vietnam. Its aims include accelerating economic growth, social progress, sociocultural evolution among its members, protection of regional peace and stability, and opportunities for member countries to discuss differences peacefully. India is one of the four 'Summit level Dialogue Partners' of ASEAN.

ASEAN + 3 was the first of attempts for further integration to improve existing ties with China, Japan, and South Korea. This was followed by the even larger East Asia Summit (EAS), which included ASEAN + 3 as well as India, Australia, and New Zealand. The group became ASEAN + 6 with Australia, New Zealand and India.

India's engagement with the Association of South East Asian Nations (ASEAN) started with its "**Look East Policy**" in the year 1991.

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3. ASEAN

The **Regional Comprehensive Economic Partnership (RCEP)** is a PROPOSED free trade agreement (FTA) between the 10 member states of the Association of Southeast Asian Nations (ASEAN) (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam) and the 6 Asia-Pacific states with which ASEAN has existing free trade agreements (Australia, China, India, Japan, South Korea and New Zealand).

In Nov 2019, the India opted out of the RCEP agreement, in the RCEP Summit held in Bangkok. India decided to pull out because the present agreement does not address concerns of its domestic industry and agriculture, which is likely to be swamped by imports under the agreement. Thus now, as on today, the RCEP has 15 members.

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3. ASEAN

The East Asia Summit (EAS) is a regional forum held annually by leaders of, initially, 16 countries of ASEAN + 6. Membership expanded to 18 countries including Russia and the United States in 2011. Since its establishment, ASEAN has held the central role and leadership in the forum. EAS meetings are held after the annual ASEAN leaders' meetings and plays an important role in the regional architecture of Asia-Pacific. The first summit of EAS was held in Kuala Lumpur, Malaysia on 14 December 2005.

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3. ASEAN

The **ASEAN Free Trade Area (AFTA)** is trade bloc agreement by the Association of Southeast Asian Nations supporting local trade and manufacturing in all ASEAN countries and facilitating economic integration with regional and international allies. It stands as one of the largest and most important free trade areas (FTA) in the world, and together with its network of dialogue partners, drove some of the world's largest multilateral forums and blocs, including Asia-Pacific Economic Cooperation, East Asia Summit and Regional Comprehensive Economic Partnership. The AFTA agreement was signed on 28 January 1992 in Singapore.

Apart from the ASEAN Free Trade Area (AFTA) between ASEAN member states, the regional trade bloc has signed several FTAs with some of the major economies in the Asia-Pacific region. These include:

- ASEAN-Australia-New Zealand FTA (AANZFTA),
- ASEAN-China FTA (ACFTA),
- ASEAN-India FTA (AIFTA),
- ASEAN-Korea FTA (AKFTA),
- ASEAN-Japan Comprehensive Economic Partnership (AJCEP).

The **ASEAN–India Free Trade Area (AIFTA)** is a free trade area among the ten member states of the Association of Southeast Asian Nations (ASEAN) and India. The initial framework agreement was signed in 2003 and the final agreement was in 2009. The free trade area came into effect on 1 January 2010. The key elements of the agreement cover FTA in Goods, Services and Investment, as well as Areas of Economic Cooperation. The agreement also provided for an Early Harvest Programme (EHP) which covers areas of Economic Cooperation and a common list of items for exchange of tariff concessions as a confidence building measure.

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4. NAFTA

The **North American Free Trade Agreement (NAFTA)** is an agreement signed by Canada, Mexico, and the United States, creating a trilateral rules-based trade bloc in North America. The agreement came into force in 1994. It superseded the Canada–United States Free Trade Agreement between the U.S. and Canada.

On September 30, 2018, it was announced that the United States, Mexico, and Canada had come to an agreement to replace NAFTA with the **United States–Mexico–Canada Agreement (USMCA)**. The USMCA is the result of the renegotiation of NAFTA that the member states undertook from 2017 to 2018, though NAFTA will remain in force until the USMCA is ratified by its members. It is sometimes named as “**New NAFTA**”.

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5. Mercosur

Mercosur is a South American trade bloc established by the Treaty of Asunción in 1991 and Protocol of Ouro Preto in 1994. Its full members are Argentina, Brazil, Paraguay and Uruguay. Venezuela is a full member but has been suspended since December 1, 2016. Associate countries are Bolivia, Chile, Peru, Colombia, Ecuador and Suriname. Observer countries are New Zealand and Mexico.

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5. Mercosur

A Framework Agreement was signed between India and MERCOSUR on 17th June 2003. The aim of this Framework Agreement is to create conditions and mechanisms for negotiations in the first stage, by granting reciprocal tariff preferences and in the second stage, to negotiate a free trade area between the two parties in conformity with the rules of the World Trade Organization. As a follow up to the Framework Agreement, a Preferential Trade Agreement (PTA) was signed in New Delhi in January 2004. The aim of this Preferential Trade Agreement is to expand and strengthen the existing relations between MERCOSUR and India and promote the expansion of trade by granting reciprocal fixed tariff preferences with the ultimate objective of creating a free trade area between the parties.

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1. Introduction

The Indian Contract Act, 1872 codifies the legal principles that govern ‘contracts’. The Act basically identifies the ingredients of a legally enforceable valid contract in addition to dealing with certain special types of contractual relationships like indemnity, guarantee, bailment, pledge, quasi contracts, contingent contracts etc. All agreements are not studied under the Indian Contract Act, 1872, as some of those are not contracts. Only those agreements, which are enforceable by law, can be termed as ‘contracts’.

The Indian Contract Act, 1872 came into force on 1st September, 1872.

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2. Definitions

Section 2 of the Indian Contract Act, 1872 defines the following terms.

Proposal

When one person signifies to another his willingness to do or to abstain from doing anything, with a view to obtaining the assent of that other to such act or abstinence, he is said to make a proposal.

Promise

When the person to whom the proposal is made signifies his assent thereto, the proposal is said to be accepted. A proposal, when accepted, becomes a promise.

Promisor and Promisee

The person making the proposal is called the "promisor", and the person accepting the proposal is called the "promisee".

Consideration

When, at the desire of the promisor, the promisee or any other person has done or abstained from doing, or does or abstains from doing, or promises to do or to abstain from doing, something, such act or abstinence or promise is called a consideration for the promise.

Agreement

Every promise and every set of promises, forming the consideration for each other, is an agreement.

Reciprocal Promises

Promises which form the consideration or part of the consideration for each other are called reciprocal promises;

Void Agreement

An agreement not enforceable by law is said to be void.

Contract

An agreement enforceable by law is a contract.

Voidable Contract

An agreement which is enforceable by law at the option of one or more of the parties thereto, but not at the option of the other or others, is a voidable contract;

Void Contract

A contract which ceases to be enforceable by law becomes void when it ceases to be enforceable.

