15. International Trade (III): Procedure

Objectives

At the end of this chapter, students should be able to explain the procedure of international trade, describe the methods, list and explain some concepts in foreign trade, e.g. terms of trade.

15.1 Procedure of International Trade

There are essentially five steps in the procedure of international trade. These steps are as follows:

(a) **Making Contact:** The first step is to have contact established between the importer and the exporter and this can be done in various ways.

(i) A producer or manufacturer may sell his goods or hand them over to an exporting house which can then find an overseas or foreign market for the goods as owners or agents of the producer/manufacturer.

(ii) A manufacturer or producer can send his agents or salesmen to foreign countries to canvass orders.

(iii) Some producers or manufacturers or exporters have representatives in foreign countries through whom contacts could be made.

(iv) A company or producer or manufacturer may like to intensify advertising in foreign countries for its products.

(v) Contact can also be established by a producer or manufacturer exhibiting his products at international trade fairs.

(vi) Agricultural produce exporters may do so by selling through the marketing or commodity where they exist.

(vii) An importer can sometimes initiate contact with foreign wholesaler, manufacturer or producer (exporter) by sending letter of enquiry or his agent.

(b) **Quotation or Catalogue:** After contact has been established, the exporter can now send quotation or catalogue which gives description or prices of the goods to the importer.

(c) **Order:** After the quotation has been received, if satisfied, the importer will now place an order, in which will be stated the port through which the goods will be delivered. Methods of payment and carriage are equally stated.

(d) **Shipment:** As soon as the exporter receives the order and evidence of payment, or that he would be paid e.g. documentary credit; he packages the goods, prepares the necessary documents, makes the necessary arrangements, ships the goods and sends the necessary documents to the importer or his agent, usually the bank.

(e) **Clearing the Goods:** The importer is now informed by the shipping company the date of the arrival of the ship at the ports. On arrival of the ship at the designated port, the clearing agent, who has already collected the necessary documents or papers from the importer, goes through the ship's manifest to make sure the goods are on board the ship. He, the agent, will then identity the goods. If they are there, he will then get the customs officers to assess the duties payable on the goods. After paying the duties and completing other customs formalities, the agent collects the goods and sends or delivers them to the importer's warehouse or business premises, after an "Out of Charge Note" has been issued. If any discrepancy is detected, the importer will be required to pass an "Out of Entry" for the additional amount. On the other hand if there is an over payment of duty, an "Over Entry Certificate" is issued to enable the importer to obtain the necessary refund.

15.2 Import and Export Channels

15.2.1 Import Channel

Import trade is as complex as the export trade. There is the need for the importer to know the types and the technical nature of the goods available overseas. He must be certain of the prices and terms of purchase that operate in the foreign market in addition to the trade policies of the exporting country. Import trade is conducted through a number of channels.

(a) **By direct order:** Many organizations engage in direct ordering of their stocks of goods. The conditions are:

   (i) The organization should be large enough to set up is own import department. Large supermarkets and departmental stores, like the Kingsway and Leventis stores, usually handle their import trade.

   (ii) The organizations should require a large volume of components or part-finished products, e.g. Sanyo (Nigeria) Limited, or Leyland Motors (Nigeria) Limited. Such organizations find it more economical and reassuring for their supply of raw materials to be uninterrupted; hence they undertake the direct import of such materials.

   (iii) If there are no organized markets or exchanges (commodity markets), the organization may import such goods directly. For instance, farm tractors have no organized commodity markets and importers of farm machines would do better importing them directly. On the contrary, an importer of lead or zinc may do better going through the specialized markets.

(b) **Import merchants:** They trade on their own accounts and not as representatives or agents. They buy goods from overseas, finance the imports, clear their cargoes and dock them in order to resell to wholesalers and retailers alike. They take all the risks.

(c) **Overseas branch offices:** A good number of Nigerian firms do have their branch offices in overseas countries. Such overseas branch offices may engage in purchase and shipping home of goods on behalf of their main home companies. In the same manner, a lot of foreign firms have their branch offices in Nigeria for the same importing duties.

(d) **Through overseas subsidiary companies:** These could perform the same importing duties like the foreign branch offices, while their holding companies give them exporting services. European and American multinational companies are well known for their dealings through the many subsidiaries they have all over the world.

(e) **By consignment:** These are more common in import than in export trade. Goods sent by consignment would reach the Nigerian market through the Nigeria based representative known as the *consignee,* from the foreign manufacturer (or seller) known as the *consignor.*

The procedure is a little different from that of other forms of import channels which we would discuss later on.

The procedure for consignments

(i) The consignor ships the goods to the consignee (an agent) who earns a commission for his services.

(ii) The consignor sends with the goods a proforma invoice instead of an export invoice usually sent in other forms of import channels. The proforma invoice indicates how much the consignee is expected to sell the goods, but does not charge him.

