

UNIT 12 PROCEDURE FOR IMPORT AND EXPORT TRADE

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12.0 OBJECTIVES

After studying this unit, you should be able to:

- describe what foreign trade is
- identify the types of foreign trade
- explain the **importance** and problems of foreign trade
- describe the growth of India's foreign trade
- explain the regulations governing foreign trade
- identify the documents used in foreign trade
- describe export trade procedure
- explain import trade procedure

12.1 INTRODUCTION

In the previous two units you have learnt what home trade is and how goods reach the consumers from producers through various intermediaries or channels of distribution. **In this** unit, we shall discuss the nature **of** foreign trade, how it is different from home trade, the importance of foreign trade, documents used in foreign trade, and the procedure to be followed by importers and exporters while importing or **exporting** goods.

12.2 WHAT IS FOREIGN TRADE?

Nations, like individuals, do not possess everything they **need** to fulfil their requirements. Even **countries** like the USA, USSR and China, which are rich in natural and human resources have to look to other countries for supply of some of their requirements. For instance, consumers in **USA** obtain their supply of sugar and coffee from other countries. Moreover, different countries possess different **types** of resources. Those which have a surplus of certain resources find it beneficial to sell the surplus items to some other countries, and buy other items which they need. Such exchange of goods and services between people across national boundaries is called 'foreign trade' or 'international trade'. Foreign trade can be bilateral or multilateral. When there is **trade** between people of any two nations, it is **bilateral**; foreign trade is **multilateral** when people of any country buy from and sell to people of more than one country.

You will **notice that** the main difference between home **trade** and foreign trade is that while home trade takes place within a country among people who are 'citizens of **that** country, the foreign trade takes place beyond the national boundaries of two or more **countries**. Besides this, there are other differences which may be stated as follows:

- i) There is little restriction on trade between people within a country. But in case of foreign trade the restrictions are numerous. **A firm** requires **permission** from **Government** authorities before goods can be imported or exported.
- ii) In domestic trade payment made by the buyer and received by the seller of goods is in the same units of money. In foreign trade, what the importer pays in his national currency has to be converted into foreign currency acceptable to the exporter.
- iii) Payment can be made either in cash or by cheque on a national bank in the case of home trade. Payment can be made only through bank in the case of foreign trade.

12.2.1 Types of Foreign Trade

Foreign trade can be divided into three categories. They are:

- i) Import Trade
- ii) Export Trade, and
- iii) Entrepot Trade

When goods are sold to a trader in any foreign country, they are said to be exported to that country and it is known as 'export trade'. When purchases are made from a foreign country, goods are said to be imported into the country and it is called import trade. **Many** a time goods are imported from one **country** with the objective of exporting them to **some** other country or countries; This is known as entrepot trade. City states like Singapore and Hongkong are important entrepot trade centres.

12.2.2 Importance of Foreign Trade

Production of goods and services requires different resources like **men**, materials, money, machines and management. If we compare the resources possessed by nations it will be **found** that no country is self-sufficient and there are differences in the quality and quantity of domestic resources available in different countries. Indeed, it is this difference in the relative abundance or shortage of resources in different countries that has given rise to foreign trade involving exchange of goods and services between countries. Through international trade, it is possible for a country to avail of goods which it cannot produce or cannot produce as economically as other countries. Hence, a country's well-being is determined to a great extent by the nature and extent of its foreign trade. Let us discuss the importance of foreign trade to people in different countries.

- 1 **Specialisation and efficiency** of production: Foreign trade leads to specialisation in productive activities undertaken by different countries. Depending on available natural resources, and development of science and technology, every country can produce only those goods and services for which it has the greatest relative advantage and efficiency. No country has facility and resources within its own boundaries for economical production of all its requirements: Some countries are more suitably placed to produce certain **goods/services** economically and sufficiently than other countries. Therefore, they can specialise in the production of such goods and get the goods they need in exchange for those goods, For example, India has comparatively greater advantages for the production of agrobased products such as coffee, tea, sugar, textiles, etc. Similarly some developed countries such as USA, Japan, Britain, etc. have greater advantages for the production of industrial machinery, automobiles etc. Some gulf countries such as Iran, Libya, Iraq, Saudi Arabia, etc. produce crude oil, petroleum, **etc.** in abundance.
- 2 **Utilisation of** resources: Every country possesses some natural resources. The **economic** development of a country **heavily depends** upon exploitation of these resources. For example, India has adequate off-shore oil resources. But, it requires exploitation through sophisticated machines, technology, etc. which we do not **have**. Machinery and technology can be imported from the developed countries like USSR, USA, Japan, etc. This leads to best possible use of natural resources.
- 3 **Facilitates economic development**: Rapid **economic** development and growth of national income can be facilitated on the basis of exports and imports. Indeed, it is on the basis of imports of raw materials and export of manufactured goods that countries like **U.K.**, Japan etc, have achieved a high rate of economic growth.
- 4 **Equalisation of** prices: International **trade** equalises prices of goods throughout **the** world. Whenever the prices of commodities tend to rise in a country, it can increase the

level of its imports to check the rise in prices. Similarly, whenever prices of products decline, the trend may be **counteracted** by exporting the same.

- 5 Employment opportunities: Foreign trade facilitates the growth of agricultural as well as industrial activities which in turn generates more employment in the country.
- 6 Harmonious relationship between countries: Because of foreign trade every **country** may have access to goods that it does not produce at home. Similarly, a country with a surplus of certain goods can make them available to other countries experiencing shortage of those goods. This promotes **harmonious** and cordial relationship among various countries.

