Detailed Syllabus of Marketing Management for the Examinations to he held in the years 2017, 2018 & 2019

MARKETING MANAGEMENT

SEMESTER- VI

Course No. : MK-601 (Theory) **Title :Export Procedures and Documentation**

Duration of Exam: 3 Hrs

Total Marks: **100**
Theory Examination: **80**
Intemal Assessment: **20**

Objective : *The objective of this course is to make students aware of export procedures and Legal formalities concerning the same.*

Unit I Advantages and Disadvantages of Exporting as a market Entry Strategy, Facilities and Incentives relating to export, Preliminaries for starting exports, Registration of Exporters, Sending overseas samples, Appointing overseas agents.

Unit II Arranging Finance for exports: Pre-shipment finance, Post -shipment finance, Extemal Commercial Borrowing (ECB) Exim Bank Finance, Letter of Credit (LC), and Types of LC.

Unit III Preparing Documents for Export, Documents for declaration of goods under foreign Exchange regulations, Documents for transportation of good, documents for Custom's Clearance of goods, other documents like Commercial invoice, Consular invoice, Customs invoice, Certified invoice, Weight Note, Bill of Exchange, Packing List, Manufacturer's Certificate, Certificate of Shipment, Antiquity Certificate, Shipment Advice etc.

Unit IV Insuring goods against marine risks, Understanding Foreign Exchange Rates and Protection against their adverse movement.

Unit V Financial and Fiscal Incentives provided by Government and Autonomous organisation for exporters

Note for Paper Setter

The question paper shall contain lwo questions from each unit (total ten questions) and a candidate will be required to answer five questions selecting one from each unit. Thus, there will be an internal choice within each unit.

Internal Assessment (Total Marks = 20)

The marks shall be distributed as under:

Two Home Assignments (10 marks each).

Suggested Reading:

1. Jaiswal Birnal, International Business, Himalyan Publishing Houser, Edition 2012.
2. Mithani D.M, Economics of Global Trade and Finance, Himalyan Publishing Houser, Edition 2009.
3. CheruniLay Francis, International Trade and Export Management, Himalyan Publishing House, Edition 2013.
4. Jain S. Kushpat, Export Import Procedures and Documentation, Himalyan Publishing House, Edition 2013.

COURSE NO : BM- 601 **UNIT - I**

SEMESTER - VI **LESSON : 1-2**

FUNDAMENTALS OF EXPORTING

STRUCTURE

1.1 Introduction

1.2 Objectives

1.3 Advantages and Disachantages of Exporting as a marketing Strategy .

1.4 Facilities and Incentives relating to export

1.5 Pre iminaries for starting exports

1.6 Registration of Exporters

1.7 Sending overseas samples

1.8 Appointing overseas agents

1.9 Summary

1.10 Glossary

1.11 Self Assessment Questions

1.12 Lesson End Exercise

1.13 Suggested Reading

1.1 INTRODUCTION

The basic difference between export marketing and domestic marketing is that export marketing focuses on marketing your product in other countries instead of your own. Although it applies strategies that are similar to domestic marketing. export marketing tends to be more challenging since you must appeal to different cultures ideals and tastes. Law s and regulations are also different from place to place. Export marketing may entail a greater risk and effort and may require substantial tinancial resources. If your product is. already doing well in the domestic market and therefore there is no need to expand to new markets. However, with the increasing opening of Caribbean economies to goods and service produced abroad. competition in the domestic market will continue to increase and survival might very well depend on an ability to compete both domestically and internationally. In this sense. despite the challenges and risks associated with exporting it also offer numerous benefits which are not likely to be achieved by remaining domiciled in the local market. Some of the methods of foreign market entry through exporting are that manufacturing is home based thus, it is less risky than overseas based. Further, it gives an opportunity to “learn” overseas market before investing in any goods or services. Exporting also reduces the potential risks of operating overseas. The disadvantage is mainly that one can be at the “mercy” of overseas agents and so the lack of control has to be weighed against the advantages. For example, in the exporting of African horicultural products, the agents and Dutch flower auctions are in a position to dictate to producers. A distinction has to be drawn between passive and aggressive exporting. A passive exporter awaits orders or comes across them by chance; an aggressive exporter develops marketing strategies which provide a broad and clear picture of what the firm intends to do in the foreign market. Those firms who are aggressive have clearly defined plans and strategy, including product, price, promotion, distribution and research elements. Passiveness verus aggressiveness depends on the motivation to export. In countries like Tanzania and Zambia which have embarked on, structural adjustment programmes organisations are being encouraged to export motivated by foreign exchange earnings potential. saturated domestic markets growth and expansion objectives and the need to repay debts incurred by the borrowings, to finance the programmes. The type of export response is dependent on how the pressures are pcrceived by the decision maker. The degree of involvement in foreign operations depends on "endogenous versus exogenous" motivating factors, that is, whether the motivations were as a result of active or aggressive behaviour based on the firm's internal situation (endogenous) or as a result of reactive environmental changes (exogenous).

If the firm achieves initial success at exporting quickly all to the good. but the risks of failure in the early stages are high. The "learning effect" in exporting is usually very quick. The key is to learn how to minimise risks associated with the initial stages or market entry and commitment - this process of incremental involvement is called "creeping commitment."

Export incentives and the World Trade Organization are highly connected. This level or government involvement can also lead to international disputes that may be settled by the World Trade Organization (WTO). As a broad policy, the WTO prohibits most subsidies except for those implemented by lesser-developed countries (LDCs). The economy of India is one of the fastest growing economies in the world. As a part or the economic reforms a number of economic policies have been taken which have led to the gradual economic development of the country. Under the reforms, there has been an initiative to improve the condition of exports to other countries. With this regard. the government has taken quite a few initiatives to benefit businesses that are in the export trade, The main objective of these benefits is to simplify the whole export process and make it more flexible. On a broader scale these reforms have been a blend of both social democratic and liberalization policies. Since the initiation of the liberalization plan in the 1990s. the economic reforms have put emphasis on the open market economic policies. Foreign investments have come in various sectors and there has been a good growth in the standard of living per capita income and Gross Domestic Product. As such. there has been a greater emphasis on flexible business and doing away with undue red tapism and government regulations.

1.2 OBJECTIVES

After completion of this lesson you shall be able to know:

- Exporting as a marketing Strategy
- Facilities and incentives relating to export

- Preliminaries for starting exports
- Registration of exporters
- Sending overseas samples
- Appointing overseas agents

1.3 ADVANTAGES AND DISADVANTAGES OF EXPORTING AS A MARKETING STRATEGY

Exporting offers the prospect of new markets, more sales, better profits and a greater spread of customers. A clear strategy makes it much more likely you will succeed.

Export strategy should be based on an assessment of your own position and research into promising opponunities. You will need to think about how to reach new customers and finance your exports. as well as making sure you undcrstand legal and tax issues.

Exporting as a market entry strategies

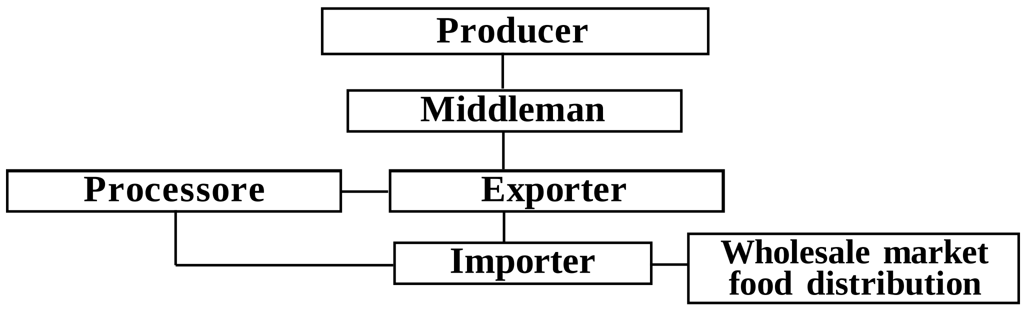
There are are variety of ways in which organisations can enter foreign markets. The three main ways are direct or indirect export or production in a foreign country. Exporting is the most traditional and well established form of operating in foreign markets. Exporting can be defined as the marketing of goods produced in one country into another. Whilst no direct manufacturing is required in an overseas country significant investments in marketing are required. The tendency may be not to obtain as much detailed marketing information as compared to manufacturing in marketing countrys however, this does not negate the need for a detailed marketing strategy.

Aggressive and passive export paths

Exporting methods include direct or indirect export. In direct exporting the organisation may use an agent. distributor, or overseas subsidiary or act via a Government agency. In effect, the Grain Marketing Board in Zimbabwe, being commercialised but still having Government control. is a Government agency. The Government, via the Board. are the only permitted maize exporters. Bodies like the Horticultural Crops Development Authority

(HCDA) in Kenya may be merely a promotional body, dealing with advertising, information flows and so on. or it may be active in exporting itself, particularly giving approval (like HCDA does) to all export documents. In direct exporting the major problem is that of market information. The exporter's task is to choose a market, find a representative or agent, set up the physical distribution and documentation, promote and price the produc. Control, or the lack of it, is a major problem which often results in decisions on pricing, certification and promotion being in the hands of others. Certainly, the phytosanitary requirements in Europe for horticultural produce sourced in Africa are getting very demanding. Similary, exporters are price takersa as produce is sourced also from the Caribbean and Eastern countries. In the months June to September. Europe is 'on seaon" because it can grow its own produce, so price are low. As such, producers are better supplying to local food processors. In the European winter prices are much better, but competition remains.

In this case the exporters can also growers and in the low season, both these and other exporters may send produce to food processor which is also exported.



Exporting can be very lucrative, especially 'if it is of high value added produce.

Other methods of exporting include:

Piggybacking

Piggybacking is an interesting development. The method means that organisations with little exporting skill may use the services or one that has. Another form is the consolidation of orders by a number of companies in order to take advantage of bulk buying. Normally these these would be geographically adjacent or able to be served, say, on an air route.

The fertilizer manufacturers of Zimbabwe, for example, could piggy back with the South African who both import potassium from outside their respective countries.

Countertrade

By far the largest indirect method or exporting is countertrade. Competitive intensity means more and more investment in marketing. In this situation the organisation may expand operations by operating in markets where competition is less intense but currenecy based exchange is not possible. Also, countries may wish to trade in spite or the degree of competition. but currency again is a problem. Countertrade can also be used to stimulate home 'industries or where raw materials are in short supply. It can, also. give a basis for reciprocal trade. Countertrade is the modem form or barter, except contracts are not legal and it is not covered by GATT. It can be used to circumvent import quotas.

Barter

Barter is the direct exchange or one good for another, although valuation of respective commodities is difficult, so a currency is used to underpin the item's value. Barter trade can take a number of formats.Simplebarter is the least complex and oldest form of bilateral, non-monetarised trade. Often it is called "straight", "classical" or "pure" barter. Barter is a direct exchange of goods and services between two parties. Shadow prices are approximated for products flowing in either direction. Generally no middlemen are involved. Usually contracts for no more than one year are concluded, however, if for longer life spans, provisions are included to handle exchange ratio fluctuations when world prices change. Closed end barter deals are modifications of straight barter in that a buyer is found for good taken in barter before the contract is signed by the two trading parties. No money is involved and risk related to product quality are significantly reduced.

Besides nponing. other market entry strategies include licensing. joint ventures, contract manufacture, ownership and participation in export processing zones or free trade zones.

Licensing:

Licensing is defined as "the method of foreign operation whereby a firm in one country agrees to permit a company in another country to use the manufacturing. processing, trademark, know-how or some other skill provided by the licensor". Licensing involves little expense and involvement. The only cost is signing the agreement and policing its implementation.

Joint venture's

Joint ventures can be defined as "an enterprise In which two or more investors share ownership and control over property rights and operation". It is sharing of risk and ability to combine the local in-depth knowledge with a foreign partner with know-how in technology or process. If the partners carefully map out in advance what they expect to achieve and how, then many problems can be overcome.

Ownership

The most extensive form of participation is 100% ownership and this involves the greatest commitment in capital and managerial effort. The ability to communicate and control 100% may outweigh any of the disadvantages of joint ventures and licensing. However, as mentioned earlier, repatriation of earnings and capital has to be carefully monitored. The

Export processing zones (EPZ)

Whilst not strictly speaking an entry-strategy. EPZs serve as an "entry" into a market. They are primarily an ivestment incentive for would be investors but can also provide employment for the host country and the transfer of skills as well as provide a base for the flow of goods in and out of the country. One of the best examples is the Mauritian EPZ. founded in the 1970s.

1.3.1 Important considerations before making exporting strategic decisions

1. Assess your position

Be clear about your reasons for exporting

- You want to boost turnover and spread your costs.
- You are looking for new markets.

- You have built up a strong domestic base and want to maintain your rate of growth.
- You have an internationally competitive innovation.
- Your customers expect you to operate on an international basis.
- You want to extend the lilfecycle of your products.
- You are receiving foreign enquiries or attracting international visitors to your website.

Ask yourself how ready you are as an organisation to start exporting

- Winning export order takes time. Make sure you have the resources and commitment to support your efforts.
- Identify any new skills that your employees will require to handle international business.
- Review the extent to which you are able to opoerate in the local currency or language.
- Be realistic about your ability to motivate a sales team from a distance.

Identify the particular risks you need to address

- Differences in language, currency and business practice can complicate any sale.
- Securing payment from customers can be lengthy and complicated.
- Delivery cycles will be longer than you may be used to. You may risk over-extending yourself, particularly with large high-value orders.
- More people will be im'ohed in any sale, As well as your customers, you may have to deal with regulators banks, insurers and carriers.
- Long lines of communications mean that overseas partners arc likely to act more independently than you would normally expect at home.

- Every foreign market is likely to pose its own particular risks. These could range from import restrictions to political change. economic instability, poor transport infrastructure and intellectual property theft.

Decide how aggressively you want to pursure opportunity

- You might decide just to pick up orders from foreign buyers in the UK or from traffic on the web.
- Licensing your intellectual property or franchising our business format internationally might allow you to profit overseas without extensive direct involvement.
- Finding experienced intermediaries to work on your behalf in different markets could reduce your initial costs and the complexity of the challenge.
- You might decide to pursure growth directly and handle all aspects of the export process yourself.

2. Draw up an action plan

- Work out your competitive position and decide which products are likely to perform best in international markets.
- Choose markets that offer you scope for growth and that you understand. Selling to a country with a very different business culture may not be the best first step into exporting.
- Thoroughly research potential markets to inform your decision.

Establish your objectives and budgets

- Spell out what you are hoping to achieve in terms of sales. turnover and profitability.
- Draw up an export budget clearly indicating how initial expenses should be allocated and when you expect to see a return.
- Ensure that you set an export price that covers the additional costs and risks of exporting.

Plan how you will manage your exports

- Appoint someone to lead your export activities and decide how much time senior managers should allocate to export activities.
- Ensure that employees have the equipment and systems the need to handle international orders.
- Decide how you will organise marketing. sales and delivery to reach the market.
- Work out your terms of trade and how you will finance your exports including delivery terms and payment method.
- Use your export plan as an active management tool and regularly update it.

Consider getting help

- The Department for International Trade (DIT) offers services for exporters including the Passport to Export programme providing training. planning and support.
- The British Chambers of Commerce and your local chamber of commerce offer export services, support and events.
- Your trade association may be able to provide export advice and export market information.
- The Institute of Export offers training and professional qualifications.

3. Research potential markets

Find out what you can about export markets from home

- Look at international trade statistics on the web or in your local library to work out where demand is strongest for your products.
- Look at the list of free sales leads held by DIT and supplied by British embassies in different countries.
- Join an export club to learn from the experience of other companies.

- Ask your chamber of commerce about events it is organising where you can meet international companies in your sector.
- Read the reports on different markets and industries published free of charge by DIT.
- Commission market research for as little as £500-£600 or use the fee-based informattion service from DIT. A grant of up to 50% may be available towards the costs.
- Consider checking with international aid agencies for companies that are looking for partners.

Explore foreign markets in person

- Attend a trade fair to meet potential competitors, suppliers and customers.
- Go on a trade mission. You will be given a full briefing on the market and make a large a large number of contacts. You may be able to get a grant towards the cost of your trip.

4. The legal and tax position

Find out about the key legal issues in your potential export market

- If you are selling goods like firearms, software, chemicals or fine art you may require an export licence.
- Your product will need to comply with local regulations: for example, safety standards and labelling requirements.
- Decide what steps you should take to protect your intellectual property. UK patents and trademarks only protect you at home.

Prepare a comprehensive sales contract

- Be clear in the salles contract about where your responsibilities end and the buyer's start.

- Use ingernationally agreed 'Incoterms' to avoid any confusion about who is delivering the good, arranging freight insurance and paying for transport.
- Make sure that any agreement has clear measures for performance and only lasts a fixed term. You want retain your lle:\ibility in case of changes in the market.

Make sure you understand the tax rules

- Exports to countries outside the EU and to VAT-registered customers in other EU countries are usually zero-rated for VAT. You need to keep proof that your goods have left the UK (and their VAT number for EU customers).
- Your customer will normally be responsible for paying any taxes or duties in their country though it will depend on what you hme agreed in your contract.

5. Reaching the market

Take account of local rules and cultural preferences

- Be prepared to modify our product and our marketing.
- Check your market proposition. Overseas customers might think about your product in ways that you do not expect.
- Consider any changes that you need to make to your branding and labelling. For example you may have to rename your product.

Select a channel for selling into the market

- You may be able to sell directly: lor example, via your website, using direct mail or at trade shows.
- Appointing an agent to sell goods on your behalf can be a cost-effective option. Take advice on your responsibility for their activities, and draw up a suitable agreement. For example, you could be held liable for any bribes they pay.
- You may find it easiest to use a distributor who buys goods from you to sell on to their customers.

- Other options include entering into a joint venture with a local office or setting up a local subsidiary.

Be clear about how you will deliver your goods

- Your choice of whether to use sea road rail or air as your mode of transport depends on your type of goods and how quickly they have to be delivered.
- You will need the right documentation to clear UK and overseas customs and to avoid any unnecessary tax payments.
- Many exporters use a freight forwarder to handle their transport. Find one who knows the territory and who can handle your documentation.
- Check packaging and transport regulations in your destination country.

Aim to offer a service that equals or surpasses local expectations

- Reply promptly to any enquiries and sign any letters personally.
- Make sure your product has service support.
- Don't disappoint importers by failing to ship as promised.
- Keep your contacts informed of any changes to the arrangement.

6. Finance

Guard yourself against non-payment

- Credit check all overseas customers.
- Decide how much credit you are prepared to extend yourself or take out insurance.
- Always ask whether a prospective customer is a properly formed company and can pay its bills.
- Be clear about how you are going to chase up payment. Ask your bank about invoice discounting to protect your cash flow.

- Have a back-up plan for re-selling your goods if the customer refuses to accept them.

Negotiate a method of payment to reflect the risks that you are running

- Advance payment is safest. You are paid before the goods are shipped.
- Letters or credit confirmed by a British bank are highly secure, but you must ensure that your documentation is absolulely correct. Any error and the hank will turn down payment.
- Documentary collections allow to raise payment directly through your customer's bank.
- If you sell on open account. you offer credit of 30 days or more, so only use it with customers you know well.
- If you have a series of contracts, rather than a single project. consider setting up a line of credit with your bank.
- For countries with foreign exchange difficulties. countertrade or barter might secure you an order that you would have otherwise missed.

Take care about how funds are transferred

- Cheques can bounce and are slow to clear. Banker's drafts and international money orders are safer, but they are more expensive and can still be lost in transit.
- Your customer can arrange payment through SWIFT. the standard for inter-hank transfers, to any account you choose.

Before dispatching any goods, think about insuring yourself against common dsks

- Credit insurance offers protection against non-payment UK. Eport Finance mainly provides insurance for capital goods and major projects. or you can use a private insurer.

- If you are being paid in local currency, guard against any fluctuations in foreign exchange rates by setting up a forward contract with your bank.

- Take out cargo insurance to cover any damage or loss to goods in transit.

1.3.2 *Need for an export strategy*

An export strategy is an essential component of the business plans. It must be assured that ewryone in the company involved in achieving export results is aware of the plan and has a sense of engagement with it. Developing a sound export strategy helps to define export aims and match resources to those aims. Export strategy helps in managing the market sectors that have been identified as core business. Focusing company's resources enables to provide quality responses and service to new export customers. A well-developed export strategy will help in dealing with a range of service providers. It singles company in making mature, realistic goals and programs designed to achieve them. An export strategy must be integrated with company's overall business plan. Export activities must be aligned with daily operations :md any conflicts between your domestic and international activities must also be avoided. The areas where strong competitive advantage can be obtained must be identified. These areas may include technology. staff or business systems.

1.3.3 *Key elements of an export strategy*

Particular aims of exporting include:

- Defending your market position against current exporters
- Reducing seasonal demand swings
- Reducing fixed costs
- Fully realising production capacity
- Accessing new technology
- Adding management capabilities
- Consolidating your intcrnational rcputation.

The best export strategy is concise and simple. It involves on-going discipline to assess why your company should export and how you will achieve your goals. Make sure your objectives are clear and that all staff involved in export contribute to the strategy.

1.3.4 Advantages of exporting as a marketing Strategy

1. Economics of scale and Economics of scope

A major advantage or exports is the potential economics of scale resulting from production volume. When there is an increased scale in production, distribution, advertising or other such areas there is a decrease in the cost per unit of the produce that the firm will require to incur. Further reduced costs have a direct impact on the potential profitability of the export venture.

2. Increases domestic competiveness

When a firm desires to successfully export its products to foreign countries, in all likelihood it will first ensure that it is competitive in the local market. From the firm's perspective, local competiveness results from increasing productivity and efficiency. The inherent advantage of being competitive in the local market is twofold - one, it places the firm in a more dominant position compared to its local competitors and two, when the firm's products are considered more superior than those of its counterparts there is automatically an increased demand in the for its products in the market-local and foreign.

3. Economical implications

No nation can satisfy efficiently and economically the constantly changing needs of its population. hence making imports imperative in the lung run. Exporting then in turn becomes a means of financing the country's own imports. Further,. exports offset the potential adverse effect that imports can have on the country's balance of payments. Exports also have a direct impact on the country's general economic conditions. In the event of a business downturn in the exporter’s country, export volumes tend to remain steady and in some cases even increase. This in-turn could help restore and revive the domestic economic conditions.

4. Access to new markets

Exports are a comparatively a low cost and a low risk means of gaining entry and conducting operations in new markets. Exports are a cost effective way of gaining access to lucrative foreign market opportunities. Further, when compared to more cumbersome modes of entry like joint ventures and other forms of strategic alliances, exports enable an accelerated pace of entering a new market.

5. Diversification

Companies that operate in diversified geographical markets face a lesser risk than non-exporting companies. This can be largely atiributed to the fact that countries are not subject to similar timing, type and position in the business cycle. Hence, the possibility that an economic downturn manifests at the same time across these countries are minuscule. Further, market spreading reduces the risk of declining demand. sales and protits from a single market.

6. Seasonal products

In the case of products that witness seasonal demand like sports equipments and clothes. exports often provides a means of offsetting the fluctuation in demand patterns. By exporting seasonal products to countries where the seasons are opposite and hence more favourable for sales as compared to the home market, the firm can ensure that its business does not suffer. Further. this also enables the firm to ensure that there is a balanced production spread out through the year.

7. Increased Competitiveness

Exporting can allow you to gain exposure to new ideas, management practices, marketing techniques, and ways of competing which can hclp you to better position your business both within the Caribbean and overseas markets to increase competitiveness.

8. Increased Sales

Exporting is one way of increasing your sales potential. Given the small size of most Caribbean markets. exporting allows a firms to expand its market beyond the scope of a limited and increasingly saturated national market. For instance, a producer in Trinidad and Tobago has access to a market of just over 1.5 million people. However, exporting to Brazil for example expands that producer's potential market to close to 200 million people. With an expanded market, exporting can pave the way for increased sales and expansion.

9. Higher Profits

No company would export unless it intends to make a profit. Generally speaking, international customers in larger markets are likely to place much larger orders than a local buyer. Some rare products (such as certain specially foods) may also be able to command a higher price in an overseas market particularly in a market where the consumer is relatively affluent and willing to pay a premium price for a premium product. All these factors can positively affect the profit margins of a firm.

10. Lower Costs

By expanding imernational beyond the domestic Caribean market, sales will increase and therefore production levels will also increase. As production levels rise, the costs per product is typically reduced dcrending on the manufacturing process.

11. Reduced Vulnerability

When you export, then your company is no longer solely dependent on sales within the local market. Therefore. if economic conditions become unfavourable domestically. the impact on your operations might not be as huge if you have been able to expand your business to foreign markets, It is also advisable that you do not become dependent on a single export market as this too can make you too vulnerable to fluctuations in that market.

12. Extending the Product Life Cycle

In the domestic market. your product might be approaching the end of its life cycle, In such an instance. finding an export market would be ideal in order to extend the life cycle of the product.

13. Follow your Customer Abroad

Outward migration from the Caribbean to Europe and North America in particular is fairly high, This has led to the creation of a sizeable Caribbean diaspora abroad with Caribbean "taste" and a desire for authentically Caribbean products. You can take advantage of this situation by targeting the diasporic market to drive your export sales,

1.3.5 Disadvantages of exporting as a marketing Strategy

1. Cultural distance

When a firm operates in an overseas market there is often lach of cultural compatibility between the tirm and the foreign market, owing to cultural distances. The perceived cultural difference between the foreign country and the home country of the exporter is called psychic or cultural distances Cultural compatibility therefore, implies that similar belief systems, values and practices exist. Cultural compatibility is of paramount importance for the stability and success of any form of cooperation, Lack of cultural compatibly could lead to difficulties in communicating with and understanding the local needs and demands of the foreign market, which in-turn could hinder the ability of the exporter to anticipate changes in the customer's changing tastes and preferences.

2. Uncertainity in decision making

Under the circumstance of inadequate and limited information from partners (intermediaries agents) in the foreign markets. exporters often face the risk of uncertainty in their decision making. Further. the exporting firm may need to depend heavily on the foreign intermediary agent as a result of the local political rules and regulations.

3. Economic ethnocentrism

Exports provide the exporter an opponunity to conduct operations that are guided by economic ethnocentrism. The term economic ethnocentrism refers to the exporters self centred bias towards the well being and prosperity of their own nation at the cost of the foreign countries (Han. 1998), When an exporter is driven by economic ethnocentrism, it could have a negative impact on the nations and consumers involved.

4. Grey market exporting

Grey markets refer to the legal imponing or genuine products by unauthorised agents and intermediaries. These intermediaries obtain the goods from respective business entities located in other countries. Although it is a form or parallel importation, gray market channels can cause several disadvantages to the primary exporting firm.

5. Operational difficulties

The nature of' the arrangement in the case or exports could cause operational problems to the exporters. Since the exporter is considerably dependent on the local intermediaries to ensure availability and distribution or its products in the foreign market, it implies that the exporter themselves have a relatively lower degree on control in the foreign market operations. Further, although it is vital that the activities of the exporter and its intermediaries are coordinated and directed towards the same strategic goal, it often is a challenging issue to address.

6. Competition

Competitors can typically not be avoided in export markets. The world is global and to stay competitive specialty food and beverage providers need to understand their competitive advantages to stay ahead of the competition and be successful abroad.

7. Extra costs

Developing an export market takes time. It can also be costly to develop new marketing materials develop new packaging and assign new personnel to travel and undertake other administrative and operational tasks. These can place severe strain on the financial resources of firms, especially the smaller firms.

8. Product modification

In order to meet safety, security and other requirements in the export market. your product may have to be modified. Some firms may not have the technical know-how where these modifications are concerned and might have to incur the costs associated with hiring, and expert.

9. Payment

Apart from the risk of non-payment, the complicated processes involved in the collection of payments using the various methods (consignments, letter of credit etc) can be time consuming. Firms with limited cash-flow therefore need to fully understand the financial pitfalls associated with exporting.

10. Financial risks

Economic or government restriction in the export market could negatively impact on your business.

11. Transportation risks

In exporting your product. there is the risk of damage, loss or theft.

12. Commitment

Without a high level of commitment. it is highly unlikely that our export venture would succeed in the long term. Maintaining a sustained prcsence in the export market requires time, willingness and substantial resources. It can also take months or even years before your decision to export begins to reap dividends.

13. Cultural differences

The language. business practices and other customs in the export market may be different to your own domestic market.

14. Market information

Finding infomfation on some markets can be extremely difficult. Lack of information would mean that you do not have sufficient information on your competitors and the trends related to your specific product and similar products. This can negatively affect your ability to do well in the target market.

1.4 FACILITIES AND INCENTIVES RELATING TO EXPORT

Export Incentives

Export incentives are regulatory, legal monetay or tax programs designed to encourage businesses to export certain types of goods or services. Export incentives are a form of assistance that governments provide to firms or industries within the national economy, in order to help them secure foreign markets. A government providing export incentives often does so in order to keep domestic products competitive in the global market. Types or export incentives include export subsidies, direct payments, low-cost loans, tax exemption on profits made from exports and government financed international advertising. Export incentives make domestic exports competitive by providing a sort of kickback to the exporter. The government collects less tax in order to deflate the exported good's price, so the increased competitiveness of the product in the global market ensures that domestic goods have a wider reach. Generally, this means that domestic consumers pay more than foreign consumers. Sometimes, govemments will encourage export when internal price supports (measures used to keep the price of a good higher than the equilibrium level, generate surplus production of a good. Instead of wasting the goods, governments will often offer export incentives.

