16. International Trade (IV): Main Documents Involved

Objectives

At the end of this chapter, students should state the import trade aspect of international trade, i.e. import channels, imports and customs procedure, some relevant terms in import trade, and the functions and problems of the Nigeria Customs and Excise Authority.

16.1 Export Documents

As a continuation of formalities to be completed by exporters, there are some documents which must be prepared in respect of the export commodities. These are as follows:

(i) **Bills of lading (B/L):** Much is said in Chapter 24 about the sea as a means of transport. It suffices, therefore, to state here that bills of lading are drawn by the exporter and attested to by the ship owner or his agent that the goods mentioned therein have been shipped in a particular vessel. Bills of lading are strong titles of ownership to the stated goods. They are so strong that on their mere receipt, the importers, if they choose, may sell the goods before the arrival of the ship. A bill of lading is an evidence to other persons of contract between the shipper and the ship owner.

A bill of lading is *clean* if the export goods, on inspection before shipping, are in good condition. Alternatively, it would be regarded as *foul* if the goods are in a damaged state.

(ii) **Certificate of origin:** This is a declaration by an exporter, certified by a Chamber of Commerce, stating that the export goods originate from a particular country. This is necessary for two main reasons:

1. Goods from certain countries are banned from entering some other countries – for instance, goods from South Africa especially, were not allowed in Nigeria during the apartheid regime.
2. Some other goods attract differential customs duties. For example, goods from the ECOWAS countries (Economic Community of West Africa States) are charged lower customs duties than goods from other African countries. The EEC (European Economic Community) market also exempts goods from all member states from customs duties. The ECOWAS is striving towards this goal.

(iii) **Exports invoice:** This is like an inland invoice, but it carries more information about freight and packing charges which have been paid by the exporter. A copy of this is sent with the bill of lading to the importer.

(iv) **Consular invoice:** This is an addition to the normal export invoice. It requires the Consul of the importing country to countersign the correctness of the price quoted on the bill. A consular invoice is necessary, so that the correct customs duties can be charged at the port of destination. It usually accompanies the bills of lading as proof of their right of ownership.

(v) **Insurance certificate:** It is necessary in law that all export goods be insured. In the case of shipped export goods, we refer to marine insurance of goods on the high seas. The cost of insurance is usually borne by the importer in addition to the freights, all of which are often rendered to as *C.I.F.,* i.e. Cost Insurance and Freight.

(vi) **Export licence:** As we mentioned earlier on, this is required in case of works of art, antiques, or arms and lifting of crude oil.

(vii) **Health certificate and certificate of inspection:** Sometimes, the regulation of the importing country and the contract terms under which the goods are shipped may require such certificates. The aims is to see that such export goods are free from contamination, especially if they are food items or livestock.

(viii) **Bill of exchange (B/E):** This is related to means of payment. Much has also been said about bill of exchange elsewhere. This is an unconditional order in writing from the exporter to the importer asking the latter to undertake payment of a specific amount at a specific date unfailingly. It is an important document because, unless the importer accepts the bill of exchange, either D/A (documents against acceptance) or D/P (documents against payment) (see payments below), the goods would not be released to the importer.

(ix) **Letter of hypothecation:** This again, is more relevant to payment. It is a further guarantee that the goods would be paid for. Simply, it is a letter to the bank of the importer asking the bank to sell the goods, should the importer fail to honour the bill of exchange. The bank would recover its own expenses and remit the balance of proceeds to the exporter.

16.2 The Customary Importing Procedure and Document

A typical importing transaction is as follows:

(i) **Import licence:** The appropriate import licence must be obtained. In Nigeria, for instance, some goods are placed under open general licence: that is, such goods can be imported in unrestricted quantities, e.g. foodstuffs like rice, and educational materials like books. On the other hand, the importation of some luxury motor vehicles is sometimes banned completely, i.e. no licences would be issued for their importation.

Also, some other goods are put under restricted or specific licence. This means that only specific quantities can be imported and such licences have strictly limited period – usually six to twelve months. Examples of goods under specific licence are motor vehicles of certain engine capacities of 2000 c.c. and above. The aims of such licences is to conserve the countryâ€™s foreign reserve and maintain a favourable balance of trade position.

