EXPORTING AND IMPORTING

Exporting refers to sending of goods and services from the home country to a foreign country. In a similar vein, importing is purchase of foreign products and bringing them into one's home country. There are two important ways in which a firm can export or import products: direct and indirect exporting/importing. In the case of direct exporting/importing, a firm itself approaches the overseas buyers/suppliers and looks after all the formalities related to exporting/importing activities including those related to shipment and financing of goods and services. Indirect exporting/importing, on the other hand, is one where the firm's participation inthe export/import operations is minimum, and most of the tasks relating to export/import of the goods are carried out by some middle men such as export houses or buying offices of overseas customers located in the home country or wholesale importers in the case of import operations. Such firms do not directly deal with overseas customers in the case of exports and suppliers in the case of imports.

Advantages

Major advantages of exporting include:

- As compared to other modes of entry, exporting/importing is the easiest way of gaining entry into international markets. It is less complex an activity than setting up and managing joint-ventures or wholly owned subsidiaries abroad.

- Exporting/ importing is less involving in the sense that business firms are not required to invest that much time and money as is needed when they desire to enter into joint ventures or set up manufacturing plants and facilities in host countries.

- Since exporting/importing does not require much of investment in foreign countries, exposure to foreign investment risks is nil or much lower than that is present when firms opt for other modes of entry into international business.

Limitations

Major limitations of exporting/importing as an entry mode of international business are as follows:

- Since the goods physically move from one country to another, exporting/importing involves additional packaging, transportation and insurance costs. Especially in the case of heavy items, transportation costs alone become an inhibiting factor to their exports and imports. On reaching the shores of foreign countries, such products are subject to custom duty and a variety of other levies and charges. Taken together, all these expenses and payments substantially increase product costs and make them less competitive.

- Exporting is not a feasible option when import restrictions exist in a foreign country. In such a situation, firms have no alternative but to opt for other entry modes such as licensing/franchising or joint venture which makes it feasible to make the product available by way of producing and marketing it locally in foreign countries.

- Export firms basically operate from their home country. They produce in the home country and then ship the goods to foreign countries. Except a few visits made by the executives of export firms to foreign countries to promote their products, the export firms in general do not have much contact with the foreign markets. This puts the export firms in a disadvantageous position vis-à-vis the local firms which are very near the customers and are able to better understand and serve them.

Despite the above mentioned limitations, exporting/importing is the most preferred way for business firms when they are getting initially involved with international business.

As usually is the case, firms start their overseas operations with exports and imports, and later having gained familiarity with the foreign market operations switch over to other forms of international business operations.

Export-Import Procedures and Documentation

A major distinction between domestic and international operations is the complexity of the latter. Export and import of goods is not that straight forward as buying and selling in the domestic market. Since foreign trade transactions involves movement of goods across frontiers and use of foreign exchange, a number of formalities are needed to be performed before the goods leave the boundaries of a country and enter into that of another. Following sections are devoted to a discussion of major steps that need to be undertaken for completing export and import transactions.

Export Procedure

The number of steps and the sequence in which these are taken vary from one export transaction to another. Steps involved in a typical export transaction are as follows.

(i) Receipt of enquiry and sending quotations: The prospective buyer of a product sends an enquiry to different exporters requesting them to send information regarding price, quality and terms and conditions for export of goods. Exporters can be informed of such an enquiry even by way of advertisement in the press put in by the importer. The exporter sends a reply to the enquiry in the form of a quotation—referred to as Performa invoice. The Performa invoice contains information about the price at which the exporter is ready to sell the goods and also provides information about the quality, grade, size, weight, mode of delivery, type of packing and payment terms.

(ii) Receipt of order or indent: In case the prospective buyer (i.e., importing firm) finds the export price and other terms and conditions acceptable, it places an order for the goods to be despatched. This order, also known as indent, contains a description of the goods ordered, prices to be paid, delivery terms, packing and marking details and delivery instructions.