(iii) The consignee attends to all customs' formalities at the importing country, pays customs duties, landing charges, etc and also clears the goods.

(iv) The consignee sells the goods, renders accounts, and remits the sales proceeds to the consignor after the former has deducted his own expenses and commission. Alternatively, the consignee could pay the proceeds to the consignor's account if he has one in the importing country; or the consignor could draw a bill of exchange on the consignee who is expected to accept it on presentation.

(v) The consignee does not normally take responsibility for bad debts arising from the sales, but this loophole is usually taken care of by upgrading the agent to the status of a *del credere* agents, thus making him responsible for collecting all debts by paying him an additional commission known as a *del credere commission.*

15.2.2 Export Channels

(a) **Direct export to the foreign market:** The exporter would definitely find this taxing, since he would have to be personally responsible for the following export activities:

(i) advertising, sales promotions and market research in the foreign markets;

(ii) dealing with trade correspondence and orders;

(iii) packing goods into very suitable state for overseas transportation;

(iv) coping with shipping and export documentation;

(v) managing his credit control and payment systems;

(vi) ensuring that foreign market regulations are obeyed, regarding the manufacture and sales of the export goods in the foreign market.

It is because the exporting activities enumerated above could be burdensome for export manufacturers, especially the very small ones, that the following alternative export channels are contemplated by exporting firms or companies.

(b) **Manufacturers' export agent:** This agent assists those who are not able to maintain their own agents in the foreign markets; therefore, their services are available to all types of exporters. They help in attending to marketing and shopping problems.

(c) **Export merchants:** They buy from, for instance, Nigerian exporters and resell in the foreign markets on their own accounts, and live on their profit margin. They are not agents. The export merchants are specialists and they are knowledgeable in certain categories of export commodities and about the exporting firms; their overseas customers are the real and potential markets for their categories of goods.

They relieve the manufacturers of all the headaches of customers' credit-worthiness, the problems of shipping, and consignment documentation.

(d) **Foreign buyers' commissioned agents:** These are based in exporting countries, on the orders of their foreign principals. *Indents* are the orders received by the local exporters through these buyers' commissioned agents. Indents could be closed when the exact goods to be purchased by the commissioned agents are specified. In this case, the agent is known as *confirming house.* He places firm orders to specification and carries out the necessary formalities. The manufacturers, with whom the orders are placed, are also specified. On the other hand, the indents are open when the agent finds it difficult to find the most suitable sources, and types of commodities he thinks fit. The manufacturers' indent serves to create greater awareness for new export goods of the home country in foreign markets. As their title suggests, they live on a commission paid by their principals and based on volume of orders duly processed. They are sometimes referred to as *export commission houses.*

(e) **Overseas agents:** These are representatives of the exporting firms, as the foreign buyers' commission agents are representatives of the overseas buyers. The most effective ones may be agents appointed in the foreign markets, rather than from the exporting country. The former would have a good knowledge of the foreign market with which he has been so conversant. Although there might be the problem of finding a reliable agent who is not already engaged in the agency of competing firms.

(f) **Export groups:** These are bodies of small firms that are individually too weak financially to venture into the foreign (export) markets on their own. This is a case of 'united we stand, divided we fall'. They are able as a group to cope with the problems of marketing, advertising, research, shipping and credit control more efficiently than as individuals. In most countries, the formation of export groups is actively encouraged by governments, for instance, the British Government.

(g) **Forwarding agents:** Shipping is a specialist job. Forwarding agents are specialists in shipping matters. They are familiar with all the shipping regulations and routines. In addition, they maintain special connections at the docks, where they are given preferential treatment. The result is that, even for exporters and importers who undertake their own shipping arrangement, it is still more productive to employ the services of the forwarding agents. Furthermore, the forwarding agents operate what is known as *groupage service* whereby small consignments may be grouped with the big parcels of big firms, thus giving minimum charges. Moreover, forwarding agents are often given concessional rates which could be passed onto their clients in form of lower charges.

15.2.3 The Nigerian Export Promotion Council

The Nigeria Export Promotional Council (NEPC) is a body set up by the government for the encouragement and promotion of Nigerian export trade. The activities of the council are supervised by the Federal Ministry of Trade.

The functions of the Nigeria Export Promotion Council (NEPC) are as shown below:

(i) The council has the power to regulate and streamline export procedure.

(ii) It assists exporters in the course of exporting goods to foreign countries.

(iii) The council uses government approved incentives to boost export trade.

(iv) It is the duty of the council to liberalise and simplify export procedure and documentation in order to make export trade less cumbersome.

(v) The function of the council includes approving export and providing export licence.

(vi) NEPC works closely with the Central Bank of Nigeria (CBN) in aid of export trade by assisting in financing export.

(vii) It also works hand in hand with the Customs Authority concerning the preparation of export documents.

(viii) The council assists in the development and export of raw materials and semi-processed products derived from agriculture and mining.