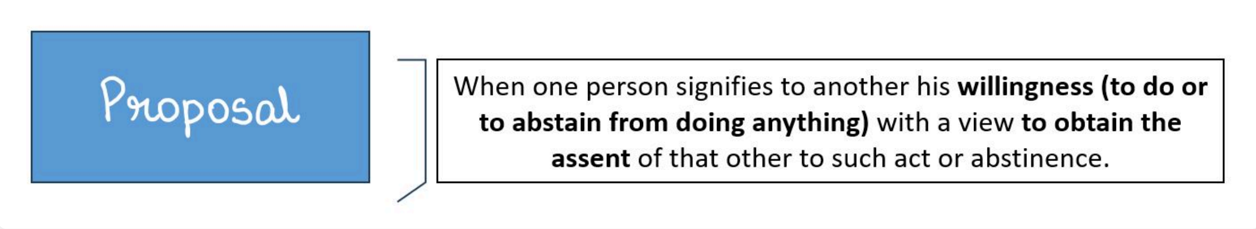
Note that the various other terms as defined under the Act are explained elsewhere.

3. Contract and Related Terms

In simple words, a contract starts with an agreement, which is like a mutual understanding or promise between two parties. One party makes an offer or proposal, and the other party accepts it. This acceptance turns the proposal into a promise. This promise involves something in return, known as consideration. Consideration is what each party gives or does in exchange for the other's promise. It could be money, goods, services, or anything of value.

Now, let us understand the meaning of contract in legal terms. It will be easier to understand the term contract, if we first understand the meanings of proposal, promise and agreement. So, explanation is given likewise.

Proposal



According to Section 2(a) of the Act, when one person signifies to another his willingness to do or to abstain from doing anything, with a view to obtaining the assent of that other to such act or abstinence, he is said to make a proposal. In simpler terms, if someone tells another person that they want to do or not do something in order to get the other person's agreement, it is called making a proposal.

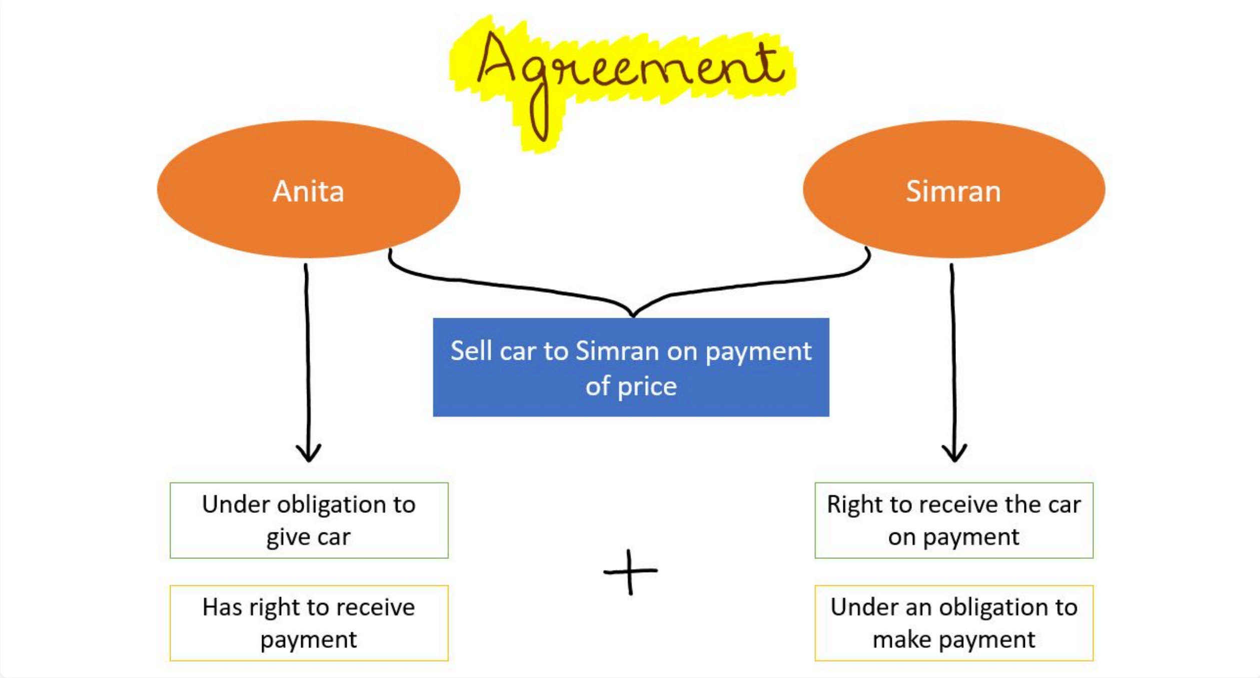
Promise

Again, the Act also defines the term promise under Section 2(b) as “when the person to whom the proposal is made, signifies his assent there to, the proposal is said to be accepted. Proposal when accepted, becomes a promise”. In other words, when the person to whom the proposal is made agrees to it, that means the proposal is accepted. Once a proposal is accepted, it turns into a promise.

For example, Anita tells Simran that she is willing to sell her Maruti Alto Car for Rs 75,000. Simran agrees to buy Anita's car for Rs. 75,000, indicating her assent to the proposal. This acceptance is now a promise.

Agreement

The Indian Contract Act also defines agreement under Section 2(e) as “every promise and every set of promises, forming the consideration for each other”.



Continuing with the above example, Anita's promise to sell her car for Rs 75,000 and Simran's promise to buy it for the same amount create an agreement. In this case, their promises are connected and form the consideration for each other. So, under the Indian Contract Act, their mutual promises constitute an agreement.

Contract

Now, the term contract is defined under Section 2(h) of the Indian Contract Act, 1872 as "an agreement enforceable by law".

Thus, the contract consists of 2 essential elements:
(a) an agreement, and
(b) its enforceability by law.

Now, the element of 'enforceability' lays emphasis on the fact that for an agreement to become a contract, it must give rise to some legal obligation. In other words, a contract must create rights and obligations between the parties to contract.

Note that every agreement may not create legal obligation, or every agreement does not always give rise to rights and obligations of the parties entering into an agreement, therefore, it is essentially important to say that all agreements are not contracts, however, all contracts are agreements. Those agreements which are legally enforceable, they become contracts.