(iii) Assessing the importer’s creditworthiness and securing a guarantee for payments: After receipt of the indent, the exporter makes necessary enquiry about the creditworthiness of the importer. The purpose underlying the enquiry is to assess the risks of non payment by the importer once the goods reach the import destination. To minimise such risks, most exporters demand a letter of credit from the importer. A letter of credit is a guarantee issued by the importer's bank that it will honour payment up to a certain amount of export bills to the bank of the exporter. Letter of credit is the most appropriate and secure method of payment adopted to settle international transactions.

(iv) Obtaining export licence: Having become assured about payments, the exporting firm initiates the steps relating to compliance of export regulations. Export of goods in India is subject to custom laws which demand that the export firm must have an export licence before it proceeds with exports. Important pre-requisites for getting an export licence are as follows:

- Opening a bank account in any bank authorised by the Reserve Bank of India (RBI) and getting an account number.

- Obtaining Import Export Code (IEC) number from the Directorate General Foreign Trade (DGFT) or Regional Import Export Licensing Authority.

- Registering with appropriate export promotion council.

- Registering with Export Credit and Guarantee Corporation (ECGC) in order to safeguard against risks of non payments. An export firm needs to have the Import Export Code (IEC) number as it needs to be filled in various export/import documents. For obtaining the IEC number, a firm has to apply to the Director General for Foreign Trade (DGFT) with documents such as exporter/importer profile, bank receipt for requisite fee, certificate from the banker on the prescribed form, two copies of photographs attested by the banker, details of the non-resident interest and declaration about the applicant’s non association with caution listed firms. It is obligatory for every exporter to get registered with the appropriate export promotion council. Various export promotion councils such as Engineering Export Promotion Council (EEPC) and Apparel Export Promotion Council (AEPC) have been set up by the Government of India to promote and develop exports of different categories of products. We shall discuss about export promotion councils in a later section. But it may be mentioned here that it is necessary for the exporter to become a member of the appropriate export promotion council and obtain a Registration cum Membership Certificate (RCMC) for availing benefits available to export firms from the Government. Registration with the ECGC is necessary in order to protect overseas payments from political and commercial risks. Such a registration also helps the export firm in getting financial assistance from commercial banks and other financial institutions.

(v) Obtaining pre-shipment finance: Once a confirmed order and also a letter of credit have been received, the exporter approaches his banker for obtaining pre-shipment finance to undertake export production. Pre-shipment finance is the finance that the exporter needs for procuring raw materials and other components, processing and packing of goods and transportation of goods to the port of shipment.

(vi) Production or procurement of goods: Having obtained the pre-shipment finance from the bank, the exporter proceeds to get the goods ready as per the specifications of the importer. Either the firm itself goes inform producing the goods or else it buys from the market.

(vii) Pre-shipment inspection: The Government of India has initiated many steps to ensure that only good quality products are exported from the country. One such step is compulsory inspection of certain products by a competent agency as designated by the government. The government has passed Export Quality Control and Inspection Act, 1963 for this purpose. and has authorised some agencies to act as inspection agencies. If the product to be exported comes under such a category, the exporter needs to contact the Export Inspection Agency (EIA) or the other designated agency for obtaining inspection certificate. The pre-shipment inspection report is required to be submitted along with other export documents at the time of exports. Such an inspection is not compulsory in case the goods are being exported by star trading houses, trading houses, export houses, industrial units setup in export processing zones/special economic zones (EPZs/SEZs) and 100 per cent export oriented units (EOUs). We shall discuss about these special types of export firms in a later section.

(viii) Excise clearance: As per the Central Excise Tariff Act, excise duty is payable on the materials used in manufacturing goods. The exporter, therefore, has to apply to the concerned Excise Commissioner in the region with an invoice. If the Excise

Commissioner is satisfied, he may issue the excise clearance. But in many cases the government exempts payment of excise duty or later on refunds it if the goods so manufactured are meant for exports. The idea underlying such exemption or refund is to provide an incentive to the exporters to export more and also to make the export products more competitive in the world markets. The refund of excise duty is known as duty drawback. This scheme of duty drawback is presently administered by the Directorate of Drawback under the Ministry of Finance which is responsible for fixing the rates of drawback for different products. The work relating to sanction and payment of drawback is, however, looked after by the Commissioner of Customs or Central Excise Incharge of the concerned port/airport/land custom station from where the export of goods is considered to have taken place.