(ix) It explores ways of penetrating new foreign markets for Nigerian exporters.

(x) It arranges and encourages Nigerian exporters to participate in trade fairs abroad.

(xi) The council also arranges exhibitions for Nigerian products.

(xii) It organizes seminars and workshops for people engaged in foreign trade or export business.

(xiii) It assists exporters in obtaining export financing facilities, insurance and export guarantee scheme.

(xiv) It attends trade fairs and publicises its activities through print and electro media.

15.3 Procedures in Export Trade

So that exporters can comply with all regulations and rules of export trade, they follow certain procedures or formalities. Some of them are as follows: (The procedures mentioned below follow the receipts of an indent through the representatives of the customer by an exporter, who prepared the goods ready for shipping).

(i) **Export licence:** In most countries, the export of some goods requires no export licence, but for some categories of commodities, there is the need for export licence. These goods come into the class of strategic commodities like defence materials (arms), antiques, works of art, and works of historical value. For instance, in Nigeria, the Federal Government usually publishes, together with the annual budget, lists of goods requiring export licences; and the list changes from time to time.

15.4 Terms of Trade

Elsewhere we mentioned price quotations in connection with home trade. In foreign trade it is important that the price and the terms of delivery quoted are clear and unambiguous since such would affect the liabilities of both parties to the contract of trade.

Let us now go over price quotations as related to foreign trade:

(i) *Loco:* Free delivery is undertaken by the exporter, but within limited and defined area — for instance, loco Lagos.

(ii) *Ex Works:* The buyer is expected to take all delivery and transportation responsibilities from the factory.

(iii) *F.O.R.:* This means *free on rail.* The exporter bears the cost of transportation up to the railway, from where the importer takes over the responsibility for transportation.

(iv) *F.A.S.:* This means *free alongside ship.* The exporter bears the cost of shipping.

(v) *F.O.B.:* It means *free on board.* It is somewhat similar to F.A.S., but the place to which the goods are free on board would be specified.

(vi) *C. & F.:* This means *cost and freight.* The export price charged would not include insurance.

(vii) *C.I.F.: Cost, insurance and freight.* The price charged includes freight and insurance to a stated port — for instance, c.i.f. Liverpool U.K.

(viii) *F.A.Q.:* This means *free alongside quay,* that is, free to a specific landing place.

(ix) *Franco:* All charges paid to the point named — this is similar to f.o.b. above.

Summary

- Procedure in international or foreign trade can be viewed from two standpoints either as exporter or importer. Whichever way, an order must be placed and accepted with the terms agreed by both parties – export and importer – who might have placed or accepted the order directly or through an agent. The goods may be shipped *directly* to the importer or through an agent in the importer's country. Certain documents should accompany the goods, e.g. shipping advice, bill of lading, etc and other relevant documents or papers as may be required by the existing law and customs authorities. When all the charges are paid and customs formalities completed, the goods will be cleared or released to the importer or his agent.
- There are very many channels through which goods could be passed on to foreign markets. Similarly, the export and import procedures are by set rules.
- The two concepts in foreign trade treated are terms of trade and counter trade.
- The terms used in price quotation, e.g. loco; ex-works; f.o.b.; etc. are meant to leave no one in doubt of his obligation in the transaction.
- There are different forms of trade credits acceptable with different financial implications in international trade, e.g. 'confirmed credit' and 'unconfirmed credit'.
- Some of the import channels are direct order, through import merchants and by consignment.
- There are also some laid down importing procedures such as obtaining an import licence, shipping advice, ship's manifest, customs entry forms, etc.

Revision Questions

A. Essay Questions

1. What do these terms mean in the pricing of export goods?
   (i) ex-works
   (ii) f.o.b.
   (iii) loco
   (iv) f.a.q.
   (v) c & f.
   (vi) franco.

B. Objective Questions

1. Which of the following does not accompany goods in international trade?
   A. Consignment note
   B. Certificate of origin
   C. Insurance certificate
   D. Export licence

   (WAEC 2000)

2. When a buyer is to pay for the cost of transporting goods, the invoice is marked
   A. carriage forward
   B. carriage paid
   C. cost and freight
   D. cost, insurance and freight

   (WAEC 2000)

3. Which is not the function of Nigerian Export Promotion Council?
   A. To regulate and streamline export procedure
   B. To approve export items
   C. To provide import licence
   D. To regulate goods that will be on export prohibition list

4. The body set up by the government to encourage and promote export trade in Nigeria is
   A. NEPA
   B. NEPB
   C. NEPC
   D. NPA
   E. NCEA

5. A contract of affreightment refers to
   A. hiring a cargo space in a ship
   B. chartering a ship for a trip
   C. hiring or chartering a space in aircraft
   D. freight already paid

Project

Visit a local market and discuss with the people the terms they would like to use in their commercial activities.