Various export incentives schemes and benefits that the government has initiated are:

1. Advance Authorization Scheme

As part of this scheme, businesses are allowed to import input in the country without having to pay duty payment, if this input is for production of an export item. Moreover. the licensing authority has fixed the value of the additional export products to not below than 15%, The scheme normally has the validity period of 12 months for imports and 18 months for carrying out the Export Obligation (EO) from the date of issue.

2. Advance Authorization for Annual Requirement

Exporters who have a previous export performance for at least two financial years can avail the Achance Authorization for Annual requirement scheme or more benefits.

3. Export Duty Drawback for Customs, Central Excise, and Service Tax

Under these schemes, the duty or tax paid for inputs against the exported products is refunded to the exporters. This is done in the form of Duty Drawback. In case the duty drawback scheme is not mentioned in the exporter schedule, exporters can approach the tax authorities for getting a brand rate under duty drawback scheme.

4. Service Tax Rebate

In case of specified output service for export goods, the government provides rebates on service tax to exporters.

5. Duty-Free Import Authorization

This is another benetit the gowrnment has introduced by combining the DEEC (Advance License) and DFRC to help exporters get free imports on certain products.

In addition, there are also some more schemes related to the benefits for exporters:

- Zero duty EPCG scheme
- Post Export EPCG Duty Credit Scrip Scheme
- Towns of Export Excellence (TEE)
- Market Access Initiative (MAI) Scheme
- Marketing Development Assistance (MDA) Scheme
- Status Holder Scheme

The below mentioned export benefits. schemes, financial assistance and other support to exporters in India by government and other different agencies could be withdrawn or modified. The actual beneficiaries may reconfirm with the concerned authorities whether such export benefits are valid.

Export from India Scheme

1. MEIS (Merchandise Exports from India Scheme)

MEIS scheme for exporters was introduced in recent Foreign Trade Policy of India 2015-20 by consolidating previous different schemes such as Vishesh Krishi Gram Udyog Yojana (VKGUY). Focus Product Scheme (FPS), Agri-Infrastructure Incentive Scrip). Market Linked Focus Product Scheme (MLFPS) etc with modification. MEIS scheme extends benefits to more than 5000 export items and the duty credit scrips helps exporters in payment of Customs Duties for import of inputs or goods, payment of excise duties on domestic procurement of inputs or goods, payment of service tax on procurement of services, payment of Customs Duty and fee etc.

2. SEIS (Senice Exports from India Scheme)

The foreign Trade Policy of India 2015-20 introduced SETS (Senice Exports from India Scheme) for service exporters by modifying SFIS scheme of previous year by benefiting all service providers of India including foreign brand of Imkll1 Companies.

3. Assistance from Trade Promotion Councils and Commodity Boards

Trade promotion council of different products and commodity boards help exporters with various financial schemes and other service assistance. Market Development Assistance (MDA). Market Assistance Initiative (MAI). Financial support to attend Trade Fairs, various information supports etc. are some of them.

4. Duty Exemption and Remission Scheme for Exporter's: Advance Authorization Scheme (AA scheme)

As per foreign trade policy of India, inputs are allowed to import without duty payment for export purpose. The licensing authority fixes value addition on export products not below 15%. A stipulated period to import is allowed and validity for export obligation.

5. Export Duty Drawback of Customs, Central Excise and Service Tax

Duty paid inputs against exported products is refunded to exponers in the farm of Duty Drawback. If the rates of such items are scheduled under Drawback schedule, the amount of drawback is refunded accordingly. If not scheduled, a separate application has to be filed to fix Brand Rate. Detailed articles on Duty Drawback and Brand rate are available in this web blog with method or claim.

6. Brand rate under Duty Drawback for Expor'ters

If Duty Drawback rate has not been mentioned in schedule, exporters can approach concerned authority for Brand rate.

7. Rebate of Service Tax through all industry rate for Exporters

Serviee tax refund paid is reimbursable on specificd output senices used for export of goods at specified all industry rates fixed time to time by the authority.

8. Export Benefit of Duty Free Import Authorization

DFIA (Duty Free Import Authorization) scheme is the export scheme introduced by DCFT by clubbing DEEC (Advane License) and DFRC to support exporters for free import of inputs.

9. DEPB, Another Advantage To Exporter

DEPB (Duty Entitlement Pass Book) scheme is another export incentive scheme in India. At present, DEPB can be claimed post export. Import customs duty credit is allowed to exporters

10. EPCG Scheme to Promote Exports

Export Promotion Capital Goods (EPCG) scheme helps exporters to import capital goods with zero import duty for the purpose of production of export products with a commitment of export obligation period with licensing authority. Certain rate of relaxation is allowed to sell in local market after fulfilling export obligation.

11. Central Excise Rebate of Duty for Exporters

Rebate of duty paid on excisable goods exported or duty paid on the material used in manufacture of such export goods may be claimed.

12. Central Excise Duty Exemption on Exports

Excisable goods are exempted to pay export excise duty with simple procedures with central excise department. Necessary registration of premise, factory or warehouse is required to be completed with concerned central excise department by executing bond.

13. Deemed Export Benefits

Deemed Export transactions are those transactions in which the goods supplied do not leave the country and the payment for such supplies is received either in Indian rupees or in free foreign exchange. You may go through this link to know in detail about Deemed Exports. Deemed exporters get benefit of refund of excise duty paid on final products. Duty drawback, imports under DEEC scheme, Special import licenses based on value of deemed exports etc.

14. Income Tax Benefits for Exporters

Income tax exemption to exporters are allowed by government in different categories. You may contact your nearest Income Tax Department to know latest updated information on income tax exemptions to exporters in India.

15. Sales Tax / Vat Exemption to Exporters

No sales tax is required to pay for exports. The facility is extended to the suppliers of goods for export also. Value Added Tax (VAT) is also exempted for export goods.

16. Bank Assistance for Exporters :

Many financial assistances with different schemes are given to exporters to boost exports in India. Pre Shipment Credit in Foreign Currency (PCFC) and in INR. Packing Credit loans. Supplier's credit, Buyer's credit, Post shipment Finance, short term and long term finance. Finance for special export projects, Working capital finance. Capital Equipment Finance. Fund for export consultancy and technological services. different guarantees for exports like Advance Payment Guarantee, Performance Guarantee. Retention Money Guarantee, Guarantee for customs, central excise and other government and private agencies etc. Banks also provide financial assistance to Export Oriented Units (EOU). Special

Economic Zones (SEZs), Corporates, STPs, EHTPs, FTZs, MSMEs etc. Bank also provides Line of Credit mechanism for export of projects, equipment, goods and services from India. Authorized banks also provide exporters to open Foreign currency account in the form of EEFC (Exchange Earners Foreign Currency) to help them in handling foreign currency easily without local currency fluctuation and to climinate currency conversion charges. Many other services are also provided to exporters in India by authorized banks to boost exports for favourable balance of payments.

17. ECGC (Export Credit Guarantee Corporation)

Export Credit Guarantee Corporation (ECGC) protects exporters in covering credit risk of overseas buyers.

18. Central Assistance to States for Exports (Aside)

Assistance to States for Infrastructural Devlopment for Exports (ASIDE) has been introduced by Central Government with an objective to involve States / Under Takings in export effort by providing assistance to the State Governments or State Under Takings Administrations for creating appropriate infrastructure for development and growth of exports.

Benefits for Exporters From Certain Regions

Exporters and manufacturers from special such as Sikkim, Jammu and Kashmir etc. are given specific benefits by government. The exporters can contact the related government agencies for more details.

SSI/MSME BENEFITS

There are many schemes available for Micro Small and Medium Enterprises (MSME) and SSI (Small Scale Industries) including scheme to promote exports. You may approach concerned office. Benefits to MSME.

1. Export benefits to Free Trade Zones (FTZ)

Export Units in Free Trade Zones can enjoy zero excise duty on goods manufactured for export purpose. Import customs duty is exempted for import of components used for manufacturing export goods. Domestic Traffi Area (DTA) sales up to cenain rate is allowed.

2. Export Advantages for Electronic Hardware Technology Park (EHTP)

Advantages like Single point contact service, income tax benefits, DTA sales up to certain limit and many other export benefits can be enjoyed for units of Electronic Hardware Technology Park (EHTP)

3. Export benefits for Software Technology Parks

Many advantages like Foreign equity permission, income tax benefits. DTA sales up to cenain limit and many other supports can be enjoyed for the units under STP.

4. Advantages to 100% Export Oriented Units (EOUs)

Import of second hand capital goods, re export of capital goods, income tax benefits, DTA sales up to certain limit and many other government assistances can be enjoyed by Export Oriented Units.

5. Export benefits to Bio Technology Park (BTP)

income tax benefits, re export of capital goods. DTA sales up to certain limit and many other conveniences can be enjoyed from different government and non-govemment agencies to BTP.

6. Export merits for Agri Export Zone (AEZs)

income tax benefits. re export of capital goods. DTA sa1es up to certain limit and many other export advantages can be availed for Agri Export Zone (AEZs)

7. Advantages of Electronic Hardware Technology Parks(EHTPs)

income tax benefits. re export of capital goods. DTA sales up to certain limit and may other export supports can be enjoyed by Electronic Hardware Technology Parks (EHTPs).

Export supports to Special Economic Zones

Government provides many benefits to Special Economic Zones in India to create an internationally competitive and smooth working environment for exports and thereby economic development of the country. Some of the advantages enjoyed by SEZ are single window clearance, free import of goods, exemption of customs duty for import of capital goods, consumables, raw materials. spares etc. reimbursement of CST. 0% income tax for 5 years, Foreign Direct Investment, exemption on MAT, Service Tax, DDT, CST, Service Tax. External commercial borrowing facility etc. and many more.

The above mentioned export benefits, schemes, Financial assistance and other support to exporters in India by government and other different agencies could be withdrawn or modified. The actual beneficiaries may reconfirm with the concerned authorities whether such export benefits are valid.

1.5 PRELIMINARIES FOR STARTING EXPORTS

Ten important steps to successful exponing are given as below:

1. Decide where to sell

Research is vital! Identify the markets with a little desk research. Find thc consumption import figures of products similar to your own and the economic growth rate of a potential new market. Look up the demographics, culture and religious practices and your potential competition.

2. Have a plan

Your expon plan should include your people.

3. Choose a route to market

4. Find the opportunities

Traue fairs are one of the best ways to find opportunities both in the CK and abroad. Meet buyers and generate new business. Check with us about available grants to subsidise the cost of exhibiting, or see if you can share the cost of a stand with another business.

5. Start marketing

Aderts can help you gain exposure but can be expensive. As with the UK, be mindful of the target audience and expense vs. return on investment. Another option is to create a website with content translated according to your target market. Global social media sites such as Linkedin. Facebook and Twitter can also help you to promote your message quickly and free of charge. Although these do not cost anything to set up, they need time invested to keep updated. Whatever you use, make sure all your marketing materials have up-to-date contact details for your company along with the person responsible for export sales.

6. Understand the admin

There are certain admin obligations that need to be correct from the start. HMRC and the UK Embassy of the destination country will help you to clarify the requirements for customs registration, forms, and payments. Documentation is at the very heart of exporting, without it there is no contract, no transport and no payment. The requirements vary from country to country.

There are two main geographic areas that your exports will fall into:

1. European union

Products can move freely across borders without customs checks and we can advise on any papemork likely to be required. The buyer's VAT registration number must be shown on the invoice. If this isn't shown then you must charge VAT at the UK rate.

2. Rest of the world

Exporting outside the EU can upon up wider opportunities and create new challenges. Although VAT is simpler (exports from the UK are zero rated) you may encounter Letters of Credit for the first time or come across requirements for specific customs forms. Contact Hayley Bates on 0845 034 7200 or email to check what you need.

7. Get paid and get insured

Once the orders start to come in, you need to be paid, We can help make sure you do that with :

Legal considerations

Understanding the legal and regulatory environment in all countries to which you would like to export is vital. We can help get your paperwork in place and put you in touch with international lawyers should it be required.

Transport logistics

Now you've made the sale and agreed the terms, you have to get the goods there! We can help make sense of transportation. From your Incoterms insurance, duties and customs clearance, to the packaging you require and the method(s) of transport or freight forwarders required.

1.6 REGISTRATION OF EXPORTERS

Registration Formalities for Exports :

An exporter is required to register his organisation with a number of institutions and authorities, which directly or indirectly help him in the smooth conduct of export trade. Some of the authorities with which exporter has to register his organisation are :

(a) Registration of Organisation : Exporter have to register the types of organisation selected by them under the appropriate Act of the country for undertaking their export operations, viz.:

A joint stock company under the Companies Act, 1956.

A partnership firm under the Indian Partnership Act, 1932.

A sole trader should seek permission from the local authorities, as required.

(b) Opening Bank Account : Exporters are required to open a current account in the name of their firms or companies with a commercial bank which is authorised by the Reserve Bank of India (RBI) to deal in foreign currency transactions. All financial transactions of the exporter organisation are routed through this account. Such bank also serve as a source of pre-shipment and post-shipment finance for the exporters.

(c) Obtaining Importer-Exporter Code Number (IEC No.) : Prior to .1.19971li was obligatory for every exporter to obtain Exporter's Code Number (CNX) number from the RBI. However, since then, the CNX number has been replaced by Importer Exporter Code (IEC) number issued by the Direct General for Foreign Trade (DGF). The application form for obtaining IEC number should be accompanied by fee of Rs. 1000.

(d) Obtaining Permanent Account Number (PAN) : Export income is subject to a number of exemptions and deductions under different sections of the Income Tax Act. For claiming these exemptions and deduction, exporters are required to register their organisation with the Income Tax Authorities and obtain the Permanent Account Number (PAN). PAN is also necessary for obtaining IEC number.

(e) Registration with GST : Goods manufactured for export purpose as well as those purchased from local market for export purpose are completely exempted from Value Added Tax and Central Sales Tax, provided exporter or his firm is registered with the Value Added Tax authority of the state concerned and obtains exemption as per the procedure laid down in the concerned Acts. GST registration is required to be completed by every exporter with effect from appointed date fixed by government of India by 2017.

(f) Registration with Export Promotion Council (EPC): It is obligatory for every expor1er to register with appropriate Export Promotion Council (EPC) and obtain the Registrationcum-Membership Certificate' (RCMC). At present, there are 21 EPCs dealing v\ith various commodities. The benefits extended to exporters under the new Foreign Trade Policy 20092014 are extended only to the registered exporters having valid RCMC.

(g) Registration with Export Credit and Guarantee Corporation of India (ECGC): Exporters are exposed to commercial as well as political risks in the international market. Therefore, in order to protect themselves against such risks it is necessary for exporters to get themselves registered with the ECGC. ECGC also helps exporters in obtaining financial assistance from commercial banks and other linancial institutions.

(h) Registration with other Authorities: Exporters are also required to regis~er with a number of other authorities and institutions such as:

Federation of Indian Export Organisation (FIFO). Indian Trade Prornotion Organisation (lTPO), Chambers of Commerce (COC). Productivity Councils. etc.

1.7 SENDING OVERSEAS SAMPLES

Essentials for sending high shipping samples to foreign countries

- Name of the person receiving the packet
- Company name
- Shipping address the packet will be delivered to (The Permit Packet will be shipped via bonded courier and can not be shipped to a PO Box.)
- Billing address, if different from the shipping address
- Phone number
- Fax number
- Email address

Whether this is your first time sending samples. or you have sent samples to a country many times before, it is important to understand what information you need and how you plan to use your results. The Testing Services that recommend to customize specific situation. When you make your decision to send samples to other country. it is very important that your first step is to make your request for the Permit Packet. Samples that are packaged or shipped incorrectly could be stopped and destroyed by the inspectors at the port of entry. Also, if samples are shipped directly to testing services and do not go through inspection. The foreign customer may ask for product samples before placing a confirmed order. So. it is essential that the samples are made from good quality raw materials and after getting an order, the subsequent goods are made with the same quality product. Extra care should be taken in order to avoid the risk associated in sending a costly product sample for export. Secrecy is also an important factor while sending a sample, especially if there is a risk of copying the original product during export. Before exporting a product sample an exporter should also know the Government policy and procedures for export of samples.While sending a product sample to an importer, it is always advised to send samples by air mail to avoid undue delay. However, if the time is not an issue then the product sample can also be exported through proper postal channel, which is cheaper as compared to the air mail.

Sending Export Samples from India

Samples having permanent marking as "sample not for sale" are allowed freely for export without any limit. However, in such cases where indelible marking is not available, the samples may be allowed for a value not exceeding US $ 10,000, per consignment. For export of sample products which are restricted for export as mentioned in the ITC (HS) Code. an application may be made to the office of Director General of Foreign Trade (DGFT).

Export of samples to be sent by post parcel or air freight is further divided into following 3 categories, and under each category an exporter is required to fulfill certain formalities which are mentioned below:

1. Samples of value up to Rs.10, 000- It is necessary for the exporter to file a simple declaration that the sample does not involve foreign exchange and its value is less than Rs. 10,000.

2. Samples of value less than Rs. 25,000- It is necessary for the exporter to obtain a value certificate from the authorised dealer in foreign exchange (i.e. your bank). For this purpose, an exporter should submit a commercial invoice certifying thereon that the parcel does not involve foreign exchange and the aggregate value of the samples exported by you does not exceed Rs. 25,000 in the current calendar year.

3. Samples of value more than Rs. 25,000- It becomes necessary for the exporter to obtain GRJPP waiver from the Reserve Bank of India

Export Samples against Payment

A sample against which an overseas buyer agrees to make payment is exported in the same manner as the normal goods are exported. Sample can also be carried personally by you while travelling abroad provided these are otherwise permissible or cleared for export as explained earlier. However, in case of precious jewellery or stone the necessary information should be declared to the custom authorities while leaving the country and obtain necessary endorsement on export certificate issued by the Jewellery Appraiser of the Customs.

Export of Garment Samples

As per the special provision made for the export of garment samples, only those exporters are allowed to send samples that are registered with the Apparel export Promotion Council (AEPe). Similarly. for export of wool it is necessary for the exporter to have registration with the Woolen Export Promotion Council.

Export of Software

All kinds electronic and computer software product samples can only be exported abroad, if the exporter dealing with these products is registered with the Electronics and Computer Software Export Promotion Council (ESC). Similarly samples of other export products can be exported abroad under the membership of various Export Promotion Councils (EPe) of India.

1.8 APPOINTING OVERSEAS AGENTS

Selling a product through an overseas agent is a very successful strategy. Sales agents are available on commission basis for any sales they make. The key benefit of using an overseas sa!es agent is that you get the advantage of their extensive knowledge of the target market. Sales agent also provides suppon to an exponer in the matter of transponation, reservation of accommodation, appointment with the government as and then required. It is, therefore, essential that one should very carefully select overseas agent.

Merits of appointing a sales agent

There are various types of merits associated with appointed a sales agent for export purpose are as follow:

- Sales agent avoids the recruitment, training, time and payroll costs of using own employees to enter an overseas market.

- An agent is a better option to identify and exploit opportunities in overseas export market.
- An agent already have solid relationships with potential buyers, hence it saves the time of the exponer to build own contacts.
- An agent allows an exporter to maintain more control over matters such as final price and brand image - compared with the other intermediary option of using a distributor.

Demerits of appointing a sales agent

There are also certain disadvantages associated with appointing a sales agent for export purpose which are as follows:

- After-sales service can be difficult when selling through an intermediary.
- There is a risk for exporter to lose some control over marketing and brand image.

Important Points while Appointing a Sales Agent:

Appointing right sales agent not only enhance the profit or an exporter but also avoid any of risks associated with a sales agent. So it becomes important for an exporter to take into consideration following important points before selection an appropriate sales agent for his product.

- Size of the agent's company.
- Date of foundation of the agent's company.
- Company's ownership and control.
- Company's capital, funds, available and liabilities.
- Name, age and experience of the company's senior executives.
- Number, age and experience of the company's salesman.

- Oher agencies that the company holds, including those of competing products and turn-over of each.
- Length of company's association with other principal.
- New agencies that the company obtained or lost during the past year.
- Company's total annual sales and the trends in its sales in recent years.
- Company's sales coverage, overall and by area.
- Number of sales calls per month and per salesman by company staff.
- Any major obstacles expected in the company's sales growth.
- Agent's capability to provide sales promotion and advertising services
- Agent's transport facilities and warehousing capacity.
- Agent's rate of commission; payment terms required.
- References on the agents from banks. trade associations and major buyers.

Some source of Information on Agents is:

- Government Departments Trade Associations.
- Chambers of Commerce.
- Banks.
- Independent Consultants.
- Export Promotion Councils.
- Advertisement Abroad.

Agent v/s Distributor

There is a fundamental legal difference between agents and distributors and an exporter should not confuse between the two. An agent negotiates on the behalf of an exporter and may be entitled to create a legal relationship between exporter and the impol1er

A distributor buys goods on its own account from exporter and resells those products to customers. It is the distributor which has the sale contract with the customer not the exporter. In the case of distributor, an exporter is free from any kinds of risks associated with the finance.

Need to Appoint a Sales Agent

One way of increasing your sales is to appoint an agent who finds customers for you and receives commission on the sales that you make to those customers. And this applies whether you are selling goods or services. and whether you want to find customers at home or abroad. It is one of the most cost effective ways of getting into a new territory for your products. Once you have decided on the territory where you want to market your goods or services, you will need a reliable agent - i.e. someone who has the right qualities and experience and, so far as you can tell. he is likely to deliver a reasonable return for you.

But it is important that you have a written contract with the agent that sets out the key terms agreed between you and which allows for the arrangement to be brought to an end if it does not work out for you. Typically the key situation to avoid is that your agent doesn't make sales for you, but you are locked into a contract and can't terminate it for some time. This could be because the agent decided to focus on another client or simply isn't great at getting you customers. So make sure you have sales targets and termination clauses that protect you.

Terms to Include in Your Agency Agreement

- **Specify the Territory and Products**

Your prospective agent may want as big a territory as possible and he might even want to cover neighbouring countries. Resist this - start with a limited area and see how it develops it's much easier to expand than contract the territory.

Similar principles apply to the products he will sell: especially if you have a wide range. Start by appointing the agent to sell one line of your products and if that works out, you can expand the agreement.

- **Exclusive or Non-Exclusive**

Is your agent appointed on an exclusive basis - i.e. is he the only agent for the territory or might you want to have more than one agent there? If it's exclusive, make sure you can rely on your agent to sell well.

- **Duration**

What is the initial term or duration of the agreement? Make it long enough to give the agent time to get established and into the market with your products, but no longe . It can then be renewable yearly if things work out.

- **Commission and Payment**

Set out the commission payable - which may be on a sliding scale depending on sales volume. when it will be due - monthly, quarterly, etc., how payment will be remitted and allow for adjustment if there are refunds or customer default.

- **Sales Targets**

This is one of the most important terms as it allows you to monitor the agent's performance. So start by specifying some (preferably agreed) sales targets in the contract - e.g. £1 0,000 of sales in the first 6 months increasing to £7,500 a quarter after that.

And include a clause that allows you to revise the targets each year. As well as monitoring performance, this can be useful to trigger termination if the agent underperforms as well as challenging any claim that he makes for compensation if you do bring the contract to an end.

- **General Obligations**

It is sensible to identify what marketing material and technical data you will provide and if training of the agent's sales staff is needed. You may also want to have terms that require the agent to have a marketing budget, to report on sales prospects at regular intervals etc.

- **Intellectual Property**

Protect your copyright and trademarks and make it clear that the agent's right to use your trademarks and trade name is strictly limited. It can also be useful to require him to notify you if he comes across any unauthorised use of your intellectual property rights in his territory.

- **Termination**

You need a clause that allows you to terminate if the agent commits a breach. fails to meet targets or becomes insolvent. And he will want the right to terminate for non-payment of commission.

If the agent is a limited company you might also want the right to bring the agreement to an end if a key player in the company leaves the company.

Also, with an overseas agent, be sure to check what the local law says about termination and what compensation might be claimed. Within the EU there are rules that allow an agent to claim compensation or an indemnity on termination. We have a free download on this: *Z163 Commercial Agents in the EU - Legal Aspects.*

- **Non-Competition & Confidentiality**

You may want a clause that prohibits the agent from representing any of your competitors during the agreement and for a limited time after it comes to an end. Also it is advisable to have a confidentiality clause so that information concerning your business is kept confidential.

- **Dispute Resolution and Governing Law**

If you are UK based, you may think the contract should be governed by English law and disputes resolved in the English courts. But if the agent is based abroad, this may not be the best solution.

If the agent has no assets you England, there may be little point in suing him there as you would have to get the judgement enforced in his own country - and that is likely to necessitate bringing the proceedings all over again. Arbitration is often a good solution.

On this and the terms generally. it is essential to get legal advice in your agent's country as well as your own before finalising the contract.

Entering overseas markets

Advantages and disadvantages of using an overseas agent

A sales agent acts on your behalf in the overseas market by introducing you to customers who you supply and invoice direct. They are paid a commission for any sales they make ranging between 2.5 per cent and 15 per cent. The key benefit of using an overseas sales agent is that you get the advantage of their extensive knowledge of the target market.

While there are clear benefits, agency relationships can also have downsides.

Advantages of using an overseas agent

- You avoid the recruitment, training and payroll costs of using your own employees to enter an overseas market.
- An agent should be well placed to identify and exploit opportunities.
- Your agent should already have solid relationships with potential buyers - it might take you some time to build up your own contacts.
- Using an agent allows you to maintain more control over matters such as final price and brand image - compared with the other intermediary option of using a distributor.

Disadvantages of using an overseas agent

- You remain responsible for shipping and other trade-related logistics - although your agent should be able to help.

- You need to specify in an agent's. contract if you need them to credi t check your customers for you.
- Arrangements must be made to allow access to your sales ledger as part of the commission payments process.
- After-sales service can be difficult when selling through an intermediary.
- You may lose some control over marketing and brand image, compared with entering the market yourself.

1.9 SUMMARY

Like any fundamental change to the way of trading, there are risks as well as benefits that should considered. Before starting to move into overseas markets. advantages and disadvantages of exporting must be considered. One should significantly expand markets. and be less dependent on any single one. Greater production can lead to larger economies of scale and better margins. Research and development budget should work harder as one can change existing products to suit new markets. Some of the disadvantages of exporting are that one can lose focus on your home markets and existing customers. Administration costs may rise as one may have to deal with export regulations when trading outside the European Union. It is difficult to manage more remote relationships, sometimes thousands of miles away. In overseas markets, one may lose some of the control that you are used to at home. One need to think of new market differently to the home market. They will be different customers with their own reasons for buying your products.

Appointing a sales agent, either in your own country or overseas, you should be sure to to have the tenns agreed in writing. A good contract will protect your interests and help you avoid disputes or lose sales. They apply at home as well as abroad, but because selling into another country is more complex, a written agreement in that case is essential.

1.10 GLOSSARY

Exporting: Exporting requires a partnership between exporter, importer, government and transport. Without these four coordinating activities the risk of failure is increased. Contracts between buyer and seller are a must. Forwarders and agents can playa vital role in the logistics procedures such as booking air space and arranging documentation.

Export incentives: Export incentives are a form of assistance that governments provide to firms or industries within the national economy, in order to help them secure foreign markets. A government providing export incentives often does so in order to keep domestic products competitive in the global market.

Overseas sales agents: The key benefit of using an overseas sales agent is that you get the advantage of their extensive knowledge of the target market. Sales agent also provides support to an exporter in the matter of transportation, reservation of accommodation, appointment with the government as and when required. It is, therefore, essential that one should very carefully select overseas agent.

1.11 SELF ASSESSMENT QUESTIONS

1. Advantages of Exports in India? What are the different government schemes to exporters? How does bank help exporters financially?
2. Explain disadvantages of exporting as a marketing Strategy.
3. Explain important preliminaries for starting exports.

1. 12 LESSON END EXERCISE

1. How does exports benefit to exporters in India? What are the financial assistance to exporters?

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    ____

    ____

2. Explain in detail proper registration process of exporters

3. Describe method of sending overseas samples? Also explain method of appointing overseas agents

1.13 SUGGESTED READING

Export -What Where & How	: Paras Ram
Export Marketing	: Michael Vaz
F Export Management	: T. A .S. Balagopal
Export-Import Financing	
(Frontiers in Finance Series)	: Harry M. Venedikian and Gerald A. Warfield
Export Finance	: Willsher, Richard

COURSE NO : BM- 601	UNIT - II
SEMESTER - VI	**LESSON : 3-4**

ARRANIGING FINANCE FOR EXPORT

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2.1 INTRODUCTION

Financial assistance to the exporters is generally provided by the Commercial Banks before shipment as well as after shipment of the goods. The assistance provided before shipment of goods is known as pre-shipment finance and that provided after the shipment of goods is known as post-shipment finance.

Pre-shipment finance is given for working capital for purchase of raw material, processing, packing, transportation, ware-housing etc. of the goods meant for export. Post-shipment finance is provided for bridging the gap between the shipment of goods and realization of export proceeds. The later is done by the Banks by purchasing or negotiating the export documents or by extending advance against export bills accepted on collection basis. While doing so, the Banks adjust the pre-shipment advance, if any, already granted to the exporter.

