IMPORT EXPORT MANAGEMENT
Import-Export Management: Overview
Import Export Management Introduction; Concept Key Feature; Foreign Trade - Institutional Framework and Basics; Trade Policy; Foreign Trade; Simplification of Document; Reduction in Document to Five for Custom Purpose; Exporting; Importing Counter Trade; the Promise and Pitfall of Exporting; Improving Export Performance; Counter Trade.

International Marketing: Environmental and Tariff Barrier
International Marketing: Definition, Components of International Marketing Management; Trade Barrier Definition: Components of Trade Barrier, Objectives of Trade Barrier.

Non Tariff Barrier
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Marine Insurance
Marine Insurance Introduction and Meaning; Principle of Marine Insurance; Features & Types of Marine Insurance; Insurance Claim Procedure for Filling Marine Insurance; Documents for Claim; ISO-9000
**Export Assistance of India**

Export Assistance of India: Introduction, Importance of Export Assistance, Export Promotion Measure in India, Expansion of Production Base for Exports; Relaxation in Industrial Licensing Policy / MRTP / FERA / Foreign Collaborations; Liberal Import of Capital Goods; Export Processing Zones (EPZ); Export Oriented Units (EOU); Special Economic Zones (SEZs); Electronic Hardware Technology Parks (EHTP) and Software Technology Park Units (STP); Assured Supply of Raw-Material Imports; Eligibility for Export / Trading / Star Trading / Super Star Trading Houses; Export Houses Status for Export of Services; Rendering Exports Price Competitive; Fiscal Incentives; Financial Incentives; Strengthening Export Marketing Effort

**Export Promotion Organization**

Export Promotion Organization; its Objectives; Importance of Institutional Infrastructure; Govt. Policy Making and Consultations; Indian Trade Promotion Organization (ITPO); Indian Institute of Foreign Trade (IIFT); Indian Institute of Packaging (IIP); Indian Counsel of Arbitration (ICA); Federation of Indian Export Organization (FIEO); Marine Products Exports Development Authority (MPEDA); Export Processing Zones (EPZ); 100% Export Oriented Units (EOUs); Facilities for Units in EOUs, EPZs, EHTPs & STPs; M. Visvesvaraya Industrial Research & Development Center (MVIRDC); Chamber of Commerce (COC).

**Export Import Policy of India**


**Risk Management and Business Continuity**

Meaning of Risk Management; its Principle; Process; Identification; Assessment; Potential Risk Treatment; Risk Avoidance; Risk Reduction; Risk Retention; Risk Transfer; Creating a Risk Management Plan; Implementation; Review and Evaluation of the Plan; Area of Risk Management; Enterprise Risk Management; Risk Management and Business Continuity; UCP600: Opportunity or Challenges.

**Suggested Readings:**

1. Export Import Policy, Publisher: Ministry of Commerce, Government of India, New Delhi.
2. Electronic Commerce by N. Janardhan, Publisher: Indian Institute of Foreign Trade, New Delhi.
5. Export-What, Where, How by Ram Paras, Publisher: Anupam, Delhi.
1.0  Introduction

1.0.1  Concept of Import Export Management
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1.0  Introduction

Whether a business student is studying marketing, finance, accounting, strategy, human relations, or operations management, the differences between countries in which a firm does business will affect decisions that must be made.

A fundamental shift is occurring in the world economy. The world is getting closer in terms of cross border trade and investment, by distance, time zones, languages and by national differences in government regulation, culture and business systems and toward a world in which national economies are merging into one huge interdependent global economic system. Globalization is affecting firms that previously operated in a nice, easy, protected national market. It also illustrates the increasing importance of thinking globally.

However the world we live is not perfect. It is characterized by considerable amount of uncertainty regarding the demand, market price, quality and availability of own products and those of suppliers. There are transaction costs for purchasing or selling goods or securities. Information is costly to obtain and is not equally distributed. There are spreads between the borrowings and lending rates for investments and financings of equal risks. Similarly each organization is faced with its own limits on the production capacity and technologies, it can employ there are fixed as well as variable costs associated with production goods. In other words, the markets in which real firm operated are not perfectly competitive.
1.0.1 The Concept of Import Export Management

Export Import Management is a comprehensive textbook specially designed for students of management pursuing a course in international business.

The book recognizes the growing significance of export import trade and the need of the corporate world to understand the nuances of export import management in order to compete successfully in the international market. Beginning with the basics of foreign trade and export import documentation, it delves deep into topics such as the methods and instruments of payment, pricing, incoterms (international commercial terms), export import strategies, and practices.

It also explores topics such as financing exporters, risk management and its coverage, customs clearance, cargo, shipping, IT, and export incentive schemes. The book contains separate chapters which provide analyses of markets in the Middle East, the ASEAN countries, Australia and New Zealand, and China and Japan. These provide an insight into the business, political, economic, and legal environment of the host region/country which would enable a potential exporter to understand the challenges and opportunities in the market. These chapters provide practical information for exporters and importers. Practitioners of the trade will find the module a useful handy reference.

1.0.2 Key Feature

- Contains export documents at appropriate places to exemplify documentation Includes a large number of data tables providing export import data
- Contains specific chapters on regional/country markets that provide an insight into the business, political, economic and legal environment of the host region/country
- Provides end chapter questions to test the reader’s understanding as also interesting exercises to put learning into practice

1.0.3 FOREIGN TRADE- Institutional Framework and Basics

Creation of appropriate institutional framework and supportive environment facilitates The growth of external trade. In a developing country like India, the real barometer of Sustained economic development is the growth index of exports. Sustained growth in exports can only be accelerated by conducive framework. The primary objective and emphasis of the Framework is towards accelerated development with the required regulation to support the Framework structure. The role of regulation is to protect the interests of consumers, obtain Conditions of competition and foster the institutional framework. The present regulatory Framework in India is highly supportive. The attitude of the government, a very important Aspect for faster pace is poised in that direction to make the framework achieve the sustained.
1.0.4 TRADE POLICY

Trade policy is one of the many economic instruments for achieving economic growth. The basic twin objectives of the trade policy have been to promote exports and restrict imports to the level of foreign exchange available in the country. The inherent problems of the country have been non-availability/acute shortage of crucial inputs like industrial raw materials, supporting relevant technology and required capital goods. The problems can be removed by imports. But, continuous imports are neither possible nor desirable. The gap between exports and imports is financed through borrowing and foreign aid. However, imports must be financed by exports, in the long run. The basic objective of the trade policy revolves round the instruments and techniques of export promotion and import management.

1.0.5 FOREIGN TRADE

Foreign trade is recognized as the most significant determinants of economic development of a country, all over the world. For providing, regulating and creating necessary environment or its orderly growth, several Acts have been put in place. The foreign trade of a country consists of inward and outward movement of goods and services, which results into outflow and inflow of foreign exchange. The foreign trade of India is governed by the Foreign Trade (Development & Regulation) Act, 1992 and the rules and orders issued there under. Payments for import and export transactions are governed by Foreign Exchange Management Act, 1999. Customs Act, 1962 governs the physical movement of goods and services through various modes of transportation. To make India a quality producer and exporter of goods and services, apart from projecting such image, an important Act—Exports (Quality control & inspection) Act, 1963 has been in vogue.

Developmental pace of foreign trade is dependent on the Export-Import Policy adopted by the country too. Even the Exim Policy 2002-2007 lays its stress to simplify procedures, sharply, to further reduce transaction costs.

Today’s international trade is not only highly competitive but also dynamic. Necessary responsive framework to make exports compete globally, is essential. In order to harness these gains from trade, the transaction costs, in turn dependent on the framework support, involved need to be low for trading within the country and for international trade.

International trade is a vital part of development strategy and it can be an effective instrument of economic growth, employment generation and poverty alleviation. Market conditions change, almost daily, requiring quick response and more importantly, anticipation of the future requirements is the need of the hour. To gear with the changing requirements, it is essential that the framework has to remain in pace and change in anticipation, accordingly, and then only international trade can pick up the speed envisaged.
1.1 SIMPLIFICATION IN DOCUMENTATION
(Developments in August, 2005)

DGFT Related Documentation at a Single Place

Importers and exporters have to fill multiple application forms at various stages of their business activity to meet procedural requirements of different Departments/Ministries under different Acts. The objective of Government has been to simplify procedures and reduce documentation requirements so as to reduce the transaction costs of the exporters and thereby increase their competitiveness in international markets. With this in mind, a Committee to look into procedural simplification and reduction of transaction costs has been set up under the Chairmanship of Director General of Foreign Trade.

As a first step towards this exercise, the DGFT has devised a single common application form called ‘Aayaat Niryaat Form’. This 50-page set of forms, as against the 120-page set currently in existence, provides availability of information on DGFT related Documentation at a single place. It has a web interface for on-line filing by exporters and retrieval of documents by the licensing authorities. This is a major leap towards paperless trading, in the series of initiatives in the direction of moving towards reduced paper transactions through procedural simplifications. A single common application form called “Aayaat Niryat Form” is being introduced, reducing the documentation requirements by more than 60%.

1.1.1 REDUCTION OF DOCUMENTS TO FIVE FOR CUSTOMS PURPOSES

Government has decided to do away with a number of declarations that exporters, presently, have to file under various promotion schemes, including duty drawback and duty entitlement pass book.

The decision has been taken by the finance ministry in line with the recommendations of the sub-committee headed by the Chief Commissioner of Customs, Delhi. The panel has been formed to study the problems faced by traders under the present exports documentation procedure, following complaints from industry about cumbersome requirements that have often resulted in unnecessary delay and additional transaction costs. The sub-committee has comprised representatives from the Customs department, the Directorate General of Foreign Trade, the Reserve Bank of India, Fieo and the Delhi Exporters Association. After a scrutiny of requirements under the electronic data interface (EDI) system, the sub-committee has concluded that there are just five documents required for customs purposes. These include commercial invoice, packing list, self-declaration form, ARE-1 (application for removal of excisable goods for export) and the declarations pertaining to various export promotion schemes.

While the identified documents cannot be dispensed with, the sub-committee has stated that a number of documents being filed by exporters for various export promotion schemes have outlived their utility and do not serve any useful purpose. It has recommended that such declarations should be done away with. The revenue department, after going through the sub-committee’s recommendations, has also decided not to ask for any declaration on the duty drawback scheme and the duty-free replenishment certificate scheme. The department has
agreed to issue a suitable draft notice and standing order for guiding industry and staff, in this context.

1.2 EXPORTING, IMPORTING, AND COUNTERTRADE

The previous chapter presented exporting as just one of a range of strategic options for profiting from international markets. This chapter looks more at how to export. Exporting is not just an activity of large multinationals to obtain scale and location economies, but is also an activity for small firms. Almost all large multinationals today started their expansion overseas via exporting. Exporting can be a very challenging activity for many firms -- unfortunately, it usually takes more effort than just placing goods in a box and slapping on foreign shipping label as we will see, although sometimes, it is almost that easy.

1.2.1 The Promise and Pitfalls of Exporting

The potential benefits from exporting can be great. Regardless of the country in which a firm has its base. The rest of the world is a much larger market than the domestic market. While larger firms may be proactive in seeking out new export opportunities, many smaller firms are reactive and only pursue international opportunities when the customer calls or knocks on the door.

Many new exporters have run into significant problems when first trying to do business abroad, souring them on following up on subsequent opportunities. Common pitfalls include poor market analysis, poor understanding of competitive conditions, lack of customization for local markets, poor distribution arrangements, bad promotional campaigns, as well as a general underestimation of the differences and expertise required for foreign market penetration.

If basic business issues were not enough, the tremendous paperwork and formalities that must be dealt with can be overwhelming to small firms.

1.2.2 Improving Export Performance

National differences in the governmental and business infrastructure available for supporting exporting vary considerably. German and Japanese firms have relatively easy access to information and assistance. While US firms are not left totally to their own devices, the amount of direct and indirect assistance to them is much less developed.

One of the biggest impediments to exporting is ignorance of foreign market opportunities. The best way of overcoming ignorance is to collect more information. In the USA, there are a number of institutions, most importantly the US Department of Commerce, which can assist firms in the information gathering and matchmaking process.

Business and trade associations can also provide valuable assistance to firms. One way for first-time exporters to identify opportunities and help avoid pitfalls is to hire an Export Management Company. A good EMC will have a network of contacts in potential markets, will have multilingual employees, will have knowledge of different business mores, and will be fully conversant with the ins and outs of the exporting process and with local business regulations.
One drawback of relying on EMCs is that the company fails to develop its own exporting capabilities. The probability of exporting successfully can be improved by utilizing an EMC or export consultants, focusing on only one or a few markets at first and get them working effectively, starting out on a small scale, having realistic expectations about the time and commitment required, developing good relations with local distributors, and hiring local personnel. The example of 3M helps illustrate one firm’s approach.

1.2.3 Counter trade

Counter trade is a term that covers a whole range of barter like agreements. It is primarily used when the firm is exporting to countries whose currency is not freely convertible, and who may lack the foreign exchange reserves required to purchase the imports. By some estimates, counter trade accounted for 20% of world trade by volume in 1998. There are five distinct types of countertrade -- barter, counter purchase, offset, switch trading, and buy back.

1.3 Questions

Q1. How we can improve our Export Performance?
Q2. What do you mean by counter trade?
Structure
2.0 Definition
2.1 Components.
2.2 TRADE BARRIERS
   2.2.1 Definition
   2.2.2 Objectives
   2.2.3 Tariff Barriers
2.3 QUESTION BANK

2.0 DEFINITION OF INTERNATIONAL MARKETING ENVIRONMENT

International environment consists of internal and external factors that may influence nature and scope of business organizations operating at the global level. It is can described as:

1. Favorable or unfavorable
2. Liberal or conservative
3. Progressive or regressive

International environment is a very important determinant of the business strategy. The factors, which constitute international business environment, can be classified as:

Endogenous Factors: - The endogenous factors consist of internal factors which a business unit can control and influence. For example, amount of labour and capital, technology to be used and marketing mix.

Exogenous Factors: - The exogenous factors consist of external factors which a business unit cannot control and influence. The exogenous factors are constraints under which a firm operates. For example, structure of industry, market demand, supply conditions and government policies.

Exogenous factors keep on changing and business organisations have to adjust in order to survive. The business unit, which cannot adjust to the changing environment, becomes extinct in long run.

The analysis of internal environment factors indicates the strengths and weaknesses of the business firm while the analysis of external factors indicates the opportunities provided and threats posed by the environment to the business.
2.1 COMPONENTS OF INTERNATIONAL MARKETING ENVIRONMENT

The various factors constituting the international marketing environment are:

Social and Cultural Environment:

The biggest environment is the social environment because business is carried on by the people (businessmen), for the people (consumers), and through the people (executives and workers). Social and cultural factors in various countries of the globe which affect the international business environment are:

Attitude of the consumers and management;

Changes in the population pattern.

Influence of religion and tradition.

Spread of education and its quality.

Role of social and cultural institutions.

General standard of living.

Technological Environment:

Nothing ever is permanent except change. Technological improvement brings about new techniques of production, new products, automation and modernization. Technology changes rapidly and the firm, which cannot adjust to such a changing technological environment, may not survive. The technological environment consists of:

State of indigenous technology

Intermediate or appropriate technology

Transfer of technology

Technological collaborations

Policy and legal framework 'for research and development

Fiscal incentive for research and development

These technological changes enabled international business' to take the shape of multinational and transnational business.

Economic Environment: - International business is mainly affected by the economic policies adopted by the governments of various countries. The global economic environment has become favorable due to the establishment of the WTO and emergence of the global market. The changes in the international economic environment have been revolutionary after 1990. The following factors determine international economic environment:-
• Types of economic system adopted by the country
• Continuous growth in quality and quantity of industrial output
• Liberal and progressive policies of government
• Rising levels of income and employment
• Just and equitable Type distribution of wealth in the economy
• Check over monopolies

Political Environment: - Change in the government policies or government itself, many times bring about practical difficulties in carrying on business operations. Sometimes, the government takes over some key units in the interest of the nation. Political environment in the country is created by the following factors: -

Political system accepted by the country, viz., capitalism or socialism

Existence of political parties, i.e., dual party or multi party system

Parties in power, i.e., ideologies and policies of the government

Legislative and judiciary systems

External affairs and relationship

International Environment: - International marketing environment is also affected by the international environment. The factors which make up the international environment are: -
International socio-economic and political changes
Contribution of foreign capital
Import and export trade
Functioning of multinationals and transnational
International trade cycles
International relations and agreements
War and peace conditions

Legal Environment: - In every economy, whether socialistic or capitalistic, private sector is subject to government control. Government controls the functioning of private sector through its various policies and legislation. The factors which determine regulatory environment are :-
Industrial planning and policies
Tax structure and subsidies

Import controls, tariff and duties
Licensing system
Policy regarding Foreign Direct Investment (FDI)
Policy decisions on joint ventures and foreign collaborations

Ecological Environment: - Ecological degradation and its protection have become a major issue in most of the developed and developing countries of the world. In order to protect our
precious environment, series of acts and regulations have been made by the government. These acts and regulations also affect the international marketing environment.

### 2.2.1 DEFINITION OF TRADE BARRIERS

Trade barriers are the artificial restrictions imposed by the governments on free flow of goods and services between countries. Tariffs, quotas, taxes, duties, foreign exchange restrictions, trade agreements, and trading blocs are the techniques used for restricting free movement of goods from one country to the other. Trade barriers can be broadly classified into two categories:

- Tariff barriers or fiscal controls.
- Non-tariff barriers or quantitative restrictions

### 2.2.2 OBJECTIVES OF TRADE BARRIERS

Trade barriers are imposed with different objectives under different situations as under:

1. **To Protect Home Industries from Foreign Competition:** In many of the developing countries, majority of basic and heavy industries are still in the initial stage of their development. The cost of production in such industries is very high and quality is poor in comparison to the international market. Therefore such industries need protection from foreign competitors.

2. **To Promote New Industries and Research and Development:** Developing countries, like India, are conducting research in various areas of technological development. In order to motivate the efforts of scientists and enable them to work with greater initiative such potential areas of development need protection from foreign giants.

3. **To Conserve Foreign Exchange Reserves:** The immediate solvency of any country depends upon its foreign exchange reserves. Excessive imports may lead to erosion of valuable foreign currency from the country. Therefore, the government has to use quotas and tariffs as instruments for controlling imports and conserve foreign exchange.

4. **To Maintain Favourable Balance Of Payments:** Balance of payments is defined as the difference between inflow and outflow of foreign currency in the economy. A country, having favourable balance of payments, commands goodwill and reputation in the international market. Trade barriers help in reducing imports and thereby improve balance of payments situation.

5. **To Protect National Economy from Dumping:** Dumping is the situation whereby a big MNC tries to sell its products at a price which is much below its cost of production. As a result, the domestic manufacturers may not be able to compete and will have to withdraw from the market. To prevent this, the government may use tariffs to increase the price of dumped goods.

6. **To Curb Conspicuous Consumption:** Goods, like diamonds and gold, have inelastic demand. Generally, people buy such goods when their prices are high in order to show...
off their wealth. Such consumptions are known as conspicuous consumptions. These consumptions cannot be curtailed by charging high duties and hence, quotas should be fixed for their curtailment.

7. To Make Economy Self-reliant: Initially, infant industries need protection from the government. Gradually, these protected industries develop competitive strength. At that juncture, the domestic market can be thrown open to foreign competitors to enable domestic companies to improve further. This gradually makes the country self-reliant.

8. To Mobilise Public Revenue: In every economy, whether capitalist or socialist, the government plays a key role in the economic development. The government undertakes various developmental activities, which require enormous finance. Customs duties charged on import and export of goods can serve as a significant source of finance for such purposes.

9. To Counteract Trade Barriers Imposed By Other Countries: Sometimes, in order to counteract trade barriers imposed by other countries, a country may be forced to impose trade restrictions.

### 2.2.3 TYPES OF TARIFF TRADE BARRIERS

Tariffs are extensively used trade barriers. Tariffs are in the form of customs duties and taxes imposed on internationally traded commodities when they cross the national boundaries. The aim of tariffs is to increase prices of imported goods and thereby reduce their demand and discourage their consumption.

**TARIFFS:** Tariff derived from a French word meaning rate, price, or list of charges is a customs duty or tax on products that move across borders. Tariff can be classified in several ways. The classification scheme used here is based on direction, purpose, length, rate, and distribution point. These classifications necessarily mutually exclusive.

**Direction: Import and Export Tariffs**

Tariffs are often imposed on the basis of the direction of product movement, which is, on imports or exports, with the latter being the less common one. When export tariffs are levied, they usually apply to an exporting country's scarce resources or raw materials (rather than finished manufactured products). Companies exporting from Russia must pay an average export tariff of about 20 percent on a number of goods sold in cash transactions and an average export tariff of about 30 percent for goods sold in noncash (barter) transactions.

**Purpose: Protective and Revenue Tariffs**

Tariffs can be classified as protective tariffs and revenue tariffs. The distinction is based on purpose. The purpose of a protective tariff is to protect home industry, agriculture, and labor against foreign competitors by trying to keep foreign goods out of the country. The South American markets, for instance, have high import duties that hinder the import of fully built cars. Brazil has a 50 percent import tax on imported "flyaway" planes.

The purpose of a revenue tariff, in contrast, is to generate tax revenues for the government. Compared to a protective tariff, a revenue tariff is relatively low. When Japanese and other foreign cars are imported into the United States, there is a 3 percent duty. On the other hand, American cars exported to Japan are subject to a variety of import taxes. Even the cost of
shipping is taxed, since Japan considers that the shipping cost adds value to a car. As a result, a U.S. car sold in Japan can easily cost twice as much as its price in the United States. The U.S. tax is a revenue tariff, whereas the Japanese tax is more of a protective tariff.

When Harley Davidson claimed that it needed time to adjust to Japanese imports, President Reagan felt that it was in the national interest to provide import relief. To protect the local industry, a tariff surcharge was used. The tariff on heavy motorcycles jumped from 4.4 percent to 45 percent for one year and then declined to 35 percent, 20 percent, 15 percent, and finally 10 percent in subsequent years.

Countervailing duties are imposed on certain imports when products are subsidized by foreign governments. These duties are thus assessed to offset a special advantage or discount allowed by an exporter's government. Usually, a government provides an export subsidy by rebating certain taxes if goods are exported.

Rates: Specific, Ad Valorem, and Combined

How are tax rates applied? To understand the computation, three kinds of tax rates must be distinguished: specific, ad valorem, and combined.

Specific duties are a fixed or specified amount of money per unit of weight, gauge, or other measure of quantity. Based on a standard physical unit of a product, they are specific rates of so many dollars or cents for a given unit of measure (e.g., $/gallon, 25¢/square yard, $2/ton, etc.) Product costs or prices are irrelevant in this case. Because the duties are constant for low- and high-priced products of the same kind, this method is discriminatory and effective for protection against cheap products because of their lower unit value. That is, there is a reverse relationship between product value and duty percentage. As product price goes up, a duty when expressed as a percentage of this price will fall. On the other hand, for a cheap product whose value is low, the duty percentage will rise accordingly.

Ad valorem duties are duties "according to value." They are stated as a fixed percentage of the invoice value and are applied as a percentage to the dutiable value of the imported goods. Japan's ad valorem tariffs on beef and processed cheese are 25 percent and 35 percent, respectively. This is the opposite of specific duties since the percentage is fixed but the total duty is not. Based on this method, there is a direct relationship between the total duties collected and the prices of products. That is, the absolute amount of total duties collected will increase or decrease with the prices of imported products. The strength of this method is that it provides a continuous and relative protection against all price levels of a particular product. Such protection becomes even more critical when inflation increases prices of imports. If specific duties were used, their effect lessens with time because inflation reduces the proportionate effect. Another advantage is that ad valorem duties provide an easy comparison of rates across countries and across products.

Combined rates (or compound duty) are a combination of the specific and ad valorem duties on a single product. They are duties based on both the specific rate and the ad valorem rate that are applied to an imported product. For example, the tariff may be 10¢ per pound plus 5 percent ad valorem. Under this system, both rates are used together, though in some countries only the rate producing more revenue may apply.
Some taxes are collected at a particular point of distribution or when purchases and consumption occur. These indirect taxes, frequently adjusted at the border, are of four kinds: single-stage, value-added, cascade, and excise.

Single-stage sales tax is a tax collected only at one point in the manufacturing and distribution chain. This tax is perhaps most common in the United States, where retailers and wholesalers make purchases without paying any taxes simply by showing a sales tax permit. The single-stage sales tax is not collected until products are purchased by final consumers.

A value-added tax (VAT) is a multistage, noncumulative tax on consumption. It is a national sales tax levied at each stage of the production and distribution system, though only on the added value at that stage. In other words, each time a product changes hands, even between middlemen, a tax must be paid. But the tax collected at a certain stage is based on the added value and not the total value of the product at that point. Sellers in the chain collect the VAT from a buyer, deduct the amount of VAT they have already paid on their purchase of the product, and remit the balance to the government. European Union customs officers collect the VAT upon importation of goods based on the CIF (cost, insurance, and freight) value plus the duty charged on the product.

The VAT is supposed to be non-discriminatory because it applies to both products sold on the domestic market and imported goods. The importance of the value-added tax is due to the fact that GATT allows a producing country to rebate the value-added tax when products are exported. Foreign firms trying to get a refund from European governments have found the refund process to be anything but easy.

Since the tax applies to imports at the border but because it is fully rebated on exports, the VAT may improve a country's trade balance. The evidence, however, offers a mixed picture. A study in Europe showed no evidence that the VAT had any material impact on the balance of trade. Regarding Korea and the Philippines, the rebated VAT, by increasing profits from exports compared with the previous tax regime, may have encouraged exporting.

Cascade taxes are collected at each point in the manufacturing and distribution chain and are levied on the total value of a product, including taxes borne by the product at earlier stages. Of the tax systems examined, this appears to be the most severe of them all. For over thirty years a now-defunct cascade tax system of taxation in Italy (the IGE) hurt the development of large-scale wholesale business there. Since the IGE was imposed each time the goods changed hands, Italian manufacturers minimized transfers of goods by selling products directly to retailers. The IGE was replaced by a value-added tax in 1973, and it was hoped by foreign manufacturers that the revival of wholesale organizations might facilitate imports of foreign consumer goods. Table 3-3 shows how the tax varies among the three systems.

An excise tax is a one-time charge levied on the sales of specified products. Alcoholic beverages and cigarettes are good examples. In the United States the federal government collects a 3 percent excise tax on telephone services and collects 161t for each pack of cigarettes. State, county, and city governments may have their own excise taxes. These four kinds of indirect taxes are often adjusted at the border. Border taxes can be used to raise prices of imports or lower prices of exports. Prices of imports are raised by charging imported goods with (in addition to customs duties) a tax usually borne by domestic products. For exported products, their export prices become more competitive (i.e., lower) when such
products are relieved of the same tax that they are subject to when produced, sold, and consumed domestically. The rebate of this tax when the goods are exported, in effect, lowers their export prices.

The United States also has border taxes. To protect bourbon, for example, the United States imposes an average tax of $2.68 per fifth on Scotch whiskey, in addition to an import tariff to pay federal, state, and local excise taxes. Canada replaces its Federal Sales Tax (FST), which had been 13.5 percent for most products. The FST was collected at the manufacturing stage of production on ‘domestic goods. On imports, the tax was collected by Canada Customs. Because” of the hidden nature of the FST, many foreign marketers selling into the Canadian market did not’ realize that Canadian manufacturers had already built the 13.5 percent FST into their prices. As a result, foreign firms found that they were not as price competitive as they had assumed. The new tax is a more broadly based Goods and Services Tax (GST); it is a value-added tax similar to those found in most European countries. 'The GST taxes both goods and services and curbs exemptions. U.S. exporters should benefit from the more transparent nature of the new GST and find it easier to plan export pricing.

Many countries have a turnover or equalization tax. This tax is intended to compensate for similar taxes levied on domestic products. Any critical examination of this would demonstrate that the tax does not equalize prices at all. When the same tax rate is applied to the imported and domestic products, the effect is uneven. There is a greater impact on the import because the tax is usually levied on the full CIF, duty-paid value, rather than on the invoice value alone.
ARTICLE-2
Trade Tariffs: The Next Generation

This week the authorities responsible for public safety in Washington, D.C. have been on high alert. No one wants a repeat performance of last year’s Seattle protests, looting, and vandalism. At issue is a difficult-to-understand, but powerful, fear of “globalization.” The dominant thread in the protests against globalization is America’s international trade relationships. Next month, Congress is expected to vote on legislation to make our trade relationship with China normal – to make it match our relationship with other countries. Normal trade status would have a direct and positive effect on the high tech sector of our economy. Tariffs would be put on a level playing field for telecommunications equipment. American consumers who purchase telecommunications equipment simply pay for the products. However, Chinese consumers who buy American-made telecommunications equipment pay a tariff – an unnecessary and unfair tax – on top of the price of the product, which makes it difficult for American companies to sell their products in China.

