CLEARING AND FORWARDING IN IMPORT AND EXPORT

Prepared by

Dr.M.Nithya

Assistant Professor (T)

Department of Commerce

Manonmaniam Sundaranar University

Tirunelveli - 627012

Clearing and Forwarding in Import and Export

(B.Com II year – III Semester)

Unit - I Clearing and Forwarding

Introduction to clearing and forwarding – Role and importance of Clearing and Forwarding in International Trade-Logistics and Supply Chain Management – Roles and responsibilities of clearing and forwarding agents - Relevant legal and regulatory frame work-Documents required for clearing and forwarding

Unit - II Export Procedure Documentation

Documents required for export –Commercial Invoice –Packing list Certificate of Origin –GMP Certificate- Bill of Lading – Insurance – USFDA Registration Certificate- ISO 9000 certification- Export Licensing procedures and formalities- Pre-requisite of Export and Import-Negative list of Exports

Unit - III Import Procedure Documentation

Import Documentation – Import license under Advance Authorization Customs Inspection, Examination and Audits – General Provisions regarding Import

Unit - IV Freight Forwarding and Transportation

Freight Forwarding services in import and export – Mode of Transport- Air, Sea- Freight rates-INCO terms – Packaging, labeling and cargo handling requirements

Unit - V Risk Management

Risk Assessment – Insurance coverage and claims – Methods of Export and Import Payments-Export Earning Foreign Currency–Letter of credit and international payments system-Managing trade related financial documents

Unit 1 – Clearing and Forwarding

Clearing and forwarding (C&F) is a service that is commonly used in the logistics and shipping industry. It involves the handling of goods at various stages of the supply chain, particularly in the movement of goods from the manufacturer or supplier to the end customer. Here is a breakdown of what clearing and forwarding involves:

1. **Clearing**: Clearing refers to the process of ensuring that all necessary customs and regulatory requirements are met for importing or exporting goods. This includes preparing and submitting the required documentation to customs authorities, paying any duties or taxes that are due, and obtaining clearance for the goods to enter or leave a country.
2. **Forwarding**: Forwarding, on the other hand, involves the physical transportation of goods from one location to another. This can include arranging for transportation by road, rail, sea, or air, as well as coordinating the movement of goods through various stages of the supply chain.

In essence, clearing and forwarding services help streamline the movement of goods across borders by taking care of the paperwork and logistics involved in the process. Companies that provide clearing and forwarding services often act as intermediaries between shippers, customs authorities, and transportation providers to ensure that goods are transported efficiently and in compliance with all relevant regulations.

Overall, clearing and forwarding services play a crucial role in international trade by facilitating the smooth flow of goods across borders and ensuring that shipments reach their intended destinations in a timely and cost-effective manner.

Role and importance of Clearing and forwarding

Clearing freight and forwarding are essential processes in the logistics and supply chain industry. Here are some reasons highlighting their importance:

1. **Customs Compliance**: Clearing freight involves ensuring that goods comply with customs regulations and requirements of the importing country. This includes proper documentation, payment of duties and taxes, and adherence to import/export restrictions. Failure to clear freight correctly can result in delays, fines, or seizure of goods.
2. **Timely Delivery**: Efficient clearing of freight ensures timely delivery of goods to their destination. Delays in customs clearance can disrupt supply chains, leading to increased costs, unhappy customers, and potentially lost business opportunities.
3. **Cost Management**: Proper freight clearance and forwarding can help in managing costs effectively. By understanding and complying with customs regulations, companies can avoid unnecessary fees, penalties, and storage charges that may arise from delays or non-compliance.
4. **Risk Mitigation**: Clearing freight involves managing various risks associated with international trade, such as compliance risks, security risks, and financial risks. Effective freight clearing practices help in mitigating these risks and ensuring the smooth flow of goods across borders.
5. **Customer Satisfaction**: Timely clearance of freight and efficient forwarding processes contribute to customer satisfaction. Customers expect their orders to be delivered on time and in good condition, and effective freight clearing plays a crucial role in meeting these expectations.
6. **Supply Chain Efficiency**: Freight clearing and forwarding are integral parts of the supply chain process. Efficient clearance helps in streamlining the movement of goods from the point of origin to the final destination, contributing to overall supply chain efficiency.
7. **Competitive Advantage**: Companies that excel in clearing freight and forwarding can gain a competitive advantage in the market. By ensuring smooth and timely delivery of

goods, businesses can enhance their reputation, build customer trust, and stand out from competitors.

In conclusion, clearing freight and forwarding are crucial aspects of international trade and logistics operations. Companies that prioritize these processes can benefit from improved compliance, cost management, customer satisfaction, and overall efficiency in their supply chain operations.

Role of Clearing and Forwarding Agents:

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 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.

Desirable Services:

(a) Storage facilities abroad, at least in major international markets, to warehouse the goods in case importer refuses to take delivery on any account.

(b) Can trace the goods, if shipment goes astray, through his international connections.

c) Arrangement for assessing the damage to shipment enroute.

Role of Clearing & Forwarding Agent in India

India is a country of resources and resources are helpful to start an export business. International business is helpful for the trader as well as the nation. Export and Import includes different terms and one of them is Clearing & Forwarding Agent. A Clearing & Forwarding Agent is an expert who specifically takes care of the customs clearance aspect. The presence of a C&F agent allows the exporter to concentrate on their business activities and not on customs.

Role of Clearing & Forwarding Agent

The basic role or function of a clearing & forwarding agent is to provide different services to exporters to ensure smooth and timely shipment of goods. They are experts to guide in the selection of shipping.

- It is the duty of clearing & forwarding agents to submit a shipping bill in prescribed form and obtain the custom clearance.
- Clearing & forwarding agent is responsible for arranging the movement of goods from a point to another and arrangement of warehousing at port.
- Reserving of shipping space or air freighting and recommendation on relative value of sending items by means of sea and air.
- Clearing & forwarding agents should be familiar with software that is used for the entry of shipment data.
- They may also be required to submit data and reports to supervisors or consignee regarding clearance and delivery of shipment.
- They may be required to arrange labour and equipment such as forklifts and pallet jacks for loading and off-loading.

- Forwarding of banking collection papers.
- Obtaining marine coverage policies.
- An important role of clearing & forwarding agents is to prepare and submit the required customs documentation with the authorities for clearance of shipment.
- Processing of delivery files, payment of lading, export declarations, dock receipt, and so on.

Other Functions-

- Apart from these skills, they must have a good knowledge of the local laws and customs formalities.
- Cargo Insurance
- Packaging, marketing and labelling
- Container arrangement
- Selection of mode of transport
- Coordinating with other agencies
- Warehousing before transportation
- Reservation of shipping space

How to Choose a Right Clearing & Forwarding Agent

Choosing a right clearing & forwarding agent is important because it ensures smooth conduct of business and delivery. Choosing a right clearing & forwarding agent can be tough sometimes. When you finalize a clearing & forwarding agent for your business, consider the services that he provides, what his area of expertise is and how you can make the best of him. How experienced is he/she? How he deals with the problems and many more. Consider all the factors before hiring. Some important thing to consider-

- Services provided
- Responsibility against services offered
- Expertise
- Commission chargers

What is International Trade?

International trade is an exchange involving a good or service conducted between at least two different countries. The exchanges can be imports or exports. An import refers to a good or service brought into the domestic country. An export refers to a good or service sold to a foreign country.

International trade is a method of economic interaction between international entities and is an example of economic linkage. Other forms of economic linkages include

(1) foreign financial investment,

(2) multinational corporations, and

(3) foreign employees. The growth in these forms of economic linkages is known as globalization.

Why Does International Trade Occur?

International trade occurs because one country enjoys a comparative advantage in the production of a certain good or service, specifically if the opportunity cost of producing that good or service is lower for that country than any other country. If a country opts not to trade with other countries, it is considered to be an autarky.

If we consider a two-country model, both countries can gain from specialization and trade. Specialization and trade will allow each country to produce the product they possess a comparative advantage in and then trade, and ultimately consume more of both goods. Therefore, there are gains from trade.

Sources of Comparative Advantage

1. International differences in climate

International differences in climate play a significant role in international trade – for example, tropical countries export products like coffee and sugar. In contrast, countries in more temperate areas export wheat or corn. Trade is also driven by differences in seasons and geography.

2. Differences in factor endowments

Differences in factor endowments imply that some countries are more resource-rich than others in land, labor, capital, and human capital. According to the Heckscher-Ohlin model, a country enjoys a comparative advantage in production if the resources are abundantly available within the country; for example, Canada exhibits a comparative advantage in the forestry industry. It is primarily driven because the opportunity cost is lower for a country rich in the related resource.

3. Differences in technology

Differences in technology are most commonly observed in superior production processes seen in different countries. For example, consider Japan in the 1970s – a country that is not overly resource-rich yet enjoys a comparative advantage in automobile manufacturing. The Japanese are able to produce more output with a given input than any other country, and it comes down to superior Japanese technology.

Examples of International Trade Policies

Most economists favor free trade agreements because of the potential for gains from trade and comparative advantage. This is because these economists believe that government intervention will reduce the efficiency of the markets. Yet, many governments introduce protectionist policies to protect domestic producers from foreign producers. There are two major protectionist policies:

1. Tariffs

A tariff is an excise that is paid on the sale of imported goods. Tariffs are put in place to discourage imports and protect domestic producers and are a source of government revenue. A tariff raises the price received by domestic producers and the price paid by domestic consumers. Tariffs generate deadweight losses because they increase inefficiencies, as some mutually beneficial trades go unexecuted, and an economy's resources are wasted on inefficient production.

2. Import quotas

An import quota refers to a legal limit on the quantity of a good that can be imported within a country. Generally, import quotas are administered through licensing agreements. An import quota leads to a similar result as a tariff; however, instead of generating tax revenue, the fees are paid to the license holder as quota rent.

Arguments for a Protectionist Trade Policy

The three major arguments for a protectionist trade policy are:

1. National security
2. Job creation

3. Protection of infant industries

Generally, tariffs or import quotas lead to gains for producers and losses for consumers. Therefore, the imposition of tariffs or import quotas is generally created from the political influence of the producers.

What is Logistics and Supply chain management?

"Logistics typically refers to activities that occur within the boundaries of a single organization and Supply Chain refers to networks of companies that work together and coordinate their actions to deliver a product to market. Also, traditional logistics focuses its attention on activities such as procurement, distribution, maintenance, and inventory management. Supply Chain Management (SCM) acknowledges all of traditional logistics and also includes activities such as marketing, new product development, finance, and customer service" – Michael Hugos.

Logistics

When used in a business sense, logistics is the management of the flow of things between the point of origin and the point of consumption in order to meet requirements of customers or corporations. The resources managed in logistics can include physical items such as food, materials, animals, equipment, and liquids, as well as abstract items, such as time and information.

The logistics of physical items usually involves the integration of information flow, material handling, production, packaging, inventory, transportation, and warehousing. There is often confusion over the difference between logistics and supply chains.

It is now generally accepted that logistics refers to activities within one company/organization related to the distribution of a product, whereas supply chain also encompasses manufacturing and procurement and therefore has a much broader focus, as it involves multiple enterprises, including suppliers, manufacturers, and retailers, working together to meet a customer's need for a product or service.

Supply Chain Management

Supply chain management is the process of managing the movement of the raw materials and parts from the beginning of production through delivery to the consumer. In many organizations, operational supply chain decisions are made hundreds of times each day affecting how products are developed, manufactured, moved, and sold.

The complexity of the supply chain varies with the size of the business and the intricacy and quantity of items manufactured, but most supply chains have elements in common, such as the following:

- Customers: Customers start the chain of events when they decide to purchase a product that has been offered for sale by a company. If the product has to be manufactured, the sales order will include a requirement that needs to be fulfilled by the production facility.
- Planning: The planning department will create a production plan to produce the products to fulfil the customer's orders. To manufacture the products, the company will then have to purchase the raw materials needed.
- Purchasing: The purchasing department receives a list of raw materials and services required by the production department to complete the customers' orders.
- Inventory: The raw materials are received from the suppliers, checked for quality and accuracy, and moved into the warehouse.
- Production: Based on a production plan, the raw materials are moved to the production area. These raw materials are used to manufacture the finished products ordered by the customer and then sent to the warehouse where they await shipping.

The Differences between Supply Chain Management and Logistics

Logistics	Supply Chain
Logistics is one activity in supply chain management.	Supply chain management covers a wide range of activities, including planning, sourcing materials, labor and facilities management, producing and delivering those goods and services.
Logistics focuses on the efficient and cost-effective delivery of goods to the customer.	Supply chain management targets higher operational performance that will give the business a competitive advantage.
Logistics started with the military. Many say Alexander the Great, born 356 B.C., as a logistics master.	The modern practice of supply chain management started in the 20th century. The Ford Motor Company production lines perfected the concept. Many credit logistician Keith Oliver as the person who coined the term in the early 1980s.
Logistics are centered on the movement and transport of goods within a company	SCM oversees the development of raw materials into finished goods that move from the producer to the manufacturer. Those goods get distributed to retailers or directly to consumers.

Role of Logistics in Supply Chain Management

In supply chain management, logistics are responsible for the movement and storage of goods and services, along with the documents and reports that record those movements throughout an item's journey to the customer.

Logistics include the numerous transportation methods that get inventory from one location to another. This component is responsible for figuring out where goods can be kept at each stage until they're needed at another location, which is essential to effective supply chain management.

Why Logistics Are So Important to Supply Chains

Logistics are a critical piece of supply chains because it manages and tracks the people and resources needed to store and transfer goods and services. Logistics ensure that materials and products reliably move at the right time and on budget.

Specific aspects of logistics that support supply chains include:

- Delivering the right products at the right time.
- Reducing costs and improving efficiency.
- Helping retains customers and increasing loyalty.
- Providing a unique value proposition for some businesses.
- Providing a means to deliver goods from the most cost-effective location for production to the location of the customer.

Documents Required for Clearance of Goods

What are the documents that a clearing agent will need, to affect the smooth clearance of goods from the port through customs? Which are the documents prepared by the clearing agent? Let us look at some of the important documents that are handled by the clearing agent.

- Bill of Entry
- Bill of Lading
- Commercial Invoice
- Packing list of goods
- Certificate of Origin

- Import license of the consignee
- Insurance certificate
- Letter of Credit (L/C)

Bill of Entry

The bill of entry is usually prepared by the clearing agent and submitted to the customs authority before the arrival of goods at the destination port.

The agent has to ensure that the correct description and value of goods are shown on the bill of entry and that goods come under the correct HS Classification (Harmonized Systems code). The HS Classification system is an internationally accepted system of classification and coding of goods. The customs duty calculation will be based on the HS code.

Most of the ports these days have the facility to prepare bills of entry digitally. The clearing agents only have to input the correct data through the relevant customs portal.

Bill of Lading

A signed bill of lading is issued by the ocean carrier as proof of receipt of cargo from the shipper, on board the ship. It also gives title over the cargo, normally to the consignee. It shows the name and address of the consignor, consignee, and notify party (if applicable). The clearing agent has to ensure that the bill of lading accompanies other documents for clearance of the cargo.

Commercial Invoice

Another document that must be submitted by the clearing agent for the clearance of goods is the commercial invoice. A commercial invoice is issued by the seller or consignor and must accompany the goods. It gives the full name and address of the seller and the buyer. It will have the details of the goods that are being shipped, the quantity shipped of each item, their respective costs, and the total amount due from the customer.

Packing List

At a glance, a packing list may look very similar to the commercial invoice. But the similarity ends there. Its heading will show ‘packing list’, and it will have the complete details of the products – most importantly the serial number, description of units, pack and packaging, individual and overall dimensions of each package (if applicable), the weight of each unit and the total weight, and HS code.

The packing list gives a complete picture of what is contained in the shipment, their packing, and weight. All the parties involved in the carriage and clearance of the consignment such as the carrier, the freight forwarder, the clearing agent, port and customs authorities and the customer require the packing list.

It helps them make appropriate arrangements for handling the goods from loading and carriage through to unloading, transport, and stacking in the receiver’s storage space.

Certificate of Origin

A certificate of origin is usually issued by the Chamber of Commerce (CoC) of the country from where the product originates. It shows the country where the product or commodity is manufactured or produced. In some countries, certain other government bodies also issue this certificate to its exporters. In India, for example, the certificate of origin is issued by two government bodies which are the Chamber of Commerce and the Trade Promotion Council of India.

Import License of Consignee

The import license is the permission given to the consignee by the relevant government authority to import the specified goods into the country. This license must be submitted by the clearing agent to the customs, along with other documents, prior to clearance.

Insurance Certificate

Goods are insured against unforeseen calamities and accidents that can happen during transit of the cargo. The insurance certificate shows the type of insurance and the amount for which the goods are covered. The terms of business between the seller and the buyer may be CIF (Cost Insurance Freight) or CFR (Cost Freight). In CIF, the insurance is borne by the seller or consignor whereas in CFR goods are insured by the buyer or consignee.

Letter of Credit or LC

When trading is done through a letter of credit, the bill of lading may show the name of the beneficiary as well as the clearing agent under the notify party field. In such cases, the clearing agent also has the responsibility to follow up with the bank on the release of clearance documents.

Clearing agents play a crucial role in the import and clearance of cargo. Timely documentation, submission of the appropriate paperwork to authorities, and related subsidiary activities such as arranging the specialised labour and transport, etc. help clear goods quickly and save on money and time. A slipshod or tardy approach by the clearing agent can mean an inordinate delay in the clearance of goods.

Unit II - Export Procedure and Documentation

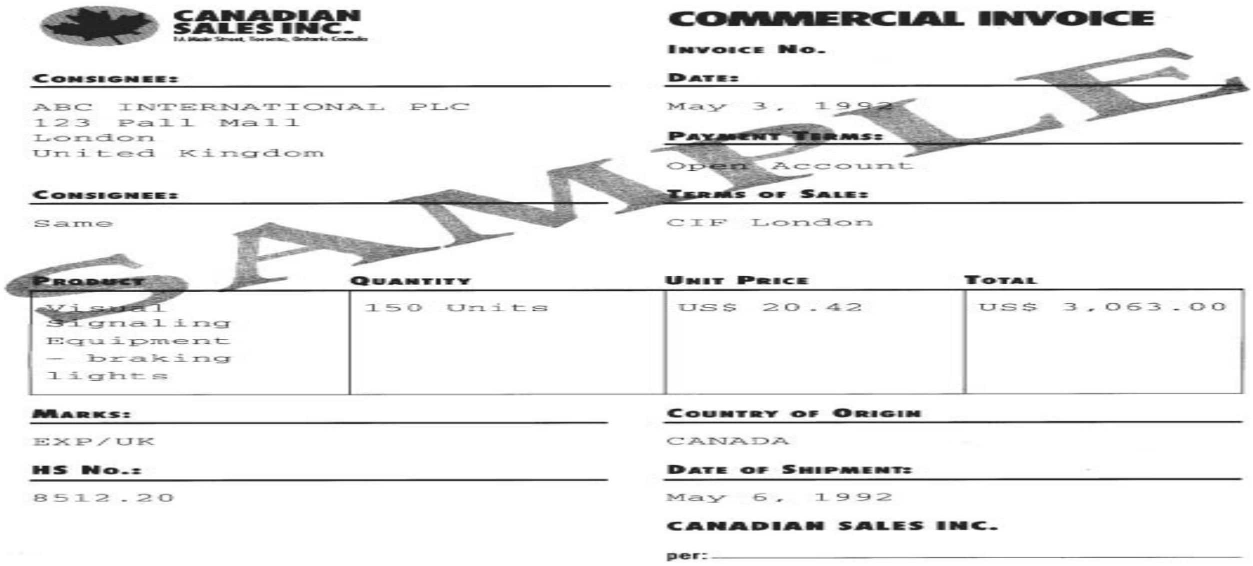
India ranks 19th in terms of overall export of merchandise and 12th in terms of the overall import of merchandise compared to other countries. With more trade liberalization deals to be signed by the pro-business Indian Government, there is plenty of opportunity for establishing a successful import or export business. To undertake an import or export business, the Entrepreneur must have a strong understanding of all import or export transactions documentation. This article covers India's primary export and import procedures and the necessary documentation.

Export and Import Procedure

To begin exporting or importing goods from India, the business or individual must obtain an Import Export Code or IE Code from the Directorate General of Foreign Trade. Obtain the IE Code from the business after obtaining PAN and opening a bank account. India Filings can help you obtain IE Code.

Commercial Invoice

The seller issues the commercial invoice to the buyer containing the terms of the transaction, like the date of the transaction, seller details, buyer details, value, shipping terms, and more. Customs duty is levied on the shipment, usually based on the commercial invoice raised by the seller.


CANADIAN SALES INC.

COMMERCIAL INVOICE

INVOICE NO.