2.2 OBJECTIVES

After completion of this lesson you shall be able to know:

- Pre-shipment finance
- Post-shipment finance
- External commercial borrowing
- Exim bank finance
- Letter of credit

2.3 ARRANGING FINANCE FOR EXPORTS

Export finance may be broadly classified as 'Pre-Shipment' and 'Post-Shipment' finance depending upon the stage at which the finance is extended. Finance extended to the exporters, prior to shipment of goods is termed as 'Pre-Shipment Finance' while that extended after shipment of goods is termed as 'Post-Shipment Finance'.

'Pre-shipment' means any loan or advance granted or any other credit provided by a bank to an exporter for financing the purchase, processing, manufacturing or packing of goods prior to shipment / working capital expenses towards rendering of services, on the basis of letter of credit opened in his favour or in favour of some other person, by an overseas buyer or a confirmed and irrevocable order for the export of goods from India or any other evidence of an order for export from India having been placed on the exporter or some other person, unless lodgement of export orders or letter of credit with the bank has specifically been waived.

2.3.1 Pre-Shipment Finance

Pre-shipment finance refers to the credit extended to exporters prior to the shipment of goods for the execution of export order. It is also known as 'Packing Credit'. It refers to any loan granted to an exporter for financing the purchase, processing manufacturing or packing of goods as defined by the Reserve Bank of India.

Pre-shipment finance is of particular importance to small scale manufacturers and exporters who do not possess sufficient financial resources to meet the expenditure involved in the production of goods for export. Exporters can get pre-shipment credit from:

(a) Indian commercial banks.

(b) Branches of foreign commercial banks in India.

Definition

Financial assistance extended to the exporter from the date of receipt of the export order till the date of shipment is known as pre-shipment credit. Such finance is extended to an exporter for the purpose of procuring raw materials, processing, packing, transporting, warehousing of goods meant for exports.

Importance of Finance at Pre-Shipment Stage:

To purchase raw material, and other inputs to manufacture goods.

To assemble the goods in the case of merchant exporters.

To store the goods in suitable warehouses till the goods are shipped.

To pay for packing, marking and labelling of goods.

To pay for pre-shipment inspection charges.

To import or purchase from the domestic market heavy machinery and other capital goods to produce export goods.

To pay for consultancy services.

To pay for export documentation expenses.

Forms of Methods of Pre-shipment Finance:

1. Cash Packing Credit Loan: In this type of credit, the bank normally grants packing credit advantage initially on unsecured basis. Subsequently, the bank may ask for security.

2. Advantage Against Hypothecation: Packing credit is given to process the goods for export. The advance is given against security and the security remains in the possession of the exporter. The exporter is required to execute the hypothecation deed in favour of the bank.

3. Advance Against Pledge: The bank provides packing credit against security. The security remains in the possession of the bank. On collection of export proceeds, the bank makes necessary entries in the packing credit account of the exporter.

4. Advance Against Red L/C: The Red L/C received from the importer authorizes the local bank to grant advances to exporter to meet working capital requirements relating to processing of goods for exports. The issuing bank stands as a guarantor for packing credit.

5. Advance Against Back-To-Back L/C: The merchant exporter who is in possession of the original L/C may request his bankers to issue Back-To-Back L/C against the security of original L/C in favour of the sub-supplier. The sub-supplier thus gets the Back-To-Back L/C on the basis of which he can obtain packing credit.

6. Advance Against Exports Through Export Houses: Manufacturer, who exports through export houses or other agencies can obtain packing credit, provided such manufacturer submits an undertaking from the export houses that they have not or will not avail of packing credit against the same transaction.

7. Advance Against Duty Draw Back (DBK): DBK means refund of customs duties paid on the import of raw materials, components, parts and packing materials used in the export production. It also includes a refund of central excise duties paid on indigenous materials. banks offer pre-shipment as well as post-shipment advance against claims for DBK.

8. Special Pre-Shipment Finance Schemes:

- Exim-Bank's scheme for grant for **Foreign Currency Pre-Shipment Credit (FCPC)** to exporters.
- Packing credit for **Demand exports**

Some Schemes In Pre-Shipment Stage of Finance

1. Packing Credit

Sanction of Packing Credit Advances:

There are certain factors, which should be considered while sanctioning the packing credit advances viz.

i. Banks may relax norms for debt-equity ratio, margins etc. but no compromise in respect of viability of the proposal and integrity of the borrower.

ii. Satisfaction about the capacity of the execution of the orders within the stipulated time and management of the export business.

iii. Quantum of finance.

iv. Standing of credit opening bank if the exports are covered under letters of credit.

v. Regulations, Political and financial conditions of the buyer's country.

Disbursement of Packing Credit:

After proper sanctioning of credit limits, the disbursing branch should ensure:

To inform ECGC the details of limit sanctioned in the prescribed format within 30 days from the date of sanction.

a) To complete proper documentation and compliance of the terms of sanction i.e. creation of mortgage etc.

b) There should be an export order or a letter of credit produced by the exporter on the basis of disbursement are normally allowed.

In both the cases following particulars are to be verified:

i. Name of the buyer.

ii. Commodity to be exported.

iii. Quantity.

iv. Value.

v. Date of shipment/negotiation

vi. Any other terms to be complied with.

2. Foreign Currency pre-Shipment Credit (FCPC)

- The FCPC is available to exporting companies as well as commercial banks for lending to the former.
- It is an additional window to rupee packing credit scheme and available to cover both the domestic i.e. indigenous and imported inputs. The exporter has two options to avail him of export finance.
- To avail him of pre-shipment credit in rupees and then the post shipment credit either in rupees or in foreign currency denominated credit or discounting/ rediscounting of export bills.
- To avail of pre-shipment credit in foreign currency and discounting/rediscounting of the export bills in foreign currency.
- FCPC will also be available both to the supplier EOU/EPZ unit and the receiver EOU/EPZ unit.

Pre-shipment credit in foreign currency shall also be available on exports to ACU (Asian Clearing Union) countries with effect from 1.1.1996.

Eligibility: PCFC is extended only on the basis of confirmed/firms export orders or confirmed L/C's. The "Running account facility will not be available under the scheme. However, the facility of the liquidation of packing credit under the first in first out method will be allowed.

Order or L/C: Banks should not insist on submission of export order or L/C for every disbursement of pre-shipment credit, from exporters with consistently good track record. Instead, a system of periodical submission of a statement of L/C's or export orders in hand, should be introduced.

Sharing of FCPC: Banks may extend FCPC to the manufacturer also on the basis of the disclaimer from the export order

2.3.2 Post-Shipment Finance

Post shipment finance is provided to meet working capital requirements after the actual shipment of goods. It bridges the financial gap between the date of shipment and actual receipt of payment from overseas buyer thereof. Whereas the finance provided after shipment of goods is called post-shipment finance.

Definition:

Credit facility extended to an exporter from the date of shipment of goods till the realization of the export proceeds is called Post-shipment Credit.

Importance of finance at post-shipment stage:

- To pay to agents/distributors and others for their services.
- To pay for publicity and advertising in the over -seas markets.
- To pay for port authorities, customs and shipping agents charges.
- To pay towards export duty or tax, if any.
- To pay towards ECGC premium.

- To pay for freight and other shipping expenses.
- To pay towards marine insurance premium, under CIF contracts.
- To meet expenses in respect of after sale service.
- To pay towards such expenses regarding participation in exhibitions and trade fairs in India and abroad.
- To pay for representatives abroad in connection with their stay board.

Forms/Methods of Post Shipment Finance

1. Export bills negotiated under L/C: The exporter can claim post-shipment finance by drawing bills or drafts under L/C. The bank insists on necessary documents as stated in the L/C. if all documents are in order, the bank negotiates the bill and advance is granted to the exporter.

2. Purchase of export bills drawn under confirmed contracts: The banks may sanction advance against purchase or discount of export bills drawn under confirmed contracts. If the L/C is not available as security, the bank is totally dependent upon the credit worthiness of the exporter.

3. Advance against bills under collection: In this case, the advance is granted against bills drawn under confirmed export order L/C and which are sent for collection. They are not purchased or discounted by the bank. However, this form is not as popular as compared to advance purchase or discounting of bills.

4. Advance against claims of Duty Drawback (DBK): DBK means refund of customs duties paid on the import of raw materials, components, parts and packing materials used in the export production. It also includes a refund of central excise duties paid on indigenous materials. Banks offer pre-shipment as well as post-shipment advance against claims for DBK.

5. Advance against goods sent on Consignment basis: The bank may grant post-shipment finance against goods sent on consignment basis.

6. Advance against Undrawn Balance of Bills: There are cases where bills are not drawn to the full invoice value of gods. Certain amount is undrawn balance which is due for payment after adjustments due to difference in rates, weight, quality etc. banks offer advance against such undrawn balances subject to a maximum of 5% of the value of export and an undertaking is obtained to surrender balance proceeds to the bank.

7. Advance against Deemed Exports: Specified sales or supplies in India are considered as exports and termed as “deemed exports”. It includes sales to foreign tourists during their stay in India and supplies made in India to IBRD/ IDA/ ADB aided projects. Credit is offered for a maximum of 30 days.

8. Advance against Retention Money: In respect of certain export capital goods and project exports, the importer retains a part of cost goods/ services towards guarantee of performance or completion of project. Banks advance against retention money, which is payable within one year from date of shipment.

9. Advance against Deferred payments: In case of capital goods exports, the exporter receives the amount from the importer in installments spread over a period of time. The commercial bank together with EXIM bank do offer advances at concessional rate of interest for 180 days.

Features of Post-shipment Finance

The features post-shipment finance are as under:

(a) **Eligibility:** Post-shipment finance is available to all types of exporters such as:

• Merchant exporters;

• Manufacturer exporters;

• Export houses;

• Trading houses;

• Manufacturers supplying goods to Export Houses (EH), Trading Houses (TH) or merchant exporters.

(b) **Documentary Evidence:** Following documents are required to be submitted by the direct exporter and exporter of capital goods for availing post-shipment finance facility:

• Shipping documents indicating the fact that the goods have been actuary shipped for export purpose.

• Necessary documents substantiating the facility under which the credit has been availed.

Even, indirect exporters who export through export houses/trading houses, STC, etc. are eligible for post-shipment finance on the production of the following documents:

• A letter from the concerned export house/trading house certifying that the goods supplied by the deemed exporter have actually been shipped for export purpose.

• An and from the concerned export house/trading house stating that they do not wish to obtain post-shipment facility against the same for the same transaction for the same purpose till the original post-shipment finance is liquidated.

(c) **Purpose:** Post-shipment finance (short-term) is extended to the exporters after the shipment of goods for meeting working capital requirement. Post-shipment credit (medium and long-term) is granted to the exporters for exports on deferred payment terms for a period of over one year. Post- shipment finance (short-term) is generally granted for the following purposes:

- To provide working capital so as to fill up the gap between the shipment of goods and the realisation of sales proceeds.
- To pay insurance charges for insuring goods against perils of sea.
- To pay ECGC premium for insuring commercial and political risks.
- To pay commission and brokerage to overseas agents and distributors.
- To undertake export promotion activities and advertising.
- To pay customs duties, port charges and export duty, if any.
- To pay marine freight and other shipping charges.
- To pay for participation in international trade fairs and exhibitions.

- To undertake market survey abroad and send trade delegations.

(d) **Amount of Finance:** Post-shipment finance can be granted to the extent of 100% of the invoice value of the goods exported.

- Loans up to Rs. 10 crores are sanctioned by the commercial bank, which can be refinanced from the EXIM Bank.
- Loans above Rs. 10 crores but up to Rs. 50 crores are sanctioned by the EXIM bank.
- Loans above Rs. 50 crores need clearance from the working group on export finance, consisting of the representatives of the EXIM Bank, the RBI, the ECGC and the exporter's bankers.

If the contract is very large, representatives from the Ministries of Commerce and Finance are also included in the working group.

(e) **Period of Credit and Rate of Interest:** Post-shipment finance can be availed for short-term, medium-term or long-term.

- Short-term finance is extended by the commercial banks usually for a period of 90 days.
- Medium-term ban is extended by the commercial banks together with EXIM Bank for a period of 90 days to 5 years.
- Long-term finance is extended by the EXIM Bank for the export of capital goods and turnkey projects for a period of 5 years to 12 years.

The interest payable on post-shipment finance (short-term) is usually lower than the normal rate, provided the credit is liquidated from export proceeds received from abroad within the period specified. For medium-term and long-term loans, the interest rates are applicable as per the directives issued by the RBI from time to time.

As per the guidelines issued by the Reserve Bank of India (RBI) on 29th April 2009 to all scheduled commercial banks, interest rates effective from 1st May 2009 to 31 October 2009 will not be exceeding Benchmark Prime Lending Rate (BPLR) minus 2.5 percentage points per annum for the following categories of post-shipment finance:

- Post ship credit on demand bills for transit period (as specified by Foreign Exchange Dealers Association of India - FEDAI).

- Post-shipment credit on usance bills (for total period comprising usance period of export bills, transit period as specified by FEDAI and grace period, wherever applicable) upto 180 days and upto 365 days for exporters under Gold Card Scheme.

- Against incentives receivable from Government (covered by ECGC guarantee) upto 90 days.

- Against undrawn balances upto 90 days.

- Against retention money (for supplies portion only) payable within one year from the date of shipment upto 90 days.

These are the ceiling rates and therefore, the banks are tree to charge any rate below the ceiling rates. Interest rates for the above mentioned categories of pre-shipment credit beyond the tenor have been deregulated and therefore the banks are free to decide the rate of interest, keeping in view the BPLR and spread guidelines.

(f) **Disbursement of post-Shipment Finance:** Before the disbursement of loan, the banks scrutinize the application and necessary documents and ensures that: and spread guidelines.

• The documents are in permitted currencies and payments are receivable as per permitted methods of payment.

• The relevant GR/PP form duly certified by the customs authorities is submitted.

• The documents are submitted within the time stipulated or in case of delay suitable explanation is given.

• The period of usance is consistent with the time limit prescribed for realisation of export proceeds.

Before disbursement, the bank requires the exporter to execute a formal loan agreement. Though, the entire amount of post-shipment finance is sanctioned at one time, it is generally released in instalments.

(h) **Maintenance of Accounts, Monitoring and Repayment:** As per the RBI directives, the banks are required to maintain a separate account in respect of each packing credit. However, running accounts are permitted in case of exporters situated in FTZs, EPZs and the 100% EOUs.

Post-shipment finance should be used strictly for the purposes for which it is granted. Hence, the lending bank monitors the use of finance by the exporter. Any default on the part of exporter is charged with a higher rate of interest.

Post-shipment finance is generally adjusted towards the incentives given by the government or against the export proceeds received by the bank. The use of local funds is not permitted for the repayment of post-shipment finance.

Post-shipment Procedure

The post-shipment stage consists of the following steps:

(a) Submission of Documents by the C&F Agent to the Exporter: On the completion of the shipping procedure, the C&F agent submits the following documents to the exporter:

- A copy of invoice duly attested by the customs.
- Drawback copy of the shipping bill.
- Export promotion copy of the shipping bill.
- A full set of negotiable and non-negotiable copies of bill of lading.
- The original L/C, export order or contract.
- Duplicate copy of the ARE-I form.

(b) Shipment Advice to Importer: After the shipment of goods, the exporter intimates the importer about the shipment of goods giving him details about the date of shipment, the name of the vessel, the destination. etc. He should send also send one Copy of non-negotiable bill of lading to the importer.

(c) Presentation of Documents to Bank for Negotiation: Submission of relevant documents to the bank and the process of getting the payment from the bank is called

“Negotiation of the Documents.” and the documents are called ‘Negotiable Set of Documents’. The set normally contains:

- Bill of Exchange, Sight Draft or Usance Draft.
- Full set of Bill of Lading or Airway Bill.
- Original Letter of Credit.
- Customs Invoice. Commercial Invoice including one copy duly certified by the Customs.
- Packing List.
- Foreign exchange declaration forms, GR/SOFTEX/PP forms in duplicate.
- Exchange control copy of the Shipping Bill.
- Certificate of Origin, GSP or APR Certificate, etc.
- Marine Insurance Policy, in duplicate.

(d) Despatch of Documents: The bank negotiates these documents to the importer’s bank in the manner as specified in the L/C. Before negotiating documents, the exporter’s bank scrutinises them in order to ensure that formalities have been complied with and all documents are in order. The bank then sends the Bank Certificate and attested copies of commercial invoice to the exporter.

(e) Acceptance of Bill of Exchange: Bill of Exchange accompanied by the above documents is known as the Documentary Bill of Exchange. It is of two types:

Documents against Payment (Sight Drafts): In case of sight draft, the drawer instructs the bank to hand over the relevant documents to the importer only against payment.

Documents against Acceptance (Usance Draft): In case of usanc draft, the drawer instructs the bank to hand over the relevant documents to the importer against his ‘acceptance’ of the bill of exchange.

(f) Letter of Indemnity: The exporter can get immediate payment from his ban on the submission of documents by signing a letter of indemnity. By signing the letter of indemnity the exporter undertakes to indemnify the bank in the event non-receipt of payment from the importer along with accrued interests.

(g) Realisation of Export proceeds: On receiving the documentary bill of exchange, the importer releases payment in case of sight draft or accepts the usance draft undertaking to pay on maturity of the bill of exchange. The exporter's bank receives the payment through importer's bank and is credited to exporter's account.

(h) Processing of GR Form: On receiving the export proceeds, the exporter's (iv bank intimates the same to the RBI by recording the fact on the duplicate copy of GR. The RBI verifies the details in duplicate copy of GR with the original copy of GR received from the customs. If the details are found to be in order then the export transaction is treated to be completed.

(i) Realisation of Export Incentives: If the exporter is eligible for export incentives, then he should submit claim for the same accompanied by the bank certificate to the appropriate authority.

2.4 EXTERNAL COMMERCIAL BORROWING (ECB)

An external commercial borrowing (ECB) is an instrument used in India to facilitate Indian companies to raise money outside the country in foreign currency. The government of India permits Indian corporate to raise money via ECB for expansion of existing capacity as well as for fresh investments. Other such external sources of finance/capital include FCCBs and FCEBs. While foreign currency convertible bonds are issued to raise finance, ECB refers to commercial loans which can be in the form of bank loans, bonds, securitized instruments, buyers' credit and suppliers credit availed from non-resident lenders with a minimum average maturity of 3 years.

Benefits Of External Commercial Borrowing

- The cost of funds is usually cheaper from external sources if borrowed from economies with a lower rate of interest. Indian companies can usually borrow at lower rates from the U.S. and the Euro-zone as interest rates are lower there compared to the home country, India.

- Availability of larger market can help companies satisfy larger requirements from global players in a better manner as compared to what can be achieved domestically.
- ECB is just a form of a loan and may not be of equity nature or convertible to equity. Hence, it does not dilute stake in the company and can be done without giving away control because debtors do not enjoy voting rights.
- The borrower [ECB issuing company] can diversify the investor base.
- It provides access to international markets for the borrowers and gives good exposure to opportunities globally.
- The economy also enjoys benefits, as the government can direct inflows into the sector, have potential to grow. For example, the government may allow a higher percentage of ECB funding in case of infrastructure and SME sector. This helps in an overall development of the country.
- Avenues of lower cost funds can improve the profitability of the companies and can aid economic growth.

ECB is a very attractive option for companies due to the advantages mentioned above. Although there are some demerits of ECB as given below:

Disadvantages Of External Commercial Borrowing

- Availability of funds at a cheaper rate may bring in lax attitude on the company's side resulting in excessive borrowing. This eventually results in higher (than requirement) debt on the balance sheet which may affect many financial ratios adversely.
- Higher debt on the company's balance sheet is usually viewed negatively by the rating agencies which may result in a possible downgrade by rating agencies which eventually might increase the cost of debt. This may also tarnish the company's image in the market and market value of the shares too in eventual times.
- Since the borrowing is foreign currency denominated, the repayment of the principal and the interest needs to be made in foreign currency and hence exposes the

company to exchange rate risk. Companies may have to incur hedging costs or assume exchange rate risk which if goes against may end up negative for the borrowers resulting into heavy losses for them.

Types of Routes

External Commercial Borrowing can be accessed under two routes, viz.,

(i) Automatic Route

(ii) Approval Route

(A) Automatic Route

The following types of proposals for ECBs are covered under the Automatic Route.

i) Eligible Borrowers

(a) **Corporates, including those in the hotel, hospital, software sectors** (registered under the Companies Act, 1956), Non-Banking Finance Companies (NBFCs) – Infrastructure Finance Companies (IFCs), NBFCs – Asset Finance companies (AFCs), Small Industries Development Bank of India (SIDBI) except financial intermediaries, such as banks, financial institutions (FIs), Housing Finance Companies (HFCs) and Non-Banking Financial Companies (NBFCs), other than those specifically allowed by Reserve Bank, are eligible to raise ECB. Individuals, Trusts (other than those engaged in Micro-finance activities) and Non-Profit making organizations are not eligible to raise ECB.

(b) Units in Special Economic Zones (SEZ) are allowed to raise ECB for their own requirement. However, they cannot transfer or on-lend ECB funds to sister concerns or any unit in the Domestic Tariff Area (DTA).

(c) NBFCs-IFCs are permitted to avail of ECBs for on-lending to the infrastructure sector as defined under the ECB policy

(d) NBFCs-AFCs are permitted to avail of ECBs for financing the import of infrastructure equipment for leasing to infrastructure projects

(e) Non-Government Organizations (NGOs) engaged in micro finance activities are eligible to avail of ECB.

(f) Micro Finance Institutions (MFIs) engaged in micro finance activities are eligible to avail of ECBs.

(g) NGOs engaged in micro finance and MFIs registered as societies, trusts and cooperatives and engaged in micro finance (i) should have a satisfactory borrowing relationship for at least 3 years with a scheduled commercial bank authorized to deal in foreign exchange in India and (ii) would require a certificate of due diligence on 'fit and proper' status of the Board/ Committee of management of the borrowing entity from the designated AD bank.

(h) Small Industries Development Bank of India (SIDBI) can avail of ECB for onlending to MSME sector, as defined under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006.

(i) Corporates in the services sector viz. hotels, hospitals and software sector.

(j) Companies in miscellaneous services sector (only from overseas direct / indirect equity holders and group companies). Companies in miscellaneous services mean companies engaged in training activities (but not educational institutes), research and development activities and companies supporting infrastructure sector. Companies doing trading business, companies providing logistics services, financial services and consultancy services are, however, not covered under the facility

(k) Holding Companies / Core Investment Companies (CICs) coming under the regulatory framework of the Reserve Bank are permitted to raise ECB for project use in Special Purpose Vehicles (SPVs) provided the business activity of the SPV is in the infrastructure sector where "infrastructure" is defined as per the extant ECB guidelines. The infrastructure project is required to be implemented by the SPV established exclusively for implementing the project and is subject to conditions. In case of Holding Companies that come under the Core Investment Company (CIC) regulatory framework of the Reserve Bank, the ECB availed should be within the ceiling of leverage stipulated for CICs and in case of CICs with asset size below Rs. 100 crore, the ECB availed of should be on fully hedged basis.

ii) Recognised Lenders

1. Borrowers can raise ECB from internationally recognized sources, such as (a) international banks, (b) international capital markets, (c) multilateral financial institutions (such as IFC, ADB, CDC, etc.) / regional financial institutions and Government owned development financial institutions, (d) export credit agencies, (e) suppliers of equipments, (f) foreign collaborators and (g) foreign equity holders [other than erstwhile Overseas Corporate Bodies (OCBs)].

(2) NGOs engaged in micro finance and MFIs registered as societies, trusts and co-operatives can avail of ECBs from (a) international banks, (b) multilateral financial institutions, (c) export credit agencies (d) overseas organisations and (e) individuals.

(3) NBFC-MFIs will be permitted to avail of ECBs from multilateral institutions, such as IFC, ADB etc./ regional financial institutions/international banks / foreign equity holders and overseas organizations.

(4) Companies registered under Section 25 of the Companies Act,1956 and are engaged in micro finance will be permitted to avail of ECBs from international banks, multilateral financial institutions, export credit agencies, foreign equity holders, overseas organizations and individuals.

(5) A "foreign equity holder" to be eligible as "recognized lender" under the automatic route would require minimum holding of paid-up equity in borrower company.

(6) Overseas organizations and individuals providing ECB need to comply with certain safeguards.

Amount and Maturity:

(a)The maximum amount of ECB which can be raised by a corporate other than those in the hotel, hospital and software sectors, and corporate in miscellaneous services sector is USD 750 million or its equivalent during a financial year.

(b) Corporates in the services sector viz. hotels, hospitals and software sector and miscellaneous services sector are allowed to avail of ECB up to USD 200 million or its equivalent in a financial year for meeting foreign currency and/ or Rupee capital expenditure for permissible end-uses.

(c) NGOs engaged in micro finance activities and Micro Finance Institutions (MFIs) can raise ECB up to USD 10 million or its equivalent during a financial year.

(d) NBFC-IFCs can avail of ECB up to 75 per cent of their owned funds (ECB including outstanding ECBs) and must hedge 75 per cent of their currency risk exposure.

(e) NBFC-AFCs can avail of ECBs up to 75 per cent of their owned funds (ECB including outstanding ECBs) subject to a maximum of USD 200 million or its equivalent per financial year with a minimum maturity of 5 years and must hedge the currency risk exposure in full.

(f) SIDBI can avail of ECB to the extent of 50 per cent of their owned funds including the outstanding ECB, subject to a ceiling of USD 500 million per financial year.

(g) ECB up to USD 20 million or its equivalent in a financial year with minimum average maturity of three years.

(h) ECB above USD 20 million or equivalent and up to USD 750 million or its equivalent with a minimum average maturity of five Years.

(i) ECB up to USD 20 million or equivalent can have call/put option provided the minimum average maturity of three years is complied with before exercising call/put option.

(j) All eligible borrowers can avail of ECBs designated in INR from 'foreign equity holders' as per the extant ECB guidelines.

(k) NGOs engaged in micro finance activities can avail of ECBs designated in INR, from overseas organizations and individuals as per the extant guidelines.

All-in-cost ceilings :

All-in-cost includes rate of interest, other fees and expenses in foreign currency except commitment fee, pre-payment fee, and fees payable in Indian Rupees. The payment of withholding tax in Indian Rupees is excluded for calculating the all-in-cost.

End-use :

(a) ECB can be raised for investment such as import of capital goods (as classified by DGFT in the Foreign Trade Policy), new projects, modernization/expansion of existing production units in real sector - industrial sector including small and medium enterprises (SME), infrastructure sector and specified service sectors.

(b) Overseas Direct Investment in Joint Ventures (JV)/ Wholly Owned Subsidiaries (WOS) subject to the existing guidelines on Indian Direct Investment in JV/ WOS abroad.

(c) Utilization of ECB proceeds is permitted for first stage as well as subsequent stages of acquisition of shares in the disinvestment process to the public under the Government's disinvestment programme of PSU shares.

(d) Interest during Construction (IDC) for Indian companies which are in the infrastructure sector, where "infrastructure" is defined as per the extant ECB guidelines, subject to IDC being capitalized and forming part of the project cost.

(e)For lending to self-help groups or for micro-credit or for bona-fide micro finance activity including capacity building by NGOs engaged in micro finance activities.

(f) NBFC-IFCs can avail of ECBs only for on-lending to the infrastructure sector as defined under the ECB policy.

(g) NBFC-AFCs can avail of ECBs only for financing the import of infrastructure equipment for leasing to infrastructure projects.

(h) Maintenance and operations of toll systems for roads and highways for capital expenditure provided they form part of the original project.

(i) SIDBI can on lend to the borrowers in the MSME sector for permissible end uses, having natural hedge by way of foreign exchange earnings. SIDBI may on-lend either in INR or in foreign currency (FCY). In case of on-lending in INR, the foreign currency risk shall be fully hedged by SIDBI.

(j) Refinancing of Bridge Finance (including buyers' / suppliers' credit) availed of for import of capital goods by companies in Infrastructure Sector.

(k) ECB is allowed for Import of services, technical know-how and payment of license fees. The companies in the manufacturing and infrastructure sectors may import services, technical know-how and payment of license fees as part of import of capital goods subject to certain conditions.

(l) ECB for general corporate purposes from direct foreign equity holders by companies in manufacturing, infrastructure, hotels, hospitals and software sector: Eligible borrowers can avail ECB from their direct foreign equity holder company with a minimum average maturity of 7 years for general corporate purposes (which includes working capital) subject to the certain conditions.

B. Approval Route

The following types of proposals for ECB are covered under the Approval Route:

(a) On lending by the EXIM Bank for specific purposes will be considered on a case by case basis.

(b) Banks and financial institutions which had participated in the textile or steel sector restructuring package as approved by the Government are also permitted to the extent of their investment in the package and assessment by the Reserve Bank based on prudential norms

(c) ECB with minimum average maturity of 5 years by Non-Banking Financial Companies (NBFCs) from multilateral financial institutions, reputable regional financial institutions, official export credit agencies and international banks to finance import of infrastructure equipment for leasing to infrastructure projects.

(d) NBFCs-IFCs are permitted to avail of ECB, beyond 75 per cent of their owned funds for on lending to infrastructure sector.

(e) NBFCs-AFCs are permitted to avail of ECB, beyond 75 per cent of their owned funds (including outstanding ECBs) to finance the import of infrastructure equipment for leasing to infrastructure projects.

(f) Foreign Currency Convertible Bonds (FCCBs) by Housing Finance Companies satisfying certain conditions.