Critics maintain that China has a history of eliminating tariffs only after they are no longer needed to keep American products out, because either the product is obsolete or there is a superior Chinese product available.

However, every trade barrier and tariff removed on a type of product – like telecommunications equipment – is a trade barrier and tariff that will no longer harm the next generation of American-made products. Normal trade relations would work to remove tariffs and trade barriers when they are a real threat, not after the fact. Continued growth demands new ideas and the innovation of new products. American high-tech workers excel in this respect. It is only sensible that a high rate of growth also demands a larger marketplace for these new ideas and new products. There is little doubt that China is the largest marketplace on Earth. Let’s hope that Members of Congress understand that it is time to eliminate barriers to trade and tariffs on American-made high-tech products.

2.3 QUESTIONS BANK

Q. 1 Define International Marketing Environment. Explain its components.

Q. 2 Define Trade Barriers. What are the objectives of trade barriers?

Q. 3 What are Tariff Trade Barriers? How are they classified?
Tariffs, though generally undesirable, are at least straightforward and obvious. Nontariff barriers, in comparison, are more elusive or nontransparent. Tariffs have declined in importance, while nontariff barriers have become more prominent. Often disguised, the impact of nontariff barriers can be just as devastating, if not more, as the impact of tariffs. Laird and Yeats have documented the spread of nontariff barriers from 1966 to 1988 that have been applied unevenly across countries and industrial sectors. Another study of the occurrence and importance of nontariff barriers also found significant variations across selected Pacific Rim countries.

There are several hundred types of nontariff barriers. These barriers can be grouped in five major categories. Each category contains a number of different nontariff barriers.

3.0.1 GOVERNMENT PARTICIPATION IN TRADE

The degree of government involvement in trade varies from passive to active. The types of participation include administrative guidance, state trading and subsidies –

Administrative Guidance Many governments routinely provide trade consultation to private companies. Japan has been doing this on a regular basis to help implement its industrial policies. This systematic cooperation between the government and business is labeled "Japan, Inc." To get private firms to conform to the Japanese government's guidance, the government uses a carrot-and-stick approach by exerting the influence through regulations, recommendations, encouragement, discouragement, or prohibition. Japan's government agencies' administrative councils are influential enough to make importers restrict their purchases to an amount not exceeding a certain percentage of local demand. The Japanese government denies that such a practice exists, claiming that it merely seeks reports on the amounts purchased by each firm.

Government Procurement and State Trading State trading is the ultimate in government participation, because the government itself is now the customer or buyer who determines
what, when, where, how, and how much to buy. In this practice the state engages in commercial operations, either directly or indirectly, through the agencies under its control. Such business activities are either in place of or in addition to private firms. Although government involvement in business is most common with the communist countries, whose governments are responsible for the central planning of the whole economy, the practice is definitely not restricted to those nations. The U.S. government, as the largest buyer in the world, is required by the Buy American Act to give a bidding edge to U.S. suppliers in spite of their higher prices.

When the government is further involved in reselling imported products, matters become even more complicated. American tobacco companies complained that Japan's Tobacco and Salt Agency kept prices of their products artificially high and that sales representatives from this government tobacco monopoly participated in discrediting the advertising of American products.

The Government Procurement Code requires the signatory nations to guarantee that they will provide suppliers from other signatory countries treatment equal to that which they provide their own suppliers. This guarantee of "national treatment" means that a foreign government must choose the goods with the lowest price that best meet. The specifications regardless of the supplier's nationality. The Code requires that technical specifications not be prepared, adopted, or applied with a view to creating obstacles to international trade. The purchasing agency must adopt specifications geared toward performance rather than design and must base the specifications on international standards, national technical regulations, or recognized national standards, where appropriate.

Subsidies According to GATT, "subsidy is a "financial contribution" provided directly or indirectly by a government and which confers a benefit." Subsidies can take many forms including. Cash interest rate, value-added tax, corporate income tax, 'sales tax, freight, insurance, and infrastructure. Subsidized loans for priority sectors, preferential rediscount rates, and budgetary subsidies are among the various subsidy policies of several Asian countries.

There are several other kinds of subsidies that are not so obvious. Brazil's rebates of the various taxes, coupled with other forms of assistance, can be viewed as subsidies. Tennessee, Ohio, Michigan, and Illinois, in order to attract foreign auto makers to locate their plants in those states, provided such services as highway construction, training of workers, and tax breaks, which are simply subsidies in disguise.

Sheltered profit is another kind of subsidy. A country may allow a corporation to shelter its profit from abroad. The United States in 1971 allowed companies to form domestic international sales corporations (DISCs) even though they cost the U.S. treasury more than $1 billion a year in revenue. GATT, the multilateral treaty, eventually ruled that a DISC was an illegal export subsidy. A new U.S. law allows companies that meet more stringent requirements to form foreign sales corporations (FSCs), which have the same purpose as DISCs.

The Subsidies Code, technically named the Agreement on Interpretation and Application of Article VI, XVI and XXIII of the General Agreement on Tariffs and Trade, recognizes that government subsidies' distort the competitive forces at work in international trade. The rules of the international agreement negotiated during the Tokyo Round of Multilateral Trade Negotiations (MTN) differentiate between export subsidies and domestic subsidies. The
Code's rules also differentiate between subsidies paid on primary products (e.g., manufactures) and those paid on no primary products and primary minerals. A primary product is any product of farm, forest, or fishery in its natural form or that has undergone such processing as is customarily required to prepare it for transportation and marketing in substantial volume in international trade (e.g., frozen and cured meat). The Code prohibits the use of export subsidies on no primary products and primary mineral products.

There is considerable debate over what should be considered manufactured products, since such products are not entitled to any subsidies. For instance, according to the United States, the EU's export subsidies for such manufactured products as pasta and wheat flour are banned by the international subsidies code. The EU's position is that pasta and wheat flour are not manufactured products.

To combat subsidies, the United States has proposed the adoption of the "traffic light" approach to provide a framework for the classification of all subsidy programs. Based on a subsequent GATT agreement, there are three Categories:

1. Prohibited (red light) subsidies,
2. Permissible but actionable (yellow light) subsidies, and
3. Permissible but no actionable (green light) subsidies.

The permissible but actionable subsidies are actionable multilaterally and countervailable unilaterally if they cause adverse trade effects. Regarding permissible but nonactionable subsidies, they are not countervailable if provided according to criteria intended to limit their potential for distortion.

Customs and Entry Procedures Customs and entry procedures can be employed as nontariff barriers. These restrictions involve classification, valuation, documentation, license, inspection, and health and safety regulations.

Classification How a product is classified can be arbitrary and inconsistent and is often based on a customs officer's judgment, at least at the time of entry. The U.S. Customs reclassified Nissan's imported truck cabs and chassis from "parts" with 4 percent duty to "assembled vehicles" subject to 25 percent levies instead.

Product classification is important because the way in which a product is classified determines its duty stamps. A company can sometimes take action to affect the classification of its product. For example, a ruling of the U.S. Customs resulted in a 100 percent punitive tariff on certain Japanese computers. Toshiba and NEC, however, took advantage of the ruling's loophole by importing boards without microprocessor chips. The boards were not classified as computers and were thus allowed to enter the United States duty-free. The microchips were then installed after entry.

In the United States, if an imported product is determined to have the acceptable minimum percentage of materials produced in a designated country, it can be classified by a customs officer as having duty-free status. Classification thus determines if certain product categories are qualified for a special treatment, but it also determines whether some products should be banned altogether. Most countries ban obscene, immoral, and seditious materials, as well as imports of counterfeit coins, bills, securities, postage stamps, and narcotics. In South Korea,
prohibited articles include books, printed matter, motion pictures, phonograph records, sculptures, and other like articles that are deemed subversive or injurious to national security or detrimental to the public interest, as well as articles used for espionage or intelligence activities.

Valuation Regardless of how products are classified, each product must still be valued. The value affects the amount of tariffs levied. A customs appraiser is the one who determines the value. The process can be highly subjective, and the valuation of a product can be interpreted in different ways, depending on what value is used (e.g., foreign, export, import, or manufacturing costs) and how this value is constructed. In Japan a commodity tax of 15 percent is applied to the FOB factory price of Japanese cars. Yet U.S. cars are valued on the EIF basis, adding $1,000 more to the final retail price of these cars.

Documentation:

Documentation can present another problem at entry because many documents and forms are often necessary, and the documents required can be complicated. Japan held up Givenchy's import application because the company left out an apostrophe for its 'Interdit perfume. Documentation requirements vary from country to country. Usually, the following shipping documents are either required or requested: commercial invoice, pro j (pro form, certificate of origin, bill of lading, packing list, insurance certificate, import license, and shipper's export declarations. Without proper documentation, goods may not be cleared through customs. At the very least, such complicated and lengthy documents serve to slow down product clearance. France, requiring customs documentation to be in French, even held up trucks from other European countries for hours while looking for products' non-French instruction manuals, which were banned.

License or Permit Not all products can be freely imported; controlled imports require licenses or permits. For example, importations of distilled spirits, wines, malt beverages, arms, ammunition, and explosives into the United States require a license issued by the Bureau of Alcohol, Tobacco, and Firearms. India requires license for all imported goods. IS An article is considered prohibited if not accompanied by a license. It is not always easy to obtain an import license, since many countries will issue one only if goods can be certified as being necessary.

Japan simplified its licensing procedure in 1986. Previously, a separate license application had been required for any new cosmetic product, even when only a change in shade was involved. The new requirements categorize cosmetics into seventy-eight groups and list permitted ingredients. A marketer simply notifies the government of any new product using those ingredients.

Inspection Inspection is an integral part of product clearance. Goods must be examined to determine quality and quantity. This step is highly related to other customs and entry procedures. First, inspection classifies and values products for tariff purposes. Second, inspection reveals whether imported items are consistent with those specified in the accompanying documents and whether such items require any licenses. Third, inspection determines whether products meet health and safety regulations in order to make certain that food products are fit for human consumption or that the products can be operated safely. Fourth, inspection prevents the importation of prohibited articles.
Marketers should be careful in stating the amount and quality of products, as well as in providing an accurate description of products. Any deviation from the statements contained in invoices necessitates further measurements and determination, more delay, and more expenses.

Inspection can be used intentionally to discourage imports. Metal baseball bats from the United States, for instance, have a potential for selling very well in the Japanese market. But a major obstacle is that every single bat must carry a stamp of consumer safety, and this must be "ascertained" only after expensive on-dock inspection.

Health and Safety Regulations Many products are subject to health and safety regulations, which are necessary to protect the public health and environment. Health and safety regulations are not restricted to agricultural products. The regulations also apply to TV receivers, microwave ovens, X-ray devices, cosmetics, chemical substances, and wearing apparel.

Concern for safety was used by Japan against aluminum softball bats from the United States. The manufacturing process leaves a small hole in the top filled with a rubber stopper. Japan thus bans the bats on the ground that the stopper might fly out and hurt someone. According to U.S. manufacturers, this fear is unfounded.

3.0.2 QUOTAS

Quotas are a quantity control on imported goods. Generally, they are specific provisions limiting the amount of foreign products imported in order to protect local firms and to conserve foreign currency. Quotas can be used for export control as well. An export quota is sometimes required by national planning to preserve scarce resources. From a policy standpoint, a quota is not as desirable as a tariff since a quota generates no revenues for a country.

Two kinds of voluntary quotas can be legally distinguished: VER (voluntary export restraint) and OMA (orderly marketing agreement). Whereas an OMA involves a negotiation between two governments to specify export management rules, the monitoring of trade volumes, and consultation rights, a VER is a direct agreement between an importing nation's government and a foreign exporting industry (i.e., a quota with industry participation). Both enable the importing country to circumvent the GATT's rules (Article XIX) that require the country to reciprocate for the quota received and to impose that market safeguard on a most-favoured-nation basis. Because this is a gray area, the OMA and VER can be applied in a discriminatory manner to a certain country. In the case of a VER involving private industries, a public disclosure is not necessary.

The largest voluntary quota is the Multi-Fibre Arrangement (MFA) for forty one export and import countries. This more than two-decade-old international agreement on textiles allows Western governments to set quotas on imports of low-priced textiles from the Third World. The treaty has been criticized because advanced nations are able to force the agreement on poorer countries.

As implied, a country may negotiate to limit voluntarily its export to a particular market. This may sound peculiar because the country appears to be acting against its own self-interest. But a country's unwillingness to accept these unfavourable terms will eventually invite trade
retaliation and tougher terms in the form of forced quotas. It is thus voluntary only in the sense that the exporting country tries to avoid alternative trade barriers that are even less desirable. For instance, Japan agreed to restrict and reprise some exports within Great Britain. Quotas are still quotas regardless of what they are called. They always inhibit free trade, and frequently they fail to achieve the desired goal. The example set by U.S. automakers is instructive. After arguing for quotas and price increases to gain extra monies to improve productivity and competitiveness, the automakers ended up using record profits to pay big bonuses to their executives.

**FINANCIAL CONTROL**

Financial regulations can also function to restrict international trade. These restrictive monetary policies are designed to control capital flow so that currencies can be defended or imports controlled. For example, to defend the weak Italian lira, Italy imposed a 7 percent tax on the purchase of foreign currencies. There are several forms that financial restrictions can take.

Exchange controls also limit the length of time and amount of money an exporter can hold for the goods sold. French exporter, for example, must exchange the foreign currencies for francs within one month. By regulating all types of the capital outflows in foreign currencies, the government either makes it difficult to get imported products or makes such items available only at higher prices.

Multiple Exchange Rates Multiple exchange rates are another form of exchange regulation or barrier. The objectives of multiple exchange rates are twofold: to encourage exports and imports of certain goods and to discourage exports and imports of others. This means that there is no single rate for all products or industries. But with the application of multiple exchange rates, some products and industries will benefit and some will not. Spain once used low exchange rates for goods designated for export and high rates for those it desired to retain at home. Multiple exchange rates may also apply to imports. The high rates may be used for imports of particular goods with the government's approval, whereas low rates may be used for other imports.

Because multiple exchange rates are used to bring in hard currencies (through exports) as well as to restrict imports, this system is condemned by the International Monetary Fund (IMF).

According to the IMF, any unapproved multiple currency practices are a breach of obligations, and the member may become ineligible to use the Fund's resources. South Africa, trying to stem capital outflows, started in 1985 to require non-residents to transact capital transactions at a separately freely floating exchange rate (i.e., the financial rand). The financial rand was much more depreciated than the commercial rand exchange rate. In 1995, as political uncertainty declined, South Africa unified the two exchange rates.

Prior Import Deposits and Credit Restrictions

Financial barriers can also include specific limitations or import restraints, such as prior import deposits and credit restrictions. Both of these barriers operate by imposing—certain financial restrictions on importers. A government can require prior import deposits (forced deposits) that make imports difficult by tying up an importer's capital. In effect the importer is paying interest for money borrowed without being able to use the money or get interest
earnings on the money from the government. Importers in Brazil and Italy must deposit a large sum of money with their central banks if they intend to buy foreign goods. To help initiate an aircraft industry, the Brazilian government has required an importer of "flyaway" planes to deposit the full price of the imported aircraft for one year with no interest.

Credit restrictions apply only to imports; that is, exporters may be able to get loans from the government, usually at very favourable rates, but importers will not be able to receive any credit or financing from the government. Importers must look for loans in the private sector—very likely at significantly higher rates, if such loans are available at all.

Profit Remittance Restrictions Another form of exchange barrier is the profit remittance restriction. ASEAN countries share a common philosophy in allowing unrestricted repatriation of profits earned by foreign companies. Singapore, in particular, allows the unrestricted movement of capital. But many countries regulate the remittance of profits earned in local operations and sent to a parent organization located abroad. Brazil uses progressive rates in taxing all profits remitted to a parent company abroad, with such rates going up to 60 percent. Other countries practice a form of profit remittance restriction by simply having long delays in permission for profit expatriation. To overcome these practices, MNCs have looked to legal loopholes. Many employ the various tactics such as counter trading, currency swaps, and other parallel schemes. For example, a multinational firm wanting to repatriate a currency may swap it with another firm that needs that currency. Or these firms may lend to each other in the currency desired by each party.

3.1 DISTINCTION BETWEEN - ADVALOREM DUTY AND SPECIFIC DUTY

SPECIFIC DUTY

1. MEANING

Specific duty is a duty imposed on each unit of a commodity imported or exported.

2. CONVENIENCE

It is easy to calculate and administer as it can simply be calculated by multiplying the rate of duty with number of units imported or exported.

3. NATURE OF GOODS

It is levied on such goods whose quantification in terms of number of units is possible. For example, number of T.V. sets and meters of cloth.

4. Advantages

In spite of advantages over advalorem duty, specific duty is not very popular as most of the countries use advalorem duties

5. MAIN CONSIDERATIONS

In this case value of commodity is not taken into consideration. For example, Rs.5 on each meter of cloth imported or Rs.500 on each T.V. set imported.
ADVALOREM DUTY

1. Advalorem duty is a duty imposed on the total value of commodity imported or exported.

2. It is difficult to calculate as it requires a proper assessment of the value of goods imported or exported.

3. It is levied on such goods whose quantification in terms of number of units is not possible. For example, rare Pantene’s and statues.

4. Generally most of the countries charge duties on the basis of value of goods imported or exported, i.e., advalorem duties.

5. In this case physical units of commodity are not taken into consideration. For example, 5% of F.O.B. value of cloth imported or 10% of C.I.F. value of T.V. sets imported.
Given the firm commitment made by the Member Countries on the programme of tariff reduction under the CEPT Scheme, attention has now shifted to non-tariff barriers. Now Article 5 of the CEPT Agreement calls on Member States to "eliminate other non-tariff barriers on a gradual basis within a period of five years after the enjoyment of concessions". Member Countries are working to develop detained work programmes on eliminating NTBs for endorsement by the ASEAN Economic Ministers Meeting scheduled in September 1995. Currently, the Preparatory work for NTB elimination is being undertaken by the Interim Technical Working Group (ITWG) on CEPT for AFTA, which reports directly to the ASEAN Senior Economic Officials.

Significant progress has already been made in identifying those NTBs that affect intra-regional trade the most. The identification process involved a number of important steps. First, a working definition of NTBs had to be agreed upon. This working definition (see Table 3) adopted by the ITWG was based on a classification developed by the United Nations Conference on Trade and Development (UNCTAD). Second, it was decided to focus on those NTBs that affect the most widely-traded Products in the region. These products are those in chapters 27 (minerals), 84 (electrical appliances) and 85 (machinery) of the Harmonised System classification. In 1994, these products made up nearly 55% of Indonesia's imports; over 64% of Malaysia's imports; over 50% of the Philippines' imports; and nearly 70% of Thailand's imports. Then the ASEAN Secretariat began compiling information on NTBs from a number of different sources, including submissions made by Member Countries, the GATT Trade Policy Review, submissions by the ASEAN Chambers of Commerce & Industry (ASEAN-CCI) and the UNCTAD's Trade Analysis and Information System (TRAiNS) database.

MAJOR NTB'S IDENTIFIED

Based on these various information sources, the following measures have been identified as major NTBs affecting intra-regional trade: customs surcharges, technical measures and product characteristic requirements, and monopolistic measures. Customs surcharges are applied to about 2,683 tariff lines. Technical measures and product characteristic requirements come in second involving more than 975 tariff lines. Finally we have monopolistic measures involving state-trading or the use of a selected or limited group of importers.

WORKING DEFINITION OF NON-TARIFF MEASURES FOR PURPOSES OF IMPLEMENTING THE CEPT AGREEMENT

This section presents working definitions for the trade control measures adopted by the Interim Technical Working Group on CEPT for AFTA. These measures are classified under broad categories according to their nature. Within the broad categories, the measures are further subdivided according to their characteristics. Special mention should be made of the measures for sensitive product categories and technical regulations, which are subdivided according to their corresponding objectives, i.e. for the protection of human health, animal
health and life, plan health, the environment and wildlife, to control drug abuse, to ensure human safety and to ensure national security.

PARA-TARIFF MEASURES

Other measures that increase the cost of imports in a manner similar to tariff measures, i.e. by a fixed percentage or by a fixed amount, calculated respectively on the basis of the value and the quantity, are known as para-tariff measures. Four groups are distinguished: customs surcharges; additional charges; internal taxes and charges levied on imports; and decreed customs valuation.

Customs surcharges/import surcharges

The customs surcharge, also called surtax or additional duty, is an ad hoc trade policy instrument to raise fiscal revenue or to protect domestic industry.

Additional charges

Additional charges, which are levied on imported goods in addition to customs duties and surcharges and which have no internal equivalent, comprise various taxes and fees. The category of additional charges includes the tax on foreign exchange transactions, stamp tax, airport license fee, consular invoice fee, statistical tax, tax on transport facilities and charges for sensitive product categories. Various other taxes, such as the export promotion fund tax, taxes for the special funds, the municipal tax, registration fee on imported motor vehicles, customs formality tax, etc., are classified as additional charges, n.e.s. It should be noted that Article VIII of GATT states that fees and charges other than customs duties and internal taxes shall be limited in amount to the approximate cost of services rendered and shall not represent an indirect protection to domestic products or a taxation of imports or exports for fiscal purposes.

Decreed customs valuation

Customs duties and other charges on selected airports can be levied on the basis of a decreed value of goods (the so called "valeur mercuriale" in French). This practice is presented as a means to avoid fraud or to protect domestic industry. The decreed value de facto transforms an ad valorem duty into a specific duty.

PRICE CONTROL MEASURES

Measures intended to control the prices of imported articles for the following reasons: (i) to sustain domestic prices of certain products when the import price is inferior to the sustained price; (ii) to establish the domestic price of certain products because of price fluctuation in the domestic market or price instability in the foreign market; and (iii) to counteract the damage caused by the application of unfair practices of foreign trade.

Most of these measures affect the cost of airports in a variable amount calculated on the basis of the existing difference between two prices of the same product, compared for control purposes. The measures initially adopted can be administrative fixing of prices and voluntary restriction of the minimum price level of exports or investigation of prices, to subsequently
arrive at one of the following adjustment mechanisms; suspension of airport licenses; application of variable charges, anti-dumping measures or countervailing duties.

ADMINISTRATIVE PRICE FIXING OF IMPORT PRICES

By administrative price fixing, the authorities of the importing country take into account the domestic prices of the producer or consumer establish floor and ceiling price limits; or revert to determined international market values. Various terms are used, depending on the country or sector, to denominate the different administrative price fixing methods, such as official prices, minimum import prices or basic import prices.

VOLUNTARY EXPORT PRICE RESTRAINT

A restraint arrangement in which the exporter agrees to keep the price of his goods above a certain level.

VARIABLE CHARGES

Variable charges bring the market prices of imported agricultural and food products close to those of corresponding domestic products, in advance, for a given period of time, and for a pre-established price. These prices, are known as reference prices, threshold prices or trigger prices. Primary commodities may be charged per total weight, while charges on processed foodstuffs can be levied in proportion to the primary product contents in the final product. In the case of the EU, the charges applied to primary products as such are called variable levies and those as part of a processed product, variable components.

FINANCE MEASURES

Measures that regulate the access to and cost of foreign exchange for imports and define the terms of payment. They may increase the airport cost in a fashion similar to tariff measures.

ADVANCE PAYMENT REQUIREMENTS

Advance payment of the value of the import transaction an/or related imported taxes, which is required at the moment of the application for, or the issuance of, the import license.

ADVANCE IMPORT DEPOSITS

Obligation to deposit a percentage of the value of the import transaction for a given time period in advance of the imports, with no allowance for interest to be accrued on the deposit.

CASH MARGIN REQUIREMENT

Obligation to deposit the total amount corresponding to the transaction value, or a specified part of it, in a commercial bank, before the opening of a letter of credit; payment be required in foreign currency.
ADVANCE PAYMENT OF CUSTOMS DUTIES

Advance payment of the totally or a part of customs duties, with no allowance for interest to be accrued.

REFUNDABLE DEPOSITS FOR SENSITIVE PRODUCT CATEGORIES

The deposit refunds are charges which are refunded when the used products or its containers are returned to a collection system.

REGULATIONS CONCERNING TERMS OF PAYMENT FOR IMPORTS

Special regulations regarding the terms of payment of imports and the obtaining and use of credit (foreign or domestic) to finance imports.

TRANSFER DELAYS, QUEUING

Minimum permitted delays between the date of delivery of goods and that of final settlement of the import transaction (usually 90, 180 or 360 days for consumer goods and industrial inputs and two to five years for capital goods). Queuing takes place when the prescribed delays cannot be observed because of foreign exchange shortage, and transactions are settled successively after a longer waiting period.

MONOPOLISTIC MEASURES

Measures which create a monopolistic situation, by giving exclusive rights to one or a limited group of economic operators for earlier social, fiscal or economic reasons.

SINGLE CHANNEL FOR IMPORTS

All imports or imports of selected commodities have to be channelled through state-owned agencies or state-controlled enterprises. Sometimes the private sector may also be granted exclusive import rights.

COMPULSORY NATIONAL SERVICES

Government-sanctioned exclusive rights of national insurance and shipping companies on all or a specified share of imports.

TECHNICAL MEASURES

Measures referring to product characteristics such as quality, safety or dimensions, including the applicable administrative provisions, terminology symbols, testing and test methods, packaging, marking and labelling requirements as they apply to a product. The implementation of these measures by sensitive product categories can result in the application of one of the measures listed under codes ending in 71 to 79.
TECHNICAL REGULATIONS

Regulations that provide technical requirements, either directly or by referring to or incorporating the content of a standard, technical specification or code of practice, in order to protect human life or health or to protect animal life or health (sanitary regulation); to protect plant health (phytosanitary regulation); to protect the environment and to protect wildlife; to ensure human safety; to ensure national security; to prevent deceptive practices.

The regulation may be supplemented by technical guidance that outlines some means of compliance with the requirements of the regulation, including administrative provisions for customs clearance, such as prior registration of the importer or obligation to present a certificate issued by relevant governmental services in the country of origin of the goods. In certain cases, a prior recognition of the exporter or certificate issuing service by the importing country is also required.

PRODUCT CHARACTERISTICS REQUIREMENTS

Technical specifications prescribing technical requirements to be fulfilled by a product.

MARKING REQUIREMENTS

Measures defining the information for transport and customs, that the packaging of goods should carry (country of origin, weight, special symbols for dangerous substances, etc.)

LABELLING REQUIREMENTS

Measures regulating the kind and size of printing on packages and labels and defining the information that may or should be provided to the consumer.

PACKAGING REQUIREMENTS

Measures regulating the mode in which goods must be or cannot be packed, in conformity with the importing country handling equipment or for other reasons, and defining the packaging materpakaging materials to be used.

TESTING, INSPECTION AND QUARANTINE REQUIREMENTS

Compulsory testing of product samples by a designated laboratory in the importing country, inspection of goods by health authorities prior to release from customs or a quarantine requirement in respect of live animals and plants.

PRE-SHIPMENT INSPECTION

Compulsory quality, quantity and price control of goods prior to shipment from the exporting country, effected by an inspecting agency mandated by the authorities of the importing country. Price control is intended to avoid under invoicing and over invoicing, so that customs duties are not evaded or foreign exchange is not being drained.
SPECIAL CUSTOMS FORMALITIES

Formalities which are not clearly related to the administration of any measure applied by the given importing country such as the obligation to submit more detailed product information than normally required on the basis of a customs declaration, the requirement to use specific points of entry, etc.

MODALITY FOR ELIMINATING NTBS

Since the measures that act as NTBs tend to vary greatly in their nature, NTB-elimination will mean a different thing depending on the measure concerned. In the case of surcharges this might mean something as simple as doing away with these surcharges. On the other hand, technical regulations cannot be done away with because there are valid reasons for maintaining them, such as public safety, environmental concern, or health reasons. In which case, the elimination of these measures as NTBs might mean harmonizing product standards or developing mutual recognition of standards across Member Countries. The idea is to limit the trade-hampering effects of technical regulations or measures. In the case of monopolistic measures or state monopoly, the process of NTB elimination might mean creating a window for competition and market access by other ASEAN Member Countries successively after a longer waiting period.
Measures which create a monopolistic situation, by giving exclusive rights to one or a limited group of economic operators, for earlier social, fiscal or economic reasons.

SINGLE CHANNEL FOR IMPORTS

All imports or imports of selected commodities have to be channelled through state-owned agencies or state-controlled enterprises. Sometimes the private sector may also be granted exclusive import rights.

COMPULSORY NATIONAL SERVICES

Government-sanctioned exclusive rights of national insurance and shipping companies on all or a specified share of imports.

GENERAL FEATURES OF THE PROCESS FOR ELIMINATING NTBS

There has already been an agreement on the general features of the process for eliminating NTBs in ASEAN. The process involves
(a) Verification of information on NTBs,
(b) Prioritisation of products/NTBs,
(c) Developing specific work programmes, and
(d) Obtaining a mandate from the ASEAN Economic Ministers to implement the work programme.