(ii) **Form â€˜Mâ€™:** This was peculiar to Nigeria between 1981 and 1985. This was a form filled by all importers in order to give the Central Bank all the necessary information regarding a proposed or intended importation. The idea was that since the Central Bank provided the foreign exchange for all import payments, it would like to know in advance, the extent of such possible foreign exchange payments. Form â€˜Mâ€™ was processed through importersâ€™ commercial banks, where delay was not unlikely. In addition, some advance payments based on the value of the proposed import bills were expected to be made to the Central Bank by the importers. Once the Form â€˜Mâ€™ was approved by the Central Bank, order would be placed for the foreign goods by the importer.

(iii) **Shipping advice:** This states details of the goods and the ships conveying the goods. An invoice, too would be sent, but if the prices are not yet determined or the goods are meant for a commissioned agent, then a proforma invoice would be sent.

(iv) **Bill of lading:** This, as discussed earlier in this book, is a title of ownership; and like the deeds of a property, the possessor of a bill of lading lays claim to the goods. It is an evidence that the goods shipped in the stated vessels are his. A bill of lading is sent to the importer who would have to present it with other documents in order to clear the goods.

(v) **Shipâ€™s manifest:** This is released to the customs house by the ship within 24 hours of landing at the docks. It is a statement of all the cargoes carried by the ship and, therefore, usually a summary of all the bills of lading. No goods must be unloaded from the ship before the delivery of the shipâ€™s manifest.

(vi) **The shipâ€™s copy of bill of lading:** The ship on arrival releases its own copy of bill of lading. By this, the ship gives up its claim on the goods on condition that the importer must have paid all the freight charges. The importer is now ready to clear his goods.

(vii) **Customs entry forms:** The importer is now asked to comply with customs regulations. In the first place, he must produce two copies of a Customs Entry Form which is a record of the details of all his cargoes, and it must agree with the shipâ€™s manifest. Let us now consider customs procedure and the functions of the Nigerian customs.

16.3 Customs Procedure and Terminologies

There are some stated customs procedures that must be fulfilled by goods entering the country or any other country for that matter. The procedures are followed through the issue and filling of some forms.

(i) **Bills of sight:** When the declarations contained in the Customs Entry Form do not conform to the shipâ€™s report (manifest), then the importer is issued a bill of sight. This will enable the importer to examine the imported goods in the presence of a customs officer, in an attempt to obtain the correct details of the goods for purposes of appropriate duty assessment. The bill of sight must be returned within three days, otherwise the goods may be transferred to the state warehouse and from there sold after a month as abandoned goods.

(ii) **Importersâ€™ copy of customs entry form:** The customs officer initials one copy of the entry form and returns the same to the importer. The importer in turn takes his copy to the Customs Authority which passes it to the customs superintendent who authorizes the unloading of the goods for storage purposes.

(iii) **Entry for free goods:** When goods are exempted from duty, an entry for free goods form is completed. The customs officer then inspects the goods for conformity with other necessary regulations and acts, such as Food and Drags Acts, and if found satisfactory, the goods are released to the importer or his agent

(iv) **Entry for house use ex-ship (of dutiable goods):** A form is filled in duplicates in respect of goods for home use. The statement gives details, such as value and weight of the goods for purposes of duty assessment. Such duties are assessed *ad volorem* which is based on the value of the goods. Alternatively, it can be *specific duty* which is based on the quantity or weight of goods. Once the assessed duties are paid, the importer or his agent can remove the goods.

(v) **Entry for warehousing (of dutiable goods):** These are goods which are not required for immediate use. They can be warehoused. The landing order which has been issued by the dock superintendent is now presented to the warehouse authority who would now take in the goods being satisfied as to the information supplied on the form. The goods are then taken into a bonded warehouse.

(vi) **Warrant:** This is a document of title, like the bill of lading, confirming that the importer has his goods at the bonded warehouse. When the importer wants to collect his goods, he would present his warrant and a receipt of duties paid, in addition to payment of appropriate handling and dock charges. Alternatively, an importer can sell his goods in bond and the duties would then be paid by the purchaser.