CONSIGNEE:
ABC INTERNATIONAL PLC
123 Pall Mall
London
United Kingdom

DATE:
May 3, 1992

PAYMENT TERMS:
Open Account

CONSIGNEE:
Same

TERMS OF SALE:
CIF London

PRODUCT	QUANTITY	UNIT PRICE	TOTAL
Visual Signaling Equipment - braking lights	150 Units	US$ 20.42	US$ 3,063.00

MARKS:
EXP/UK

COUNTRY OF ORIGIN
CANADA

HS NO.:
8512.20

DATE OF SHIPMENT:
May 6, 1992

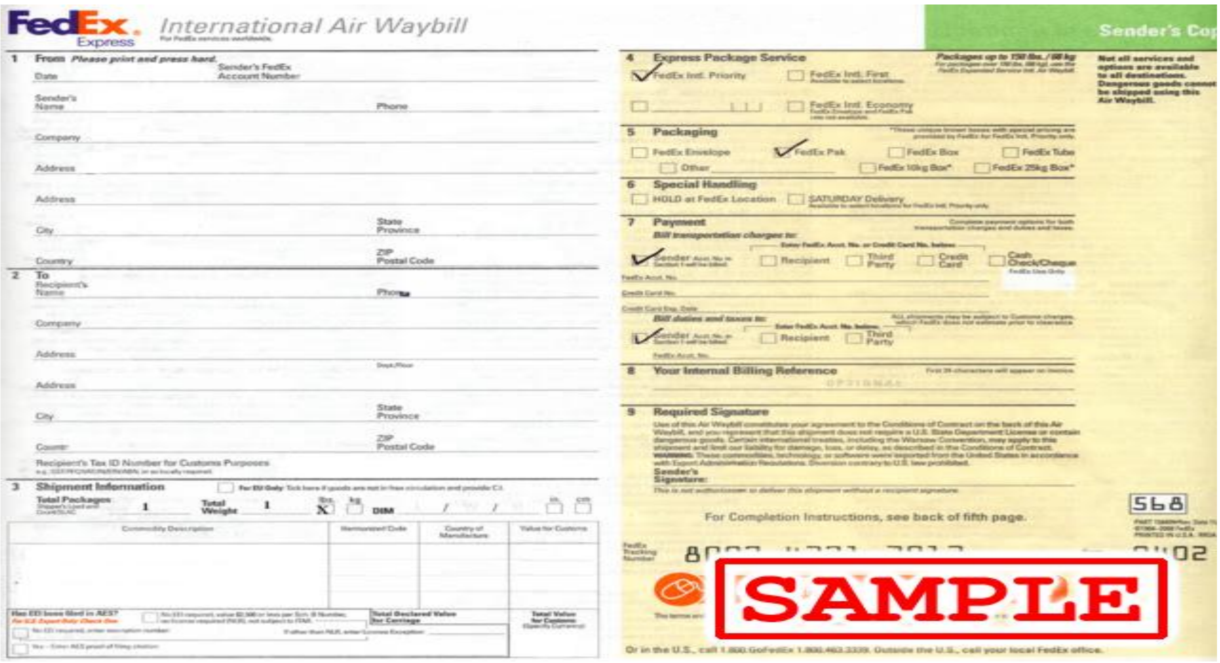
CANADIAN SALES INC.

per:

SAMPLE

Air Waybills

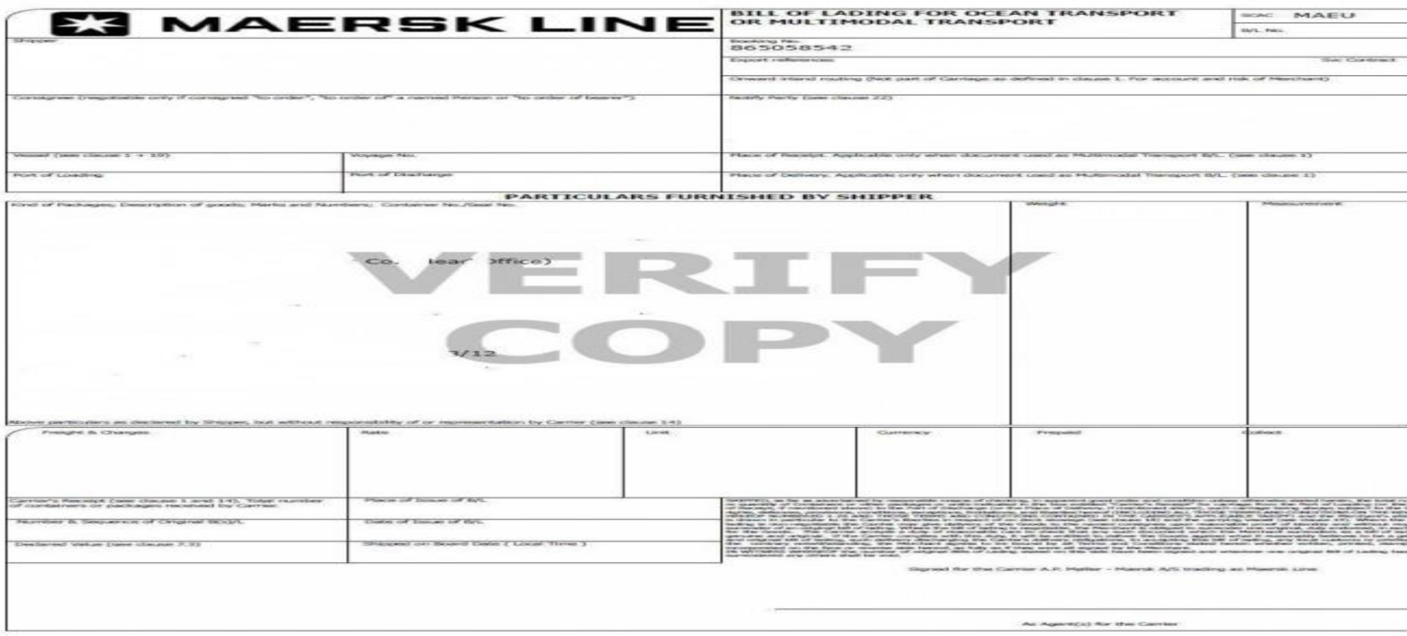
An airway bill is proof of shipment of goods by air. Air waybills serve as proof of receipt of goods for shipment by the air cargo agent, an invoice for the air shipment, a certificate of insurance, and a guide to the air cargo agent for handling, dispatch, and delivery of the consignment. A typical airway bill contains details about the shipper and the consignee, the departure and destination airports, a description of the goods, sign and seal of the carrier.



Sample Air Waybill

Bill of Lading

The shipping agency provides a Bill of Lading for goods shipped by them. A Bill of lading usually contains information about the shipper, consignee, carrying vessel, ports of loading and discharge, place of receipt and delivery, mode of payment, and name of the carrier.



Sample Bill of Lading

Bill of Exchange

A Bill of exchange is used when an importer agrees to pay the exporter in the future on a date on or before that is mutually agreed upon. A Bill of exchange is an important written document in wholesale trade involving large amounts of money. A Bill of exchange can be classified as a bill of exchange after the date and a bill of exchange after sight. Bill of exchange after the date is when the due date for payment is counted from the date of the drawing. Bill of exchange after sight is when the due date for payment is counted from the date of acceptance of the bill.

Certificate of Origin

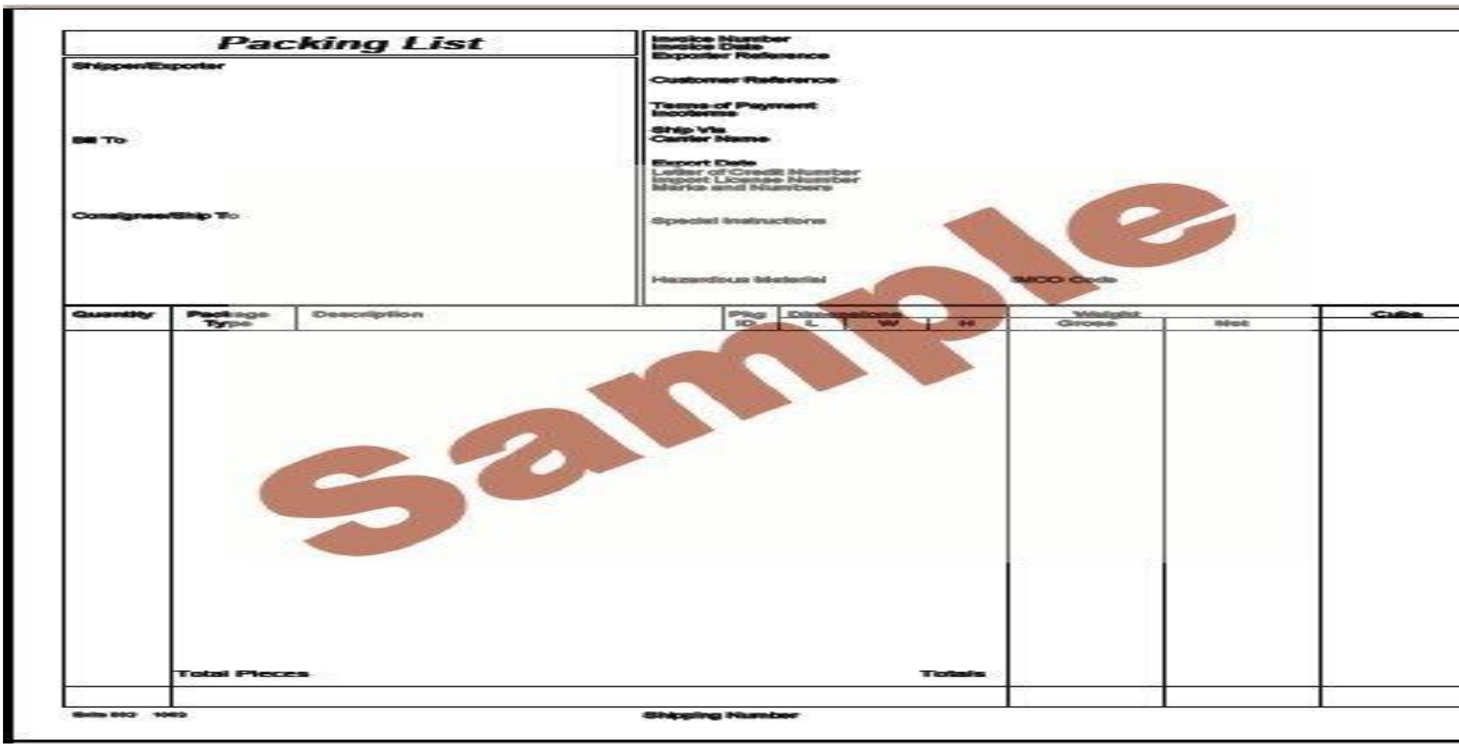
The Customs Authority generally requests the certificate of origin while clearing Customs. A certificate of Origin is used to establish the product's origin and is issued by the Chamber of Commerce of the Exporter's country. Certificate of origin usually contains the name and address of the exporter, details of the goods, package number or shipping marks, and quantity, as applicable.


1. Goods Consigned From (Exporter's business name, address, country)
Certificate of Origin No.
2. Goods Consigned To (Importer's business name, address, country)
CERTIFICATE OF ORIGIN
ISSUED IN MALAYSIA
3. Notify Party (Name & Address)
4. Means of Transport and Route (as far as known)
Departure Date:
Port of Loading:
Vessel/Aircraft/Others:
Port of Discharge:
B/L Number/Others:
Final Destination:
FEDERATION OF MALAYSIAN MANUFACTURERS
(7907-X)
P.O. BOX 28, JINJANG
52000 KUALA LUMPUR, MALAYSIA
CHAMBER OF COMMERCE & INDUSTRY IN MALAYSIA
MEMBER OF INTERNATIONAL CHAMBER OF COMMERCE PARIS
5. Item No.
6. Marks and Numbers on Packages
7. Number and Types of Packages, Description of Goods (incl. quantity where appropriate and HS Code of importing country)
8. Gross Weight or Other Quantity and Value
9. Number and Date of Invoices
10. Declaration by the Exporter
The undersigned hereby declares that the above details and statements are correct; that all the goods were produced or processed in
(Country)
For goods exported to
(Country)
Signatory's Company
Name of Signatory
Date & Place
Signature
11. Certification
It is hereby certified, on the basis of control carried out, that the declaration by the exporter is correct.
Name of Signatory
Designation
Date
Place
Signature and Seal of Issuing Authority
for Chief Executive Officer
Federation of Malaysian Manufacturers

Sample Certificate of Origin

Packing List

The packing list contains detailed information about the shipped goods, quantity, weight, and specifications. The packing list must contain a product description and details regarding the shipping marks.


Packing List
Shipper/Exporter
Bill To
Consignee/Ship To
Invoice Number
Invoice Date
Exporter Reference
Customer Reference
Terms of Payment
Incoterms
Ship Via
Carrier Name
Export Date
Letter of Credit Number
Import License Number
Marks and Numbers
Special Instructions
Hazardous Material
Quantity
Package Type
Description
Pkg ID
Dimensions
L
W
H
Weight
Gross
Net
Cube
Total Pieces
Totals
Shipping Number

Sample Export Packing List

Letter of Credit

A letter of Credit is an arrangement wherein a Bank, on the request of its customer, agrees to make payment to a beneficiary on receipt of documents from a beneficiary as per the terms stipulated in the Letter of Credit. Letter of Credit or LC is used extensively in international and domestic trade transactions.

SAMPLE STANDBY LETTER OF CREDIT TO BE ISSUED ON OFFICIAL BANK LETTER HEAD

IRREVOCABLE STANDBY LETTER OF CREDIT
[Number of LOC]

[Date]

Beneficiary:
Dane County
Department of Land & Water Resources
Land Conservation Division
1 Fen Oak Ct., Room 208
Madison, WI 53718

Applicant:
[Name of applicant]
[First line of address]
[Second line of address]
[Third line of address]

Amount:
[Amount of LOC]

We hereby establish our Irrevocable Standby Letter of Credit [Number of LOC] in your favor and authorize you to draw on us, for the account of [Name of applicant] up to an aggregate amount of [Amount of LOC].

In accordance with Dane County Ordinance 14.49(2)(i), this Letter of Credit is issued in connection with an application for an erosion control or stormwater management permit.

Payment under this Letter of Credit is available by your draft at sight, drawn on [name and address of bank] to be accompanied by original beneficiary's statement purportedly signed by an authorized representative of Dane County, Land & Water Resources Department certifying that:

"Applicant has failed to complete proposed work in a manner sufficiently consistent with the approved plan, and the amount drawn is required to complete the unfinished or unsatisfactory work."

Partial drawings are allowed.

This Standby Letter of Credit sets forth in full the terms of our undertaking which shall not in any way be modified, amended, amplified or limited by reference to any document, instrument, or agreement, whether or not referred to herein.

This original Standby Letter of Credit must be submitted to us together with any drawings hereunder for our endorsement of any payments effected by us and/or for cancellation.

All drafts must be marked *"Drawn Under [Name of bank, address of bank and number of LOC]."*

This Letter of Credit shall be deemed automatically extended without amendment for one year from the expiration date hereof or any future expiration date unless at least sixty (60) days prior to any expiration date, we notify beneficiary in writing by certified mail or

Sample Letter of Credit

In general, an export procedure initiates with the willingness to send the goods and services to other foreign nations at some price, these procedures of export are stated below:

- Step 1: Receipt Order

  The Indian exporter will receive the order either directly from the importer or through the indent houses.

- Step 2: Obtaining License and Quota

After receiving the order from the importer, the Indian exporter is required to obtain an export license from the Government of India, for this the exporter needs to apply to the Export Trade Control Authority and get a valid license for this.

- Step 3: Letter of Credit

  The exporter then asks the importer for the letter of credit, if the importer does not send the letter of credit along with the order.

- Step 4: Fixing the Exchange Rate

  The rate at which the home currency can be exchanged with the foreign currency is then fixed. The foreign exchange rate fluctuates from time to time so they need to fix the rate of exchange.

- Step 5: Foreign Exchange Formalities

  As per the Foreign Exchange Regulation Act of India (FERA), every exporter of the goods is required to furnish a declaration in the form prescribed in a manner in the Act.

- Step 6: Preparation for Executing the Order

  The exporter should make the required arrangements to execute the order:

- Step 7: Formalities by a Forwarding Agent

  Then the formalities are to be performed by the agent which includes obtaining a permit from the customs department, preparing the shipping bill, paying the dues after disclosing the required details of the product being exported.

- Step 8: Bill of Lading

  The Indian exporter of the goods presents the receipt copy to the shipping company and issues the Bill of Lading.

- Step 9: Shipment Advice to the Importer

  The Indian exporter sends shipment advice to the importer of the goods to inform him about the shipment of the goods.

- Step 10: Presentation of Documents to the Bank

  The Indian exporter needs to confirm that he possesses all the necessary shipping documents.

- Step 11: The Realization of Export Proceeds

  The exporter of the goods needs to comply with banking formalities after submission of the bill of exchange.

Export Procedure and Documentation

In the previous section, we have learned about the export procedure formalities here we will know about the documentation necessary -

- Step 1: Receive an Inquiry

The first step in the shipping documentation process is when someone urges them to buy products.

- Step 2: Screen the Potential Buyer and Country

  After you receive the inquiry from the buyer, the process is to check their business potentiality to do business with them.
- Step 3: Provide a Proforma Invoice

  After screening the buyer, we need to provide the proforma invoice for the transaction.
- Step 4: Finalize the Sale

  The buyer will either reject or accept your proposal thus finalizing the sale.
- Step 5: Prepare the Goods and the Shipping Documents

  Commercial Invoice, Packing List, Certificate of Origin, Shipper's Letter of Instruction, Bills of Lading all need to be prepared
- Step 6: Run a Restricted Party Screening

  Again, the process needs to be run, before the goods ship for export.
- Step 7: Miscellaneous Forms and Ship Your Goods

  There may be other documents that need to be prepared before exporting the goods.

Documents Required for Exporting

When deciding which documents are necessary for an export procedure, the best place to start is with your overseas customer/importer or a freight forwarder. You may help your customer in clearing items with customs in the target market by gathering precise information. Commonly used expert documents are:

Pro Forma Invoice- The document provides a description of the products, such as Price, quantity, weight, kind, and so on, and is a statement by the seller to provide the customer with the products and services at the given date and price.

Commercial Invoice- The commercial invoice is a legal document that is exchanged between the seller and the buyer that clearly outlines the items being sold as well as the price the customer is to pay.

Packing List- This list includes the invoice number, seller, buyer, shipper, carrier, date of shipping, mode of transport, itemized quantity, description, package type, package quantity, total net, and gross weight (in kilograms), packaging markings, and measurements.

Air Waybill- An air waybill is a document that accompanies goods carried by an international air carrier. The paperwork contains complete information about the package and enables tracking.

Export Licenses- A government document that allows the transfer of specified commodities in precise quantities to a specific destination for a defined end-use is known as an export license.

Formalities of Registration and Export Documentation

Export is a very wide concept with a lot of preparations which is required by an exporter before starting the export business.

1. Establishing an organization
2. Opening a Bank Account
3. Obtaining Permanent Account Number (PAN)
4. Obtaining Importer-Exporter Code (IEC) Number
5. Registration cum membership certificate (RCMC)
6. Selection of product
7. Selection of Markets
8. Finding Buyers
9. Sampling
10. Pricing/Costing
11. Negotiation with Buyers
12. Covering Risks through ECGC

Preparation for Executing an Order

The exporter must make the following arrangements in order to carry out the order:

- Marking and packaging of products to be exported in accordance with the importer's standards.
- Obtaining an inspection certificate from the Export Inspection Agency after scheduling a pre-shipment inspection.
- Getting an insurance policy from the Export Credit Guarantee Corporation (ECGC) to safeguard against credit risks.
- Obtaining the necessary marine insurance coverage.
- Appoint a forwarding agent, often known as a custom house agent, to handle customs and other related issues.

Formalities by a Forwarding Agent

The agent must complete the following formalities:

- The forwarding agency must first get permission from the customs authority before exporting the items.
- To the shipping business, agents must provide all needed data about the products to be shipped, such as kind, amount, and weight.

- A shipment bill/order must be prepared by the forwarding agent.
- The forwarding agency is responsible for duplicating the port challans and paying the fees.
- The loading of the products on the ship is the responsibility of the ship's captain. The loading must be done in the presence of customs authorities and on the basis of the shipping order.
- When the cargo is loaded into the ship, the ship's master provides a receipt for them.

Foreign Exchange Formalities

Under exchange control laws, an Indian exporter must comply with specific foreign exchange procedures. Every exporter of products is obliged under the Foreign Exchange Regulation Act of India (FERA) to provide a declaration in the form provided in a way. According to the declaration:

- The foreign exchange gained by the exporter on exports must be disposed of in the manner and within the timeframe stipulated by the RBI.
- Authorized foreign exchange dealers are needed to handle shipping documentation and discussions.
- Only permitted methods will be used to collect payment for the products shipped.
- Surrender the foreign exchange to approved dealers through the exchange control authority.

Exporters should seriously consider having the freight forwarder handle the formidable amount of documentation that exporting requires; freight forwarders are specialists in this process. The following documents are commonly used in exporting; which of them are actually used in each case depends on the requirements of both us government and the government of the importing country.

1. Commercial invoice
2. Bill of lading
3. Consular invoice
4. Certificate of origin
5. Inspection certification
6. Dock receipt and warehouse receipt
7. Destination control statement
8. Insurance certificate

9. Export license

10. Export packing list

STEP1: Enquiry:

- The starting point for any Export Transaction is an enquiry.
- An enquiry for product should, inter alia, specify the following details or provide the following data
- Size details - Std. or oversize or undersize
- Drawing, if available
- Sample, if possible
- Quantity required
- Delivery schedule
- Is the price required on FOB or C& F or CIF basis
- Mode of Dispatch - Sea, air or Sea/air
- Mode of Packing
- Terms of Payment that would be acceptable to the Buyer - If the buyer proposes to open any Letter of Credit, any specific requirement to be complied with by the Exporter
- Is there any requirement of Pre-shipment inspection and if so, by which agency
- Any Certificate of Origin required

STEP 2: - Proforma Generation:

- After studying the enquiry in detail, the exporter - be it Manufacturer Exporter or Merchant Exporter – will provide a Proforma Invoice to the Buyer.

STEP 3: Order Placement:

- If the offer is acceptable to the Buyer in terms of price, delivery and payment terms, the Buyer will then place an order on the Exporter,

giving as much data as possible in terms of specifications, Part No. Quantity etc. (No standard format is required for such a purchase order)

STEP 4: Order Acceptance:

- It is advisable that the Exporter immediately acknowledges receipt of the order, giving a schedule for the delivery committed.

STEP 5: Goods Readiness & Documentation:

- Once the goods are ready duly packed in Export worthy cases/cartons (depending upon the mode of despatch), the Invoice is prepared by the Exporter.
- If the number of packages is more than one, a packing list is a must.
- Even If the goods to be exported are excisable, no excise duty need be charged at the time of Export, as export goods are exempt from Central Excise, but the AR4 procedure is to be followed for claiming such an exemption.
- Similarly, no Sales Tax also is payable for export of goods.

STEP 6: Goods removal from works:

- There are different procedures for removing Export consignments to the Port, following the AR4 procedure, but it would be advisable to get the consignment sealed by the Central Excise authorities at the factory premises itself, so that open inspection by Customs authorities at the Port can be avoided.
- If export consignments are removed from the factory of manufacture, following the AR4 procedure, claiming exemption of excise duty, there is an obligation cast on the exporter to provide proof of export to the Central Excise authorities

STEP 7: Documents for C & F agent:

- The Exporter is expected to provide the following documents to the Clearing & Forwarding Agents, who are entrusted with the task of shipping the consignments, either by air or by sea.
- Invoice
- Packing List
- Declaration in Form SDF (to meet the requirements as per FERA) in duplicate.
- AR4 - first and the second copy
- Any other declarations, as required by Customs
- On account of the introduction of Electronic Data Interchange (EDI) system for processing shipping bills required to file with Customs the shipping documents, through a particular format, which will vary depending on the nature of the shipment. Broad categories of export shipments are:
- Under claim of Drawback of duty
- Without claim of Drawback
- Export by a 100% EOU
- Under DEPB Scheme

STEP 8: Customs Clearance:

- After assessment of the shipping bill and examination of the cargo by Customs (where required), the export consignments are permitted by Customs for ultimate Export. This is what the concerned Customs officials call the 'LET EXPORT' endorsement on the shipping bill.

STEP 9: Document Forwarding:

- After completing the shipment formalities, the C & F Agents are expected to forward to the Exporter the following documents:
- Customs signed Export Invoice & Packing List
- Duplicate of Form SDF
- Exchange control copy of the Shipping Bill, processed electronically

- AR4 (original duplicate) duly endorsed by Customs for having affected the Export
- Bill of Lading or Airway bill, as the case may be.

STEP 10: Bills negotiation:

- With these authenticated shipping documents, the Exporter will have to negotiate the relevant export bill through authorized dealers of Reserve Bank, viz., Banks.
- Under the Generalized System of Preference, imports from developing countries enjoy certain duty concessions, for which the exporters in the developing countries are expected to furnish the GSP Certificate of Origin to the Bankers, along with other shipping documents.
- Broadly, payment terms can be:
- DP Terms
- DA Terms
- Letter of Credit, payable at sight or payable at... days.

Step11: Bank to bank documents forwarding:

- The negotiating Bank will scrutinize the shipping documents and forward them to the Banker of the importer, to enable him clear the consignment.
- It is expected of such authorized dealers of Reserve Bank to ensure receipt of export proceeds, which factor l to the Reserve Bank by means of periodical Returns.

STEP 12: Customs obligation discharge:

- As indicated above, Exporters are also expected to provide proof of export to the Central Excise authorities, Customs endorsements made on the reverse of AR4s and get their obligation, on this score, discharged.

STEP 13: Receipt of Bank certificate:

- Authorized dealers will issue Bank Certificates to the exporter, once the payment is received and only with the issuance of the Bank Certificate, the export transaction becomes complete.

- It is mandatory on the part of the Exporters to negotiate the shipping documents only through authorized dealers of Reserve Bank,

as only through such a system Reserve Bank can ensure receipt of export proceeds for goods shipped out of this country.

Specialized US FDA Registration Services

- **US FDA Registration:**

CDG offers expert assistance with the initial US FDA registration process, guiding manufacturers, processors, and packagers through every step to ensure legal market entry in the United States. Our team is well-versed in the specific requirements for various product categories, ensuring a smooth and efficient registration process.

- **US FDA Registration Renewal:**

Maintaining current FDA registration is crucial for continuous compliance. CDG provides timely renewal services, including the mandatory US FDA Biennial Registration Renewal, to keep your business in good standing with the FDA.

- **US FDA Compliance:**

Staying compliant with FDA regulations is essential for any business in the health and food sectors. CDG offers comprehensive compliance services, including regulatory consulting, label reviews, and compliance training, tailored to ensure your operations meet all FDA requirements.