Member Countries are now in the process of verifying the list of NTBs and products covered by these measures compiled by the ASEAN Secretariat. Several criteria have already been considered by the Interim Technical Working Group on CEPT for AFTA (ITWG) to identify which products/measures have to be dealt with first. These criteria can be used singly or in combination with each other to set priorities. These criteria are in order of importance:
(a) number of private sector complaints, 
(b) difference between domestic and world prices, and 
(c) trade value. The first criterion would rely on the private sector's or exporters' complaints.

Presumably, they are in a better position to tell how different measures existing in the country of destination acts as a trade barrier. The second criterion is the price divergence between domestic and world prices. The price wedge gives an indication of how much trade is hindered since if there are no trade barriers presumably importation would tend to wipe out this price difference. The difficulty with this criterion is that it is difficult to find the price data to make this sort of comparison. Finally, the trade value criterion would prioritise those NTBs/products which is traded most widely (both within and outside the region). The advantage of this criterion is that the ASEAN Secretariat already has this information. The disadvantage of this criterion is that it does not tell us whether the NTB present in the sector hampers trade or not. The fact that there is extensive trade in this product may indicate that the NTB is not an important hindrance to trade. As pointed out above, these criteria are not mutually exclusive. They can be used jointly, and in fact, where all three criteria converge, they should give a robust indicator of the degree to which NTBs exist in that product or sector.

OTHER ASEAN-WIDE ACTIVITIES BEARING ON NTBS

Although, the work on NTB elimination is now currently centered in the Interim Technical Working Group on CEPT for AFTA (ITWG), it is recognized that expertise from different ASEAN bodies will have to be tapped for carrying out this work eventually. One of these bodies is the ASEAN Consultative Committee for Standards and Quality (ACCSQ) which has already set up a Task Force to deal with NTB elimination. The NTB elimination process, specially that bearing on technical standards, will require the assistance of ACCSQ. It can convene the expert panels or expert groups that will be involved in assessing how far ASEAN can go in harmonizing technical standards or developing mutual recognition agreements. There is also some work along these lines currently being done on Sanitary and Phytosanitary (SPS) measures for agricultural products. Under the Senior Officials of the ASEAN Ministers of Agriculture and Forestry (SOM AMAF) is a Working Group on SPS measures which have come up with action plans on NTB elimination in the areas of crops, livestock and fisheries. The action plans involve compiling information on technical measures in ASEAN countries covering agricultural products, and looking into how greater transparency, mutual recognition and harmonisation of SPS standards can further liberalize intra-ASEAN trade in agricultural products.

DECISION OF THE SEVENTH AFTA COUNCIL

The Seventh AFTA Council has tasked these Working Groups to finalise their Action Plans by November 1995 providing a detailed timetable of all their activities.
3.3 QUESTION BANK

Q. 1 Define Non-tariff Barriers. What are the different types of non-tariff barriers?

Q. 2 Distinguish between Tariff and Non-tariff barriers.

Q. 3 Distinguish between Specific Duty and Advalorem Duty.
Export and Import Financing, Procedure, and Primary Consideration

Structure
4.0 Introduction
4.1 14 steps step for conducting export transaction
4.2 Export Assistance
4.3 Export-Import Primary Consideration
4.4 Question

4.0 Introduction

Firms engaged in international trade face a problem -- they have to trust someone who may be very difficult to track down if they default on an obligation. Due to the lack of trust, each party to an international transaction has a different set of preferences regarding the configuration of the transaction. Firms can solve the problems arising from a lack of trust between exporters and importers by using a third party who is trusted by both - normally a reputable bank. A bank issues a letter of credit, abbreviated as L/C at the request of an importer. It states that the bank promises to pay a beneficiary, normally the exporter, upon presentation of documents specified in the letter of credit. A draft (bill of exchange) is the instrument normally used in international commerce to effect payment. It is an order written by an exporter instructing an importer, or an importer’s agent, to pay a specified amount of money at a specified time. Drafts fall into two categories -- sight drafts and time drafts. Time drafts are negotiable instruments. The bill of lading is issued to the exporter by the common carrier transporting the merchandise. It serves three purposes; it is a receipt, a contract, and a document of title.

4.1 14 steps step for conducting export transaction

The entire 14-step process for conducting an export transaction is summarized. Take for example an Indian importer and US exporter.

Step1: The Indian importer places an order with the US exporter and asks the American if he would be willing to ship under a letter of credit.

Step 2: the US exporter agrees to ship under a letter of credit and specifies relevant information such as price and delivery terms.

Step 3: the Indian importer applies to (e.g.) State bank of India for a letter of credit to be issued in favour of the US exporter from the merchandise the importer wishes to buy.

Step 4: the state bank of India issues a letter of credit in the Indian importer’s favour and sends it to the US exporter’s bank, the bank of New York.

Step 5: the bank of New York advices the US exporter of the opening of a letter of credit in his favour.
Step 6: the US exporter ships the goods to the Indian importer on a common carrier. An
official of the carrier gives the exporter a bill of lading.

Step 7: the US exporter presents a 90 day-time draft (bill of exchange) drawn on the State
Bank of India, in accordance with its letter of credit and the bill of lading to the bank of New
York. The US exporter endorses the bill of lading so title of goods is transferred to the Bank
of New York.

Step 8: the bank of New York sends the draft and the bill of lading to the State Bank of India.
The State Bank of India accepts the draft, taking possession of the documents and promising
to pay the now accepted draft in 90 days.

Step 9: State Bank of India returns the accepted draft to the bank of New York.

Step 10: the bank of New York tells the US exporter that it has received the accepted bank
draft, which is payable in 90 days.

Step 11: the exporter sells the draft to the bank of New York at a discount from its face value
and receives the discounted cash value of the draft in return.

Step 12: State Bank of India notifies the Indian importer of the arrival of the documents. He
agrees to pay the State Bank of India in 90 days. State Bank of India releases the documents
so the importer can take possession of the shipment.

Step 13: in 90 days, the State Bank of India receives the importer’s payment, so it has funds
to pay the maturing draft.

Step 14: in 90 days the holder of the matured acceptance ie, bank of New York presents it to
the State Bank of India for payment. The State Bank of India pays.

4.2 Export Assistance

Exporters in the India can draw upon two types of government-backed assistance to help
finance their exports; the Export-Import bank and Export Credit Guarantee Corporation
(ECGC)

The Export-Import Bank (EXIM BANK) is a public sector financial institution established in
January 1, 1982. it was established by an act of parliament for the purpose of financing,
facilitating, and promoting foreign trade in India.

Export Credit Guarantee Corporation (ECGC): this institution covers the exporter against
various risks. It also provides guarantees to the financing banks to enable them to provide
adequate finances to exporters.

4.3 Export Import Primary Consideration

It will discuss the preliminary considerations that anyone intending to export should consider.
Before beginning to export and on each export sale thereafter, a number of considerations
should be addressed to avoid costly mistakes and difficulties. Those companies that begin
exporting or continue to export without having addressed the following issues will run into problems sooner or later

Products

Initially, the exporter should think about certain considerations relating to the Product it intends to export. For example, is the product normally utilized as a component in a customer’s manufacturing process? Is it sold separately as a spare part? Is the product a raw material, commodity, or finished product? Is it sold singly or as part of a set or system? Does the product need to be modified—such as the size, weight, or color—to be saleable in the foreign market? Is the product new or used? (If the product is used, some countries prohibit importation or require independent appraisals of value, which can delay the sale.) Often the appropriate method of manufacturing, marketing, the appropriate documentation, the appropriate procedures for exportation, and the treatment under foreign law, including foreign customs laws, will depend upon these considerations.

Volume

What is the expected volume of export of the product? Will this be an isolated? Small quantities may be exported under purchase orders and purchase order acceptances. Large quantities may require more formal international sales agreements; more secure methods of payment; special shipping, packing, and handling procedures; the appointment of sales agents and/or distributors in the foreign country; or after-sales service.

Country Market and Product Competitiveness Research

On many occasions, a company’s sole export sales business consists of responding to orders from customers located in foreign countries without any active sales efforts by the company. However, as a matter of successful exporting, it is imperative that the company adequately evaluate the various world markets where its product is likely to be marketable. This will include review of macro-economic factors such as the size of the population and the economic development level and buying power of the country, and more specific factors, such as the existence of competitive products in that country.

Identification of Customers: End Users, Distributors, and Sales Agents

Once the countries with the best market potential and the international competitiveness of your company’s products have been evaluated, the specific purchasers, such as end users of the products, sales agents who can solicit sales in that country for the products, or distributors who are willing to buy and resell the products in that country, must be identified.

Compliance with Foreign Law

Prior to exporting to a foreign country or even agreeing to sell to a customer in a foreign country, a U.S. company should be aware of any foreign laws which might affect the sale. Some specific examples are as follows:
4.4 Question

Q1. What is a turnkey project?

Q2. Explain the different modes of carrying out International business.

Q3. Explain briefly exports procedure, taking finance as a critical issue. Illustrate with example
Although the sales agreement is by far the most important single document in an export sales transaction, there are numerous other documents with which the exporter must be familiar. In some cases, the exporter may not actually prepare such documents, especially if the exporter utilizes the services of a freight forwarder. Nevertheless, as discussed in Chapter 2, Section K, relating to the utilization of freight forwarders, the exporter is responsible for the content of the documents prepared and filed by its agent, the freight forwarder. Since the exporter has legal responsibility for any mistakes of the freight forwarder, it is very important for the exporter to understand what documents the freight forwarder is preparing and for the exporter to review and be totally comfortable with the contents of such documents. Furthermore, the documents prepared by the freight forwarder are usually prepared based on information supplied by the exporter. If the exporter does not understand the documents or the information that is being requested and a mistake occurs, the freight forwarder will claim that the mistake was due to improper information provided by the exporter.

5.1 Freight Forwarder’s Powers of Attorney

A freight forwarder will ordinarily provide a form contract that specifies the services it will perform and the terms and conditions of the relationship. Among other things, the contract will contain a provision appointing the freight forwarder as an agent to prepare documentation and granting a power of attorney for that purpose. Under new regulations, if the freight forwarder will have the authority to prepare Shipper’s Export Declarations that must be expressly stated in the power of attorney. Usually, however, the freight forwarder will have a more elaborate contract which includes other specific terms of, or provisions relating to, the services which it will provide.
B. Shipper’s Letters of Instructions

On each individual export transaction, the freight forwarder will want to receive instructions from the exporter on how the export is to be processed. The terms or Conditions of sale agreed between the seller and the buyer may vary from sale to sale.

Consequently, in order for the freight forwarder to process the physical export of the goods and prepare the proper documentation, it is necessary for the exporter to advise the freight forwarder as to the specific agreement between the seller and buyer for that sale. Freight
forwarders often provide standard forms containing spaces to be filled in by the exporter for the information that it needs.

Commercial Invoices

When the export is shipped, the exporter must prepare a commercial invoice, which is a statement to the buyer for payment. Usually English is sufficient but some countries require the seller's invoice to be in their language. Multiple copies are usually required, some of which are sent with the bill of lading and other transportation documents. The original is forwarded through banking channels for payment (except on open account sales, where it is sent directly to the buyer). On letter of credit transactions, the invoice must be issued by the beneficiary of the letter of credit and addressed to the applicant for the letter of credit. Putting the commercial invoice number on the other shipping documents helps to tie the documents together.

5.2 Bills of Lading

Bills of lading are best understood if considered as bills of loading. These documents are issued by transportation carriers as evidence that they have received the shipment and have agreed to transport it to the destination in accordance with their usual tariffs (rate schedule). Separate bills of lading may be issued for the inland or domestic portion of the transportation and the ocean (marine) or air transportation, or a through bill of lading covering all transportation to the destination may be issued.

The domestic portion of the route will usually be handled by the trucking company or railroad transporting the product to the port of export. Such transportation companies have their own forms of bills of lading and, again, commercial stationers make available forms that can be utilized by exporters, which generally say that the exporter agrees to all of the specific terms or conditions of transport normally contained in the carrier’s usual bill of lading and tariff. The inland bill of lading should be prepared in accordance with the freight forwarder’s or transportation carrier’s instructions.

The ocean transportation will be covered by a marine bill of lading prepared by the exporter or freight forwarder and issued by the steamship company. Information in bills of lading (except apparent condition at the time of loading) such as marks, numbers, quantity, weight, and hazardous nature is based on information provided to the carrier by the shipper, and the shipper warrants its accuracy. Making, altering, negotiating, or transferring a bill of lading with intent to defraud is a criminal offense.

If the transportation is by air, the airline carrier will prepare and issue an air waybill. A freight consolidator will issue house air waybills which are not binding on the carrier but are given to each shipper to evidence inclusion of its shipment as part of the consolidated shipment. In such cases the freight consolidator becomes the “shipper” on the master bill of lading.
SPECIMEN OF INTERNATIONAL AIRWAY WAY BILL

<table>
<thead>
<tr>
<th>No. of Pieces</th>
<th>Gross Weight (kg)</th>
<th>Rate Class</th>
<th>Commodity Code</th>
<th>Weight Charge</th>
<th>Total</th>
<th>Nature and Quantity of Goods (incl. Dimensions or Volume)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Shippers' Name and Address: [Blank]
Shippers' Account Number: [Blank]

Consignee's Name and Address: [Blank]
Consignee's Account Number: [Blank]

It is agreed that the goods described herein are accepted in apparent good order and condition (except as noted) for carriage SUBJECT TO THE CONDITIONS OF CONTRACT ON THE REVERSE HEREOF. THE SHIPPER'S ATTENTION IS DRAWN TO THE NOTICE CONCERNING CARRIERS' LIMITATION OF LIABILITY. The Shipper may increase such limitation of liability by declaring a higher value for carriage and paying a supplemental charge if required.

Issuing Carrier's Agent: [Blank]
Issuing Carrier's Address: [Blank]

Accounting Information

Agent's IATA Code: [Blank]
Account No.: [Blank]

Airport of Departure (Name of first Carrier and requested Routing)

To: [Blank]
From: [Blank]

Declared Value for Carriage: [Blank]
Declared Value for Customs: [Blank]

Airport of Destination:

Handling Information

No of Cases: [Blank]
GCW: [Blank]

These commodities stowed by U.S. for ultimate destination. DIVERSION CONTRARY TO U.S. LAW PROHIBITED.

Other Charges: [Blank]

Shippers' certifies that the particulars on the face hereof are correct and that insofar as any part of the consignment contains dangerous goods, such part is properly described by name and is in proper condition for carriage by air according to the applicable Dangerous Goods Regulations.

executed at [Blank]

For Carriers Use only at destination

Charges at Destination: [Blank]

Total Collect: [Blank]

COPY 5 (FOR AIRPORT OF DESTINATION)

FORM AC-12601A
PRINTED IN JAPAN
Dock and Warehouse Receipts

Upon completion of the inland transportation to the port of export, the inland carrier may deliver the goods to a warehouse company or to a warehouse operated by the steamship company as arranged by the freight forwarder. A dock receipt is often prepared by the freight forwarder on the steamship company’s form and is signed by the warehouseman.
or agent of the steamship company upon receipt of the goods as evidence of the receipt. The inland carrier then provides a signed copy of the dock receipt to the freight forwarder as evidence that it has completed the delivery.

Consular Invoices

In addition to a commercial invoice, some countries, including Panama, Bolivia, Haiti, the Dominican Republic, and Honduras, also require that a consular invoice be prepared. A consular invoice is usually prepared from the information in the commercial invoice, but it must be signed by a representative of the country of destination stationed at that country’s embassy or consulate located in the United States nearest the exporter. One reason for requiring such invoices is that the country of destination may deduct certain charges from the price of the goods in order to determine the value for customs duties. If the commercial invoice does not contain all of the information necessary, the foreign customs service would be unable to complete the duty assessment. The consular invoice lists the specific items about which that country requires information. The consular charges a fee for this service.

5.3 Certificates of Origin

Some countries require that goods shipped to the country be accompanied by a certificate of origin designating the place of manufacture or production of the goods. This is signed by the exporter, and, usually, a local chamber of commerce that is used to performing this service (again, for a fee) certifies to the best of its knowledge that the products are products of the country specified by the exporter. The exporter may exports to or imports from Canada or Mexico. In general, in order to be eligible for the duty-free or reduced duty rates under NAFTA, all items imported from outside of North America must have undergone the “tariff shift” specified in Annex 401 during the manufacturing process for that product.

Certificates of Free Sale

Sometimes an importer will request that an exporter provide a certificate of free Sale. Loosely speaking, this is a certification that a product being purchased by the Importer complies with any U.S. government regulations for marketing the product And may be freely sold within the United States. Sometimes, depending upon the Type of product involved, the importer will be able to accept a self-certification by the Exporter. Frequently, however, the importer seeks the certificate of free sale because the importer’s own government requires it. For example, these requests are common With regard to food, beverages, pharmaceuticals, and medical devices. The foreign Government may or may not require the importer to conduct its own testing of the Products for safety but may, either as a primary source or as backup for its own testing, Seek confirmation that the products are in compliance with the U.S. Food, Drug and Cosmetics Act.
Delivery Instructions and Delivery Orders

The Delivery Instructions form is usually issued by the freight forwarding company to the inland transportation carrier (the trucking or rail company), indicating to the inland carrier which pier or steamship company has been selected for the ocean transportation and giving specific instructions to the inland carrier as to where to deliver the goods at the port of export. This must be distinguished from the Delivery Order, which is a document used to instruct the customs broker at the foreign port of destination what to do with the goods, in particular, the method of foreign inland transportation to the buyer’s place of business.

Shipper’s Declarations for Dangerous Goods

Under the U.S. Hazardous Materials Transportation Act, the International Air Transport Association Dangerous Goods Regulations, and the International Maritime Dangerous Goods Code, exporters are required to provide special declarations or notices to the inland and ocean transportation companies when the goods are hazardous. This includes explosives, radioactive materials, etiological agents, flammable liquids or solids, combustible liquids or solids, poisons, oxidizing or corrosive materials, and Compressed gases. These include aerosols, dry ice, batteries, cotton, anti-freeze, cigarette Lighters, motor vehicles, diesel fuel, disinfectants, cleaning liquids, fire extinguishers, Pesticides, animal or vegetable fabrics or fibres, matches, paints, and many Other products. The shipper must certify on the invoice that the goods are properly Classed, described, packaged, marked and labelled, and are in proper condition for Transportation in accordance with the regulations of the Department of Transportation.

Precursor and Essential Chemical Exports

Those who export (or import) ‘‘precursor’’ chemicals and ‘‘essential’’ chemicals that can be used to manufacture illegal drugs are required to file Drug Enforcement Administration (DEA) Form 486. In some cases, this form must be filed fifteen days in advance of exportation (or importation).

Animal, Plant, and Food Export Certificates

The U.S. Department of Agriculture is supportive of companies that want to export Livestock, animal products, and plants and plant products. Often, the destination Country will have specific requirements in order to permit import to that country. But sometimes the foreign country will accept or require inspections performed and Certificates issued in the United States. In general, the U.S. Department of Agriculture Offers inspection services and a variety of certificates to enable exporters to satisfy Foreign government requirements.

Drafts for Payment

If payment for the sale is going to be made under a letter of credit or by documentary Collection, such as documents against payment (‘‘DP’’ or sight draft) or documents against acceptance (‘‘DA’’ or time draft), the exporter will draw a draft on the buyer’s bank in a letter of credit transaction or the buyer in a documentary collection transaction payable to itself (sometimes it will be payable to the seller’s bank on a confirmed letter of credit) in the amount of the sale. This draft will be sent to the seller’s bank along with the instructions for collection, or sometimes the seller will send it directly to the buyer’s bank. If the payment
agreement between the seller and buyer is at sight, the buyer will pay the draft when it is received, or if issued under a letter of credit, the buyer’s bank will pay the draft when it is received.

If the agreement between the seller and the buyer is that the buyer will have some grace period before making payment, the amount of the delay, called the usance, will be written on the draft (time draft), and the buyer will usually be responsible for payment of interest to the seller during the usance period unless the parties agree otherwise. The time period may also be specified as some period after a fixed date, such as ninety days after the bill of lading or commercial invoice date, or payment simply may be due on a fixed date.

Freight Forwarder’s Invoices

The freight forwarder will issue a bill to the exporter for its services. Sometimes The forwarder will include certain services in its standard quotation while other services. Will be add-ons. It is important to make clear at the outset of the transaction Which services will be performed by the exporter, the freight forwarder, and others, Such as the bank.

SPECIMEN OF FREIGHT FORWARDER INVOICE

---

INVOICE NO.
DATE
YOUR REF. NO.

CONSIGNEE:

<table>
<thead>
<tr>
<th>FROM TO:</th>
<th>AIR OCEAN</th>
</tr>
</thead>
</table>

- INLAND FREIGHT/LOCAL CARTAGE
- EXPORT PACKING
- AIR FREIGHT CHARGES
- OCEAN FREIGHT/Terminal CHARGES
- CONSULAR FEES
- INSURANCE/CERTIFICATE OF INSURANCE
- CHAMBER OF COMMERCE
- BROKERAGE FEES
- FORWARDING
- HANDLING AND EXPEDITING
- DOCUMENT PREPARATION
- MESSENGER FEES
- POSTAGE
- TELEPHONE
- CABLES
- CERTIFICATE OF ORIGIN
- BANKING (LETTER OF CREDIT/SIGHT DRAFT)
- MISCELLANEOUS

As amended by the United States Shipping Act of 1984.

TOTAL $ 

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has a policy against payment, solicitation, or receipt of any rebate, directly or indirectly, which would be unlawful under the United States Shipping Act, 1916, as amended

FORM NO. 10-24 Printed and Sold by L.E.P., 160 Baldwin Ave., Jersey City, NJ 07306 - (201) 861-3088 / (201) 759-0400

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Shipper’s Export Declarations

The Shipper’s Export Declaration (SED) is important because it is the only one of all of the export documents that is filed with and U.S. governmental agency. The SED is given to the exporting steamship carrier or air carrier and is filed by them with the U.S. Customs Service prior to clearing the port. This document may be prepared by the exporter, or it may be prepared by the exporter’s agent, the freight forwarder, and the exporter may not see it. Nevertheless, the SED form specifically states that any false statements in the form (which is interpreted to include accidentally false statements as well as intentionally false statements) will subject the exporter to various civil and criminal penalties, including a $10,000 fine and up to five years’ imprisonment.

Letters of Credit

When the buyer has agreed to provide a letter of credit as part of the payment terms, the buyer will apply to its local bank in its home country and a letter of credit will be issued. The seller should send instructions to the buyer before the letter of credit is opened, advising the seller as to the terms and conditions it desires. The seller should always specify that the letter of credit must be irrevocable. The bank in the buyer’s country is called the issuing bank. The buyer’s bank will contact a correspondent bank near the seller in the United States, and the U.S. bank will send a notice or advice to the exporter that the letter of credit has been opened. If the letter of credit is a confirmed letter of credit, the U.S. bank is called the confirming bank; otherwise, it is called the advising bank. The advice will specify the exact documents that the exporter must provide to the bank in order to receive payment. Since the foreign and U.S. banks are acting as agent and subagent, respectively, for the buyer, the U.S. bank will refuse to pay unless the exact documents specified in the letter of credit are provided. The banks never see the actual shipment or inspect the goods; therefore, they are extremely meticulous about not releasing payment unless the documents required have been provided. The issuing bank and advising bank each have up to seven banking days to review the documents presented before making payment. When the exporter receives the advice of the opening of a letter of credit, the exporter should review in detail the exact documents required in order to be paid under the letter of credit.

Introduction to Letters of Credit

Letters of credit are a payment mechanism, particularly used in international trade. The Seller gets paid, not after the Buyer has inspected the goods and approved them, but when the Seller presents certain documents (typically a bill of lading evidencing shipment of the goods, an insurance policy for the goods, commercial invoice, etc.) to his bank. The bank does not verify that the documents presented are true, but only whether they “on their face” appear to be consistent with each other and comply with the terms of the credit. After examination the bank will pay the Seller (or in LC terms the beneficiary of the letter of credit).

Example:

1) Buyer and Seller sign a purchase contract that stipulates payment by letter of credit. It is good practice to agree already in the purchase contract which documents the Seller/Beneficiary has to present.

2) The Buyer goes to his bank (so called issuing bank) opening the credit to the benefit of
the Seller, in particular the Buyer tells his bank which documents the Beneficiary has to present, where and how, and the amount of the credit and details of payment (by sight, deferred sight payment, against acceptance or negotiation of drafts).

3) The Issuing Bank, which is normally located in a foreign country, advises the Beneficiary through a correspondence bank located in the country of the Beneficiary of the credit.

4) The Buyer ships the goods and presents the necessary documents to his local bank which pays him after examining them.

The obligation of the bank is independent of the rights of the parties under the purchase/service contract. This means that, absent fraud, the bank has to pay when conforming documents are presented, even though the goods are not of the contractually agreed quality or quantity.

The Seller can strengthen his position by requesting a “confirmed” letter of credit. The confirmation of a bank in the Seller’s country means that the payment obligation of the confirming bank is independent of the issuing bank. If the issuing bank cannot wire funds outside the country due to governmental restrictions, the confirming bank still has to pay, even though it will not be reimbursed by the issuing bank. The Seller thus can avoid currency transfer restrictions which are sometimes found in developing countries.

A standby letter of credit is basically a bank guarantee. Previously US banks were not allowed to issue guarantees and circumvented this limitation by issuing standby letters of credit where the beneficiary basically has to present his face to get paid.

Most letters of credit, particularly in international transactions, are subject to the Uniform Customs and Practices (UCP) issued and published by the International Chamber of Commerce (ICC). The current revision UCP 600 is publication No. 600 of the ICC and takes effect as of July 1, 2007. Since the ICC lacks legislative authority, meaning it is not the arm of or authorized by any government but rather a trade association, the UCP are no laws and have to be explicitly incorporated into individual transactions.

Some countries and states have enacted statutes regarding letters of credit (see eg Article 5 US Uniform Commercial Code). In international trade however, most parties choose to use the UCP.

5.4 The Letter of Credit

A letter of credit is a document typically issued by a bank or financial institution, which authorizes the recipient of the letter (the "customer" of the bank) to draw amounts of money up to a specified total, consistent with any terms and conditions set forth in the letter. This usually occurs where the bank's customer seeks to assure a seller (the "beneficiary") that it will receive payment for any goods it sells to the customer.

For example, the bank might extend the letter of credit conditioned upon the beneficiary's providing documentation that the goods purchased with the line of credit have been shipped to the customer. The customer may use the letter of credit to assure the beneficiary that, if it
satisfies the conditions set forth in the letter, it will be paid for any goods it sells and ships to
the customer.

In simple terms, a letter of credit could be said to document a bank customer's line of credit, and any terms associated with its use of that line of credit. Letters of credit are most commonly used in association with long-distance and international commercial transactions.

Confirmed Letter of Credit

A letter of credit, issued by a foreign bank, which has been verified and guaranteed by a
domestic bank in the event of default by the foreign bank or buyer. Typically, this form of
letter of credit will be sought when a domestic exporter seeks assurance of payment from a
foreign importer.

Commercial Letter of Credit

A commercial letter of credit assures the seller that the bank will provide payment for any
goods or merchandise shipped to the bank's customer, assuming the seller provides any
required documentation of the transaction and its shipment of the purchased goods.

Irrevocable Letter of Credit

An irrevocable letter of credit includes a guarantee by the issuing bank that if all of the terms
and conditions set forth in the letter are satisfied by the beneficiary, the letter of credit will be
honored.

Revocable Letter of Credit

An revocable letter of credit may be cancelled or modified after its date of issue, by the
issuing bank.

Standby Letter of Credit

In the event that the bank's customer defaults on a payment to the beneficiary, and the
beneficiary documents proof of its loss consistent with any terms set forth in the letter, a
standby letter of credit may be used by the beneficiary to secure payment from the issuing
bank.
5.5 Questions

Q1. What are various documents required for exporting the document?
Q2. What do you mean by letter of Credit?
PROCESSING OF AN EXPORT ORDER

Structure

6.0 Objectives
6.1 Introduction
6.2 Nature and Format of Export Order
   6.2.1 Examination and Confirmation of Export Order
6.3 Manufacturing or Procuring Goods
6.4 Central Excise Clearance
6.5 Pre-Shipment Inspection
6.6 Appointment of Clearing and Forwarding Agents
6.7 Transportation of Goods to Port of Shipment
   6.7.1 Port Formalities and Customs Clearance
   6.7.2 Dispatch of Documents by Forwarding Agent to the Exporter
   6.7.3 Certificate of Origin and Shipment Advice
6.8 Presentation of Documents to Bank
   6.8.1 Claiming Export Incentives
   6.8.2 Excise Rebate
   6.8.3 Duty Drawback
6.9 Question

6.0 OBJECTIVES:

After studying this unit, you should be able to:

Describe different stages, preparation and processing of documents for pre-shipment and post-shipment formalities.

Explain specific points to be examined while confirming the receipt of the export order

Explain documentary requirements for obtaining excise and customs clearance of export cargo

Describe formalities for claiming major export incentives

Enumerate documents to be submitted to the Bank.