12.2.3 Problems in Foreign Trade

Because of cultural and other environmental differences between various countries and the distance involved, foreign trade involves certain problems which do not arise in connection with home trade. Let us examine these problems in detail.

- 1 Suitability of the product for the market: Securing information **about** the **suitability** of products in the foreign market is a challenging task for every international **marketer**. This involves heavy **expenditure** and requires special skill and knowledge. Besides, the quality and price of goods must be more attractive as compared with similar products manufactured abroad. This requires intensive market research on the potential sale of goods to be exported.
- 2 Changes in supply and demand conditions: International markets are often subject to changes in the supply and demand for particular products due to the entry of new competitors, or increased competition of local producers, or because of changes in buyers' preferences. These changes cannot be easily anticipated by the exporters.
- 3 Frequent price changes : The price of products in **the** international market may be affected by different factors. The changes may be due to changes in exchange rates of the currencies of importing and exporting countries, higher import duties, or freight rates. These factors increase the risks of foreign trade a great deal.
- 4 Credit risk: International trade which is generally on a large scale involves heavy amounts to be paid by the importer. The exporters often sell their products on credit and therefore have to bear the credit risk arising from the buyer's default, bankruptcy, etc.
- 5 Changes in exchange rate: An additional risk of foreign trade is the risk of changes in exchange rates. The rate at which the currency of importing countries can be converted into the currency of exporter may cause losses to the exporter or the importer.
- 6 Rules, regulations and procedures: Every country imposes certain restrictions in the export and import of goods to protect its economic and political interests, Besides, the rules and regulations differ from **country** to **country** and are changed from time to time. For example, the provisions of Imports and Exports Control Act, 1947 changes in export import policy and the restrictions on trade often create complications and problems for importers and exporters.
- 7 Credit worthiness of importer and reliability of exporters: The value of goods involved in external trade is fairly high and the exporter has to grant credit facilities to the importer. Since there is no direct contact between exporter and **importer**, it is necessary that the exporter must take steps to verify the credit worthiness of the importer and importer should check the reliability of the exporter for supply of goods. This may take a long time and cause delay in the **availability** of **goods**.
- 8 Transportation and cargo risks: International trade takes place either by land, air or water transport, and goods have to be transported over long distances. Water transport occupies a predominant place in transporting **goods** across the national boundaries because ships can carry large volumes of cargo at low cost. In spite of **all** developments in transportation, the risks of loss or damage to cargo by fire, storm, collision, leakage, explosion, spoilage, etc. exist.
- 9 Time gap: The distance involved is usually greater in transporting goods **from** one country to another country, and hence the transit time is longer. This time gap involves exporter's capital being locked up over a long period.

10 Political and legal problems: Political risks may arise as a result of changes in governments or capture of cargo by enemies, etc. Commercial laws may be different between the trading countries. Moreover, conducting legal proceedings in a foreign country is complicated and expensive.

12.3 INDIA'S FOREIGN TRADE PERFORMANCE

The pre-independence scene of India's foreign trade was characterised by heavy dependence of exports of traditional items. Nearly 85% of exports before independence were made up of raw materials and semi-manufactured products like foodstuffs, raw cotton, tea, spices, tobacco, Rides **and** skins and jute nianufactures. The import consisted of consumer goods and manufactured **products**.The major parts of India's trade was confined to Britain and its colony. Since the post independence period, the foreign trade has undergone **a** radical change in the composition and market. The exportable items are shifted **from** traditional commodities to new commodities. The **major** items of exports are gems and **jewellery**, readymade garments and cotton fabrics, agro-based products, machinery and metal manufactures, chemicals , etc. On the import front the major **items** are petroleum oil, capital goods, **chemical** elements, etc. which are essential **for** country's economic development. The markets for India's export include USA. Japan, **Germany**, UK, Belgium and other developed, developing and least developed countries. Look at Table 12.1 which shows the growth of India's foreign trade.

Table 12.1
The Growth **of India's** Foreign Trade
(Rs. in Crores)

Year	Exports	Imports	Balance of Trade
1950-51	606	608	-2
1960-61	642	1122	4 8 0
1970-71	1535	1634	-99
1980-81	6711	12549	-5838
1990-91	32553	43198	-10645
1991-92	44041	47851	-3810
1992-93	53688	63375	-9687
1993-94	69751	73101	-3350
1994-95	82674	89971	-7297
(Provisional)			
1995-96	74493	86064	- 11571
(April-Dec)			
(Provisional)			

Source: Economic Survey (1995-96), Government of India, New Delhi.
Note: The difference between the total value of goods exported and imported is called balance of trade.

Check Your Progress A

- 1 State whether the following statements are True or False.
- i) 'selling goods within the national boundaries is **called** home trade
 - ii) Exchange of goods between two countries is called internal trade.
 - iii) Exchange of goods and services across national boundaries is called foreign trade.
 - iv) Foreign trade generates resources and employment
 - v) External trade is an 'engine' for the development of economy of a nation
 - vi) The element of risk involved in foreign trade is much less than that of home trade.
 - vii) India imports goods from USSR and pays its own currency to settle trade balances
 - viii) **Exporters** export goods without knowing the credit worthiness of the importers.

- ix) International trade locks up huge amount of capital in products for a long period
x) Before Independence the major part of India's foreign trade was with Britain and its colonies.

Procedure for Import and Export Trade

2 India purchased Rs. 100 crores of machinery and equipment from the USSR. Equipment worth Rs. 20 crores was exported to Bangladesh.

a) Tick the correct alternatives from the following after going through the above statement.

i) Which one is the exporting country?