(vii) **Drawback:** This is when duties are paid on some imported goods which are meant for re-export to other countries, and the duties paid earlier on are subsequently refunded. For instance, imported goods that are meant for landlocked countries like Niger and Chad, pass through Nigeriaâ€™s ports of Lagos and Port-Harcourt. This is known as *re-export back* and such goods are known as *re-entry goods.* The ports handling them are referred to as *entrepÃ´t.*

(viii) **Bonded warehouse:** This was described earlier on as a warehouse where dutiable goods are kept until such duties are paid. However, some goods like tobacco and tea require long periods for maturing, blending, and repacking before being brought to the market. Such processing facilities are provided in the bonded warehouse.

In addition, bonded warehousing relieves the importer of the financial need of paying duties almost immediately on goods that require further processing before sale. In other words, such warehousing relieves the importer of tying down his capital unnecessarily for a long period. However, when such duties are paid, the importer may pay heavier duties to reflect the current value of the goods.

Furthermore, during the period of bonded warehousing, the importer could arrange for business contracts between himself and the likely purchasers of his imported goods. Such customers would buy the goods in bond or wait till the period of duty paid by the importer himself before selling the goods.

(ix) **Preference duties:** These are fractional rates of customs duties imposed on imports from certain countries given preferential treatment. For instance, countries within the Economic Community of West African States (ECOWAS), European Economic Community (EEC) and General Agreement of Tariffs and Trade (GATT) charge only reduced duties on imports from member states. The ultimate goal of ECOWAS countries is to eliminate customs duties completely.

(x) **Bank bills:** We have already learnt about the use of foreign bills of exchange as a means of payment for export goods. In some cases, however, when the reputation of the importer is not assured, the exporter may wish to be certain that he would get paid. Consequently, he (the exporter) may ask the importer to exchange the foreign bills of exchange for bank bills. This is because most banks have international reputation and they can be trusted. The exporter also trusts his nominated bank with the custody of export documents. The bank bills are of two kinds:

1. **Documents against acceptance bill (D/A):** In this regard, the documents referred to earlier on above, i.e. bill of lading, invoices, certificates of origin of goods and insurance policy, which are the documents that the importer must present at the dock because clearance would not be handed over to the importer by the bank until the acceptance of the bill of exchange.
2. **Documents against payment bill (D/P):** Here, the exporter firmly instructs the bank not to hand over the documents of title (mentioned in (i) above), unless the importer has paid in full to the bank, the amount quoted on the invoice. Even in the two cases above, the fund with which to pay leads to bank credits.

(xi) **Bank credits:** The exporter would demand that a bank offers credits to the importer. That is, the banks guarantee the importers. This again is in two forms:

1. **Confirmed credit:** The bank does not only confirm that a credit is already offered the importer in favour of the exporter, but confirms that the bank guarantees payment. This makes the exporter feel secure.
2. **Unconfirmed credit:** Here, the bank merely agrees to open the credit in favour of the exporter, but does not guarantee payment. This leads to the next document.

(xii) **Document credits:** This is a mere letter from the importerâ€™s bank that, a credit has been opened in favour of the exporter. In fact, because there are three types of documentary credits, the exporter would have to accept the situation with some caution.

1. **Recoverable letter of credit:** This type of credit can be cancelled at any time by the importer himself. For this reason, it is not quite safe.
2. **Unconfirmed irrevocable letter of credit:** With this, the importer cannot unilaterally cancel the credit once it is opened. However, the bank still does not guarantee payment.
3. **Confirmed irrevocable letter of credit:** This is the surest and safest of all. This credit is not only confirmed, but it is also unalterable by the importer.

The difference between bank credit and documentary credit

In the latter case, the bank has merely promised a credit to the importer, who has to pay the exporter.

(xiii) **Letter of hypothecation:** This is a device as additional security for payment by the importer. This letter can be issued by either an exporter or an importer or both.

Simply, the letter instructs the importerâ€™s bank to offer the export goods for sale, should the importer default payment. The bank is also authorized to recover its administrative expenses out of the proceeds while remitting the balance to the exporter. However, if the balance still falls short of the full payment, the importer is expected to make good the debts. A letter of hypothecation is necessary where the bank credit is unconfirmed and the letter of credit is revocable.

16.3.1 The Accepting Discounting Houses

When bills of exchange are sound, the exporters are able to exchange the bills for cash; that is, discount them before the date of maturity with the accepting discounting houses. Discounting involves a commission, which is like paying interest on loans.