6.1 INTRODUCTION

You have learnt the regulatory framework of foreign trade, the export sales contract the range of documentation formalities in export-import trade and Electronic Data Interchange System in Units 1, 2, 3 and 4. An export exercise is concluded successfully after the exporter has been able to deliver the consignment in accordance with the export contract and receive payment for the goods. In this unit you will learn various steps involved in the processing of an export order.
order at per-shipment, shipment and post-shipment stages. You will also learn various formalities of claiming export incentive.

6.2 NATURE AND FORMAT OF EXPORT ORDER:

Processing of an export order starts with the receipt of an export order. An export order may be either in the form of export sales contract, which is concluded and incorporated in the form of a document or in the form of evidence or an instrument evidencing the conclusion of a contract. Simply stated, it means that there should be an agreement, which is mostly reduced in a documentary form, between the exporter and the importer before the exporter can start making arrangements for production or procurement of goods and their shipment. Generally an export order may take the following forms:

i) Proforma Invoice accepted and signed by the importer

ii) Purchase Order accepted and signed by the exporter

iii) Letter of Credit opened by the importer in favour of the exporter.

A Performa Invoice is prepared and sent by the exporter to the importer. After accepting the terms and conditions given in it as given in a documented contract, if any, the importer returns a copy of this invoice to the exporter. Such a process helps in accepting the offer of the exporter by the importer and, thus the conclusion of an export contract. In the case of long-term contract, the exporter may be required to send Performa invoice for any intended shipment. Alternatively, the export contract may require a purchase order to be sent by the importer to the exporter. If the purchase order is in accordance with the terms and conditions of the contract, the exporter will duly accept it. Opening of a letter of credit is also a common method of receiving the export order. Although an instrument of payment, the letter of credit states major terms and conditions of shipment and enables the exporter to start processing of the export order.

6.2.1 EXAMINATION AND CONFIRMATION OF EXPORT ORDER

As soon as an export order has been received, the exporter must first acknowledge its receipt by intimating the importer through telephone, telex, fax, etc. Though not legally necessary, this step is helpful in creating business goodwill for the exporter. The exporter must carefully examine the contents of the order to see that there is no discrepancy between the export order and export contract (verbal or written). Thus, the accepted proforma invoice, buyers purchase order or the letter of credit opened in favour of the exporter must be examined. Items to be examined particularly are:

i) Product description, including specification, style, colour, packing conditions, etc.

ii) Marking and labelling requirements, if any.

iii) Terms of payment, including currency, nature of letter of credit (revocable, irrevocable, confirmed, unconfirmed, restricted, unrestricted, etc.), credit period, if any.
iv) Terms of shipment including choice of carrier, mode of carriage, place of delivery, date of shipment, delivery, port of shipment, Transshipment, etc.

v) Inspection requirement including type of inspection and inspecting agency.

vi) Insurance requirements including risk being covered and insurable value.

vii) Documents for realizing payment including the nature and number of invoices. Certificate of origin, certificate of inspection, certificate of value, bill of exchange, insurance policy, transport document and document of title, etc.

viii) Last date of negotiation of document with the bank.

A new exporter who is very keen to get into the business may tend to ignore certain aspects of the export order. It is not uncommon that he encounters difficulties while complying with the contracted obligations. In the process, he may suffer a loss. For example, the importer may specify inspection to be undertaken by an agency, which does not operate from India. Such a problem will be discovered only after the goods have been manufactured. At this stage, it may be difficult to persuade the importer to change this condition. Consequently, the exporter may suffer a loss. If there are any discrepancies in the export order, the importer must be immediately informed for its amendment. It is only after the amended order has been received and confirmed by the exporter that he becomes liable to fulfill his contractual obligations. It is commercially prudent to confirm the order by sending a documentary confirmation. In certain contracts it may also be the legal requirement. There is no specific format of this confirmatory letter and an ordinary letter would serve the purpose. Although some exporters have printed the letter with suitable blank spaces.

6.3 MANUFACTURING OR PROCURING GOODS

Every export firm has devised internal procedures to suit specific requirements for ensuring production or procurement of goods, packing, marking and labeling, and dispatching to the port for shipment. A systematic approach to these activities could be to send a delivery note, in duplicate to the production department. In the case of a merchant-exporter, the marketing department may send a similar document known as purchase order. Specific instructions are given on the above-mentioned document to the production/procurement department for undertaking production and transport activities. Besides mentioning the time period within which these activities are to be completed, delivery note/purchase order may give such details as: product specification, quantity required, packing, marking and labelling requirement, excise clearance requirement, 

intimation to transport department if any. The marketing or export department should also instruct the production/procurement department to retain one copy of the delivery note/purchase order and confirm the delivery (i.e., transportation to the port) on the duplicate copy.

The purchasing, processing manufacturing and packing of goods for exports are facilitated by the packing credit facility given by the commercial banks in India. Under the export credit (interest subsidy) scheme, the Reserve Bank of India enables the commercial banks to extend pre-shipment and post-shipment credit to exporters manufacturers, as well as merchant exporters.
Pre-shipment credit is given to an exporter to finance working capital needs for purchase of raw materials, processing them and converting them into finished goods for the purpose of exports. This facility is accorded on the basis of either the letter of credit or the confirmed export order or any other evidence of the order. The rate of interest charged is concessional one. Banks also grant post-shipment credit to bridge the time-gap between the shipment of the goods and the realisation of sale proceeds.

Packing credit advances are normally granted on secured basis, which may mean collateral security through a third party guarantee or mortgage of immovable property. Once the goods have been acquired they are to be hypothecated. The banks have evolved their own documentation and procedural systems for granting the credit. Generally, following disbursement procedure is followed:

i) The exporter hands over the export order letter of credit to the bank, which will accept it and affix a rubber stamp on it reading 'export finance granted'.

ii) The bank will calculate the drawing power of the exporter on the basis of a number of factors, including the value of export order/letter of credit.

iii) Funds will be released by debiting to the packing credit account and credit to exporter's account.

iv) Goods will be required to be sent through the approved transport agencies and forwarding agents.

v) Goods will be suitably insured while in the warehouse and in transit.

On the basis of the laid down procedures, the exporter will approach the bank for the pre-shipment credit. This credit is granted to enable the reporter to manufacture/procure and pack the goods for shipment overseas.

6.4 CENTRAL EXCISE CLEARANCE

The Central Excise and Salt Act of India and the related rules provide the refund of excise duty paid. This also provides exemption from the payment of excise duty both on the final export production and inputs used in the manufacture of export products, popularly known as rebate in excise duty. The documents used are Invoice and AR4/AR5 forms.

As soon as goods are ready for dispatch to the port for shipment, the production department of export firm is to apply to the central excise authority for excise clearance of the goods. The exporters prepare six copies of AR4/AR5 forms. The exporters are now allowed to remove the goods for export on their own without getting the goods examined or after the examination by the Central Excise Officers. In case of without examination, exporter submits 4 copies of 1):R4/ARS form to the superintendent of Central Excise having Jurisdiction over the premise of the exporter within twenty-four hours of the removal of the consignment. The Superintendent examines the AR4/AR5 form and having being satisfied, signs the form and return it to the concerned persons.

Sometimes the exporter desires sealing of the goods by the Central Excise Officers so that the custom officers at the port of shipment may not examine the export goods. In such case, the
exporter submits AR4/ AR5 forms in sixuplicate to the superintendent of Central Excise having jurisdiction over the premises of the exporter. The superintendent may depute an inspector of Central Excise or may he go for selling and examination of export cargo. After he is Satisfied, he allows the clearance of cargo.

6.5 PRE-SHIPMENT INSPECTION

Government of India notifies, from time to time, a number of goods whose export is subject to compulsory quality control or pre-shipment inspection. Consequently, the Indian customs authorities will require the submission of an inspection certificate issued by the designated agency before permitting the shipment to take place. The basis of inspection is usually the importer's specification, except in the case of export of goods involving safety or health hazards, where notified minimum standards are enforced. Inspection of export goods may be conducted under

(1) Consignment-wise Inspection
(2) In-process Quality Control and
(3) Self-Certification

Let us discuss consignment-wise inspection. Before the excise authorities seal packs, the process of pre-shipment inspection must be completed. The production department is to apply to the, Export Inspection Agency for nominating an inspector for conducting examination of the export goods. The application is to be made on a prescribed form known as Notice of Inspection and submitted to the Agency with the following documents:

1) A copy of the commercial invoice
2) Crossed cheque of demand draft as inspection fee
3) A copy of export contract
4) Importer's technical specifications and/or approved sample.

After the inspector has completed inspection, the Export Inspection Agency will issue the Inspection Certificate in triplicate. The original certificate is for the customs verification. It is submitted to the customs authorities, along with other documents, before permission to ship goods is granted. The second copy may be sent to the buyer, if needed. The third copy is for the exporter's record.

6.6 APPOINTMENT OF CLEARING AND FORWARDING AGENTS:

Clearing and forwarding agents, also known as freight forwarders, perform a number of functions on behalf of the exporter. They provide specialised help in the exporter's warehouse to the importer's warehouse by undertaking the procedural and documentary formalities. They help in packing, marking and labelling of consignment, arrangement for transport to the port, arrangement for shipment overseas, and customs clearance of cargo, procurement of transport and other documents. However, the main function of the agent is to obtain customs clearance of goods, ship them and procure the relevant transport document (Bill of Lading or Airway Bill). For performing the desired functions, the exporter is required to give detailed instructions to his agent, who in turn will charge fee for these activities. On completion of the process of clearance by the excise authorities as well as obtaining the Inspection Certificate, the production department dispatches the consignment to the port of
shipment by either road or rail. Information to this effect is sent to the export department by signing the Delivery Note or by preparing a Dispatch Advice along with the following documents:

a. Railway Receipt or Lorry Way Bill  
b. Invoice  
c. A R4/A R5 form (Original and Duplicate)  
d. Inspection Certificate (Original)

On receipt of these documents, the export department will appoint a clearing and forwarding agent by signing and sending a document, generally known as Shipping Instruction Sheet or simply the Shipping Instructions. This document contains full details of instructions of the exporter as well as details of the consignment to be shipped. Along with this document, following documents will be sent to the agent:

(a) Commercial Invoice (Generally 8-10 copies with at least one completed)  
(b) Customs Declaration Form in Triplicate (This is a legal requirement whereby the exporter states that the declarations made to the customs authorities by the agent on his behalf are true)  
(c) Packing list, if needed  
(d) Original Letter of Credit/Contract  
(e) Inspection Certificate (Original)  
(f) GR Form- Original and Duplicate (it is a foreign exchange declaration form)  
(g) AR4/AR5 form (Original and Duplicate) Invoice  
(h) Railway Receipt/lorry Way Bill

6.7 TRANSPORTATION OF GOODS TO PORT OF SHIPMENT

You have already learnt the documents relating to transportation of goods to the port of shipment. Transportation and movement of goods to the port for shipment involve the following activities: Packing, marking and labelling of consignment. Arrangement for movement of goods either by road or by rail.

An export-worthy packing helps in minimizing freight and delivery costs. It also eliminates the possibility of the insurance company's refusal to pay a claim in the event of a loss or damage to goods in transit. If there are specific instructions on packing in the export contract, these must be followed. After the goods are packed, the packages are to be properly marked and labeled. Proper marking helps in quick and safe transportation of goods. Marking serves the purpose of identification of goods, handling, shipping and delivery of goods up to the importer. Labels are either stencils or affixed on the packs which contain handling instructions. These labels are usually in the pictorial form for easy understanding of the instructions.

After the production department has completed the excise clearance and pre-shipment inspection formalities, the export goods are packed, marked and labelled. At the same time, the export department takes steps to reserve space on the ship through which goods are to be sent. Shipping space can be reserved either through the clearing and forwarding agent or
freight broker who work on behalf of the shipping company or directly from the shipping company. After the space has been reserved, the shipping company will issue a document known as Shipping Order. This document serves as a proof of space reservation.

Information on space reservation is given to the production department for making transport arrangements to the port. Where the consignment is sent through a road carrier, no specific formality is involved. The production department engages a reliable carrier and books the consignment to the port (generally in the name of the clearing and forwarding agent). Lorry! Truck receipt is issued which is sent, along with other documents, to the clearing and forwarding agent at the port town for taking delivery of the cargo.

However, for sending cargo by rail, laid down procedure is to be followed for obtaining allotment of wagon on a priority basis under a scheme of the Railway Board. According to this scheme, wagons are allotted on the priority basis for carrying export goods to the port town for shipment. Following documents are submitted to the booking railway yard/Station.

1 Forwarding Note (A railway document)
2 Shipping Order (as proof of reservation of shipping space)
3 Wagon Registration Fee Receipt

4. After wagons have been allotted, goods are loaded, for which railways will issue Railway Receipt (RR). This receipt, along with other documents, is sent to the clearing and forwarding agent at the port town. At this stage, the production export department makes an application to the insurance company for insurance cover (internal as well as overseas) and obtains insurance policy/certificate in duplicate with appropriate risk coverage.

6.7.1 PORT FORMALITIES AND CUSTOMS CLEARANCE

On receipt of the documents sent by the export department, the clearing and forwarding agent takes delivery of the cargo from the railway station or the road transport company and arranges its storage in the warehouse. He also initiates action to obtain customs clearance and permission from the port authorities to bring cargo into the shipment shed.

The objectives of customs control are:

a. to ensure that the goods go out of the country after compliance with different laws concerning export trade
b. to ensure authenticity of value of export goods to check over/under invoicing.

c. to correctly assess and collect export duty, if applicable

d. To compile data on cargo movements.

For complying with these objectives, the customs grant permission for export at two stages. Firstly, documentary checks are made at the office of the customs (i.e. Customs House). Secondly, physical examination of goods is made in the shipment shed to verify that the goods being exported are the same as have been declared on the documents submitted at the
Customs House. The document on which customs give clearance for export is the Shipping Bill.

The clearing and forwarding agent is to file following documents with the Customs House:

a.  Shipping Bill (4-5 copies)
b.  Contract correspondence leading to the contract (Original)
c.  Letter of Credit, where applicable (Original)
d.  Commercial Invoice (one for each of the shipping Bill)
e.  GR Form (Original and Duplicate)
f.  Inspection Certificate (Original)
g.  AR 4/ AR 5 Form (Original and Duplicate)
h.  Packing list, if needed
i.  Any other document needed by the customs

The Customs Appraiser/Examiner examines these documents and appraises the value having regard to the following consideration:

1. That the value and the quantity declared in the shipping bill is the same as in the export order or letter of credit.
That the formalities regarding exchange control, pre-shipment quality control inspection etc. have been duly completed. After examination of documents and appraisement of value, the Customs Examiner/Appraiser makes an endorsement on the duplicate copy of the shipping Bill. He also gives directions to the Dock Appraiser about the extent of physical examination of the cargo to be conducted at the Docks. All the Documents, except GR (original) Form, the original Shipping Bill and a copy of the Commercial Invoice are returned to the Forwarding Agent to be presented to the Dock Appraiser.

After taking delivery of documents from the Export Department, Forwarding Agent Presents the Port Trust Document to the Shed superintendent of the port. He obtains carting order for bringing the export cargo to the transit shed for physical examination by the Dock Appraiser and for their shipment. After bringing the cargo into the shed he presents the following documents to the Dock Appraiser for conducting physical examination of the cargo.

(1)  Duplicate, triplicate and export promotion copies of the shipping Bill Commercial Invoice
(2)  Packing List
(3)  AR 4/AR 5 form (original and duplicate) and Invoice
(4)  Inspection Certificate (Original)
(5)  GR Form (Duplicate)

The Dock Appraiser after conducting physical examination records examination report and makes "Let Export" endorsement on the duplicate copy of the Shipping Bill. He hands it over to the forwarding Agent along with all other documents to be presented to the preventive officer of the customs department who supervises the loading of cargo on board the vessel. The preventive officer makes an endorsement "Let ship" on the duplicate copy of the Shipping Bill. The duplicate copy of the Shipping Bill is then handed over to the agent of the shipping company. This constitutes an authorisation by the customs to the shipping company to accept the cargo on the vessel.
After the goods are loaded on board the vessel, the captain of the ship issues a receipt known as 'Mate's Receipt' to the Shed Superintendent of the port. The forwarding agent then makes a payment of the port charges and takes delivery of the Mate's Receipt. He presents the Mate's Receipt first to the preventive officer who records the certificate of shipment on all the copies of the shipping Bill, original and duplicate copies of AR4/ AR5 form. He returns the Export promotion copy, a copy of Drawback shipping Bill and presents the Mate's Receipt to the shipping company and requests it to issue the Bill of Lading (2/3 negotiable and a few non-negotiable as required).

6.7.2 Dispatch of Documents by Forwarding Agent to the Exporter

After obtaining the Bill of Lading from the shipping company, the agent sends the following documents to the exporter.

a. One copy of the Commercial Invoice duly attested by the customs
b. Export promotion copy of Shipping Bill
c. Drawback copy of Shipping Bill
d. Full set of 'Clean On Board Bill of Lading' together with non-negotiable copies
e. Original letter of credit/ contract order Copies of Customs Invoice, if any
f. AR 4/ AR 5 (Duplicate) and Invoice
g. GR Form (Duplicate).

6.7.3 CERTIFICATE OF ORIGIN AND SHIPMENT ADVICE

On receipt of the above documents, the exporter makes an application to the chamber of commerce and obtains a 'Certificate of Origin' in duplicate. Incase of export shipment to countries offering GSP concession, the GSP Certificate of Origin will have to be procured by the exporter from the concerned authority like Export Inspection Agency. The exporter then sends 'Shipment Advice' to the importer intimating the date of shipment of the consignment by a named vessel and its expected time of arrival (ETA) at the destination port. The following documents are also sent alongwith the shipping advice so that the importer may start making arrangements for taking delivery of the consignments.

a. A non-negotiable copy of the Bill of Lading
b. Commercial Invoice
c. Packing List
d. Customs Invoice

6.8 PRESENTATION OF DOCUMENTS TO BANK:

The exporter presents the following documents to the bank for negotiation/ collection:

a. Commercial invoice (Requisite number of copies) Certificate of Origin (two copies)
b. Customs Invoice (Requisite number of copies) GR Form (Duplicate)
c. Packing List (requisite number of copies)
d. Full set of Clean-on-Board Bill of Lading (Negotiable plus Non-negotiable copies as required)
e. Additional copies of the Commercial Invoice for Certification by the Bank
f. Original Letter of Credit/Export Contract
g. Bank Certificate in the prescribed form in duplicate
6.8.1 CLAIMING EXPORT INCENTIVES

You have learnt the processing of an export order at pre-shipment, shipment and post shipment level. Let us now discuss the process of claiming export incentives.

6.8.2 Excise Rebate

After completing the post-shipment formalities, the clearing and forwarding agent will file the following documents with the Maritime Central Excise Collector or Jurisdictional Assistant Collector of Central Excise for claiming the refund of excise duty or for obtaining release from bond, as the case may be.

a. AR4/AR5 Form (Duplicate copy), which has been certified by the customs preventive officer
b. Non-negotiable copy of the Bill of Lading and lor shipping Bill certified by the customs preventive officer

Additional documents to be submitted for claiming refund excise duty are:
(A) Application for Refund in Form C and (B) Pre-receipt

6.8.3 Duty Drawback

For claiming Duty Drawback, the exporter's agent will file the customs attested copy of the Drawback Shipping Bill, along with the following documents, with the Drawback Department of the Customs House:

a. Drawback Claim proforma (prescribed application form in five copies)

b. Bank or Customs Certified copy of Commercial Invoice

c. Non-negotiable copy of Bill of Lading

d. Any other specifically prescribed document.

After finding the claim to be correct, the Drawback Department will dispatch the cheque of the claim amount to the exporter. Alternatively, if the exporter so desires, this amount will be sent to the exporter's bank for being credited to his account with intimation to the exporter.

Processing of an export order starts with the receipt of an export order, generally in the form of either the proforma Invoice, Purchase Order or Letter of Credit. On its receipt, the exporter must first acknowledge its receipt and then process to examine it. The examination should be done with reference to terms and conditions of the contract, particularly product specifications, terms of shipment and payment and submission of documents to the bank. If any discrepancy is found, the importer must be immediately informed for amendment of the order. The exporter should then confirm the order with the importer.

For production/procurement and transportation of goods to the port for shipment, a number of activities are to be undertaken by the production/procurement department of the export firm. The first activity is to apply for pre-shipment credit (packing credit) to the Bank. The bank takes into account a number of factors and grants credit to the extent determined by the value
of the confirmed export order. The credit amount is used for manufacturing! procuring and packing goods.

The clearance from the central Excise authorities is needed so that the exporter can get rebate in the central excise duty paid/payable on the exported goods. For this purpose, AR4/ AR5 Form and Invoice are to be completed. Clearance is completed when the certified AR 4/ AR 5 (Original and Duplicate) is given to the production department.

The production department also applies to the Inspection Agency for obtaining inspection certificate. This certificate is issued when the inspector visits the factory/ warehouse and examines the goods. The original Inspection certificate will be required to be submitted to the customs authority for obtaining permission to ship goods.

Export goods are sent to the port town either by road or by rail. The Indian Railways accord priority in allotment 6f wagons needed for moving export consignments, for which the essential requirements is to first reserve space on the ship. Space reservation may be done either through the freight broker or the clearing and forwarding agent. The proof of space reservation is the shipping order.

At the port two formalities are to be completed. The first is to obtain permission from the port authority to bring cargo inside the shipment shed. The second formality is to obtain permission from the customs authority to export the goods. The customs permission is granted at three stages- documentary dears'ices, physical examination of goods and permission from the Customs Preventive Officer. For these purposes, the Clearing and forwarding agent of the exporter files the necessary shipping bill (a customs document) and the supporting documents with the Customs House. After appraising the value of the goods, the concerned customs officer notes down instructions for physical examination of goods in the shipment shed on shipping Bill (Duplicate copy).

After obtaining permission from the port authority, the exporter's agent brings goods in the shipment shed. But before shipment process can start, the customs officer first physically examines goods and then finally the Customs Preventive Officer gives permission to load. Once the shipment process is over. The master of the carrier issues Mate's Receipt. This receipt is then exchanged with the Bill of Lading issued by the shipping company. The exporter's agent obtains shipment certificate on different documents, which will enable the exporter to claim various incentives.

As soon as shipment is completed, the exporter should send shipment. Advice to the importer mainly in the form of non-negotiable copy of Bill of Lading. Thereupon, documentation formalities are undertaken for getting rebate in Excise Duty and Duty Drawback. At the same time the exporter submits shipping documents as per the export order to the bank for securing the sale amount.
6.9 QUESTIONS

Q1) Describe the steps involved in the receipt, examination and confirmation of an export order.

Q2) What are the documents needed for i) Central Excise Clearance and ii) Securing Inspection Certificate?

Q3) Describe the process of preparing goods for exports and their transit to the port of shipment.

Q4) What are the supporting documents to be submitted alongwith the shipping Bill for getting customs permission for exports?

Q5) What are the three stages at which customs permission to export is obtained?

Q6) Make a flow chart of processing of an export order upto the shipment stage.

Q7) What documents are required to be submitted to the bank after goods have been delivered to the carrier?

Q8) Describe the formalities for claiming duty Drawback.
MARINE INSURANCE

Structure

7.0 Introduction
7.1 Meaning
7.2 Principle
7.3 Features
7.4 Types of Marine Insurance
7.5 Insurance Claim
7.6 Procedure for Filling Marine Insurance
7.7 Documents for claim
7.8 ISO-9000
7.9 Question

7.0 INTRODUCTION

Marine Insurance is a contract under which the insurer undertakes to indemnify the insured against losses, caused due to perils of the sea. Here perils of the sea include:

(a) Sinking of ship.
(b) Damage to the ship and cargo due to dashing of the waves.
(c) Dashing of the ships on the rocks.
(d) Fire or explosion on the ship.
(e) Spoilage of cargo due to sea water.
(f) Destruction of the ship and cargo by the crew or captain of the ship, piracy and such other risks.

Section 3 of the Marine Insurance Act, 1963 defines a contract of marine insurance as an insurance cover for marine cargo, air cargo and post parcels. Thus, marine insurance is used to cover transportation by any of the following modes of transit singly or jointly:

i. Sea, air or land.
ii. Inland water voyages.
iii. Rail/road.
iv. Air.
v. Post.

It provides insurance or protection to goods in 'transit' and also extends to storage of goods provided such storage is incidental to transportation.
7.1 MEANING OF MARINE INSURANCE

Cargo (Marine) insurance is governed by the Marine Insurance Act, 1963, the Insurance Act, cargo or marine insurance is an insurance cover for marine Insurance Act, cargo or marine insurance is an insurance cover for marine cargo, air cargo and post cargo parcels. The purpose of cargo insurance is to protect goods against physical loss or damage during transit. All export consignments should preferably be insured even if the terms of sale do not provide for it. All goods on consignment basis must be insured by the exporter only.

Marine Insurance Contract is an agreement where by the insurance company (insurer) undertakes to indemnify the owner (insured) of a ship or cargo against risks which are incidental to marine adventure. (Section 3 of the Marine Insurance Act, 1963).

The parties to a contract of insurance of follows:
1. The insurance company also known as underwriters who assume the liability when the loss takes place.
2. The insured, i.e. the on who either procures an insurance policy or becomes beneficiary thought the insurance.

7.2 PRINCIPLES GOVERNING THE CONTRACT OF INSURANCE

The contracts or insurance are based on the following principles:

1. Principle of utmost good faith i.e. the insured must disclose to the insurer all the material facts or circumstances which are known to him or which ought to be known to him in the ordinary course of business.
2. Principle of insurable interest i.e. no person can enter into a valid contract of insurance unless he has insurable interest in the object or the life insured. Insurable interest is understood as an interest in the preservation of a thing or continuance of a life, recognized by law. Thus one can have an insurable interest only when one would stand to benefit financially by the continuance of the life or object insured otherwise financial loss would result.

Thus,a person can take policy on his ship an owner of the goods can take policy on cargo and person entitled to receive freight can take policy on freight. All such persons have insurable interest in the subject matter. Without insurable interest such contracts are merely wagering agreements which are not valid contracts.

3. Principle of indemnity i.e. the contracts of insurance only indemnify a loss resulting from risk covered under the policy. However the cargo owner are usually allowed a reasonable anticipated profit. In other words we can say that the marine insurance policy provides a commercial indemnity rather than indemnity in a strict legal sense.
4. Causal proxima: This principle implies that the insurer becomes liable to pay for loss if the insured peril or risk is the proximate cause of loss. Thus the insurer would not pay for the loss to the goods if they are stolen because of unworthy packing in case the policy covers the risk theft, pilferage and non delivery. In this case the proximate cause of loss is the faulty packing which facilitated the goods to be stolen. Since this is not covered under the risks specified in the policy the insurer would not indemnify the loss.

CONTENTS OF AN INSURANCE POLICY

According to section 25 of the Act, a marine insurance policy must specify:

i. The name insured, or of some person who effects the insurance on behalf of the insured.
ii. The subject matter insured and the risk insured against losses.
iii. The voyage or period of time or both, as the case may, covered by the insurance,
iv. The sum or sums insured.
v. The name or names of the insurer or insurers.

WHO CAN INSURE?
The shippers/exporters have an insurable interest by virtue of their ownership of goods and they can insure. Similarly the buyer to whom the goods are sent can also insure by virtue of his acquiring an interest in the goods at a later date. In practice insurance is effected either by shippers/exporters or buyer depending upon their contract of sale of goods. There are mainly three types of sales of goods in the overseas trade as follows:

1. CIF (Cost, Insurance and Freight)
2. CFR(Cost and Freight)
3. FOB(Free on board)

These terms of sale are agreed upon mutually by both the parties to the contract. It is recommended by the Reserve Bank of India that the exporter should obtain the seller’s contingency insurance to protect himself against the possible loss to the goods taking place before the insurable interest passes on to the buyer. This policy is not negotiable to the overseas buyers and the claims under the his policy are paid in India in rupees.

In case the exporter is paying insurance premium on behalf of the foreign buyer, then he is required to declare that:

(a) Insurance charges on the shipment have to be borne by him in terms of his contract with the overseas buyer and that he is not making payment on behalf of any non resident.

(b) He is defraying the insurance charges in respect of the shipment in question on account of the overseas buyer and he undertakes to add the amount on the invoice and recover the same from the buyer in an approved manner.

7.3 FEATURES OF MARINE INSURANCE POLICY
The basic features of marine policies are as follows:

1. The marine cargo insurance policies are freely assignable as the consignee finally takes the goods pass through various hands before the consignee finally takes their delivery. The assignment of insurance policy is allowed in terms of section 52 and 53 of the Marine Insurance Act 1963. A Marine Insurance Policy can be assigned either before or after the loss.
2. The assignment is done by endorsement and delivery.
3. Insurable interest of the claimant must exist at the time of loss of the cargo.
4. The value of the insurance policy is the sum agreed between the insured and the insurer. Thus these policies are always on agreed value basis. Since contracts of insurance provide for indemnity the loss suffered by the insured is not just the loss suffered by the
insured is not just the loss represented by the value of the goods but also the amount of profit that the parties would have earned from the sale of those goods. That is why the marine insurance policies are taken for a value equal to 110% of the CIF value of the goods i.e. 10% more than the CIF value to account for the anticipated profits.