- 1 India
- 2 Bangladesh
- 3 USSR

ii) Which one is the importing country?

- 1 USSR
- 2 Bangladesh
- 3 India

iii) Which one is the re-exporting country?

- 1 Bangladesh
- 2 USSR
- 3 India

b) Fill in the blanks after identifying the form of trade:

- i) From USSR to India is called for India.
- ii) From India to USSR is called for India.
- iii) From India to Bangladesh is called for India.
- iv) Trade among the above nations is called

12.4 REGULATIONS GOVERNING FOREIGN TRADE

In India, Foreign Trade is mainly governed by Foreign Trade (Development and Regulation) Act 1992, Foreign Exchange Regulations Act 1973, and the Quality Control and pre-shipment Inspection Act 1963. To export goods from India and to avail of the export benefits, exporters have to comply with certain formalities. First of all, let us discuss some of the important steps required to be taken by businessmen to undertake export-import business. They should (i) obtain the Reserve Bank Code Number, (ii) Register with Export Promotion Council. etc. and (iii) Obtain the Import-Export Code Number.

- i) **Reserve Bank Code Number:** Commercial exports can be undertaken by a firm in India only after it has obtained the Reserve Bank Code Number. This is a requirement under the Foreign Exchange Regulation Act (FERA). For obtaining the code number, the firm has to apply to the Divisional Office of the Reserve Bank having jurisdiction over the area where the firm is located. There is a prescribed form of application for this purpose which is to be submitted in duplicate along with the report from the bank where the firm has opened a current account. The firm is to furnish details about the nature of the organisation and products intended to be exported. Besides, it requires the permanent income-tax account number to be given. In case the firm does not have an income-tax account number, it will be required to apply for the same. The Reserve Bank is to be intimated within 15 days of the allotment of the income tax account number. On completion of these formalities, the Reserve Bank will allot the code number to the firm, if the application is in order. The code number is permanent and there is no need to renew it. The number is to be cited invariably on export forms used for declaration of exports.
- ii) **Registration with Export Promotion Council etc.:** The Export-Import Policy, 1992-97 makes it compulsory for exporters to get registered with any Export Promotion Council (EPC) or specified Commodity Boards, APEDA, MPEDA or FIEO etc. This registration is required for any person wishing to apply for a licence to export or for any other benefit or concessions available under the policy. An application for membership is made to concerned authority in the prescribed form.

Once an exporter **has been** registered, the registration remains valid for five years. Export of the registered exporters having valid RCMC will only qualify for the benefits provided in the EXIM policy. Registered exporters have to submit monthly reports about exports made by them.

- iii) **Import Export Code' Number** : Every **person** importing goods for commercial purposes is required to obtain an Import-Export code number from the Regional Import-Export Licensing Authority. Customs authority do not allow clearance of goods to an importer, unless he possesses a valid import-export code number. Application for **allotment** of the code number has to be made in duplicate, in the prescribed **form** to the Regional Import-Export Licensing Authority. The Code number allotted to a person is valid for import of any **commodity** by the person subject to restrictions announced from time to time.

12.5 EXPORT TRADE PROCEDURE

When goods are exported to a foreign country, the exporter has to follow the procedure prescribed by the government. The procedure involved in exporting goods differs **from** country to country and depends on the existing policy of that country. The general procedure for exports from India involves the following stages:

- 1 Receives enquiry
- 2 Receives and **scrutinises** the order from importer
- 3 Obtains export licence
- 4 **Manufactures/procures** goods
- 5 Fulfils exchange regulations
- 6 Books shipping space
- 7 Gets excise clearance and pre-shipment inspection
- 8 Backing and marking
- 9 Appoints clearing and forwarding agents
- 10 Customs formalities
- 11 Insurance of goods and ECGC cover
- 12 Places the goods on board the ship
- 13 Obtains bill of lading
- 14 Collects necessary documents and despatches shipment advice to the importer
- 15 Secures payment
- 16 Claims the incentives

Receives an Enquiry

The first stage in the export trade is the receipt of an enquiry by the exporter from an importer or his agent. An enquiry is a request by a foreign buyer for **information** regarding the specifications and the price of the **goods** he intends to purchase. The reply to an enquiry is in the form of a quotation or **proforma** invoice which contains particulars like name and address of the buyer, full description of the goods offered, price, and terms of sale, and other details such as validity period of the offer, delivery schedule, payment terms, etc.

Receives and Scrutinises the Order from the Importer

When the importer accepts the quotation, he places an order (also called indent) with the exporter. The exporter should take care to **scrutinise** the terms and conditions of sale as they determine all subsequent actions with regard to the export transaction. It should be ensured that the contract has been entered into in accordance with the prevailing export policy and foreign exchange regulations of India. Particular attention has to be paid to the terms of payment. If the terms and conditions of the order are acceptable, a confirmation in writing giving the details of the order, terms and conditions, etc., should be forwarded to the buyer at the earliest.

Obtains an Export Licence

The development and regulation of **foreign** trade in India is governed by the Foreign Trade (Development and Regulation) Act, 1992. This act helps in facilitating imports

into and augmenting exports from India. Goods subject to control can not be exported without a valid export licence. In order to obtain an export licence, the exporter has to **apply** to the Director General of Foreign Trade (DGFT) or Regional Licensing Authority on the prescribed form. After the Licensing Authority is satisfied; the exporter will be **issued** an export licence.