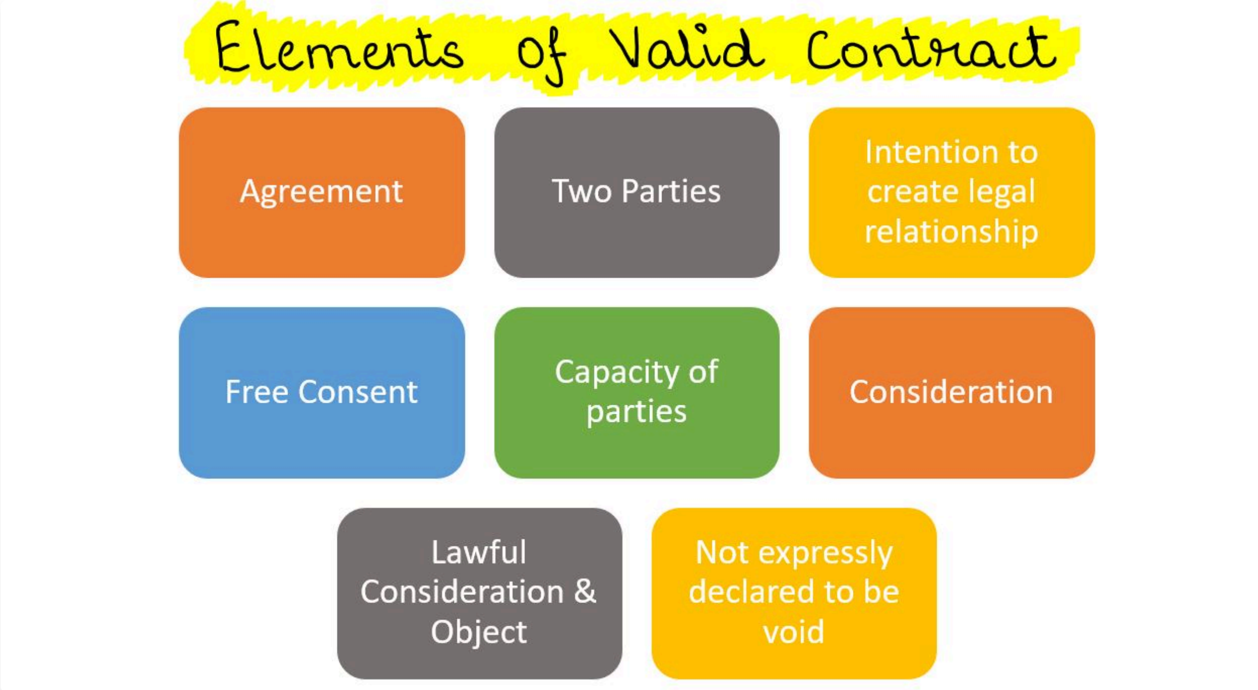
In the above example, if either Anita or Simran fails to fulfill their promises as per the agreement, the law can be invoked to ensure that they do so.

4. Valid Contract

In terms of Section 10 of the Act, "all agreements are contracts if they are made by the free consent of the parties competent to contract, for a lawful consideration and with a lawful object and are not expressly declared to be void".

For example, consider a situation where Heena offers to sell her laptop to Ashish for Rs. 15000, and Ashish agrees to buy it for that amount. In this scenario, their agreement meets the criteria outlined in Section 10 of the Indian Contract Act. Both Heena and Ashish enter into the agreement willingly, without any coercion. They are competent parties, assuming they are of legal age and mentally sound. The consideration is lawful (the laptop for Rs 15000), and the purpose of the contract (buying and selling the laptop) is legal. As long as there are no legal provisions declaring this type of agreement void, it would qualify as a contract under Section 10 of the Act.

4. Valid Contract



In order to create a valid contract, the following elements should be present.

1. Agreement

An agreement is the first essential element of a valid contract. An agreement is an outcome of offer and acceptance.

2. Two Parties

There must be at least 2 parties to a contract, one party making the offer and other party accepting it.

3. Intention to create legal relationship

There must be an intention on the part of the parties to create a legal relationship between them. Note that **social or domestic type of agreements are not enforceable in a court of law** and hence they do not result into contracts.

4. Free consent

There must be a free consent of the parties to a contract. Two or more persons are said to give a consent when they agree upon the same thing in the same sense. This can also be understood as meeting of minds in understanding the terms viz. **consensus ad idem**.

Further, such a consent must be free. Consent would be considered as a free consent, if it is not caused by coercion, undue influence, fraud, misrepresentation or mistake. When consent to an agreement is caused by coercion, undue influence, fraud or misrepresentation, the agreement is a contract voidable at the option of the party whose consent was so caused. When consent is vitiated by mistake, the contract becomes void.

5. Capacity of the parties

Capacity to contract means the legal ability of a person to enter into a valid contract.

Every person is competent to contract who:

- is of the **age of majority** according to the law to which he is subject,
- is of **sound mind** and
- is **not otherwise disqualified** from contracting by any law to which he is subject. Such persons are: an alien enemy, foreign sovereigns, convicts etc.

A person competent to contract must fulfil all the above 3 qualifications.

6. Consideration

It is referred to as **quid pro quo** i.e. 'something in return'. A valuable consideration in the sense of law may consist either in some right, interest, profit, or benefit accruing to one party, or some forbearance, detriment, loss or responsibility given, suffered or undertaken by the other. For example, Mr. X agrees to sell his house property to Mr. Y for Rs. 50 Lakhs. Now, Y's promise to pay Rs. 50 Lakhs, is the consideration for X's promise to sell his house property and X's promise to sell his house property, is the consideration for Y's promise to pay Rs. 50 Lakhs.

7. Lawful Consideration and Object

The consideration and object of the agreement must be lawful. Consideration or object is not lawful, if it is prohibited by law, or it is such as would defeat the provisions of law, or if it is fraudulent or involves injury to the person or property of another, or court regards it as immoral or opposed to public policy.

8. Not expressly declared to be void

The agreement entered into must not be which the law declares to be either illegal or void. An illegal agreement is an agreement expressly or impliedly prohibited by law. A void agreement is one without any legal effects.