- **US FDA Agent Services:**

For foreign establishments looking to market their products in the United States, CDG acts as your official US FDA Agent. Our agent services facilitate direct communication with the FDA, handling inquiries, submissions, and notifications efficiently, ensuring your business navigates FDA regulations successfully.

Understanding ISO 9000 Certification

This is the second in a four-part series looking at ISO 9000 certification. Pharmaceutical manufacturers often hear the term "ISO certification," but they might not fully understand what this means to their business. The ISO 9000 certification is established through the International Organization for Standardization (ISO) and is inclusive of the U.S. Food and Drug Administration (FDA) current Good Manufacturing Practices (cGMP). Many aspects of FDA's Quality System Regulations (QSR) were actually modelled around ISO standards. These certifications provide a framework for demonstrating to clients that a documented Quality Management System (QMS) exists throughout an entire organization. The initial certifications are only the beginning of a committed process; the standard also sets requirements for continuous improvement that are verified through rigorous third-party audits.

Why does certification matter?

When a pharmaceutical manufacturer works with a third-party logistics (3PL) provider to handle their products between production and sale to consumer, they need to be assured that their products and customers will receive the highest care.

Some companies have received some sort of certification for parts of their business — an example might be a distribution center that is Verified-Accredited Wholesale Distributors (VAWD) certified. ICS maintains VAWD certification for our Distribution Centers and have also chosen to ISO certify every aspect of their service offering. Their customer service, training, program management, accounts receivable and information technology groups etc. are all subject to the same third-party audits as their distribution centers.

ICS, a division of the AmerisourceBergen Specialty Group is the leading 3PL provider for the pharmaceutical manufacturing industry, focused on continuously improving the quality and efficiency of their supply chain for pharmaceutical products that require special handling.

When the FDA embraced the use of “modern quality management” in September 2003, ICS identified that need. ICS wanted to define a standard of excellence in their market space. In a highly competitive environment, it’s the ability to establish a demonstrated reputation for excellence that sets companies apart. By providing high-quality service, ICS demonstrates to clients it is prepared and highly capable of managing complex commercialization requirements. In addition, these standards are entirely consistent with the vision, mission and values of its parent company, AmerisourceBergen.

ICS was one of the first companies (across all industries) in the country to be certified to the 2008 version of ISO 9001 standard. The certification also extends to all locations where the organization is represented, including its three fully certified distribution centers in Reno, Nevada and Brooks, Kentucky, and its World Courier partners in 52 countries around the world. ICS has been ISO-certified since 2004, and is the only known pharmaceutical company offering our full suite of services to maintain such certification. This sets us apart and offers value to manufacturers. ISO certification coverage includes DEA Class I-V vaulting/caging/shipping, a full order-to-cash process including chargebacks and multiple locations as a component of a comprehensive disaster recovery plan.

Certification Itself

Certification is performed by an external registrar and is a rigorous process. ICS receives assessment audits every six months. In addition, there is a “ground-up” re-certification every three years where all aspects of the company are examined for continuous improvement and compliance with the standard. These stringent audits mean that certified companies must be constantly “polishing” their methods and systems.

The standards in place through ISO are generic in scope, requiring full organizational involvement in the quality assessment process. This system delivers a structure for continuous improvement and supports empowering the associates to implement change.

Certainly, when ICS received high ratings from its triennial audit, this good news was shared with clients. But it's not the specific number that clients care about. To them, ISO represents a standard of excellence. When ICS carries the ISO certification logo, it means that there's a level of discipline that competitors don't have.

The bottom line for manufacturers is confidence in their 3PL: because they know any company with full ISO 9000 certification has excellent business practices and standards in place. By providing manufacturers with truly exacting standards, ICS helps companies focus on their core goals. In part three of this series, we will look at why ISO 9000 is critical to manufacturers.

What is US FDA Certification?

The United States Food and Drug Administration (FDA) is a federal agency responsible for protecting public health by ensuring the safety, efficacy, and security of human and veterinary drugs, biological products, food, cosmetics, and consumer products.

The FDA has established a set of regulatory requirements that must be met before a product can be marketed in the United States. These requirements help ensure that products are safe and effective for their intended use. The US FDA certification is a validation ensuring that a product meets these requirements.

Why Get US FDA Certification?

There are many reasons to get the US FDA certification. The most important reason is that it can help you sell your products in the United States. With this certification, you will be able to show that your products meet the highest standards of safety and quality. This will give you a competitive edge over other companies that do not have this certification.

Another reason to get the US FDA certification is that it can help you build trust with your customers. When they see that your products have been certified by the US government, they will be more likely to trust your company and buy your products. Getting the US FDA certification is not an easy process, but it is well worth it if you want to sell your products in the United States or expand your business into new markets.

Benefits of Getting US FDA Certification

The US FDA certification can provide you the following benefits:

- Ensures that a product meets the safety and quality standards set by the agency.
- FDA-certified products are subject to regular inspections by the agency to ensure they continue to meet these standards.
- Can give a product an edge over competing products that are not certified.
- Customers may be more likely to purchase a product that has been certified by the FDA as safe and effective.
- Manufacturers of FDA-certified products may be eligible for certain benefits, such as expedited review of new products.
- Provides manufacturers with a credential that can be used to demonstrate their commitment to food and drug safety.
- The FDA certification process can help improve a product's quality by identifying potential problems early on.

Which Organizations Can Apply for the US FDA Certification?

Any organization that manufactures, processes, packs, or stores food or drugs for human or animal consumption in the United States can apply for US FDA certification. This includes companies that manufacture dietary supplements, medical devices, and cosmetics.

US FDA Certification Process Via IAS

The steps involved in the US FDA certification process via IAS are as follows:

- First, you will need to submit an enquiry to IAS. We will then assess your needs and provide you with a quote.

- Once you have decided to move forward, you will need to fill out an application form and submit it to IAS.
- You will need to gather all of the required documentation and submit it to IAS. This includes information such as your product labels, manufacturing process, quality control procedures, etc.
- After you provide the requested documents, we will review them to ensure that they are complete and in accordance with FDA rules.
- Once the documentation has been reviewed, IAS will assess your products to see whether they satisfy FDA requirements
- We will then submit the results of the evaluation to the FDA for review.
- Once the FDA has reviewed and approved your products, you will be issued a certificate of registration with the FDA.

Get the US FDA Certification Through IAS

The US FDA certification is a process that can be long and complicated. However, IAS can help you through every step of the process. We are a globally recognized certification body with over 20 years of expertise in FDA compliance. We have a team of experts who are familiar with the FDA rules and regulations. We can help you gather the required documentation and prepare your products for assessment.

US FDA registration services include:

- Food Facility Registration
- Supplement Facility Registration
- Food Canning Establishment Registration
- Foreign Supplier Verification Program
- Medical Device Establishment Registration
- Drug Establishment Registration

- Cosmetic Establishment Registration
- U.S. Agent Service
- Prior Notice
- Label Review

US FDA Establishment registrations are based on FDA's fiscal year which runs from January 1st to December 31st.

DUNS Number Requirement

For your information, no new registration or renewal can be completed without a DUNS Number. DUNS number is a free-of-cost service, but it may take more than 30 days to get a DUNS number. We suggest you to get your DUNS number as soon as possible.

Why Choose CDG for Your FDA Registration Needs?

- **Expert Guidance:** Our team of regulatory experts brings years of experience in FDA regulations, offering personalized guidance throughout the registration and renewal process.
- **Streamlined Processes:** CDG utilizes a streamlined approach to FDA registration and renewal, minimizing paperwork and expediting approval times.
- **Global Support:** Whether you're a domestic or international company, CDG offers the support you need to successfully navigate FDA requirements.
- **Comprehensive Compliance Solutions:** Beyond registration, we provide a full suite of compliance services to ensure your business adheres to all FDA regulations.

Navigating FDA Registration with CDG

From initial assessment through to registration, renewal, and compliance monitoring, CDG provides end-to-end support for businesses aiming to comply with FDA regulations. Our approach ensures accuracy, completeness, and timeliness, facilitating a hassle-free registration process and ongoing compliance management.

- Initial Registration: CDG prepares and submits your FDA registration application, ensuring it meets all regulatory requirements to avoid delays.
- Renewal and Updates: We manage your registration renewal deadlines and any necessary updates to your registration, providing peace of mind and continuous compliance.
- Compliance Monitoring: Our ongoing compliance services keep you informed of regulatory changes, helping your business adapt and maintain compliance over time.

Partner with CDG for Comprehensive FDA Compliance and Registration

Choosing CDG as your partner for FDA registration and compliance ensures that your business meets FDA requirements efficiently and effectively. Our expert team is dedicated to providing the support and guidance you need to navigate the FDA registration process with confidence.

Import and Export Licensing Procedures in India

Export is one of the major components of international trade. Exports facilitate international trade and stimulate domestic economic activity by creating employment, production, and revenues. Businesses export goods and services where they have a competitive advantage.

Introduction

India is amongst the world’s top 20 nations with respect to the export of merchandise. With the increased liberalisation of trade by the Indian Government, there’s an abundant opportunity for establishing a profitable export business. For undertaking an export business, an entrepreneur should have a clear understanding of the rules and regulations along with the documentation pertaining to these export transactions.

Governing Authorities

Exports are governed by Foreign Trade (Development & Regulation) Act, 1992 and Export-Import (EXIM) Policy. Directorate General of Foreign Trade (DGFT) is the primary governing body responsible for the export and import policies in the country.

Since an export trade has to follow a specific set of procedures from receiving inquiries to completion of the transaction, exporters need to get themselves registered with these authorities for ensuring all the legal formalities as required by them are met and also for receiving incentives which are allowed under the export promotion schemes.

The Reserve Bank of India (RBI) guidelines have to be met by the exporter. An exporter also requires an Import-Export Code Number from the concerned regional licensing authority.

Export Policy

Just like imports, goods can be exported freely if they are not mentioned in the classification of ITC (HS). Below follows the classification of goods for export:

- Restricted
- Prohibited
- State Trading Enterprise

Restricted Goods

Before exporting any restricted goods, the exporter must first obtain a license explicitly permitting the exporter to do so. The restricted goods must be exported through a set of procedures/conditions, which are detailed in the license.

Prohibited Goods

These are the items which cannot be exported at all. The vast majority of these include wild animals, and animal articles that may carry a risk of infection.

State Trading Enterprise (STE)

Certain items can be exported only through designated STEs. The export of such items is subject to the conditions specified in the EXIM policy.

Types of Duties

There are many types of duties that are levied in India on imports and exports. A list of these duties follows below:

Basic Duty

Basic duty is the typical tax rate that is applied to goods. The rates of custom duties are specified in the First and Second Schedules of the Customs Tariff Act of 1975. The First Schedule contains rates of import duty, and the second schedule contains rates of export duties. Most of the items in India are exempt from custom duty, which is generally levied on imports.

The first schedule contains two rates: Standard rate and preferential rate. The preferential rate is lower than the standard rate. When goods are imported from a place specified by the central government (CG) for lower rates, the preferential rate is applicable. In any other case, the standard rate will be applicable. If the CG has signed a trade agreement with the country of origin, then the CG may opt to charge a lower basic duty than indicated in the first schedule.

IGST and Compensation Cess

Additional duties of customs, commonly referred to as the Countervailing Duty (CVD) and Special Additional Duty of Customs (SAD), has been be replaced by the levy of the **Integrated Goods and Services Tax** (IGST), barring a few exceptions, such as pan masala and certain petroleum products. The IGST replaces the previous system of federal and state categories of indirect taxation.

A **Customs Duty calculator** is made available on the online portal of excise and customs, the **ICEGATE** website. There are seven rates prescribed for IGST– Nil, 0.25 percent, 3 percent 5 percent, 12 percent, 18 percent, and 28 percent. The actual rate applicable to an item will depend on its classification and will be specified in Schedules notified under Section 5 of the IGST Act, 2017.

Further, a few items such as aerated water products, tobacco products, and motor vehicles, among others, will attract an additional levy of the GST Compensation Cess, over and above IGST. The Cess is calculated on the transaction value or the price at which the goods are sold.

The Goods and Services Tax (Compensation to States) Act, 2017 was enacted to levy Compensation Cess for providing compensation to Indian states for the loss of revenue arising on account of implementation of the Goods and Services Tax from July 1, 2017.

The Compensation Cess on goods imported into India shall be levied and collected in accordance with the provisions of Section 3 of the **Customs Tariff Act, 1975**, at the point when duties of customs are levied on the said goods under **Section 12 of the Customs Act, 1962**, on a value determined under the Customs Tariff Act, 1975.

Anti-Dumping Duty

This is levied on specific goods imported from specified countries – including the US – to protect Indian industries. India can impose duties up to, but not exceeding, the margin of dumping, or the difference between the normal value and the export price.

Safeguard Duty

A safeguard duty is a tariff designed to provide protection to domestic goods, favoring them over imported items. If the government determines that increased imports of certain items are having a significantly detrimental effect on domestic competitors, it may opt to levy this duty on those imports to discourage their proliferation.

However, the duty does not apply to articles imported from developing countries.

The government may exempt imports of any article from this duty. The notification issued by the government in this regard is valid for four years, subject to further extension. However, the total period cannot exceed 10 years from the date of first imposition.

Social Welfare Surcharge

The Education Cess and Secondary and Higher Education Cess on imported goods is now abolished and replaced by the **Social Welfare Surcharge**. This surcharge will be levied at the rate of 10 percent of the aggregate duties of customs, on imported goods.

Valuation Customs duty is payable as a percentage of 'Value' which is known as 'Assessable Value' or 'Customs Value.' The Value may be either:

- 'Value' as defined in Section 14 (1) of the Customs Act; or
- 'Tariff Value' described under Section 14 (2) of the Customs Act.
- Tariff Value – the Tariff Value is fixed by the Central Board of Indirect taxes and Customs (CBIC) for any class of imported goods or export goods. Authorities will consider the trend of value of the goods in question while fixing tariff value. Once fixed, the duty is payable as a percentage of this value.
- The value of imported goods for the assessment of duty is determined in accordance with the provisions of Section 14 of 1962 and the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007. According to the rules, the assessable value equals the transaction value of goods as adjusted for freight and cost of insurance, loading, unloading and handling charges.
- In the assessable value, the following criteria are included:
- Commission and brokerage;
- Cost of container, which are treated as being one with the goods for customs purposes;
- Cost of packing – labour or materials;
- Materials, components, tools, etc. supplied by buyer;
- Royalties and license fees;
- Value of proceeds of subsequent sales;
- Other payment as condition of sale of goods being valued;

- Cost of transport up to place of importation;
- Landing charges; and,
- Cost of insurance.
- The following costs are excluded from the assessable value:
- Charges for construction, erection, assembly, maintenance or technical assistance undertaken after importation of plant, machinery or equipment;
- Cost of transport after importation;
- Duties and taxes in India; and,
- Types of duties on exports and imports in India are covered in the Customs Tariff Act 1975. The Act provides all the laws and regulations related to customs in India.
- Customs Handling Fee
- The Indian government assesses a one percent **customs** handling fee on all imports in addition to the applied customs duty.

Export Procedure

In general, an export procedure flows as stated below:

Step 1. Receipt of an Order The exporter of goods is required to register with various authorities such as the income tax department and Reserve Bank of India (RBI). In addition to this, the exporter has to appoint agents who can collect orders from foreign customers (importer). The Indian exporter receives orders either directly from the importer or through indent houses.

Step 2. Obtaining License and Quota After getting the order from the importer, the Indian exporter is required to secure an export license from the Government of India, for which the exporter has to apply to the Export Trade Control Authority and get a valid license. You can get a license from here too. The quota is referred to as the permitted total quantity of goods that can be exported.

Step 3. Letter of Credit The exporter of the goods generally ask the importer for the letter of credit, or sometimes the importer himself sends the letter of credit along with the order.

Step 4. Fixing the Exchange Rate Foreign exchange rate signifies the rate at which the home currency can be exchanged with the foreign currency i.e. the rate of the Indian rupee against the American Dollar. The foreign exchange rate fluctuates from time to time. Thus, the importer and exporter fix the exchange rate mutually.

Step 5. Foreign Exchange Formalities An Indian exporter has to comply with certain foreign exchange formalities under exchange control regulations. As per the Foreign Exchange Regulation Act of India (FERA), every exporter of the goods is required to furnish a declaration in the form prescribed in a manner. The declaration states:-

I. The foreign exchange earned by the exporter on exports is required to be disposed of in the manner specified by RBI and within the specified period.

II. Shipping documents and negotiations are required to be done through authorised dealers in foreign exchange.

III. The payment against the goods exported will be collected through only approved methods

India's import and export system is governed by the Foreign Trade (Development & Regulation) Act of 1992 and India's Export Import (EXIM) Policy. Imports and exports of all goods are free,

Step 6. Preparation for Executing the Order The exporter should make required arrangements for executing the order:

I. Marking and packing of the goods to be exported as per the importer's specifications.

II. Getting the inspection certificate from the Export Inspection Agency by arranging the pre-shipment inspection.

III. Obtaining insurance policy from the Export Credit Guarantee Corporation (ECGC) to get protection against the credit risks.

IV. Obtaining a marine insurance policy as required.

V. Appointing a forwarding agent (also known as custom house agent) for handling the customs and other related matters.

Step 7. Formalities by a Forwarding Agent The formalities to be performed by the agent include –

I. For exporting the goods, the forwarding agent first obtains a permit from the customs department.

II. He must disclose all the required details of the goods to be exported such as nature, quantity, and weight to the shipping company.

III. The forwarding agent has to prepare a shipping bill/order.

IV. The forwarding agent is required to make two copies of the port challans and pays the dues.

V. The master of the ship is responsible for the loading of the goods on the ship. The loading is to be done on the basis of the shipping order in the presence of customs officers.

VI. Once the goods are loaded on the ship, the master of the ship issues a receipt for the same.

Step 8. Bill of Lading The Indian exporter of the goods approaches the shipping company and presents the receipt copy issued by the master of the ship and in return gets the Bill of Lading. Bill of lading is an official receipt which provides the full description of the goods loaded on the ship and the name of the port of destination.

Step 9. Shipment Advise to the Importer The Indian exporter sends shipment advice to the importer of the goods so that the importer gets informed about the dispatch of the goods. The exporter sends a copy of the packing list, a non-negotiable copy of the Bill of Lading, and commercial invoice along with the advice note.

Step 10. Presentation of Documents to the Bank The Indian exporter confirms that he possesses all necessary shipping documents namely; Marine Insurance Policy The Consular

Invoice Certificate of Origin The Commercial Invoice The Bill of Lading Then the exporter draws a Bill of Exchange on the basis of the commercial invoice. The Bill of Exchange along with these documents is called Documentary Bill of Exchange. The exporter then hands over the same to his bank.

Step 11. The Realisation of Export Proceeds In order to realise the proceeds of the export, the exporter of the goods has to undergo specific banking formalities. On submission of the bill of exchange, these formalities are initiated. Generally, the exporter receives payment in foreign exchange. except for the items regulated by the EXIM policy or any other law currently in force. Registration with regional licensing authority is a prerequisite for the import and export of goods. The customs will not allow for clearance of goods unless the importer has obtained an Import Export Code (IEC) from the regional authority.

Import Policy

The Indian Trade Classification (ITC)-Harmonized System (HS) classifies goods into three categories:

- Restricted
- Canalized
- Prohibited

Goods not specified in the above-mentioned categories can be freely imported without any restriction, if the importer has obtained a valid IEC. There is no need to obtain any import license or permission to import such goods. Most of the goods can be freely imported in India.

Restricted Goods

Restricted goods can be imported only after obtaining an import license from the relevant regional licensing authority. The goods covered by the license shall be disposed of in the manner specified by the license authority, which should be clearly indicated in the

Canalized Goods

Canalized goods are items which may only be imported using specific procedures or methods of transport. The list of canalized goods can be found in the ITC (HS). Goods in this category can be imported only through canalizing agencies. The main canalized items are currently petroleum products, bulk agricultural products, such as grains and vegetable oils, and some pharmaceutical products.

Prohibited Goods

These are the goods listed in ITC (HS) which are strictly prohibited on all import channels in India. These include wild animals, tallow fat and oils of animal origin, animal rennet, and unprocessed ivory.

Export Policy

Just like imports, goods can be exported freely if they are not mentioned in the classification of ITC (HS). Below follows the classification of goods for export:

- Restricted
- Prohibited
- State Trading Enterprise

Restricted Goods

Before exporting any restricted goods, the exporter must first obtain a license explicitly permitting the exporter to do so. The restricted goods must be exported through a set of procedures/conditions, which are detailed in the license.

Prohibited Goods

These are the items which cannot be exported at all. The vast majority of these include wild animals, and animal articles that may carry a risk of infection.

State Trading Enterprise (STE)

Certain items can be exported only through designated STEs. The export of such items is subject to the conditions specified in the EXIM policy.

Types of Duties

There are many types of duties that are levied in India on imports and exports. A list of these duties follows below:

Basic Duty

Basic duty is the typical tax rate that is applied to goods. The rates of custom duties are specified in the First and Second Schedules of the Customs Tariff Act of 1975. The First Schedule contains rates of import duty, and the second schedule contains rates of export duties. Most of the items in India are exempt from custom duty, which is generally levied on imports.

The first schedule contains two rates: Standard rate and preferential rate. The preferential rate is lower than the standard rate. When goods are imported from a place specified by the central government (CG) for lower rates, the preferential rate is applicable. In any other case, the standard rate will be applicable. If the CG has signed a trade agreement with the country of origin, then the CG may opt to charge a lower basic duty than indicated in the first schedule.

Additional Customs Duty (Countervailing Duty)

In addition to the basic duty on imported goods, a countervailing duty is also applicable to imported goods. The rate of duty is equal to the rate of excise applied to goods manufactured in India. If the article is not manufactured in India, then goods of a similar nature are used to determine the correct duty amount. If there are different rates of duty on similar goods, then the highest rates of the known products will be applied to the article in question.

Additional Duty (VAT)

The CG may levy an additional duty equivalent to sales tax or VAT charged on sale/purchase in India. The rate cannot exceed 4 percent. However, the additional duty shall be refunded when the imported goods are sold if the following conditions are satisfied:

1. The importer pays all the custom duties
2. The sale invoice shall bear the indication that the credit of such duty shall not be allowed; and
3. Importer shall pay VAT/sales tax on the sale of these goods.

Anti-Dumping Duty

The CG may impose an anti-dumping duty if an article is imported to India at less than its normal price, and will notify the importer if they decide to do so. The amount of duty cannot exceed the margin of dumping. The margin of dumping means the difference between the export price and the normal price. The notification issued by CG in this regard shall be valid for five years. The period can be further extended. However, the total period cannot exceed 10 years from the date of first imposition.

Countervailing Duty on Subsidized Articles

A countervailing duty is a tariff applied to imported goods to neutralize the effect of a subsidy from the country of origin. If any country grants subsidies on any article to be imported to India, whether directly from the same country or otherwise, then the CG may impose a countervailing duty equal to or less than the subsidy itself. However, the duty will not be imposed if the article is subsidized for the following reasons:

1. Research activities conducted by person engaged in manufacturing or export
2. Assistance to disadvantaged regions in destination country
3. Assistance in adaptation of existing facilities to new environment requirements.

The notification issued by CG in this regard shall be valid for five years and possibly subject to further extension. However, the total period cannot exceed 10 years from the initial date of imposition.

Safeguard Duty

A safeguard duty is a tariff designed to provide protection to domestic goods, favouring them over imported items. If the government determines that increased imports of certain items are having a significantly detrimental effect on domestic competitors, it may opt to levy this duty on those imports to discourage their proliferation. However, the duty does not apply to articles imported from developing countries.

The CG may exempt imports of any article from this duty. The notification issued by CG in this regard is valid for four years, subject to further extension. However, the total period cannot exceed 10 years from the date of first imposition.