(g) Special Purpose Vehicles, or any other entity notified by the Reserve Bank, set up to finance infrastructure companies / projects exclusively, will be treated as Financial Institutions and ECB by such entities will be considered under the Approval Route.

(h) Multi-State Co-operative Societies engaged in manufacturing activity and satisfying certain criteria's.

(i) SEZ developers can avail of ECBs for providing infrastructure facilities within SEZ.

(j) Developers of National Manufacturing Investment Zones (NMIZs) can avail of ECB for providing infrastructure facilities within SEZ.

(k) Eligible borrowers under the automatic route other than corporates in the services sector viz. hotel, hospital and software can avail of ECB beyond USD 750 million or equivalent per financial year.

(l) Corporates in the services sector viz. hotels, hospitals, and software sectors and in miscellaneous services can avail of ECB beyond USD 200 million or equivalent per financial year.

(m) Low Cost Affordable Housing Projects: Developers/builders / Housing Finance Companies (HFCs) / National Housing Bank (NHB) may avail of ECB for low cost affordable housing projects.

(n) Holding Companies / Core Investment Companies (CICs) coming under the regulatory framework of the Reserve Bank are permitted to raise ECB for project use in Special Purpose Vehicles (SPVs) provided the business activity of the SPV is in the infrastructure sector.

(o) Cases falling outside the purview of the automatic route limits and maturity period.

Recognised Lenders

(a) Borrowers can raise ECB from internationally recognised sources, such as (i) international banks, (ii) international capital markets, (iii) multilateral financial institutions (such as IFC, ADB, CDC, etc.)/ regional financial institutions and Government owned development financial institutions, (iv) export credit agencies, (v) suppliers' of equipment, (vi) foreign collaborators and (vii) foreign equity holders (other than erstwhile OCBs).

(b) A "foreign equity holder" to be eligible as "recognized lender" under the approval route would require certain minimum holding of paid-up equity in the borrower company.

(c) ECB from indirect equity holders provided the indirect equity holding by the lender in the Indian company is at least 51 per cent.

(d) ECB from a group company provided both the borrower and the foreign lender are subsidiaries of the same parent.

Amount and Maturity :

Eligible borrowers under the automatic route other than corporates in the services sector viz. hotel, hospital, software and miscellaneous services can avail of ECB beyond USD 750 million or equivalent per financial year. Corporates in the services sector viz. hotels, hospitals, software sector and miscellaneous services are allowed to avail of ECB beyond USD 200 million or its equivalent in a financial year for meeting foreign currency and/ or Rupee capital expenditure for permissible end-uses. The proceeds of the ECBs should not be used for acquisition of land.

Conclusion

Though external commercial borrowings come at lower costs, it comes with various restriction and guidelines that need to be followed. There exists restriction on the amount and maturity of the ECB. ECBS above $ 20 million need to be of minimum average maturity of 5 years and below $ 20 million should have a minimum average maturity of 3 years. There are restrictions with regards to end use of the funds too. The companies may use it for expansion, but they cannot use it for onward lending, real estate investments, repayment of existing loans and many such limitations. ECBs are one of the commonly availed sources of cheaper funds by eligible companies. However, the companies need to be cautious about the exchange rate risk and impact on balance sheet debt to use it effectively.

2.5 EXIM BANK FINANCE

The Export-Import bank of India is the apex institution for project finance, which provides direct finance and coordinates the working of the institution, which is engaged in financing export or import of goods and services. It has taken over the operations of international finance wing of the industrial development bank of India (IDBI). The EXIM bank of India came into existence on 1st January 1982, and started functioning from 1st march 1982. It has it's headquarter in Mumbai and its branches and offices in important cities in India and abroad.

Offices:

Head office – Mumbai.

A network of 13 offices in India and Overseas.

Domestic Offices - Ahmedabad, Bangalore, Chennai, Hyderabad, Kolkata, Mumbai, New Delhi, Pune.

Overseas Offices - Budapest, Johannesburg, Milan, Singapore, Washington DC.

Purpose

The EXIM bank was established for the purpose of financing medium and long term loan to the exporters thereby promoting foreign trade of India.

Main Objectives

- To provide financial assistance (medium and long term) to exporters and importers.
- To function as the principal financial institution for coordinating the working of institutions engaged in providing export finance.
- To promote Foreign Trade of India.
- To deal with all matters that may be considered to be incidental or conducive to the attainment of above objectives.

Functions

The assistance provided by EXIM Bank to the exporters can be grouped under two heads:

A. Fund Based Assistance.

B. Non-Fund based Assistance.

The various assistance provided by EXIM Bank can be discussed as follows:

A. Fund Based Assistance:

· **Assistance to Indian Exporters:**

(a) It provides financial assistance to “Deferred credit exports”.

(b) It offers credit facilities to “Deemed Exports”.

(c) It finances “Indian Joint Ventures in Foreign countries”.

(d) Finances units in”EPZ/ SEZ and 100% EOU’s”.

(e) It provides Pre-shipment finance to exporters for procuring raw materials and other inputs.

(f) It finances export/import of machinery and equipment on lease basis.

(g) It provides Computer Software exporters foreign exchange loan subject to RBI clearance.

(h) It provides finance facility against deferred credit to exporters of consultancy, technology and other services.

(i) It provides finance to Indian exporters to undertake various export marketing activities in India and abroad through Export Marketing Fund (EMF).

(j) It also operates Export Development Fund (EDF) to finance techno-economic survey/ research or any other study for the development of Indian Exports.

·Assistance to Indian Commercial Banks:

(a) It provides Refinance Facilities so as to Indian exporters who extend term credit to importers.

(b) It offers Export Bills Rediscounting Facility to commercial banks in India who have earlier discounted bills of exporters.

· **Assistance to Overseas Buyers:**

(a) It offers "Overseas Buyer's Credit" facility to foreign importers for import of Indian capital goods and related services with repayment spread over a period of years.

· **Assistance to Overseas Banks:**

(a) Long term finance is also provided under "Lines of Credit" to finance financial institutions abroad, who in turn, extend finance to importers of their country to buy Indian Capital goods.

(b) It provides Relending Facility to overseas Banks to make available term finance to their clients for import of Indian goods.

2. Non-Fund Based Assistance

· **Guarantees and Bonds:**

EXIM Bank provides non-fund base assistance in the form of guarantees in the nature of Bid Bonds, Performance Guarantee etc. These guarantees are provided together with Commercial Banks.

Advisory and Other Services:

(a) It advises Indian companies, in Executing Contracts Abroad, and on sources of overseas financing.

(b) It advises Indian exporters on global exchange control practices.

(c) The EXIM Bank offers Financial and Advisory Services to Indian construction projects abroad.

(d) It advises small-scale manufacturers on export markets and product areas.

(e) It provides Euro Financing sources and Global Credit sources to Indian exporters.

(f) It assists the exporters under Forfeiting scheme.

Conclusion: Exim Bank is fully owned by the Government of India and is managed by the Board of Directors with repatriation from Government, financial institutions, banks and business community. The Export- Import Bank of India (Exim Bank) provides financial assistance to promote Indian exports through direct financial assistance, overseas investment finance, term finance for export production and export development, pre-shipping credit, buyer's credit, lines of credit, relending facility, export bills rediscounting, refinance to commercial banks. The Exim Bank also extends non-founded facility to Indian exporters in the form of guarantees. The diversified lending programme of the Exim Bank now covers various stages of exports, i.e., from the development of export makers to expansion of production capacity for exports, production capacity for exports, production for exports and post- shipment financing. The Exim Bank's focus is on export of manufactured goods, project exports, exports, of technology services and exports of computers software.

2.6 Letter of Credit (LC)

Introduction:

This is one of the most popular and more secured of method of payment in recent times as compared to other methods of payment. A Letter of Credit (L/C)refers to the documents representing the goods and not the goods themselves. Banks are not in the business of examining the goods on behalf of the customers. Typical documents, which are required includes commercial invoice, transport document such as Bill of lading or Airway bill, an insurance documents etc. Letter of Credit deals in documents and not goods.

Definition:

A Letter of Credit can be defined as "an undertaking by importer's bank stating that payment will be made to the exporter if the required documents are presented to the bank within the validity of the Letter of Credit".

Parties Involved In Letter of Credit:

- **Applicant:** The buyer or importer of goods
- **Issuing bank:** Importer's bank, who issues the L/C
- **Beneficiary:** The party to whom the L/C is addressed. The Seller or supplier of goods.

- **Advising bank:** Issuing bank's branch or correspondent bank in The exporter's country to whom the L/C is send for Onward transmission to the beneficiary.
- **Confirming bank:** The bank in beneficiary's country, which Guarantees the credit on the request of the issuing Bank.
- **Negotiating bank:** The bank to whom the beneficiary presents his Documents for payment under L/C.

A Letter of Credit contains these elements:

- A payment undertaking given by the bank (issuing bank) on behalf of the buyer (applicant)
- To pay a seller (beneficiary) a given amount of money on presentation of specified documents representing the supply of goods within specific time limits
- These documents conforming to terms and conditions set out in the letter of credit
- Documents to be presented at a specified place.

In simple words, the Issuing Bank's role is twofold:

- To guarantee to the seller that if complete documents are presented, the bank will pay the seller the amount due. This offers security to the seller – the bank says in effect "We will pay you if you present documents (XYZ)".
- To examine the documents and only pay if these comply with the terms and conditions set out in the letter of credit. This protects the buyer's interests - the bank says "We will only pay your supplier on your behalf if they present documents (XYZ) that you have asked for".

Advantages of Letter of Credit

Advantages to the exporter:

- No blocking of funds.
- Clearance of import regulations.

- Free from liability.
- Pre- shipment finance.
- Non-refusal by importer.
- Reduction in bad-debts.

Advantages To The Importer

- Better terms of trade.
- Assurance of shipment of goods
- Overdraft facility.
- No blocking of funds.
- Delivery on time.
- Better relations.

Disadvantages of Letter of Credit:

- Lacks flexibility.
- · Complex method
- · Expensive for importer
- · Problem of revocable L/C

Sample Document: Letter of Credit (Documentary Credit)

THE MOON BANK
INTERNATIONAL OPERATIONS
5 MOONLIGHT BLVD.,
EXPORT-CITY AND POSTAL CODE
EXPORT-COUNTRY

OUR ADVICE NO.	ISSUING BANK REF. NO. & DATE
MB-5432	SBRE-777 January 26, 2005

To,
UVW Exports
88 Prosperity Street East, Suite 707
Export-City and Postal Code

Dear Sirs:

We have been requested by The Sun Bank, Sunlight City, Import-Country to advise that they have opened with us their irrevocable documentary credit number SB-87654 For account of DEF Imports, 7 Sunshine Street, Sunlight City, Import-Country in your favour for the amount of not exceeding Twenty Five Thousand U.S. Dollars (US$25,000.00) available by your draft(s) drawn on us at sight for full invoice value

Accompanied by the following documents:

1. Signed commercial invoice in five (5) copies indicating the buyer's Purchase Order No. DEF-101 dated January 10, 2005

2. Packing list in five (5) copies.

3. . Full set 3/3 clean on board ocean bill of lading, plus two (2) non-negotiable copies, issued to order of The Sun Bank, Sunlight City, Import-Country, notify the above accountee, marked "freight Prepaid", dated latest March 19, 2005, and showing documentary credit number.

4. Insurance policy in duplicate for 110% CIF value covering Institute Cargo Clauses (A), Institute War and Strike Clauses, evidencing that claims are payable in Import- Country.

Covering: 100 Sets 'ABC' Brand Pneumatic Tools, 1/2" drive,

complete with hose and quick couplings, CIF Sunny Port

Shipment from: Moonbeam Port, Export-Country to Sunny Port, Import-Country

Partial shipment Prohibited

Tran-shipment Permitted

Special conditions:

1. All documents indicating the Import License No. IP/123456 dated January 18, 2005.

2. All charges outside the Import-Country are on beneficiary's account

Documents must be presented for payment within 15 days after the date of shipment. Draft(s) drawn under this credit must be marked

Drawn under documentary credit No. SB-87654 of The Sun Bank,

Sunlight City, Import-Country, dated January 26, 2005

We confirm this credit and hereby undertake that all drafts drawn under and in conformity with the terms of this credit will be duly honored upon delivery of documents as specified, if presented at this office on or before March 26, 2005

Very truly yours,

____

Authorized Signature

Unless otherwise expressly stated, this Credit is subject to the Uniform Customs and Practice for Documentary Credits, 1993 Revision, International Chamber of Commerce Publication No. 500.

2.7 SUMMARY

Pre Shipment Finance is issued by a financial institution when the seller want the payment of the goods before shipment. The main objectives behind pre-shipment finance or pre export finance is to enable exporter to: procure raw materials; carry out manufacturing process; provide a secure warehouse for goods and raw materials; process and pack the goods; ship the goods to the buyers; meet other financial cost of the business. It includes packing credit and advance against cheques/draft etc. representing advance payments. Pre-shipment credits are granted by the banks under concessional rates of interest at 7.5 per cent. Credit can be extended up to a maximum period of 6 months. Post-shipment finance may be as "any loan or advance granted or any other credit provided by a bank to an exporter of goods from India from the date of extending the credit after shipment of goods to the date of realization of export proceeds." Thus, post-shipment finance serves as bridge loan for the period between shipment of goods and the realization of proceeds. Such loan is usually provided for a maximum period of 6 months. Interest is charged at the rate of 8.65 per cent. Business involves risk but export business is more prone to risks.

With a view to reduce risk element in export business, the government has set up the Export Credit and Guarantee Corporation (ECGC) which provides export assistance in the form of insurance cover and guarantees. There is also an Export Inspection Council of India (EICI) which extends financial assistance to the exporters for the quality control purposes. External commercial borrowing (ECBs) are loans in India made by non-resident lenders in foreign currency to Indian borrowers. They are used widely in India to facilitate access to foreign money by Indian corporations and PSUs (public sector undertakings). ECBs include commercial bank loans, buyers' credit, suppliers' credit, securitised instruments such as floating rate notes and fixed rate bonds etc., credit from official export credit agencies and commercial borrowings from the private sector window of multilateral financial Institutions such as International Finance Corporation (Washington), ADB, AFIC, CDC, etc. ECBs cannot be used for investment in stock market or speculation in real estate. The DEA (Department of Economic Affairs), Ministry of Finance, Government of India along with Reserve Bank of India, monitors and regulates ECB guidelines and policies. Export-Import Bank of India is the premier export finance institution of the country, set up in 1982 under the Export-Import Bank of India Act 1981. Government of India launched the institution with a mandate, not just to enhance exports from India, but to integrate the country's foreign trade and investment with the overall economic growth. Since its inception, Exim Bank of India has been both a catalyst and a key player in the promotion of cross border trade and investment. Export finance and credit are the most important non-pricing techniques like quality, packaging and delivery to export more. Competition both for consumer and capital goods is getting intensified in world markets. There is now a buyers' market all over where the buyer dictates intensified terms not only in regard to price but also quality, packaging, delivery schedule and above all on appropriate credit terms. Credit is also partly asked for by overseas buyer on account of difficult money market position and also foreign exchange problems faced in many countries, particularly the developing world. The buyer's (importer's) choice of supplier (exporter) is influenced by the credit offered by the latter. Export credit has become an important tool of export promotion in countries like India. Even the developed countries like United States, Germany and Japan are developing comprehensive systems and institutions for providing finance to their exporters. Letter of credit (LC) also known as a Documentary Credit, is a written commitment by a bank issued after a request by an importer(foreign buyer) that payment will be made to the beneficiary (exporter) provided that the terms and conditions stated in the LC been met, as evidenced by the presentation of specified documents. A letter of credit is a method of payment that is an important part of international trade. They are particularly useful where the buyer and seller may not know each other personally and are separated by distance, differing laws in each country and different trading customs. It is generally considered that Letters of Credit offer a good balance of security between the buyer and the seller, because both the buyer and seller rely upon the security of banks and the banking system to ensure that payment is received and goods are provided. In a Letter of Credit transaction the goods are consigned to the order of the issuing bank, meaning that the bank will not release control of the goods until the buyer has either paid or undertaken to pay the bank for the documents. In the event that the buyer is unable to make payment on the purchase, the seller may make a demand for payment on the bank. The bank will examine the beneficiary's demand and if it complies with the terms of the letter of credit, will honour the demand. Most letters of credit are governed by rules promulgated by the International Chamber of Commerce known as Uniform Customs and Practice for Documentary Credits. The main types of letter of credit are: import/export; revocable; irrevocable; confirmed; unconfirmed; restricted; unrestricted; transferrable.

2.8 GLOSSARY

Pre-shipment finance: Pre-shipment is also referred as "packing credit". It is working capital finance provided by commercial banks to the exporter prior to shipment of goods. The finance required to meet various expenses before shipment of goods is called pre-shipment finance or packing credit.

Post-shipment finance: Post Shipment Finance is a kind of loan provided by a financial institution to an exporter or seller against a shipment that has already been made. This type of export finance is granted from the date of extending the credit after shipment of the goods to the realization date of the exporter proceeds.

External Commercial Borrowing: External commercial borrowing (ECBs) are loans in India made by non-resident lenders in foreign currency to Indian borrowers. They are used widely in India to facilitate access to foreign money by Indian corporations and PSUs (public sector undertakings).

Exim Bank Finance: The Export-Import Bank of India (Exim Bank) is a public sector financial institution created by an Act of Parliament, the Export-import Bank of India Act, 1981. The business of Exim Bank is to finance Indian exports that lead to continuity of foreign exchange for India. The Bank's primary objective is to develop commercially viable relationships with a target set of externally oriented companies by offering them a comprehensive range of products and services, aimed at enhancing their internationalization efforts.

Letter of Credit (LC): A letter of credit is a letter from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. In the event that the buyer is unable to make payment on the purchase, the bank will be required to cover the full or remaining amount of the purchase.

2.9 SELF ASSESSMENT QUESTIONS

1. What is Export-Import Bank of India? What are its objectives?
2. What are the various stages in Export Procedure?
3. Write short notes:

   a) Pre-shipment finance

   b) Post-shipment finance
4. Examine the role played by EXIM Bank in financing India's export trade.
5. Explain the importance of pre-shipment and port-shipment finance for the exporters.
6. Define the term 'Letter of credit'. Explain in brief the different types of Letter of credit.

2.10 LESSON END EXERCISE

1. Write short notes Pre-shipment finance

2. Explain External Commercial Borrowing (ECB) in detail.

3. Discuss the role of EXIM Bank in the field of export finance.

2.11 SUGGESTED READING

Export –What Where & How	: Paras Ram
Export Marketing	: Michael Vaz
F Export Management	: T. A .S. Balagopal
Export–Import Financing	
(Frontiers in Finance Series)	: Harry M. Venedikian and Gerald A. Warfield
Export Finance	: Willsher, Richard

COURSE NO : BM- 601 UNIT - III

SEMESTER - VI LESSON : 5-6

DOCUMENTS REQUIRED FOR EXPORTS, GOODS DECLARED UNDER FOREIGN EXCHANGE, TRANSPORTATION, CUSTOM CLEARANCE OF GOODS

STRUCTURE

3.1 INTRODUCTION

The Department of Commerce had set up an Inter Ministerial Committee under the Chairmanship of DGFT in July 2014 to study and recommend ways to reduce the number of mandatory documents required for export and import. Based on the recommendations of the report, the RBI has agreed to do away with the 'Foreign Exchange Control Form (SDF)' by incorporating the declaration in the 'Shipping Bill' (for exports) and dispensing with the 'Foreign Exchange Control Form (Form A-1)' (for imports). When a potential buyer expresses interest, they will send a **letter of inquiry** outlining the terms of their interest along with a request for an informal or formal quote. You can manually screen their name, their company name, and their address by checking each of the hundreds of lists published by the U.S. government. You would typically include a packing list, which provides the freight forwarder, carrier, and ultimate consignee with information about your shipment, the packing details, and the marks and numbers as noted on the outside of the boxes. In international trade, documentation and procedures play a significant role. Full knowledge and accurate compliance of procedures and documentation formalities are essential. Inadequate understanding of the various formalities results in delays; and prolonged correspondence, adversely affecting the business and cash flow, due to delays in realisation of export proceeds and other incentives.

3.2 OBJECTIVES

After completion of this lesson you shall be able to know:

- Method of preparing documents required for exports
- Documents required for declaration of goods under foreign exchange regulation
- Documents required for transportation of goods
- Documents required for custom clearance of goods

3.3 PREPARING DOCUMENTS FOR EXPORTS

India took a leap forward in improving 'Ease of Doing Business' today by reducing the mandatory documents required for import and export of goods to three documents each.

The Directorate General of Foreign Trade (DGFT) issued a Notification to this effect today (Notification Link below).

The Department of Commerce had set up an Inter Ministerial Committee under the Chairmanship of DGFT in July 2014 to study and recommend ways to reduce the number of mandatory documents required for export and import. The Committee held detailed discussions with all stakeholders and the concerned Departments/ Ministries/Agencies and also visited JNPT to study the ground situation and find ways to minimize the number of documents and reduce transaction costs and time for exports and imports. The Committee submitted its "Trading Across Borders" report to Prime Minister's Office in December 2014.

Based on the recommendations of the report, the RBI has agreed to do away with the 'Foreign Exchange Control Form (SDF)' by incorporating the declaration in the 'Shipping Bill' (for exports) and dispensing with the 'Foreign Exchange Control Form (Form A-1)' (for imports). Customs have also agreed to merge the 'Commercial Invoice' with the 'Packing List' and have issued a Circular for accepting 'Commercial Invoice cum Packing List' that incorporates the required details of both the documents. The exporters and importers, however, have the option of filing separate 'Commercial Invoice' and 'Packing List' also, if they so desire. Shipping Ministry has also agreed to do away with the requirement of 'Terminal Handling Receipt' and make the process online.

As a consequence, after issue of the DGFT's Notification dated 12-3-2015, only three documents each would be mandatory documents for export and import.

MANDATORY DOCUMENTS FOR EXPORT & IMPORT		
S.No.	**EXPORTS**	**IMPORTS**
1	Bill of Lading/ Airway Bill	Bill of Lading / Airway Bill.
2	Commercial Invoice cum Packing List	Commercial Invoice cum Packing List
3	Shipping Bill / Bill of Export	Bill of Entry

It may be recalled that India ranked 126 in 'Trading Across Borders" component of "Ease of Doing Business", out of 189 countries ranked by the World Bank, in its 2015 Report. The ranking methodology adopted by the World Bank for 'Trading Across Border' takes into account the number of mandatory documents required for export and import and the time and cost of exporting/importing a container out of/into the country. World Bank's 2015 Report listed 7 and 10 mandatory documents respectively for export and import from/to India.

MANDATORY DOCUMENTS LISTED BY WORLD BANK IN DOING BUSINESS REPORT 2015		
S.No.	**EXPORTS**	**IMPORTS**
1	Shipping Bill	Bill of Entry
2	Commercial Invoice	Commercial Invoice
3	Packing List	Packing List
4	Bill of Lading	Bill of Lading
5	Foreign Exchange Control Form (SDF)	Foreign Exchange Control Form (Form A-I)
6	Terminal Handling Receipt	Terminal Handling Receipt
7	Technical Standard Certificate	Certificate Engineer's Report
8	Commercial Invoice	Cargo Release Order
9	Packing List	Product manual
10	Bill of Lading	Inspection Report

As such, after issue of DGFT's Notification only three documents each would be mandatory for export and import as two documents (Packing List and Commercial Invoice) required by Customs have been merged into one document, whereas one document required by RBI (Foreign Exchange Control Forms - SDF for exports and A-1 for imports) and one document required by Ministry of Shipping (Terminal Handling Receipt) earlier, have now been dispensed with. 'Cargo Release Order' is not a mandatory document required by any regulatory agency, but is a commercial document issued by the Shipping line to the concerned importer. As regards, 'Technical Standard Certificate'/ 'Certified Engineer's Report', 'Product manual' and 'Inspection report', these documents are required in specific cases/products/tariff lines only and are not mandatory for all products.

The reduction in the number of mandatory documents would also lead to corresponding reduction in Transaction cost and time. It is expected that this step would not only facilitate the 'Ease of Doing Business' in respect of 'Trading across Borders' but also improve India's ranking on this parameter.

RC

Step 1: Receive an Inquiry

The first step in the shipping documentation process is when someone inquires about buying your products. When a potential buyer expresses interest, they will send a **letter of inquiry** outlining the terms of their interest along with a request for an informal or formal quote.

Step 2: Screen the Potential Buyer and Country

After you receive an inquiry from a buyer, you first need to make sure you can do business with them. You can manually screen their name, their company name, and their address by checking each of the hundreds of lists published by the U.S. government, or you can automate that process by using software like Shipping Solutions, which automatically checks against the latest version of all the lists.

If your buyer shows up on any of the lists, you cannot do business with them. If they do not show up, proceed with caution.

The screening step also includes making sure you can ship your goods to the buyer's country. In some cases you can ship only if you apply for an export license. It's best to complete the licensing process as early as you can to avoid causing delays in your timeline.

Step 3: Provide a Proforma Invoice

After screening your buyer and their country, you may need to provide the buyer with a **proforma invoice** for the transaction. The proforma invoice is the first impression you will make on your buyers, so make sure you do it right. It acts like a quote and looks like a commercial invoice, and it can be used to arrange financing for the purchase.

If the proforma invoice results in an order, the final commercial invoice will closely resemble the proforma invoice. That means all of the costs included in the quotation are firm and may not be varied beyond the terms outlined in the letter of credit.

Certain countries may require a proforma invoice if they tightly control their currency, require an import permit, or protect local industry by placing import quotas on certain types of goods. For a deep dive into the benefits and features of a proforma, check out *How Does the Proforma Invoice Fit in the Sales Process?*

Step 4: Finalize the Sale

After you send the proforma, the buyer will either reject or accept your proposal. As part of the acceptance process, they will most likely want to negotiate the terms of the sale. This will result in a verbal or written **salescontract**.

Not only should these negotiations include a discussion of the price to be paid, but they should also include a discussion of:

- The payment terms you'll be using, whether it's cash in advance, open account, or something in between.
- The term of sale you'll be using, which is typically one of the 11 Incoterms 2010.
- How your goods will be shipped.
- Who's responsible for shipping the goods.
- Who's responsible for hiring the freight forwarder or carrier.
- Who's responsible for filing through AES.
- How the transaction will be paid. If you're using a letter of credit, you need to make sure you have the necessary documents to satisfy its requirements.
- What documents need to be provided by which party. As the exporter, you'll need to meet whatever regulations your buyer may have in their own country as well as the documentation and regulation requirements of the U.S.

By taking care of all these important details *before* you ship any goods, you'll save a lot of time and avoid potential headaches—especially if you have specific deadlines to meet.

Once you've reached agreement on these points and any others you or your buyer wants to discuss, you'll receive the order, which may appear in the form of a **purchase order**.

Step 5: Prepare the Goods and the Shipping Documents

Commercial Invoice

Once you have finalized your sale and prepared your goods for export, you need to prepare the proper shipping documents. That typically includes three copies of the commercial invoice with these important data elements.

Packing List

In addition, you would typically include a packing list, which provides the freight forwarder, carrier, and ultimate consignee with information about your shipment, the packing details, and the marks and numbers as noted on the outside of the boxes.

A packing list is also a means by which customs authorities in the importing country assess security and compliance. And it is a required document to file a claim with the carrier or insurance company in the event of cargo damage or loss.

Certificate of Origin

While some countries will accept a statement of origin on the commercial invoice, the customs authorities of other countries may require a separate document titled a certificate of origin. The certificate of origin is documentary evidence that the goods originated in the country stated in the certificate, commercial invoice, or packing list.

Shipper's Letter of Instruction

Based on the discussions you had with your buyer in step four about the type of export and who is filing through AES, you may need to prepare a Shipper's Letter of Instruction (SLI). An SLI provides your company with a written record of who received the shipping documents, who to contact for questions, who to contact for proof of export, and who issued the export control information that was used to support the decision to export the goods.

Bills of Lading

You will need at least one—but you may need several—bills of lading to accompany your export. For example, you may need an inland bill of lading to move your goods to a port or airport. For moving goods out of the United States you will need a separate bill of lading, which is usually filled out by your freight forwarder. If necessary, you will also need to complete a dangerous goods form at this point.

Step 6: Run a Restricted Party Screening (Again)

Right before the goods ship for export, run one last restricted party screening to make sure nothing's changed on any denied or restricted party. If you use Shipping Solutions Restricted Party Screening Wizard to do this, your screenings will automatically be documented in the software, providing a paper trail evidence of your due diligence in the event of an audit.

Step 7: Miscellaneous Forms and Ship Your Goods

There may be other specific documents to prepare before you can export your goods. These may be identified in the sales contract you negotiated with your buyer, documents required under the terms of a letter of credit or other payment options, or forms requested by the freight forwarder. These additional documents may including a bank draft or, for a temporary export, an ATA carnet.

Once all your documents are accurately completed and you fulfilled the other steps of this export process, go ahead and ship your goods.

Development of Export Strategy

Identify products to sell.

If you have a product that is selling well in the United States, it's not unusual to attempt to sell that same product or products in other markets as well. After all, 95% of the world's consumers are located outside the U.S. And many areas of the world, like Asia, have a rapidly growing middle class.

But limiting your exporting to only your fastest selling products in the U.S. may be limiting your export potential. Products that may face growing competition in the U.S. or products that are becoming outdated in this country could find new life in other markets that don't have similar competition or need the very latest technology.