5. The contract of marine insurance is a contract of commercial indemnity and not pure indemnity because this insurance provides for indemnity against the loss of profits as well.

6. The duration of the marine insurance policy is based on the institute cargo clause yet it is provided to include the period of transit, the time of discharge of the goods and the time of arrival of the goods. Generally the duration of the policy covers time up to 30 days after arrival of the goods in case of air shipments and 60 days after the arrival of shipments by sea to allow for the transportation of cargo from the final port of discharge to the warehouse of the importer.

### 7.4 TYPES OF MARINE INSURANCE POLICIES

The contract of cargo insurance in international trade transactions takes three forms. It comes into being when either a specific Voyage (and time) policy or an open cover or an open policy is procured.

1. Specific Voyage Policy
2. Open Cover
3. Floating Policy
4. Time Policy
5. Mixed Policy
6. Valued Policy
7. Unvalued Policy
8. Fleet Policy
9. Specific Cover Policy

1. Specific Voyage Policy

A Voyage policy covers the risks that may arise during a journey from specific place to another. The terms and conditions of the insurance are set out in the appropriate I.L.U. (Institute of London Underwriters) and other clauses. The clauses cover mainly the perils and risk covered under the policy as well as conditions related to the insurable value and claims. According to the Indian Stamp Act, each policy must be stamped. The stamp duty is recoverable from the insured. For creating transferability, the policy is required to be assigned by blank endorsement by writing "for and on behalf of" followed by the name of the insured (e.g., exporting firm) and the signature of the director or partner.

The insurance policy comprises "MAR" Policy form, which contains no insurance conditions. And the Institute clauses (A, B or C and War and Strike Clauses) which contain insurance conditions. It must be noted that Duration Clauses, which provide warehouse-to-warehouse cover, are part of the Institute Cargo Clauses. Hence, unless specifically deleted, the warehouse-to-warehouse cover is deemed to be effective. In this way, voyage policy also becomes a Time policy.
1. Open Cover

Open cover is an insurance arrangement designed specifically to the need of those firms, which have substantial import export turnover and frequent transactions. Such firms are spared the inconvenience of negotiating insurance contracts every time the transaction is to be made. Main features of an open cover arrangement are as follows:

i. Unlike an insurance policy, open cover is not an enforceable contract. Instead it is an agreement under which the insurance company would honour and accept declarations of shipment of cargos and issue stamped specific certificate of insurance against each declaration.

ii. Under an open cover arrangement, agreement between the insured and the insurer is reached about the subject matter (e.g., goods) insured, packing conditions, voyages, risks covered, rates and other conditions of the cover. The insured can obtain insurance cover within these agreed conditions.

iii. No premium is charged when an open cover is issued, but the insurance companies usually require the insured to furnish either a bank guarantee or cash deposits towards payment of premium against each declaration, as declarations are made.

iv. The validity period of an open cover is twelve months.

v. It is customary to make an open cover agreement subject to two limitation clauses-Par Bottom and Par Place clauses. The effect of these clauses is to limit the liability of the insurance company to an agreed amount. Thus, if the loss in an accident is more than this amount, the loss will be partly recoverable upto the agreed amount. For example, in an open cover, if the limitation clause was for Rs. 10 lakhs and the loss were Rs. 20 lakhs, the insurance company will pay only Rs. 10 lakhs.

vi. An open cover may be cancelled by either party by giving 30 days notice in writing. This stipulation does not cover war and strikes risks for ocean voyage. For ocean voyages other than from/to USA, the notice period for cancellation of War and strikes risks is seven days and for shipments from/to USA it is 48 hours.

vii. When the loss takes place, claim will be awarded with reference to insurable value calculated on the basis of c.i.f. plus 10 per cent.

viii. The duty of the insured is to declare each and every shipment as soon as known. Unintentional failure to report shipment will be condoned by the insurance company. However, if the insured does not willfully report shipments, the insurance company may hold the open cover null and void for all subsequent shipments.

2. Floating Policy

Also known as open policy, it has much in a common with the open cover. This policy benefits clients with substantial turnover and a large number of dispatches. Thus, it covers a series of consignments with all stipulations of the open cover, except that:
i. Open policy is an enforceable contract of insurance and is hence, duly stamped; and

ii. ii) Open policy is for an agreed amount, against which a series of consignments may be dispatched and declared as a result of which the sum insured will gradually diminish by the amount of each declaration until it is finally exhausted.

iii. Even though the open policy ceases on expiry of one year from the date of issue, the sum insured is of paramount importance. Therefore, the sum insured may exhaust prior to the expiry of the policy.

iv. Open policy is subject to cancellation by either party after giving 15 days notice of cancellation in writing.

3. Time Policy: - Under this policy, the subject matter of insurance, i.e. ship and/or cargo, is insured for a specific period of time. It is taken in case of hull insurance, i.e. insurance of the ship.

4. Mixed Policy: - This type of policy is taken for a specific period and for a definite voyage. For example, a policy can be taken for two months for the voyage starting on 2nd June 2001 from Bombay to Singapore.

5. Valued Policy: - In this case, the value of subject matter is agreed upon between the insured and the insurer at the time of taking out the policy. This facilitates easy settlement of claims in the event of loss.

6. Unvalued Policy: - In this case, the value of subject matter is not agreed upon at the time of taking out the policy. It is determined only in the event of loss. It is also called as ‘Open Policy.

7. Fleet Policy: - This policy is taken for a fleet of ships or vessels belonging to the same company. It is suitable for those companies, which own a number of vessels.

8. Specific Cover Policy: - This policy is taken to cover different risks for a single shipment. This policy is not advisable for a regular exporter, as he will have to take a separate policy every time he exports.

7.5 INSURANCE CLAIM

When there is a loss, the insured is to proceed to claim the loss recovery from the insurer. The cardinal principle about insurance claims is that the insured has to fulfil the clearly defined responsibilities. If he does not fulfill these responsibilities, the insurer can refuse to pay.

7.6 PROCEDURE FOR OBTAINING MARINE INSURANCE POLICY

The following is the procedure for obtaining marine insurance policy:

(a) Selecting the Insurance Comp.: - General insurance business in India is, the monopoly of General Insurance Corporation (TIC) of India and its four subsidiaries. However, if an exporter intends to insure with a foreign company, then prior permission of the RBI must be obtained.
(b) Deciding the Appropriate Type of Policy: - There are various types of marine insurance policies issued by the GIC to suit the requirements of the exporters. The exporter should decide the appropriate type of policy tailing into consideration his requirements.

(c) Application to the Insurance Company :- When the goods are ready for despatch the exporter' should apply to the insurance company in the' prescribed 'Declaration Form' giving the following details :
Address of the exporter and importer.
Description of goods;
Marks, numbers and kind of packages.
Value of packages.
Transportation from the warehouse to its final destination.
Risk to be covered for insurance.
Any other information as required:
(d) Payment of Premium.: The insurance premium charges may vary from company' to company and country to country. Payment on marine insurance. policy' call . be made in rupees' provided exporter. certifies that insurance charges op the shipment in question have to be borne by him.
(e) Issue of the Insurance Policy :- After the completion of all the formalities the exporter has to produce the Bill of Lading and the name, of the ,ship ~ the insurance company. The insurance company issues the insurance certificate (in triplicate) as per the declaration given by the exporter. "policy generally contains the following details :
Name and address of the exporter.
Type of policy and description of the risks covered.
Description of the goods insured.
Amount of sum assured and premium paid.
Date of issue and the period of policy.
Special conditions and warranties.
Special instructions regarding the procedure to be followed in the event of loss.
(f) Processing of the Policy :- The exporter submits the original policy to the bank with his other documents. The second copy of the policy is sent to the importer and the third copy is retained ,by the exporter for his own information
The following procedure should be followed in the event of occurrence of marine loss:

(a) Intimation of Loss: - In the event of claim arising, the marine insurance company or its nearest office or its overseas agent as mentioned in the policy should be intimated about the loss without delay.

(b) The claim on carriers, customs and bailees should be filed within the prescribed time limit under registered post with an acknowledgement due.

(c) Appointment of the Surveyor: - On receiving the intimation, the insurance company appoints a surveyor to determine the cause and extent of loss. The following details are necessary in the Survey Report:

- Whether the packing was sufficient? If not,

- What improvements are recommended?

- How claim could have been minimised?

- Was there failure of insured to protect interest by not taking measures to avoid or minimise loss or not protecting the rights of recovery, from carriers Port, etc.?

(d) Landing Remarks: - The insured should also obtain landing remarks from the Port Authorities.

(e) Submission of Claim: - The insured should submit the following documents to finalise claim properly

(f) Original policy.

(g) Original invoice and packing list.

(h) The following documents, inter alia, are required to be submitted by the exporter to the insurance company

(i) Claim bill on duplicate.

(j) Original Insurance Policy duly discharged.

(k) Original Invoice.

(l) Copy of Bill of Lading.

(m) Copy of packing list showing weight specification.

(n) Ship Survey Report.

(o) Insurance Survey Report.
(p) Port trust Landing Remark Certificate.

(q) Copy of claim lodged with carriers, customs and bailees.

(r) Reply received from carriers or Port Trust Authorities and/or correspondence exchanged.

(s) Any other documents required by the Insurance Company.

(t) Finalisation of the Claim: - On verification, if the insurer is satisfied with the claim, it pays the amount of claim to the insured or the person authorised to receive the claim as per the policy. If the claimant is of Indian origin, the claim is paid in Indian rupees irrespective of the currency in which relative policies have been issued. Where the claimant is not the resident of India, the insurer may settle the claim in foreign currency.

(u) RESPONSIBILITIES OF THE INSURED

(v) It is the duty of the insured or his agents, in all cases, to take such measures as may be reasonable to avert or minimise a loss. Further, it is also his duty to protect rights of the insurer of recovery from the carriers, port authority and others. In particular, the duties of the insured or his agent are:

(w) i) Lodge claim on the carriers, port authorities and other intermediaries for any missing packages;

(x) ii) If the loss or damage is apparent or visible, make an application to the agents of the carriers, port authority, customs authority and the insurer (or agent) to arrange joint survey within 3 days of discharge of cargo from the vessel (7 days in case of air consignment);

(y) iii) If the loss was not apparent at the time of taking delivery of cargo, give notice in writing to the carriers and other parties within 3 days of delivery of cargo (7 days in case of air consignment);

(z) iv) Lodge a proper monetary claim on carriers, port authority and customs authority;

v) In case of any missing package, get a log entry made with the port authority and lodge a claim on carrier and port authority;

vi) If missing packages are traced subsequently, clearance may be made only after a joint survey;

vii) The claims on carriers, customs and port authorities should be filed within the time limits prescribed under the relevant laws,
The claims on the insurers should be submitted duly supported by the following documents:

i) Original insurance policy or certificate of insurance duly endorsed by the insured;

ii) Full set of Bill of Lading in respect of total loss claims. Otherwise non-negotiating copy of the Bill of Lading, Airway Bill, Railway, etc., as applicable;

iii) Copy of invoice with packing/weight list;

iv) Insurance survey Report or other documentary evidence to substantiate cause and extent of loss;

V) Joint ship survey Discrepancy Certificate issued by the carriers; Port authority Landing Remarks certificate;

vi) Casualty report when a vessel is missing or lost;

vii) Ship Master's protest or an authenticated copy of extract from ship's Log book in case vessel encountered heavy weather or other casualty during the voyage;

viii) In case of short landing claims, a Short Landing Certificate issued by the carrier or port authority;

ix) A landed but Missing Certificate from port authority in case where package has landed but is missing;

x) In the event of General Average claim for refund of GA Deposit; the GA Deposit Receipt and GA Counter-Guarantee;

xi) Triplet copy of Bill of Entry (in case of India);

xii) Copies of Letter lodging claims on the carriers, port authority, etc;

xiii) Copies of correspondence exchanged with carriers to examine whether the claimant has taken necessary measures;

xiv) Letter of subrogation duly stamped and signed; and

xv) Any other document as may be asked for by the insurers.

A NOTE ON CLEARING AND FORWARDING AGENTS
Export-import procedures are very complex and time-consuming. Therefore, every exporter should avail services of Clearing and Forwarding (C&F) agents who are expert and well versed with the customs-and shipment procedures. For smooth and timely shipment of goods, the exporter must appoint a competent C&F agent who is able to, inter alia, provide the following services:

ESSENTIAL SERVICES

(a) Transportation of goods to docks and arrangement of warehousing at port.

(b) Warehousing facilities before the goods are transported to docks.

(c) Booking of shipping space or air freighting and advice on relative cost of sending goods by sea and air.

(d) Arrangement for loading of goods on the board.

(e) Equipped with information on shipping lines and freight to different destinations, and various charges payable by exporters.

(f) Obtaining marine insurance policies.

(g) Preparation and processing of shipping documents, Bills of Lading, Dock Receipt, Export Declarations, Consular Invoice, Certificate of Origin, etc

(h) . Forwarding of banking collection papers
OPTIONAL SERVICES

The following services are provided by the leading C&F agents at the specific request of the exporter:
1. Providing warehousing facilities abroad at least in some of the major international markets in case the importer refuses to take delivery of the goods for any reason.
2. Providing assistance to bring the goods back to India if the situation so demands.
3. Providing assistance to locate the goods in case the shipment is misplaced or the cargo is stranded at some port.
4. Making arrangements for assessment of damage to the goods to file claim with the insurance company.

Thus, the C&F agent offers various services to the exporter. While planning for distribution logistics the exporters should in the first instance, appoint C&F agent to provide him the required services. There are no standardised rates of charges taken by these agents. The exporter should negotiate with these agents the amount of fees payable to them in relation to the desired services. The selection of a good and reliable agent should be made keeping in view the agency commission the services offered and his experience in the product/country for transportation.

7.8 A NOTE ON ISO 9000

The discussion on quality control or pre-shipment inspection will remain incomplete if due consideration is not given to ISO 9000.
The International Standards Organisation (ISO) is a non-governmental organisation established in 1947. The objectives of ISO are:
(a) To promote the development of standardisation, and related activities in the world with a view to facilitating the international exchange of goods and services, and
(b) To develop cooperation in the sphere of intellectual, scientific, technologically and economic activity.
The ISO-9000 Series of Standards evolved by the International Standards Organisation has been accepted worldwide as the norm assuring high quality of goods. The ISO-9000 is also the hallmark of a good quality oriented system for suppliers and manufacturers.
The ISO-9000 Series of Standards are generic and not specific to any particular product. They can be used by manufacturing and service industries alike. They spell out how a company can establish, document and maintain an effective and economic quality control system, which will demonstrate to the customers that the company is committed to quality.

OBJECTIVES OF ISO-9000

(a) Increased customer confidence in the company.
(b) A shift from a system of inspection, to one of quality management.
(e) Removing the need for multiple assessments of suppliers.
(d) Gaining management commitment.
(c) Linking quality to cost-effectiveness.
(D Giving customers what they need.

METHODS OF IMPLEMENTATION OF ISO-9000

(a) Management education.
(b) Writing a quality policy.
(e) Writing a quality manual.
(d) Nominating a quality representative.
(e) Identifying responsibilities.
(f) Identifying business procedures.
(g) Listing down procedures.

(h) Writing work instructions.

It is thus clear that the ISO-9000 Series of Standards constitute the concept of Total Quality Management (TQM).

The ISO-9000 Series is a set of five individual, but related, international standards on quality management and quality assurance.

ISO-9000  It contains basic definitions, concepts and guidelines for the series.
ISO-9001  It covers design, development, production, installation and servicing
ISO-9002  It covers production and installation system.
ISO-9003  It covers only final product inspection and test.
ISO-9004  It provides guidelines for internal use by a producer developing its own

Marine insurance or Cargo is the practice of providing risk cover to the cargo-owners against loss or damage that the cargo may suffer in transit due to accidents and mishaps. The perils, which cause loss or damage may be due to natural calamities (Act of God) as well as man-made accidents. Traders obtain insurance covers in international business because of two reasons - legal and commercial. Since law protects the intermediaries who handle and transport cargo, the cargo-owners will be able to recover loss from the insurance company, when such loss can't be legally recovered from the intermediaries. Commercially, insurance cover is essential to be obtained by the exporter when it is the requirement under an export contract, as in the case of c.i.f. contract.

A marine insurance contract is between the insured and the insurance company; which is 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 insurance value is agreed on the basis of the c.i.f. value of goods plus a percentage (generally, ten percent). Insurance policies to cover the payable customs duties are also issued in case of import cargo.

The cargo insurance policy can have a very wide scope to cover all possible perils and losses. It provides protection against total loss (actual and constructive) and partial loss (general
average and particular average) against maritime, extraneous, war and strike perils. The policies are generally fixed on the basis of standard terms and conditions stated in the Institute Clauses - Institute cargo, war and strike clauses. The Institute cargo clauses fall under three kinds A, Band C. Clause 'c' gives the least and Clause' A' provides the maximum covers. Cargo clauses also provide warehouse-to-warehouse cover.

The insured has certain responsibilities to fulfil, if he is to recover the loss from the insurance company without a hitch. Not only should he perform his duty to protect his direct interest but also that of the insurance company by lodging claims against the third parties. Further, he should follow the laid-down procedure and file the claim with necessary documents.

### 7.9 QUESTIONS BANK

Q.1 What are the methods of realising various export incentives?
Q.2 Explain the different types of marine insurance policies.
Q.3 Explain the procedure for obtaining marine insurance policy.
Q.4 What are the steps involved in filing marine insurance claim?
Q.5 Write a note on Clearing and Forwarding agents and ISO 9000.
EXPRESS ASSISTANCE IN INDIA

Structure
8.0 Objectives
8.1 Introduction
8.2 Importance of Export Assistance
8.3 Export Promotion Measure in India.
8.4 Expansion of Production Base for Exports.
   8.4.1 Relaxation in Industrial Licensing Policy/MRT/FERA/Foreign Collaborations
   8.4.2 Liberal Import of Capital Goods
   8.4.3 Export Processing Zones (EPZ), Export Oriented Units (EOU), Special Economic Zones (SEZs), Electronic Hardware Technology Parks (EHITP) and Software Technology Park Units (STP)
   8.4.5 Assured Supply of Raw-Material Imports
   8.4.6 Eligibility for Export/Trading/Star Trading/Super Star Trading Houses
   8.4.7 Export Houses Status for Export of Services
8.5 Rendering Exports Price-Competitive
   8.5.1 Fiscal Incentives
   8.5.2 Financial Incentives
8.6 Strengthening Export Marketing Effort
8.7 Questions

8.0 OBJECTIVES:

After studying this unit, you should be able to:

Explain the importance of export assistance in India

Describe various assistances provided for the expansion of production base for export . explain the fiscal and financial assistances provided to the exporters

Describe the measures taken by the Government of India to strengthen the export marketing effort.

8.1 INTRODUCTION:

The Export-Import policy 1992-97 brought about many fundamental changes in India's external trade policy. It gradually laid the foundation of globalisation 'of Indian economy by initiating liberalization and making Indian industries to face competition from foreign MNCs. Until 1992, Indian markets were highly protected and the Indian government used to give many incentives to the Indian exporters. But many of these incentives were withdrawn by the 1992-97 and subsequent policies.

8.2 IMPORTANCE OF EXPORT ASSISTANCE:

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 1960 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 capacity to export manufactures or industrial products was extremely limited. Hence, on this 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 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 need 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.

The process of globalization and liberalization has further enhanced the need of strengthening the support of export-import trade business of the country. Moreover, 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 export. 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.

### 8.3 EXPORT PROMOTION MEASURE IN INDIA

The assistance extended to the Indian exporters are asunder:

**IMPORT FACILITIES FOR EXPORTERS**

(a) Duty Free Replenishment Certificate (DFRC) :- DFRC is issued to a merchant exporter or manufacturer exporter for the duty free import of inputs such as raw materials,
components, intermediates, consumables, spare parts, including packing materials to be used for export production. Such licence is given subject of the fulfilment of time bound export obligation.

(b) Duty Entitlement Passbook Scheme (DEPB) :- Under the DEPB scheme, an exporter may apply for credit as a specified percentage of FOB value of exports, made in freely convertible currency. The credit shall be available against such export products and at such rates as may be specified by the Director General of Foreign Trade (DGFT) by way of public notice issued in this behalf, for import of raw materials, intermediates, components, parts, packaging materials, etc.

(c) Export Promotion Capital Goods Scheme (EPCG) :- EPCG scheme was introduced by the EXIM policy of 1992-97 in order to enable manufacturer exporter to import machinery and other capital goods for export production at concessional or no customs duties at all. This facility is subject to export obligation, i.e., the exporter is required to guarantee exports of certain minimum value, which is in multiple of the value of capital goods imported.

DUTY EXEMPTION SCHEMES

(a) Duty Drawback (DBK):- The Duty Drawback Scheme is administered by the Directorate of Drawback, Ministry of Finance. Under this scheme, an exporter is entitled to claim :-

- Customs duty paid on the import of raw materials, components and consumables.
- Central excise duty paid on indigenous raw materials, components and consumables utilized in the manufacture of goods meant for export.

(b) Excise Duty Refund: - Excise duty is a tax imposed by the central government on goods manufactured in India. This duty is collected at source, i.e., before removal of goods from the factory premises. Export goods are totally exempted from central excise duty. However, necessary clearance has to be obtained in one of the following ways.

- Export under rebate.
- Export under bond:

(c) Octroi Exemption: - Octroi is a duty paid on manufactured goods, when they enter the municipal limits of a city or a town. However, export goods are exempted from octroi.

FISCAL INCENTIVES

(a) Exemption from Income Tax :- In order to enable exporters to plough back their earnings and promote exports, the Government of India has given tax exemption to exporters on export earnings under section 80 HHC provision of the Income Tax Act. For example, for the A.Y. 2002-03, 60% of the export income is exempted from tax. At the same time, a ten year tax holiday is provided to 100% EOUs and units in EPZs.

(b) Sales Tax Exemption :- Sales tax is a tax imposed by the State government on goods sold in or outside India. However, exportable goods are exempted from sales tax, provided the exporter or his firm is registered with the Sales Tax Authorities. This exemption is given on the following categories of goods:

- Goods exported.
MARKETING ASSISTANCE
(a) Market Development Assistance (MDA):- The government of India has set up a separate fund under the head Marketing Development Assistance (MDA) for developing marketing abilities of Indian exporters. It is granted by the Ministry of Commerce for export market development and research abroad. The amount granted under MDA varies from 25% to 60% of the actual expenditure incurred.
(b) Market Access Initiative (MAI):- Under this scheme, financial assistance is available to the export promotion councils, industry and trade associations and other eligible entities on the basis of the competitive merits of proposals received in this regard for undertaking marketing studies, setting up of common showrooms, warehousing facility, participation in sales promotion campaigns, publicity campaigns, international trade fairs, seminars, buyers-sellers meet, etc.

SUPPLY OF RAW MATERIALS
(a) Industrial Raw Material Assistance Centres (IRMAC) Scheme: IRMAC is established by the government of India as a subsidiary of STC. Such centres import raw materials in bulk and supply them to the registered exporters against a valid import licence. This enables exporters to get timely supply of raw materials at reasonable prices, IRMAC has been further simplified by removing the actual user clause.
(b) Back to-Back Inland Letter of Credit: The facility of Back-to-Back Inland letter of credit was announced by the EXIM policy 1992-97 and came into effect from 1st April 1995. Back-to-back L/C is one, which can be opened in favour of local suppliers of raw materials or goods so as to enable exporters to get raw materials or goods for export on credit basis. It is a kind of preshipment finance procured by the exporter for the processing of export order.

INSTITUTIONAL MEASURES
(a) Institutional Measures: - The Government of India (GOI) has established a number of organisations to promote and expand export trade. These organisations are:-
Indian Institute of Foreign Trade (IIFT) to provide training facilities.
Indian Institute of Packaging (IIP) to upgrade packaging standards.
Export Promotion Councils (EPCs) to undertake export promotion activities.
Export Inspection Council (EIC) to upgrade quality standards.
Export Credit Guarantee Corporation (ECGC) to protect exporters against payment rises.
Indian Council of Arbitration (ICA) to settle and solve disputes between importers and exporters. Apart from the above institutions, there are a number of other organisations such as Federation of Indian Export Organisation (FIEO), EXIM Bank, etc.

8.4 EXPANSION OF PRODUCTION BASE FOR EXPORTS
The first prerequisite 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.

Relaxation in Industrial Licensing Policy/MRTP/FERA/Foreign Collaborations
With a view to facilitate relatively easier creation/expansion of production capacities for increasing export potential of Indian economic, necessary relaxations have been provided for in the policies for industrial licensing, MRTP (Monopolies and Restrictive Trade practices Act) and Foreign Exchange Regulations, etc. The Foreign Exchange Regulation Act has been liberalised and Foreign Exchange Management (FEMA) Act, 1999 has been operationalised. The 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 importers and foreign travellers are also able to buy foreign exchange at market determined rates. Exporters have also been allowed to maintain foreign currency accounts. There is general liberalisation of remittance of foreign exchange for visits abroad, agency commission; export claims, reduction in export value, reimbursement of expenses incurred on dishonoured 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/STP. All these policy measures are envisaged to go long way in facilitating easy expansion as Well as technological up gradation of export base in India through attracting larger flows of investment and other resources.

### 8.4.1 LIBERAL IMPORT OF CAPITAL GOODS

Import policy of India has made specially liberal provisions for easy import of capital goods of all types. Accordingly, imports of machinery and equipment are allowed without import licence. In addition special provisions have been made for import of capital-goods at a concessional rate of import duty. Export Promotion Capital Goods (EPCG) Scheme has been introduced for liberal import of capital goods.

**Export Promotion Capital Goods Scheme:** New Capital goods including computer software systems may be imported under the Export Promotion Capital Goods (EPCG) scheme. Under this provision, capital goods including jigs, fixtures, dies, moulds and spares upto 20% of the CIF value of the capital goods may be imported at 5% customs duty. This import is subject to an export obligation equivalent to 5 times CIF value of capital goods on FOB basis or 4 times the CIF value of capital goods on NFE basis to be filled over a period of 8 years. This period is reckoned from the date of issuance of licence. Import of capital goods shall be, subject to Actual User condition till the export obligation is completed.

### 8.4.2 Export Processing Zones (EPZ), Export-Oriented Units (EOU), Special Economic Zones (SEZs), Electronic Hardware Technology Parks (EHTP) and Software Technology Park Units (STP)

Units undertaking to export their production of goods may be set up under Export Processing Zones (EPZ) scheme, Export Oriented Units (EOU) scheme, Special Economic Zones (SEZs) scheme, Electronic Hardware Technology park (EHTP) scheme or Software Technology Park (STP) scheme. Such units may be engaged in manufacture, services, trading, development of software, agriculture including agro-processing, aquaculture, animal husbandry, biotechnology, floriculture, horticulture, pisciculture, viticulture, poultry, sericulture, and granites may I export all products except prohibited items of exports.
These units import all types of goods without payment of duty 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: Supplies from DT A to these units will be regarded as deemed exports. Foreign equity up to 100% is permissible to these units. These units shall be exempted from payment of corporate income tax for 10 years.

8.4.4 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 exemption and Duty Remission. The duty exemption scheme enables import of inputs required for export production. The duty remission scheme enables post export replenishment/remission of duty on inputs used in the export product.

Under duty exemption scheme, an advance licence is issued to allow import of inputs which are physically incorporated in the export product. Advance licence is issued for duty free import of inputs as defined in the policy subject to actual user condition. Such licences are exempted from payment of basic customs duty, surcharge, additional customs duty, antidumping duty and safeguard duty, if any. Advance licence can be issued for (i) physical exports (ii) intermediate supplies and (iii) deemed exports. Duty Remission Scheme consists of Duty Free Entitlement Certificate and Duty Entitlement Passbook Scheme.

8.4.5 ELIGIBILITY FOR EXPORT/TRADING/STAR TRADING/SUPER STAR TRADING HOUSES

Export/Trading/Star Trading/Super Star Trading Houses have been accorded special status. When exporters achieve the specified level of exports over a period, they may be recognized as EH/TH/STH/SSTH. Exports made both in free foreign exchange and in Indian rupees shall be taken into account for recognition. The objective of this scheme is to recognise them as the respective houses “with a view to building marketing infrastructure and expertise required for export promotion. The exporters, registered with FIEO 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. Let us discuss them in detail.

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. Look at Table for this criteria.