(ix) Obtaining certificate of origin: Some importing countries provide tariff concessions or other exemptions to the goods coming from a particular country. For availing such benefits, the importer may ask the exporter to send a certificate of origin. The certificate of origin acts as a proof that the goods have actually been manufactured in the country from where the export is taking place. This certificate can be obtained from the trade consulate located in the exporter’s country.

(x) Reservation of shipping space: The exporting firm applies to the shipping company for provision of shipping space. It has to specify the types of goods to be exported, probable date of shipment and the port of destination. On acceptance of application for shipping, the shipping company issues a shipping order. A shipping order is an instruction to the captain of the ship that the specified goods after their customs clearance at a designated port be received on board.

(xi) Packing and forwarding: The goods are then properly packed and marked with necessary details such as name and address of the importer, gross and net weight, port of shipment and destination, country of origin, etc. The exporter then makes necessary arrangement for transportation of goods to the port. On loading goods into the railway wagon, the railway authorities issue a 'railway receipt' which serves as a title to the goods. The exporter endorses the railway receipt in favour of his agent to enable him to take delivery of goods at the port of shipment.

(xii) Insurance of goods: The exporter then gets the goods insured with an insurance company to protect against the risks of loss or damage of the goods due to the perils of the sea during the transit.

(xiii) Customs clearance: The goods must be cleared from the customs before these can be loaded on the ship. For obtaining customs clearance, the exporter prepares the shipping bill. Shipping bill is the main document on the basis of which the customs office gives the permission for export. Shipping bill contains particulars of the goods being exported, the name of the vessel, the port at which goods are to be discharged, country of final destination, exporter's name and address, etc. Five copies of the shipping bill along with the following documents are then submitted to the Customs Appraiser at the Customs House:

- Export Contract or Export Order
- Letter of Credit
- Commercial Invoice
- Certificate of Origin
- Certificate of Inspection, where necessary
- Marine Insurance Policy

After submission of these documents, the Superintendent of the concerned port trust is approached for obtaining the carting order. Carting order is the instruction to the staff at the gate of the port to permit the entry of the cargo inside the dock.

After obtaining the carting order, the cargo is physically moved into the port area and stored in the appropriate shed. Since the exporter cannot make himself or herself available all the time for performing all these formalities, these tasks are entrusted to an agent —referred to as Clearing and Forwarding (C&F) agent.

(xiv) Obtaining mates receipt: The goods are then loaded on board the ship for which the mate or the captain of the ship issues mate’s receipt to the port superintendent. A mate receipt is a receipt issued by the commanding officer of the ship when the cargo is loaded on board, and contains the information about the name of the vessel, berth, date of shipment, description of packages, marks and numbers, condition of the cargo at the time of receipt on board the ship, etc. The port superintendent, on receipt of port dues, hands over the mate's receipt to the C&F agent.

(xv) Payment of freight and issuance of bill of lading: The C&F agent surrenders the mates receipt to the shipping company for computation of freight. After receipt of the freight, the shipping company issues a bill of lading which serves as an evidence that the shipping company has accepted the goods for carrying to the designated destination. In the case the goods are being sent by air, this document is referred to as airway bill.

(xvi) Preparation of invoice: After sending the goods, an invoice of the despatched goods is prepared. The invoice states the quantity of goods sent and the amount to be paid by the importer. The C&F agent gets it duly attested by the customs.