Manufactures/Procures Goods

As soon as the export order is confirmed, preparations for the **production/procurement** of the goods are started. In the case of manufacturer-exporter, a delivery note (in duplicate) is sent **to** the works manager or the factory manager. **The** note should **contain** the description of the goods as has been given in the export order, and a copy of the instructions given by the importer. **The** dates by which the goods must be manufactured. the date by which necessary formalities are to be completed, and the date of shipment must be clearly intimated to the works manager. A merchant exporter has **either** to obtain the required goods from the market **or** has to get them from other manufacturers. **The** specifications and instructions to be intimated to the supplier of goods must be in accordance with those given in the export order.

Fulfil Exchange Regulations

Every exporter precedent to export of any goods **directly** or indirectly to any place outside India other than Nepal and Bhutan **has to** furnish a declaration on the prescribed form to the Reserve **Bank** of India. The declaration is made about the full value of exportable goods or the prevailing market value of the goods. The full value of exports should be realised on due date for payment or within 180 days from the date of shipment, whichever is earlier. The documents for foreign exchange formalities include, GR form in all shipments other than by Post, **VP/COD** form used for postal channel and **SOFTEX** form for Computer Software.

Books Shipping Space

It is the responsibility of the **exporter** to arrange transport by entering into an agreement with a shipping company for transporting the goods to the importer. Usually this responsibility is given to a freight broker or agent who specialises in this job. He possesses full knowledge of the various shipping lines operating on the specific route and is in a position to obtain the lowest possible freight rates. The shipping agent on behalf of the exporter gets shipping order from the Shipping Company. **The** shipping order contains instructions to the captain of the ship to receive the specific quantity of goods from the exporter mentioned therein. If the consignment is very big, the exporter may charter a whole ship or a major part of the ship. **The agreement** with the shipping company is then known as Charter Party. If it is the buyer's responsibility to arrange transport, he should be advised of the dates the goods would be ready for movement.

Gets Excise Clearance and Pre-shipment Inspection

As soon as the goods have been manufactured or procured, steps should be taken by the exporter to obtain clearance from the excise authorities. This can be done in two ways: (i) he can pay the excise duty at the time of removing the export consignment from the factory and then file a claim for refund of the duty after the goods have been exported; (ii) he can secure clearance by executing a bond on such terms and conditions as the collector of excise may decide.

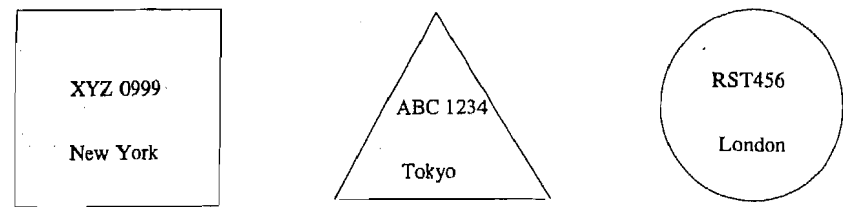
At this stage the exporter has to arrange for pre-shipment inspection to ensure conformity with the prescribed specifications. An Inspector is deputed by **the** Inspection Agency to inspect the export consignment. If the goods conform to the **prescribed** specifications, **an** inspection certificate is issued.

Packing and Marking

Packing for exports is a highly **specialised** job. It **provides** adequate protection for **the goods**.

Marketing

Packed goods must be in accordance with requirements of the buyer, shipping company and the customs authorities. Packed goods should be marked as per the instructions of the importer. Each package should have distinct shipping marks **to** identify the consignment easily. In addition, the gross weight, the tare (the weight of the package itself) and the net weight along with the measurements should be marked on the package. The marking may be done in the **form** of a rectangle, a square, a triangle or a circle as given below:



The package should also have suitable labels for different classes of goods to facilitate **the handling** of goods. For fragile goods, handling instructions like handle with care or this side up could also be **marked** on the package.

Appoints Clearing and Forwarding Agents

Sometimes, exporters appoint clearing and forwarding agents to look after all shipping and customs formalities and actual loading of the goods on board the ship. The forwarding **agents are** experts in their line of business and offer valuable services to the exporter on **payment** of reasonable charges. In particular, they perform the following functions:

(i) negotiation of shipping contract, (ii) customs formalities, and (iii) loading of goods in the ship and securing the Bill of Lading. They may also undertake packing and marking of goods and help in getting the goods insured.

Customs Formalities

The clearing and the forwarding agent takes delivery of the consignment from the railways and **arranges** for its storage in the warehouse. Thereafter, he takes necessary **action to** comply with the customs formalities. He has to prepare the shipping bill which is the main document required by the customs authorities for the purpose of granting permission for exports. The shipping bill is a document showing the exporter's name and address, description of goods such as marks, numbers, quantity and value, etc., the country from which they are exported, the name of the vessel and the port where goods are to be discharged. There are three types of shipping bills: (i) for duty free goods a white shipping bill, (ii) for **dutiable** goods, a yellow shipping bill and (iii) When duty drawback is allowed, a green shipping bill.

Besides the shipping bill, the following other documents are also required to be submitted for customs clearance: **AR-4** form (regarding excise duty payment), G.R. form (declaring value of goods), original order or letter of credit, commercial invoice, packing list (needed for **inspection** of goods), and declaration form (a formal announcement by the exporter that the particulars entered in the shipping bill are in conformity with the export order).