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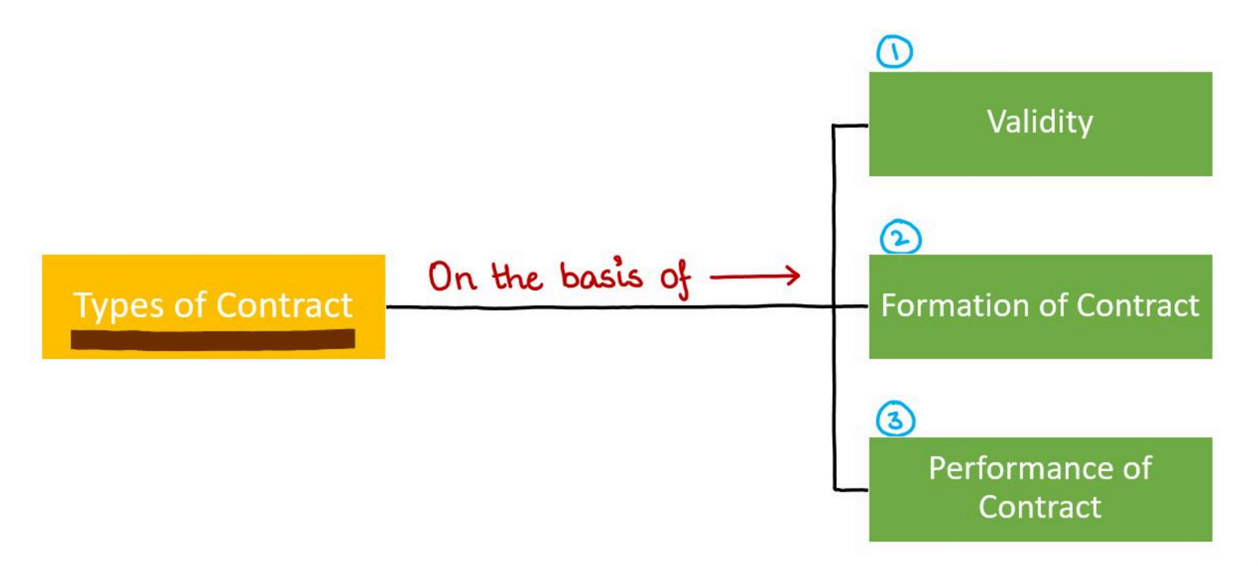
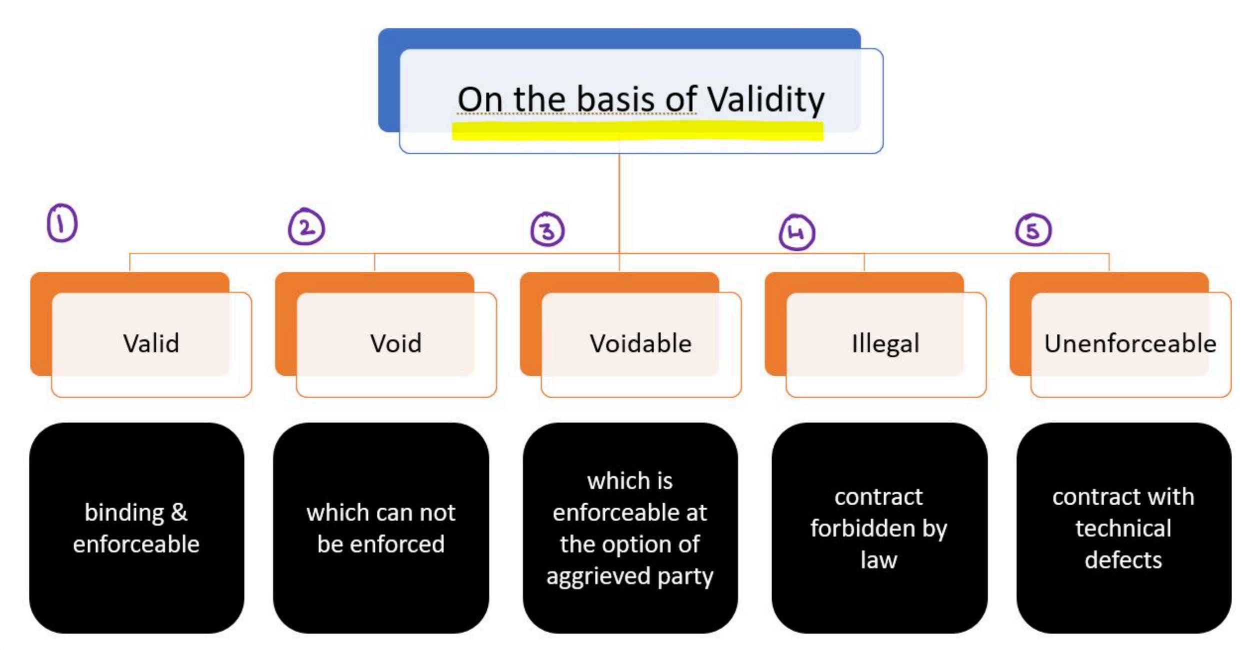
5. Types of Contract



The Contracts can be divided on the following basis.
I. On the basis of validity
II. On the basis of formation of Contract
III. On the basis of performance of Contract.

Now, we will discuss them one by one.

5. Types of Contract



On the basis of Validity, Contracts can be divided as follows.

1. Valid Contract

An agreement which is binding and enforceable is a valid contract. It contains all the essential elements of a valid contract.

For example, signing a formal agreement to purchase a car, with all essential elements met, creating a binding and enforceable contract.

2. Void Contract

Section 2(j) of the Act states that "a contract which ceases to be enforceable by law becomes void, when it ceases to be enforceable". Thus, a void contract is one which cannot be enforced by a court of law. A void contract cannot be performed.

For example, two parties enter into a contract for the construction of a building, and at the time of formation, the contract is valid. However, due to a change in government policy, the construction of such buildings is declared illegal or against new regulations. As a result, the contract becomes void because it can no longer be legally enforced or performed in light of the altered circumstances and government policies.

3. Voidable Contract

Section 2(i) defines that "an agreement which is enforceable by law at the option of one or more parties thereto, but not at the option of the other or others is a voidable contract". Therefore, the contract may have been brought about by one of the parties by coercion, undue influence, fraud or misrepresentation, and hence the other party (or suffering party) has a right to treat it as a voidable contract, i.e., such a party is legally entitled or authorized to avoid performing his part.

For example, ff a person is coerced into signing a contract to sell their property at an unfair price, that person has the option to void the contract due to coercion.

4. Illegal Contract

It is a contract which the law forbids to be made. All illegal agreements are void but all void agreements are not necessarily illegal.

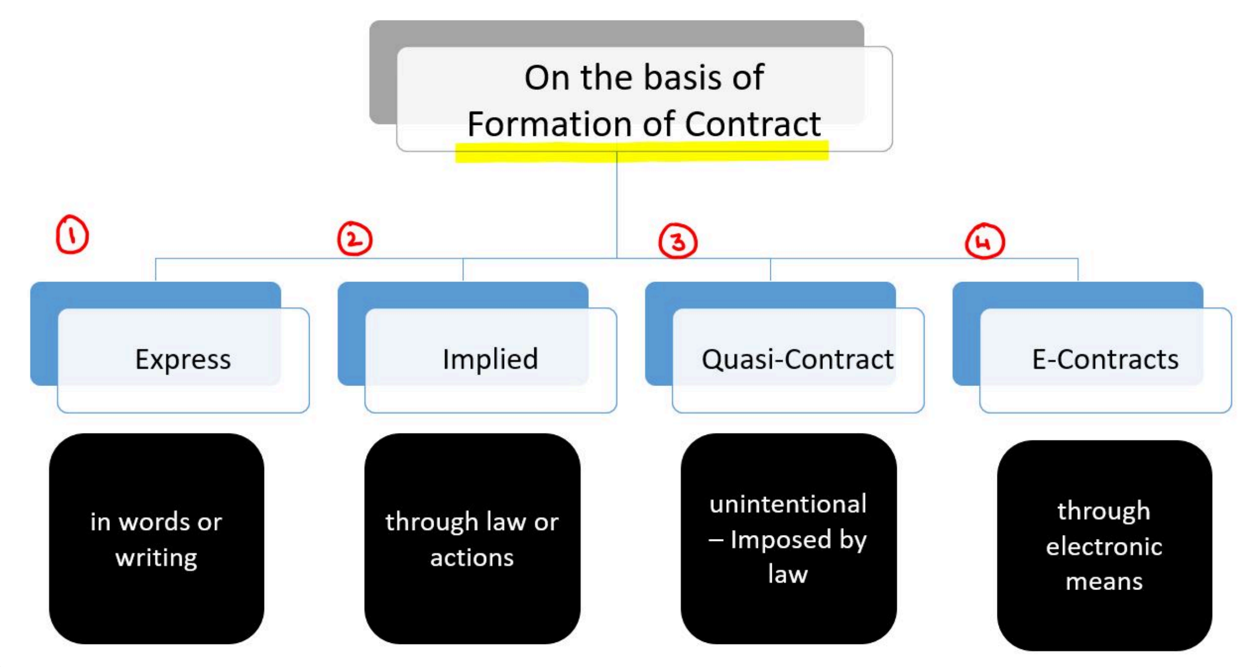
For example, a contract that is immoral or opposed to public policy are illegal in nature. Similarly, if A agrees with B, to purchase brown sugar, it is an illegal agreement.