(xvii) Securing payment: After the shipment of goods, the exporter informs the importer about the shipment of goods. The importer needs various documents to claim the title of goods on their arrival at his/her country and getting them customs cleared. The documents that are needed in this connection include certified copy of invoice, bill of lading, packing list, insurance policy, certificate of origin and letter of credit. The exporter sends these documents through his/her banker with the instruction that these may be delivered to the importer after acceptance of the bill of exchange—a document which is sent along with the above mentioned documents. Submission of the relevant documents to the bank for the purpose of getting the payment from the bank is called ‘negotiation of the documents’. Bill of exchange is an order to the importer to pay a certain amount of money to, or to the order of, a certain person or to the bearer of the instrument. It can be of two types: document against sight or document against acceptance . In case of sight draft, the documents are handed over to the importer only against payment. The moment the importer agrees to sign the sight draft, the relevant documents are delivered. In the case of draft, on the other hand, the documents are delivered to the importer against his or her acceptance of the bill of exchange for making payment at the end of a specified period, say three months. On receiving the bill of exchange, the importer releases the payment in case of sight draft or accepts the draft for making payment on maturity of the bill of exchange. The exporter’s bank receives the payment through the importer’s bank and is credited to the exporter’s account. The exporter, however, need not wait for the payment till the release of money by the importer. The exporter can get immediate payment from his/her bank on the submission of documents by signing a letter of indemnity. By signing the letter, the exporter undertakes to indemnify the bank in the event of non-receipt of payment from the importer along with accrued interest. Having received the payment for exports, the exporter needs to get a bank certificate of payment. Bank certificate of payment is a certificate which says that the necessary documents (including bill of exchange) relating to the particular export consignment has been negotiated (i.e., presented to the importer for payment) and the payment has been received in accordance with the exchange control regulations.

Import Procedure

Import trade refers to purchase of goods from a foreign country. Import procedure differs from country to country depending upon the country’s import and custom policies and other statutory requirements. The following paragraphs discuss various steps involved in a typical import transaction for bringing goods into Indian territory.

(i) Trade enquiry: The first thing that the importing firm has to do is to gather information about the countries and firms which export the given product. The importer can gather such information from the trade directories and/or trade associations and organisations. Having identified the countries and firms that export the product, the importing firm approaches the export firms with the help of a trade enquiry for collecting information about their export prices and terms of exports. A trade enquiry is a written request by an importing firm to the exporter for supply of information regarding the price and various terms and conditions on which the latter is ready to exports goods. After receiving a trade enquiry, the exporter prepares a quotation and sends it to the importer. The quotation is known as Performa invoice. A Performa invoice is a document that contains details as to the quality, grade, design, size, weight and price of the export product, and the terms and conditions on which their export will take place.

(ii) Procurement of import licence: There are certain goods that can be imported freely, while others need licensing. The importer needs to consult the Export Import (EXIM) policy in force to know whether the goods that he or she wants to import are subject to import licensing. In case goods can be imported only against the licence, the importer needs to procure an import licence. In India, it is obligatory for every importer (and also for exporter) to get registered with the Directorate General Foreign Trade (DGFT) or Regional Import Export Licensing Authority, and obtain an Import Export Code (IEC) number. This number is required to be mentioned on most of the import documents.

(iii) Obtaining foreign exchange: Since the supplier in the context of an import transaction resides in a foreign country, he/she demands payment in a foreign currency. Payment in foreign currency involves exchange of Indian currency into foreign currency. In India, all foreign exchange transactions are regulated by the Exchange Control Department of the Reserve Bank of India (RBI). As per the rules in force, every importer is required to secure the sanction of foreign exchange. For obtaining such a sanction, the importer has to make an application to a bank authorised by RBI to issue foreign exchange. The application is made in a prescribed form along with the import licence as per the provisions of Exchange Control Act. After proper scrutiny of the application, the bank sanctions the necessary foreign exchange for the import transaction.

(iv) Placing order or indent: After obtaining the import licence, the importer places an import order or indent with the exporter for supply of the specified products. The import order contains information about the price, quantity size, grade and quality of goods ordered and the instructions relating to packing, shipping, ports of shipment and destination, delivery schedule, insurance and mode of payment. The import order should be carefully drafted so as to avoid any ambiguity and consequent conflict between the importer and exporter.