The exporter or the clearing and forwarding agent in his behalf is required to present the required documents. The exporter will be asked to pay the export duty, if any. The customs house will then direct the examining office or the appraiser to **carry out** the physical examination of the goods at the dock. After the exporter has gone through all formalities to the satisfaction of the customs authorities, a customs export pass or an endorsement 'let ship' is issued to the exporter on the duplicate copy of the **shipping bill**. Then **the** loading of goods will take place on the board.

Insurance of Goods and ECGC cover

Generally, the shipping companies refuse to carry the goods unless they are insured for loss or damage in course of **transit**. Similarly, the commercial banks refuse to **finance or** discount the bills of exchange, unless they are accompanied by the insurance policy. Hence, before the goods are despatched, **they** must be insured for the various types of risks involved in transit by the exporter. Usually goods are insured for an amount which covers not only the value of the goods but also a reasonable profit. The commercial and political risks, like insolvency of the buyer, **rebellion or** civil war in the importing country can be covered by insuring the shipment with the Export Credit Guarantee Corporation (ECGC). This will help the exporter in securing export finance from banks.

Places the Goods on Board the Ship

Once the customs export pass is secured, the exporter may deliver his goods directly to the dock or the ship. If the exporter delivers goods to the dock, a dock receipt is given for the goods. When goods are loaded directly in the ship, the Mate (captain's assistant) of the ship issues a receipt in acknowledgement of the goods after examining the packing and counting of the packages. This receipt is called the 'mate's receipt'. The mate issues a clean receipt if he is satisfied with the packing of the goods. If he is not satisfied he will make a remark to the effect of the mate's receipt. A mate's receipt with such a remark is considered a 'foul' or 'clausal receipt'. This remark is transferred to the bill of lading when the exporter gets it in exchange for the mate's receipt. The exporter should, therefore, take proper care in packing the goods so as to avoid any remarks on the mate's receipt.

Obtains Bill of Lading

A bill of lading is a document by which the shipping company acknowledges the receipt of goods on board the ship. It contains the terms and conditions on which goods are to be delivered to the port of destination. It serves as an evidence of the terms of the contract of afreightment between the exporter and the shipping company. The bill of lading is the document of title to the goods, without which goods cannot be claimed. Thus, when the goods arrive at the foreign port, the bill must be produced before they can be claimed. The bill can be made out to a certain person only, or, to order, when it can be endorsed and passed on, to transfer ownership of the goods to another. However, it is not negotiable, because the bearer's claim to the goods can never be better than the claim of the person who passed on the bill to him. If a bill were stolen before being passed on, it would not confer a legal right to the goods.

The bill of lading mentions whether the freight has been paid or yet to be paid. When the freight is paid by the exporter, the bill of lading is marked freight paid. When the freight is payable by the importer of the goods, the bill of lading is marked **freight forward**.

Collects Necessary Documents and Despatches Shipment Advice to the Importer

After the goods are placed on board, the forwarding agent returns the following documents to the exporter: (i) A set of 'clean on board' bill of lading, (ii) a copy of invoice duly attested by the customs authorities, (iii) copies of the shipping bill, (iv) export order in original (v) letter of credit in original (vi) duplicate copy of the AR-form and (vii) duplicate copy of GR form,

As soon as the exporter receives the above documents, he sends a shipment advice to the importer, along with the following documents: (i) commercial invoice (ii) insurance policy, (iii) copies of the bill of lading which are not negotiable, and (iv) the packing list.

Taking the possession of these documents, the importer or his clearing agent arranges for the clearance of goods from the customs office in whose custody the goods lie after being unloaded from the ship. The importer or his clearing agent approaches the shipping company, pays the dues, if any, and gets the possession of goods after submitting the bill of lading and other documents needed by the shipping company. The commercial invoice is the bill stating what goods have been sent, their weights, markings, prices and values. The importer needs the invoice to see what he owes and to check it with his copy of the indent. He must have the bill of lading to claim the goods and insurance policy to enable him to claim from the insurance company the value of damage, if any, suffered by the goods during the voyage.

Secures Payment

There are a number of alternative methods of securing payment of export dues from the importer. The method of payment is however, determined by the contract between the exporter and the importer. The two most common methods are described below:

- i) Documentary bills of exchange: By drawing a 'bill of exchange' on the importer, the exporter gets a promise of payment. The exporter sends the necessary documents to the importer along with a bill of exchange drawn on him with specific instructions that the documents would be released to the importer only when he accepts the bill of exchange or pays it. If the documents are released against payment, the arrangement is known as documents against payment (DIP). If the documents are to be released against acceptance of the bill, the arrangement is known as documents against

acceptance (**D/A**). Normally, under the **D/A** bills the exporter waits for payment **till the bill is** finally paid for. This may take time. But the negotiating banks are very often willing to discount the bills. This enables the exporter to receive payment **immediately** after shipment of goods.

If the **exporter** wants to get the amount immediately, he can discount the **documentary bills** with the local branch of his bank. For this purpose, he has to issue a letter of hypothecation to the bank. A letter of hypothecation is a letter addressed to a bank along with the bill **drawn** on the importer, by an exporter for the **goods** shipped by him. **The exporter authorises** the bank to sell the goods in case of dishonour of the bill by the importer.

ii) **Documentary credit** under letter of credit: A safer and quicker method of **obtaining payment** is that of documentary credit whereby the importer arranges for a bank to open a letter of credit in favour of the exporter. In a letter of credit, the importer's bank **branch** gives a written undertaking to the exporter that if the exporter presents certain documents relating to the shipment of the goods within a fixed period, the bank will honour the bill of **exchange** drawn under the credit **upto** the amount specified in the letter of credit. In both the cases, the necessary documents along with the bill of exchange drawn on the importer are sent to the importer through the exporter's bank. The negotiating bank **scrutinises** the documents and thereafter sends the bill of exchange, **bill** of lading, insurance policy and other documents to the importer's bank for discharge of payment. If the bill is payable at sight, the exporter receives his money **immediately**. If it is payable certain number of days after sight or date, the bank accepts it **and** the exporter discounts it.