Protective Duties

In addition to safeguard duties, the CG also bolsters domestic industries using protective duties. Should the Tariff Commission issue a recommendation for a protective duty, the CG may impose on any goods imported to India a protective duty to provide protection to domestic industry. The duty cannot exceed the amount proposed in the recommendation. The CG may specify the period up to which protective duty shall be in force, reduce or extend the period, and adjust the effective rate.

Education and Higher Education Cess

The education cess, simply put, is a tax designed to fund education and healthcare initiatives. An education cess at the rate of 2 percent and higher education cess of 1 percent are levied on the aggregate of duties of customs. However, the aggregate of customs duties does not include the safeguard duties, countervailing duty on subsidized articles, anti-dumping duty, or countervailing duty equivalent to VAT.

Valuation

Customs duty is payable as a percentage of 'Value' which is known as 'Assessable Value' or 'Customs Value.' The Value may be either:

- 'Value' as defined in Section 14 (1) of the Customs Act; or
- Tariff Value' described under Section 14 (2) of the Customs Act.
- Tariff Value – the Tariff Value is fixed by the Central Board of Excise & Customs (CBEC) for any class of imported goods or export goods. Authorities will consider the trend of value of the goods in question while fixing tariff value. Once fixed, the duty is payable as a percentage of this value. The value of imported goods for the assessment of duty is determined in accordance with the provisions of Section 14 of 1962 and the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007. According to the rules, the assessable value equal the transaction value of goods as adjusted for freight and cost of insurance, loading, unloading and handling charges

In the assessable value, the following criteria are included:

- Commission and brokerage
- Cost of container, which are treated as being one with the goods for customs purposes;
- Cost of packing – labour or materials;
- Materials, components, tools, etc. supplied by buyer;
- Royalties and license fees;
- Value of proceeds of subsequent sales
- Other payment as condition of sale of goods being valued;
- Cost of transport up to place of importation;
- Landing charges; and
- Cost of insurance

The following costs are excluded from the assessable value:

- Charges for construction, erection, assembly, maintenance or technical assistance undertaken after importation of plant, machinery or equipment;
- Cost of transport after importation;
- Duties and taxes in India; and
- Types of duties on exports and imports in India are covered in the Customs Tariff Act 1975. The Act provides all the laws and regulations related to customs in India, Portions of this article was taken from the latest issue of the India Briefing Magazine, titled 'Trading with India.' In this issue we focus on the dynamics driving India as a global trading hub. Within the magazine, you will find tips for buying and selling in India from overseas, as well as how to set up a trading company in the country. This issue is available as a complimentary download in the Asia Briefing Bookstore until the end of September. Dezan Shira & Associates is a specialist foreign direct investment practice, providing corporate establishment, business advisory, tax advisory and compliance, accounting, payroll, due diligence and financial review services to multinationals investing in emerging Asia. Since its establishment in 1992, the firm has grown into one of Asia's most versatile full-service consultancies

with operational offices across China, Hong Kong, India, Singapore and Vietnam as well as liaison offices in Italy and the United States.

Unit – III - Import Procedures and Documentations

In India, the procedure of imports usually follows this outline, unless the goods are otherwise specified as hazardous or are specially requested by the government of the country. A number of documents are required to make sure that this process takes place seamlessly, which is important for the importer to have quick access to. A very important role is played by the Import and Customs authorities in all countries of the world when it comes to the entry of goods into the country. The era of globalization ushered in more and more interactions between different countries of the world, leading to an increase in the masses of imports and exports. In order to effectively manage all this, having a trained body of officials and rules is very important. Import procedures and documentation are required for any good that crosses the international borders and enters the country. This can range from mere gifts to big shipments.

Steps for the Process of Import Procedure

The following steps can adequately explain the process of import procedure and documentation:

1. First and foremost, before anything can enter the country, a comprehensive list of what item is being imported and for what purpose needs to be updated and registered. Data like this can be obtained from trade associations and trade organisations.
2. The EXIM Policy is then consulted by the Importer to make sure that all rules and regulations are followed and standards are met.
3. Then the request of the instalment of foreign cash takes place which includes the trading of Indian Currency into foreign notes. In this matter, The Exchange Control Department of the Reserve Bank of India (RBI) manages foreign trade exchange in India.

4. The importer then puts in an import request with the exporter for the supply of merchandise.
5. Once the payments are settled between the importer and the seller, a letter of credit is issued to the importer.
6. The importer arranges for the payment of the advance money on arrival of the goods at the port. This saves the importer from the high penalties.
7. The overseas supplier after in-loading the merchandise on the ship dispatches the "Shipment Advice" to the importer to give information with respect to the shipment of goods.
8. Dock charges are also paid out by the importer once the goods are received and all inspections are completed.

These Documentations Include

- All invoices, packing lists, certificates specifying the origins of the product and its description, GATT declaration, IET documents and any other document that the government specifies.
- Catalogue, Technical Write ups – required for import of machinery and equipment.
- Chemical Composition, Test bond required by the respective customs – all are needed in case of Chemical Import.
- Phytosanitary Certificate with Fumigation, Certificate of Origin – required for un-processed food, plant products, wood imprints, fruits and seeds import.
- Test Report and Composition – for processed food product import.
- Azo Dye Inspection Certificate – in Import of Fabric.
- PLAT T essential for valuation – In case of import of Plastic Granules.
- Registered EPCG License, Panelised Undertaking by Importer, Bond com BG Bank Covering Letter, Signature Attestation from Bank, Copy of Board of Regulation,

Particles of Memorandum, and Detail of Previous License – Import under EPCG license.

- Form necessary from Supplier for customs duty advantage – Import of Ceramic Tiles.
- Test Certificate – Import of Wine and Whiskey.

Explain Import Procedure

Import procedure means all the steps involved in purchase of goods from any foreign country. The procedural steps involved in import trade differ from country to country in respect of their import policy, statutory requirements. In majority of the countries import trade is being controlled by the government. The objective of empowering the government in the import trade is to keep a strict restriction policy in regards of foreign exchange, protection of Indigenous industries etc. For importing goods, a specified and regulated procedure is to be followed. The procedure is summed into quick steps as below:

1. Trade Enquiry
2. Procurement of Import License and Quota
3. Obtaining Foreign Exchange
4. Placing the Order
5. Dispatching a letter of Credit
6. Obtaining Necessary Documents
7. Customs Formalities and Clearing of Goods
8. Making the Payment
9. Closing the transactions

Advance Authorization Scheme

It is always preferable to maintain a favourable balance of trade, i.e., the value of exports should be greater than the value of imports. The government has introduced various schemes to boost exports made by the country. All export and import-related activities are governed by the

Foreign Trade Policy (FTP), which is aimed at enhancing the country's exports and use trade expansion as an effective instrument of economic growth and employment generation. The present Foreign Trade Policy (2015-2020) aims to keep in line with the 'Make in India' vision and support exports made by Special Economic Zones (SEZs), Export Oriented Units (EOUs), etc. It also contains various export promotion schemes which involve either the exemption or remission of customs duty. The Advance Authorization Scheme is one such export promotion scheme.

The Advance Authorization Scheme is a scheme where the import of inputs will be allowed to be made duty-free (after making normal allowance for wastage) if they are physically incorporated in a product which is going to be exported. An export obligation is usually set as a condition for issuing Advance Authorization.

Duties exempt under the Advance Authorization Scheme

The inputs imported are exempt from duties like Basic Customs Duty, Additional Customs Duty, Education Cess, Anti-dumping duty, Safeguard Duty and Transition Product-Specific Safeguard duty, Integrated tax, and Compensation Cess, wherever applicable, subject to certain conditions.

Duty-free importable items under the scheme

The following items can be imported without payment of duty under this scheme:

- Inputs that are physically incorporated in the product to be exported after making normal allowance for wastage
- Fuel, oil, catalysts which are consumed or utilized to obtain the export product.
- Mandatory spares that are required to be exported along with the resultant export product – up to 10% of the CIF value (Cost, Insurance and Freight) of Authorization

- Specified spices would be allowed to be imported duty-free only for activities like crushing, grinding, sterilization, manufacture of oil or oleoresin and not for simpler activities like cleaning, grading, re-packing, etc.

Eligibility for Advance Authorization

The Advance Authorization Scheme is available to either a manufacturer exporter directly or a merchant exporter tied with a supporting manufacturer. The authorization is available for the following:

- Physical exports
- Intermediate supply
- Supplies made to specified categories of deemed exports
- Supply of 'stores' on board of a foreign going vessel/aircraft provided that there are specific Standard Input Output Norms (SION) in respect of items supplied.

The validity of Advance Authorization

Advance Authorization is valid for 12 months from the date of issue of such Authorization. In the case of deemed exports, the Authorization is linked to the contracted duration of project execution or 12 months from the date of issue of such Authorization, whichever is more. However, the export obligation may be fulfilled within 18 months from the date of issue of Authorization or as notified by the DGFT. Unless specified, the export proceeds should be realized in freely convertible currency.

Actual user condition for Advance Authorization

The Advance Authorization issued and the materials imported thereunder will be with actual user condition. This means that the actual user alone may import such goods. The authorization will not be transferable even after completion of export obligation.

Grounds for issuing Advance Authorization

Advance Authorization can be issued for inputs used in the product that is to be exported on the basis of the following:

1. **Standard Input Output Norms (SION) notified**: The Director General of Foreign Trade (DGFT), on the recommendation of the Norms Committee, issues standard norms that define the amount of input required in the manufacture of a unit of the output product that will be exported. It is available for a wide range of products.
2. **Self-declaration:** Sometimes the SION is not available for a particular product. In such a case, an application may be made to the Regional Authority who will issue the Advance Authorization upon review.
3. **Application prior to fixation of the norm by the Norms Committee:** Another option available to an exporter where the SION is not defined is to make an application to the norms committee, requesting the same. After providing all the required data to the norms committee, the committee shall endeavour to either fix these norms or provide ad-hoc norms on the basis of the application made. Such ad-hoc norms are valid for one authorization only and no repeat authorizations can be issued.
4. **Self Ratification Scheme:** Advance Authorization under this Scheme is available only to an exporter who holds the Authorized Economic Operator (AEO) Certificate under Common Accreditation Programme of CBEC. This Scheme can be opted for when there is no SION or valid ad-hoc norms for an export product and also where, SION has been notified, but the exporter wishes to use additional inputs in the manufacturing process. Ratification by the norms committee is not required under this scheme and the regional authority may issue Advance Authorization upon fulfilment of the relevant conditions.

Annual Advance Authorization

The eligible quantum under Annual Advance Authorisation Scheme is the higher of:

300% of FOB value of physical export and/or FOR value of deemed export in preceding financial year

OR

Rs. 1 crore

Subject to certain conditions, where an item is specified in SION, Advance Authorization can be issued for the annual requirements. It is not available on a self-declaration basis. Exporters need to have a past export performance in at least two preceding financial years, in order to be entitled to such authorization.

Calculation of Value Addition (VA)

The Value Addition is calculated in the following manner:

$$VA = (A - B) * 100 / B$$

Where: A – FOB value of exports realized / FOR value of supply received

B – CIF value of inputs covered by Authorization plus any other materials used on which benefit of duty drawback (DBK) is claimed or intended to be claimed

Under Advance Authorization, the minimum Value Addition to be achieved is 15%, except for physical exports for which payments are not received in freely convertible currency and other specified export products. For tea, minimum Value Addition is 50% Where certain items are supplied free of cost by the foreign buyer, its notional value will be added in the CIF value of import and FOB value of export for the purpose of calculating Value Addition. Irrespective of the currency of realization, Exports to SEZ units/supplies to developers/co-developers would be covered.

Export Obligation

The whole reason behind allowing duty-free inputs is to boost exports. The entity will incorporate these acquired inputs into a product so that it may be exported. Export Obligation (EO) in the case of Advance Authorisation is the value of export that needs to compulsorily be achieved within a prescribed time period. The EO is usually mentioned in the Authorisation issued. After achieving the EO, the entity has to provide evidence of the same. Not achieving the EO in the prescribed time period could result in penalties. Other export promotion schemes like the Export Promotion Capital Goods (EPCG) Scheme have different conditions when it comes to the export obligation.

Procedure for Clearance of Imported and Export Goods

Import:

Bill of Entry – Cargo Declaration:

Goods imported in a vessel/aircraft attract customs duty and unless these are not meant for customs clearance at the port/airport of arrival by particular vessel/aircraft and are intended for transit by the same vessel/aircraft or transshipment to another customs station or to any place outside India, detailed customs clearance formalities of the landed goods have to be followed by the importers. In regard to the transit goods, so long as these are mentioned in import report/IGM for transit to any place outside India, Customs allows transit without payment of duty. Similarly for goods brought in by particular vessel aircraft for transshipment to another customs station detailed customs clearance formalities at the port/airport of landing are not prescribed and simple transshipment procedure has to be followed by the carrier and the concerned agencies. The customs clearance formalities have to be complied with by the importer after arrival of the goods at the other customs station. There could also be cases of transshipment of the goods after unloading to a port outside India. Here also simpler procedure for transshipment has been prescribed by regulations, and no duty is required to be paid. (Sections 52 to 56 of the Customs are relevant in this regard).

- For other goods, which are offloaded importers, have the option to clear the goods for home consumption after payment of the duties leviable or to clear them for warehousing without immediate discharge of the duties leviable in terms of the warehousing provisions built in the Customs Act. Every importer is required to file in terms of the Section 46 an entry (which is called Bill of entry) for home consumption or warehousing in the form, as prescribed by regulations.
- If the goods are cleared through the EDI system no formal Bill of Entry is filed as it is generated in the computer system, but the importer is required to file a cargo declaration having prescribed particulars required for processing of the entry for customs clearance.
- The Bill of entry, where filed, is to be submitted in a set, different copies meant for different purposes and also given different colour scheme, and on the body of the bill of entry the purpose for which it will be used is generally mentioned in the non-EDI declaration.
- The importer clearing the goods for domestic consumption has to file bill of entry in four copies; original and duplicate are meant for customs, third copy for the importer and the fourth copy is meant for the bank for making remittances.
- In the non-EDI system along with the bill of entry filed by the importer or his representative the following documents are also generally required: -
    - Signed invoice
    - Packing list
    - Bill of Lading or Delivery Order/Airway Bill

- GATT declaration form duly filled in
- Importers/CHA's declaration
- License wherever necessary
- Letter of Credit/Bank Draft/wherever necessary
- Insurance document
- Import license
- Industrial License, if required
- Test report in case of chemicals
- Adhoc exemption order
- DEEC Book/DEPB in original
- Catalogue, Technical write up, Literature in case of machineries, spares or chemicals as may be applicable
- Separately split up value of spares, components machineries
- Certificate of Origin, if preferential rate of duty is claimed
- No Commission declaration

- While filing the bill of entry and giving various particulars as prescribed therein the correctness of the information given has also to be certified by the importer in the form a declaration at the foot of the bill of entry and any mis-declaration/incorrect declaration has legal consequences, and due precautions should be taken by importer while signing these declarations.
- Under the EDI system, the importer does not submit documents as such for assessment but submits declarations in electronic format containing all the relevant information to the Service Centre. A signed paper copy of the declaration is taken by the service centre operator for non-reputability of the declaration. A checklist is generated for verification of data by the importer/CHA. After verification, the data is submitted to the system by

the Service Centre Operator and system then generates a B/E Number, which is endorsed on the printed checklist and returned to the importer/CHA. No original documents are taken at this stage. Original documents are taken at the time of examination. The importer/CHA also need to sign on the final document after Customs clearance.

- The first stage for processing a bill of entry is what is termed the noting of the bill of entry, vis-à-vis, the IGM filed by the carrier. In the non-EDI system the importer has to get the bill of entry noted in the concerned unit which checks the consignment sought to be cleared having been manifested in the particular vessel and a bill of entry number is generated and indicated on all copies. After noting the bill of entry gets sent to the appraising section of the Custom House for assessment functions, payment of duty etc. In the EDI system, the Steamer Agents get the manifest filed through EDI or by using the service centre of the Custom House and the noting aspect is checked by the system itself – which also generates bill of entry number.
- After noting/registration of the Bill of entry, it is forwarded manually or electronically to the concerned Appraising Group in the Custom House dealing with the commodity sought to be cleared. Appraising Wing of the Custom House has a number of Groups dealing with earmarked commodities falling under different Chapter Headings of the Customs Tariff and they take up further scrutiny for assessment, import permissibility etc. angle. Assessment:
- The basic function of the assessing officer in the appraising groups is to determine the duty liability taking due note of any exemptions or benefits claimed under different export promotion schemes. They have also to check whether there are any restrictions or prohibitions on the goods imported and if they require any permission/license/permit etc., and if so whether these are forthcoming. Assessment of duty essentially involves

proper classification of the goods imported in the customs tariff having due regard to the rules of interpretations, chapter and sections notes etc., and determining the duty liability. It also involves correct determination of value where the goods are assessable on ad valorem basis. The assessing officer has to take note of the invoice and other declarations submitted alongwith the bill of entry to support the valuation claim, and adjudge whether the transaction value method and the invoice value claimed for the basis of assessment is acceptable, or value needs to be redetermined having due regard to the provisions of Section 14 and the valuation rules issued thereunder, the case law and various instructions on the subject. He also takes note of the contemporaneous values and other information on valuation available with the Custom House.

- Where the appraising officer is not very clear about the description of the goods from the document or as some doubts about the proper classification, which may be possible only to determine after detailed examination of the nature of the goods or testing of its samples, he may give an examination order in advance of finalisation of assessment including order for drawing of representative sample. This is done generally on the reverse of the original copy of the bill of entry which is presented by the authorized agent of the importer to the appraising staff posted in the Docks/Air Cargo Complexes where the goods are got examined in the presence of the importer's representative.
- On receipt of the examination report the appraising officers in the group assesses the bill of entry. He indicates the final classification and valuation in the bill of entry indicating separately the various duties such as basic, countervailing, anti-dumping, safeguard duties etc., that may be leviable. Thereafter the bill of entry goes to Assistant Commissioner/Deputy Commissioner for confirmation depending upon certain value limits and sent to comptist who calculates the duty amount taking into account the rate of exchange at the relevant date as provided under Section 14 of the Customs Act.

- After the assessment and calculation of the duty liability the importer's representative has to deposit the duty calculated with the treasury or the nominated banks, whereafter he can go and seek delivery of the goods from the custodians.
- Where the goods have already been examined for finalization of classification or valuation no further examination/checking by the dock appraising staff is required at the time of giving delivery and the goods can be taken delivery after taking appropriate orders and payment of dues to the custodians, if any.
- In most cases, the appraising officer assessees the goods on the basis of information and details furnished to the importer in the bill of entry, invoice and other related documents including catalogue, write-up etc. He also determines whether the goods are permissible for import or there are any restriction/prohibition. He may allow payment of duty and delivery of the goods on what is called second check/appraising basis in case there are no restriction/prohibition. In this method, the duties as determined and calculated are paid in the Custom House and appropriate order is given on the reverse of the duplicate copy of the bill of entry and the importer or his agent after paying the duty submits the goods for examination in the import sheds in the docks etc., to the examining staff. If the goods are found to be as declared and no other discrepancies/mis-declarations etc., are detected, the importer or his agent can clear the goods after the shed appraiser gives out of charge order.
- Wherever the importer is not satisfied with the classification, rate of duty or valuation as may be determined by the appraising officer, he can seek an assessment order. An appeal against the assessment order can be made to appropriate appellate authority within the time limits and in the manner prescribed. EDI Assessment:

- In the EDI system of handling of the documents/declarations for taking import clearances as mentioned earlier the cargo declaration is transferred to the assessing officer in the groups electronically.
- The assessing officer processes the cargo declaration on screen with regard to all the parameters as given above for manual process. However in EDI system, all the calculations are done by the system itself. In addition, the system also supplies useful information for calculation of duty, for example, when a particular exemption notification is accepted, the system itself gives the extent of exemption under that notification and calculates the duty accordingly. Similarly, it automatically applies relevant rate of exchange in force while calculating. Thus, no comprise is required in EDI system. If assessing officer needs any clarification from the importer, he may raise a query. The query is printed at the service centre and the party replies to the query through the service centre.
- After assessment, a copy of the assessed bill of entry is printed in the service centre. Under EDI, documents are normally examined at the time of examination of the goods. Final bill of entry is printed after 'out of charge' is given by the Custom Officer.
- In EDI system, in certain cases, the facility of system appraisal is available. Under this process, the declaration of importer is taken as correct and the system itself calculates duty which is paid by the importer. In such case, no assessing officer is involved.
- Also, a facility of tele-enquiry is provided in certain major Customs stations through which the status of documents filed through EDI systems could be ascertained through the telephone. If nay query is raised, the same may be got printed through fax in the office of importer/exporter/CHA. Examination of Goods:
- All imported goods are required to be examined for verification of correctness of description given in the bill of entry. However, a part of the consignment is selected on

random selection basis and is examined. In case the importer does not have complete information with him at the time of import, he may request for examination of the goods before assessing the duty liability or, if the Customs Appraiser/Assistant Commissioner feels the goods are required to be examined before assessment, the goods are examined prior to assessment. This is called First Appraisement. The importer has to request for first check examination at the time of filing the bill of entry or at data entry stage. The reason for seeking First Appraisement is also required to be given. On original copy of the bill of entry, the Customs Appraiser records the examination order and returns the bill of entry to the importer/CHA with the direction for examination, who is to take it to the import shed for examination of the goods in the shed. Shed Appraiser/Dock examiner examines the goods as per examination order and records his findings. In case group has called for samples, he forwards sealed samples to the group. The importer is to bring back the said bill of entry to the assessing officer for assessing the duty. Appraiser assesses the bill of entry. It is countersigned by Assistant/Deputy Commissioner if the value is more than Rs. 1 lakh.