16.3.2 Export Factoring

This is a method of avoiding the burden of likely bad debts. The factor pays the exporter promptly, while he sets out to collect the debts from the importer. The broker earns a commission on this.

16.4 Reasons for Charging Customs and Excise Duties

16.4.1 Customs Duties

Customs duties, mentioned earlier, are charged on imports. They are imposed for the following reasons:

(i) *To collect revenue for the government:* The bulk of Nigeriaâ€™s revenue, especially before the oil boom, came from this source.

(ii) *To cut down on home consumption of some imported goods:* e.g. expensive motor cars.

(iii) *To preserve foreign reserves:* This follows the reduction in home consumption of some imports.

(iv) Following (iii), imposition of customs duties could be a *means of correcting adverse balance of trade and payments position.*

(v) Imposing customs duties could be used to protect home â€˜infantâ€™ industries against foreign competition.

Points against customs duties

(i) The imposition of customs duties may generate retaliation from other countries.

(ii) It may also be against the letters and spirit of some trade agreements among some trading nations, e.g. among member countries of ECOWAS, EEC, GATT or the Commonwealth.

16.4.2 Excise Duties

Excise duties are imposed on locally produced goods. The reasons are as follows:

(i) To collect revenue, e.g. on the Marketing Boardsâ€™ produce.

(ii) To foster competition between home and foreign industries of the same nature. Since the latter bear import duties, the home industries bear excise duties

Points against imposition of excise duties

(i) Growth of home industries may be badly affected.

(ii) Locally produced goods may become very expensive.

(iii) If excise duties are imposed on export goods, such goods may be priced out of foreign markets in terms of competitiveness.

(iv) To producers of such goods, payment of exercise duties amounts to double taxation since they would have paid at least their personal income tax in the first place.

16.5 The Nigeria Customs and Excise Authority

16.5.1 The Function of the Nigeria Customs and Excise Authority

In order to bring out very well such tripartite relationship, it is equally necessary to show the functions of the Customs and Excise Authority. The primary functions of the Nigeria Customs Authority are:

(i) To implement government policies on imports and exports by:

1. enforcing exports and imports control.
2. making sure that smuggling is eliminated or at least reduced to the barest minimum.
3. Maintaining such vigilance at the ports boarchers as would check the importation of contraband (illegal) goods.

(ii) To enforce government rules and regulations on classification of goods into dutiable and non-dutiable categories.

(iii) To ensure that the correct rates of duties (customs and excise) apply to all goods, as laid down in the current government budget.

(iv) To keep good custody of goods entrusted into the care of the bonded warehouses (awaiting payment of duties) and into the government or state warehouses for purposes of confiscation. For instance, confiscated goods should not be allowed to be turned into the personal property of customs and excise officials; neither should they be sold for their private personal gains.

(v) To provide quarantine for imported live animals and plants.

(vi) To collect revenue due from tariff and excise duties.

(vii) To compile statistics on foreign or international trade which is made available to the government.

(viii) To check illegal trafficking in local and foreign currencies.

(ix) To inspect containers and assess the correct or appropriate duties to be paid on the goods therein.

(x) It is the customs authority, that supervises the bonded warehouses.

16.5.2 The Peculiar Problems of the Nigeria Customs and Excise Authority

(i) **Lack of enough capital resources:** This affects i (1) above. The Authority lacks some of the essential equipment such as motor vehicles that would have assisted its officials in the efficient patrol of the borders and monitoring of the movement of smugglers.

(ii) **Shortage of adequate manpower:** The authority experiences shortage of adequate supply of manpower relatively to the large expanse of border areas.

(iii) **Attitude of some Nigerians:** Most Nigerian traders see nothing wrong in active engagement in smuggling. Most petty and medium sized traders thrive on smuggling. This compounds the work of the men of the customs and excise.

(iv) **Size of the borders:** Nigeriaâ€™s border is large. To eliminate or minimize smuggling, such borders should be policed by customs and excise officials, but the sheer size of such borders makes patrol an onerous task for men of customs and excise.

(v) **The nature of the borders:** Most of the border areas of Nigeria, especially in the northern part of the country, lie mainly in the desert and Savannah regions. In essence, the inroads into the country and channels of smuggling are just too numerous for effective patrols by the men of customs and excise.

(vi) **Government policy:** A nation that frequently changes the lists of goods that are declared as contraband or illegal for importation (and exportation) is bound to make enforcement of such rules and regulations an uphill task for the Customs and Excise Authority.