Claims the Incentives

An exporter is entitled to claim certain benefits like duty drawbacks, excise rebate; special import licences; tax concessions etc. These incentives are offered by the government to promote exports. The last step in export procedure is to claim these incentives from **the** government.

Check Your Progress B

Fill in the blanks.

- i) Export of goods from India is subject to control under the
- ii) Taking the whole ship or major part of the ship from the shipping company to export the goods is called
- iii) The Mate issues when he is satisfied with packing, etc. of the goods to be exported.
- iv) is given when an exporter delivers goods directly at the dock.
- v) Preshipment inspection and quality control of the goods are done by
- vi) When the freight is paid by the exporter the bill of lading is marked

12.6 IMPORT TRADE PROCEDURE

Import trade procedure differs from country to country depending upon the satisfactory requirements and trade practices in force. The general procedure of import trade in India involves the following stages:

- 1 Trade Enquiry
- 2 Obtains an Import Licence
- 3 Obtains Foreign Exchange
- 4 Places the Order/Indent
- 5 Arranges Letter of Credit

- 6 Gets Shipping Documents
- 7 Clears the Goods
- 8 Makes Payments

Procedure for Import and Export Trade

Trade Enquiry

The intending importer makes trade enquiry from the possible exporters. His enquiry is based on the details of the goods required by him viz., quality, design, size, etc. and seeks information regarding the availability of goods, the price at which they would be available and the **terms** and conditions regarding delivery **and** payment. In response to his enquiry, the importer may receive a number of quotations which will contain particulars as of the goods available in ready stock, their quality, size, design, etc. The different quotations will also specify the price at which the goods should be available and the **terms** and conditions of sale. Once quotations from different suppliers have been received, a thorough comparison should be made of the various quotations before taking the decision to import.

Obtain an Import Licence

In order to obtain an import licence, the intending importer makes an application in the prescribed form, to the Licencing Authority. When the licensing authority is satisfied with the claims, he issues the licence. The import licence is issued in duplicate. The first copy is presented by the importer to the **customs** authority at the time of clearance of goods and the second copy is used for obtaining foreign exchange from Reserve **Bank** of India. Although raw materials, intermediates, capital goods and other items announced by the **central** government may be imported freely under Open General Licence (OGL) scheme.

Obtains Foreign Exchange

After obtaining the import licence, the importer makes arrangements for obtaining the necessary amount of foreign currency. In India, the Reserve Bank of India (RBI) is authorised by the Government to regulate the use of exchange. Every importer has to produce import licence along with the prescribed application **form** under the Exchange Control Act. The exchange bank of the importer endorses and forwards the application to the Exchange Control Department of RBI. The RBI sanctions the release of the amount of foreign exchange to the importer **after** **scrutinising** the application on the basis of the existing Government policy.

Places the Order/Indent

After obtaining the import licence and requisite amount of foreign exchange, the next step is to place the order or indent for import of the goods. An indent is a form of order sent abroad for goods to be imported. The indent contains Full details regarding the goods to be imported and the terms and conditions regarding price, shipment, delivery, the **method** of payment, etc. An indent may **be** 'open', 'closed' or 'confirmatory'. When the selection of goods and other details are left to the agent's discretion in the foreign country, it is called an 'open indent'. A **closed indent** contains full particulars of the exact **goods** required. When an order is placed subject to the confirmation by the importer's agent, it is **called** confirmatory **indent**. Every importer is free to place the order directly or through the intermediaries, **specialised** in **such trade**. These specialised agencies are called **indent** houses. An indent house refers to an import agent or import **firm**, which imposes goods on orders received from importers. The indent house serves as middlemen between the importers and exporters. They charge certain percentage of commission for their services from the importer. If the importer wants to make use of services of an indent house, he has to enter into an agreement with the indent house for the supply of specified goods. For this purpose there are certain special forms which the indent house fills up and the importer signs, In India many of the big indent houses have their offices in port towns like Bombay, Madras, Calcutta, etc.

Arranges Letter of Credit

Depending upon the terms of payment, the importer may have to arrange a letter of credit to be issued by his bank in favour of the exporter. All the terms and conditions agreed upon between the importer and exporter are generally spelt out in the letter of credit. The importer's bank issues the letter of credit authorising the correspondent bank in the exporter's country to buy the bill drawn by the exporter on the importer, or to accept the bill drawn on the bank itself. The importer's bank may require adequate amount to be deposited by the importer so as to cover the amount for which the letter of credit is issued. But such a deposit may not be insisted upon if the importer is an established person or a firm well known to the bank or it maintains a satisfactory deposit account with the bank.

A bank may issue any of the following types of letter of credit.

- i) Revocable letter of credit: It can be withdrawn or altered or revoked at the discretion of the issuing bank without the prior consent of the exporter.
- ii) Unconfirmed irrevocable letters of credit: It cannot be cancelled or altered or withdrawn by the issuing bank prior to the date of expiry, without the consent of the exporter and is thus much safer.
- iii) Confirmed irrevocable letters of credit : The irrevocable letter of credit shall be more safe if it is confirmed or guaranteed by a bank. With a confirmed irrevocable credit, the bank must pay the exporter, whatever happens to the importer or the foreign bank.