5. Unenforceable Contract

Where a contract is good in substance but because of some technical defect i.e. absence in writing, barred by limitation etc., one or both the parties cannot sue upon it, it is described as an unenforceable contract.

For example, making an oral agreement for a real estate transaction, which, due to the absence of a written document, becomes unenforceable in court.

5. Types of Contract



On the basis of formation of Contract, the Contracts can be divided as follows.

1. Express Contract

A contract would be an express contract, if the terms are expressed by words or in writing.

If Seema verbally agrees to sell her bicycle to Sohail for Rs 5000 and they both agree on the terms, it creates an express contract. The terms of the agreement are communicated through spoken words in this case.

2. Implied Contract

Implied contracts come into existence by implication through law or through action.

For example, where a coolie in uniform picks up the luggage of Mr. A to be carried out at the railway station without being asked by Mr. A and Mr. A allows him to do so, it is an implied contract and Mr. A must pay for the services of the coolie.

We must also understand the meaning of **Tacit Contracts**, which fall within the scope of implied contracts. The word 'Tacit' means silent. Tacit contracts are those that are inferred through the conduct of parties without any words spoken or written. A classic example of a tacit contract would be when cash is withdrawn by a customer of a bank from ATM. Another example of tacit contract is, where a contract is assumed to have been entered when a sale is given effect to at the fall of hammer in an auction sale.

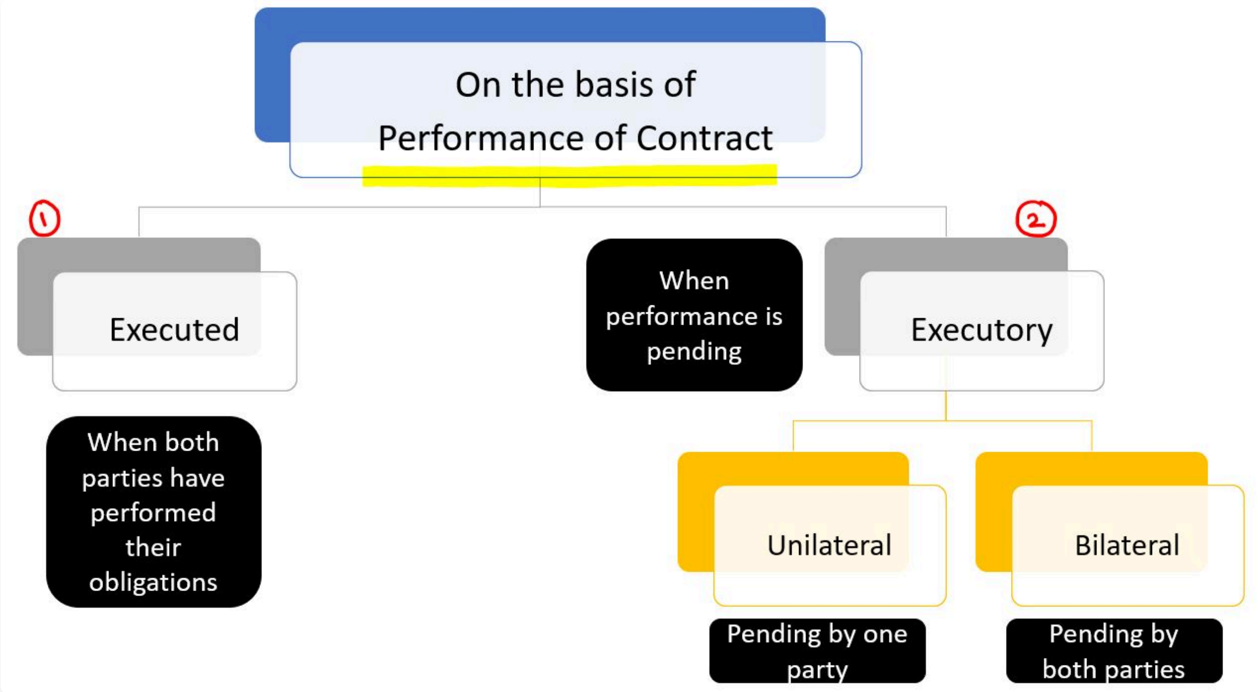
3. Quasi-Contract

It is a contract in which there is no intention on part of either party to make a contract, but law imposes a contract upon the parties. For example, obligation of finder of lost goods to return them to the true owner or liability of person to whom money is paid under mistake to repay it back.

4. E-contracts

When a contract is entered into by two or more parties using electronic means, such as e-mails, is known as e-commerce contracts or e-contracts.

5. Types of Contract



On the basis of performance of Contract, the contracts can be divided as follows.

1. Executed Contract

The consideration in a given contract could be an act or forbearance. When an act is done or executed or the forbearance (refraining from action) is brought on record, then the contract is an executed contract.

For example, when a grocer sells a grocery on cash payment, it is an executed contract, because both the parties have done what they were to do under the contract.

2. Executory Contract

In an executory contract, the consideration is reciprocal promise or obligation. Such consideration is to be performed in future only and therefore these contracts are described as executory contracts.

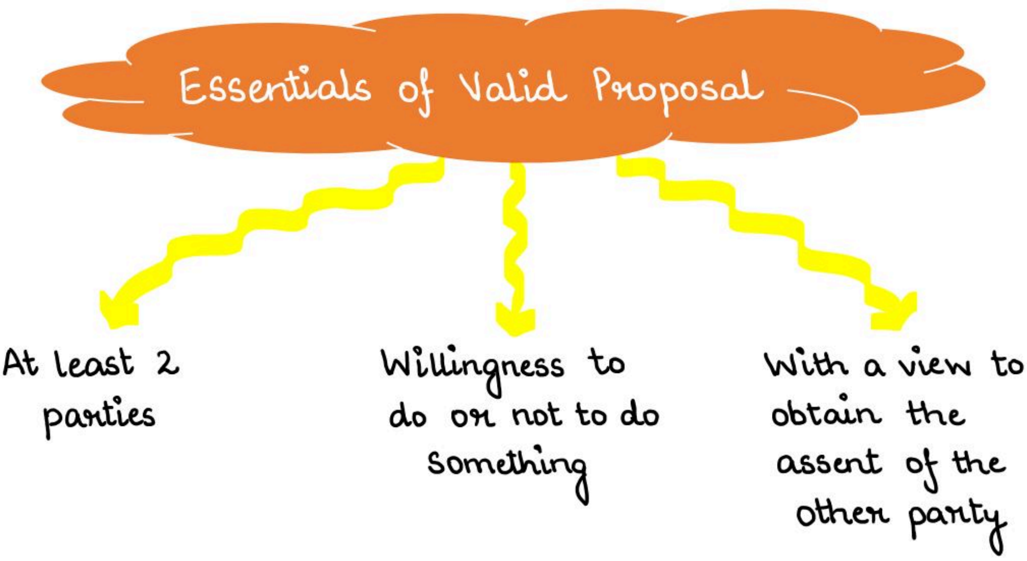
Unilateral or Bilateral are kinds of Executory Contracts.