FOB Criteria

<table>
<thead>
<tr>
<th>Category of Houses</th>
<th>Average FOB value of exports during the preceding three Licensing year, in Rupees</th>
<th>FOB value of eligible export during preceding Licensing year in Rupees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export House</td>
<td>Rs. 15 crores</td>
<td>Rs. 22 crores</td>
</tr>
<tr>
<td>Trading house</td>
<td>Rs. 75 crore</td>
<td>Rs. 112 crore</td>
</tr>
<tr>
<td>Star trading House</td>
<td>Rs. 375 crore</td>
<td>Rs. 560 crore</td>
</tr>
<tr>
<td>Super star trading houses</td>
<td>Rs. 1125 crores</td>
<td>Rs. 1680 crores</td>
</tr>
</tbody>
</table>
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. Look at Table for this criteria.

### NET FOREIGN EXCHANGE CRITERIA

<table>
<thead>
<tr>
<th>Category of Houses</th>
<th>Average Net Foreign Exchange Value of eligible exports during the preceding three licensing years</th>
<th>Net Foreign Exchange Value of exports made during the preceding licensing years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export house</td>
<td>Rs. 12 crores</td>
<td>Rs. 18 crores</td>
</tr>
<tr>
<td>Trading House</td>
<td>Rs. 62 crores</td>
<td>Rs. 90 crores</td>
</tr>
<tr>
<td>Star trading house</td>
<td>Rs. 312 crores</td>
<td>Rs. 450 crores</td>
</tr>
<tr>
<td>Super star trading house</td>
<td>Rs. 937 crores</td>
<td>Rs. 1350 crores</td>
</tr>
</tbody>
</table>

### EXPORT OF SERVICES FOR RECOGNITION OF EXPORT HOUSES

<table>
<thead>
<tr>
<th>Category</th>
<th>Average free foreign exchange earnings during the preceding three licensing year in rupees</th>
<th>Free Foreign exchange earnings during the preceding licensing year in rupees</th>
<th>Average NFE earned during the preceding licensing year in rupees</th>
<th>NFE earned during the preceding licensing year in rupees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Export House</td>
<td>4 crore</td>
<td>6 crore</td>
<td>3 crore</td>
<td>5 crore</td>
</tr>
<tr>
<td>International Service export House</td>
<td>20 crore</td>
<td>30 crore</td>
<td>15 crore</td>
<td>25 crore</td>
</tr>
<tr>
<td>International star service export house</td>
<td>100 crore</td>
<td>150 crore</td>
<td>75 crore</td>
<td>125 crore</td>
</tr>
<tr>
<td>International superstar service export house</td>
<td>300 crore</td>
<td>450 crore</td>
<td>225 crore</td>
<td>375 crore</td>
</tr>
</tbody>
</table>

### 8.5.1 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: In the manufacturing of many export products imported or indigenous raw materials and components are used on which customs or central excise duty has been paid. When the finished products are exported in which duty paid inputs are used, a part or whole of the amount of such duty is allowed -to be drawn back by the exporter or if is refunded to him. 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 drawback 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. You will learn detail procedure of Duty Drawback in next lesson.

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. You will learn in detail about the Central Excise Rebate in next lesson

iii) Income-Tax Exemption:. In order to promote exports, income tax exemption has been granted under Income Tax Act. This exemption scheme is to be phased out over a five year period i.e. by 2004-2005 for all exporters other than EPZ/EOU/EHTP/STP units. The major exemptions are as follows:
1. Part of the profits derived from export of specified goods or merchandise is deducted for the computation of income tax.
2. Specified amount of profits of companies engage in the business of hotel or of a tour operator or a travel agent is deducted.
3. There is a partial tax relief on export of computer software and for import of system. The benefit can also be claimed by a supporting software developer from 1-4-1999.
4. The profits from export or transfer of film VT software, TV news software, telecast rights are partially deducted.
5. 50% of the profits from project exports is deducted in computing taxable income of the Indian company or resident tax payer.
6. 10 years tax holidays is granted to units in FTZIEPZ and 100% EOU ending with 2010-2011.
7. There is a tax rebate on remuneration received on services rendered outside India and other rebate as specified in the policy.
iv) Sales tax Exemption: There is no tax on sales made for export purpose. The exporter need not pay sales tax either on the goods purchased from manufacturers or traders.
8.5.2 FINANCIAL INCENTIVES

The major scheme of financial incentives include interest subsidy, financial assistance scheme for agricultural, horticultural and meat 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. Under 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 studies, surveys, consultancy and data base up gradation
   b) Development of infrastructure
   c) Export promotion and market development
   d) Packaging development
   e) Quality control
   f) Up gradation of meat plants
   g) Organisation building and Human Resource Development
   h) Air freight assistance for export of horticultural products export by air
   i) Generation of relevant research and development through research institutions.

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.

8.6 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 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 have established a very comprehensive network of institutions for servicing the export sector.

In other words, an effort has been made to provide the necessary infra structure for servicing the export sector, particularly to improve the export marketing effort. With this object in view, Government of India have established a number of specialized institutions for providing necessary services and assistance to individual corporate units from the export sector. Institutions established for strengthening export marketing effort include Export
Promotion Council, 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 specialized 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 have 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 warehouses/showrooms, research and development, quality control, etc. MDA is largely available to Approved Organisations, Export Houses/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. The assistance is disbursed by the FIEO and Ministry of Commerce.

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.

Of late 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 include

(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 relaxations in industrial licensing policy MRTP, foreign exchange regulation, 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 licence-Fee and duty free import facilities for all production inputs. Duty free licence 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 have 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.

8.7 QUESTIONS

State whether the following statements are true or False:
Q1. (i) In the beginning India followed a policy of import substitution.
   (ii) Import policy has made provision for easy import of capital goods of all types.
   (iii) There is completely licence free and duty free import facility for all production Inputs for Export processing Zone and Export Oriented Units.
   (iv) An advance licence is granted only to the manufacturer exporter.
   (v) Foreign equity up to 75% is permissible to EPZ and EOUs.

2. Explain the facilities/concessions for increasing the production-base for exports from India.

3. Analyse the different price support measures introduced in India for rendering India's exports more competitive.

4. Why the role of marketing effort is crucial in export promotion? Describe the measures undertaken in India for strengthening export marketing effort.

5. Explain the rationale for price-support measures for export promotion in India.

6. "Export Incentives have become a universal practice". Discuss.

7. Explain the framework of export incentives in India and analyse as to how far it Provides a total approach to export promotion.
9.0 OBJECTIVES

After studying this unit, you should be able to:

Explain the importance of the institutional infrastructure for export promotion in India

Describe the role of government policy making and consultative body in the export promotion

Explain the functions of export promotion councils and commodity boards

Describe the role of various service institutions engaged in export promotion

Explain the importance of government trading organisations engaged in the export of specified commodities.

9.1 INTRODUCTION

Export business requires special knowledge and business acumen. Exporters need guidance and assistance at different stages of the export effort. For this purpose, the Government of India have set up several institutions whose main functions are to help the exporter in his work. In this unit, you will learn the role of these institutions in export promotion.
9.2 IMPORTANCE OF INSTITUTIONAL INFRASTRUCTURE

Export marketing effort is of vital importance for the success of apart-promotion programme in any country. For undertaking international marketing operations" an exporter needs special guidance and assistance in critical areas like packaging, market promotion and publicity, quality certification, risk coverage, market intelligence, finance and credit support etc. It is only with the support and services rendered by specialised institutions, exporter is able to successfully convert his 'production' into 'sales in international market. Consequently, any country, including India, engaged in the task of export promotion, has to establish specialised institutions for strengthening export-marketing effort for the country as a whole. This along will have the way for creating an export environment and export culture, on the foundation of which the export marketing effort at the corporate level can be effectively launched on an intensive and sustained basis.

With this object in view, Government of India have established a number of specialised institutions in the country for providing the necessary services and assistance to individual corporate unit for a successful export effort. In view of the widely diversifying nature of the export markets in different parts of the world and an equally diverse and varied nature of products and services traded in international market, Government of India have established specialised institutions at production/industry level for assisting exporters from different sectors.

Institutions engaged in export efforts fall in six distinct tiers. At the top is the Department of Commerce of the Ministry of Commerce.

This is the main organisation to formulate and guide India's trade policy. At the second tier, there are deliberate and consultative organisations to ensure that export problems are comprehensively dealt with after mutual discussions between the Government and the Industry. At the third tier are the commodity specific organisations which deal with problems relating to individual commodities and/or groups of commodities. The fourth tier consists of service institutions which facilitate and assist the exporters to expand their operations and reach out more effectively to the world markets. The fifth tier consists of Government trading organisations specifically set up to handle export/import of specified commodities and to supplement the efforts of the private enterprise in the field of export promotion and import management. Agencies for export promotion at the State level constitute the sixth tier. Let us now discuss each of them in detail.

9.3 GOVERNMENT POLICY MAKING AND CONSULTATIONS

Appropriate government policies are important for successful export effort. In view of the increasingly important and critical role of foreign trade in economic development, a separate Ministry of Commerce has been entrusted with the responsibility of promoting India's interest in international market. The Department of Commerce, in the Ministry of Commerce has been made responsible for the external trade of India and all matters connected with the same. The main functions of the Ministry are the formulation of international commercial policy, negotiation of trade agreements, formulation of country's export-import policy and their implementation. It has created a network of commercial sections in Indian embassies and high commissions in various countries for export-import trade flows. It has set up an "Exporters Grievances Redressal Cell" to assist exporters in quick redressal of grievances.
Board of Trade: For ensuring a regular consultation, monitoring and review of India's foreign trade policies and operations, Government of India have set up a Board of Trade with representatives from Commerce and other important Ministries, Trade and Industry Associations, and Export Service Organisations. It is an important national platform for a regular dialogue between the Government and the trade and industry. The deliberations in the Board of Trade provide guidelines to the Government for appropriate policy measures for corrective action.

Cabinet Committee on Exports: With a view to ensure regular and effective monitoring of India's foreign trade performance and related policies, Cabinet Committee on Export has also been set up.

Empowered Committee of Secretaries: For speedier and quicker decision-making, an Empowered Committee of Secretaries has also been established to assist the Cabinet Committee on Exports.

Grievances Cell: Grievances Cell has been set up to entertain and monitor disposal of grievances and suggestions received. It is a cell meant for speedy redressal of genuine grievances. Grievances Committees headed by Director General of Foreign Trade and head of concerned Regional Licensing Authority have been constituted in the respective licensing offices. The Committee also include representatives of FIEO, concerned Export Promotion Council/Commodity Board and other departments and organisations. The grievances may be addressed to the Grievance Cell of the concerned Licensing Authority in the prescribed Performa.

Director General of Foreign Trade (DGFT): DGFT is an important office of the Ministry of Commerce, to help the formulation of India's Export-Import policy and implementation thereof. It has set up regional offices in almost all States and Union Territories of India. These offices are known as Regional Licensing Authorities. There is an Export Commissioner in the DGFT office who functions as a nodal point for all export promotion schemes. The Regional Licensing offices also act as Export facilitation centres.

Director General, Commercial Intelligence & Statistics (DGCI&S): DGCI&S has been entrusted with the task of compilation and publication of data on India's Foreign Trade. It brings out various publications relating to Foreign Trade of India. The major publications are as under:

i) Monthly Statistics of Foreign Trade of India

ii) Monthly Press Notes on Foreign Trade

iii) Monthly Brochure of Foreign Trade Statistics of India (Principal Commodities and Countries)

iv) Indian Trade Classification based on Harmonised Commodity Description and Coding System

v) Indian Trade Journal

Ministry of Textiles: Ministry of Textiles is another Ministry of Government of India which is responsible for policy formulation, development, regulation and export promotion of textile sector including sericulture, jute and handicrafts, etc. It has a separate Export Promotion, Division, offices, advisory boards, development corporations, Export Promotion Councils,
and Commodity Boards. The advisory boards have been constituted to advise the government in the formulation of the overall development programmes in the concerned sector. It also devises strategy for expanding markets in India and abroad. The four advisory boards are as under:

i) All India Handloom Board

ii) All India Handicrafts Board

iii) All India Powerloom Board

iv) Wool Development Board

There are Development Commissioners, Handicrafts and Handlooms, who advises on matters relating to the development and exports of these sectors. There are Textile Commissioner and Jute Commissioner who advise on the matters relating to the growth of exports of these sectors. Textile Committee has also been set up for ensuring of textile machine manufactured indigenously, especially for exports. It also issues certificates of origin and other special certificates.

States Cell: The cell has been created under Ministry of Commerce. Its functions are to act as a nodal agency for interacting with state Government or Union Territories on matters concerning export or import from the State or Union Territories. It provides guideline to State level export organisations. It assists them in the formation of export plans for each cases.

Development Commissioner, Small Scale Industries Organisation: The Directorate has the headquarter in New Delhi and extension centres located in almost all States and Union Territories. They provide export, promotion services almost at the doorsteps of the small scale industries and cottage unit. The important functions are:

i) to help the small scale industries to develop their export capacities

ii) to organise export training programmes

iii) to collect and disseminate information

iv) to help such units in developing their export markets

v) to take up the problems and other issues. related to small scale industries

Besides, there are Directorates of Industries, National Small Industries Corporation and State Corporations for the promotion or exports from small scale industries.

TECHNICAL AND SPECIALISED SERVICES ASSISTANCE

Export marketing effort at the individual corporate level also needs to be reinforced through a number of technical and specialised service inputs. These cover important and crucial areas like packaging, quality control, risk coverage, promotion and finance. Let us now discuss them in detail.
9.4 INDIAN TRADE PROMOTION ORGANISATION (ITPO)

Indian Trade Promotion Organisation was set up by the Ministry of Commerce, Government of India, on 1st January 1992 with its headquarters at New Delhi after the merger of Trade Development Authority (TDA) and Trade Fair Authority of India (TFAI). It has five regional offices at Mambai, Bangalore, Kolkata, Kanpur and Chennai and four in Germany, Japan, UAE and USA.

As a premier trade promotion agency of the Government of India, the ITPO provides a road map of services to trade and industry so as to catalyse the growth of bilateral trade, particularly India's exports and technological upgradation and modernization of different industry segments.

FUNCTIONS OF INDIAN TRADE PROMOTION ORGANISATION

(a) Organises Trade Fairs and Exhibitions: - It organises various trade fairs and exhibitions at its exhibition complex in Pragati Maidan and other centres in India. It also extends the use of Pragati Maidan for holding trade fairs and exhibitions by other fair organisers both from India and abroad.

(b) Involves the State Governments: - It enlists the involvement and support of the State Governments for the promotion of India's foreign trade. It promotes establishment of facilities and infrastructure for holding trade fairs in state capitals or other suitable locations in India, in consultation with the State Governments concerned.

(c) Assists in Technological Upgradation and Product Development: - It provides assistance to Indian companies in locating suitable foreign collaborators for transfer of technology, joint ventures, marketing tie-ups and investment promotion. It also assists Indian companies in product development and helps them to adapt to meet buyer's requirements.

(d) Helps in establishing Overseas Contacts: - It helps in establishing a durable contacts between Indian suppliers and overseas buyers. It organises 'buyer-seller meets with a view to bring buyers and sellers together. It also invites overseas buyers and organises their meetings with Indian suppliers.

(e) Other Services:

To identify and nurture specific export products with long-range growth prospects.
To conduct in-house and need-based research on trade and export promotion.
To participate in overseas trade fairs and exhibitions.
To organize seminars, conferences and workshops.
To encourage and involve small and medium scale units in export promotion efforts.

9.5 INDIAN INSTITUTE OF FOREIGN TRADE (IIFT)

Indian Institute of Foreign Trade was set up in 1963 by the Government of India as an autonomous body registered under the Societies Registration Act. It was set up with the prime objective of professionalising the country's foreign trade management and increase exports by developing human resource, generating, analysing and disseminating data and conducting research.
FUNCTIONS OF INDIAN INSTITUTE OF FOREIGN TRADE

(a) Training: The IIFT has been recognised as a centre of excellence for imparting training and education in international business. Its specialisation in international business and a global outlook makes it unique among management schools in the country. It offers an inspiring learning environment, which transforms bright young students into talented creative professionals.

(b) Collects and Supplies Information: IIFT conducts market studies and surveys in the overseas markets. It tries to find out demand for Indian products in overseas markets. It supplies this information to the exporters. The exporters can use such information while making their export marketing decisions.

(c) Organises Seminars and Workshops: IIFT organises seminars and workshops in a number of export marketing areas, such as export pricing, export promotion, etc. Exporters can take advantage of such workshops and seminars by taking active part in them.

(d) Trade Delegations: IIFT sends delegates abroad to study overseas markets and also to interact with overseas importers. At the same time, it invites delegates from abroad, who can study Indian market conditions and can also interact with Indian exporters.

(e) Publications: A large part of the IIFT's research work is published in the form of study reports, monographs, status papers, etc. for wider dissemination among the business community, government departments and academic fields. The institute publishes:

Foreign Trade Review (FTR), a quarterly journal. Focus WTO, a bimonthly magazine. Technology Exports, quarterly newsletter.

(f) Research and Consultancy: IIFT has so far brought out over 570 research studies and surveys. It also acts as a consulting house for solving the problems of the exporters and importers. It analyses the international business environment and develops appropriate corporate strategies for the overseas markets.

(g) Management Development Programmes: Combining a unique 'blend of research and consultancy, IIFT has been a pacesetter in addressing to the needs of business executives by continuously aligning the focus of its Management Development Programmes with the changing realities. As a result, its intensive short duration programmes have received the most enthusiastic response.

9.6 INDIAN INSTITUTE PACKAGING (LIP)

The Indian Institute of Packaging was set up as a national institute jointly by the Ministry of Commerce, Government of India, and the Indian Packaging industry and allied interests in 1966, with its headquarters and principal laboratories at Mumbai and regional laboratories at Kolkata, Delhi and Chennai.

It is a training cum research institute pertaining to packaging and testing. Over the years, it has built up a very strong and capable expertise in various fields of packaging sciences and technologies. It has excellent infrastructural facilities, which cater to the various needs of the
package manufacturing and package user industries, both with regard to the domestic distribution and export market requirements.

FUNCTIONS OF INDIAN INSTITUTE OF PACKAGING:
(a) Training Programmes: It organises a number of training programmes pertaining to packaging and also provides suggestions in regard to packaging.

(b) Testing Facilities: It also undertakes testing of packaging materials and packages to ensure export quality.

(c) UN Certification: All dangerous goods packages need a UN certification mark before they can be dispatched. IIP is the only authorised body in India to give this certification.

(d) Environmental Cell: The institute has an environment cell, which guides exporters as to what type of material can be used or incorporated in the packaging of their products so as to reduce environmental threats.

(e) Research and Development: It undertakes research and development programmes for creating and improving overall infrastructural facilities for achieving packaging improvement so as to prevent losses during transportation.

(f) Collection and Dissemination of Information: It collects information on various packing and packaging strategies and disseminate them to the exporter for their benefits. An up-to-date information on packaging developments can be availed on its website, "http://www.iip-in.com.

(g) International Recognition: The institute is recognised by Industrial Development Organisation (UNIDO) and Centre (ITC) for consultancy and training.

(h) International Membership: It is a member of the Asian Packaging Federation (APF); the Institute of Packaging Professionals (IOPPA), USA; the Institute of Packaging (IOP) UK; Technical Association for Pulp and Paper Industry (TAPPI) and the World Packaging Organisation (WPO).

(i) Other Functions:

It also carries out graphic designing for international products.
It advises the government of India for all export related packages.
It is not binding or compulsory for an organisation or company to be a member of IIP.
However, on being a member one can avail the benefits of services provided by IIP, specially testing facilities for packages to ensure high quality.

9.7 INDIAN COUNCIL OF ARBITRATION (ICA)
Indian Council of Arbitration (ICA) was set up in accordance to the recommendations of the Committee on Commercial Arbitration constituted by the Ministry of Commerce, Government of India. It was set up on 15th April 1965 as an autonomous non-profit organisation registered under the Societies Registration Act, 1860. The main objective of the Council is to promote the use of commercial arbitration, particularly in the course of India's export trade.
ICA is a member of the Federation of International Commercial Arbitral Institution and has mutual co-operation agreements with the International Court of Arbitration, the London Court of Arbitration and apex arbitration bodies in Thailand, Republic of Korea, Yugoslavia, Bulgaria, Romania, Malaysia, Australia, USA, Denmark, Mauritius, Russia, Germany, Egypt, Switzerland, Japan, Philippines, Sri Lanka, South Africa and more.

FUNCTIONS OF INDIAN COUNCIL OF ARBITRATION

a. The council provides arbitration facilities for all types of domestic and international commercial disputes.
b. It uses its network of offices for conciliation of international trade complaints received from Indian and foreign parties, for non-performance of contracts or non-compliance with arbitration awards.
c. It organises arbitration meetings, conferences, training programmes, etc., for company executives, businessmen, lawyers, arbitrators, etc., from time to time in different parts of the country.
d. It conducts research and publishes informative literature on different aspects of commercial arbitration, including a quarterly Arbitration Journal.
e. It provides information arid advice to interested parties regarding the drafting of trade contracts, arbitration laws and facilities and dispute settlement procedures in India and in other parts of the world.
f. It keeps abreast of the latest developments, in the field of international commercial arbitration and maintains co-operative links with national and international arbitration bodies throughout the world.

9.8 FEDERATION OF INDIAN EXPORT ORGANISATION (FIEO)

Federation of Indian directing and thrust to India's expanding international trade. As the apex body of all Indian export promotion organisations, FIEO works as a partner of the Government of India to promote Indian exports. Export Organisations (FIEO) is an apex body of various export promotion organisations. It was set up in October 1965. It represents the Indian entrepreneurs' spirit of enterprise in the global market. It has kept pace with the country's evolving economic and trade policies.

FUNCTIONS OF FEDERATION OF INDIAN EXPORT ORGANISATION

(a) International Linkage:
It has forged strong links with counterpart organizations in several countries as well as international agencies to enable direct communications and interaction between India and world businessmen.
It is registered with UNCTAD as a national non-government organisation, and has direct access to information and data originating from UN bodies and world agencies like the IMF, ADB, ESCAP, World Bank, FAO, UNIDO and others,

(b) Dissemination of Information:
It has bilateral arrangements for exchange of information as well as for liaisoning with several overseas chambers of commerce and trade and industry associations.

(c) Liaisoning with the Government:
It sends representations on policy matters to Central and State (Regional) Governments. It helps in establishing contacts between the government and commercial bodies both in India and overseas.

(d) Market Development Assistance (MDAJ):
The Ministry of Commerce, Government of India, through FIEO, reimburses certain percentage of the expenditure incurred by the recognised exporters, such as all types of export houses, on sales-cum-study tours, participation in exhibitions and fairs abroad, advertisements in foreign media, etc.

(e) Market Research and Development Department:
The Market Research and Development department offers the following services to the exporters community:
Arranging meetings with diplomats, incoming delegations and buying missions.
Inviting delegations.
Organising trade fairs and exhibitions in India as well as abroad.
Opening foreign offices and warehouses.
Organising seminars for promotion of international trade.
Opening new FIEO offices abroad.

(f) Publicity Department:
The Publicity department of FIEO performs the following functions:
Bringing out various special supplements in Indian and overseas dailies in order to project the selected finished products in India and abroad.
Creating and telecasting episodes in NEPC channel to promote India's prominent brands in various countries covered by the channel.
It has published Directory of Foreign Buyers and Dictionary of Indian Exporters.
It publishes a fortnightly magazine, "FIEO News", to cover developments in the field of international trade concerning India.

9.9 MARINE PRODUCTS EXPORTS DEVELOPMENT AUTHORITY (MPEDA)

Marine Products Export Development Authority (MPEDA) was constituted in 1972 under the Marine Products Export Development Authority Act 1972. The headquarter of MPEDA is located at Kochi in Kerala. The Authority operates two overseas trade promotion offices, one at Tokyo (Japan) and the other at New York (USA). The role envisaged for the MPEDA under the statute is comprehensive, which covers organisation, coordination, regulation and growth of the export of marine products with special reference to the quality, processing, packaging, storage, transport, shipment, marketing extension and training in various aspects of the industry.

Functions of Marine Products Exports Development Authority

(a) To promote seafood exports by liaisoning with Indian exporters and overseas importers.

(b) To develop contacts with government agencies and officials to remove identified constraints.
(c) To promote the image of Indian sea products in overseas markets through publicity campaigns.

(d) To create awareness on the capabilities of Indian processing, packaging, quality and inspection procedures.

(e) To find suitable joint venture partners for deep sea fishing, aquaculture projects, processing and marketing value added products, etc.

(f) To implement development measures vital to the industry like distribution of insulated fish boxes, putting up fish landing platforms, improvement of peeling sheds, modernisation of industry such as upgrading of plate freezers, installation of machinery, generator sets, ice making machineries, quality control laboratory, etc.

(g) To promote brackish water aquaculture for production of prawn for export.

(h) Promotion of deep-sea fishing projects through test fishing, joint venture and equity participation.

(i) To undertake various market promotion programmes, such as:
   - Conducting overseas market survey.
   - Collecting data and maintenance of data bank.
   - Providing assistance for market development.
   - Undertaking publicity through media and producing literature and films on trade promotion.
   - Sponsoring of sales team and delegations abroad.
   - Inviting overseas importers and experts for export promotion visits to India.
   - Organising buyer-seller meets in overseas markets.
   - Participating in overseas trade fairs and exhibitions.
   - Organising trade fairs and exhibitions in India. For example, MPEDA organises seafood trade fair and exhibition every alternate year in India.

9.10 EXPORT PROCESSING ZONES (EPZS)

Export Processing Zones (EPZs) are industrial estates, which form enclaves from the Domestic Tariff Areas (DTA) and are usually situated near seaports or airports. They are intended to provide an internationally competitive duty free environment for export production at low cost. This enables the products of EPZs to be competitive, both quality-wise and price-wise, in the international market. There are seven EPZs in India at:

(a) Kandla (Gujarat).
(b) Santacruz (Mumbai).
(c) Falta (West Bengal).
(d) Noida (UP).
(e) Cochin (Kerala).
(f) Chennai (Tamilnadu).
(g) Visakhapatnam (Andhra Pradesh).

Government has also permitted development of EPZs by private, state or joint sector. The Inter-Ministerial Committee on private EPZs has already cleared three proposals for setting up of private EPZs in Mumbai, Surat and Kancheepuram.
DIFFERENCE BETWEEN EPZS AND SEZS

The main difference between the SEZ and the EPZ is that the SEZ is an integrated township with fully developed infrastructure on international standards whereas EPZ is just an industrial part. In fact, all existing EPZs have been asked to convert themselves into SEZs. However, some units are not interested in the conversion on account of the sale into DTA at concessional rate of duty is not available in SEZs. The Government has asked such units to move out to the Domestic Tariff Area (DTA).

FACILITIES AVAILABLE TO UNITS IN EPZS

a. Each zone provides basic infrastructure such as developed land for construction of factory sheds, standard design factory buildings providing ready-built sheds, roads, power, water supply and drainage.
b. Customs clearance is arranged within the zones at no extra charge.
c. Provision has also been made for locating banking, post office facilities and offices of clearing agents in the Service Centre located in each Zone.

9.11 100% EXPORT ORIENTED UNITS (100% EOUS)

The Export Oriented Units (EOUs) Scheme, introduced in early 1981, is complementary to the EPZ scheme. It adopts the same production regime but offers a wider option in location with reference to factors like source of raw materials, port, hinterland facilities, availability of technological skills, existence of an industrial base and the need for a larger area of land for the project. EOUs have been established with a view to generating additional production capacity for exports by providing an appropriate policy framework, flexibility of operations and incentives.

EOUs, EPZs, Electronic Hardware Technology Park Units (EHTPs) & Software Technology Park Units (STPs)

Units undertaking to export their entire production of goods and services may be set up under
(a) The Export Oriented Unit Scheme;
(b) The Export Processing Zone Scheme.
(c) The Electronic Hardware Technology Park Scheme
((d) The Software Technology-Park Scheme.

ACTIVITIES UNDERTAKEN BY SUCH UNITS

(a) Manufacturing, servicing, repairing; remaking, reconditioning, re-engineering including making of gold / silver/platinum/ jewellery and articles thereof agriculture including agro-processing, -aquaculture, animal husbandry, bio- technology, floriculture, horticulture, pisciculture, viticulture, poultry, sericulture and granites;

(b) Export of all products except goods mentioned as restricted and prohibited items of exports in ITC (HS) Classification of Export and Import items.

(c) Software units may undertake export using data communication links or in the form of physical exports including export of professional services.

(d) Units for generation distribution of power can also be setup in EPZs.
(e) No trading unit is permitted

9.12 Facilities for Units Located under EOU/EPZ/STP/EHTP Schemes

(a) Importability or Procurement of Goods from Domestic Tariff Areas:

An EOU/EPZ/EHTP/STP unit can import or procure from the domestic sources, free of duty, all its requirements of capital goods, raw materials, consumables, spares, aterial, office equipments, etc.

No licences are required for such import or domestic procurement.

Such units can utilise goods imported or domestically procured ,over a period of 2 years.