Gets Shipping Documents

After receiving order and the letter of credit, the exporter ships the goods and intimates the importer that the goods have been despatched. The exporter draws a bill of exchange on the importer's bank for the full value of goods payable to him. The bill of exchange, accompanied by all the shipping documents viz. commercial invoice, bill of lading, insurance policy, and the certificate of origin (if needed), are forwarded to the importer's bank by the exporter's bank. Under the letter of credit arrangement, the importer's bank will handover the documents to the importer who would take steps for getting the goods cleared from the customs authorities. In the absence of a letter of credit, the bank will follow the instructions of the exporter in the matter of delivering the documents to the importer. If the bill of exchange is marked D/A (documents against acceptance), the documents will be delivered to the importer on the acceptance of the bill. If the bill is marked D/P (documents against payment), the documents will be delivered to the importer only on payment of the amount of the bill.

Clear the Goods

After taking possession of the documents of title to the goods, the importer waits for the arrival of the ship. When the ship arrives at the port of destination, the importer arranges clearance of the goods from the customs office in whose custody the goods lie after being unloaded from the ship. This requires a number of formalities to be completed. The importer may appoint a clearing agent for that purpose. Clearance of goods requires the following steps to be taken: (i) get the bill of lading endorsed by the shipping company for delivery of the goods or a delivery order issued by the shipping company (ii) pay the necessary amount of port trust dues representing the cost of services rendered by the dock authorities in connection with the loading of goods (iii) fill up a 'bill of entry' containing all particulars relating to the imported goods and the customs duty to be paid. After import duty has been paid, the importer has to submit the 'bill of lading', 'port trust dues receipt' and 'bill of entry' to the shipping company for release of the goods. In case the importer is not in a position to pay the customs duty in full immediately, he may apply to the customs authorities to get them placed in the bonded warehouse. The importer can pay duty for part of the goods as and when he wants to get delivery.

Makes Payments

The mode of payment for import depends upon the agreement between the importer and the exporter. If the documents have been received against acceptance (D/A bills), the importer has to honour the bill of exchange on the due date. After the bill is paid, the importer transaction comes to a close. In case of documents against payment (D/P bills), the importer pays immediately or within a short period after presentation, because the importer gets possession of the documents of title to the goods only on payment of the bill.

- 1 State whether the following statements are True or False.
- i) Import,trade procedure does not differ from country to country.
 - ii) RBI issues foreign exchange in our country.
 - iii) An indent is an order to import goods.
 - iv) An indent house serves as middleman between the importer and exporter.
 - v) Letter of credit is issued by the bank only when bill of exchange is produced.
 - vi) In **the** absence of letter of credit, the bank follows the instructions of the exporter to deliver the documents.
 - vii) On dutiable goods, the duty is paid immediately and on bonded goods the duty is not paid in instalments.
 - viii) Certificate of origin is sent to the importer to take **the** possession of goods imported.
 - ix) Revocable letter of credit cannot be altered or cancelled without the consent of the exporter.
 - x) Clearing agents and indent houses perform similar functions.

12.7 LET US SUM UP

Exchange of goods and services across national boundaries is called 'foreign trade' or 'international trade'. The main difference between home trade and foreign trade is that the people involved in the former are citizens of the same country, whereas those involved in the latter are of different nationality. Besides, there is little restriction on trade between people within a country. But there are numerous restrictions on foreign trade. In domestic trade, payment is made and received in the same units of money. In foreign trade, what the importer pays in his national currency has to be **converted** into the currency acceptable to the exporter. Moreover, payment can **be** made in hometrade either in cash or by cheque or a national bank. In foreign trade payment can be made only through a bank,

Foreign **trade** can be divided into three categories: Import trade (purchase made from a foreign country), Export trade (goods sold to a foreign country), and Entreport trade (goods imported from one country for export to other countries).

The importance of foreign trade to people in different countries may be attributed to (i) specialisation and efficiency of productive activities of different countries (ii) utilisation of natural resources in different countries, (iii) economic development on the basis of exports and imports (iv) equalising the prices of goods all over the world (v) creating employment opportunities and **harmonising** relationship between different countries.

The problems of foreign trade are (i) difficulty of securing information about the suitability of products in the foreign market, (ii) difficulty of anticipating changes in supply and demand conditions abroad, (iii) risks of frequent changes in prices in international markets, (iv) credit risk to be borne by the exporter, (v) risk of fluctuation in exchange rates (vi) differences in the **rules**, regulation and **procedures** in different countries, (vii) ensuring the credit worthiness of importer **and** reliability of exporter, (viii) **risks** of loss or **damage** to cargo in course of **transportation**, (ix) time gap between export and receipt of payment, and (x) **political** and legal problems.

Before Independence, India was largely an importer of manufactured goods and exporter of raw materials. With industrial development since Independence India's **foreign** trade has undergone a radical changd in its composition and is no longer confined in Britain and its colonies.

To export goods **from** India and to avail of the export benefits, exporters were to comply with certain formalities like: obtaining the Reserve **Bank** Code Number, registration with Export Promotion Council, and obtaining the Export-Import Code Number.