- The goods can also be examined subsequent to assessment and payment of duty. This is called Second Appraisement. Most of the consignments are cleared on second appraisement basis. It is to be noted that whole of the consignment is not examined. Only those packages which are selected on random selection basis are examined in the shed.
- Under the EDI system, the bill of entry, after assessment by the group or first appraisement, as the case may be, need to be presented at the counter for registration for examination in the import shed. A declaration for correctness of entries and genuineness of the original documents needs to be made at this stage. After registration, the B/E is passed on to the shed Appraiser for examination of the goods. Along-with

the B/E, the CHA is to present all the necessary documents. After completing examination of the goods, the Shed Appraiser enters the report in System and transfers first appraisement B/E to the group and gives 'out of charge' in case of already assessed Bs/E. Thereupon, the system prints Bill of Entry and order of clearance (in triplicate). All these copies carry the examination report, order of clearance number and name of Shed Appraiser. The two copies each of B/E and the order are to be returned to the CHA/Importer, after the Appraiser signs them. One copy of the order is attached to the Customs copy of B/E and retained by the Shed Appraiser. Green Channel facility:

- Some major importers have been given the green channel clearance facility. It means clearance of goods is done without routine examination of the goods. They have to make a declaration in the declaration form at the time of filing of bill of entry. The appraisement is done as per normal procedure except that there would be no physical examination of the goods. Only marks and number are to be checked in such cases. However, in rare cases, if there are specific doubts regarding description or quantity of the goods, physical examination may be ordered by the senior officers/investigation wing like SIIB. Execution of Bonds:
- Wherever necessary, for availing duty free assessment or concessional assessment under different schemes and notifications, execution of end use bonds with Bank Guarantee or other surety is required to be furnished. These have to be executed in prescribed forms before the assessing Appraiser. Payment of Duty:
- The duty can be paid in the designated banks or through TR-6 challans. Different Custom Houses have authorised different banks for payment of duty. It is necessary to check the name of the bank and the branch before depositing the duty. Bank endorses the payment particulars in challan which is submitted to the Customs. Amendment of Bill of Entry:

- Whenever mistakes are noticed after submission of documents, amendments to the of entry is carried out with the approval of Deputy/Assistant Commissioner. The request for amendment may be submitted with the supporting documents. For example, if the amendment of container number is required, a letter from shipping agent is required. Amendment in document may be permitted after the goods have been given out of charge i.e. goods have been cleared on sufficient proof being shown to the Deputy/Assistant Commissioner. Prior Entry for Bill of Entry:
- For faster clearance of the goods, provision has been made in section 46 of the Act, to allow filing of bill of entry prior to arrival of goods. This bill of entry is valid if vessel/aircraft carrying the goods arrive within 30 days from the date of presentation of bill of entry.
- The importer is to file 5 copies of the bill of entry and the fifth copy is called Advance Noting copy. The importer has to declare that the vessel/aircraft is due within 30 days and they have to present the bill of entry for final noting as soon as the IGM is filed. Advance noting is available to all imports except for into bond bill of entry and also during the special period. Mother Vessel/Feeder vessel:
- Often in case of goods coming by container ships they are transferred at an intermediate ports (like Ceylon) from mother vessel to smaller vessels called feeder vessels. At the time of filing of advance noting B/E, the importer does not know as to which vessel will finally bring the goods to Indian port. In such cases, the name of mother vessel may be filled in on the basis of the bill of lading. On arrival of the feeder vessel, the bill of entry may be amended to mention names of both mother vessel and feeder vessel Specialised Schemes.
- The import of goods is made under specialised schemes like DEEC or EOU etc. The importer in such cases is required to execute bonds with the Customs authorities for

fulfilment of conditions of respective notifications. If the importer fails to fulfil the conditions, he has to pay the duty leviable on those goods. The amount of bond would be equal to the amount of duty leviable on the imported goods. The bank guarantee is also required along with the bond. However, the amount of bank guarantee depends upon the status of the importer like Super Star Trading House/Trading House etc. Bill of Entry for Bond/Warehousing:

- A separate form of bill of entry is used for clearance of goods for warehousing. All documents as required to be attached with a Bill of Entry for home consumption are also required to be filed with bill of entry for warehousing. The bill of entry is assessed in the same manner and duty payable is determined. However, since duty is not required to be paid at the time of warehousing of the goods, the purpose of assessing the goods at this stage is to secure the duty in case the goods do not reach the warehouse. The duty is paid at the time of ex-bond clearance of goods for which an ex-bond bill of entry is filed. The rate of duty applicable to imported goods cleared from a warehouse is the rate in-force on the date on which the goods are actually removed from the warehouse. (References: Bill of Entry (Forms) Regulations, 1976, ATA carnet (Form Bill of Entry and Shipping Bill) Regulations, 1990, Uncleared goods (Bill of entry) regulation, 1972, , CBIC Circulars No. 22/97, dated 4/7/1997, 63/97, dated 21/11/1997). Export : For clearance of export goods, the export or his agents have to undertake the following formalities:
- **Registration:**

  The exporters have to obtain PAN based Business Identification Number (BIN) from the Directorate General of Foreign Trade prior to filing of shipping bill for clearance of export goods. Under the EDI System, PAN based BIN is received by the Customs System from the DGFT online. The exporters are also required to register authorised foreign exchange dealer code (through which export proceeds are expected to be realised) and open a current account in the designated bank for credit of any drawback incentive. Whenever a new Airline, Shipping Line, Steamer Agent, port or airport comes into operation, they are required to be registered into the Customs System. Whenever, electronic processing of shipping bill etc. is held up on account of non-registration of these entities, the same is to be brought to the notice of Assistant/Deputy Commissioner in-charge of EDI System for registering the new entity in the system.

- **Registration in the case of export under export promotion schemes:**

  All the exporters intending to export under the export promotion scheme need to get their licences/DEEC book etc. registered at the Customs Station. For such registration, original documents are required.

- **Processing of Shipping Bill-Non-EDI:**

  Under manual system, shipping bills or, as the case may be, bills of export are required to be filed in format as prescribed in the Shipping Bill and Bill of Export (Form) regulations, 1991. The bills of export are being used if clearance of export goods is taken at the Land Customs Stations. Different forms of shipping bill/bill of export have been prescribed for export of duty free goods, export of dutiable goods and export under drawback etc.

  Shipping Bills are required to be filed along with all original documents such as invoice, AR-4, packing list etc. The assessing officer in the Export Department checks the value of the goods, classification under Drawback schedule in case of Drawback Shipping Bills, rate of duty/cess where applicable, exportability of goods under EXIM policy and other laws enforce. The DEEC/DEPB Shipping bills are processed in the DEEC group. In case of DEEC Shipping bills, the assessing officer verifies that the description of the goods declared in the shipping bill and invoice match with the description of the resultant product as given in the DEEC book. If the assessing officer has any doubts regarding value, description of goods, he may call for samples of the goods from the docks. He may also call for any other information required by him for processing of shipping bill. He may assess the shipping bill after visual inspection of the sample or may send it for test and pass the shipping bill provisionally.

Once, the shipping bill is passed by the Export Department, the exporter or his agent present the goods to the shed appraiser (export) in docks for examination. The shed appraiser may mark the document to a Custom officer (usually an examiner) for examining the goods. The examination is carried out under the supervision of the shed appraiser (export). If the description and other particulars of the goods are found to be as declared, the shed appraiser gives a 'let export' order, after which the exporter may contact the preventive superintendent for supervising the loading of goods on to the vessel.

In case the examining staff in the docks finds some discrepancy in the goods, they may mark the shipping bill back to export department/DEEC group with their observations as well as sample of goods, if needed. The export department re-considers the case and decide whether export can be allowed, or amendment in description, value etc. is required before export and whether any other action is required to be taken under the Customs Act, 1962 for mis-declaration of description of value etc.

- **Processing of Shipping Bill-EDI:**

Under EDI System, declarations in prescribed format are to be filed through the Service Centers of Customs. A checklist is generated for verification of data by the exporter/CHA. After verification, the data is submitted to the System by the Service Center operator and the System generates a Shipping Bill Number, which is endorsed on the printed checklist and returned to the exporter/CHA. For export items which are subject to export cess, the TR-6 challans for cess is printed and given by the Service Center to the exporter/CHA immediately after submission of shipping bill. The cess can be paid on the strength of the challan at the designated bank. No copy of shipping bill is made available to exporter/CHA at this stage.

- **Octroi procedure, Quota Allocation and Other certification for Export Goods:**

  The quota allocation label is required to be pasted on the export invoice. The allocation number of AEPC is to be entered in the system at the time of shipping bill entry. The quota certification of export invoice needs to be submitted to Customs along-with other original documents at the time of examination of the export cargo. For determining the validity date of the quota, the relevant date needs to be the date on which the full consignment is presented to the Customs for examination and duly recorded in the Computer System. In EDI System at Delhi Air cargo, the quota information is automatically verified from the AEPC/TEXPROCIL system.

  Since the shipping bill is generated only after the 'let export order' is given by Customs, the exporter may make use of export invoice or such other document as required by the Octroi authorities for the purpose of Octroi exemption.

- **Arrival of Goods at Docks:**

  The goods brought for the purpose of examination and subsequent 'let export' is allowed entry to the Dock on the strength of the checklist and other declarations filed by the exporter in the Service Center. The Port authorities have to endorse the quantity of goods actually received on the reverse of the Check List.

- **System Appraisal of Shipping Bills:**

  In many cases the Shipping Bill is processed by the system on the basis of declarations made by the exporters without any human intervention. In other cases where the Shipping Bill is processed on screen by the Customs Officer, he may call for the samples, if required for confirming the declared value or for checking classification under the Drawback Schedule. He may also give any special instructions for examination of goods, if felt necessary.

- **Status of Shipping Bill:**

  The exporter/CHA can check up with the query counter at the Service Center whether the Shipping Bill submitted by them in the system has been cleared or not, before the goods are brought into the Docks for examination and export. In case any query is raised, the same is required to be replied through the service center or in case of CHAs having EDI connectivity through their respective terminals. The Customs officer may pass the Shipping Bill after all the queries have been satisfactorily replied to.

- **Customs Examination of Export Cargo:**

  After the receipt of the goods in the dock, the exporter/CHA may contact the Customs Officer designated for the purpose present the check list with the endorsement of Port Authority and other declarations as aforesaid along with all original documents such as, Invoice and Packing list, AR-4, etc. Customs Officer may verify the quantity of the goods actually received and enter into the system and thereafter mark the Electronic Shipping Bill and also hand over all original documents to the Dock Appraiser of the Dock who many assign a Customs Officer for the examination and intimate the officers' name and the packages to be examined, if any, on the check list and return it to the exporter or his agent.

  The Customs Officer may inspect/examine the shipment along with the Dock Appraiser. The Customs Officer enters the examination report in the system. He then marks the Electronic Bill along with all original documents and checklist to the Dock Appraiser. If the Dock Appraiser is satisfied that the particulars entered in the system conform to the description given in the original documents and as seen in the physical examination, he may proceed to allow "let export" for the shipment and inform the exporter or his agent.

- **Variation Between the Declaration & Physical Examination:**

  The check list and the declaration along with all original documents is retained by the Appraiser concerned. In case of any variation between the declaration in the Shipping Bill and physical documents/examination report, the Appraiser may mark the Electronic Shipping Bill to the Assistant Commissioner/Deputy Commissioner of Customs (Exports). He may also forward the physical documents to Assistant Commissioner/Deputy Commissioner of Customs (Exports) and instruct the exporter or his agent to meet the Assistant Commissioner/Deputy Commissioner of Customs (Exports) for settlement of dispute. In case the exporter agrees with the views of the Department, the Shipping Bill needs to be processed accordingly. Where, however, the exporter disputes the view of the Department principles of natural justice is required to be followed before finalisation of the issue.

- **Stuffing / Loading of Goods in Containers**

  The exporter or his agent should hand over the exporter copy of the shipping bill duly signed by the Appraiser permitting "Let Export" to the steamer agent who may then approach the proper officer (Preventive Officer) for allowing the shipment. In case of container cargo the stuffing of container at Dock is dome under Preventive Supervision. Loading of both containerized and bulk cargo is done under Preventive Supervision. The Customs Preventive Superintendent (Docks) may enter the particulars of packages actually stuffed in to the container, the bottle seal number particulars of loading of cargo container on board into the system and endorse these details on the exporter copy of the shipping bill presented to him by the steamer agent. If there is a difference in the quantity/number of packages stuffed in the containers/goods loaded on vessel the Superintendent (Docks) may put a remark on the shipping bill in the system and that shipping bill requires amendment or changed quantity. Such shipping bill also may not be taken up for the purpose of sanction of Drawback/DEEC logging, till the shipping bill is suitably amended for the changed quantity. The Customs Preventive Officer supervising the loading of container and general cargo in to the vessel may give "Shipped on Board" endorsement on the exporters copy of the shipping bill.

- **Draw of Samples:**

  Where the Appraiser Dock (export) orders for samples to be drawn and tested, the Customs Officer may proceed to draw two samples from the consignment and enter the particulars thereof along with details of the testing agency in the ICES/E system. There is no separate register for recording dates of samples drawn. Three copies of the test memo are prepared by the Customs Officer and are signed by the Customs Officer and Appraising Officer on behalf of Customs and the exporter or his agent. The disposals of the three copies of the test memo are as follows: -

  - Original – to be sent along with the sample to the test agency.
  - Duplicate – Customs copy to be retained with the 2nd sample.
  - Triplicate – Exporter’s copy.

  The Assistant Commissioner/Deputy Commissioner if he considers necessary, may also order for sample to be drawn for purpose other than testing such as visual inspection and verification of description, market value inquiry, etc.

- **Amendments:**

  Any correction/amendments in the checklist generated after filing of declaration can be made at the service center, provided, the documents have not yet been submitted in the system and the shipping bill number has not been generated. Where corrections are required to be made after the generation of the shipping bill No. or after the goods have been brought into the Export Dock, amendments is carried out in the following manners.

- If the goods have not yet been allowed "let export" amendments may be permitted by the Assistant Commissioner (Exports).
- Where the "Let Export" order has already been given, amendments may be permitted only by the Additional/Joint Commissioner, Custom House, in charge of export section.

In both the cases, after the permission for amendments has been granted, the Assistant Commissioner/Deputy Commissioner (Export) may approve the amendments on the system on behalf of the Additional /Joint Commissioner. Where the print out of the Shipping Bill has already been generated, the exporter may first surrender all copies of the shipping bill to the Dock Appraiser for cancellation before amendment is approved on the system.

- **Export of Goods Under Claim for Drawback:**

  After actual export of the goods, the Drawback claim is processed through EDI system by the officers of Drawback Branch on first come first served basis. There is no need for filing separate drawback claims. The status of the shipping bills and sanction of DBK claim can be ascertained from the query counter set up at the service center. If any query has been raised or deficiency noticed, the same is shown on the terminal. A print out of the query/deficiency may be obtained by the authorized person of the exporter from the service centre. The exporters are required to reply to such queries through the service centre. The claim will come in queue of the EDI system only after reply to queries/deficiencies are entered by the Service Centre.

All the claims sanctioned on a particular day are enumerated in a scroll and transferred to the Bank through the system. The bank credits the drawback amount in the respective accounts of the exporters. Bank may send a fortnightly statement to the exporters of such credits made in their accounts.

The Steamer Agent/Shipping Line may transfer electronically the EGM to the Customs EDI system so that the physical export of the goods is confirmed, to enable the Customs to sanction the drawback claims.

- **Generation of Shipping Bills:**

After the "let export" order is given on the system by the Appraiser, the Shipping Bill is generated by the system in two copies i.e., one Customs copy, one exporter’s copy (E.P. copy is generated after submission of EGM). After obtaining the print out the appraiser obtains the signatures of the Customs Officer on the examination report and the representative of the CHA on both copies of the shipping bill and examination report. The Appraiser thereafter signs & stamps both the copies of the shipping bill at the specified place.

The Appraiser also signs and stamps the original & duplicate copy of SDF. Customs copy of shipping bill and original copy of the SDF is retained along with the original declarations by the Appraiser and forwarded to Export Department of the Custom House. He may return the exporter copy and the second copy of the SDF to the exporter or his agent.

As regards the AEPC quota and other certifications, these are retained along with the shipping bill in the dock after the shipping bill is generated by the system. At the time of examination, apart from checking that the goods are covered by the quota certifications, the details of the quota entered into the system needs to be checked.

- **Export General Manifest:**

All the shipping lines/agents need to furnish the Export General Manifests, Shipping Bill wise, to the Customs electronically within 7 days from the date of sailing of the vessel.

Apart from lodging the EGM electronically the shipping lines need to continue to file manual EGMs along with the exporter copy of the shipping bills as per the present practice in the export department. The manual EGMs need to be entered in the register at the Export Department and the Shipping lines may obtain acknowledgements indicating the date and time at which the EGMs were received by the Export Department.

The above is the general procedure for export under EDI Systems. However special procedures exist for specified schemes, details of which may be obtained from the Public Notice/Standing Orders issued by the respective Commissionerate’s.

Custom Audit

Prime Minister of India has the reason to take India on the top rank of “Ease of Doing Business”, which will promote “Make in India” moment to ensure achievement of dream of making India USD 5 Trillion economy and India to be super power by 2024. One of the major hurdle of doing the business in India and attracting investment in India for creating the manufacturing base was the substantial delay in custom clearances and transaction cost and time attached thereto. Following actions have been initiated to ensure hurdle free custom clearances and turn around time of import consignments an export consignment should be reduced substantially at par with advance countries.

1. Introduction of self-assessment in terms of Section 17 of Customs Act 1962 as amended in the year 2011 making corresponding amendment in Section 17, 18, 46 & 50 of the Customs Act, 1962.

2. Introduction of Risk Management System in Customs, thereby conducting scrutiny of bill of entry and such scrutiny is called as Post Clearance Compliance Verification (PCCV) or Post Clearance Audit (PCA). Thereby achieving the target of 80% of Air Cargo complexes 70% of Sea Ports and 60% of ICD post clearance of bill of entry.

3. Introduction of On-Site Post Clearance Audit at the Premises of Importers and Exporters Regulation 2011 has been notified. In accordance with the said regulation and amendment in Customs Act, 1962, officers of customs / central excise will conduct the audit at the premises of importer / exporter vide Notification No. 72/2011 Custom NT dtd 4th Oct.-2011.

4. Introduction of Authorised Economic Operator (AEO) Certification the category of AEO Tier 1 , Tier 2, Tier 3 & AEO LO for benefiting importer. The details of the scheme was provided vide Circular No. Circular No. 33/2016-Customs dtd 22nd July, 2016 and the prominent features of the same are given below:

(a) Inclusion of Direct Port Delivery of imports to ensure just-in-time inventory management by manufacturers – clearance from wharf to warehouse

(b) Inclusion of Direct Port Entry for factory stuffed containers meant for export by AEOs

(c) Special focus on small and medium scale entities – any entity handling 25 import or export documents annually can become part of this programme

(d) Provision of Deferred Payment of duties – delinking duty payment and Customs clearance

(e) Mutual Recognition Agreements with other Customs Administrations

(f) Faster disbursal of drawback amount

(g) Fast tracking of refunds and adjudications

(h) Extension of facilitation to exports in addition to imports

(i) Self-certified copies of FTA / PTA origin related or any other certificates required for clearance would be accepted

(j) Request based on-site inspection /examination

(k) Paperless declarations with no supporting documents

(l) Recognition by Partner Government Agencies and other Stakeholders as part of this programme Different benefits were granted to different categories of AEO Certification and AEO Certification is granted after thoroughly scrutinizing systems and control of the importer and exporter.

5. Introduction of Faceless Assessment of import and export consignment to avoid interface, which will reduce transactions cost and time.

6. Introduction of Section 99A in the Customs Act 1962 by way of amending Customs Act 1962 through the Finance Act 2018 inserting the following provision: SECTION 99A. Audit.- The proper officers may carry out the audit of assessment of imported goods or export goods or of an auditee under this Act either in his office or in the premises of the auditee in such manner as may be prescribed. Explanation.— For the purposes of this section, “auditee” means a person who is subject to an audit under this section and includes an importer or exporter or custodian approved under section 45 or licensee of a warehouse and any other person concerned directly or indirectly in clearing, forwarding, stocking, carrying, selling or purchasing of imported goods or export goods or dutiable goods.

7. Implementation of Customs Audit Regulations, 2018 : All above steps have been introduced to ensure speedy clearance of import and export consignments on self-assessment basis and audit will be conducted of such import and export consignment on a periodical basis at the premises of the importer / exporter. As a matter of fact, On-site Post Clearance Audit at the Premises of Importers and Exporters Regulations, 2011

was notified vide Notification No.72/2011-Customs (N.T.) dtd 4th October, 2011 but hardly any audit might have been carried out under such rules, since government might have noticed there is no backing of section in the Customs Act 1962 and rules cannot override the provisions of sections.

In view of the above, after insertion of Section 99A in the Customs Act 1962, government notified Customs Audit Regulations, 2018 vide Notification No. 45/2018 Cus (NT) dt. 24.05.2018 superseding "On-Site Post Clearance Audit at the Premises of Importers and Exporters Regulation, 2011" and empowering Chief Commissioner of Customs, Chennai, Delhi & Mumbai -1 to conduct audit for whole of the India as their Jurisdiction vide Notification No. 85/2017 Cus dt 14th November, 2017.

Object of the government is definitely applauded but, until it is inculcated down the line, exporters and importers will not be benefited and objective of turnaround time for clearance of imports and exports consignments has not achieved even after decade. But, CBIC has already started taking the agenda forward of carrying out Customs Audit under Customs Audit Regulations 2018.

Number of importers and exporters have received the notices for submission of number of documents w.r.t. imports and exports consignments and thereafter, there will be a visit at the premises of importer and exporter for auditing their records and declarations filed by them at the time of imports and exports clearances under self-assessment scheme.

Types of Post Clearance Audit:

There mainly three types Audits:

(1) Transaction based audit (TBA) :

TBA is different from Onsite Post and conducted on the basis of The Risk Management System (RMS)

(2) Premises based Audit (PBA) :

The legal compliance and correct assessment of Customs duties will be verified by the Customs at the premises of importers, exporters and other related entities wherever necessary

(3) Theme based audit (TBA) :

Review of data relating to the entire business activity for a particular commodity, industry or issue. It provides a systematic approach to data collection and an analysis of data to determine the likelihood of non-compliance.

Frequency of Post Clearance Audit:

• Onsite PCA will be conducted once in two years / three years / ϐive years for AEOs T-1, T-2 & T-3 respectively.

• 50% of AEO T-1, 33.33% of T-2 and 20% of T-3 assessees to be audited every year.

• For other than AEO, PCA will be conducted under mainly TBA and ThBA method and onsite audit will be conducted basis observations of TBA & ThBA and as per risk parameters. Steps of Post Clearance Audit: The following broad steps will be involved in PCA

• Selection of Assessed for audit

• Conduct of Desk Review and preparatory interview to gather information

• Prepare audit plan

• Undertake verification of auditee including tour of premises

• Evaluation of internal controls

• Preparation of Audit Report

• Consultative Letter for demand if any

• Monthly Monitoring of Audit Reports

• Issuance show cause notice if Assessee is not agreed with view of Customs

Following information is called for :

1. Organizational Chart of the Auditee
2. Cost Audit / Tax Audit report past three years
3. Customs Audit Reports for previous three years
4. Copies of Annual reports
5. Copies of Trial Balance
6. Import Export Code (IEC) No. & GSTIN
7. Audit points by Central Revenue Audit
8. Details of cases under investigation including SCN issued
9. Details of pending arrears of Revenue
10. List of notices, Court cases, pending investigations under other law related to taxes or duties (e.g. Income Tax, SEBI, GST, Enforcement Directorate etc.)
11. Any other document considered relevant by the Audit Circle
12. Please indicate your business with details of main goods manufactured, traded and services provided
13. Address of other offices including overseas offices
14. Total Import and export from various customs houses/ports (based on previous financial year)
15. Top 10 Imported Items in last one year and current year
16. Top 10 Exported Items in last one year and current year
17. Imports of Goods at Concessional Rate of Duty
18. Export Promotion Schemes
19. Details of EPCG Licence

20. Duty free import authorisations

21. Details of Advance Licence

22. Major Top 10 Importers and Exporters

23. Are you registered with Special Valuation Branch (SVB)

24. Show Cause Notices received during last five years and current year w.r.t. import and export of Goods 25. Details of litigations (Appeals, Court cases etc.) pending

26. No NOC Required (FSSAI, CPCB, Narcotics etc.)

27. List of Bonds with Customs

28. Total import duty paid in past three years

29. Copies of Balance Sheet

30. Copies of Tax Audit Reports

31. Cost Audit Reports

32. Disclosure of Foreign Currency Transactions in the format as desired under IAS

33. Statements or returns with FEMA and RBI

34. Names of other Govt Agencies where returns are files (RFCL, Narcotics, Central Insecticide Board Etc.)

35. QPR/APR by EOU

36. C.A. report in form No. 3CEB - Transfer Pricing

37. Auditors Report for Previous year 38. Journal Vouchers for adjustment entries rectification entries

39. Accounts maintained by the importer in terms of Customs (IGCRD)

40. Details of Bankers

41. Any other relevant documents

It is important to note that Principle Commissioner is authorised to appoint the experts like Chartered Accountant / Cost Accountants and experts in Computer Science or information technology etc. to ensure correct declaration by such importers / exporters in terms of their records, documents, MIS & ERP System maintained by them. It is always better to do the self-audit in the same line of self-assessment so as to avoid any discrepancy during the departmental audit with the help of experts appointed by the department and thereby imposing the penalties, confiscation and seizure of the goods, heavy duty demands and withdrawal of certification granted to the importers/exporters under various scheme.

General provisions regarding imports and exports

The Directorate General of Foreign Trade and Investment (DGFT) and Ministry of Commerce and Industry implemented the foreign trade policy , which contains the general provisions for import and export. They are:

1. Exports and imports are free unless regulated

Export and Import of goods shall be free, except in some cases where they are regulated by the provisions of this specific Policy or by any other law for the time being in force. The goods wise export and import policy shall be laid out in ITC(HS) published and notified by the Director-General of Foreign Trade, as amended from time to time.