Identifying which products you end up exporting depends a great deal on the markets you wish to sell to, which leads to the section below.

Identify markets to sell to.

Before you can sell and export your products, you need to find people to buy them. Maybe you are already receiving inquiries from certain potential customers in certain countries. Maybe you've self-identified logical new markets for your goods.

In either case, you need to spend time learning about these potential new markets. This includes identifying the market potential, learning how to properly (and legally) export your products or services to that market, identifying sales channels, and more. Do your research to determine what kind of modifications you may need to make to your product for this market, what the import duty rates are, and whether or not their are any U.S. export restrictions.

Identify your strategy for selling.

You can sell directly to end users. If you choose to sell directly to end users, your company is responsible for all aspects of the transaction—shipping, payment, product servicing, etc.—unless you make other arrangements.

If you don't anticipate and include these costs upfront, you may end up with less profit than you were hoping for. *A Basic Guide to Exporting* has helpful information about planning for direct sales, as well as government agencies that can assist you.

You can sell to distributors who purchase goods from you (often at a discount) and resell them for a profit. When working with a foreign distributor, expect to have fewer responsibilities for support and service; the distributor will take care of these aspects, which can be challenging for new exporters. As mentioned above, the U.S. Commercial Service can help you find and select distributors who are reputable and advise you in beginning steps.

You can establish partnerships with local companies. Partners represent a step up from a distributor relationship. In this case, you may find an existing company in your intended foreign market that has a distribution and support system already in place. Partnering with such a company can make entering a new market easier and lessen the cost and pain of setting up infrastructure in another country.

Identify how you will support your products.

In addition to figuring out what you're selling, where you're selling it, and how you plan to sell, you're responsible for planning and implementing the care you provide after the sale. That includes determining how you will support your products—a critical factor if you want to be a successful exporter with a good reputation.

Identify any intellectual property concerns.

Intellectual property (IP) considerations are tricky. When you export, you don't get the benefit of rights granted in the U.S. by patents, trademarks, registrations, copyrights, et al. In a foreign country, these protections may mean little, if anything. Do your research beforehand to learn how intellectual property issues are handled in the country or countries you will be exporting to.

Decide how to price your products.

Pricing is one of the most difficult challenges for exporters, even experienced ones. According to *A Basic Guide to Exporting,* considering the 10 questions below will help ensure you're setting the best price for your product.

3.4 DOCUMENTS REQUIRED FOR DECLARATION OF GOODS UNDER FOREIGN EXCHANGE REGULATION

Introduction

In international trade, documentation and procedures play a significant role. Full knowledge and accurate compliance of procedures and documentation formalities are essential. Inadequate understanding of the various formalities results in delays; and prolonged correspondence, adversely affecting the business and cash flow, due to delays in realisation of export proceeds and other incentives. Without prompt money flow, the trade will face total blow.

Peculiar Nature

The movement of goods in international trade is associated with a number of documents. The number of documents and related procedures have multiplied over time making international trade complex and cumbersome. The essentials of documentation arise primarily due to certain peculiarities of international trade and its transactions. It is not like the domestic trade. The buyers and sellers are separated by long distance in overseas trade transactions. This necessitates entering into a formal contract laying down duties and responsibilities of buyers and sellers respectively. Otherwise, there will be a lot of confusion and dispute. Further, some intermediation becomes inevitable.

Intermediaries

No international trade transactions can be completed without the assistance of at least three intermediaries.

A carrier who undertakes to deliver the goods to the buyer on behalf of seller. An insurance company that covers the risks arising out of hazards of long voyage and a banker who collects the sale proceeds from the buyer and hands over the same to the exporter

There are other intermediaries involved in foreign trade

- Freight forwarders
- Freight brokers

- Chambers of commerce

Documentation and connected formalities become necessary to ensure compliance of contract obligations of the concerned parties such as the exporter, importer and intermediaries. International trade is regulated everywhere. In India, several documents have been prescribed for proper export trade control, Foreign Exchange Regulations, Quality Control and Pre-shipment Inspection, Central Excise etc.

Major Documents of Export

The export documents can be classified into three major categories:

A. Principal Documents,

B. Auxiliary Documents,

C. Documents for claiming Export Assistance,

A. PRINCIPAL DOCUMENTS

The documents which are used all over the world by the exporters and form the essential link in foreign trade between the exporter and the importer and are used to control payment, title and transportation are *called principal documents.* It may also include certain documents which are required under Foreign Exchange Management Act. The documents classified under principal documents for exports are given below:

I. Export Invoice.

II. Bill of Lading

III. Bill of Exchange

IV. GR/PP/VPP/COD forms

B. AUXILIARY DOCUMENTS

The documents which are required in any shipment or for that matter used in the preparation of the principal documents are called auxiliary documents. These include documentary Letter of Credit (LC), Certificate of Measurement. Certificate of Origin, Packing list, etc.

C. DOCUMENTS FOR CLAIMING EXPORT ASSISTANCE

In order to claim Export Assistance, the exporter has to complete certain formalities as per the procedure laid down and furnish required information in various forms and documents prescribed by the Government. Export Promotion Council, etc. for claiming export assistance. The necessary documents required for submission for claiming export assistance are discussed in the ensuing paragraphs.

I. Application for Registration

Registered exporters are required to register themselves with appropriate registering *authority such as Export Promotion Councils, Commodity Boards and Chief Coritroller of imports and Exports* for availing the benefit of export assistance. The application for registration should be accompanied by a certificate from the exporter. banker in regard to his financial soundness. If the firm is having branches, the application for registration should be made only by the Head Offices. The registration authority shall, if satisfied, issue a **certificate of registration** to the exporter.

II. Import Licence for Raw Materials Intermediates Including Components and Spares

III. Cash Assistance On Selected Export Products

IV. General Surety For Executing Bond (Form B-1)

V. AR-4 Form

VI. Drawback Bill

VII. Transport Assistance

3.5 DOCUMENTS FOR TRANSPORTATION OF GOODS

The Statutory Control

Section 7 of the Foreign Exchange Management Act lays down the statutory control concerning exports. Under the provision of this section, the bank has issued Foreign Exchange Management (Export of Goods & Services) Regulations w.e.f. 1.6.2000.

Under Regulation 3 every exporter of goods or software in physical form or through any other form, either directly or indirectly, to any place outside your country other than Nepal and Bhutan shall furnish to the specified authority a declaration in prescribed form and supported by such evidence as may be specified.

Export of goods or services may be made without furnishing the declaration in the following cases,namely…..

1. Trade samples of goods and publicity material supplied free of payment

2. Personal effects of travelers whether accompanied or unaccompanied

3. Ship's stores, transshipment cargo and goods supplied under the orders of Central Government or of such officers as may be appointed by the Central Government in this behalf or of the military, naval or air force authorities for military, naval or air force requirements

4. Goods or software accompanied by a declaration by the exporter that they are not more than twenty-five thousand rupees in value

5. By way of gift of goods accompanied by a declaration by the exporter that they are not more than one lakhs rupees in value

6. Aircrafts or aircraft engines and spare parts for overhauling and/or repairs abroad subject to their re-import after overhauling, repairs, within a period of six months from the date of their export

7. Goods imported free of cost on re-export basis

8. Goods not exceeding U.S. $ 1000 or its equivalent in value per transaction exported to Myanmar under the Barter Trade Agreement between the Central Government and the Government of Myanmar

9. The following goods which are permitted by the Development Commissioner of the Export Processing Zones, Electronic Hardware Technology Parks, Electronic Software Technology Parks or Free Trade Zones to be re-exported namely….

a) Imported good found defective, for the purpose of their replacement by the foreign suppliers/collaborators

b) Goods imported from foreign suppliers/collaborators on loan basis

c) Goods imported from foreign suppliers/collaborators free or cost found surplus after production operations

d) Goods listed above to be re-exported by units in Special Economic Zones, under intimation to the Development Commissioner of Special Economic Zones/concerned Assistant Commissioner or Deputy Commissioner of Customs

10. Replacement goods exported free or charge in accordance with the provisions or Exim Policy in force, for the time being

11. Goods sent outside for testing subject to re-import into

12. Defective goods sent outside for repair and re-import provided the goods are accompanied by a certificate from an authorised dealer that the export is for repair and re-import and that the export does not involve any transaction in foreign exchange

13. Exports permitted by the Reserve Bank on application made to it, subject to the terms and conditions, if any, as stipulated in the permission

DeclarationForms

All exports to which the requirement or declaration applies must be declared on appropriate forms as indicated below.

GR Form : To be completed in duplicate for exports otherwise than by post including export of software in physical form i.e., magnetic tape/discs and paper media

SDF FORM : To be completed in duplicate and appended to the Shipping Bill for exports declared to customs offices notified by the Central Government which have introduced EDI system for processing shipping bill

PP FORM : To be completed in duplicate for export by post

SOFTEX : To be completed in triplicate for export of software otherwise than in physical form i.e., magnetic tapes/ discs and paper media

It may be noted that under the new Regulations form VP/COD has been dispensed with.

GR/PP forms are printed in distinctive colour and each set bears a printed number which appears on both copies of the form. They are available for sale with Bank. However, exporters can get these forms through authorised dealers also.

Export declaration forms have utmost importance and are binding on the exporter. It is, therefore, necessary that enough care is taken while declaring exports on these forms with special reference on the following points.

(i) Name and address of authorised dealer through whom proceeds of exports have been or will be realised should be specified in the relevant column of the form.

(ii) Details of commission and discount due to foreign agent or buyer should be correctly declared otherwise difficulties may arise at the time of remittance of such commission.

(iii) It should be clearly indicated in the form whether the export is on outright sale basis or on consignment basis and irrelevant clauses must be struck out.

(iv) Under the item Analysis of full export value, a break up of the full export value of goods under f.o.b. value, freight and insurance should be furnished in all cases, irrespective of the terms of contract.

(v) All documents relating to export of goods must pass through the medium of an authorised dealer in foreign exchange within 21 days of shipment.

(vi) The amount representing the full export value of goods must be realised within six months from date of shipment.

Disposal of Copies of Export Documentation Form

GR forms covering export of goods other than jewellery should be completed by the exporter in duplicate and both the copies should be submitted to Customs at the port of shipment. Customs will give their running serial number on both the copies of the GR forms after verifying the particulars and admitting the corresponding shipping bill. The value declared by exporter will also be verified by Customs and they will also record the assessed value. Duplicate copy will be returned to exporter and original will be retained by Customs for onward submission to Bank. Duplicate copy of GR form will again be presented to Customs at the time of actual shipment. After examination of goods and certifying the quantity passed for shipment, the duplicate copy will again be returned to exporter for submission to an authorised dealer.

However, an exception to submission of GR forms to the Customs authorities has been made in case of deep sea fishing.

PP forms are to be first presented to an authorised dealer for countersignature. The form will be countersigned by the authorised dealer only if the post parcel is addressed to his branch or correspondent bank in the country of import. The concerned overseas branch or correspondent is to be instructed to deliver the post parcel against payment or acceptance of relevant bill, as the case may be.

For post parcel addressed directly to the consignee, the authorised dealer will countersign the form, provided ….(a) an irrevocable letter of credit for the full value of export has been opened in favour of exporter and has been advised through authorised dealer concerned (b) the full value of the shipment has been received in advance by the exporter through an authorised dealer. (c) On receipt of full export value of shipment declared on this form the authorised dealer will forward to RBI the duplicate copy along with a certified copy of shipper’s invoice (d) The authorised dealer is satisfied on the basis of standing and track record of the exporter and arrangements made for realisation of the export proceed that he could do so. If the authorised dealer is not satisfied about the standing etc…. of the exporter, the application is rejected. No reference is entertained by the Bank in such cases.

The original PP form after countersignature will be returned to exporter by the authorised dealer and the duplicate will be retained by him. Original PP form should then be submitted to post office along with the parcel. The post office through which the goods have been dispatched will forward the original to RBI.

The export of computer software may be undertaken in physical form i.e. software prepared on magnetic tape and paper media as well as in non-physical form by direct data transmission through dedicated earth stations/satellite links. The export of computer software in physical form is subject to normal declaration on GRJPP form and regulations applicable thereto will also be applicable to such exports. However, export of software in non-physical form should be declared on SOFTEX Form. Besides computer software, export of Video/TV Software and all other types of software products/packages should also be declared on the SOFTEX Forms. Since export of software is fraught with many risks and special guidelines have been framed for handling such exports.

The export process is encumbered by the amount of documentation the exporter faces around every turn. These documents can be broken down into four groups; (1) those required by the importer (and for customs clearing in the target market), (2) those required to export the goods from South Africa, (3) those required for payment and (4) those required to transport the goods (i.e. the transport documents). In many instances, the documents may be the same (for example, the commercial invoice may be required in more than one instance as may the bill of lading/airway bill). In this section, we deal with the documents required to transportation of goods. They include:

Bill of lading - in the case of sea freight

Air waybill - in the case of air freight

Freight transit order - in the case of rail freight

Road consignment note - in the case of road freight

Export cargo shipping instruction ECSI

The detailed explanation of these documents are given below:

Bill of lading: A BOL is one of the oldest and most common forms of transportation documents in use today. It is a document that establishes the terms of a contract between a shipping company (or its agent) and the exporter/shipper (or agent, such as a freight forwarder). Within this contract, it is agreed that freight is to be moved between specified points for a specified charge.

[In the world of export documentation, the term commonly used to describe the individual or firm that contracts the transportation company to send goods to a foreign destination - generally the exporter - is referred as the "shipper", even in the case of air freight]

Further, The BOL is normally completed by the exporter on forms issued by the shipping carrier. The BOL serves as a document of title, a contract of carriage, and a receipt for goods. The BOL also describes the kind and quantity of goods being shipped (such as the number of packages, the weight and consignment dimensions), the shipper (or exporter), the consignee (the person or firm to whom the goods are being shipped), the ports of loading and discharge, and the carrying vessel.

As the BOL serves as a freight receipt, it will indicate if the freight costs of have been prepaid or are to be paid by the consignee (referred to as "freight collect"). Neither the form nor the usage of the BOL is standardised at present. With the development of containerisation and the use of different means of transport (land and sea) under one contract of carriage, the traditional marine or ocean BOL is being used less often in international trade. Goods cannot be released at the port of discharge until the consignee or their agent produces the original BOL

BOLs may come in both short and long forms. The short form simply refers to the main contract as an existing document, whereas the long form (connaissement intégral) issued by the carrier sets out all the terms of the contract of carriage.

Air waybill

Air waybills (AWB) are a form of BOL and are used for both domestic and international flights. An AWB (also referred to as air consignment note or airway bill of lading) refers to a documentary receipt issued by a carrier (i.e. airline) in favour of a shipper for goods received and is evidence of the contract of carriage to carry the goods to a specified airport under specified conditions, but it is not a document of title to the goods. Hence, the AWB is non-negotiable. It is usually the shipper - the exporter - (or their agent) that completes the AWB. It serves as:

- Proof of receipt of the goods for shipment
- Evidence of the contract of carriage

- An invoice for the freight, reflecting the shipper, the consignee and the goods being shipped, as well as the full freight amount
- A certificate of insurance (if carriers insurance is requested by the shipper)
- A guide to airline staff for the handling, dispatch and delivery of the consignment
- A means of clearing the goods through customs

Usually, the AWB consists of three originals and nine copies. The first original is intended for the carrier (airline) and is signed by the exporter (or agent); the second original – the consignee's copy – is also signed by the exporter (or agent) and accompanies the goods; the third original is signed by the carrier and is handed to the exporter (or agent) as a receipt for the goods after they have been accepted for carriage.

The AWB must be accompanied by the commercial invoice, packing list, certificate of orgigin and any other document which may be necessary to clear the goods through customs (such as any health certificates, etc.). AWBs have tracking numbers which can be used to check the status of delivery and current position of the goods being transported.

Freight Transit Order (FTO)

A Freight Transit Order (FTO) is a form of inland BOL used in South Africa and required by Spoornet, the primary rail operator in the country.

Transport documents and special Instructions

Spoornet has the following to say about transport documents:

- Spoornet shall only accept goods into its care if it has been timorously furnished with fully completed transport documents, or the relevant Electronic Data Interchange information, by the consignor (e.g. exporter) who warrants that all information reflected on the transport documents is accurate in all respects, and especially for Customs and Consular purposes.
- The consignor shall indemnify Spoornet and hold it harmless against all losses, damages, expenses and fines arising from any inaccuracy or omission made by the Consignor in the transport documents.

- Wherever it is necessary, for the purpose of these conditions or any other purpose whatever, for special instructions such as stoppage or diversion of goods to be given to Spoornet, such instructions shall only be recognised by Spoornet as valid if they are timeously given and agreed to by Spoornet.
- In addition, in order to render such special instructions valid, they shall either be given in writing by the consignor or, if owing to the urgency of the situation it is not practicable to give same in writing, they may be given orally and thereafter confirmed in writing as soon as reasonably practicable.

Road consignment note

A road consignment note (also referred to as a road transport document, a road waybill or a road manifest) is a form of inland BOL used in South Africa, although, as road consignment notes can cover cargo moving across borders, it is also a form of through BOL. As road haulage is driven by a large number of private road haulers, you may come across many different types of road consignment notes, although there is a tendency to follow the typical BOL used in the case of ocean shipping (i.e. there is still a consignee, a shipper, a description of the goods, etc.). The road consignment note is also:

- Proof of receipt of the goods for trasnportation by road
- Evidence of the contract of carriage
- An invoice for the freight, reflecting the shipper, the consignee and the goods being shipped, as well as the full freight amount
- A guide to the road hauler for the handling, dispatch and delivery of the consignment
- A means of clearing the goods through customs

To clear the goods through customs, the road consignment note will need to be accompanied by a commercial invoice, a packing list and any other documentation relevant for clearing puurposes (such as phytosanitary documents, etc.)

Export Cargo Shipping Instruction (ECSI)

The Export Cargo Shipping Instruction (ECSI) is the written instruction from the exporter to the freight forwarder or carrier (shipping line, airline, road hauler, etc.) for them to facilitate the movement goods to the desired destination. It contains information on the goods and the route to their destination, any transport requirements, customs information, who is to receive what documents and how costs are to be allocated. It is extremely important that the information provided in the ECSI is accurate. Most freight forwarders and transportation companies have standard documents that exporters can complete. The document provided will capture all of the necessary information to enable the freight forwarder or transport company to execute their obligations.

3.6 DOCUMENTS FOR CUSTOM CLEARANCE OF GOODS

There may have bilateral import export agreements between governments of different countries. Imports and exports from such countries may have exemptions on documentation for export and import clearance. However there are legal documents, common documents and specific documents on commodity basis required to complete import customs procedures.

Bill of Entry:

Bill of entry is one of the major import document for import customs clearance. As explained previously, Bill of Entry is the legal document to be filed by CHA or Importer duly signed. Bill of Entry is one of the indicators of 'total outward remittance of country' regulated by Reserve Bank and Customs department. Bill of entry must be filed within thirty days of arrival of goods at a customs location. Once after filing bill of entry along with necessary import customs clearance documents, assessment and examination of goods are carried out by concerned customs official. After completion of import customs formalities, a 'pass out order' is issued under such bill of entry. Once an importer or his authorized customs house agent obtains 'pass out order' from concerned customs official, the imported

Commercial Invoice.

Invoice is the prime document in any business transactions. Invoice is one of the documents required for import customs clearance for value appraisal by concerned customs official.

Assessable value is calculated on the basis of terms of delivery of goods mentioned in commercial invoice produced by importer at customs location. I have explained about the method of calculation of assessable value in another article in same web blog. The concerned appraising officer verifies the value mentioned in commercial invoice matches with the actual market value of same goods. This method of inspection by appraising officer of customs prevents fraudulent activities of importer or exporter by over invoicing or under invoicing. So Invoice plays a pivotal role in value assessment in import customs clearance procedures.

Bill of Lading / Airway bill:

Bill of lading under sea shipment or Airway bill under air shipment is carrier's document required to be submitted with customs for import customs clearance purpose. Bill of lading or Airway bill issued by carrier provides the details of cargo with terms of delivery. I have discussed in detail about Bill of Lading and Airway bill separately in this website. You can go through those articles to have a deep knowledge about documents required for import customs clearance.

Import License

License may be mandatory for importing specific goods as per guide lines provided by government. Import of such specific products may have been being regulated by government time to time. So government insist an import license as one of the documents required for import customs clearance to bring those materials from foreign countries.

Insurance certificate

Insurance certificate is one of the documents required for import customs clearance procedures. Insurance certificate is a supporting document against importer's declaration on terms of delivery. Insurance certificate under import shipment helps customs authorities to verify, whether selling price includes insurance or not. This is required to find assessable value which determines import duty amount.

Purchase order/Letter of Credit

Purchase order is one of the documents required for import customs clearance. A purchase order reflects almost all terms and conditions of sale contract which enables the customs official to confirm on value assessment. If an import consignment is under letter of credit basis, the importer can submit a copy of Letter of Credit along with the documents for import clearance.

Technical write up, literature etc. for specific goods if any

Technical write up, literature of imported goods or any other similar documents may be required as one of the documents for import clearance under some specific goods. For example, if a machinery is imported, a technical write up or literature explaining it's function can be attached along with importing documents. This document helps customs official to derive exact market value of such imported machinery in turn helps for value assessment.

Industrial License if any

An industrial license copy may be required under specific goods importing. If Importer claims any import benefit as per guidelines of government, such Industrial License can be produced to avail the benefit. In such case, Industrial license copy can be submitted with customs authorities as one of the import clearance documents.

3.7 OTHER DOCUMENTS

3.7.1 COMMERCIAL INVOICE

The commercial invoice is a record or evidence of the transaction between the exporter and the importer. Once the goods are available, the exporter issues a commercial invoice to the importer in order to charge him for the goods.

The commercial invoice contains the basic information on the transaction and it is always required for customs clearance.

Although some entries specific to the export-import trade are added, it is similar to an ordinary sales invoice. The minimum data generally included are the following:

- Information on the exporter and the importer (name and address)
- Date of issue

- Invoice number
- Description of the goods (name, quality, etc.)
- Unit of measure
- Quantity of goods
- Quantity of goods
- Unit value
- Total item value
- Total invoice value and currency of payment. The equivalent amount must be indicated in a currency freely convertible to Euro or other legal tender in the importing Member State
- The terms of payment (method and date of payment, discounts, etc.)
- The terms of delivery according to the appropriate Incoterm
- Means of transport

No specific form is required. The commercial invoice is to be prepared by the exporter according to standard business practice and it must be submitted in the original along with at least one copy. In general, there is no need for the invoice to be signed. In practice, both the original and the copy of the commercial invoice are often signed. The commercial invoice may be prepared in any language. However, a translation into English is recommended.

When used in foreign trade, a **commercial invoice** is a customs document. It is used as a customs declaration provided by the person or corporation that is exporting an item across international borders. Although there is no standard format, the document must include a few specific pieces of information such as the parties involved in the shipping transaction, the goods being transported, the country of manufacture, and the Harmonized System codes for those goods. A commercial invoice must often include a statement certifying that the invoice is true, and a signature.

A commercial invoice is used to calculate tariffs, international commercial terms (like the Cost in a CIF) and is commonly used for customs purposes.

Commercial invoices in European countries are not normally for payment. The definitive **invoice** for payment usually has only the words "invoice". This invoice can also be used as a commercial invoice if additional information is disclosed.

A sample commercial invoice format

COMMERCIAL INVOICE						
SENDER: AUTO PARTS FEE WAREHOUSE 7634 KIMBEL STREET UNIT 1-9 MISSISSAUGA, ON L5S-1M6 Phone: 905.677.0996 Fax: 999-999-9999 Tax ID/VAT/EIN# nnnnnnnnnn			RECIPIENT: XYZ Company 3 Able End There, Shropshire, UK Phone:99-99-9999			
Invoice Date: 12 December 2007			Invoice Number: 0256982			
Carrier tracking number: 526555598			Sender's Reference: 5555555			
Carrier: GHI Transport Company			Recipient's Reference: 5555555			
Quantity	Country of Origin	Description of Contents	Harmonized Code	Unit Weight	Unit Value	Subtotal (USD)
1,000	United States of America	Widgets	999999	2	10.00	10,000
Total Net Weight (lbs):	2,000	Total Declared Value (USD):	10,000			
Total Gross Weight (lbs):	2,050	Freight and Insurance Charges (USD):	300.00			

Total Shipment Pieces:	1,000	Other Charges (USD):	30.00
Currency Code:	USD	Total Invoice Amount (USD):	10,000
Type of Export: Permanent			Terms of Trade: Delivery Duty Unpaid
Reason for Export: *stated reason*			
General Notes: *notes and comments*			
The exporter of the products covered by this document - *customs authorization number* - declares that, except where otherwise clearly indicated, these products are of United States Of America preferential origin. I/We hereby certify that the information on this invoice is true and correct and that the contents of this shipment are as stated above. Name, Position in exporting company, company stamp, signature			

The commercial invoice is a legal document between the supplier and the customer that clearly describes' the sold goods, and the amount due on the customer. The commercial invoice is one of the main documents used by customs in determining customs duties. Invoice Information Refers to the information regarding the commercial invoice number: The supplier invoice reference number Invoice Date:

The commercial invoice is a record or evidence of the transaction between the exporter and the importer. Once the goods are available, the exporter issues a commercial invoice to the importer in order to charge him for the goods. The commercial invoice contains the basic information on the transaction and it is always required for customs clearance. No specific form is required. The commercial invoice is to be prepared by the exporter according to standard business practice and it must be submitted in the original along with at least one copy. In general, there is no need for the invoice to be signed. In practice, both the original and the copy of the commercial invoice are often signed. The commercial invoice may be prepared in any language.

3.7.2 CONSULAR INVOICE

A consular invoice is a document certifying a shipment of goods and shows information such as the consignor, consignee and value of the shipment. Generally, a consular invoice can be obtained through a consular representative of the country you're shipping to and must be certified by the consul of the country of destination, who will stamp and authorize the invoice. The consular invoice is required by some countries to facilitate customs and collection of taxes. The process of submitting and authorizing a consular invoice is called consularization and it can help speed up the process of importing goods into a new country. Some of the countries that require a consular invoice include Latin American countries, Kenya, Uganda, Tanzania, Mauritius, New Zealand, Myanmar, Iraq, Australia, Fiji, Cyprus, Nigeria, Ghana, Guinea and Zanzibar.

A consular invoice also has a copy of the commercial invoice in the language of the country, giving full details of the merchandise shipped. In general, the purpose is to provide the foreign customs authority with a complete, detailed description of the goods so that the correct import duty can be levied. Additionally, the export price of the goods may be evaluated against current market price in the exporter's country to avoid the process of dumping from taking place.

Example of a Consular Invoice

A consular invoice contains information about the product, its destination and the declared value of the product. You can expect the invoice to list:

- Date
- Exporter
- Port of destination
- Port of loading

- Description of goods
- Carrier
- Amount of charges
- Value of shipment
- Marks and numbers
- Name of certifier

In order to complete the consularization process, the company or individual seeking to export the goods must file the paperwork and pay any associated fees for processing. Once the paperwork has been processed, the exporter is given a copy of the invoice and the second copy is filed with the customs office.

3.7.3 CUSTOMS INVOICE

Custom invoice is a formal document used to clear goods through customs in the importing country by providing pertinent shipment information including but not limited to country of origin, description and value.

An invoice for commercial export that customs needs. It has the description, quantity, selling price, freight, insurance, and packing cost. The delivery terms and payment are also listed. It is how customs controls imports and exports.

Customs authorities exist to regulate the flow of goods across any given border. Each country has its own independent customs authority with its own processes and regulations. **Customs clearance is mandatory for any parcel going to or from a non-EU country.**

In order for a parcel to clear customs, the sender must attach a customs invoice to the parcel, these are also known as commercial invoices and shipping invoices.

What is a Customs Invoice?

A customs invoice is a document that travels with your parcel, and contains information about the items inside your parcel. The customs invoice is required for customs clearance, and your shipment can't leave the country without one. If you are sending a parcel to a country outside of the EU, you must fill out a customs invoice which specifically details every item you are exporting.

Most of us have flown into another country and had our bags searched as we pass through security at both the source and destination airports. With parcels, a similar procedure is carried out.

It is worth noting that documents are the only items that do not need a customs invoice when they are shipped to or from the EU. However, shipments weighing more than 2.5kg in weight will be cleared as goods and will require customs clearance, and a customs invoice to be created.

Import Procedure and Documentation

A customs invoice is vital, as without it your parcel will not be exported by any courier. We cover everything you need to know about filling out your customs invoice below. Before your package is even collected by the courier, all the data you entered on your invoice will be sent to the courier's pre-clearance team who send the data on to the country you are shipping the goods to. Once the destination country has accepted the data, the courier can load the shipments on the flights and begin to export them.

This is called pre-clearance and is a necessary part of import procedure.

Once your parcel has been loaded into the plane (presuming it is being shipped via air), it will then make its way to the destination country you have chosen. Once it arrives to the port at the other side, all the cargo will be unloaded and will make its way to the customs authority for customs clearance.

Your courier has an agreement with the customs authority in the nation you are shipping to. This means that they are trusted to follow the customs procedures, and must adhere to the import rules and regulations. It is crucial that this kind of relationship exists between the courier and the customs authority as it speeds up what would otherwise be a lengthy process.

Before you begin the process of creating an invoice, make sure that you have access to all the above customs invoice requirements. Customs officials use the information you provide on the invoice to assess whether additional import documents are required for clearance, for example if your items are restricted or of a high value. They also use the information to decide whether your goods will attract import duty and tax and if so, how much the duty and tax will be.