(b) Exemption from Duties; They are exempted from most of the duties and levies such as state levies including sales tax, anti-dumping duties, etc.

(c) Income Tax Concession :- They are also entitled for concessions in respect of payment of income tax under various sections of the Income Tax Act, 1961.

(d) Exemption from Industrial Licensing :- They are exempted from industrial licensing for manufacture of items reserved for Small Scale Industry sector.

(e) Sub-contracting:- They can, with the permission of the Customs Authorities, sub-contract part of the production and production process in DTA.

(f) Inter-Unit Transfer:-They can supply to other EOU/SEZ/EHTP/STP units without payment of duty and such supplies are counted towards fulfilment of export obligation.

(g) Supplies from DTA: - Supplies from DTA to EOU/SEZ/EHTP/STP units are regarded as 'Deemed Exports' and the DTA supplier is eligible for the deemed export benefits.

(h) DTA Sale: - Units, other than gems and jewellery units, may sell goods and services upto 50% of FOB value of exports, subject to fulfillment of minimum NFEP on payment of applicable duties. No DTA sale is permitted in case of motor cars, alcoholic liquors, tea (except intent tea) and books.

(i) Export Obligation: - They can achieve export performance and Net, Foreign Exchange Earning as a Percentage of exports (NFEP) cumulatively over a period of 5 years. Virtually no penal action is taken for shortfalls during the first three years of operation.

(j) 100% Foreign Equity: - 100% Foreign Direct Investment (FDI) in the manufacturing sector is permissible to the EOU/SEZ/EHTP/STP units. For FDI in services and trading sector, the sectoral norms as notified by the Department of Industrial Policy and Promotion are applicable.

(k) Other Entitlements:
Can procure duty-free inputs for supply of manufactured goods to advance licence holders.

Are exempted from State Trading regime except in limited cases.

Can club their exports with exports of their parent company for purposes of Obtaining Trading or Export House status.

Manufacturers processors who have acquired quality status with specified certification from identified agencies are eligible for double weight age for recognition as status holder.

Can repatriate their profits freely without any dividend-balancing requirement.

### 9.13 M. Visvesvaraya Industrial Research & Development Centre

The World Trade Centre, Mumbai has been named as the M. Visvesvaraya Industrial Research and Development Centre after the name of Dr. M. Visvesvaraya, an engineer and a scientist. It was established in 1970 as a non-profit company licensed under Sec. 25 of the Companies Act. The Council of Management comprising of industrialists, representatives from Central and State governments and apex Trade Promotion Organisations, governs it.

MVIRDC became a member of WTCA in 1971 after which it was known as WTC, Mumbai. It consists of three centrally air-conditioned building. The arcade comprises of various state Emporia, banks, offices, shops and showrooms. It also houses the prestigious Expo-Centre (exhibition hall). Centre- I comprises of areas leased to various organisations connected with world trade, business and industry such as EXIM bank, RBI, EPCs, etc. It also houses WTC offices as well as meeting rooms. Centre-II has been entirely leased out to the Industrial Development Bank of India. (IDBI)

**FUNCTIONS OF WORLD TRADE CENTRE**

(a) **Trade Information Services**: WTC offers the IMPEX Data Bank facility. It is India's first ever computerised database on imports and exports. It comprises of details on export and import transactions. It helps in identifying products in demand for export or import, locate markets, evaluate competitive prices, understand the market players, etc.

(b) **WTCA Online**: WTCA online is a unique internet based website, providing a one-stop source for global business information through strategic alliances with leading information and service providers. WTCA online offers quality products representing the best international trade information and services at discounted prices.

(c) **Trade Education Services**: World Trade Institution (WTI), the educational wing of WTC Mumbai, was set up in 1991. It was the pioneer in introducing a six months Post Graduate Diploma in Foreign Trade (PGDFT) and Post Graduate Diploma in Foreign Exchange and Risk Management (PGDFERM). It has been certified as 'Best Practice Institute' by WTCA, New York.

(d) **Foreign Trade Facilitation Cell**: A Foreign Trade Facilitation Cell has been set up in order to:
To give advice on starting of import/export business and authorities to be approached for solving import/export problems.
To make recommendations to the government in regard to the EXIM Policy and procedure.

(e) International Trade Library :- It is an exclusive source of business information. Businessmen and students can easily access various sources of trade information through the large collection of trade directories, journals and related publications. Market reports on different products by ITC and cm are the main strengths of this library.

(f) Business Services :- Specific business meetings can be "Organized for the visiting overseas businessmen for their products of interest. A minimum two weeks advance notice is required. WTC also offers state of the art support facilities, video conferencing, Temporary office space, meeting rooms, translation capabilities, etc.

(g) Research and Development :- The Centre has conducted research work on diverse topics like Multimodal Transport, Agro-based Industries, European Union Market, etc. As a follow up to such studies the Centre has brought out research publications. Current thrust of Centre's research activity is on the implications of the WTO agreements on India's foreign trade.

(h) Other Services :- Apart from the above services, the WTC also provides exhibition facilities, facility of WTC clubs (lounge and dining services for members and guests) different publications' such as Trade Promotion Bulletin (monthly), Current Research and Development Briefs (Monthly), WTC Intercom (Quarterly), etc.

9.14 CHAMBER OF COMMERCE (COC)

Manufacturers, industrialists and traders in different regions as per their needs and requirements establish the Chamber of Commerce and Industry. The membership of Chamber of Commerce is open to all. They play a prominent role in the export promotion activities of trade and industry. They arrange periodic meetings which help in:

(a) An exchange of information and compilation of data, indicating the present state of the export activities in a particular trade or industry.

(b) An exchange of views and formulation of specific remedial policies, which will be taken up with the Government.

Membership of the Chambers and Associations is open to all members of trade and industry. The discussions therein are amongst professional people who have a thorough knowledge of a trade or an industry. This can be an excellent forum to project practical, viable and sound suggestions for removing impediments or changing policies in the national interest. Many of these Chambers or Associations have separate sections or cells dealing with the export trade, which are helpful in interpreting government policies to members, disseminating data on export markets and also making representations to the government.
9.1 QUESTION

Q.1 What are the common functions of Export Promotion Council?
Q.2 What is the difference between EPCs and Commodity Boards?
Q.3 What are the functions of Commodity Boards?
Q.4 Why were Export Inspection Agencies constituted?
Q.5 What role does Indian Trade Promotion Organisation play in export promotion?
Q.6 Write note on Indian Institute of Foreign Trade.
Q.7 Explain the role of Indian Institute of Foreign Trade in promotion of exports.
Q.8 What role does Indian Council of Arbitration play in export promotion?
Q.9 Explain the role of Federation of Indian Export Organisation in export promotion?
Q.10 What are Export Processing Zones? How do they help in promoting exports?
Q.11 What is 100% EOU? What are its benefits?
Q.12 Write a brief note on All India Handicrafts Board.
Q.13 Write a note on MPEDA.
Export- Import Policy of India

Structure

10.1 Introduction
10.2 Meaning
10.3 General Objectives.
10.4 Objective.
10.5 Highlights. Export-Import Policy 1997-2000
10.6 Implications.
10.7 Objective.
10.9 Implications.

10.1 INTRODUCTION

Trade policy governs exports from and imports into a country. It is one of the various policy instruments used by a country to attain her goals of economic development. This policy is thus, formulated keeping in view, the national priorities for economic development and the international commitments made by the country. It is essential that the entrepreneurs and the export managers understand the trade policy as it provides the vital inputs for the formulation of their business growth strategies.

In India, the trade policy i.e., export-import policy is formulated by the Ministry of Commerce, Government of India in terms of section 5 of the Foreign Trade (Development and Regulation) Act, 1992. Besides, the Government of India also announced on January 30, 2002 a Medium Term Export strategy, to guide the formulation the Export-Import Policy: 2002 - 07 with the objective of achieving a share of 1% in world trade by the end of 2006 - 07 from the present I share of 0.6% (2000 - 01).

The text of this strategy is given as Appendix VII at the end of the book. The present Export-Import Policy was announced on 31.3.2002 for a period of 5 years with effect from 1.4.2002 to 31.3.2007 co-terminus with Tenth Five Year Plan. It covers both the trade in merchandise and services. The present chapter explains legal framework affecting foreign trade of India particularly with reference to Export-Import Policy: 2002 - 2007. It also discusses the preferential trading arrangements affecting exports and imports of India.

10.2 MEANING

The foreign trade of India is guided by the Export-Import (EXIM) Policy of the government of India and is regulated by the Foreign Trade (Development and Regulation) Act, 1992.

EXIM Policy contains various policy decisions taken by the government in the sphere of foreign trade, i.e., with respect to imports and exports from the country and more especially export promotion measures, policies and procedures related thereto. It is prepared and announced by the Central Government (Ministry of Commerce). India's EXIM policy, in
general, aims at developing export potential, improving export performance, encouraging foreign trade and creating favourable balance of payments position.

LEGAL FRAMEWORK FOR FOREIGN TRADE OF INDIA:-


The main objective of the Foreign Trade (Development and Regulation) Act is to provide for the development and regulation of foreign trade by facilitating imports into, and augmenting exports from India. This Act has replaced the earlier law namely, the imports and Exports (Control) Act1947. A comparison of the nomenclature of the two Acts makes it very dear that there is a shift in the focus of the law from control to development of foreign trade. This shift in the focus is the outcome of the emphasis on liberalisation and globalisation as a part of the process of economic reforms initiated in India since June 1991.

The application of the provisions of the Foreign Trade (Development & Regulation) Act 1992 has been exempted for certain trade transactions vide Foreign Trade (Exemption from application of Rules in certain cases) Order 1993

10.3 GENERAL OBJECTIVES OF THE EXIM POLICY

Government control import of non-essential items through an import policy. At the same time, all-out efforts are made to promote exports. Thus, there are two aspects of trade policy; the import policy which is concerned with regulation and management of imports and the export policy which is concerned with exports not only promotion but also regulation. The main objective of the Government policy is to promote exports to the maximum extent. Exports should be promoted in such a manner that the economy of the country is not affected by unregulated exports of items specially needed within the country. Export control is, therefore, exercised in respect of a limited number of items whose supply position demands that their exports should be regulated in the larger interests of the country. In other words, the policy Aims at

(i) Promoting exports and augmenting foreign exchange earnings; and

(ii) Regulating exports wherever it is necessary for the purposes of either avoiding competition among the Indian exporters or ensuring domestic availability of essential items of mass consumption at reasonable prices.

The government of India announced sweeping changes in the trade policy during the year 1991. As a result, the new Export-Import policy came into force from April I, 1992. This was an important step towards the economic reforms of India. In order to bring stability and continuity, the policy was made for the duration of 5 years. In this policy import was liberalised and export promotion measures were strengthened.

The steps were also taken to boost the domestic industrial production. The more aspects of the export-import policy (1992-97) include: introduction of the duty-free Export Promotion Capital Goods (EPCG) scheme, strengthening of the Advance Licensing System, waiving of the condition on export proceeds realisation, rationalisation of schemes related to Export
Oriented Units and units in the Export Processing Zones. The thrust area of this policy was to liberalise imports and boost exports.

The need for further liberalisation of imports and promotion of exports was felt and the Government of India announced the new Export-Import Policy (1997, 2002). This policy has further simplified the procedures and reduced the interface between exporters and the Director General of foreign Trade (DGFT) by reducing the number of documents required for export by half. Import has been further liberalised and efforts have been made to promote exports.

The new EXIM Policy 1997-2002 aims at consolidating the gains made so far, restructuring the schemes to achieve further liberalisation and increased transparency in the changed trading environment. It focusses on the strengthening the domestic industrial growth and exports and enabling higher level of employment with due recognition of the key role played by the SSI sector. It recognises the fact that there is no substitute for growth, which creates jobs and generates income. Such trade activities also help in stimulating expansion and diversification of production in the country. The policy has focussed on the need to let exporters concentrate on the manufacturing and marketing of their products globally and operate in a hassle free environment. The effort has been made to simplify and streamline the procedure.

The objectives will be achieved through the coordinated efforts of all the departments of the government in general and the Ministry of Commerce and the Directorate General of Foreign Trade and its network of Regional Offices in particular. Further it will be achieved with a shared vision and commitment and in the, best spirit of facilitation in the interest of export.

10.4 OBJECTIVES OF THE EXIM POLICY 1997-2002

The principal objectives of the EXIM Policy 1997-2002 are as under:

a. To accelerate the economy from low level of economic activities to high level of economic activities by making it a globally oriented vibrant economy and to derive maximum benefits from expanding global market opportunities.

b. To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components, consumables and capital goods required for augmenting production.

c. To enhance the technolocal strength and efficiency of Indian agriculture, industry and services, thereby, improving their competitiveness.

d. To generate new employment. Opportunities and encourage the attainment of internationally accepted standards of quality.

e. To provide quality consumer products at reasonable prices.
10.5 HIGHLIGHTS OF THE EXIM POLICY 1997-2002

a. Period of the Policy

This policy is valid for five years instead of three years as in the case of earlier policies. It is effective from 1st April 1997 to 31st March 2002.

b. Liberalisation

A very important feature of the policy is liberalisation.

It has substantially eliminated licensing, quantitative restrictions and other regulatory and discretionary controls. All goods, except those coming under negative list, may be freely imported or exported.

c. Imports Liberalisation

Of 542 items from the restricted list 150 items have been transferred to Special Import Licence (SIL) list and remaining 392 items have been transferred to Open General Licence (OGL) List.

d. Export Promotion Capital Goods (EPCG) Scheme

The duty on imported capital goods under EPCG scheme has been reduced from 15% to 10%.

Under the zero duty EPCG Scheme, the threshold limit has been reduced from Rs. 20 crore to Rs. 5 crore for agricultural and allied sectors.

e. Advance Licence Scheme

Under Advance License Scheme, the period for export obligation has been extended from 12 months to 18 months.

A further extension for six months can be given on payment of 1% of the value of unfulfilled exports.

f. Duty Entitlement Pass Book (DEPB) Scheme

Under the DEPB, an exporter may apply for credit, as a specified percentage of FOB value of exports, made in freely convertible currency.

Such credit can be used for import of raw materials, intermediates, components, parts, packaging materials, etc. for export purpose.

g. Special Import Licence (SIL)

150 items from the restricted list have been transferred to SIL. SIL on exports from SSIs has been increased from 1% to 2%. Export houses and all forms of trading houses are eligible for additional SIL of 1% on exports of products from SSIs from North Eastern States.
Additional SIL has been declared for exploration of new markets and for export of agro products. The SIL entitlement of exporters holding ISO 9000 certification has been increased from 2% to 5% of the FOB value of exports.

h. Export Houses and Trading Houses:

The criteria for recognition of export houses and all forms of trading houses has been modified.

(AMOUNT IN RS. CRORES) FOR 2000-01 PERIOD

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(i) SSI Units:

SIL on exports from 'SSIs has been increased from 1% to 2%.
Export houses and all forms of trading houses are eligible for additional SIL of 1% on exports of products from SSIs from North eastern States.

Reduction of threshold level to Rs. 5 crore from Rs. 20 crore under EPCG scheme will benefit SSIs.

(m) Agriculture Sector:

Double weight age will be given for agro exports in calculating the eligibility for export houses and all forms of trading houses.
Additional SIL of 1% has been declared for export of agro products.
EOUs and units in EPZs in agriculture and allied sectors can sell 50% of their output in the domestic tariff area (DT1) on payment of duty.
Under the zero duty EPCG Scheme, the threshold level has been reduced from Rs. 20 crore to Rs. 5 crore for agriculture and allied sectors.

12.6 IMPLICATIONS OF THE EXIM POLICY 1997 –2002

The major implications of the EXIM Policy 1997-2002 are:

(a) Globalisation of Indian Economy:

The EXIM policy 1997-02 proposed to prepare a framework for globalisation of Indian economy.
This is evident from the very first objective of the policy, which states: "To accelerate the economy from low level of economic activities to high level of economic activities by making it a globally oriented vibrant economy and to derive maximum benefits from expanding global market opportunities."

The Indian economy has been exposed to more foreign competition. The regime of high protection is gradually vanishing. It means, in order to survive, Indian companies will have to pay due attention to cost reduction, improvement in quality, delivery schedules and after sales service. At the same time, Indian industry’s have also been given an opportunity to globalise their business by allowing them to import machineries and raw materials from abroad on liberal terms.

(a) Impact on the Indian Industry:

In the EXIM policy 1997-02, a series of reform measures have been introduced in order to give boost to India's industrial growth and generate employment opportunities in non-agricultural sector.

The reduction of duty from 15% to 10% under EPCG scheme will enable Indian firms to import capital goods. This will improve the quality and productivity of the Indian industry.

However, liberalisation of imports by transferring 542' items from restricted list to OGL and SIL list would adversely affect the growth of consumer goods industry in India, as most of these items are consumer goods items.

(b) Impact on Agriculture :

Many encouraging steps have been taken in order to give a boost to Indian agricultural sector.

Double weightage for agro exports while calculating the eligibility for export houses and all forms of trading houses.

Additional SIL of 1% for export of agro products.

EOUs’ and units in EPZs in agriculture and allied sectors can sell 50% of their output in the domestic tariff area (DTA) on payment of duty.

Under the zero duty EPCG Scheme, the threshold level has been reduced from Rs. 20 crore to Rs. 5 crore for agriculture and allied sectors.

(c) Impact on Foreign Investment :.

In order to encourage foreign investment in India, the EXIM policy 1997-02 has permitted 100% foreign equity participation in the case of 100% EOU, and units set up in EPZs.

Due to liberalisation of procedural formalities, foreign companies may be attracted to set up manufacturing units in India.

Full Convertibility of Indian Rupee on revenue account would also give a fillip to foreign investment in India.
(d) Impact on Quality Upgradation:

The SIL entitlement of exporters holding ISO 9000 certification has been increased from 2% to 5% of the FOB value of exports.

This would encourage Indian industries to undertake research and development programmers and upgrade the quality of their products.

Liberalisation of EPCG scheme would encourage Indian industries to import capital goods and improve quality and increase productivity of goods.

(e) Impact on Self-reliance:

One of the long-term objectives of the Indian planning is to become self reliant. This objective is well reflected in the EXIM Policy 1997-02.

The policy aims at encouraging domestic sourcing of raw materials, so as to build up a strong domestic production base.

In order to achieve this the policy has also extended the benefits given to exporters to deemed exporters. This would lead to import substitution.

Oil, power and natural gas sectors have also been brought under the purview of deemed exports.

However, the globalisation policy of the government may harm the interests of SSIs and cottage industries, as they may not be able to compete with MNCs.

**EXPORT-IMPORT POLICY 2002 – 2007**

The Export-Import Policy: 2002 - 2007 deals with both the export and import of merchandise and services. It is worth mentioning here that the Export -Import Policy: 1997 - 2002 had accorded a status of exporter to the business firm exporting services with effect from 1.4.1999. Such business firms are known as Service Providers.

The Export-Import Policy has been described in the following documents:


Handbook of Procedures Volume I

Handbook of Procedures Volume II

ITC(HS) Classification of Export-Import Items

The main policy provisions are given in the policy document entitled "Export -Import Policy 2002-2007". An exporter will have to refer to the Handbook of Procedures Volume-I to know the procedures, the agencies and the documentation required to take advantage of a certain provision of the policy.

There is a para-by-para correspondence between the Policy and the Handbook of Procedures Volume-I. Thus, if an exporter finds that para 6.2 of the policy is relevant for his business
enterprise then he should also refer to the corresponding para of the Handbook of Procedures Volume- I to know precisely what is to be done to take advantage of the policy provision.

The Handbook of Procedures Volume-II provides a very vital information as regards the standard input-output norms in regard to items of export from India. Based on these norms, exporters are provided the facility to make duty-free import of inputs required for manufacture of export products under the Duty Exemption Scheme/Duty Remission Scheme. The policy regarding import or export of a specific item is given in the document entitled "ITC (HS) Classifications of Export-Import Items".

In addition to these policy documents, an export enterprise should also refer to the various policy circulars and trade notices issued by various regulatory authorities dealing with different aspects of foreign trade. One can refer to these notices either by visiting the relevant web site of the authority concerned or by referring to various trade magazines which circulate them.


The export-import policy 1997-2002 carried forward the process of liberalization and globalization set in motion by the process of economic reforms initiated since June, 1991. These reforms had aimed at restructuring the Indian economy to increase the productivity and competitiveness of foreign trade enterprises in order to achieve a higher rate of growth in exports. It also enabled the foreign trade grow in an environment of liberalization from licensing procedures, quantitative restrictions, discretionary bureaucratic controls and cumbersome documentation procedures. The present Export-Import-Policy: 2002-2007 aims at facilitating the growth in exports to attain a share of at least 1% of global merchandise trade by the end of 2006-07. Specifically, main objectives of the present policy are as follows:

1). To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components, consumables and capital goods required for augmenting production and providing services.

2). To enhance the technological strength and efficiency of Indian agriculture, industry and services, thereby improving their competitive strength while generating new employment opportunities and encourage the attainment of internationally accepted standards of quality; and

3). To provide consumers with good quality products and services at internationally competitive prices while at the same time creating a level playing field for the domestic producers

10.8 HIGHLIGHT OF EXIM POLICY 2002-2007:-

Union Commerce and Industry Minister Mr. Murasoli Maran announced the Exim policy for the 5 year period (2002-07) on March 31, 2002. The main thrust of the policy is to push India's exports aggressively by undertaking several measures aimed at augmenting exports of farm goods, the small scale sector, textiles, gems and jewellery, electronic hardware etc. Besides these, the policy aims to reduce transaction cost to trade through a number of
measures to bring about procedurally simplifications. In addition, the Exim policy removes quantitative restrictions (QRs) on exports, except a few sensitive items.

1. Special Economic Zones (SEZs) :-

(a) Offshore Banking Units (OBUs) shall be permitted in Special Economic Zones (SEZs)

(b) Units in SEZ would be permitted to undertake hedging of commodity price risks, provided such transactions are undertaken by the units 'on stand alone basis.

(c) Units in SEZ shall be permitted External Commercial Borrowings (ECBs) for a tenure of less than three years.

(d) Four existing EPZs have been converted into SEZs and 13 New SEZs have already been given approval.

2. Employment Oriented Measures :- Exim (2002-07) policy initiated a number of measures which would help employment orientation. Among them were the following:

(a) Agriculture :
Removal of quantitative and packaging restrictions on wheat and its products, butter, pulses, grain and flour of barley, maize, bajra, ragi and jowar. Removal of restrictions on export of all cultivated (other than wild) varieties of seed, except jute and onion.

20 Agricultural Export Zones have been notified. Transport subsidy for export of fruits, vegetables, floriculture, poultry and dairy products. 3% special DEPB rate for primary and processed foods exported in retail packaging of 1 kg. or less.

(b) Cottage Sector and Handicrafts:
An amount of Rs. 5 crore under Market Access Initiative (MAI) has been earmarked for promoting cottage sector exports coming under the Khadi and Village Industries Commission (KVIC).

Market Access Initiative (MAI) scheme for the development of website for virtual exhibition of products from the handicrafts sector. Entitlement for Export House Status at Rs. 5 crore instead of Rs.15 crore for others.
Entitlement to duty free imports of an enlarged list of items as embellishments upto3% of FOB value of exports.

(c) Small Scale Industry : 

With a view to encouraging further development of centers of economic and export excellence such as Tripura for hosiery, woollen blankets in Panipat, woollen knitwear in Ludhiana, following benefits would be available to small-scale sector.

EPCG facility for the common service providers in these areas. Market Access Initiative (MAI) for creating focused technological services and marketing abroad to the recognized associations of units in SSI. Entitlement for Export House Status at Rs. 5 crore instead of Rs.15 crore for others.
(d) Leather:-

Duty free imports upto 3% of f.o.b. value combined to leather garments has been extended to all leather products.

(e) Textiles :

Sample fabrics permitted duty free within the 3% limit for trimmings and embellishments. Additional items such as zip fasteners, inlay cards, eyelets, rivets, toggles, Velcro tape, cord and cord stopper included in input output norms. Duty Entitlement Passbook (DEPB) rates for all kinds of blended fabrics permitted.

(f) Gem and Jewellery :

Import of rough diamonds is allowed freely at 0% customs duty. Licensing regime for rough diamond is being abolished. Value addition norms for export of plain jewellery reduced to 7% and for all merchandised unstudded jewellery to 3%. Personal carriage of jewellery allowed through Hyderabad and Jaipur airport as well.

TECHNOLOGY ORIENTED

(a) Electronic Hardware:-

Conversion of the Electronic Hardware Technology Park (EHTP) into zero duty regime under the ITA (Information Technology Agreement)-I Net Foreign Exchange as Percentage of Exports (NEEP) to be made positive in 5 years. No other export obligation for units in EHTP.

(b) Chemicals and Pharmaceuticals :

65% of DEPB rate for pesticides formulations.
No limit on export of samples. .
Reimbursement of 50% of registration fees on registration of drugs.

(c) Projects:

Free import of equipment and other goods used abroad for more than one year.

GROWTH ORIENTED

(a) Strategic Package for Status Holders:

License, certificate, permissions and customs clearances for both imports and exports on self-declaration basis.

Priority finance for medium and long term capital requirement as per conditions notified by the RBI.
Exemption from compulsory negotiation of documents through banks, however, the remittance would continue to be received through banking channels.

100% retention of foreign exchange in Exchange Earner's Foreign Currency (EEFC) account.

Enhancement in normal repatriation period from 180 days to 360 days,

(b) Diversification of Markets:

Setting up of "Business Centre" in Indian missions abroad for visiting Indian exporters/businessmen.

ITPO portal to host a permanent virtual exhibition of Indian export products.

Focus Latin American Countries (LAC) has been extended upto March 2003.

Focus Africa has been launched for developing trade relations with the Sub-Saharan African region. The exporters exporting to these markets shall be given Export House Status on export of Rs. 5 crore.

Links with the Commonwealth of Independent States (CIS) countries to be revived.

(c) North Eastern States, Sikkim and Jammu and Kashmir:

Transport subsidy for exports to be given to units located in North East, Sikkim and Jammu and Kashmir so as to offset the disadvantage of being far from ports.

(d) Neutralising High Fuel Cost:

Fuel costs to be rebated for all export products. This would enhance the cost competitiveness of our export products.

PROCEDURAL REFORMS

(a) Dgft:

The new 8 digit commodity classification for imports introduced by the Director General of Foreign Trade (DGFT) would also be adopted by the Customs and Director: General of Commercial Intelligence and Statistics (DGCI&S) shortly. This will eliminate the classification disputes and hence reduce transaction costs and time.

The maximum fee limit for electronic application under various schemes has been reduced from Rs. 1.5 lakh to Rs. 1.00 lakh.

Same day licensing introduced in all regional offices.

(b) Customs:

Adoption and harmonisation of the 8 digit Indian Trade Classification (ITC) Harmonised System (HS) code.
The percentage of physical examination of export cargo has already been reduced to less than 10% except for a few sensitive destinations. Fixation of special brand rate of drawback within 15 days.

(c) Banks:

Direct negotiation of export documents to be permitted.
100% retention in Exchange Earners Foreign Currency (EEFC) accounts.
Enhancement in normal repatriation period from 180 days to 360 days.

TRUST BASED

(a) Import and export of samples to be liberalised for encouraging product upgradation
(b) Penal interest rate for bonafide defaults to be brought down from 24% to 15%.
(c) No penalty for non-realisation of export proceeds in respect of cases covered by ECGC insurance package.
(d) No seizure of stock in trade so as to disrupt the manufacturing process affecting delivery schedule of exporters.
(e) Foreign Inward Remittance Certificate (FIRC) to be accepted in lieu of Bank Realisation Certificate.
(f) Certificate for documents negotiated directly.
(g) Optional facility to convert from one scheme to another scheme. In case the exporter is denied the benefit under one scheme, he shall be entitled to claim benefit under some other scheme.
(h) Newcomers to be entitled for licences without any verification against execution of Bank Guarantee.

DUTY NEUTRALISATION INSTRUMENTS


(b) Duty Entitlement Passbook (DEPB) Scheme:
Value cap exemption granted on 429 items to continue.
DEPB rates slashed on 8 out of 10 items.
Reduction in rates only after due notice.
No Present Market Value (PMV) verification except on specific intelligence.
Same DEPB rate for exports whether as CBUs or in CKD/SKD form.
DEPB for transport vehicles to Nepal in free foreign exchange.

(c) Export Promotion Capital Goods (EPCG):
EPCG licences 'of Rs. 100 crore or more to have 12 year export obligation period with 5 year moratorium period.
Export obligation fulfillment period extended from 8 years to 12 years in respect of units in Agricultural Export Zones and in respect of companies under the revival plan of BIFR.
Supplies under Deemed Exports to be eligible for export obligation fulfilment along with deemed export benefit.
IMPLICATIONS OF THE EXIM POLICY 2002-07

The implications of the EXIM Policy 2002-07 are as follows:

(a) **All-round Development of Indian Economy.** The EXIM 2002-07 emphasises all-round development of Indian economy by giving due weightage to different sectors of the economy. That is why the policy has been described as:

- Employment Oriented.
- Technology Oriented.
- Growth Oriented.