The general procedure involved in connection with exports **from** India are: receiving enquiry; receipt and scrutiny of the order **from** the importer; obtaining export licence; manufacturing or procuring goods; **fulfilling** exchange regulation; booking of shipping space; getting excise clearance and pre-shipment clearance; packing and marking;

appointing clearing and forwarding agents; completing customs formalities; insurance of goods and ECGC cover; **placing** goods on board the ship; obtaining the bill of lading; collection of necessary documents and despatch of shipment advice to the importer; securing payment either by means of documentary bills of exchange or documentary credit under letter of credit; and claiming the incentives for export from government authorities.

The procedure for import trade in India consists of: making trade enquiry from exporters; obtaining **import** licence; securing sanction and release of foreign exchange; placing the **order** or indent; arranging letter of credit; receipt of shipping documents; clearing the goods **after** getting the bill of lading endorsed by the shipping company and delivery order issued, payment of port **trust** dues etc. filling up the **bill** of entry; and making payment against the exporters bill and accepting the bill to obtain the documents of title to the goods.

12.8 KEY WORDS

Bill of Entry: A document showing the details of goods imported. The custom authorities determine the amount of import duty on this basis.

Bill of Lading: A document issued by the shipping company acknowledging the receipt of goods on board the ship and containing the terms and conditions on which goods **are to be** taken to the port of destination.

bonded Warehouse: An agreement between shipping company and the exporter for **transportation** of goods to another port.

Certificate of Origin: A document showing place of origin sent to the importer in order to enable him to take advantage of preferential treatment as regards customs duties.

Commercial Invoice: The bill prepared by the exporter showing details of their weights, markings, prices and values, despatched **viz.**, together with any other charges that may be due to the exporter such as freight and insurance premiums paid by him.

Charter Party: **A** contract of affreightment for chartering a whole ship or a major part of it.

Contract of Affreightment: **An** agreement between shipping company and the exporter for the **transportation** of goods to another port.

D/A: A method of receiving payment from the importer whereby the documents are released to the importer on acceptance of a bill of exchange.

Documentary Credit: A method of receiving payment from the importer whereby the importer arranges for a bank to issue a letter of credit in favour of the exporter.

D/P: A method of receiving payment from the **importer** whereby the documents are to be released by the bank to the importer on payment of the account due.

Dock Receipts: A document issued by the dock authorities when the exporter delivers goods directly to the dock.

Drawback: **Getting** refund of import duty.

Entrepot Trade: Import of goods by one country for exporting **to** another country.

G.R. Form: **A** form prescribed by Reserve **Bank** of India to ensure that the foreign exchange receipts in respect of exports are received in India within 180 days of the shipment.

Indent: An order sent abroad for the import of goods.

Indent House: A firm which arranges the import of goods on behalf of various **importers**.

Letter of Credit: **A** document or order issued by a banker **authorising** some other banker to **pay upto** the amount stated in the letter to a party named therein or his order.

Letter of Hypothecation: A letter signed by the exporter authorising the bank to deal with the goods in case the importer fails to accept or honour the bill.

Mate's Receipt: A document issued by the **captain/mate** (captain's assistant) when an exporter loads goods directly in the ship.

Shipping Bill: A **document** showing the description of goods, the country from which they are exported, the name of the vessel and the port **where** goods are to be discharged.

Shipping Order: A document **issued** by the shipping company containing instructions to the captain of the ship to accept goods mentioned therein for shipping from the exporter.

12.9 SOME USEFUL BOOKS

Mathew, M.J. 1985. *International Trade, Policies and Prospective in Developing Economy*, Sri Ram Book Company: Jaipur.

Verma, M.L. 1988. *Foreign Trade Management in India*, Vikas Publishing House Private Limited: New Delhi.

Varshney, R.L. and B. Bhattacharya. 1984. *International Marketing Management: An Indian Perspective*, Sultah Chand & Sons: New Delhi.

Trerame, Williams D. 1985. *Commerce*. Longman: New Delhi.

12.10 ANSWERS TO CHECK YOUR PROGRESS

- A 1 (i) True (ii) **False** (iii) True (iv) False (v) True
(vi) False (vii) False (viii) False (ix) True **(x) True**
- 2 (a) (i) 3 (ii) 3 (iii) 3
(b) (i) export trade (ii) import trade (iii) re-export trade
(iv) foreign trade
- B (i) Import Export Controls Act (ii) Charter Party
(iii) clean receipt (iv) dock receipt (v) inspector from the inspection agency
(vi) freight paid
- C (i) False (ii) True (iii) True (iv) True **(v) True**
(vi) True (vii) True (viii) False **(ix) False** (x) False

2 1 TERMINAL QUESTIONS

- 1 Define foreign trade. How does it differ from home trade?
- 2 "Foreign trade is an engine of economic growth in a country." Discuss this statement keeping in view the Indian context **and** state other advantages of the foreign trade.
- 3 India's foreign trade has undergone a radical transformation since Independence. Do you agree with this view? Substantiate your view with facts.
- 4 What is a Letter of Credit? How does it help in financing foreign trade? **Name the** shipping documents required to be submitted along with a documentary letter of credit?
- 5 What documents must accompany an export shipment? Describe them briefly.
- 6 Distinguish between
 - a) Bill of Lading and Shipping Bill
 - b) Bill of Lading and Charter Party
 - c) Mate's Receipt and Shipping Order
- 7 Explain the stages through which an export transaction has to pass and describe the **various** documents involved.
- 8 Describe the procedure for import of goods.

- 9 State the functions performed by clearing and forwarding agents in relation to import and export of goods.
- 10 Write **short** notes on:
- Bill of Entry
 - Documents against Payment .
 - Documents against Acceptance
 - Certificate of Origin

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the university. These are for your practice only.

NOTES