(vii) **Alleged corrupt practice:** There are allegations of corrupt practices on a wide scale against officials of customs and excise. It is alleged that smugglers offer tempting bribes to customs men and women, who have also grown used to receiving them.

Summary

â€¢ Similarly, customs duties are charged on imported goods while excise duties are charged on home-produced goods with and for some economic consequences and reasons, respectively.

â€¢ The Nigeria Customs and Excise Authority helps to execute the Federal Government policy on foreign trade. However, the same authority is laden with some problems, from inadequacy of capital resources to alleged corrupt practices.

Revision Questions

A. Essay Questions

1. Write short notes on:
    (i) bills of sight
    (ii) drawback
    (iii) warrant
    (iv) preference duties
2. What is the distinction between shipâ€™s manifest and a bill of lading?
3. State any two uses of each of the following documents used in foreign trade:
    (i) Indent
    (ii) Bill of lading
    (iii) Bill of Exchange
    (iv) Certificate of Origin
    (v) Consular invoice
4. (a) Give three functions each of the following:
        (i) Ports Authority
        (ii) Customs and Excise Authority
    (b) State four facilities provided by a good seaport.
5. (i) Discuss what you understand by documentary credits.
    (ii) Explain three types of documentary credit.
6. Distinguish between bill of lading and bill of exchange. List out ten important export markets for your country and state the export goods to such market.
7. Explain each of the following documents:
    (i) Export invoice *(4 marks)*
    (ii) Bill of lading *(4 marks)*
    (iii) Certificate of origin *(4 marks)*
    (iv) Bill of exchange *(4 marks)*

(v) Consular invoice *(4 marks)*

(WAEC 2000)

B. Objective Questions

1. A bankâ€™s guarantee to honour the exporterâ€™s invoice when presented for payment is called
    A. irrevocable letter of credit
    B. documentary credit
    C. unconfirmed credit
    D. letter of hypothecation

(WAEC 2000)

2. Which is the safest of all documentary credits?
    A. Revocable letter of credit

B. Unconfirmed credit
C. Irrevocable letter of credit
D. Confirmed irrevocable letter of credit

3. A bonded warehouse is used to store goods which are
A. manufactured in a country
B. to be exported
C. awaiting payment of duties
D. seized as contrabands

(WAEC 2000)

4. Which of the following provides harbours, berth and navigational aids to ships?
A. Export Promotion Council
B. Shipping, Clearing and Forwarding Agents
C. Ports Authority
D. Customs and Excise Authority

(WAEC 2000)

5. Which of the following is not performed by the Airports Authority?
A. Providing loading facilities
B. Issuing travelling documents
C. Providing warehouses for cargo
D. Providing security for passengers
E. Keeping touts off the airport.

6. The basic function of the Nigerian Ports Authority is to
A. coordinate the activities of all the seaports in the country
B. facilitate and control the movement of goods and services into and out of the country
C. ensure that the right caliber of personnel is employed at the ports
D. coordinate and regulate the activities of shipping lines

(UMEJAMB 2003)

7. One of the functions of seaports is the provision of
A. loading and offloading facilities
B. control room for relaying radio messages
C. warehouses for storage of cargo
D. berthing and landing facilities

(UME JAMB 2003)

8. A clean bill of lading is a bill that
A. is clean and without stain
B. shows ownership of goods
C. is issued by customs to show that the importer has paid all charges
D. contains no damaged goods
E. shows that goods in the bonded warehouse are safe

9. A bill of lading is said to be foul if
A. it has to do with shipment of chickens

B. the goods are in a damaged state

C. the goods are rejected by the shipping company

D. the goods are impounded by the Customs Authority

E. the good have been sold before arrival at the ports

10. Which of the following services is not provided by the Customs and Excise Authority?

A. Collection of import duties

B. Improvement of ports facilities

C. Checking of smuggling

D. Control of goods in bonded warehouse

(WASSCE 1999)

Project

Of all government departments offering job opportunities in Nigeria, the Nigeria Customs and Excise Authority has been reported as having the largest volume of applications from job seekers. Discuss this with your mother and father or any other elderly member of the family. Why is this so?

What suggestions would you make to reduce the large volume of applications to this authority in future?