This has also been reflected in its objectives:
- To facilitate sustained growth in exports.
- To stimulate sustained economic growth.
- To enhance the technological strength and efficiency of Indian agriculture, industry and services.
- To generate new employment opportunities
- To attain internationally accepted standards of quality.
- To provide consumers with good quality goods and services at internationally competitive prices.

(b) **Implications on Agricultural Sector:** Agriculture being the backbone of Indian economy, the EXIM policy has initiated a series of measures for its growth and development, especially for promotion of exports from agricultural sector.

- Removal of quantitative and packaging restrictions on certain agricultural products and on export of all cultivated varieties of seed would give a major boost to the export of these items.
- Identification of 20 "Agricultural Export Zones" would help in development of specific geographical areas for export of specific products.
- Extension of export obligation fulfilment period from 8 years to 12 years in respect of units in Agricultural Export Zones.
- Other measures such as transport subsidy, 3% special DEPB rate, would definitely give a fillip to exports from agricultural sector.

(c) **Implications on Development of Cottage Industries:** The small scale sector, along with the cottage and handicraft sector, has been contributing to more than half of the total exports of the country. In recognition of the export performance of these sectors and to further increase their competitiveness, the following facilities have been extended to this sector:

- Incentives such as Market Access Initiative (MAI), duty free imports up to 3% of FOB value of exports, EPCG facility, etc.

- Entitlement for Export House Status at Rs. 5 crore instead of Rs.15 crore for others. These steps would encourage units in cottage industries to develop their export potentiality.

(d) **Implications on Small Scale Industry:** With a view to encourage further development of centres of economic and export excellence as Tripura for hosiery, woollen blankets in Panipat, woollen knitwear in Ludhiana, the following benefits have been made available to the small scale sector:
Common service providers in these areas shall be entitled for facility of EPGC Scheme.

Availability of Market Access Initiative Scheme for creating focused technological services and marketing abroad.

Entitlement for Export House Status at Rs. 5 crore instead of Rs.15 crore for others.

These steps would lead to development of new centres of economic and export excellence.

(e) Implications on Gem and Jewellery Industry: Having already achieved leadership position in diamonds, the EXIM Policy 2002-07 aims at achieving a quantum jump on jewellery exports as well. In order to achieve this, the following steps have been taken in the new EXIM Policy:

Import of rough diamonds is allowed freely at 0% custom duty.

Abolition of licensing regime for rough diamonds would help the country emerge as a major international centre for diamonds.

Value addition norms for export of plain jewellery reduced to 7% and for all merchandised unstudded jewellery to 3%

Personal carriage of jewellery allowed through Hyderabad and Jaipur airports as well.

(f) Implications on Industrial Sector:

Liberalisation of EPCG scheme would help Indian industries to promote quality upgradation and would also enable sick units to revive.

Extension of repatriation period for realisation of export proceeds from 180 days to 360' days - would help Indian industries to be more competitive in offering liberal payment terms to foreign importers.

Licence, certificate, permissions and customs clearances for both imports and exports on self-declaration basis, priority finance for medium and long term capital' requirement and 100% retention of foreign exchange in Exchange Earner's Foreign Currency (EEFC) account would definitely benefit Indian industries and would encourage Indian producers to enter the export field. Exemption from compulsory negotiation of documents through banks would help exporters to save bank charges.

Transport subsidy for exports from units located in North East, Sikkim and Jammu and Kashmir would offset the disadvantage of being far from ports.

(g) Diversification of Indian Industrial Sector: In order to promote Indian industries to diversify their business and markets, the following measures have been taken in the EXIM Policy 2002-07:

Setting up of "Business Centre" in Indian missions abroad would enable India exporters and businessmen to visit abroad.
Launching of Focus LAC (Latin American Countries) in November 1997 has greatly accelerated Indian trade with Latin American countries. Extension of this programme upto March 2003 would enable Indian exporters to consolidate the gains of this programme.

There is a tremendous potential for trade with the Sub-Saharan African region. Launching of Focus Africa programme would help exporters to diversify their exports to these markets.

Permission granted to External Commercial Borrowings (ECBs) for tenure of less than three years in SEZs would provide opportunities for accessing working capital loan for these units at internationally competitive rates.

(h) Implications on Technology Upgradation:

Conversion of Electronic Hardware Technology Park (EHTP) into zero duty regime under the ITA (Information Technology Agreement)- I would give encouragement to setting up of more units in EHTP.

Liberalisation of import and export of samples would encourage product upgradation.

Liberalisation of EPCG scheme would encourage Indian industries to import capital goods and improve quality and increase productivity of goods.

This would also encourage Indian industries to undertake research and development programmes and upgrade the quality of their products.

(i) Implications on Procedural Formalities: - Various procedural simplifications would reduce transaction costs and save time. Some of such steps include:

Adoption of a new 8 digit commodity classification for imports by Customs and Director General of Commercial Intelligence and Statistics (DGCI&S) would eliminate the classification disputes and hence reduce transaction costs and time.

Reduction of the maximum fee limit for electronic application under various schemes from Rs. 1.51akh to Rs. 1.00 lakh.

Foreign Inward Remittance Certificate (FIRC) to be accepted in lieu of Bank Realisation Certificate for documents negotiated directly.

Fixation of special brand rate of drawback within 15 days.

Reduction in percentage of physical examination of export cargo to 10%.

Penal interest rate for bonafide defaults to be brought down to 15%.

No penalty for default where payment is covered by ECGC policy.

No seizure of stock in trade.

Same day licensing introduced in all regional offices.

Newcomers to be entitled for licences’ against execution of Bank Guarantee.
Optional facility to convert from one scheme to another scheme.

QUESTIONS

Q.1. What is an EXIM Policy? What are its objectives?
Q.2 What are the objectives of EXIM policy 1997-02?
Q.3 Explain the major highlights of EXIM policy 1997-02.
Q.4 Explain the effect of EXIM Policy 1992-97 on the following:
   (i) Foreign Exchange.  (ii) Technology Upgradation.  (iii) Export Promotion.
Q.5 What are the objectives of EXIM policy 2002-07?
Q.6 Explain the major highlights of EXIM policy 2002-07.
Q.7 Explain the implications of the EXIM Policy 2002-07.
11.0 Risk management

Risk management is activity directed towards the assessing, mitigating (to an acceptable level) and monitoring of risks. In some cases the acceptable risk may be near zero. Risks can come from accidents, natural causes and disasters as well as deliberate attacks from an adversary.

In businesses, risk management entails organized activity to manage uncertainty and threats and involves people following procedures and using tools in order to ensure conformance with risk-management policies.

The strategies include transferring the risk to another party, avoiding the risk, reducing the negative effect of the risk, and accepting some or all of the consequences of a particular risk. Some traditional risk management programs (e.g., health risk assessment) are focused on risks stemming from physical or legal causes (e.g. natural disasters or fires, accidents, ergonomics, death and lawsuits). Financial risk management, on the other hand, focuses on risks that can be managed using traded financial instruments.

11.0.1 Introduction

In ideal risk management, a prioritization process is followed whereby the risks with the greatest loss and the greatest probability of occurring are handled first, and risks with lower probability of occurrence and lower loss are handled in descending order. In practice the
process can be very difficult, and balancing between risks with a high probability of occurrence but lower loss versus a risk with high loss but lower probability of occurrence can often be mishandled.

Intangible risk management identifies a new type of risk - a risk that has a 100% probability of occurring but is ignored by the organization due to a lack of identification ability. For example, when deficient knowledge is applied to a situation, a knowledge risk materializes. Relationship risk appears when ineffective collaboration occurs. Process-engagement risk may be an issue when ineffective operational procedures are applied. These risks directly reduce the productivity of knowledge workers, decrease cost effectiveness, profitability, service, quality, reputation, brand value, and earnings quality. Intangible risk management allows risk management to create immediate value from the identification and reduction of risks that reduce productivity.

Risk management also faces difficulties allocating resources. This is the idea of opportunity cost. Resources spent on risk management could have been spent on more profitable activities. Again, ideal risk management minimizes spending while maximizing the reduction of the negative effects of risks.

### 11.0.2 Principles of risk management

The [International Organization for Standardization](https://www.iso.org) identifies the following principles of risk management:

- Risk management should create value.
- Risk management should be an integral part of organizational processes.
- Risk management should be part of decision making.
- Risk management should explicitly address uncertainty.
- Risk management should be systematic and structured.
- Risk management should be based on the best available information.
- Risk management should be tailored.
- Risk management should take into account human factors.
- Risk management should be transparent and inclusive.
- Risk management should be dynamic, iterative and responsive to change.
- Risk management should be capable of continual improvement and enhancement.

### 11.0.3 Process

According to the standard ISO/DIS 31000 "Risk management -- Principles and guidelines on implementation" the process of risk management consists of several steps as follows:

**Establishing the context**

1. Identification of risk in a selected domain of interest
2. Planning the remainder of the process.
3. Mapping out the following:
   - The social scope of risk management
   - The identity and objectives of stakeholders
   - The basis upon which risks will be evaluated, constraints.
5. Developing an analysis of risks involved in the process.
6. Mitigation of risks using available technological, human and organizational resources.
11.0.4 Identification

After establishing the context, the next step in the process of managing risk is to identify potential risks. Risks are about events that, when triggered, cause problems. Hence, risk identification can start with the source of problems, or with the problem itself.

- Source analysis Risk sources may be internal or external to the system that is the target of risk management. Examples of risk sources are: stakeholders of a project, employees of a company or the weather over an airport.

- Problem analysis Risks are related to identified threats. For example: the threat of losing money, the threat of abuse of privacy information or the threat of accidents and casualties. The threats may exist with various entities, most important with shareholders, customers and legislative bodies such as the government.

When either source or problem is known, the events that a source may trigger or the events that can lead to a problem can be investigated. For example: stakeholders withdrawing during a project may endanger funding of the project; privacy information may be stolen by employees even within a closed network; lightning striking a Boeing 747 during takeoff may make all people onboard immediate casualties.

The chosen method of identifying risks may depend on culture, industry practice and compliance. Templates or the development of templates for identifying source, problem or event forms the identification methods. Common risk identification methods are:

- Objectives-based risk identification Organizations and project teams have objectives. Any event that may endanger achieving an objective partly or completely is identified as risk.

- Scenario-based risk identification in scenario analysis different scenarios are created. The scenarios may be the alternative ways to achieve an objective, or an analysis of the interaction of forces in, for example, a market or battle. Any event that triggers an undesired scenario alternative is identified as risk - see Futures Studies for methodology used by Futurists.

- Taxonomy-based risk identification the taxonomy in taxonomy-based risk identification is a breakdown of possible risk sources. Based on the taxonomy and knowledge of best practices, a questionnaire is compiled. The answers to the questions reveal risks. Taxonomy-based risk identification in software industry can be found in CMU/SEI-93-TR-6.

- Common-risk checking in several industries lists with known risks are available. Each risk in the list can be checked for application to a particular situation. An example of known risks in the software industry is the Common Vulnerability and Exposures list found at http://cve.mitre.org.

- Risk charting (risk mapping) this method combines the above approaches by listing Resources at risk, Threats to those resources Modifying Factors, which may increase or decrease the risk and Consequences it is wished to avoid. Creating a matrix under these headings enables a variety of approaches. One can begin with resources and consider the threats they are exposed to and the consequences of each. Alternatively one can start with the threats and examine which resources they would affect, or one can begin with the consequences and determine which combination of threats and resources would be involved to bring them about.
11.0.5 Assessment

Once risks have been identified, they must then be assessed as to their potential severity of loss and to the probability of occurrence. These quantities can be either simple to measure, in the case of the value of a lost building, or impossible to know for sure in the case of the probability of an unlikely event occurring. Therefore, in the assessment process it is critical to make the best educated guesses possible in order to properly prioritize the implementation of the risk management plan.

The fundamental difficulty in risk assessment is determining the rate of occurrence since statistical information is not available on all kinds of past incidents. Furthermore, evaluating the severity of the consequences (impact) is often quite difficult for immaterial assets. Asset valuation is another question that needs to be addressed. Thus, best educated opinions and available statistics are the primary sources of information. Nevertheless, risk assessment should produce such information for the management of the organization that the primary risks are easy to understand and that the risk management decisions may be prioritized. Thus, there have been several theories and attempts to quantify risks. Numerous different risk formulae exist, but perhaps the most widely accepted formula for risk quantification is:

\[
\text{Rate of occurrence multiplied by the impact of the event equals risk}
\]

Later research has shown that the financial benefits of risk management are less dependent on the formula used but are more dependent on the frequency and how risk assessment is performed.

In business it is imperative to be able to present the findings of risk assessments in financial terms. Robert Courtney Jr. (IBM, 1970) proposed a formula for presenting risks in financial terms. The Courtney formula was accepted as the official risk analysis method for the US governmental agencies. The formula proposes calculation of ALE (annualized loss expectancy) and compares the expected loss value to the security control implementation costs (cost-benefit analysis).

11.0.6 Potential risk treatments

Once risks have been identified and assessed, all techniques to manage the risk fall into one or more of these four major categories.

- Avoidance (eliminate)
- Reduction (mitigate)
- Transfer (outsource or insure)
- Retention (accept and budget)

Ideal use of these strategies may not be possible. Some of them may involve trade-offs that are not acceptable to the organization or person making the risk management decisions.

Another source, from the US Department of Defense, Defense Acquisition University, calls these categories ACAT, for Avoid, Control, Accept, or Transfer. This use of the ACAT acronym is reminiscent of another ACAT (for Acquisition Category) used in US Defense industry procurements, in which Risk Management figures prominently in decision-making and plan.

11.1 Risk avoidance

Includes not performing an activity that could carry risk. An example would be not buying a property or business in order to not take on the liability that comes with it. Another would be not flying in order to not take the risk that the airplane were to be hijacked. Avoidance may
seem the answer to all risks, but avoiding risks also means losing out on the potential gain that accepting (retaining) the risk may have allowed. Not entering a business to avoid the risk of loss also avoids the possibility of earning profits.

11.2 Risk reduction

Involves methods that reduce the severity of the loss or the likelihood of the loss from occurring. For example, sprinklers are designed to put out a fire to reduce the risk of loss by fire. This method may cause a greater loss by water damage and therefore may not be suitable. Halon fire suppression systems may mitigate that risk, but the cost may be prohibitive as a strategy. Modern software development methodologies reduce risk by developing and delivering software incrementally. Early methodologies suffered from the fact that they only delivered software in the final phase of development; any problems encountered in earlier phases meant costly rework and often jeopardized the whole project. By developing in iterations, software projects can limit effort wasted to a single iteration. Outsourcing could be an example of risk reduction if the outsourcer can demonstrate higher capability at managing or reducing risks.\[3\] In this case companies outsource only some of their departmental needs. For example, a company may outsource only its software development, the manufacturing of hard goods, or customer support needs to another company, while handling the business management itself. This way, the company can concentrate more on business development without having to worry as much about the manufacturing process, managing the development team, or finding a physical location for a call center.

11.3 Risk retention

Involves accepting the loss when it occurs. True self insurance falls in this category. Risk retention is a viable strategy for small risks where the cost of insuring against the risk would be greater over time than the total losses sustained. All risks that are not avoided or transferred are retained by default. This includes risks that are so large or catastrophic that they either cannot be insured against or the premiums would be infeasible. War is an example since most property and risks are not insured against war, so the loss attributed by war is retained by the insured. Also any amounts of potential loss (risk) over the amount insured is retained risk. This may also be acceptable if the chance of a very large loss is small or if the cost to insure for greater coverage amounts is so great it would hinder the goals of the organization too much.

11.4 Risk transfer

In the terminology of practitioners and scholars alike, the purchase of an insurance contract is often described as a "transfer of risk." However, technically speaking, the buyer of the contract generally retains legal responsibility for the losses "transferred", meaning that insurance may be described more accurately as a post-event compensatory mechanism. For example, a personal injuries insurance policy does not transfer the risk of a car accident to the insurance company. The risk still lies with the policy holder namely the person who has been in the accident. The insurance policy simply provides that if an accident (the event) occurs involving the policy holder then some compensation may be payable to the policy holder that is commensurate to the suffering/damage.
Some ways of managing risk fall into multiple categories. Risk retention pools are technically retaining the risk for the group, but spreading it over the whole group involves transfer among individual members of the group. This is different from traditional insurance, in that no premium is exchanged between members of the group up front, but instead losses are assessed to all members of the group.

11.5 Create a risk-management plan

Select appropriate controls or countermeasures to measure each risk. Risk mitigation needs to be approved by the appropriate level of management. For example, a risk concerning the image of the organization should have top management decision behind it whereas IT management would have the authority to decide on computer virus risks.

The risk management plan should propose applicable and effective security controls for managing the risks. For example, an observed high risk of computer viruses could be mitigated by acquiring and implementing antivirus software. A good risk management plan should contain a schedule for control implementation and responsible persons for those actions.

According to ISO/IEC 27001, the stage immediately after completion of the Risk Assessment phase consists of preparing a Risk Treatment Plan, which should document the decisions about how each of the identified risks should be handled. Mitigation of risks often means selection of security controls, which should be documented in a Statement of Applicability, which identifies which particular control objectives and controls from the standard have been selected, and why.

11.6 Implementation

Follow all of the planned methods for mitigating the effect of the risks. Purchase insurance policies for the risks that have been decided to be transferred to an insurer, avoid all risks that can be avoided without sacrificing the entity's goals, reduce others, and retain the rest.

11.7 Review and evaluation of the plan

Initial risk management plans will never be perfect. Practice, experience, and actual loss results will necessitate changes in the plan and contribute information to allow possible different decisions to be made in dealing with the risks being faced.

Risk analysis results and management plans should be updated periodically. There are two primary reasons for this:

1. To evaluate whether the previously selected security controls are still applicable and effective, and
2. To evaluate the possible risk level changes in the business environment. For example, information risks are a good example of rapidly changing business environment.

Limitations

If risks are improperly assessed and prioritized, time can be wasted in dealing with risk of losses that are not likely to occur. Spending too much time assessing and managing unlikely risks can divert resources that could be used more profitably. Unlikely events do occur but if the risk is unlikely enough to occur it may be better to simply retain the risk and deal with the result if the loss does in fact occur.
Prioritizing too highly the risk management processes could keep an organization from ever completing a project or even getting started. This is especially true if other work is suspended until the risk management process is considered complete. It is also important to keep in mind the distinction between risk and uncertainty. Risk can be measured by impacts x probability.

11.8 Areas of risk management

As applied to corporate finance, risk management is the technique for measuring, monitoring and controlling the financial or operational risk on a firm's balance sheet. See value at risk. The Basel II framework breaks risks into market risk (price risk), credit risk and operational risk and also specifies methods for calculating capital requirements for each of these components.

11.9 Enterprise risk management

In enterprise risk management, a risk is defined as a possible event or circumstance that can have negative influences on the enterprise in question. Its impact can be on the very existence, the resources (human and capital), the products and services, or the customers of the enterprise, as well as external impacts on society, markets, or the environment. In a financial institution, enterprise risk management is normally thought of as the combination of credit risk, interest rate risk or asset liability management, market risk, and operational risk. In the more general case, every probable risk can have a pre-formulated plan to deal with its possible consequences (to ensure contingency if the risk becomes a liability). From the information above and the average cost per employee over time, or cost accrual ratio, a project manager can estimate:

- The cost associated with the risk if it arises, estimated by multiplying employee costs per unit time by the estimated time lost
- the probable increase in time associated with a risk Sorting on this value puts the highest risks to the schedule first. This is intended to cause the greatest risks to the project to be attempted first so that risk is minimized as quickly as possible.
- This is slightly misleading as schedule variances with a large P and small S and vice versa is not equivalent. (The risk of the RMS Titanic sinking vs. the passengers' meals being served at slightly the wrong time).
- The probable increase in cost associated with a risk (cost variance due to risk, Rc where Rc = P*C = P*CAR*S = P*S*CAR)
  - Sorting on this value puts the highest risks to the budget first.
  - see concerns about schedule variance as this is a function of it, as illustrated in the equation above.

Risk in a project or process can be due either to Special Cause Variation or Common Cause Variation and requires appropriate treatment. That is to re-iterate the concern about extreme cases not being equivalent in the list immediately above. Risk-management activities as applied to project management in project management, risk management includes the following activities:

- Planning how risk will be managed in the particular project. Plan should include risk management tasks, responsibilities, activities and budget.
- Assigning a risk officer - a team member other than a project manager who is responsible for foreseeing potential project problems. Typical characteristic of risk officer is a healthy skepticism.
- Maintaining live project risk database. Each risk should have the following attributes: opening date, title, short description, probability and importance. Optionally a risk may have an assigned person responsible for its resolution and a date by which the risk must be resolved.
- Creating anonymous risk reporting channel. Each team member should have possibility to report risk that he foresees in the project.
- Preparing mitigation plans for risks that are chosen to be mitigated. The purpose of the mitigation plan is to describe how this particular risk will be handled – what, when, by who and how will it be done to avoid it or minimize consequences if it becomes a liability.
- Summarizing planned and faced risks, effectiveness of mitigation activities, and effort spent for the risk management.

11.10 Risk management and business continuity

Risk management is simply a practice of systematically selecting cost effective approaches for minimizing the effect of threat realization to the organization. All risks can never be fully avoided or mitigated simply because of financial and practical limitations. Therefore all organizations have to accept some level of residual risks. Whereas risk management tends to be preemptive, business continuity planning (BCP) was invented to deal with the consequences of realized residual risks. The necessity to have BCP in place arises because even very unlikely events will occur if given enough time. Risk management and BCP are often mistakenly seen as rivals or overlapping practices. In fact these processes are so tightly tied together that such separation seems artificial. For example, the risk management process creates important inputs for the BCP (assets, impact assessments, cost estimates etc). Risk management also proposes applicable controls for the observed risks. Therefore, risk management covers several areas that are vital for the BCP process. However, the BCP process goes beyond risk management's preemptive approach and moves on from the assumption that the disaster will realize at some point.

11.11 UCP600: OPPORTUNITIES OR CHALLENGES?

The UCP is a set of rules on the issuance and use of letters of credit that is contemporaneously utilized by bankers and commercial parties in international sale and purchase transactions in more than 175 countries.

Historically letters of credit were so often used in international trade that commercial parties, particularly banks, and had developed their own varied and diverse techniques and methods for handling letters of credit in international trade finance. Faced with uncertain trade practices in different quarters, these differing practices were standardized by the International Chamber of Commerce (ICC) by first publishing the Uniform Customs and Practice for Documentary Credits (UCP) in 1933. Subsequently through the years, the ICC have taken upon themselves the arduous task of updating the same to best reflect the contemporaneous reality of international trade in these documents of finance and credit.

The UCP is a set of norms and formalities – and interestingly for the first time in the history of the UCP in their latest revision of the same, they term themselves as “Rules” – on the issuance and usage of letters of credit that is contemporaneously incorporated by bankers and commercial parties alike in international sale and purchase transactions in more than 175 countries. Recent surveys show that about 11-15% of international trade utilizes letters of credit, totaling more than a trillion US dollars per annum.
At the outset, it is worth reminding the reader that as much as they are universally applied, the UCP are not automatically incorporated into every letter of credit. Article 1 clearly states that the Rules will only apply “when the text of the credit expressly indicates that it is subject to these rules”.

The advantage in incorporating such provisions is quite clear: i) the seller will know in advance the criteria against which he will be paid and ii) the buyer will know the criteria against which the price will be paid. However, no authority or conflicting opinions in the commentaries can be found to impose a duty on the buyer to necessarily open a letter of credit subject to the UCP600. In this scenario it is thus in the best interest of the party who wish to incorporate the Rules to expressly stipulate in the sale contract for the application of the UCP600 to the letter of credit. De Plano, incorporation leads to the point of derogation.

As the Rules can only apply if they are incorporated into the letter of credit, it must follow as a corollary that the parties can choose to derogate from any part of them as well. And again they can do so by agreement – cfr. art. 1 “unless expressly modified or excluded by the credit” – and again they must so agree in the sale contract. The draftsmen of the ICC have in their revision paid attention to clarify the default position of the credit as a revocable or irrevocable one. By assuming a credit was irrevocable if it failed to describe itself, the previous UCP500 favored irrevocable over revocable credits, but still expressly contemplated their application to revocable letters of credit.

By mean of art. 2 instead, the UCP600 define the “Credit” as “any arrangements, howsoever named or described, that is irrevocable” and art. 3 state that a credit is irrevocable “even if there is no indication to that effect”. The default type of credit in the new Rules is thus now an irrevocable credit, and only an implicit possibility for the opening of revocable credits is left. Under this new provision, the advantages for sellers are quite obvious: because of the new default position, a buyer cannot be tempted to open a revocable letter of credit, even in the silence of the sale contract on the point.

This latest UCP revision has had the general aim of addressing “developments in the banking, transport and insurance industries”. However, the main reason for this review can be seen as a general improvement of the language and style so as to propagate and increase the consistent application and interpretation of the Rules in an attempt to stem the rate of unnecessary rejections of documentary tenders by financial institutions.

In fact, under the present UCP500 regime, the best way for banks to avoid further risk is to reject the presented documents and refuse the payment. Surveys have shown that as much as 70% of the documents tendered at first presentation were rejected. And this is because avoidance of risks is the first priority for the issuing bank.

But, is avoidance of risk a priority for traders as well? It seems not, as closing the deal is the real purpose and function of the letter of credit itself and the letter of credit is an instrument of payment. Buyers are absolutely in need of the shipment, and the moment the issuing bank issues the letter of credit, it signifies the intention of the buyer to purchase and to pay. Likewise, when the seller tenders the required document, he agrees to accept the payment from the buyer.

Article 14 is particularly of interest to banks as it establishes the basic responsibility of the banks to examine the documents tendered under the letter of credit. Article 14(a) imposes the
duty to examine the documents in order “to determine, on the basis of the documents alone, whether or not the documents appear on their face to constitute a complying presentation”. It is worth noting that the “reasonable care” to be exercised under the UCP500 regime has now been omitted. However, it is still too early to predict whether such an omission will lead to any substantial difference in the way this duty will be construed by the banks.

This being in fact the duty to ascertain whether the documents appear to conform, such a duty should not be construed to be any more stringent than the exercise of reasonable care previously imposed. It therefore seems to be plausible that the banks will continue to exercise reasonable care rather than any more rigid duty of examination.

A possible major change is instead inherent in article 14(b). This new article defines the number of days required to hold the documents for processing or examining by banks. The “reasonable time” in article 13(b) of UCP500 that led to a number of disputes – and hence uncertainty – has been eliminated and a more welcome, even if not very precise, five banking days will be used under the UCP600. Further the stipulated time will now begin to count from the day of presentation, and hence the “day of receipt of the documents” will no longer be the starting point of the period.

The definition of banking days though is not extremely accurate as art. 2 defines it as “a day on which a bank is regularly open at the place at which an act subject to those rules is to be performed” and even if the omission of the phrase “reasonable time” may have resolved differences in interpretation between different Courts, at this point we cannot be sure whether a new problem may arise.

But one of the most important issues is the linkage between the documents tendered, i.e. the Provisions of art. 14(d) and (e) and the degree to which inconsistencies between the documents tendered are to constitute a discrepancy preventing payment, as under the UCP500 a large number of rejection was based on inconsistencies between documents. It will be interesting to see if the new wording will be interpreted as a mere explanation of the old art. 13, or if a purpose for such a detailed change will be looked for and banks will accordingly be obliged to be far more rigorous in scrutinizing the data in each document tendered. As the aim of the revision is to curtail the rate of rejection, it is hoped this article will be read as an explanation rather than an extension.

Another interesting decision that has been incorporated under the new UCP 600 and that better clarifies the duties of a bank in screening the documents is that with regard to non-documentary requirements. Under the regime of the UCP500 in fact, the rule that the bank would ignore such requirements was in some way mitigated by Position Paper No.3 by means of which only those no documentary conditions which could not be implicitly connected to a document listed for tender were to be disregarded by the bank. It is clear from the above that the position was unnecessarily complicated, and also because the Position Papers issued under the UCP500 will not be applicable under the UCP600, it seems clear that since July the banks will disregard all non-documentary requirements (cfr. art. 14(h): “banks will deem such conditions as not stated and will disregard them”). The practical consequence is that where a buyer is particularly keen on a condition (i.e., age or class of carrying vessel), he must exercise greater care in formulating the documentary requirement. Undoubtedly, this revision will make it easier for bankers and traders to incorporate the UCP in their business transactions.

As in any contract, the Definitions and Interpretations are helpful, and the changes highlighted above are of course welcome and will contribute in making letters of credit
an even safer and standardized payment term for contract between buyers and sellers. Traders are still to be aware though that the main contract is and remain the sale contract, hence it has to be clear and specific in relation to the letter of credit requirements as this is the first and most important step to reduce the possibilities of rejection.
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