2. Laws are to be complied

Every exporting or importing entity shall comply with the provisions of the Foreign Trade (Development and Regulation) Act, 1992, principles made thereunder, the provisions of this Policy, and the terms and conditions of any license or certificate or permission granted to them, as well as provisions of any other law for the time being in action. All imported goods would even be subject to local Laws, Regulations, technical specifications, environmental and safety norms as applicable to domestically produced goods. No importing or exporting activity of rough diamonds shall be permitted unless the shipment parcel is followed by Kimberley

Process (KP) Certificate required under the procedure specified by the Gem & Jewellery Export Promotion Council (GJEPC).

3. Procedure

The DGFT specifies the procedure that has to be followed by the exporter and importer or by any other authority to follow the procedures which are laid down in Acts, handbooks, etc. Once the procedure is being established it's to be published on public notice, and these procedures have to vary as well.

4. Exemption

If due to any legitimate reason, relaxation is needed in any procedure, the request can be made to the DGFT, who can pass orders on the same. The DGFT can provide leniency in certain procedures for public interest and also, such request may be considered only after consulting Advance Licensing Committee (ALC) if the request is with respect to a provision excluding any provision relating to Gem & Jewellery sector.

5. Restriction principles

The DGFT through their notification can enforce any decision that is necessary for

- Protection of public morals
- Protection of animal, human, or plant life or health
- Protection of patents, trademarks, and copyrights and the prevention of deceptive practices
- Prevention of use of prison labour
- Protection of national resources and treasures of artistic, historic, or high archaeological value
- Conservation of exhaustible natural resources
- Protection of trade of radioactively fissionable material or material from which they are derived.

- Prevention of trafficked arms, trafficked ammunition, and implements of war.

6. Goods which are restricted

Any goods which are restricted can only be imported and exported if there is a license for the same and a public notice has to be issued as well on this behalf.

7. Terms and conditions

There are certain regulations which have to prevalent while obtaining a license or a certificate, they include:

- The quantity, description, and value of goods
- Actual user condition
- Export obligation
- The value addition to be achieved.
- The minimum export price.

8. Penalty

If a license or certificate or permission holder violates any condition of the license or certificate or permission or fails to fulfil the export obligation, he shall be liable for action in accordance with the Act, regulations made under which the Policy and any other law for the time being in action.

9. Permission to get license etc.-

Nobody could claim a license or certificate or permission as a right and the DGFT or the licensing authority shall have the power to refuse to grant or renew a license or certificate or permission in accordance with the provisions of the regulations made thereunder.

10. Import on export basis

New or second-hand capital goods, equipment, components, parts and accessories, containers meant for packing of goods for exports, jigs, fixtures, dies and mould, may be imported for export without a licence/certificate/permission on the execution of Legal Undertaking/Bank

Guarantee with the Customs Authorities provided that the item is freely exportable without any conditionality/requirement of license or permission as may be required.

Import Licensing Requirements

Over the last decade, India has steadily made the process of importing products easier. Most items fall within the scope of India's Open General License regulations. This means that products are deemed to be freely importable without restrictions and without a license unless they are regulated by the provisions of the policy or applicable laws.

Imports of items not covered by an Open General License are regulated and fall into three categories: banned or prohibited items; restricted items requiring an import license; and "canalized" items, importable only by government trading monopolies and subject to Cabinet approval regarding timing and quantity.

Below are designated import certificate issuing authorities:

- The Department of Electronics for computer and computer-based systems
- The Department for the Promotion of Industry and Internal Trade (DPIIT), Technical Support Wing (TSW), for organized sector units registered under it, except for computers and computer-based systems
- The Ministry of Defense (MoD) for defense-related items
- The Director General of Foreign Trade (DGFT) for small-scale industries not covered above as well as on behalf of any of the above
- The Embassy of India in Washington, DC on behalf of any of the above authorities.

Capital goods, except those specified in a negative list, can be imported with an Authorization under the Export Promotion Capital Goods plan at zero customs duty, subject to the fulfillment of a time-bound export obligation.

Duty exemption/remission schemes are also offered, which enable duty free import of inputs for export production, including replenishment of inputs.

Advance Authorization

Certain products require an advance license to allow duty free importation to India. These include inputs that are physically incorporated into products made in India for export. In addition, fuel, oil, and catalysts consumed/utilized to produce export products, are also allowed under this plan. Raw materials and inputs are allowed in terms of Standard Input-Output Norms, or under self-declared norms of Indian exporters.

Advanced Licenses are issued on pre-export or post-export bases in accordance with foreign trade policies and procedures, and can be issued for:

- Physical exports: An Advance License may be issued for physical exports to a manufacturer, exporter, or merchant exporter tied to supporting manufacturers for the import of inputs required for an export product.
- Intermediate supplies: An Advance License may be issued for intermediate supply to a manufacturer/exporter for the import of inputs required in the manufacture of goods to be supplied to the ultimate exporter/deemed exporter holding another Advance License; and
- Deemed exports: An Advance License may be issued for deemed exports to the main contractor for the import of inputs required for the manufacture of goods to be supplied to the categories mentioned in the Foreign Trade Policy. An Advance License for deemed exports can also be acquired by a subcontractor, provided the name of the subcontractor appears in the main contract. Such licenses for deemed exports can also be issued for supplies made to UN organizations or under the Aid Program of the UN, or other multilateral agencies, and paid for in foreign exchange.
- An Advance License may be issued for supply of ‘stores’ on board of foreign going vessel / aircraft, subject to condition that there is specific Standard Input Output Norms in respect of item supplied.

Import Declaration

Importers are required to furnish an import declaration in the prescribed bill of entry format, disclosing full details of the value of imported goods.

Import Licenses (where applicable)

All import documents (e.g., ex-factory invoices, freight documentation, insurance certificates) must be accompanied by import licenses. This enables customs to properly clear the documents for timely import.

Letter of Credit

Importers must include a copy of the letter of credit to record payment for imports. This document is normally verified by the issuing bank. Not all consignments are inspected prior to clearance, and inspections may be waived for known importers. Under the current customs regime, an appointment with the clearing agent helps avoid delays. In general, documentation requests and requirements are extensive, and delays are frequent in India.

Clearance delays cost time and money, including additional detention and demurrage charges, making it more expensive to operate and invest in India. For delayed clearances, importers seek release of shipments against a performance bond, and furnishing a bank guarantee for this purpose can be a costly option. Indian customs authorities have recently extended operations to 24 hours to ensure more timely clearances of imports.

Unit – IV - Freight forwarding and Transportation

What Is Freight Forwarding?

Freight forwarding is a process that involves organizing the movement of goods from a shipper to the final destination.

This process is typically carried out by a third-party company known as a freight forwarder. They act as an intermediary between the shipper and the logistics companies by planning and arranging the shipping schedules, documentation, and more.

In short, they arrange the whole transportation plan on behalf of shippers.

What Does a Freight Forwarder Do?

Freight forwarding companies typically offer several services related to organizing your shipment, including:

- **Shipment Tracking:** Keeping track of shipments and ensuring the products arrive on time.

- **Customs Broker:** Managing and submitting all the documentation required for import and export processes according to respective customs compliance. This includes the bill of lading (a legal document with details of the goods), customs clearance, and commercial invoices. They also handle document transfer fees.

- **Warehousing:** Providing storage units for warehousing through company-owned units or ones operated by a locale affiliate.

- **Negotiation:** Negotiating prices and arranging the best mode of transport to get the shipment delivered on time.

- **Cargo Space Scheduling:** Coordinating and managing cargo logistics, like shipment transits and container load arrangements.

- **Supplying Cargo Insurance:** Providing and selling cargo insurance policies that cover financial loss caused by stolen or damaged goods.

- **Consolidating Freight:** Consolidating multiple LCL (Less than Container Load) consignments (batches of goods for shipping) to provide a cost-friendly shipping option. Also helps to maximize cargo space.

6 Key Stages Involved in Freight Forwarding

1. Export Haulage

The first step in forwarding is export haulage — which is receiving the product from the client. An affiliate carrier transports the products from the client to the freight forwarder's warehouse. **Modes of transportation** may vary depending on the product type and distance to the warehouse.

2. Export Customs Clearance

The next stage is ensuring the cargo is cleared to leave the country of origin.

What papers do you need for export customs clearance?

Don't worry. The freight forwarding company takes care of it. They'll provide all the necessary paperwork to the customs agent. The agent then checks the legality of the items and whether it aligns with the information in the shipping documents.

3. Items Checkpoint

Also known as origin handling, this step is carried out once the items are ready for transport.

The shipping company must ensure the products are in good condition. They’ll also confirm whether the items match the booking description and whether they’re accepted in the target location. For example, flammable liquids, drugs, alcohol, and sharp objects have strict regulations due to potential safety hazards.

4. Import Customs clearance

Once the consignment arrives at the target location, the local authorities will go through the paperwork given by the freight broker.

They’ll confirm if the items match the description and meet the legal requirements to enter the country. Sometimes, the immigration officer might impose fees that the freight forwarding company will cover.

5. Destination Arrival and Handling

After the shipment has been cleared, another transportation team assigned by the freight forwarder will prepare the products for import warehousing.

They’ll keep the products at a designated storage location under customs supervision.

The local forwarding team will inspect the items and provide the customs documentation needed, including the **air waybill**, invoices, export packing list, certificate of origin, etc.

6. Import Haulage

The final stage is complete when a local carrier ships the consignment from the import warehouse to the receiver.

Shipping can take between a few hours to days after leaving the warehouse. It depends on the type of item, mileage, *and* mode of inland transportation.

Types of Freight Transportation

An international freight forwarder relies on different modes of transportation to ship goods worldwide.

The four common types of freight transportation include:

- **Air Freight:** Transports cargo by air shipment — this is the fastest form of overseas transport.
- **Ocean Freight (or Sea Freight):** Transport cargo by sea. It can carry large loads, but it takes longer than air freight.
- **Rail Freight:** Carries large or oversized shipping items via train or railway. It’s cheaper than air and ocean freight but can’t carry shipments overseas.
- **Road Freight:** Transports items by modes of inland transportation. It’s great for short-distance international trade routes (between ports or neighbouring countries).

Sometimes, a freight forwarder may require multimodal transport — which involves using more than one mode of transport to convey goods. It helps reduce transit time and costs.

5 Top Companies for Freight Forwarding Services

DHL Supply Chain & Global Forwarding:

- Offers a mobile app to track freight shipments.
- Takes care of customs compliance with the help of their customs broker.
- Provides cargo insurance that covers the full value of goods.

Hitachi Transport System:

- Ships products worldwide and has an online **tracking system**.
- Offers solutions for dangerous and hazardous cargo logistics, from ensuring legal compliance to proper packaging and storage.
- Provides multimodal transport services for cross-country shipping with global freight partners.

CEVA Logistics:

- Provides freight forwarding services based on different sectors like automobile, sales and retail, healthcare, etc.
- Offers expert customs brokerage services (prepares customs documentation, has customs brokers, etc.) across tariffs and customs laws with up-to-date information.
- Offers a contract logistics service for a long-term forwarding partnership.

Kerry Logistics:

- Has extensive ground support and local expertise across the globe, including China, Southeast Asia, India, the Middle East, and Latin America.
- Helps manage records like media tapes, deeds, and documents.
- Offers industrial project logistics services like expediting, on-site surveys, and pre-shipment inspections.

UPS Supply Chain Solutions:

- Offers end-to-end logistics solutions with the help of a supply chain and tracking platform — UPS Forwarding Hub.
- Provides warehousing options across all their branches worldwide.
- Has a freight consolidation option for effortless customs clearance.

As you can see, there are plenty of reliable shipping companies in the global freight forwarding market.

What are Incoterms?

Freight incoterms (International Commercial Terms) are the standard terms used in sales contracts for importing and exporting. They are used to define responsibility and liability for goods over the course of a shipment. In other words, they spell out when responsibility for the goods transfers from the supplier to the buyer. They also define who pays which costs for the goods and their transport.

List of All 11 Incoterms

- **EXW – Ex Works:** The seller's responsibility is to make the goods available for pickup at the warehouse or factory. From that point forward, the buyer assumes responsibility for all costs and risks. For most importers and exporters, this means working with a freight forwarder that arranges the entire shipment, starting at pickup from the factory.
- **FCA – Free Carrier:** The seller is responsible for delivering the goods to the carrier at a named place, which is usually the terminal or a warehouse. Once the goods are handed over to the carrier, the risk transfers to the buyer.
- **CPT – Carriage Paid To:** The seller is responsible for the costs of transporting the goods to a named destination. Responsibility transfers to the buyer once the goods are delivered to the agreed-upon destination.
- **CIP – Carriage and Insurance Paid To:** This incoterm is the same as CPT except that with CIP, the seller much also arrange and pay for insurance coverage in case of loss or damage to the goods during transit to the agreed-upon destination.
- **DAP – Delivered at Place:** The seller is responsible for arranging the entire shipment up to delivering the goods to a named place. Risk transfers to the buyer upon delivery. The seller is responsible for clearing goods for export but the buyer assumes responsibility for import customs duties, fees, and taxes.
- **DPU – Delivered at Place Unloaded:** The seller is responsible arranging the shipment and delivering the goods to a named place. They are also responsible for unloading them. Risk transfers to the buyer once the goods are unloaded.

- **DDP – Delivered Duty Paid:** The seller is responsible for entire shipment, including customs clearance and fees, and delivering the goods to the buyer's premises. This incoterm places the maximum responsibility on the seller.
- **FAS – Free Alongside Ship:** The seller is responsible for picking up the goods at the factory, clearing them for export, and delivering them to a departure location, usually the ship loading dock. Tisk transfers to the buyer when the goods are placed alongside the ship; they are responsible for the main leg of transit and every other step in delivery.
- **FOB – Free On Board:** The seller is responsible for packaging, pickup, and delivery of goods onto a vessel at the port of shipment. Liability transfers to the buyer once the goods are on board the vessell; the buyer is responsible for every other step of the journey.
- **CFR – Cost and Freight:** The seller is responsible for transportation to the port of origin and for loading the goods onto the vessel. They are also responsible for transportation to the destination port – but they are not liable for that portion of the journey. Instead, risk transfers to the buyer when the goods are on boarded at the origin port.
- **CIF – Cost, Insurance, and Freight:** Similar to CFR, but the seller also arranges and pays for insurance coverage for the goods during transit to the port of destination.

Incoterms for Air Freight

Incoterms commonly used for air shipments are:

EXW (Ex-works), in which the buyer assumes responsibility at the seller's warehouse and takes care of everything including transportation and insurance.

CIP (Carriage and insurance), which puts responsibility for insurance on the seller.

CPT (Carriage Paid To), in which the seller delivers the goods and covers all fees involved in delivering the goods to the named destination. After delivery, the buyer assumes responsibility.

DDP (Delivered Duty Paid), which puts most obligations on the seller. They carry all the costs and risks of transport, insurance, and customs clearance. This is the only incoterm that lists the seller as the importer of record at destination.

DAP-Delivered At Place, where the seller covers the costs involved in main carriage but is not responsible for customs clearance.

These Incoterms can be adapted for air freight transactions, ensuring that responsibilities and costs are clearly defined between the parties involved in the trade.

Why are Incoterms Important in 2024?

Importers and exporters should consider which incoterms is best for them before the contract of sale is negotiated. This can prevent surprise costs and unnecessary complications.

Choosing an incoterm means getting on the same page as your supplier – it aligns everyone on shipping procedures when multiple parties and stakeholders are involved. These globally accepted terms ensure the timely payment of goods, services, and duties, while protecting suppliers, carriers, and buyers.

Incoterms use in 2023

The Incoterms 2023 play a vital role in international trade. The latest Incoterms 2023 were released by the International Chamber of Commerce (ICC), which provides updated guidelines for international trade. For those asking, "What is the Incoterms 2023?" or "What is Incoterms in shipping?" These terms define the responsibilities of buyers and sellers in the transportation of goods. The 2023 Incoterms include 11 Incoterms 2023 rules, which are crucial for both export and import transactions. These Incoterms ICC 2023 are vital for ensuring clarity in international logistics. Understanding the international Incoterms 2023 is essential for anyone involved in the supply chain, making the role of Incoterms in logistics 2023 more significant than ever.

What are Incoterms?

Incoterms are standardized rules that define **buyers' and sellers'** responsibilities in international trade. Developed by the ICC, they provide clear guidelines for goods movement across borders. Covering aspects like risk transfer, costs, and logistics, Incoterms ensure seamless communication and smooth operations in global business.

Importance of Incoterms for Exporters

The significance of these terms for exporters should not be overlooked. These standardized rules and guidelines facilitate **international trade** transactions. When exporters adhere to Incoterms, it brings about clarity and consistency in terms of responsibilities, costs, and risk allocation between both **buyers and sellers.** Not only does it streamline the process, but it also ensures that everyone involved is on the same page.

Changes and updates to Incoterms 2023

In addition to the core elements of the previous versions, the following changes are noteworthy.

- DAP Incoterms 2023 (Delivered at Place) : It has been updated to include deliveries to special locations called inland clearance/container depots (ICDs). ICDs are places where goods are checked for import or export. This change was made to account for the increased use of ICDs in global trade and to clarify the responsibilities of the buyer and seller when delivering to these locations.

Previously, DAP referred to the seller delivering goods to a specific destination within the buyer's country. The seller was responsible for transportation, costs, and risks associated with reaching that destination.

- DDP incoterms 2023 (Delivered Duty Paid): The lack of clarity in the previous version of DDP could result in disputes or misalignment regarding the allocation of costs and risks associated with customs clearance and delivery. As a result of the clarification, the Incoterms 2023 DDP now clearly outlines that the seller is responsible for all costs and risks associated with the delivery of goods, including customs clearance.
- Incoterm 2023 brings an enhanced focus on sustainability, highlighting the importance of environmentally responsible practises for buyers and sellers. The updated guidelines encourage both parties to prioritize eco-friendly approaches. Specifically, it recommends considering sustainable transportation alternatives like rail or sea transport as viable options, with the aim of reducing reliance on air freight and its associated carbon footprint.

Applicability of Incoterms in international trade

They are applicable in various aspects of international transactions:

- **Contractual agreements:** Incoterms are used to define the terms of sale in contracts between buyers and sellers and to specify the obligations and liabilities of each party.
- **Cost allocation:** Incoterms define responsibilities for transportation, insurance, customs clearance, and other costs to ensure clear cost allocation between the parties involved.

- **Transfer of risk:** Incoterms define the point at which risk transfers from the seller to the buyer, i.e., when the buyer assumes responsibility for the goods, including possible loss, damage, or delay during transportation.
- **Logistics and transportation:** Incoterms help define the duties and responsibilities of each party with respect to the organization and performance of transportation, including the choice of means of transportation, place of delivery, and related logistics. At Citrus Freight, we are committed to meeting the diverse needs of our clients by providing comprehensive logistics and transportation services. With our expertise and dedication, you can rest assured that your cargo will reach its destination quickly and efficiently.
- **Documentation:** Incoterms are used to define the documentation needed for international trade, such as bills of lading, commercial invoices, and insurance certificates.
- **Insurance considerations:** Incoterms explain insurance obligations and determine which party is responsible for obtaining and maintaining insurance coverage.
- **Dispute Resolution:** When a dispute or disagreement arises between buyers and sellers, Incoterms serve as a reference point by clarifying the agreed terms and conditions.

Key concepts and terminology

Whether you're a small business owner or a multinational corporation, familiarizing yourself with Incoterms is key to maximizing profitability and minimizing complications in the global marketplace.

List of incoterms 2023:

- EXW | Ex-works or EX-Warehouse
- FCA | Free to Carrier

- FAS | Free Alongside Ship
- FOB | Free On Board
- CFR | Cost and Freight
- CIF | Cost, Insurance and freight
- CPT | Carriage Paid to
- CIP | Carriage And Insurance Paid To
- DAP | Delivered At Place
- DPU | Delivered At Place Unloaded (replaces Incoterm® 2010 DAT)
- DDP | Delivered Duty Paid

Responsibilities of seller and buyer

Incoterms define the specific responsibilities and obligations of both the seller (exporter) and the buyer (importer) in an international trade transaction. Listed below are each party's key responsibilities:

- Agree on the appropriate Incoterm and communicate roles and obligations clearly.
- Maintain effective communication for a smooth transaction.
- Ensure proper packaging and labeling of goods for transportation.
- Coordinate transportation and necessary services to the agreed delivery point.
- Handle export/import customs clearance as agreed upon.
- Take responsibility for insurance coverage and provide evidence, if applicable.
- Conduct inspections to meet specifications and standards.

- Promptly notify each other of any changes affecting the transaction or delivery.
- Bear risks during transportation and delivery as per the chosen Incoterm.
- Handle additional costs specified in the Incoterm (e.g., duties, taxes, fees).
- Resolve disputes cooperatively and in a timely manner. Comply with laws, regulations, and trade practices throughout the transaction.

Depending on the chosen Incoterm, the seller and buyer may have different responsibilities and obligations.

Transfer of risk and delivery

The Transfer of risk and delivery are vital aspects of any business transaction. Clearly defining the responsibilities and liabilities of each party ensures a balanced and smooth transaction. Effective management of both the transfer of risk and delivery is crucial for building trust and maintaining successful business relationships.

Modes of transport and choice of Incoterms

Different Incoterms are designed to accommodate various transportation modes. Here's how transport mode influences Incoterm choice:

- **Incoterms for Any Mode of Transport:**

  There are certain Incoterms that can be used for any mode of transport, including land, sea, air, or multimodal transport. Among these are Ex Works (EXW), Free Carrier (FCA), CPT, CIP, Direct at Place (DAP), Direct at Place Unloaded (DPU), and Delivered Duty Paid (DDP). These terms are suitable when the specific mode of transport is not a defining factor.

- **Incoterms for Sea and Inland Waterway Transport:**

  Certain Incoterms are specifically designed for maritime or inland waterway transport. These include Free Alongside Ship (FAS), Free on Board (FOB), Cost and Freight (CFR), and Cost, Insurance, and Freight (CIF). These terms are commonly used in shipping scenarios where goods are transported via vessels.

- **Incoterms for Air Transport:**

  While Incoterms designed specifically for air transport do not exist, certain terms like Free Carrier (FCA), Carriage Paid To (CPT), and Carriage and Insurance Paid To (CIP) are commonly used in air freight situations. These terms can accommodate the requirements of air transport and ensure a clear delineation of responsibilities between the buyer and seller.

Incoterms and transfer of ownership

Incoterms and ownership transfers in international trade are interconnected. Incoterms specify the transfer of risk, which is closely linked to ownership transfers. For instance, in EXW, risk and likely ownership transfer occur at the seller's premises. In DDP, risk and ownership transfer happen upon delivery at the agreed destination.

However, it's crucial to understand that while Incoterms provide guidance, they don't explicitly determine ownership transfer. Other factors like contracts, legal requirements, and relevant documents (e.g., bills of lading) govern the actual ownership transfer.

Most commonly used incoterm in exports

The Most Commonly Used Incoterms in Exports: CIF, FOB, and EXW

- **CIF:** CIF is widely preferred by exporters, especially when dealing with maritime transportation. Under CIF, the seller takes charge of arranging and paying for the cost, insurance, and freight to deliver the goods to the named port of destination. At the time of loading the goods onto the vessel, the risk passes from the seller to the buyer. CIF offers a comprehensive package that simplifies logistics and provides added convenience for buyers.

- **FOB:** FOB is another popular Incoterm, particularly in sea freight transactions. With FOB, the seller's responsibility ends when the goods are loaded onto the vessel at the named port of shipment. From that point on, risk transfers to the buyer, who assumes control over the transportation, insurance, and associated costs. FOB empowers buyers with greater flexibility and decision-making power throughout the shipping process.
- **EXW:** EXW is commonly chosen when exporters prefer minimal involvement in the transportation process. Under EXW, the seller makes the goods available at their premises, and the buyer assumes full responsibility for transportation, including costs, risks, and customs clearance. EXW grants buyers the highest degree of control but requires them to handle all logistics and related tasks independently.