Unilateral contract is a one sided contract, in which one party has performed his duty or obligation.

Bilateral contract is one, where the obligation or promise is outstanding on part of both the parties.

6. Elements of Offer/Proposal

According to Section 2(a) of the Indian Contract Act, 1872, "when one person signifies to another his willingness to do or to abstain from doing anything with a view to obtaining the assent of that other to such act or abstinence, he is said to make a proposal".



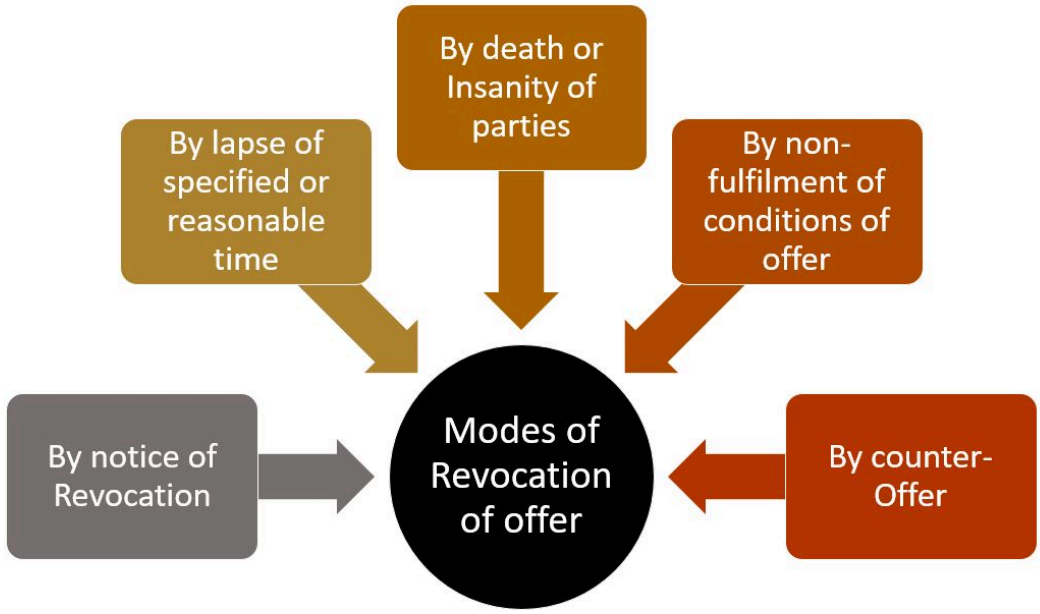
The person making the proposal or offer is called the 'promisor' or 'offeror'.

The person to whom the offer is made is called the 'offeree' and the person accepting the offer is called the 'promisee' or 'acceptor'.

An offer can be positive as well as negative. Thus, "doing" is a positive act and "not doing" or "abstinence" is a negative act. Both these acts have the same effect in the eyes of law. The willingness must be expressed with a view to obtain the assent of the other party to whom the offer is made.

The essential elements of a valid proposal/ offer are as follows.
1. It must be capable of creating legal relations.
2. It must be certain, definite and not vague.
3. It must be communicated to the offeree.
4. It must be made with a view to obtain assent of the other party.
5. It can be conditional and the offeree will have to accept all the terms of the offer otherwise, the contract will be treated as invalid.
6. It should not contain a term, the non-compliance of which would amount to acceptance. Thus, where A proposes to sell his wrist watch to B for Rs. 500 and in case, A does not hear from B within a week's time, then it would be assumed that B accepted the proposal. This would not result into a contract.
7. The offer may be either specific (to any specific individual) or general (to public at large).
8. The offer may be expressed (by words) or implied (by conduct).

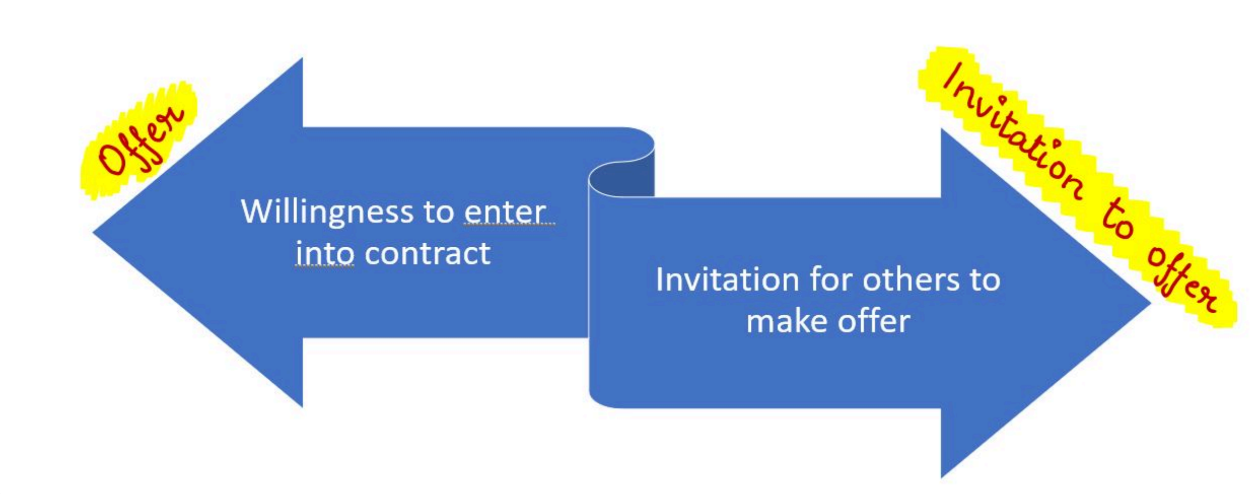
6. Elements of Offer/Proposal



Following are the modes of revocation of offer.

1. By notice of revocation.
2. By lapse of time given for acceptance and where no time is specified, then within a reasonable time.
3. By non-fulfilment of condition precedent, for example, where offeror may impose certain condition such as depositing certain amount as earnest money.
4. By death or insanity of the proposer (but only if the fact of death or insanity comes to the knowledge of the acceptor).
5. By counter-offer, for example, where Ram offers to sell his bike to Shyam for Rs. 20,000 on the basis of cash down payment. Shyam accepts the offer on a condition that he will makde payment in two instalments, such acceptance is a counter offer and initial offer is revoked.
6. By the non-acceptance of the offer according to the prescribed or usual mode.
7. By subsequent illegality.

6. Elements of Offer/Proposal



An offer is different from invitation to offer.

When a person expresses something to another person, to invite him to make an offer, it is known as invitation to offer. An Invitation to offer, becomes an offer when responded by the party to whom it is made.