3.7.4 CERTIFIED INVOICE

A certified commercial invoice is a commercial document, which is issued by the beneficiary of the letter of credit and certified by the chamber of commerce. Legalized invoice, in addition to chamber of commerce certification, contains a signature and stamp of an embassy.

Function of a certified commercial invoice or legalized invoice

Certified and legalized invoices inherited from the 1970s and 1980s, where most underdeveloped countries had been implementing high custom duties on imported goods in order to protect their domestic manufacturers.

Later on almost all of these countries, which had been employing import substitution strategy, shifted their directions towards open economic policies with significantly reduced custom tariffs. By doing that the need for the certified or legalized invoices have been reduced considerably. But these kind of documents generates revenue for the embassies and chambers of commerce.

As a result even today some countries still demand certified invoices or legalized invoices.

Information a certified invoice or legalized invoice should contain

A certified or legalized invoice should contain all details that a standard commercial invoice normally indicates, but in addition to this information a certified invoice should also contain the signature and stamp from the respected chamber of commerce. If you get the certified invoice signed and stamped by a respected embassy, then you will be having a legalized invoice.

Standard commercial Invoice

- Name and address of consignor (seller, supplier company, exporter company)
- Name and address of the consignee (buyer, importer company)
- Description of goods, quantity , net weights, gross weights,
- Shipping marks and numbers,
- Origin of goods
- Trade terms (FOB Hamburg Port, Germany Inco terms 2010, CIF Los Angeles Port, USA Inco terms 2010 etc.)
- Unit price, total amount, discounts or rebates,
- Freight cost and insurance cost if available (in case of CFR, CPT, CIF or CIP shipments)
- Name of the vessel, voyage number and date of shipment.
- If shipment is insured by the buyer shipper must note this fact on the invoice.
- The invoice should also contain a statement that the products being shipped are of **(xyz country)** origin and that they are manufactured in the **(xyz country)**.
- If the products contain any foreign components then- besides the full name and address of domestic manufacturer the full names and addresses or all the manufactures involved must be given.

Certified commercial Invoice

- Certified commercial invoice usually bears the signature and stamp of the local chamber of commerce. In some cases, letter of credit may indicate that the certificate of origin must be certified by a special chamber of commerce such as one of the Arab Chambers of Commerce resident in the exporting country.

Legalized commercial Invoice

- Generally three copies of the standard commercial invoice will be required during the import clearence of the goods. In most cases, one original copy of the commercial invoice needs to be legalized according to letter of credit conditions.
- Exporters have to make sure that the content of the standard invoice is correct and complete as indicated above. (Please keep in mind that invoice content for legalization may change from one country to another. Double check the invoice content with the respected embassy before submission)
- A responsible member of the exporting company should sign a statement that the invoice is true and correct and contains the correct origin of the goods. (if required)
- The invoice must be legalized with a signature and stamp by the Consular Section at the Embassy .

3.7.5 WEIGHT NOTE

A document that lists the gross weight of packages, crates, etc. containing goods or commodities issued by the supplier to the buyer is known as weight note. It is also known a document that shows the weight of goods when they are removed from a ship or aircraft

3.7.6 BILL OF EXCHANGE

It is defined as –an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to which it is addressed to pay on demand or at a fixed or determinable future time a sum of money, to or to the order of a specified person, or to bearer

Types

The bill is called a sight draft if it is made out payable at sight i.e. on demand. If it is payable „at a fixed or determinable future time it is called term draft or usance draft because the buyer is receiving a period of credit, known as the tenor of the bill. The buyer signifies an agreement to pay on The due date by writing an acceptance across the face of the bill. The specimen Bill of Exchange is shown below the name and the address of the exporter should be given at the top of the bill exporter should be given at the top of the bill.

Foreign Bill of Exchange
Specimen
(Name and Address of Exporter in India)

No. Pondicherry,

Amount

On Demand / At ....days sight please pay to the order

of ....the sum of ....

(Name of exporter's bank) (Amount in words)

against our Invoice No. ....dated ....ex...............

(Name of ship)

.........................under Indent No. ....dated ....of ....

(Name of foreign Importer)

To

(Name and address of importer) (Seal)

Signature of drawer

Parties

There are three parties to a Bill Exchange. They are:

The Drawer (Exporter) (Seller): The person who executes the Bill of Exchange, therefore, the person to whom payment is due.

The Drawee (Importer) (Buyer): The person on whom the bill of exchange is drawn and who is required to meet the terms of the document. **The Payee:** The payee is the party who receives payment.

It may be noted that the words *bill* and *draft* are used to mean the Bill of Exchange.

3.7.7 PACKING LIST

Packing List Packing list should contain, item by item, the contents of cases or containers of a shipment, with its weight and description set forth in such a manner as to permit checks of the contents by the customs on arrival at the port of destination and by the recipient. The packing list must be made in accordance with the instructions of the customer.

No. **456231**

CERTIFICATE OF ORIGIN

SPECIMEN

Marks	No.	Package	Quality or Weight	Description of goods	Value (in Rs.)

I/We hereby declare that the above goods were produced in India

____________________ state and are sent to ____________________ from

______________________________ ON OR ABOUT the ____________

________________________ Address of shipper:

____

____

Shipper ____________________

(Signature)

I, the undersigned, Secretary of the Pondicherry Chamber of Commerce, hereby certify that the above declaration was made by ____________________

____________________ of ____________________________________

____

Pondicherry, the ____________________ 2001.

Secretary

Pondicherry Chamber of Commerce

3.7.8 MANUFACTURING CERTIFICATE

Manufacturer's Certificate Some countries require a certificate from the manufacture himself stating that the goods export by him are manufactured in India and the manufacture of such goods does not contain the raw material or components imported in India from other country or manufactured in third country

3.7.9 CERTIFICATE OF SHIPMENT

Certificate of shipment are needed for different purposes:

Certificate of Analysis:

A certificate of analysis can be required for seeds, grain, health foods, dietary supplements, fruits and vegetables, and pharmaceutical products.

Certificate of Free Sale

Certificate of free sale may be issued for biologics, food, drugs, medical devices and veterinary medicine. More information is available from the Food and Drug Administration. Health authorities in some states as well as some trade associations also issue Certificates of Free Sale.

Dangerous Goods Certificate

Exports submitted for handling by air carriers and air freight forwarders classified as dangerous goods need to be accompanied by the Shipper's Declaration for Dangerous Goods required by the International Air Transport Association (IATA). The exporter is responsible for accuracy of the form and ensuring that requirements related to packaging, marking, and other required information by IATA have been met.

For shipment of dangerous goods it is critical to identify goods by proper name, comply with packaging and labeling requirements, which vary depending upon the type of product shipper and the country shipped to.

Insurance Certificate

Insurance certificates are used to assure the consignee that insurance will cover the loss of or damage to the cargo during transit. These can be obtained from your freight forwarder or publishing house. Note: an airway bill can serve as an insurance certificate for a shipment by air.

3.7.10 ANTIQUITY CERTIFICATE

This certificate is issued by the Archaeological Survey of India in the case of exports of antiques.

3.7.11 SHIPMENT ADVICE

A shipment Advice is used to inform the overseas customer about the shipment of goods. There is no particular form of shipping advice. The exporter only advises his importer about the invoice number, Bill of Lading/Airway Bill Number and date, name of the vessel with date, the port of export, description of goods and quantity and the date of sailing of the vessel. Shipping Bill Shipping Bill is an important document required by the Customs Authorities for allowing shipment. It is prepared by the exporter and it contains the name of vessel, master or agents, flag, port at which goods are to be discharged. Country of final destination, exporter‘s name and address, detail about packages, numbers and description of goods, marks and numbers, quantity, details in the Sea Customs Act, whether Indian or Foreign merchandise to be re-exported, total number of packages with total weight and value and the name and address of the importer.

3.7.12 Freight Declaration

Freight declaration is required to be attached to the export documents, if the importer agrees to pay freight charges. When the exporter pays freight, he also should submit the same declaration.

3.7.13 Health certificate

Health certificate is required for exports of food products, seeds, animal‘s meat products etc. The Health Department of exporting country issues this certificate.

3.7.14 Certificate of Value

Though the value is indicated in Commercial invoice. Some countries need Certificate of Value separately.

3.7.15 Bank Certificate of Export and Realisation

After shipment, the exporter should get his exports certified by an authorized dealer in foreign exchange in the prescribed form namely 'Bank Certificate of Export and Realisation'

3.8 SUMMARY

Traditionally, determining proper pricing depends on costs, market demand, and competition. You'll also want to consider additional costs the importer will incur, including tariffs, customs fees, currency fluctuation, transaction costs, and value-added taxes, because they can add to the final price substantially and may even double the U.S. domestic price of your good. Another aspect of pricing is the initial export transaction, which begins with the receipt of an inquiry form followed by a request for a quotation. You'll prepare a proforma invoice to describe your product, set a price, set timetables, and specify terms of sale and terms of payment.

To ensure the timely movement of your goods, it's important that you accurately complete a set of export documents. These documents will make sure the people transporting your goods know where they are going. The forms will help you clear your goods through customs in a timely manner and without unexpected fees, and they will make sure you get paid on time. The following export forms are commonly used to successfully complete your international sales transactions. Standard export forms**.** certificate of origin, export bill of lading, shipper's letter of instruction, export invoice, packing list, dangerous goods hazmat, bank draft. Most countries accept a generic certificate of origin form that includes information about the exporter and importer, the description and harmonized tariff code of the goods, and the country of origin. These certificates are usually prepared by the exporter and notarized by the local chamber of commerce. The importer is heavily dependent upon the assistance and cooperation of its U.S. suppliers in producing accurate and well-documented declarations of origin. The movement of goods in international trade is associated with a number of documents. The number of documents and related procedures have multiplied over time making international trade complex and cumbersome. The essentials of documentation arise primarily due to certain peculiarities of international trade and its transactions. It is not like the domestic trade. The buyers and sellers are separated by long distance in overseas trade transactions. A carrier who undertakes to deliver the goods to the buyer on behalf of seller. An insurance company that covers the risks arising out of hazards of long voyage and a banker who collects the sale proceeds from the buyer and hands over the same to the exporter. There are other intermediaries involved in foreign trade: Freight forwarders, Freight brokers, Chambers of commerce. The documents which are used all over the world by the exporters and form the essential link in foreign trade between the exporter and the importer and are used to control payment, title and transportation are *called principal documents.* In order to claim Export Assistance, the exporter has to complete certain formalities as per the procedure laid down and furnish required information in various forms and documents prescribed by the Government. Export Promotion Council, etc. for claiming export assistance. Export declaration forms have utmost importance and are binding on the exporter. GR forms covering export of goods other than jewellery should be completed by the exporter in duplicate and both the copies should be submitted to Customs at the port of shipment. Customs will give their running serial number on both the copies of the GR forms after verifying the particulars and admitting the corresponding shipping bill. There may have bilateral import export agreements between governments of different countries. Imports and exports from such countries may have exemptions on documentation for export and import clearance. However there are legal documents, common documents and specific documents on commodity basis required to complete import customs procedures.

3.9 GLOSSARY

Commercial Invoice: The commercial invoice is a legal document between the supplier and the customer that clearly describes' the sold goods, and the amount due on the customer. The commercial invoice is one of the main documents used by customs in determining customs duties.

Consular Invoice: A consular invoice is a document certifying a shipment of goods and shows information such as the consignor, consignee and value of the shipment. Generally, a consular invoice can be obtained through a consular representative of the country you're shipping to and must be certified by the consul of the country of destination, who will stamp and authorize the invoice.

Customs Invoice: A formal document used to clear goods through customs in the importing country by providing pertinent shipment information including but not limited to country of origin, description and value.

Certified Invoice: A certified commercial invoice is a commercial document, which is issued by the beneficiary of the letter of credit and certified by the chamber of commerce. Legalized invoice, in addition to chamber of commerce certification, contains a signature and stamp of an embassy.

Weight Note: A document that shows the weight of goods when they are removed from a ship or aircraft

Antiquity Certificate: This certificate is issued by the Archaeological Survey of India in the case of exports of antiques.

Shipment Advice: A shipment Advice is used to inform the overseas customer about the shipment of goods.

Freight Declaration : Freight declaration is required to be attached to the export documents, if the importer agrees to pay freight charges.

Health certificate: Health certificate is required for exports of food products, seeds, animal's meat products etc.

Certificate of Value: Though the value is indicated in Commercial invoice. Some countries need Certificate of Value separately.

Bank Certificate of Export and Realisation: After shipment, the exporter should get his exports certified by an authorized dealer in foreign exchange in the prescribed form namely 'Bank Certificate of Export and Realisation'

3.10 SELF ASSESSMENT QUESTIONS

1. What are the various documents for exports?

2. What are the various documents for declaration of goods under foreign exchange regulation?

3. What are the various documents for transportation of goods?

4. What are various documents for custom clearance of goods?

3.11 LESSON END EXERCISE

1. Write short notes on documents required for transportation of goods

2. Discuss various documents for declaration of goods under foreign exchange regulation

3. Discuss various documents required for custom clearance of goods

3.12 SUGGESTED READING

Export –What Where & How	: Paras Ram
Export Marketing	: Michael Vaz
F Export Management	: T. A .S. Balagopal
Export–Import Financing (Frontiers in Finance Series)	: Harry M. Venedikian and Gerald A. Warfield
Export Finance	: Willsher, Richard

COURSE NO : BM- 601 UNIT - IV
SEMESTER - VI LESSON : 7-8

INSURING GOODS AGAINST MARINE RISKS, FOREIGN EXCHANGE RATES, PROTECTION AGAINST THEIR ADVERSE MOVEMENTS

STRUCTURE

4.1 INTRODUCTION

Marine insurance covers the loss or damage of ships. cargo. terminals. and any transport or cargo by which the property is transferred. acquired. or held between the points of origin and the final destination. Cargo insurance is the sub-branch of marine insurance, though Marine insurance also includes Onshore and Offshore exposed property, ports, pipelines), Hull, Marine Casualty, and Marine Liability. When goods are transported by mail or courier is used instead. Exchange Rate Management in India Over the last six decades since independence the exchange rate system in India has transited from fixed exchange rate regime where the Indian Rupee was pegged to the UK Pound to a basket of currencies during the 1970s and 1980s and eventually to the present form of market determllled exchange rate regime since 1993. Par Value System (1974-1971): After Independence Indian followed the 'Par Value System' whereby the rupee's external par value was fixed with gold and UK pound sterling. This system was followed up to 1966 when the rupee was devalued by 36 percent. Pegged Regime (1971- I 992): India pegged its currency to the US dollar (1971-1991) and to pound (1971-75). Following the breakdown of Breton Woods system. the value of pound collapsed. and India witnessed misalignment of the rupee. To overcome the pressure of devaluation India pegged its currency to a basket of currencies. During this period. the exchange rate was officially determined by the RBI within a nominal band of +/-5 percent of the eighted average of a basket of Tencies of India' s major trading partners. The period since 1991: The transition to market-based exchange rate was in response to the BOP crisis of 1991. As a first step towards transition, India introduces partial convertibility of rupee in 1992-93 under LERMS. Liberalised Exchange Rate Management System (LERMS): The LERMS involved partial convertibility of rupee. Under this system, India followed a dual exchange rate policy, where 40 percent of the exchange rate were to be converted at the official exchange rate and the remaining 60 percent were to be converted at the market-based exchange rate. The exchange rate converted at the official rate were to be used for essential imports like crude, oil, fertilizers, life savings drugs etc. All other imports should be financed at the market-based exchange rate. Market-Based Exchange rate Regime (1993- till present): The LERMS was a transitional mechanism to provide stability during the crisis period. Once the stability is achieved, India transited from LERMS to a full flash market exchange rate system. As a result, since 1993, C'xchange rate fluctuations are marker determined. In the 1994 budget, 60:40 ratio was removed, and 100 percent conversion at market-based rate was allowed for all goods and capital movements.

Marine insurance was the earliest well-developed kind of insurance, with origins in the

Greek and Roman marine. loan. it was the oldest risk hedging instruments our ancestors used to mitigate risk in medieval times were sea/marine loans. cor.1menda contract. and bill of exchanges. Separate marine insurance contracts were developed in Genoa and other Italian cities in the fourteenth century and spread to northern Europe. Premiums varied with intuitive estimates of the variable risk from seasons and pirates. Modem marine insurance law originated in the Lex Mercatoria (law merchant). In 1601, a specialized chamber of assurance separate from the other Courts was established in England. By the end of the seventeenth century, London's growing importance as a centre for trade was increasing demand for marine insurance. In the late 1680s, Edward Lloyd opened a coffee house on Tower Street in London. It soon became a popular haunt for ship owners. merchants. and ships' captains, and thereby a reliable source ofthe latest shipping news.

Lloyd's Coffee House was the first marine insurance market. It became the meeting place for parties in the shipping industry wishing to insure cargoes and ships, and those 'v'villing to underwrite such .ventures. These informal beginnings led to the establishment of the insurance market Lloyd's of London and several related shipping and insurance businesses. The participating members of the insurance arrangement eventually formed a committee and moved to the Royal Exchange on Cornhill as the Society of Lloyd's. The establishment of insurance companies, a developing infrastructure of specialists and the g owth of the British Empire gave English law a prominence in this area which it largely maintains and forms the basis of almost all modem practice. Lord Mansfield, Lord Chief .Justice in the mid-eighteenth century, began the merging of law merchant and common law principles. The growth of the London insurance market led to the standardization of policies and judicial precedent further developed marine insurance law. In 1906 the Marine Insurance Act codified the previous common law; it is both an extremely though and concise piece of work. Although the title of the Act refers to marine insurance, the general principles have been applied to all non-life insurance. In the 19th century, Lloyd's and the Institute of London Underwriters (a grouping of London company insurers) developed bet'vveen them standardized clauses for the LIse of marine insurance, and these have been maintained since. These are known as the Institute Clauses because the Institute covered the cost of their publication. Out of marine insuran:e, grew non-marine inS"LHu;lCe and reinsurance. Marine insurance traditionally formed the majority of business underwritten at Lloyd's. Nowadays, Marine insurance is often grouped with Aviation and Transit (cargo) risks, and in this form is known by the acronym 'MAT'.

Marine insurance is a mechanism that helps to mitigate the risks of financial loss to the property such as ship, goods or other movables, in maritime transport, on the payment of premium by the assured to the insurer. Insurer provides risk cover to the ship-owners or the cargo-owners against loss or damage that the ship or cargo may suffer in transit due to accidents and mishaps in the nature of a financial indemnity. The insurance company undertakes to make good the loss to the maximum value as agreed with the insured perils or risks. Loss is payable only when it has been proximately caused by the insured peril. The marine insurance is governed by the national legal regimes. In India, Marine Insurance Act, 1963, regulates various aspects of marine insurance.

However, the fact that divergent national legal regimes exist, in the conduct of marine insurance business, has certain consequences for the parties to contract, particularly the assured, who will have difficulty in understanding the coverage of foreign insurance market. Without the uniformity in the national marine insurance legal regimes, the international conduct of marine insurance. particularly from the assureds' perspective, would be severely impeded. Hence, given the international character of marine insurance, there is a need for harmonization of the legal regimes governing the rights and obligation of the parties to the insurance contract involving international transport and trade.

4.2 OBJECTIVES

After completion of this lesson you shall be able to know:

- Insuring goods against marine risks
- Foreign Exchange Rates
- Protection against their adverse movements

4.3 INSURING GOODS AGAINST MARINE RISKS

MARINE INSURANCE

Definition of Marine Insurance

A contract or policy of marine insurance is an arrangement whereby one person called insurer or underwriter, agrees, according to specific terms of contract, to indemnify another person, called assured, for the losses incurred in connection with propeliy, such as ship, goods or other movables, in maritime transport (See. sections 25).

Section 3 of the Marine Insurance Act, 1963, defines 'marine insurance' as follows:

A contract of marine insurance is an agreement whereby the insurer undenakes to indemnify the assured, in the manner and to the extent thereby agreed. against marine losses. that is to say, the losses incidental to marine adventure.

"Marine adventure" includes any adventure where any insurable propeny is exposed to maritime perils i.e. perils consequent to navigation of the sea. It also includes the earnings or acquisition of any freight, passage money. commission. profit or other pecuniary benefit, or the security for any advances, loans, or disbursements is endangered by the exposure of insurable property to maritime perils (ibid.. sections 2(e) Marine adventure also includes any liability to a third party may be incurred by the owner of. or other person interested in or responsible for, insurable property by reason of maritime perils.

Insured Risks

Perils of the Sea

An insurer underwrites or subscribe to a risk in return for the payment of 'premium' by the assured (ibid., sections 23. 33. 54 and 86). The premium is considered compensatiC'n for running risks of the insured property and is normally retained whether or not the insured property is lost or not. The size of the premium depends upon the insurer's estimation of degree of the risk that the insured property will incur a loss and on amount of indemnity he will have to pay. Generally. the insurers spread their potential liabilities in a relatively small amount over a number of risks in order to benefit from the probability that only a limited percentage will experience losses by 'law of averages.'

The word "risk" being in this context to refer to the risk of loss occurring in connection with insured property, and the risk of loss can include not only actual property in return for the payment of premium by the assured losses but also financial losses, such as those resulting from the loss of freight, passage money. commission or profit as well as certain types of liabilities incurred to third parties.

The specification of insurance contract usually stipulates certain limitations as to the type of occurrences that may cause losses for which the insurer will pay indemnity. Such occurrences are called "insured risks" or "insured perils". The term "perils of the sea" refers only to accidents or causalities of the sea. and does not include the ordinary action of the wincls ancl waves. Besides, maritime perils include. fire. war perils. pirates. seizures and jettison. etc. A marine insurance policy may specify that only celtain maritime risks. or "perils of the sea", are covered.

2. Types of Marine Insurance

Some of the important types of marine insurance are Hull Insurance. Cargo Insurance, Freight Insurance, Liability Insurance

a) Marine hull insurance

This pertains to insurance of ocean going steamers and other vessels. "Hull" refers to the body or frame of the ship. Hull insurance provides the cover for the hull and machinery as well as in respect of materials and outfit and stores and provisions for the officers and crew. In addition cover for liabilities is included. It is effected generally by the owner of the ship.

Hull policy consists of basic policy attached to Institute Clauses, which are drafted by the Institute of London Underwriters. The Institute Time Clause (Hull) Cover embraces:

(i) the coverage of maritime perils namely fire, collision, stranding etc.; (ii) the coverage of additional perils such as latent defect in machinery, accidents in loading / discharging cargo. (iii) the Running Down Clause embodied in the hull insurance provide cover for damage caused to another ship in collision as a consequence of negligent navigation; (iv) it may also cover vessels in course of construction, which are taken by the ship builders. Coverage starts from keel laying and until delivery of the ship to the owners.

b) Marine cargo insurance

Cargo insurance covers the cargo or goods contained in the ship and the personal belongings of the crew and passengers. It provides cover for various transit perils in respect of goods and or merchandise in transit from one place to another by sea, air, road or registered post. Transit or marine risks or perils are covered under marine insurance. Marine insurance plays a pivotal role in import, export and internal trade. Trade involves movement of goods from one place to another place. Goods while in transit are liable to be lost or damaged through one or other of various perils from the time it leaves the warehouse of the supplier till it is received at the final warehouse of the consignee. Goods while in transit are generally exposed to any one of the following perils leading to total loss or damage. The loss or damage suffered due to these perils is to be transferred to the insurer in lieu of the premium, as these are included in the Marine cover.

c) Freight insurance

Freight insurance provides protection against the loss of freight. In many cases, the owner of goods is bound to pay freight, under the terms of the contract, only when the goods lre safely delivered at the port of destination. If the ship is lost on the way or the cargo is damaged or stolen. the shipping company loses the freight. Freight insurance is taken to guard against such risk.

d) Liability insurance

Liability insurance is one in which the insurer undertakes to indemnify against the loss which the insured may suffer on account of liability to a third party caused by collision of the ship and other similar hazards.

3. Marine Insurance Policy

A marine insurance policy is a document which embodies all the particulars and the terms and conditions for the construction of the policy. Contract must be embodied in policy. A contract of marine insurance shall not be admitted in evidence unless it is embodied in a marine policy in accordance with section 25 of the Marine Insurance Act. The policy may be executed and issued either at the time when the contract is concluded, or afterwards. The policy must be signed by or on behalf of the insurer.

In India, the practice is to issue 'cover notes' which are similar to slips. As the practice is not to stamp a 'cover note' it is admissible only to prove the agreement. It cannot be used for any purpose except to compel the delivery of a policy in accordance with its terms.

a) Subject-matter

The subject-matter insured must be designated in a manne policy with reasonable certainty (ibid.. Section 28[1]). The nature and extent of the interest of the assured in the subject-matter insured need not be specified in the policy (ibid. Section 28[2]). Where the policy designates the subject-matter insured in general terms, it shall be construed to apply to the interest intended by the assured to be covered (ibid.. Section 28[3]).

b) Assignment of policy

A marine insurance policy is assignable either before or after the loss, unless it contains terms expressly prohibiting assignment (ibid.. Section 52 [1]). A policy on goods is generally freely assignable. Merchandise like tea, jute and wheat etc., change hands before they reach their destination and policies on them must be freely transferable. Both policies on ship or on freight are subject to restrictions on assignment.

An assignment by the insured of his interest in the subject-matter insured does not transfer his rights in the policy of insurance thereon to the assignee, unless there is an express or implied agreement to that effect. But a transmission of interest in the subject -matter insured by operation of law- such as by death or insolvency- will operate as a transfer of the policy also(ibid., Section 17).

An assured who has assigned or lost his interest in the insured property cannot subsequently assign the policy of insurance thereon. Unless before or at the time of assigning the property, he has expressly or impliedly agreed to assign the policy. However, he can always assign the policy after loss(ibid., Section 53). The marine policy may be assigned by endorsements on the policy itself or in any other customary manner. On the assignment of the beneficial interest in the policy, the assignee is entitled to sue thereon in his name.

C) Types of marine policies

i) Voyage policy

When a marine insurance policy embodies the contract to insure the subject-matter at and from, or from one place to another or others, the policy is called a "voyage policy" (ibid..

Section 27[1]). In a voyage policy, the subject matter is insured for a particular voyage irrespective of the time involved in it. In this case the risk attaches only when the ship starts on the voyage.

ii) Time policy

Time policy is an insurance policy embodying a contract in which the subject matter is insured for a definite period of time(ibid., Section 27[1]). The ship may pursue a.ny course it likes, the policy would cover all the risks from perils of the sea for the stated period of time.

A time policy cannot be for a period exceeding one year because it will be invalid. but it may contain a 'continuation clause'(ibid., Section 27[2]). The 'continuation clause' means that if the voyage is not completed within the specified period. the risk shall be covered until the voyage is completed, or till the arrival of the ship at the port of call.

iii) Mixed policy

Mixed insurance policy is a combination of voyage and time policies and covers the risk during particular voyage for a specified period of time. A contract for both voyage and time may be included in the same policy(ibid.. Section 27[1]).

iv) Valued policy

A marine insurance policy may be either valued or unvalued(ibid.. Section 29[1]). A valued policy is a policy which specifies the agreed value of the subject-matter insured between the insurer and the insured and it is specified in the policy itself(ibid.. Section 29[2]). The value fixed by the policy is, as between the insurer and assured. conclusive of the insurable value of the subject intended to be insured, whether the loss be total or partial(ibid.. Section 29[3]).

However, unless expressly stated, the value fixed by the policy is not conclusive for the purpose of determining whether there has been a constructive total loss(ibid.. Section 29[4]).

v) Open or Un-valued policy

An unvalued marine insurance policy is a policy which does not specify the value of the subject-matter insured(ibid., Section 30). Subject to the limit of the sum assured. it leaves the value of the loss to be subsequently ascertained. in the manner e"plained in the policy itself(ibid., Section 30). It means that the method of ascertaining the value of the loss has been agreed upon between the insured and insurer beforehand in case of an unvalued policy.

vi) Floating policy

A floating policy is a policy which describes the insurance contract in6eneral terms. and leaves the name or names of the ship or ships and other particulars to be defined by subsequent declaration (ibid., Section 31 [1]). The subsequent declaration or declarations may be made by endorsement on the policy, or in other customary manner(ibid., Section 31 [2]). Unless the policy otherwise provides, the declarations must be made in the order of dispatch or shipment. They must. in the case of goods, comprise all consignments within the terms of the policy and the value of the goods or other property must be honestly stated. An omission or erroneous declaration may be rectified even after loss or arrival, provided the omission or declaration was made in good faith(ibid., Section 31 [3]). If a declaration of value is not made until after notice of loss or arrival, the policy is generally treated as an unvalued policy as regards the subject-matter of that declaration (ibid., Section 31 [4]). Such policies are very useful to merchants who regularly despatch goods through ships.

IV. PRINCIPLES OF MARINE INSURANCE

1. Principle of Utmost Good Faith

A contract of marine insurance is a contract uberrimea fidei i.e. a contract of utmost good faith(ibid.. Section 19). This is a fundamental principle of insurance law. There is no difference between a contract of insurance and any other contract, except that in a contract of insurance. there is a requirement of utmost good faith (See, General Assurance Society Ltd.

v. Chandumull Jain, AIR 1966 SC 1644). According to section 19, a contract of marine insurance is a contract based upon utmost good faith and if the utmost good faith be not observed by either pat1y, the contract may be avoided by the other party. Under section 20, the assured must disclose to the insurer, before the contract is concluded, every material circumstance which. is known to the assured, and the assured is deemed to know every circumstance(ibid., Section 20). Under Section 21, the agent must disclose to the insurer every material circumstance which is known to him, and an agent to insure is deemed to know every circumstance where insurance is effected for the assured by an agent (ibid., Section 21). Very importantly, the duty of disclosure continues to apply even after the conclusion of the contract.