Factors to consider when selecting an Incoterm

Transportation: Choose an Incoterm that aligns with your shipment's mode of transportation (sea, air, land, or multimodal transport).

Risk and Insurance: Assess your risk tolerance and insurance needs. Consider Incoterms that allocate responsibility and insurance coverage accordingly.

Delivery Requirements: Determine if you want the seller to handle the entire delivery process or if the buyer prefers more control, then specify the delivery location and any special requirements.

Cost Considerations: Evaluate the distribution of costs, including transportation, insurance, customs duties, and other expenses. Select an Incoterm that aligns with your budget and financial objectives.

Regulatory Compliance: Consider customs regulations and legal requirements in the importing country. Choose an Incoterm that facilitates smooth customs clearance and compliance.

Experience and Negotiation: Take your experience and relationships with suppliers or buyers into account. Engage in open communication and negotiation for a mutually beneficial agreement.

Freight Forwarding Services Companies in India

AWL India possesses expertise in offering freight forwarding at lower costs and helps companies transport their goods from the manufacturer to the final destination. With the help of our dedicated networks, we ensure expedite transfer of your goods through sea shipping, air freight and road transport. Timely delivery of goods including products that are highly sensitive in nature is totally guaranteed.

Freight forwarding industry in India: Market size, trends and challenges

The freight forwarding industry in India is an important leg in facilitating international trade and logistics. It simplifies shipping of goods and acts as an intermediary between businesses and transporters. The logistics sector is a key contributor to India's GDP and freight forwarders are cementing their share, especially with the rise in demand for global e-Commerce. As a small business owner, it's beneficial to understand the nuances and dynamics of the freight forwarding industry and its role in building a seamless supply chain ecosystem across customs, regulations, and compliance frameworks.

Freight forwarding industry in India – Overview

Freight forwarding is a key logistics function in India. With the growth in cross-border trade, not surprisingly the demand for freight forwarding has also accelerated.

Market size and outlook:

As per a report published by *Mordor Intelligence,* the freight forwarding and logistics industry market size in India is estimated to be USD 317.26 billion in 2024.

Further, growing at a CAGR of 8.83%, the market size for the forecast period i.e., 2024 – 2029, is expected to reach USD 484.43 billion by 2029.

This is comparatively higher than the previous years i.e., 2017 – 2023, that had a CAGR of 8.15%.

Some other observations from the report:

- In 2022, around 90.35% share was taken up by non-temperature controlled segment in warehousing
- For 2023-2029, the projected CAGR for temperature controlled warehousing segment is 9.03%
- The domestic segment still occupies the majority share of CEP segment by destination – i.e., almost 66.33% in 2022

Top freight forwarding companies in India

Let's take a look at some of the top freight forwarding companies in India in 2024.

Freight forwarding company name	**Main services provided**
DHL Express (India) Pvt. Ltd.	International express delivery, global freight forward, mail deliveries, warehousing solutions
DTDC Express Limited	Domestic and international express courier services

GATI Ltd.	Express supply chain solutions, e-Commerce logistics
Allcargo Logistics Ltd.	NVOCC, container freight station operations, warehousing, logistics parks, inland container depots
FedEx	Freight forwarding, international express delivery, logistics services

What are the main trends in the Indian freight forwarding industry?

The Indian freight forwarding sector is undergoing significant transformation, led by digitalisation, infrastructure development, and global trade. Some of the pivotal freight forwarding industry trends in India that's reshaping how international trade is being conducted are:

1. Digital transformation and adoption of advanced technology

The adoption of AI and IoT and other digital technologies has been a game changer for the logistics sector. Freight forwarding companies today are leveraging platforms and digital tools across all functions to streamline operations, stay compliant, and drive efficiency. Apart from focusing on automation, the intent is moving more towards building a transparent and connected ecosystem for supply chain visibility.

From the ease of online booking to real-time tracking, online billing and documentation, route optimisation, data analytics and more, the freight forwarding industry landscape is revolutionising. Digitalisation has helped freight forwarders to simplify compliance and regulatory requirements, reduce paperwork and keep transactions transparent.

Some other examples of digitalisation in the freight forwarders industry are:

- Emergence of online marketplaces and shipment booking platforms enabling freight forwarding companies to find the best deals, better quotes, optimised routes for their customers.
- Use of AI and ML models to predict shipping delays, manage inventory, and provide optimised route solutions. Blockchain and Smart Contracts are being used for secure transactions and keep record of every transaction made.
- Integration of IoT devices to check on the condition of goods during transit. This is more so for goods travelling across long distances, or being unloaded-loaded at different points, or goods requiring temperature control transportation, such as pharmaceuticals. (**Also read:** Cold chain logistics – What it means in logistics)

2. Sustainability solutions

Sustainability is high on India's priorities and all sectors are being encouraged to adopt sustainable, environment-friendly solutions.

Eco-friendly logistics solutions are no longer good-to-have. It's becoming a necessity as more businesses are conducting global trade. As there is growing awareness, top logistics and freight companies are focusing on innovation eco-friendly packaging solutions and green logistics to reduce carbon footprints and reduce costs.

- Switching to green warehousing, using solar panels, energy-efficient lighting, and rainwater harvesting systems.
- Adopting electric vehicles for road transport to reduce greenhouse gas emission. This is aligned to India's sustainability vision as there is focused attention and investment being made in building infrastructure for EV expansion (e.g., EV charging stations)
- Using biodegradable, reuseable and recyclable packaging material over traditional packaging solutions to reduce the use of plastic and other non-sustainable materials.

3. Custom freight forwarding services

The Indian freight forwarding industry is also witnessing a rise in the demand for custom freight solutions. This allows businesses more flexibility and tailor services with precision, specific to sectors.

Some examples of how freight companies are customising their services are:

- Designing special cold chain logistics solutions for addressing the need for temperature-controlled transportation and warehousing, and temperature monitoring for the pharmaceutical, food processing, and other sectors.
- Innovating automotive logistics solutions using Just-in-Time delivery in manufacturing to reduce lead time and maintain production schedules. Freight forwarders are also adopting smart strategies for shipment especially of high-value vehicles and delicate automobile components.

4. E-commerce expansion

The e-commerce sector boom has been the single most factor to propel the growth of the freight forwarding industry in India. From rise in international orders, to drop shipping, first mile and last mile delivery, there has been innovation at every stage of freight services with reference to e-Commerce shipping.

As per the report by *Mordor Intelligence,* the e-Commerce sector witnessed rapid growth at 3.76% YoY in 2022. The most popular segments were the food and beverage segment and personal and household.

Fright forwarding companies in India are implementing innovative strategies to provide efficient, quick and reliable delivery services. Some of the examples of innovations in e-Commerce by freight companies include:

- Optimising first mile and last mile delivery services to meet production timelines and enhance customer satisfaction, such as using AI tools to identify optimal delivery routes and providing real-time delivery updates.

- Building a hyperlocal delivery system network utilising local resource, logistics hubs and micro fulfilment centres for speed, efficiency, and local knowledge. (**Also read:** E-Commerce fulfilment – Services and warehousing solutions in India)
- Integrating diverse e-Commerce functions into one platform to manage activities across warehousing, order processing, shipping and returns management. (**Also read:** Integrated logistics – How it works and benefits businesses?)

These highlight the various market trends in the freight forwarding sector and how companies are scaling their operations and technology adoption to emerge as an indispensable part of the Indian logistics ecosystem.

Challenges in the Indian freight forwarding sector

The logistics sector comes with its unique challenges – and the challenges in the freight forwarding sector are no different. Whether it is related to compliance and knowhow for starting your own freight forwarding business or lack of adequate infrastructure development for steadfast growth, there are numerous obstacles to face.

Let's take a closer look at some of the common Indian freight forwarding industry challenges:

- **Adherence to regulations and compliance:** Whether it's related to issuance of a FCR in shipping or the bill of lading document, or any other, the regulatory, compliance and legal framework in international shipping is intricate. Customs procedures and timelines across ports can vary leading to delays and additional expenses. Freight companies therefore need to prioritise staying updated on any new regulations to stay compliant and ensure speedy and hassle-free clearances.
- **Uneven infrastructure development:** The scale of infrastructure development across rural and urban sectors is uneven, often causing limitations in goods transportation. Through innovative schemes, such as PMGSY and others, the government is bringing improvement, especially to lessen unkept or congested roads, improve connectivity in

rural sectors, and improve facilities at ports. This naturally impacts the pace at which freight forwarders can function, their reach, and scale of operations.

- **Fuel price fluctuations:** Though many freight companies are switching to energy-efficient alternative fuel solutions, the majority of road transportation services run on fuel. The volatility of fuel prices directly impact costs especially for sectors with large volumes of goods for transportation, e.g., manufacturing sector, construction sector, e-Commerce, automobile sector. This poses a challenge in a market where transportation costs are already considered higher than average.

Freight forwarding of tomorrow

Marked by rapid growth and transformation, the freight forwarding industry in India presents a promising picture. It's set to become more automated, customer-centric and transparent to streamline operations, track the movement of goods, and improve overall supply chain operations.

Green logistics solutions and sustainability will also feature as a key component as businesses get more conscious of the environment. E-Commerce moreover will also encourage the sector to introduce sophisticated solutions driven by new technologies, data and research. However, in order to maximise the sector's output, a focused and collaborative approach has to be taken by freight forwarding companies and the government, to build and seal a strong, resilient, and growing future.

Freight Forwarders in India

Freight forwarding is a service used by companies that deal in international or multi-national import and export. While the freight forwarder doesn't actually move the freight itself, it acts as an intermediary between the client and various transportation services. Sending products from one international destination to another can involve a multitude of carriers, requirements and legalities. A freight forwarding service handles the considerable logistics of this task for the client, relieving what would otherwise be a formidable burden. Freight forwarding services guarantee that products will get to the proper destination by an agreed upon date, and in good condition. The freight forwarding service utilizes established relationships with carriers of all kinds, from air freighters and trucking companies, to rail freighters and ocean liners. Freight forwarding services negotiate the best possible price to move the product along the most economical route by working out various bids and choosing the one that best balances speed, cost and reliability. The freight forwarder directory contains details of many freight forwarding companies, carefully collected and indexed by regions of India with their full company contact details, including postal, email, telephone.

Indian freight forwarding: Bridging global trade gaps

India's e-commerce is set to hit $350 billion by 2030! With the surge in online orders, Indian freight forwarders are stepping up to provide efficient fulfilment solutions, utilising technology for seamless operations, ready to be the backbone of this boom. Imagine a bustling marketplace where goods from all corners of the world change hands. Behind the scenes, a complex network of logistics keeps everything moving. Indian freight forwarders are the busy bees in this hive, ensuring cargo reaches its destination smoothly and efficiently. Freight forwarding involves more than just moving items. It includes tasks like choosing the best transport method and handling customs to ensure timely delivery. But it goes beyond that. Consider the scenario where someone needs to send delicate medical equipment overseas. It's not just a matter of finding any available aircraft; it's about maintaining the right temperature throughout the journey. Here come the freight forwarders, they arrange for specialised containers and closely monitor the temperature, working behind the scenes to ensure the equipment arrives intact, potentially saving lives in the process.
India's international trade is thriving, and efficient freight forwarding plays a crucial role. With its strategic location and burgeoning economy. According to data released by the commerce

ministry, the country's exports of goods and services saw a marginal increase of 0.4 percent to $765.6 billion in 2023, despite global economic uncertainties. Key contributing sectors to this growth included electronics, pharmaceuticals, cotton yarn, fabrics, ceramics, meat, dairy, poultry, fruits, vegetables, and information technology. India has the potential to emerge as a global trade powerhouse. Robust logistics are vital to sustain this momentum, and Indian freight forwarders are ready to tackle this challenge. Indian freight forwarders customise their services to meet the needs of their clients. They specialise in transportation via air, sea, and land, utilising partnerships with airlines, shipping lines, and trucking companies to find efficient routes.

Accuracy in paperwork is crucial. Freight forwarders ensure all documents comply with international regulations, expediting customs clearance and avoiding delays. Warehousing offers temporary storage for goods in transit. Indian providers offer secure warehouses with inventory management and order fulfilment services. In addition to core services, many offer extras like packaging, insurance, and real-time cargo tracking. They also guide import/export rules, duties, and free trade agreements, simplifying the process. The Indian freight forwarding industry isn't a lone wolf operation. It thrives on collaboration and guidance provided by industry associations. The Federation of Freight Forwarders' Associations in India (FFFAI) sets standards, provides training, and lobbies for government support. Continual training programmes offered through FFFAI’s Training Institute, the Indian Institute of Freight Forwarders (IIFF), are benefiting the logistics fraternity by enhancing operational skills. When it comes to challenges like any other industry, the Indian freight forwarding industry also faces its own set of hurdles. “Indian freight forwarding companies grapple with a multitude of challenges that hinder their operations and profitability. Infrastructure constraints loom large, with India's roads, railways, ports, and airports in dire need of substantial improvement. This deficiency results in delays, inefficiencies, and escalated costs for freight movement, posing a constant obstacle for forwarders. Moreover, the adoption of modern technology and digital tools remains a struggle for many companies.

The lack of technological prowess inhibits efficient operation management, shipment tracking, and logistics optimisation, ultimately impeding competitiveness. High infrastructure costs further compound the issue, with expenses related to warehousing, transportation, and handling facilities eating into profits. Balancing cost-effectiveness with service quality remains an ongoing challenge.

Moreover, airports in India grapple with congestion during peak periods, leading to delays in cargo handling and longer turnaround times for shipments. Such congestion incurs heightened operational costs for freight forwarders. Off late, the transshipment of cargo from Bangladesh to international destinations through Indian airports has added to the congestion at the Airports, as the peak season for garment export both in India and Bangladesh is the same i.e., January to April, every year. Lastly, the unpredictable nature of freight charges by airlines poses a significant threat to profitability. Sudden increases in freight rates, driven by factors like fuel prices and demand-supply dynamics, can severely impact forwarders, especially if they cannot pass on these costs to their customers. These challenges collectively underscore the complexity of the operating environment for Indian freight forwarding companies, necessitating strategic responses to ensure sustainability and growth," says Vipin Vohra, Chairman of Continental Carriers. Additionally "Instability in the geopolitical environment can affect the demand for freight forwarding services and impact the business. In times of economic uncertainty, focusing on cost management and maximising profitability is crucial. Hence, building solid relationships with customers and offering them value for their business is another way to manage economic challenges. It might increase the likelihood that they will continue to do business with you in the future, even during economic uncertainty, states Ashish Asaf, Managing Director & CEO, S.A. Consultants & Forwarders. Amid these challenges, data paints a promising picture for Indian freight forwarders. Reports indicate that India's e-commerce market will hit a staggering $350 billion by 2030, fueled by growth in Tier II and III cities. This translates to a massive demand for efficient fulfilment solutions, presenting a wealth of opportunities for the industry. Furthermore, the World Trade Organization (WTO) forecasts a 3.5% growth in global merchandise trade for 2024, signifying a continued rise in international trade flows. This translates to significantly increased cargo volumes that Indian freight forwarders can handle. “With the rapid growth of e-commerce in India, there's a surge in demand for efficient freight forwarding services to handle the increasing volume of shipments. Freight forwarders are adapting their operations to cater to the specific needs of e-commerce businesses, such as last-mile delivery solutions and reverse logistics, highlights Vohra of Continental Carriers.

The Indian freight forwarding industry is undergoing a digital & AI revolution. Technology is playing a crucial role in streamlining processes, enhancing transparency, and improving customer service. Manual paperwork is being replaced by sophisticated software and digital platforms that automate tasks like bookings, documentation, and customs compliance. This not only reduces errors and saves time, but also ensures smoother operations throughout the supply chain. Furthermore, the Internet of Things (IoT) and GPS are enabling real-time tracking and visibility of shipments. This empowers both freight forwarders and their clients to stay informed about the exact location and status of their cargo. This real-time data allows for proactive management of potential issues and fosters greater trust between all parties involved.

Technology is also simplifying the complexities of customs clearance and regulatory compliance. Electronic data interchange (EDI) systems and other digital tools are making the process faster and more efficient, saving both freight forwarders and businesses valuable time and money. “The role of data analytics has already been there in our trade for some time now, Artificial Intelligence (AI) is a newly coined term these days. However similar algorithms were already in use in Indian Customs when they initiated the Risk Management System (RMS) a few years ago. The airlines and shipping carriers as well use these kinds of analytics and algorithms for their product pricing in the way of Dynamic pricing tools. Moving forward these algorithms or AI will help governments to evaluate the compliances and companies to gain maximum profits by dynamic pricing strategies. Eventually, it could lead to a one-sided game in a bullish market, as carriers are sitting with a vast amount of data of cargo types and routes that are regularly moving. Better, faster global connections allow AI to be more accurate than ever before, and when applied to air cargo, it will help forwarders make the most use of data. By avoiding risks and creating more efficient solutions, AI maximises resources and slashes costs," mentions Ashish of S.A. Consultants & Forwarders. The rise of digital freight forwarders is another key trend driven by technology. These companies leverage automation across the entire shipping process, offering a more transparent and streamlined experience for their clients. As a result, the Indian digital freight forwarding market is expected to witness significant growth in the coming years.

"The future of Indian freight forwarding holds promise, bolstered by several key factors. Firstly, in view of the implementation of the National Logistics Policy under PM Gati Shakti's National Master Plan, sustained economic growth is anticipated to drive increased trade volumes both domestically and internationally, thereby generating heightened demand for freight forwarding services. Additionally, ongoing infrastructure development initiatives, including investments in ports, airports, and logistics parks, are poised to enhance the efficiency of freight movements, fostering greater competitiveness within the industry. These factors underscore a bright outlook for the Indian freight forwarding sector, encouraging forward-thinking strategies and investments to capitalise on emerging opportunities and drive sustainable growth," remarks Vohra of Continental Carriers.

Unit – V- Risk Management

Risk Management Strategies for Exporters: A Deep Dive into Export Financing

In the dynamic world of international trade, exporters face various challenges, and managing risks is paramount for success. Export financing plays a pivotal role in mitigating these risks, ensuring a smooth and secure journey into global markets. To provide exporters with a comprehensive understanding of risk management strategies through effective export financing.

Understanding Export Financing

Export financing is a crucial aspect of international trade that involves the provision of financial resources and services to support businesses engaged in exporting goods or services across borders. This multifaceted concept encompasses various financial instruments and mechanisms designed to facilitate and secure transactions between exporters and importers. Let's delve deeper into the key components and significance of export financing.

Working Capital Support:

Export financing provides working capital to exporters, addressing the financial requirements associated with different stages of the export process. This includes procuring raw materials, production costs, and other pre-export expenses.

Risk Mitigation:

One of the primary purposes of export financing is to manage and mitigate risks inherent in international trade. Exporters often face uncertainties such as non-payment, political instability, and currency fluctuations. Financial instruments like export credit insurance and guarantees help safeguard against these risks.

Main Features of Export Financing for Exporters

Export financing is a crucial aspect of international trade, providing exporters with the necessary funds to support their operations and mitigate financial risks associated with cross-border transactions. The main features of export financing for exporters include:

Working Capital Loans

Export financing often includes working capital loans to help exporters cover day-to-day operational expenses, including production costs, inventory management, and other short-term financial needs.

Pre-Export Financing

Exporters may receive financing before the actual shipment of goods. This pre-export financing helps cover expenses related to production, packaging, and transportation, ensuring a smooth process leading up to the shipment.

Post-Export Financing

Post-export financing provides funds to exporters after the goods have been shipped and the relevant documentation (such as bills of lading) has been submitted. This helps bridge the gap between shipment and payment from the buyer.

Export Credit Insurance

Exporters can obtain export credit insurance to protect themselves against the risk of non-payment by foreign buyers. This insurance provides coverage for commercial and political risks that may lead to non-payment or delayed payment.

Letters of Credit

Letters of credit (LCs) are widely used in international trade. Exporters can request their buyers to open a letter of credit, which serves as a guarantee of payment. The exporter receives payment upon presenting compliant documents to the bank.

Export Factoring

Export factoring involves selling accounts receivable to a financial institution (factor) at a discount. This provides immediate cash flow to the exporter, and the factor assumes the risk of non-payment.

Export Working Capital Guarantee

Governments or export credit agencies may provide export working capital guarantees, ensuring that financial institutions are more willing to lend to exporters by mitigating the risk of default.

Forfaiting

Forfaiting is a method of trade finance where exporters sell their medium to long-term receivables at a discount to a forfaiter, who assumes the credit and political risks. The exporter receives immediate cash.

Export Development Funds

Some countries have export development funds or institutions that provide financial support to exporters, including grants, low-interest loans, or other financial incentives to promote international trade.

Export Revolving Credit

Exporters may secure a revolving credit facility that provides ongoing access to funds. This flexibility is particularly beneficial for businesses with continuous or seasonal export activities.

Structured Trade Finance

Structured trade finance involves the use of complex financial instruments and mechanisms to facilitate trade transactions. This may include commodity financing, warehouse receipt financing, and other structured arrangements tailored to specific trade scenarios.

Export-Import Bank Assistance

Many countries have Export-Import Banks that offer financial assistance, guarantees, and insurance to support exporters. These institutions play a crucial role in promoting international trade.

Understanding these features of export financing enables exporters to choose the most suitable financing options based on their specific needs and the nature of their export transactions. It’s important for exporters to work closely with financial institutions, export credit agencies, and other relevant stakeholders to optimize their financial arrangements and minimize risks in the global marketplace.

Risk Management Strategies for Exporters With Export Financing

Exporters face various risks when engaging in international trade, including economic, political, and financial risks. Implementing effective risk management strategies is crucial to ensure the success and sustainability of export ventures. Export financing plays a significant role in managing financial risks associated with international trade. Here are some key risk management strategies for exporters with a focus on export financing:

Diversification of Markets

- **Strategy:** Expand your target markets to reduce dependence on a single market.
- **Rationale:** Economic downturns or political instability in one region may have a lesser impact if you have diversified your customer base.

Credit Risk Assessment

- **Strategy:** Conduct thorough credit checks on potential international buyers.
- **Rationale:** Reducing the risk of non-payment by ensuring that your customers have a good credit history and financial stability.

Credit Insurance

- **Strategy:** Purchase credit insurance to protect against non-payment by foreign buyers.
- **Rationale:** In the event of non-payment due to insolvency or political risks, credit insurance provides coverage, minimizing financial losses.

Export Financing Instruments

- **Strategy:** Utilize export financing tools such as letters of credit, documentary collections, and export credit agencies.
- **Rationale:** These instruments help secure payment and reduce the risk of non-payment or delayed payment.

Currency Risk Management

- **Strategy:** Hedge against currency fluctuations using financial instruments like forward contracts or currency options.
- **Rationale:** Fluctuations in exchange rates can impact the profitability of exports; hedging helps mitigate this risk.

Political Risk Mitigation

- **Strategy:** Stay informed about political developments in target markets and consider political risk insurance.
- **Rationale:** Political instability, government changes, or regulatory issues can affect payment and disrupt business operations.

Supply Chain Risk Management

- **Strategy:** Diversify suppliers and establish contingency plans for supply chain disruptions.
- **Rationale:** Disruptions in the supply chain can impact production and delivery schedules, affecting export commitments.

Customs and Regulatory Compliance

- **Strategy:** Stay informed about and comply with international trade regulations and customs requirements.
- **Rationale:** Non-compliance can lead to delays, fines, and even the confiscation of goods, negatively impacting financial outcomes.

Documentation and Contractual Clarity

- **Strategy:** Ensure clear and comprehensive documentation, including contracts, invoices, and shipping documents.
- **Rationale:** Well-documented transactions reduce the risk of disputes and facilitate smoother international trade.

Build Strong Relationships

- **Strategy:** Foster strong relationships with international buyers, financial institutions, and other partners.
- **Rationale:** Good relationships can help in resolving disputes, gaining market insights, and accessing valuable support in times of crisis.