For example, a bookseller sending catalogue of books indicating prices of various books.

When one person expresses his will to another person to do or not to do something, to take his approval, is known as an offer.

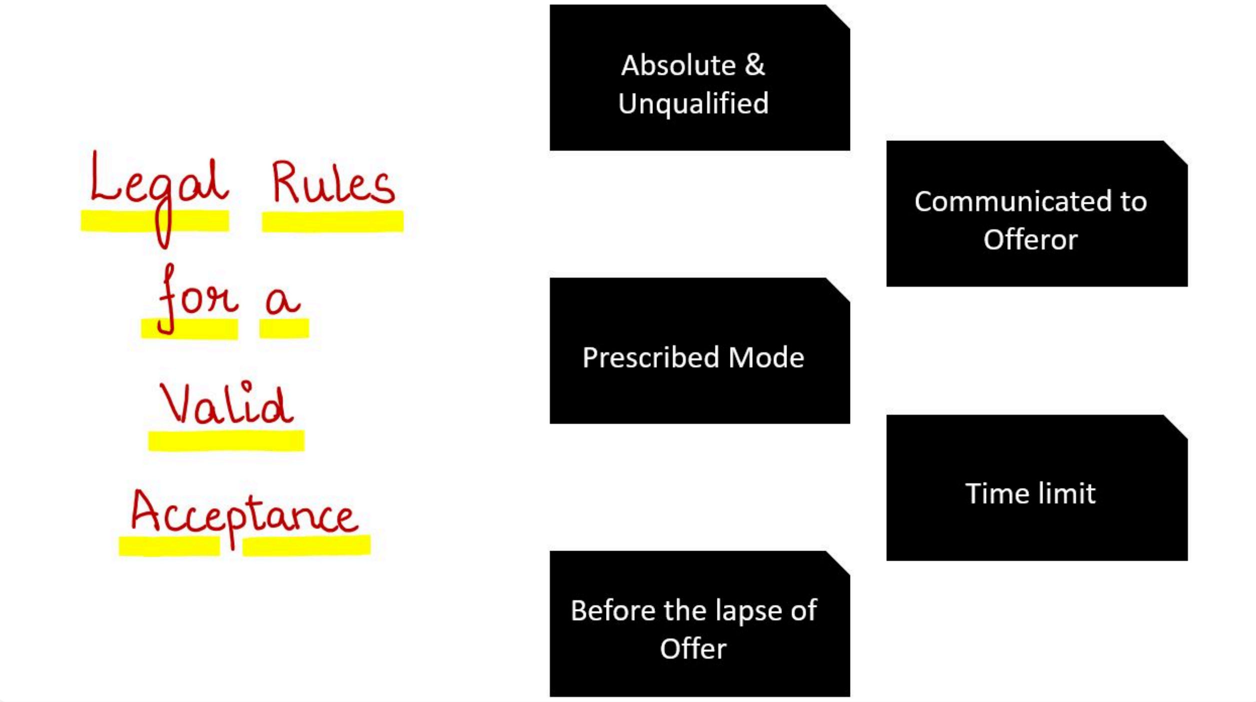
For example, if any person interested in any book from that catalogue makes an offer to the seller.

The key differences between an offer and invitation to offer are given below.

Aspect	Offer	Invitation to Offer
Nature	Indicates willingness to enter into a contract.	An invitation for others to make an offer.
Legal Consequence	Acceptance leads to a binding contract.	Does not create a binding contract.
Examples	Specific proposals with a definite intention to be bound.	Price lists, catalogues, advertisements - invitations for others to make offers.

7. Legal Rules of a Valid Acceptance

According to Section 2(b) of the Act, the term 'acceptance' is defined as "when the person to whom the proposal is made signifies his assent thereto, proposal is said to be accepted. The proposal, when accepted, becomes a promise".



Following are the legal rules in relation to a valid acceptance.

1. Acceptance can be given **only by the person to whom offer is made**. In case of a specific offer, it can be accepted only by the person to whom it is made.

2. Acceptance is valid only when it is **absolute and unqualified** and is also expressed in some usual and reasonable manner, unless the proposal prescribes the manner in which it must be accepted. If the proposal prescribes the manner in which it must be accepted, then it must be accepted accordingly.

3. To conclude a contract between the parties, the acceptance **must be communicated** in some perceptible form. Any conditional acceptance or acceptance with varying or too deviant conditions is no acceptance.

4. Acceptance must be given **within the specified time limit**, if any, and if no time is stipulated, acceptance must be given within the reasonable time and before the offer lapses.

5. **Mere silence is not acceptance.** The acceptance of an offer cannot be implied from the silence of the offeree or his failure to answer, unless the offeree has in any previous conduct indicated that his silence is the evidence of acceptance. In simple words, if someone doesn't respond to an offer, it doesn't mean they accepted it, unless their past behavior suggests that their silence means they agree.

6. The acceptance can be **express** as well as **implied**.

8. Communication of Offer and Acceptance

When the contracting parties are face-to-face, there is no problem of communication because there is instantaneous communication of offer and acceptance. In such a case, the question of revocation does not arise since the offer and its acceptance are made instantly. The difficulty arises when the contracting parties are at a distance from one another and they utilise the services of the post office or telephone or email (internet). In such cases, it is very much relevant to know the exact time when the offer or acceptance is made or complete.

Communication and Revocation of offers and acceptance

The communication of proposals, the acceptance of proposals, and the revocation of proposals and acceptances, are considered to be done through any action or lack of action by the person making the proposal, accepting, or revoking. This includes any intentional act or unintentional behavior that effectively communicates the proposal, acceptance, or revocation.

For example, if Tom proposes to sell his computer to Jerry and communicates this by sending a text message stating the terms, the act of sending the text message is considered the communication of the proposal. If Jerry intends to accept the proposal and communicates his acceptance by replying to the text with "I agree," his act of replying is the acceptance of the proposal. On the other hand, if Tom later changes his mind and revokes the offer by sending another message saying, "I've changed my mind, the computer is not for sale," his act of sending the message is the revocation of the proposal.

Communication of Offer

In terms of Section 4 of the Act, "the communication of offer is complete when it comes to the knowledge of the person to whom it is made."