(v) Obtaining letter of credit: If the payment terms agreed between the importer and the overseas supplier is a letter of credit, then the importer should obtain the letter of credit from its bank and forward it to the overseas supplier. As stated previously, a letter of credit is a guarantee issued by the importer's bank that it will honour payment up to a certain amount of export bills to the bank of the exporter. Letter of credit is the most appropriate and secured method of payment adopted to settle international transactions. The exporter wants this document to be sure that there is no risk of non-payment.

(vi) Arranging for finance: The importer should make arrangements in advance to pay to the exporter on arrival of goods at the port. Advanced planning for financing imports is necessary so as to avoid huge demurrages (i.e., penalties) on the imported goods lying un cleared at the port for want of payments.

(vii) Receipt of shipment advice: After loading the goods on the vessel, the overseas supplier dispatches the shipment advice to the importer. A shipment advice contains information about the shipment of goods. The information provided in the shipment advice includes details such as invoice number, bill of lading/airways bill number and date, name of the vessel with date, the port of export, description of goods and quantity, and the date of sailing of vessel.

(viii) Retirement of import documents: Having shipped the goods, the overseas supplier prepares a set of necessary documents as per the terms of contract and letter of credit and hands it over to his or her banker for their onward transmission and negotiation to the importer in the manner as specified in the letter of credit. The set of documents normally contains bill of exchange, commercial invoice, bill of lading/airway bill, packing list, certificate of origin, marine insurance policy, etc.

The bill of exchange accompanying the above documents is known as the documentary bill of exchange. As mentioned earlier in connection with the export procedure, documentary bill of exchange can be of two types: documents against payment (sight draft) and documents against acceptance (usance draft). In the case of sight draft, the drawer instructs the bank to hand over the relevant documents to the importer only against payment. But in the case of usance draft, the drawer instructs the bank to hand over the relevant documents to the importer against acceptance of the bill of exchange. The acceptance of bill of exchange for the purpose of getting delivery of the documents is known as retirement of import documents. Once the retirement is over, the bank hands over the import documents to the importer.

(ix) Arrival of goods: Goods are shipped by the overseas supplier as per the contract. The person in charge of the carrier (ship or airway) informs the officer in charge at the dock or the airport about the arrival of goods in the importing country. He provides the document called import general manifest. Import general manifest is a document that contains the details of the imported goods. It is a document on the basis of which unloading of cargo takes place.

(x) Customs clearance and release of goods: All the goods imported into India have to pass through customs clearance after they cross the Indian borders. Customs clearance is a somewhat tedious process and calls for completing a number of formalities. It is, therefore, advised that importers appoint C&F agents who are well- versed with such formalities and play an important role in getting the goods customs cleared. Firstly, the importer has to obtain a delivery order which is otherwise known as endorsement for delivery. Generally when the ship arrives at the port, the importer obtains the endorsement on the back of the bill of lading. This endorsement is done by the concerned shipping company. In some cases instead of endorsing the bill, the shipping company issues a delivery order. This order entitles the importer to take the delivery of goods. Of course, the importer has to first pay the freight charges (if these have not been paid by the exporter) before he or she can take possession of the goods. The importer has to also pay dock dues and obtain port trust dues receipt. For this, the importer has to submit to the 'Landing and Shipping Dues Office' two copies of a duly filled in form — known as 'application to import'. The 'Landing and Shipping Dues Office' levies a charge for services of dock authorities which has to be borne by the importer. After payment of dock charges, the importer is given back one copy of the application as a receipt. This receipt is known as 'port trust dues receipt'. The importer then fills in a form 'bill of entry' for assessment of customs import duty. One appraiser examines the document carefully and gives the examination order. The importer procures the said document prepared by the appraiser and pays the duty, if any. After payment of the import duty, the bill of entry has to be presented to the dock superintendent. The same has to be marked by the superintendent and an examiner will be asked to physically examine the goods imported. The examiner gives his report on the bill of entry. The importer or his agent presents the bill of entry to the port authority. After receiving necessary charges, the port authority issues the release order.