2. Principle of Insurable Interest

The principle of insurable interest states that the insured must be in a position to lose financially if a loss occurs. In a contract of marine insurance, the assured must be interested in the subject-matter insured at the time of the loss, though he need not be interested when the insurance is effected (ibid.. Section 8[1]). A contract of marine insurance is deemed to be a wagering contract. where the assured has not an insurable interest, and the contract is entered into with no expectation of acquiring such an interest (ibid., Section 6[2]{ a}).

According to the Marine Insurance Act, every person has an insurable interest who is interested in a marine ad\emure(ibid., Section 7[1]). In particular, a person is interested in a marine adventure where he stands in any legal or equitable relation to the adventure or to any insurable property at risk therein, in consequence of which he may benefit by the safety or due arrival of insurable property, or may be prejudiced by its loss, or by damage thereto, or by the detention thereof, or may incur liability in respect thereof (ibid.. Section 7[2]). The following persons are deemed to have insurable interest:

The owner of the ship has an insurable interest in the ship.

The owner of the cargo has insurable interest in the cargo.

A creditor who has advanced money on the security of the ship or cargo has insurable interest to the extent of his loan.

The master and crew of the ship have insurable interest in respect of their wages.

If the subject matter of insurance is mortgaged. the mortgagor has insurable interest in the full value thereof and the mortgagee has insurable interest in respect of any sum due to him.

A trustee holding any propel1y in trust. has insurable interest in such property.

In case of advance freight the person advancing the freight has an insurable interest in so far as such freight is repayable in case of loss.

The insured has an insurable interest in the charges of any insurance policy which he may take.

3. Principle of Indemnity

Most kinds of insurance policies other than life and personal accident insurance are contracts of indemnity whereby the: insurer undertakes to indemnify the insured for the actual loss suffered by him as a result of the occurring of the event insured against. A contract of marine insurance is an agreement whereby the insurer undertakes to indemnify the insured to the extent agreed upon(ibid.. Section 75). Although the insured is to be placed in the same position as if the loss has not occurred. the amount of indemnity may be limited by certain conditions as follows:

Injury or loss sustained by the insured has to be proved.

The indemnity is limited to the amount specified in the policy.

The insured is indemnified only for the proximate causes.

The market value of the property determines the amount of indemnity.

4. Principle of Subrogation

The principle of subrogation is a corollary of the principle of indemnity. Subrogation means substitution of the insurer in place of the insured for the purpose of claiming indemnity from a third person for loss covered by insurance. The insurer is therefore entitled to recover from a negligent third party any loss payments made to the insured.

In the marine policy, the insurer must have paid the claim before they are entitled to rights of subrogation (ibid. Section 79[2]). Whether the loss paid is total or partial insurers subrogated to all the rights and remedies of the insured. However, the insurer can retain only up to the amount they have indemnified the insured under subrogation.

Such rights and remedies include right of recovery from third parties. In the event of loss of goods at the destination, the sum insured which is the agreed value will be paid. In case the goods are damaged during transit, the amount payable is arrived as a proportion of the sum insured according to the percentage of depreciation, suffered by the goods as certified by surveyors.

The Marine Insurance Act

The Marine Insurance Act includes, as a schedule. a standard policy (known as the "SG form"), which parties were at liberty to use if they wished. Because each tem1 in the policy had been tested through at least two centuries of judicial precedent, the policy was extremely thorough. However, it was also expressed in rather archaic terms. In 1991, the London market produced a new standard policy wording known as the MAR 91 form using the Institute Clauses. The MAR form is simply a general statement of insurance; the Institute Clauses are used to set out the detail of the insurance cover. In practice. the policy document usually consists of the MAR form used as a cover, with the Clauses stapled to the inside. In]egal terms, liability under the policy is several and not joint, i.e., the underwriters are all liable together, but only for their share or proportion of the risk. If one underwriter should default. the remainder are not liable to pick his share of the claim. Typically, marine insurance is split between the vessels and the cargo. Insurance of the vessels is generally known as "Hull and Machinery" (H&M). A more restricted form of cover is "Total Loss On]y" (TLO). generally used as a reinsurance, which only covers the total loss of the vessel and not any partial loss. Cover may be on either a "voyage" or "time" basis. The "voyage" basis covers transit between the ports set out in the policy; the "time" basis covers a period, typically one year, and is more common.

Protection and indemnity

A marine policy typically covered only three-quarter of the insured's liabilities towards third parties (Institute Time Clauses Hulls 1.10.83). The typical liabilities arise in respect of collision with another ship, known as "running down" (collision with a fixed object is a "allision"), and wreck removal (a wreck may serve to block a harbour. for example). In the 19th century, shipowners banded together in mutual underwriting clubs known as Protection and lndemnity Clubs (P&I), to insure the remaining one-quarter liability amongst themselves. These Clubs are still in existence today and have become the model for other specializel: and noncommercial marine and non-marine mutuals, for example in relation to oil pollution and nuclear risks. Clubs work on the basis of agreeing to accept a shipowner as a member and levying an initial "call" (premium). With the fund accumulated, reinsurance will be purchased; however, if the loss experience is unfavourable one or more "supplementary calls" may be made. Clubs also typically try to build up reserves, but this puts them at odds with their mutual status.Because liability regimes vary throughout the world, insurers are usually careful to limit or exclude American Jones Act liability.

Actual total loss and constructive total loss

These two terms are used to differentiate the degree of proof where a vessel or cargo has been lost. An actual total loss occurs where the damages or cost of repair clearly equal or exceed the value of the property. A constructive total loss is a situation where the cost of repairs plus the cost of salvage equal or exceed the value. The use of these terms is contingent on there being property remaining to assess damages. which is not always possible in losses to ships at sea or in total theft situations. In this respect, marine insurance differs from non-marine insurance. where the insured is required to prove his loss. Traditionally, in law, marine insurance was seen as an insurance of "the adventure", with insurers having a stake and an interest in the vessel and/or the cargo rather than simply an interest in the financial consequences of the subject-matter's survival.

The term "constructive total loss" was also used by the United States Navy during World War II to describe naval vessels that were damaged to such an extent that they were beyond economical repair. This was most often applied to destroyer-type ships in : 945, the last year of the war, many which were damaged by kamikazes. By this time enough ships were available for the war that some could be disposed of if severely damaged.

Average

Average in Marine Insurance Terms is "an equitable apportionment among all the interested parties of an such an expense or loss."

General Average

General Average stands apart for Marine Insurance. In order for General Average to be properly declared, 1) there must be an event which is beyond the ship owners co trol, which imperils the entire adventure; 2) there must be a voluntary sacrifice, 3) there must be something saved. The voluntary sacrifice might be the jettison of certain cargo, the use of tugs, or salvors, or damage to the ship, be it, voluntary grounding, knowingly working the engines that will result in damages. "General Average" requires all parties concerned in the maritime venture (Hull/Cargo/Freight/Bunkers) to contribute to make good the voluntary sacrifice. They share the expense in proportion to the 'value at risk" in the adventure. "Particular Average" is the term applied to partial loss be it hull or cargo.

Average - is the situation where an insured has under-insured. i.e., insured an item for less than it is worth. average ,-,viii apply to reduce the claim amount payable. An *average adjuster* is a marine claims specialist responsible for adjusting and providing the general average statement. An Average Adjuster in ::\onh America is a 'member of the association of Averrage Adjusters' To insure the fairriess of the adjustment a General Average adjuster is appointed by the shipowner and paid by the insurer.

Excess, deductible, retention, co-insurance, and franchise

An excess is the amount payable by the insured and is usually expressed as the first amount falling due, up to a ceiling, in the event of a loss. An excess mayor may not be applied. It may be expressed in either monetary or percentage terms. An excess is typically used to discourage moral hazard and to remove small claims, which are disproportionately expensive to handle. The term "excess" signifies the "deductible" or "retention".

A co-insurance, which typically governs non-proportional treaty reinsurance, is an excess expressed as a proportion of a claim in percentage terms and applied to the entirety of a claim. Co-insurance is a penalty imposed on the insured by the insurance carrier for under reporting/declaring/insuring the value of tangible property or business income. The penalty is based on a percentage stated within the policy and the amount under reported. As an example: a vessel actually valued at $1,000,000 has an 80% co-insurance clause but is insured for only $750,000. Since its insured value is less than 80% of its actual value. when it suffers a loss, the insurance payout will be subject to the under-reporting penalty. the insured will receive 750000/1000000th (75%) of the claim made less the deductible.

Specialist policies

Various specialist policies exist, including:

- **New building risks:** This covers the risk of damage to the hull while it lS under construction.

- **Open Cargo or Shipper's Interest Insurance:** This policy may be purchased by a carrier, freight broker, or shipper, as coverage for the shipper's goods. In the event of loss or damage, this type of insurance will pay for the true value of the shipment, rather than only the legal amount that the carrier is liable for.

- **Yacht Insurance:** Insurance of pleasure craft is generally known as "yacht insurance" and includes liability coverage. Smaller vessels such as yachts and fishing vessels are typically underwritten on a "binding authority" or "lineslip" basis.

- **War risks**: General hull insurance does not cover the risks of a vessel sailing into a war zone. A typical example is the risk to a tanker sailing in the Persiah Gulf during the Gulf War. The war risks areas are established by the London-based loint War Committee, which has recently (vhen?) moved to include the Malacca Straits as a war risks area due to piracy. If an attack is classified as a "riot" then it would be covered by war-risk Insurers.

- **Increased Value (IV):** Increased Value cover protects the shipowner against any difference between the insured val ue of the vessel and the market vaLJe of the vessel.

- **Overdue insurance:** This is a form of insurance now largely obsolete due to advances in communications. It was an early form of reinsurance and was bought by an insurer when a ship was late at alTiving at her destination port and there was a risk that she might have been lost (but, equally, might simply have been delayed). The overdue insurance of the Titanicwas famously underwritten on the lloorstep of Lloyd's.

- **Cargo insurance:** Cargo' insurance is underwritten on the Institute Cargo Clauses, with coverage on an A, B, or C basis, A having the widest cover and C the most restricted.

  Valuable cargo is known as specie. Institute Clauses also exist for the insurance of specific types of cargo, such as frozen food, frozen meat, and particular commodities such as bulk oil, coal, and jute. Often these insurance conditions are developed for a specific group as is the case with the Institute Federation of Oils, Seeds and Fats Associations (FOFSA) Trades Clauses which have been agreed with the Federation of Oils, Seeds and Fats Associations and Institute Commodity Trades Clauses which are used for the insurance of shipments of cocoa, coffee, cotton, fats and oils, hides and skins, metals, oil seeds, refined sugar, and tea and have been agreed with the Federation of Commodity Associations.

Warranties and conditions

A peculiarity of marine insurance, and insurance law generally, is the use of the terms condition and warranty. In English law, a condition typically describes a part of the contract that is fundamental to the performance of that contract, and, if breached. the nonbreaching party is entitled not only to claim damages but to terminate the contract on the basis that it has been repudiated by the party in breach.

By contrast. a warranty is not fundamental to the performance of the contract and breach of a warranty, while giving rise to a claim for damages, does not entitle the non-breaching party to terminate the contract. The meaning of these terms is reversed in insurance law. Indeed, a warranty if not strictly complied wi:h will automatically discharge the insurer from further liability under the contract of insurance. The assured has no defense to his breach, unless he can prove that the insurer, by his conduct, has waived his right to invoke the breach, possibility provided in section 34(3) of the Marine Insurance Act 1906 (MIA). Furthermore, in the absence of express warranties the MIA will imply them, notably a wananty to provide a seaworthy vessel at the commencement of the voyage in a voyage policy (section 39(1)) and a warranty of legality of the insured voyage (section 41).

4.4 UNDERSTANDING FOREIGN EXCHANGE RATES

Exchange rate is simply value of a currency in terms of another currency. The buyers and sellers of foreign cunency includes the, brokers, students" commercial banks, centralanks individual firms, foreign exchange brokers etc. The system of exchange rate works through the facility provided by the key players of the markets. The major functions of the foreign exchange include:

1. Transfening currency from one market to other where it is needed in the transactions.

2. Providing short-term credit to the importers, and thereby facilitating the smooth flow of goods and services between the countries.

3. Stabilizing the foreign exchange rate through spot and forward market.

i. Providing short-term credit to the importers. and thereby facilitating the smooth flow of goods and services between the countries.

ii. Stabilizing the foreign exchange rate through spot and forward market.

Historical Background

Since Independence, the exchange rate system in India has transited from a fixed exchange rate regime where the Indian mpee was pegged to the pound sterling on account of historic links with Britain to a basket-peg during the 1970s and 1980s and eventually to the present form of market-determined exchange rate regime since March 1993. The evolution of exchange management is discussed below:

Par Value System (1947-1971): After gaining Independence, India followed the par value system of the IMF whereby the rupee's external par value was fixed at 4.15 grains of fine gold.

Pegged Regime (1971-1992): India pegged its currency to the US dollar (from August 1971 to December 1991) and to the pound sterling (from December 1971 to September 1975).

The Period Since 1991: A two-step downward adjustment of 18-19 per cent in the exchange rate of the Indian mpee was made on July 1 and 3. 1991.

Liberalised Exchange Rate Management System: The Finance Minister announced the liberalised exchange rate management system (LERMS) in the Budget for 1992- 93. This system introduced partial convel1ibility of rupee. Under this system. a dual exchange rate was fixed under which 40 per cent of foreign exchange earnings were to be surrendered at the official exchange rate "vhile the remaining 60 per cent were to be converted at a marketdetermined rate.

Forces I?ehind Exchange Rate Determination

Foreign Exchange Rate is the amount of domestic currency that must be paid in order to get a unit of foreign currency. According to Purchasing Power Parit)' theory, the foreign exchange rate is determined by the relati ve purchasing powers of the two currencies. Foreign Exchange is a price of one country currency in relation to other country currency, which like the price of any other commodity is determined by the demand and supply factors. The demand and supply cf the foreign exchange rate come from the residents of the respective countries.

Demand for Foreign Exchange (Foreign Money goes out)	**Supply of Foreign Exchange (Foreign Money Comes in)**
Foreign Currency is needed to carry out transactiom in foreign countries or for the purchase of foreign goods and services (IMPORTS).	The source of foreign currency available to the domestic country are foreigners purchasing our goods and service (Exports).

Foreign currency is needed to invest in foreign country assets/shares/bonds etc.

Foreigners investing in Indian Stock markets. Assets, Bonds etc. (FPls and FDls)

Foreign currency is needed to make transfer payments. Example: Indian Parents sending Money to his/her son/daughter studying in the USA.

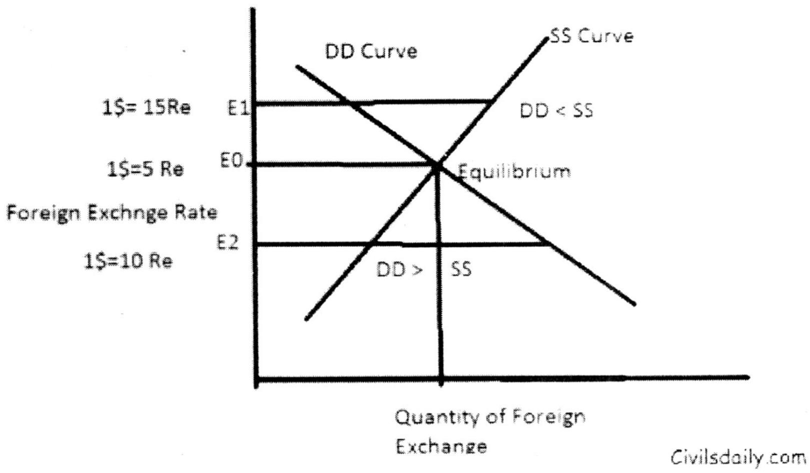
Transfer payments. Example: Indian working in the USA. sending money to his/her old aged parents.

Indians holding money in overseas Banks

Foreigners holding assets in Indian Banks.

Indians Travelling abroad for Tourism Purpose.

Foreigners travelling to India.



- The DD curve represents the demand for foreign exchange by India. The SS curve represents the supply of foreign exchange to India.
- The point where both DD and SS curves intersect is the point of equilibrium. At this point demand for foreign exchange is exactly equal to the supply of foreign exchange.
- At equilibrium point EO. the exchange rate is 1 $ equal to 5 Re.

- In normal day to day functioning of markets, the exchange rate may fluctuate. If at any point in time, the exchange rate is at El, then the demand for foreign exchange falls short of supply of foreign exchange, as a result at this point Indians are demanding less foreign currency due to which Re will appreciate vis-a.-vis foreign currency. The appreciation mainly occurs due to a favourable balance of payment situation (Surplus).

- By the same token at point E2, demand for foreign exchange is greater than the supply of foreign exchange, at this point Indians are demanding excess foreign exchange than what the foreigners are willing to supply, as a result, at E2 Re will depreciate vis-a.-vis foreign currency. The depreciation mainly occurs due to the unfavourable balance of payments situation(Deficits).

Kinds of foreign Exchange Market in India:

A. Spot market: It refers to a market in which the sale and purchase of foreign currency are settled within two days of the deal. The spot sale and purchase of foreign exchange make the spot market. The rate at which the foreign currency is bought and sold is called spot exchange rate. For all practical purposes, spot rate is treated as the current exchange rate.

B. Fonvard Market: It refers to that market, which deals in the sale and purchase of foreign currency at some future date at a presettled exchange rate. When buyers and sellers enter an agreement to buy and sell a foreign currency after 90 days of the deal, it is called forward transaction. The exchange rate settled between buyer and seller for forward sale and purchase of currency is called forward exchange rate.

Types of Exchange Rate Regimes

- **Fixed Exchange Rate versus Floating Exchange Rate**

Fixed Exchange Rate	**Floating Exchange Rate**
Under this system. there is complete government intervention in the foreign exchange markets.	Under this system, the market is allowed to determine the value of exchange rate freely.

The government or central bank determines the official exchange rate by linking exchange rate to the price of gold or major currencies like US dollar.	The exchange rate is determined by the forces of demand and supply.
If due to any reason, the exchange rate fluctuates, government intervenes and make sure that equilibrium pre-determined level is maintained.	If due to any reason exchange rate fluctuates, the government never intervenes and allows the market to function and determine the true value of exchange rate.
The only merit of fixed exchange rate system is that it assures the stability of exchange rate. It prevents both currency appreciation and depreciation.	The only demerit of floating exchange rate system is that exchange rate fluctuates a lot on day to day basis.
The many disadvantages of such a system are: It puts a heavy burden on governments to maintain exchange rate.This especially happens during the time of deficits, as the governments need to infuse a lot of money to maintain exchange rate. The foreign investors avoid investing in such countries as they fear to lose their investments because they believe that exchange rate does not reflect the true value of the economy.	The advantages of such a system are: the exchange rate is determined in well-functioning foreign exchange markets with no government interference. The exchange rare reflects the true value of the domestic currency which helps in establishing the trust among foreign investor. A country can easily access funds/ loans from IMF and other international institutions if the exchange rate is market determined. Exchange rates can be floating or fixed. A floating exchange rate is where a currency rate is determined by market forces. This is the norm for most major nations. However some nations prefer to fix or peg their domestic currencies to a widely accepted currency like the US dollar. Reasons for fixing

	an exchange rate can be to reduce volatility or better manage trade relations. For example, Saudi Arabia pegs its currency, the riyal, to the U.S. dollar because its main export is oil, which is priced in U.S. dollars.

- **Managed Floating Exchange rate**

Manage Floating exchange rate lies in between of the two extremes of fixed and floating exchange rate. Under such a system, the exchange is allowed to move freely and determined by the forces of the market (Demand and Supply). But when a difficult situation arises, the central banks of the country can intervene to stabilise the exchal1ge rate.

There are mainly three sub categories under managed floating exchange rate:

1. **Adjusted Peg System:** In this system, a country should try to hold on to a fixed exchange rate system for as long as it can, i.e. until the country' s foreign exchange reserves got exhausted. Once the country's foreign exchange reserves got exhausted, the country should undergo devaluation of currency and move to another equilibrium exchange rate.

2. **Crawling Peg System:** In this system, a country keeps on adjusting its exchange rate to new demand and supply conditions. The system requires that instead of devaluing currency at the time of crisis, a country should follow regular checks at the exchange rate and when require must undertake small devaluations.

3. **Clean Floating:** In the clean float system, the exchange rate is determined by market forces of demand apd supply. The exchange rate appreciates or depreciates as per market forces and with no government intervention. It is identical to floating exchange rate.

4. **Dirty Floating:** In the dirty float system, the exchange rate is to a very large extent is determined by the market forces of demand and supply (so far identhcal to clean floating). but occasionally the central banks of the countries intervene in

foreign exchange markets to smoothen or remove excessive fluctuations from the foreign exchange markets.

Types of exchange rate management

A. Fixed Exchange Rate

B. Flexible Exchange Rate

A. The Fixed Exchange Rate

When the exchange rate between the domestic and foreign currencies fixed bv the monetary authority of a country and is not allowed to fluctuate beyond a limit. it is cailed fixed exchange rate. Under the IMF system, the monetary authority of a member nation fixes the official value of its currency in terms of a reserve currency (usually the US dollar) or a basket of 'key currencies.' The exchange rate so determined is known as currency's par value. It is also called 'pegged' exchange rate. However, flexibility is allowed within the upper and lower limits prescribed by the IMF, usually 1 % up and down, under the normal conditions.

The basic purpose of adopting fixed exchange rate system is to ensure stability in foreign trade and capital movements. Under fixed exchange rate system, the government assumes the responsibility of ensuring stability of exchange rate. To this end, the government undertakes to buy and sell the foreign currency-buy when it becomes weaker and sell when it gets stronger. Private sale and purchase of foreign currency is suspended. Any change in the official exchange rate is made by the monetary authority of the country in-consultation with the IMF. In practice, however. most countries adopt a dual system: a fixed exchange rate for all official transactions and a market rate for private transactions.

Arguments in Favour of Fixed Exchange Rate:

First, it provides stability in the markets. ceI1ainty about the future course of actions in the Foreign Exchange Market. and it eliminates the risk caused by the uncertainty.

Second, it creates a system for a smooth floyv of foreign capital between the nations, as it gives assurance of fixed return on investment.

Third, It removes the possibility of speculative transactions in foreign exchange markets.

Lastly, it reduces the possibility of competitive exchange depreciation or devaluation of currencies.

B. Flexible Exchange Rate

When the exchange rate is decided by the market force (demand and supply of currency), it is called the flexible exchange rate.

The advocates of flexible exchange rate have put forward equally convincing arguments in its favour. They have challenged all the arguments against the flexible exchange rate. It is often argued that flexible exchange rate causes destabilization, uncertainty, risk and speculation. The proponents of the flexible exchange rate have not only rebutted these charges but also have put forward strong arguments in favour of flexible exchange rate.

Arguments in favour of Flexible Exchange Rate:

First. flexible exchange rate provides a good deal of autonomy in respect of domestic policies as it does not require any obligatory constraints. This advantage is of great significance III the formulation of domestic economic policies.

Second, flexible exchange rate is self-adjusting and therefore it does not devolve on the government to maintain an adequate foreign exchange reserves to stabilize the exchange rate.

Third, since flexible exchange rate is based on a theory, it has a great advantage of predictability and has the merit of automatic adjustment.

Fourth, flexible exchange rate serves as a barometer of actual purchasing power of a currency in the foreign exchange market.

Finally, some economists argue that the most serious charge against the flexible exchar rate, that is, uncertainty, is not tenable because speculative tendency under this system its creates conditions for certainty and stability. They argue that the degree of uncertainty une flexible exchange rate system. if any. is not greater than one under the fixed exchange rate

Examples of exchange rates concepts.

- US$l = C$1.1050. Here the base currency is the US dollar and the counter currency the Canadian dollar. In Canada. this exchange rate would comprise a direct quotation of the Canadian dollar. This is easy to understand intuitively, since prices of goods an services in Canada are expressed in Canadian dollars; therefore the price of a US dollar in Canadian dollars is an example of a direct quotation for a Canadian resident.

- C$l = US$ 0.9050 = 90.50 US cents. Here. since the base currency is the Canadiar dollar and the counter currency is the US dollar. this would be an indirect quotation ot the Canadian dollar in Canada.

- IfUS$l = lPY 105, and US$l = C$1.1050, it follows that C$1.1050 = lPY 105, or C$l = lPY 95.02. For an investor based in Europe, the Canadian dollar to yen exchange rate constitutes a cross currency rate. since neither currency is the domestic currency.

4.5 Protection against their adverse movements

Risks of International Investments

Several levels of investment risks are inherent in foreign investing: political risk, local tax implications and exchange rate risk. Exchange rate risk is) especially important, because the returns associated with a particular foreign stock (or mutual fund with foreign stocks) must then be converted into TS. dollars before an investor can spend the profits. Let's break each risk down.

Portfolio risk

The political climate of foreign countries creates portfolio risks because governments and political systems are constantly in flux. This typically has a very direct impact on economic and business sectors. Political risk is considered a type of unsystematic risk associated with specific countries, which can be di\ersified a\\ay by investing in a broad range of countries, effectively accomplished with broad-based foreign mutual funds or exchange-traded funds (ETFs).

Taxation

Foreign taxation poses another complication. Just as foreign investors with U.S. securities are subject to U.S. government taxes, foreign investors are also taxed on foreign-based securities. Taxes on foreign investments are typically withheld at the source country before an investor can realize any gains. Profits are then taxed again when the investor repatriates the funds.

Currency Risk

Finally, there's currency risk. Fluctuations in the value of currencies can directly impact foreign investments, and these fluctuations affect the risks of investing in non-U.S. assets. Sometimes these risks work in your favor, other times they do not. For example, let's say your foreign investmentportfolio generated a 12% rate of return last year, but your home currency lost 10% of its value. In this case, your net return will be enhanced wi1en you convert your profits to U.S. dollars, since a declining dollar makes international investments more attractive. But the reverse is also true; if a foreign stock declines but the value of the home currency strengthens sufficiently, it further dampens the returns of the foreign position.

Protection against their adverse movements

Despite the perceived dangers of foreign investing, an investor may reduce the risk of loss from fluctuations in exchange rates by hedging with currency futures. Simply stated. hedging involves taking on one risk to offset another. Futures contracts are advance orders to buy or sell an asset, in this case a currency. An investor expecting to receive cash flows denominated in a foreign currency on some future date can lock in the current exchange rate by entering into an offsetting currency futures position.

There are two possible outcomes with this hedging strategy. If the speculator is correct and the euro risE'S against the dollar, then the value of the contract will rise too, and the speculator will earn a profit. However, if the euro declines against the dollar, the value of the contract decreases.

When you buy or sell a futures contract, as in our example above, the price of the good (in this case the currency) is fixed today, but payment is not made until later. Investors trading currency futures are asked to put up margin in the form of cash and the contracts are marked to market each day, so profits and losses on the contracts are calculated each day. Currency hedging can also be accomplished in a different way. Rather than locking in a currency price for a later date. you can buy the currency immediately at the spot price instead. In either scenario. you end up buying the same currency, but in one scenario you do not pay for the asset up front.

Investing in the Currency Market

The value of currencies fluctuates with the global supply and demand for a specific currency. Demand for foreign stocks is also a demand for foreign currency, which has a positive effect on its price. Fortunately. there is an entire market dedicated to the trade of foreign currencies called the foreign exchange market (forex for short). This market has no central marketplace like the New York Stock Exchange: instead. all business is conducted electronically in what is considered one of the largest liquid markets in the world. There are several ways to invest in the currency market. but some are riskier than others. Investors can trade currencies directly by setting up their own accounts, or they can access currency investments through forex brokers. Foreign securities. while a good thing for your long-term portfolio, continues to pose new threats for investors. As more people broaden their investment universe by expanding into global stocks and bonds. they must also bear the risk associated with fluctuations in exchange rates. Fluctuations in these currency values, whether the home currency or the foreign currency. can either enhance or reduce the returns associated with foreign investments. Currency plays a significant role in investing; read on to uncover potential strategies that might downplay its effects.

Pros of Foreign Diversification

There is simply no doubting the benefits of owning foreign securities in your portfolio. After all, modern portfolio theory (MPT) has established that the world's markets do not move in lockstep. and that by mixing asset classes with low correlation to one another in the appropriate proportions. risk can be reduced at the portfolio level, despite the presence of volatile underlying securities.

Minimizing Currency Risk

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In the currency markets. speculators buy and sell foreign exchange futures to take advantage of changes in exchange rates. Investors can take long or short positions in their currency of choice. depending on how they believe that clmency will perform. For example, if a speculator believes that the eurowill rise against the U.S. dollar. he will enter into a contract to buy the euro at some predetermined time in the future. This is called having a long position. Conversely, you could argue that the same speculator has taken a short position in the U.S. dollar.

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However, margined currency trading is an extremely risky form of investment, and is only suitable for individuals and institutions capable of handling the potential losses it entails. In fact, investors looking for exposure to currency investments might be best served acquiring them through funds or ETFs- and there are plenty to choose from.