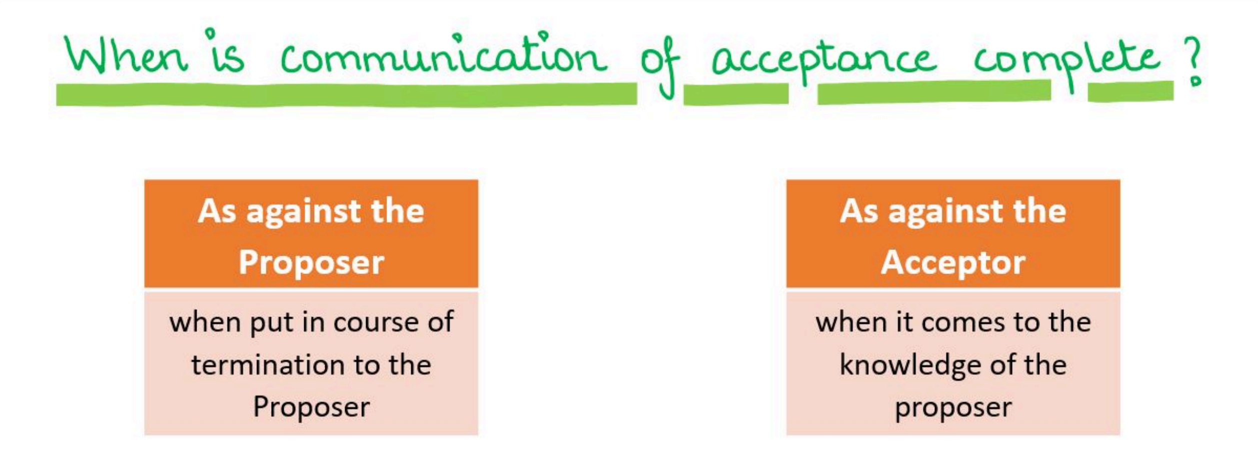
When a proposal is made by post, its communication will be complete when the letter containing the proposal reaches the person to whom it is made.

For example, where A makes a proposal to B by post to sell his house for Rs. 5 Lakhs and if the letter containing the offer is posted on 10th March and if that letter reaches B on 12 March, the offer is said to have been communicated on 12 March, when B receives the letter.

Further, mere receiving of letter is not sufficient, he must receive and read the message contained in the letter. So, if B receives the letter on 12 March, but he reads it on 15 March, then offer is communicated on 15 March and not on 12 March.

Communication of Acceptance

Communication of Acceptance is complete, as against the offeror, when it is put in the course of transmission to him, so as to be out of the power of the acceptor to withdraw the same; as against the acceptor, when it comes to the knowledge of the offeror.



Where a proposal is accepted by a letter sent by the post, the communication of acceptance will be complete as against the proposer when the letter of acceptance is posted and as against the acceptor when the letter reaches the proposer.

For example, in the above example of A and B, if B accepts A's proposal and sends his acceptance by post on 14 March, the communication of acceptance as against A is complete on 14 March, i.e., when the letter is posted. As against B, acceptance will be complete, when the letter reaches A.

Here A, the proposer will be bound by B's acceptance, even if the letter of acceptance is delayed in post or lost in transit. The **golden rule** is proposer becomes bound by the contract, the moment acceptor has posted the letter of acceptance. But it is necessary that the letter is correctly addressed, adequately stamped and duly posted. In such an event, the loss of letter in transit, wrong delivery, non delivery etc., will not affect the validity of the contract.

However, from the point of view of acceptor, he will be bound by his acceptance only when the letter of accetance has reached the proposer.

Acceptance over telephone or telex or fax

When an offer is made of instantaneous communication like telex, telephone, fax or through e-mail, the contract is only complete when the acceptance is received by the offerer, and the contract is made at the place where the acceptance is received. However, in case of a call drops and disturbances in the line, there may not be a valid contract.

Communication of revocation of an offer or acceptance

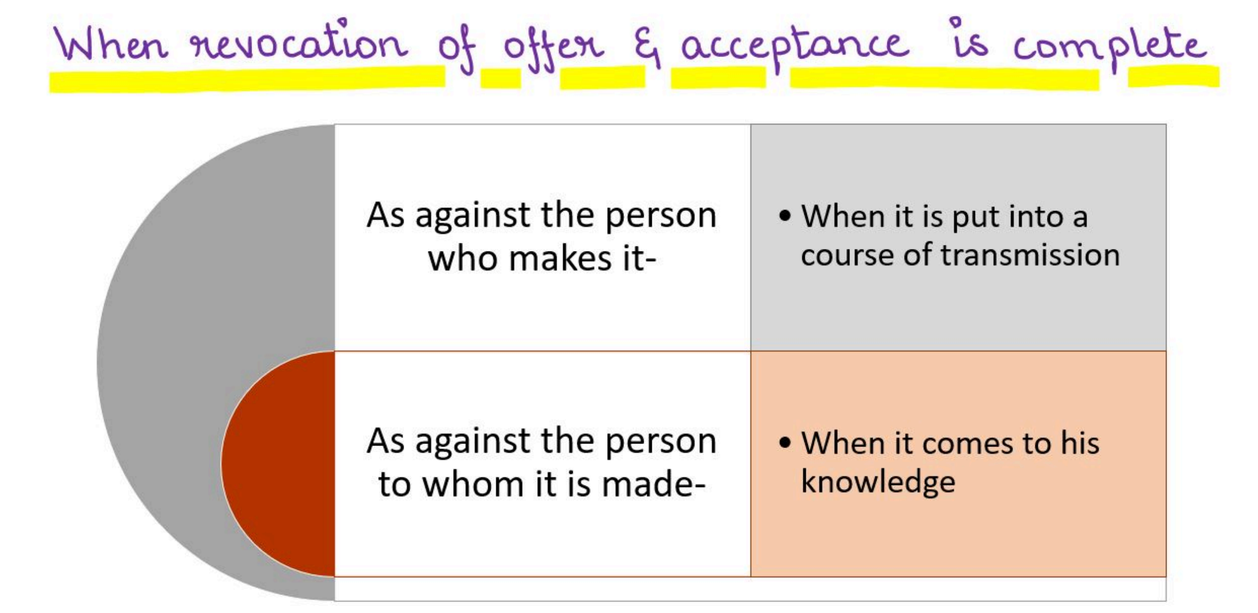
Communication of revocation (of the proposal or its acceptance) is complete, as against the person making it, when it is put into a course of transmission to the person to whom it is made, so as to be out of power of the person making it and as against the person to whom it is made, when it comes to his knowledge.

For example, Anita offers to sell her painting to Rahul for a certain amount. Later, Anita changes her mind and decides to revoke her offer. She sends a message by email to Rahul stating that she is withdrawing the offer. In this case, the communication of the revocation is complete as soon as Anita sends the email to Rahul, putting it into the course of transmission to him. It becomes effective against Anita when the email is sent, as she can no longer change her mind. On the other hand, the revocation becomes complete against Rahul when he reads the email and becomes aware that Anita has withdrawn her offer.

Revocation of proposals and acceptances

A proposal may be revoked at any time before the communication of its acceptance is complete as against the proposer, but not afterwards.

An acceptance may be revoked at any time before the communication of the acceptance is complete as against the acceptor, but not afterwards.



In simple terms, if you make an offer, you can change your mind and take it back at any time before the other person accepts it. Once the person accepts and you find out about it, you can't revoke the offer. Similarly, if someone accepts your offer, they can change their mind and reject it at any time before you find out about their acceptance. Once you know they've accepted, they can't take it back.

For example, A proposes, by a letter sent by post, to sell his house to B. B accepts the proposal by a letter sent by post. A may revoke his proposal at any time before or at the moment when B posts his letter of acceptance, but not afterwards. B may revoke his acceptance at any time before or at the moment when the letter communicating it reaches A, but not afterwards.