Types of Foreign exchange risk

Transactional

This is a risk which arises when corporates do business overseas in foreign currency either by importing overseas goods and services or exporting them. The company pays out or receives foreign currencies. Dealing in foreign currencies exposes them to currency volatility, especially when the contract becomes committed.

Translational

This risk arises when a corporate has an asset or liability in a foreign currency e.g. in the U.S. or in Euroland on its balance sheet, and then there is a sharp appreciation in the value of the asset in Sterling terms. Towner explained: *"This leads to currency volatility impacting the value of the balance sheet in local currency. This can be hedged as well."*

Approaches to hedging FX risk

Towner provided a step by step approach for companies with FX exposure to follow 1. First of all, identify the risk and look at whether it can be internally mitigated 2. Secondly, quantify the impact of the FX risk on the bottom line 3. Implement a strategy - there should be a framework or policy. Towner comments: "Many CFG or FDs have too much responsibility, so when FX markets move significantly, Boards can be very unforgiving when a rate drops by 10% but the risks weren't hedged. Yet if the rates go the other way.

the CFO may be asked "Why did you hedge?" Having an FX pi signed off by the Board removes all these em6tic 4. Conduct the hedging process, ensuring that the business has liquidity margin in plac order to 5. Marketing timing and execution.

Event risk and liquidity

Over the years. the FX market has become much more volatile. Towner pointed out that volume in the FX markets over the last 15 years has more than doubled.

"There are two types of event risk - the known e.g. central bank decisions, elections a referendums - while we know when they will happen, we don't know the outcomes. A then there are the unknowns or the 'known unknowns' - we know that they happen e terrorism or a hurricane. but we don't know when they will happen."

Towner gave an example of one of the biggest moves in the FX markets which occurred 2015 and was triggered by Switzerland: "The Swiss had been protecting their currenc through 2013 and 2014 against the Euro- every time the Swiss Franc went below the 1.2 rate, they would aggressively start selling the Swiss Franc to prop it up and get it tradin above 1.20. Then in 2015. the Swiss National Bank announced to the market that it would nl longer protect their currency in this way and let the market takes their natural course - the result was that within two minutes, the Swiss currency strengthened by 30% against the Eun to a rate of 0.85. So if a foreign business had hac a Swiss asset, this would have appreciatec in Euro terms by 30% in just a couple of minutes. In events like these, there is a sharp reduction in volume in that particular currency pair, which leads to a sharp increase in volatility and it becomes very difficult to deal within these illiquid markets."

Towner explained that the Swiss had a reserve of Euros that was getting bigger than the country's GDP, so it was at a time when the reserves had become too large.

Common mistakes to avoid when managing your FX risk

1. Not knowing whether you're exposed to FX risk, or how much. Currency exposure can come in many forms 2. Not having an FX Risk Management Policy in place. Quantify the risk and set out a plan to manage. There should be buy in from everyone 3. Focusing only on the rate. It's not the only factor that will impact on a business's exposure to currency

risk but to get a certain rate, businesses will sometimes risk everything 4. Not understanding the breadth of services available to the business. There are a variety of FX tools to help insure a business against the possibility of adverse moves 5. Getting ovenvhelmed by complex administration. Get the right support to help you function more effectively 6. Not having a handle on compliance. Unfamiliar banking codes and regulatory challenges may delay transactions 7. Poor internal communication. Share and understand how particular currency market exposures fit into the business's overall exposure 8. Working with a provider stuck in rigid processes. Seek flexible terms 9. Not shopping around. Work with someone who understands the company's needs and can help achieve the company's goals.

According to Towner, corporates who know their risks in the future or can confidently forecast their risks should be hedging. The example of a UK based Italian shoe importer was used. This company ordered Euros 3 Million of shoes in June before Brexit. but didn't hedge and normally buys the currency and pays three months after placing the order. This company required an extra 13% or £362,000. They only bought the Euros once the invoice came in and this impacted massively the amount of Sterling they needed.

A fixed forward rate

Towner explained that businesses can get protection at a specific rate for six months delivery using a "Forward". So if advising a UK company that needs to buy dollars in six months' time, the client can be advised not to hold off it they know exactly how many dollars they will need and secure protection at a specific rate e.g. 1.30:

Vanilla option

With this option. Towner explained that a business can take insurance without the obligation, so referring to the above scenario. the company would be protected. And if the Sterling/ Dollar rate goes up. the business can take advantage of the favourable move and buy dollars at the spot market. This option comes at a premium but is. according to Towner, a good option for companies that may be involved in M&A activity: *"Before the deal is committed, there is a FX risk within the deal but insurance can be taken out to protect against the FX risk before actually committing to the contract.*

FX structured product

Towner explained that this FX product is useful for when a business wants protection "but doesn't want to pay a premium either. Towner gave the following example: When a US dollar buyer wants protection at 1.20 for six months time. but does not want to pay a premium, he/she can buy a 1.20 protection at a premium of 1.2%. To reduce the cost of this premium to zero, the client sells a FX option to a US dollar seller looking for protection at 1.34.

Collar option

According to Towner. this option is useful when a company wants to protect a balance sheet risk: "The balance sheet doesn't need to be protected exaclly at the money. If it is a Sterling company that has a dollar asset and the desire is to protect against the dollar weakening, the business won't want to protect immedialely if the dollar weaeakens - you have more flexibility with the balance sheel risk but the business may want to protect the "tail risk" e.g. what happens if Sterling/Dollar rale goes hack up to 2.00."

What to watch out for

- FX Structures with leverage: “Y ou may be compelled to hedge 2x or even 3x of your intended notional"
- Extensions: Watch out for FX structures that extend into a reponing period at a set rate that may prove unfavourable: "The decision to extend does not lie in your hands and instead in the hands of the bank/broker"
- Knock-out: You may get an enticing rate with these types of structures; however these are not hedges and they knock out just when you need the protection the most!

Conclusion

Towner concluded that businesses should always have some structure to hedging their FX risk: "This gives stability and removes the emotion. Sometimes large events come along that are difficult to forecast - businesses should not hedge around their preferred outcome as that may not happen. " Towner also advised businesses to be prepared as leaving things to the last minute may prove costly and suggested that business should have an FX Policy that gives the business a comfortable percentage of hedging and flexibility at the same time: "Businesses should not leave themselves exposed to a step up in volatility." As a sign off, Towner emphasised: "Proper risk management means the CFO and Board can sleep well at night!"

4.6 SUMMARY

The difference of Marine Insurance from other insurances is in a high degree of security and service. It is of vital importance for every shipowner to have good security in form of longterm reliable partnership and dependable service to protect his propel1y and business. The vessel is the shipping company's investment and usually represents big value as well as produces high daily running costs. The loss of the vessel or damage to the vessel can mean for the shipping company repair costs and/or loss of income for a shorter or longer period and without satisfactory insurance cover a loss occurred can be devastating for the business.

The Bretton Woods system of exchange rate which was in operation from 1944 till 1971. \\as one of relative fixed exchange rate as opposed to rigid fixed exchange rate. As a matter of fact, rigid fixed exchange rate as defined above, is never been used in history. Even under the system of Gold Standard 1870-1941, the exchange was relatively fixed and not rigidly fixed. An exchange rate is the price of a nation's currency in terms of another currency. Thus. an exchange rate has two components, the domestic currency and a foreign currency. and can be quoted either directly or indirectly. In a direct quolation. the price of a unit of foreign currency is expressed in terms of the domestic currency. In an indirect quotation. the price of a unit of domestic currency is expressed in terms of the foreign currency. Exchange rates are quoted in values against the US dollar. However, exchange rates can also be quoted against another nations currency, which are known as a cross currency or cross rate. Foreign exchange ahs all commodity features, viz.. It is scarce and subject to (exchange) control. It has a price (rate of exchange) decided by the forces of supply (inflow) and demand (outflow). It has active (international) market and like the dealers in other commodities maintaining stock to meet requirements, banks dealing in foreign exchange maintain reserves in the form of balances in the nostro accounts abroad.

An exchange rate has a base currency and a counter currency. In a direct quotation, the foreign currency is the base currency and the domestic currency is the counter currency. In an indirect quotation, the domestic currency is the base currency and the foreign currenC) is the counter currencv. Most exchange rates use the US dollar as the base currency and other currencies as the counter currency. However, there are a few exceptions to this rule, such as the euro and Common wealth currencies like the British pound, Australian dollar and New Zealand dollar. Exchange rates for most major cunencies are generally expressed to four places after the decimal except for currency quotations involving the Japanese yen, which are quoted to two places after the decimal. Furthermore, exchange rates can also be categorized as the spot rate - which is the cunent rate - or a forward rate, which is the spot rate adjusted for interest rate differentials.

4.7 GLOSSARY

Marine Insurance: Marine insurance covers the loss or damage of ships, cargo, terminals, and any transport or cargo by which the property is transfened, acquired, or held between the points of origin and the final destination.

Marine Risks:

Exchange Rate: An exchange rate is the price of a nation's currency in terms of another currency. Thus. an exchange rate has two components, the domestic currency and a foreign currency. and can be quoted either directly or indirectly. In a direct quotation, the price of a unit of foreign cunency is expressed in terms of the domestic currency. In an indirect quotation, the price of a unit of domestic currency is expressed in terms of the foreign currency. Exchange rates are quoted in values against the US dollar. However, exchange rates can also be quoted against another nations currency, which are known as a cross currency, or cross rate.

Foreign Exchange Markets: Like any other commodity, foreign exchange also has an active global market. It has a three tier market consisting of the following segments:

Merchant Market: Comprising of all banks and their export-import customers and others. Banks acquire exchange from their exporter customers and dispose of exchange to meet the needs of their importer customers.

4.8 SELF ASSESSMENT QUESTIONS

1. What do you understand by marine risks?

2. What is the procedure for insuring goods against marine risks?

3. What do you understand by foreign exchange rates?

4. What is the technique of protection of goods against their adverse movements?

4.9 LESSON END EXERCISE

1. Write short notes on marine risk and its insurance

2. Discuss foreign exchange rates in detail

3. Explain technique of protection of goods against their adverse movements in details

4.10 SUGGESTED READING

Export-What Where & How	: Paras Ram
Export Marketing	: Michael Vaz
F Export Management	: T. A .S. Balagopal
Export-Import Financing	
(Frontiers in Finance Series)	: Harry M. Venedikian and Gerald A. Warfield
Export Finance	: Willsher. Richard.

COURSE NO : BM- 601 **UNIT - V**

SEMESTER - VI **LESSON : 9-10**

FINANCIAL AND FISCAL INCENTIVES PROVIDED BY GOVERNMENT AND AUTONOMOUS ORGANISATION FOR EXPORTERS

STRUCTURE

5.1 INTRODUCTION

Enhancing exports is one of the main priorities of any government because it is expected to raise the momentum of economic growth and development. In pursuing such goals, governments (particularly in developing countries) have a history of offering generous export incentives to sectors that are considered the mainstay of the economy. Fiscal and non-fiscal export incentives end up being much more than a change in relative prices because they can result in key institutional reforms. Export incentives persist as the main ingredient of trade policy. At the same time, they are not subject to strict evaluation primarily because their cost is less visible than that of other export promotion policies that involve explicit budget outlays. This argument is rarely articulated, but it does undoubtedly contribute to the political attractiveness of tax incentives compared to alternatives with a direct budgetary impact, such as subsidies or infrastructure development for industrial zones and others. It includes cash incentives, lower income tax rates, concessional export finance, zero-rating sales tax, exemption from export duties and others. The principal purpose of this paper is to compare the export or fiscal incentives given to the textile industries across these three countries, given that they are also competitors in the international export market. The analysis does not utilize traditional measures that involve export shares or relative prices; rather, we have formulated a novel methodology based on measures of competitiveness at the level of a single firm or individual exporter. In order to boost the export business Government of India have provided various export assistance and facilities both for production and marketing activities. In this unit you will learn various assistance provided to Indian exporters to promote the export business.

5.2 OBJECTIVES

After studying this unit, you should-be able to:

i. Explain the need and importance of export incentives in India

ii. Financial incentives provided by government for exporters

iii. Financial incentives provided by autonomous organisation for exporters

iv. Fiscal incentives provided by government for exporters

v. Fiscal incentives provide by autonomous organisation for exporters

5.3 NEED AND IMPORTANCE OF EXPORT INCENTIVES

Export promotion was accorded a very low priority during the initial programme of economic development in India. During the 1950s and almost up to mid-1960s export-promotion was not at all considered as an essential element in India's economic development process. Easy and adequate availability of external assistance from World Bank and other international agencies as well as developed countries has provided India with more than adequate amount of foreign exchange for financing development as well as essential imports. Hence, the urgency of earning foreign exchange through expanding exports was not there. In addition, because of the large size of the domestic market in India, 'import-substitution' rather than the, 'export-promotion' was considered as a more useful strategy for India's economic development process. Similarly during the period of the First Three Five year Plans over 1950-51 to 1965-66. Indian economy was in a formative stage. Consequently India's I Export Incentives and Assistance account as well, India could not look at international markets especially because of her extremely limited capacity to offer supplies of industrial products. However, after 1965-66, the aid-flows to India were substantially reduced. Consequently, for the first time India was made to depend significantly on her own exports for acquiring foreign exchange to meet her needs of essential imports. Moreover, by the second-half of 1960s, a number of industries especially in the engineering, chemicals, leather, marine and other sectors have reached a stage from where they were looking for an opening in international market. Government of India had therefore considered it as appropriate to lay emphasis on the need for export promotion so as to enable the country to meet the needs of imports. Fortunately, it received an encouraging response from the industrial sector which was also looking for international markets. Over the last couple of decades export promotion has assumed critical importance in Indian economy, Export growth has become the main determinant of economic growth in India. With the increasing burden of debt-servicing on the one hand and the situation of aid-fatigue on the other, exports have now emerged as the only viable source of meeting the foreign exchange needs of Indian economy. Hence, the feasibility of financing almost entirely depends upon the growth in Indian exports. It may, therefore, be stated that the future economic growth in India is inseparably linked with growth in Indian exports. Hence, export promotion is being an overriding consideration in policy formulation. Export promotion policy in India has three main segments. They are as follows:

a) Policies for increasing investment and production in export sector.

b) Price-support measures for rendering exports more competitive.

c) Measures for strengthening marketing effort by the export sector.

5.4 EXPANSION OF PRODUCTION BASE FOR EXPORTS

The first pre-requisite of export promotion policy is to ensure larger exportable surpluses. In other words if a country wants to export more, it must have more to export, It will have more to export only if more and more is produced for export. Hence, it calls for increasing flow of production and investment resources into the export sector.

5.4.1 Relaxations in Industrial Licensing Policy/MRTP/FERA/Foreign Collaborations

With a view to facilitate relatively easier creational expansion of production capacities for increasing export potential of Indian economy, necessary relaxations have been provided for in the policies for industrial licensing, MRTP (Monopolies and Restrictive Trade Practices Act) and FERA (Foreign Exchange Regulations Act) etc. The Foreign Exchange Regulation Act has been liberalised and rupee has been made fully convertible for all approved external transactions. As a result, exporters of goods and services and those who are in receipt of remittances are able to sell their foreign exchange at market determined rates. The importer and foreign travelers are also able to buy foreign exchange at market determined rates. Exporters have also been allowed to maintain foreign currency accounts. There is a general liberalisation of remittance of foreign exchange for visits abroad, agency commission, export claims, reduction in export value, reimbursement of expenses incurred on dishonored export bills, consular fees, etc. Consequently, creation of additions of production capacities for export is liberally allowed, both in the large-scale as well as small-scale sectors. Foreign collaboration and foreign capital investment is also liberally permitted for the export sector. 100% foreign equity has been permitted to the units in EPZ/EOU/EHTP/STF'. All these policy measures are envisaged to go a long way in facilitating easy expansion as well as technological upgradation of export base in India through attracting larger flows of investment and other resources.

5.4.2 Liberal Import of Capital Goods Import policy of India

It has made especially liberal provisions for easy import of capital goods of all types. Accordingly, imports of ranching and equipment are allowed without import license. In addition, special provisions have been made for import of capital goods and a Export incentives in all India concessional rate of import duty. Export Promotion Capital Goods (EPCG) Scheme has been introduced for liberal import of capital goods. Under this scheme, capital goods for the manufacture of goods and for providing services, can be imported at zero duly or 10% duty against an obligation to export four times of CIF value over 5 years and six times of CIF value over 8 years respectively. Computer systems can also be imported under this scheme. Import of Capital goods for farm sector may be allowed at zero duty against obligation to export six times the ClT value on FOB basis over six years, if the import of capital goods is of Ib.5 crores or more.

5.4.3 Export Processing Zones (EPZ), Export-Oriented Units (EOU), Electronic Hardware Technology Parks (EHTP) and Software Technology Park Units (STY) Units.

These undertaking to export their entire production of goods may be set up under Export Processing Zones (EPZ) Scheme, Export Oriented Units (EOU) Scheme, Electronic Hardware Technology park (EHTP) Scheme or Software Technology Park (STP) scheme. Such units may be engaged in manufacture, production of software, agriculture, aquaculture, animal husbandry, floriculture, horticulture, pisciculture, viticulture, poultry and sericulture. Units engaged in service activities may also be considered. These units may import all types of goods, including capital goods for manufacture, production or processing provided they are not prohibited items. Second hand capital goods may also be imported in accordance with the provisions of the policy. These units are permitted to sell 25% of the production in value terms in the Domestic Tariff Area subject to payment of applicable duties. Rejects upto 5% of the value of production may also be sold in the DTA. Supplies from DTA to these units will be regarded as deemed exports. Foreign equity upto 100% is permissible to these units. These units shall be exempted from payment of corporate income-tax for a block of five years in the first eight years of their operation.

5.4.4 Assured Supply of Raw-material Imports

As regards making available the supplies of imported raw-materials to the export sector, the import policy provides the scheme of Duty Free License. Import of raw materials, intermediates, components, consumables, parts, accessories, mandatory spares and packing materials may be permitted against a duty free license. Duty Free License includes Advance License, Advance Intermediate license and Special Import License. An advance license is granted to a merchant-exporter or manufacturer-exporter for the import of inputs required for the manufacture of goods without payment of basic customs duty. An Advance Intermediate License is granted to a manufacturer-exporter for the import of inputs required in the manufacture of goods to be supplied to the ultimate exporter holding an Advance License/Special Import License. A Special Import License is granted to a manufacturer-exporter for the import of inputs required in the manufacture of goods to be supplied to the categories mentioned in the policy.

5.5 ELIGIBILITY FOR EXPORT STAR TRADING AND SUPER STAR TRADING HOUSES

Export Star Trading and Super Star Trading Houses have been accorded special status. When exporters achieve the specified level of exports over a period, they may be recognised as EWTH/STWSSTH. The exporters, registered with FIE0 or EPC are eligible for this purpose. The export performance criteria may be based on either F.O.B value of exports or net foreign exchange earnings.

i) F.O.B. Criteria: The manufacturing or merchandising units, who have achieved the following targets can be accorded the status of above mentioned Export Houses. Deemed exports are not counted for this purpose. FOB Criteria Category of Average FOR value of FOB value of Houses exports during the eligible exports preceding three during preceding licensing years licensing year Export Houses Rs.20 crores Rs.30 crores Trading Houses Rs. 100 crores Rs. 150 crores Star Trading Rs.500 crores Rs.750 crores Houses Super Star Rs. 1500 crore to Rs.2250 crores Trading Houses Exporters have option to get recognition for the year. In this case relaxation in above turnover has been permitted to the exporters.

ii) Net Foreign Exchange Earnings: Exporters have an option for obtaining the status of Export and other houses based on the following Net Foreign Exchange Earnings. Net Foreign Exchange Criteria Category of Average Net Foreign Net Foreign Exchange houses exchange Value of value of exports made eligible exports during the preceding licensing year .three licensing years Export Houses Rs. 16 crores Rs.24 crores .Trading Houses Rs.80 crores Rs. 120 crores Star Trading Rs.400 crores Rs.600 crores Houses Super Star Rs. 1200 crores Rs. 1800 crores Trading Houses Exporters have also an option to get recognition for one year. In this case relaxation in above earnings has been permitted. EH/TH/STH/SSTH are entitled to the following special benefits :

i) Import Facilities

ii) Marketing Development Assistance

iii) Foreign Currency Accounts

iv) Foreign Exchange Facilities

v) Other facilities like training of personnel, trade delegation, exemption from pre-shipment inspection, green channel facility, etc.

5.6 RENDERING EXPORTS PRICE-COMPETITIVE

The second pre-requisite of export promotion policy is to render the exports increasingly price competitive in international market. A number of price support measures in the form of fiscal as well as financial incentives have therefore been provided for the export sector. The need for price-support measures in the form of export incentives arises on two accounts. First, price levels in international markets are invariably the lowest, because of the high degree of competition therein. On the other hand, Indian economy has over the years emerged as a high cost economy with low productivity. Hence, for successful and viable export effort there is the need for incentives to provide the price support for rendering India's exports competitive and viable. Secondly, incentives for exports also become necessary to neutralise the domestic market-pull on Indian exporters. Hence, export incentives also aim at encouraging trade and industry in India to increasingly undertake export effort on a sustained basis. Under the export promotion policy of India, various types of incentives have been provided for as price-support measures. These include:

(A) Fiscal Incentives and

(B) Financial Incentives.

5.6.1 Fiscal Incentives: Fiscal incentives for export promotion include

(i) Duty drawback

(ii) Central excise rebate and

(iii) Income tax exemption on export profits.

i) Duty Drawback: Under this incentive import-duty and central excise duties on raw materials, components and packing materials used in export product, are refunded back to the exporter. This results in substantial reduction in the cost of material inputs for export-production. In other words, import duties and central excise duties, on material inputs for export activity are allowed to be drawn back by the exporters under the incentives policy for Duty Drawback. The scheme of Duty Drawback has been formulated by the Drawback Director under the Central Board of Revenue and Customs from the Ministry of Finance. Details regarding Drawback Scheme can be had from 'Drawback Rules' as notified by the office of Drawback Director. Refund of Duty Drawback is granted on post-export basis. The benefit of Duty Drawback has been provided on the basis of

(a) all industry rates or

(b) brand rates separately fixed for individual manufacturers of the export products.

The incentive of Duty Drawback helps reduce significantly the material cost of export products. It is very important for countries like India, which have simple manufactures to offer for exports which are very much influenced by the material cost.

ii) Central Excise Rebate: Under this scheme, the Central Excise Duties on the inputs and final product or on the output proposed for export, are refunded to the exporter. It helps in further reduction in the overall cost of production for exports. The scheme also provides for a Bond System under which outright exemption from Central Excise Duties can be claimed by the exporter. The scheme is operated as per Central Excise Rules notified by the Central Excise department.

iii) Income-Tax Exemption: Export incentives in the form of income-tax concessions have also been provided for exporters. Export profits are totally exempted from income-tax. However, for assessment purposes total taxable profits of the company/firm are calculated on the basis of the entire sales then over including domestic as well as export sales. From the taxable profits so arrived at, that portion is exempted from income-tax, which represents the ratio of export-sales to total sales turnover. For instance, if export sales are 25 percent of the total sales turnover of the firm, then 25 per cent of the taxable profits will be exempted from income-tax.

iv) Exemption Refund of other taxes: Export transactions are also eligible for exemption/ refund of sales tax.

5.5.2 Financial Incentives : The scheme of financial incentives include interest subsidy, financial assistance scheme for Agricultural, Horticultural and inert exports.

i) Interest Subsidy: Export sector in India has also been given interest subsidy under which the working capital is made available by the banks to the export sector at a concessional or subsidised rates of interest. According to this scheme, working capital required for pre-shipment credit as well as post-shipment credit is provided to the export sector at concessional rates of interest. This measure helps Indian exporters to reduce the working capital cost of export operation.

ii) Financial Assistance Scheme for Agricultural, Horticultural and Meat Exports: In order to promote the exports of agricultural, horticultural and meat products, Agricultural and Processed Food Products Export Development Authority (APEDA) provides financial assistance for the following purposes :

a. Feasibility surveys, consultancy and data base upgradation

b. Development of infrastructure

c. Export promotion and market development

d. Packaging development

e. Quality control

f. Upgradation of meat plants

g. Organisation building and Hunan Resource Development

h. Air Freight Assistance for export of horticultural and floricultural products.

Thus, export incentives in the form of tax-concessions or fiscal incentives, as well as financial incentives, play a major role in rendering Indian exports, competitive in the international market. However, in view of the highly competitive nature of international market, every country in the world makes an all-out effort to increase her exports, for which various types of different fiscal and financial incentives are provided. Thus the practice of incentives has almost become universal, covering both developed as well as developing countries.

5.7 STRENGTHENING EXPORT MARKETING EFFORT

The third pre-requisite of export promotion is the marketing effort. It may be noted that 'export' is primarily a 'sale' transaction. Production can be converted into 'sale' only through the marketing effort. In other words 'marketing effort' provides the necessary link or channel between production and sales. Hence, success on the export front is crucial dependent upon the marketing effort. Export promotion policy in India therefore pays special attention to the need for improving and strengthening export marketing effort. With this objective, the Government of India has established a very comprehensive network of institutions for servicing the export sector. In other words, an effort has been made to provide the necessary infrastructure for servicing the export sector, particularly to improve the export marketing effort. With this object in view Government of India has established a number of specialised institutions for providing necessary services and assistance to individual corporate units from the export sector. 20 Institutions established for strengthening export marketing effort include Export Promotion Export Incentives in India Councils, Commodity Boards, Special Authorities and Industry Associations. These are the key institutions servicing export effort at individual corporate level product-wise. The primary function of these institutions is to provide the exporter with export marketing guidance and advice as well as complete information and details covering almost all the critical elements involved in export marketing effort at the individual corporate unit level on a continuous basis. In addition, separate institutions have also been established for providing technical and specialised services to the export-sector in India. These institutions provide necessary guidance, help and assistance to individual corporate units, especially in the field of packaging, quality control, risk coverage, long-term credit, trade fairs and exhibitions, settlement of disputes, package service and market information. For supplementing the export-effort by the private sector, Govt. of India has also established a number of corporations in the Government sector for directly undertaking export-import activity. Various State Governments have also established Export corporations for promoting exports from different states respectively. Market Development Assistance: This assistance is provided for overall development of overseas markets. It is provided for sponsoring, inviting trade delegations within and outside the country, market studies, publicity, setting up of warehoused showrooms, research and development, quality control, etc. MDA is largely available to Approved organisations, Export Housed Consortia of Small Scale Industries, Individual exporters or other sponsored persons. The assistance is given for air fare, daily allowance, participation in fairs and exhibitions, etc. External Marketing Assistance Scheme for Jute: The External Marketing Assistance Scheme provides grant of market assistance at the rate of 5% and 10% of FOB value realisation on export of specified diversified products. The benefit is available to both manufacturer-exporters and merchant exporters.

5.8 SUMMARY

Export promotion has assumed critical importance in Indian economy. Export growth has become main determinant of economic growth. With the increasing requirements of imports, exports have now emerged as the only viable source of meeting the foreign exchange needs. Government of India have provided various incentives for export promotion. Export Promotion policy includes (i) Policies for increasing investment and production in export sector (ii) Price support measures for rendering exports more competitive and (iii) measures for strengthening marketing effort by the export sector. There has been a relaxation in industrial licensing policy/MRTP/FERA/foreign collaboration to increase the flow of production and investment resources into the export sector. Apart from the provisions made for liberal import of capital goods, Export Processing Zones, Export-oriented units have been given completely license-free and duty-free import facilities for all production inputs. Duty Free license Schemes have been granted to the registered exporters for supplies of adequate quantities of material inputs required for export. Export House, Trading House, Star Trading House and Super Star Trading House have been given special facilities to promote the export business. In order to make India's export competitive price viable support incentives have been given to the exporters. Fiscal incentives include (i) duty drawback (ii) central excise rebate and (iii) income-tax exemption on export profits. The scheme of financial incentives include interest subsidy on working capital and Financial Assistance Scheme for Agricultural, Horticultural and Meat Exports. The success on the export front is crucially dependent upon the marketing of the products. Hence, special efforts have been made for improving and strengthening export marketing effort. Government of India has established a number of specialised institutions for providing necessary services and assistance to the exporters. Marketing Development Fund provides necessary financial assistance for market promotion.

5.9 SELF ASSESSMENT QUESTIONS

1. Explain the facilities/concessions for increasing the production-base for exports from

2. Analyse the different price support measures introduced in India for rendering India's exports more competitive.

3. Why the role of marketing effort is crucial in export promotion? Describe the measures undertaken in India for strengthening export marketing effort.

4. Explain the rationale for price-support measures for export promotion in India.

5. "Export Incentives have become a universal practice". Discuss.

6. Explain the framework of export incentives in India and analyse as to how far it provides a total approach to export promotion.

Directorate of Distance Education

UNIVERSITY OF JAMMU

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SELF LEARNING MATERIAL

B.A. SEMESTER - VI

SUBJECT : MARKETING MANAGEMENT **UNIT I-V**

COURSE NO. : MK-601 **LESSON NO. : 1-10**

COURSE CO-ORDINATOR
PROF. DARSHANA SHARMA

http:/www.distanceeducationju.in
Printed and published on behalf of the Directorate of Distance Education, University of Jammu, Jammu by the Director, DDE, University of Jammu

EXPORT PROCEDURES AND DOCUMENTATION

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Printed By Durga Printer / 2018/ 75