Implementing these risk management strategies, along with effective export financing practices, can enhance an exporter's ability to navigate the complexities of international trade and minimize financial uncertainties. Regularly reassessing and updating these strategies based on changing market conditions is essential for continued success in the global marketplace.

Indian Customs - Risk Management System (RMS)

Risk Management System is an IT driven system with the primary objective to strike an optimal balance between facilitation and enforcement and to promote a culture of self-compliance in customs clearances. It is intended to improve the management of the resources of the department to enhance the efficiency and effectiveness in meeting stakeholder expectations and to bring the Customs processes at par with the best international practices. An Inter Ministerial Group (IMG) headed by Secretary (Revenue) consisting of representatives from Ministry of Shipping, Ministry of Commerce, Planning Commission besides CBIC, recommended its introduction as a measure of trade facilitation and selective screening of only "high risk" cargo for customs examination. The Board has introduced the RMS in all Customs locations where the Indian Customs EDI System (ICES) is operational.

Risk Management thus helps by:

- enhancing security by focusing efforts on “high risk” imports and detecting dangerous, prohibited or restricted goods;
- facilitating international trade by reducing the need for physical interventions viz. inspections and examinations allowing for "fast-track" or “green channel” clearance of “low-risk” imports including imports of the clients registered under the Accredited Clients Programme (ACP);
- protecting revenues through focused targeting and interventions;
- reducing port congestion by reduction in the dwell time of customs clearance and elimination of complete physical inspection and examination of import cargo; and
- contributing to a more effective and efficient allocation of customs’ resources to accelerate clearance of "low risk" imports, allowing customs to focus energies on the “high risk” imports.

Export Risk Management.

Export pricing is the most important factor in for promoting export and facing international trade competition. It is important for the exporter to keep the prices down keeping in mind all export benefits and expenses. However, there is no fixed formula for successful export pricing and is differ from exporter to exporter depending upon whether the exporter is a merchant exporter or a manufacturer exporter or exporting through a canalising agency.

Like any business transaction, risk is also associated with good to be exported in an overseas market. Export is risk in international trade is quite different from risks involve in domestic trade. So, it becomes important to all the risks related to export in international trade with an extra measure and with a proper risk management.

The various types of export risks involve in an international trade are as follow:

Credit Risk

Sometimes because of large distance, it becomes difficult for an exporter to verify the creditworthiness and reputation of an importer or buyer. Any false buyer can increase the risk of non-payment, late payment or even straightforward fraud. So, it is necessary for an exporter to determine the creditworthiness of the foreign buyer. An exporter can seek the help of commercial firms that can provide assistance in credit-checking of foreign companies.

Poor Quality Risk

Exported goods can be rejected by an importer on the basis of poor quality. So it is always recommended to properly check the goods to be exported. Sometimes buyer or importer raises the quality issue just to put pressure on an exporter in order to try and negotiate a lower price. So, it is better to allow an inspection procedure by an independent inspection company before shipment. Such an inspection protects both the importer and the exporter. Inspection is normally done at the request of importer and the costs for the inspection are borne by the importer or it may be negotiated that they be included in the contract price.

Alternatively, it may be a good idea to ship one or two samples of the goods being produced to the importer by an international courier company. The final product produced to the same standards is always difficult to reduce.

Transportation Risks

With the movement of goods from one continent to another, or even within the same continent, goods face many hazards. There is the risk of theft, damage and possibly the goods not even arriving at all.

Logistic Risk

The exporter must understand all aspects of international logistics, in particular the contract of carriage. This contract is drawn up between a shipper and a carrier (transport operator). For this an exporter may refer to Incoterms 2000, ICC publication.

Legal Risks

International laws and regulations change frequently. Therefore, it is important for an exporter to drafts a contract in conjunction with a legal firm, thereby ensuring that the exporter's interests are taken care of.

Political Risk

Political risk arises due to the changes in the government policies or instability in the government sector. So it is important for an exporter to be constantly aware of the policies of foreign governments so that they can change their marketing tactics accordingly and take the necessary steps to prevent loss of business and investment.

Unforeseen Risks

Unforeseen risk such as terrorist attack or a natural disaster like an earthquake may cause damage to exported products. It is therefore important that an exporter ensures a force majeure clause in the export contract.

Exchange Rate Risks

Exchange rate risk is occurs due to the uncertainty in the future value of a currency. Exchange risk can be avoided by adopting Hedging scheme.

Export Risk Management Plan

Risk management is a process of thinking analytically about all potential undesirable outcomes before they happen and setting up measures that will avoid them. There are six basic elements of the risk management process:

• Establishing the context

• Identifying the risks

• Assessing probability and possible consequences of risks

• Developing strategies to mitigate these risks

• Monitoring and reviewing the outcomes

• Communicating and consulting with the parties involved

A risk management plan helps an exporter to broaden the risk profile for foreign market. For a small export business, an exporter must keep his risk management analysis clear and simple.

Export Risk Mitigation

Export risk mitigations are the various strategies that can be adopted by an exporter to avoid the risks associated with the export of goods.

- Direct Credit: Export Credit Agencies support exports through the provision of direct credits to either the importer or the exporter.
  - Importer: a buyer credit is provided to the importer to purchase goods.
  - Exporter: makes a deferred payment sale; insurance is used to protect the seller or bank.
- Guarantees
  - Bid bond (tender guarantee): protects against exporter's unrealistic bid or failure to execute the contract after winning the bid.
  - Performance bond: guarantees exporter's performance after a contract is signed.
  - Advance payment guarantee (letter of indemnity): in the case where an importer advances funds, guarantees a refund if exporter does not perform.
  - Standby letter of credit: issuing bank promises to pay exporter on behalf of importer.
- Insurance

    - Transportation insurance: Covers goods during transport; degree of coverage varies.
    - Credit Insurance: Protects against buyer insolvency or protracted defaults and/or political risks.
    - Seller non-compliance (credit insurance): Covers advance payment risk.
    - Foreign exchange risk insurance: Provides a hedge against foreign exchange risk.
- Hedging

  Instruments used to Hedge Price Risk
    - Stabilization programs and funds.
    - Timing of purchase/sale.
    - Fixed price long-term contracts.
    - Forward contracts.
    - Swaps

Payment Methods in Export Import Trade.

There are 3 standard ways of payment methods in the export import trade international trade market:

1. Clean Payment
2. Collection of Bills
3. Letters of Credit L/c

1. Clean Payments

In clean payment method, all shipping documents, including title documents are handled directly between the trading partners. The role of banks is limited to clearing amounts as required. Clean payment method offers a relatively cheap and uncomplicated method of payment for both importers and exporters.

There are basically two type of clean payments:

Advance Payment

In advance payment method the exporter is trusted to ship the goods after receiving payment from the importer.

Open Account

In open account method the importer is trusted to pay the exporter after receipt of goods. The main drawback of open account method is that exporter assumes all the risks while the importer get the advantage over the delay use of company's cash resources and is also not responsible for the risk associated with goods.

2. Payment Collection of Bills in International Trade

The Payment Collection of Bills also called “Uniform Rules for Collections” is published by International Chamber of Commerce (ICC) under the document number 522 (URC522) and is followed by more than 90% of the world's banks.

In this method of payment in international trade the exporter entrusts the handling of commercial and often financial documents to banks and gives the banks necessary instructions concerning the release of these documents to the Importer. It is considered to be one of the cost effective methods of evidencing a transaction for buyers, where documents are manipulated via the banking system.

There are two methods of collections of bill :

Documents Against Payment D/P

In this case documents are released to the importer only when the payment has been done.

Documents Against Acceptance D/A

In this case documents are released to the importer only against acceptance of a draft.

3**. Letter of Credit L/c**

Letter of Credit also known as Documentary Credit is a written undertaking by the importers bank known as the issuing bank on behalf of its customer, the importer (applicant), promising to effect payment in favor of the exporter (beneficiary) up to a stated sum of money, within a prescribed time limit and against stipulated documents. It is published by the International Chamber of Commerce under the provision of Uniform Custom and Practices (UCP) brochure number 500.

Various types of L/Cs are :

Revocable & Irrevocable Letter of Credit (L/c)

A Revocable Letter of Credit can be cancelled without the consent of the exporter. An Irrevocable Letter of Credit cannot be cancelled or amended without the consent of all parties including the exporter.

Sight & Time Letter of Credit

If payment is to be made at the time of presenting the document then it is referred as the Sight Letter of Credit. In this case banks are allowed to take the necessary time required to check the documents. If payment is to be made after the lapse of a particular time period as stated in the draft then it is referred as the Term Letter of Credit.

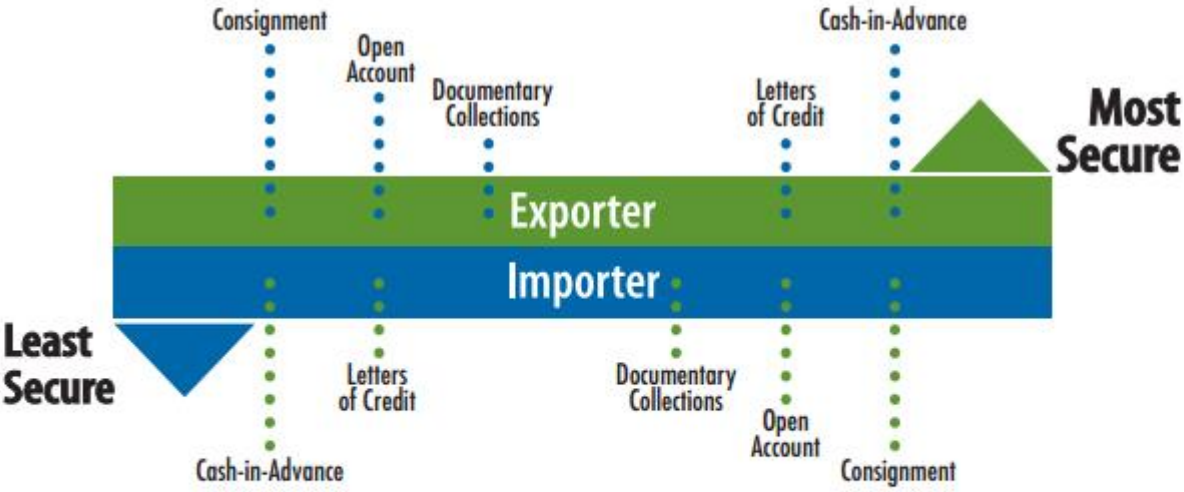
Confirmed Letter of Credit (L/c)

Under a Confirmed Letter of Credit, a bank, called the Confirming Bank, adds its commitment to that of the issuing bank. By adding its commitment, the Confirming Bank takes the responsibility of claim under the letter of credit, assuming all terms and conditions of the letter of credit are met.

Methods of Payment

To succeed in today’s global marketplace and win sales against foreign competitors, exporters must offer their customers attractive sales terms supported by the appropriate payment methods. Because getting paid in full and on time is the ultimate goal for each export sale, an appropriate payment method must be chosen carefully to minimize the payment risk while also accommodating the needs of the buyer. As shown in figure 1, there are five primary methods of payment for international transactions. During or before contract negotiations, you should consider which method in the figure is mutually desirable for you and your customer.

Figure 1: Payment Risk Diagram



Key Points

- International trade presents a spectrum of risk, which causes uncertainty over the timing of payments between the exporter (seller) and importer (foreign buyer).
- For exporters, any sale is a gift until payment is received.
- Therefore, exporters want to receive payment as soon as possible, preferably as soon as an order is placed or before the goods are sent to the importer.
- For importers, any payment is a donation until the goods are received.
- Therefore, importers want to receive the goods as soon as possible but to delay payment as long as possible, preferably until after the goods are resold to generate enough income to pay the exporter.

Cash-in-Advance

With cash-in-advance payment terms, an exporter can avoid credit risk because payment is received before the ownership of the goods is transferred. For international sales, wire transfers and credit cards are the most commonly used cash-in-advance options available to exporters. With the advancement of the Internet, escrow services are becoming another cash-in-advance option for small export transactions. However, requiring payment in advance is the least attractive option for the buyer, because it creates unfavorable cash flow. Foreign buyers are also concerned that the goods may not be sent if payment is made in advance. Thus, exporters who insist on this payment method as their sole manner of doing business may lose to competitors who offer more attractive payment terms. Learn more about **Cash-in-Advance**.

Letters of Credit

Letters of credit (LCs) are one of the most secure instruments available to international traders. An LC is a commitment by a bank on behalf of the buyer that payment will be made to the exporter, provided that the terms and conditions stated in the LC have been met, as verified through the presentation of all required documents. The buyer establishes credit and pays his or her bank to render this service. An LC is useful when reliable credit information about a foreign buyer is difficult to obtain, but the exporter is satisfied with the creditworthiness of the buyer’s foreign bank. An LC also protects the buyer since no payment obligation arises until the goods have been shipped as promised. Learn more about **Letters of Credit**.

Documentary Collections

A documentary collection (D/C) is a transaction whereby the exporter entrusts the collection of the payment for a sale to its bank (remitting bank), which sends the documents that its buyer needs to the importer’s bank (collecting bank), with instructions to release the documents to the buyer for payment. Funds are received from the importer and remitted to the exporter through the banks involved in the collection in exchange for those documents. D/Cs involve using a draft that requires the importer to pay the face amount either at sight (document against payment) or on a specified date (document against acceptance). The collection letter gives instructions that specify the documents required for the transfer of title to the goods. Although banks do act as facilitators for their clients, D/Cs offer no verification process and limited recourse in the event of non-payment. D/Cs are generally less expensive than LCs. Learn more about **Documentary Collections**.

Open Account

An open account transaction is a sale where the goods are shipped and delivered before payment is due, which in international sales is typically in 30, 60 or 90 days. Obviously, this is one of the most advantageous options to the importer in terms of cash flow and cost, but it is consequently one of the highest risk options for an exporter. Because of intense competition in export markets, foreign buyers often press exporters for open account terms since the extension of credit by the seller to the buyer is more common abroad. Therefore, exporters who are reluctant to extend credit may lose a sale to their competitors. Exporters can offer competitive open account terms while substantially mitigating the risk of non-payment by using one or more of the appropriate trade finance techniques covered later in this Guide. When offering open account terms, the exporter can seek extra protection using export credit insurance.

Consignment

Consignment in international trade is a variation of open account in which payment is sent to the exporter only after the goods have been sold by the foreign distributor to the end customer. An international consignment transaction is based on a contractual arrangement in which the foreign distributor receives, manages, and sells the goods for the exporter who retains title to the goods until they are sold. Clearly, exporting on consignment is very risky as the exporter is not guaranteed any payment and its goods are in a foreign country in the hands of an independent distributor or agent. Consignment helps exporters become more competitive on the basis of better availability and faster delivery of goods. Selling on consignment can also help exporters reduce the direct costs of storing and managing inventory. The key to success in exporting on consignment is to partner with a reputable and trustworthy foreign distributor or a third-party logistics provider. Appropriate insurance should be in place to cover consigned goods in transit or in possession of a foreign distributor as well as to mitigate the risk of non-payment.

Choosing the right payment method makes a world of a difference

Export payments are when a buyer from another country pays a seller in a different country for goods or services. There are different types of export payments, each with its own advantages and disadvantages. It is important to understand these methods to make an informed decision about the right one for your business so as to reduce risks.

Letters of Credit

This is one of the most secure ways for global money transfer for an exporter. A letter of credit (LC) is a contractual agreement between the importer and exporter's bank, promising payment upon meeting the mentioned terms and conditions in the LC. This is done by providing specific documents, which upon verification by the banks, releases payment from the buyer's bank to the exporter's bank.

However, it is an extremely labour intensive method as it requires providing detailed documents that are prone to errors and discrepancies. It is also relatively expensive due to banking fees of the different banks involved.

Best use:

- If the importer's credit is unacceptable & unavailable
- In high-risk, newer or less-established trade deals

Cash-in-advance

It is the most secure method of payment for exporters since the importer pays for the goods before it is shipped, typically via wire transfer, credit cards or an escrow service.

1. **Wire transfer:** Typically processed by banks or financial institutions through a secure and networked system like SWIFT (Society for Worldwide Interbank Financial Telecommunication), it is the most preferred method for cash-in-advance. Cross border wire transfers can incur fees depending on the banks or financial institutions involved.
2. **Credit Cards:** Another commonly used option, it is best for small consumer goods transactions or exporters with eCommerce businesses. International credit card transactions fees will apply and may vary depending on the credit card processor.
3. **Escrow Service:** This method protects both parties as funds are placed with a trusted third party who acts as a mediator. Think of them as a safehouse that holds onto the funds until the established conditions are met, after which the payment is completed.

Cash-in-advance mode of payment is less burdensome than LCs, but also a less attractive option for a buyer due to unfavourable cash flow and uncertainty of receiving goods that have been paid for.

Best use:

- If the buyer is a new customer with a less-established purchasing history
- If the buyer's credit cannot be verified and is unreliable
- If the export market is unstable and high-risk

Documentary Collections

A simplified export transaction that offers faster payment, documentary collections involve the exchange of shipping documents for payment. Here, the exporter and importer's bank facilitate the export sale, and fees are lower as banks don't verify the documents nor guarantee payment.

Thus, it is important that the exporter trusts that the buyer has a reliable history of paying on time.

Best use:

- In established trade relationships with a trusted foreign buyer
- In economically and politically stable markets

Open Accounts

In an open account arrangement, the exporter ships the goods and invoices the buyer after shipment, which is typically 30, 60 or 90 days. A more favourable option for the buyer in terms of cash flow and cost, it is consequently the riskiest option for an exporter as they might not receive payment if the buyer defaults.

Best use:

- In an economically & politically stable market
- High confidence in the buyer to accept the shipment & pay on time

Consignment

The exporter ships goods to a foreign market, but its ownership remains with the exporter until the goods are sold. Payment is not transferred until the goods are sold by the consignee (the party receiving and selling the goods in the foreign market) to the end customer. But there are significant risks involved – like delay in payments that will affect cash flow and the prospect of the goods not being sold.

Best use:

- A trusted buyer with a reputable and reliable foreign distributor

In the world of international business, export payments are a vital puzzle piece. How you pay depends on trust, what you're trading, and industry customs. While payment methods offer perks, they also bring along some tricky challenges like high transaction fees, complex processes and paperwork, and navigating complicated regulations. But what if we told you that there's another method for international money transfer that is simple, quick and helps you save more?

Methods of Payments in Import.

There is no predefined definition of personal import. In general a personal import is a direct purchase of foreign goods from overseas mail order companies, retailers, manufacturers or by an individual for the purpose of personal use.

The most common terms of purchase are as follows:

- Consignment Purchase
- Cash-in-Advance (Pre-Payment)
- Down Payment
- Open Account
- Documentary Collections
- Letters of Credit

Consignment Purchase

Consignment purchase terms can be the most beneficial method of payment for the importer. In this method of purchase, importer makes the payment only once the goods or imported items are sold to the end user. In case of no selling, the same item is returned to the foreign supplier. Consignment purchase is considered the most risky and time taking method of payment for the exporter.

Cash-in-Advance (Pre-Payment)

Cash in Advance is a pre-payment method in which, an importer the payment for the items to be imported in advance prior to the shipment of goods. The importer must trust that the supplier will ship the product on time and that the goods will be as advertised. Cash-in-Advance method of payment creates a lot of risk factors for the importers. However, this method of payment is inexpensive as it involves direct importer-exporter contact without commercial bank involvement.

In international trade, Cash in Advance methods of payment is usually done when-

- The Importer has not been long established.
- The Importer's credit status is doubtful or unsatisfactory.
- The country or political risks are very high in the importer's country.
- The product is in heavy demand and the seller does not have to accommodate an Importer's financing request in order to sell the merchandise.

Down Payment

In the method of down payment, an importer pays a fraction of the total amount of the items to be imported in advance. The down payment methods have both advantages and disadvantages. The advantage is that it induces the exporter or seller to begin performance without the importer or buyer paying the full agreed price in advance and the disadvantage is that there is a possibility the Seller or exporter may never deliver the goods even though it has the Buyer's down payment.

Open Account

In case of an open account, an importer takes the delivery of good and ensures the supplier to make the payment at some specific date in the future. Importer is also not required to issue any negotiable instrument evidencing his legal commitment to pay at the appointed time. This type of payment methods are mostly seen where when the importer/buyer has a strong credit history and is well-known to the seller. Open Account method of payment offers no protection in case of non-payment to the seller.

There are many merits and demerits of open account terms. Under an open account payment method, title to the goods usually passes from the seller to the buyer prior to payment and subjects the seller to risk of default by the Buyer. Furthermore, there may be a time delay in payment, depending on how quickly documents are exchanged between Seller and Buyer. While this payment term involves the fewest restrictions and the lowest cost for the Buyer, it also presents the Seller with the highest degree of payment risk and is employed only between a Buyer and a Seller who have a long-term relationship involving a great level of mutual trust.

Documentary Collections

Documentary Collection is an important bank payment method under, which the sale transaction is settled by the bank through an exchange of documents. In this process the seller's instructs his bank to forwards documents related to the export of goods to the buyer's bank with a request to present these documents to the buyer for payment, indicating when and on what conditions these documents can be released to the buyer.

The buyer may obtain possession of goods and clear them through customs, if the buyer has the shipping documents such as original bill of lading, certificate of origin, etc. However, the documents are only given to the buyer after payment has been made ("Documents against Payment") or payment undertaking has been given - the buyer has accepted a bill of exchange issued by the seller and payable at a certain date in the future (maturity date) ("Documents against Acceptance").

Documentary Collections make easy import-export operations within low cost. But it does not provide same level of protection as the letter of credit as it does not involve any kind of bank guarantee like letter of credit.

Letter of Credit

A letter of credit is the most well known method of payment in international trade. Under an import letter of credit, importer’s bank guarantees to the supplier that the bank will pay mentioned amount in the agreement, once supplier or exporter meet the terms and conditions of the letter of credit. In this method of payment, plays an intermediary role to help complete the trade transaction. The bank deals only in documents and does not inspect the goods themselves. Letters of Credit are issued subject to the Uniforms Customs & Practice for Documentary Credits (UCPDC)(UCP). This set of rules is produced by the International **Chamber of Commerce and Industries (CII).**

Documents Against Acceptance: Instructions given by an exporter to a bank that the documents attached to the draft for collection are deliverable to the drawee only against his or her acceptance of the draft.

What is an EEFC account?

An Exchange Earners Foreign Currency Account is a bank account offered in India for those that are based in India but are earning from abroad. Many exporters fall into this category but the account is open to companies, individuals and joint account holders.

Basically, Indian banks offer this non-interest bearing current account in specific currencies. If you get income from abroad in one of those currencies, that income can remain in that currency but in an Indian bank account. You can also hold multiple currencies in one account.

You can then choose when you want to convert it into rupees or hold it in the foreign currency during a certain period. However, once you withdraw rupees from the account, you are not able to convert the rupees back into the original currency and deposit back into the account. But one large caveat is that the total sum of the amount in the account will be converted to rupees on the last working day of the succeeding calendar month.

Which banks have EEFC accounts?

Most major banks in India offer an EEFC account, but the currencies and offerings can differ between them. Here are the currencies offered by the major banks:

Banks	**Currencies available for EEFC accounts**
DBS	AUD, CAD, CHF, EUR, GBP, HKD, JPY, SGD, USD[3]
ICICI	USD, GBP, EUR[4]

Banks	Currencies available for EEFC accounts
HDFC	USD, Euro, GBP, JPY, CHF, SGD, CAD AUD, AED NXD, SEK, SAR, HKD, THB, KWD, SAR, NOK,
IndusInd	USD, GBP, EURO, AUD, CAD[6]

Axis Bank and SBI offer EEFC type accounts but it is better to speak to the bank first to confirm it as an available product.

Foreign remittance to EEFC accounts

You can send money from earnings abroad to an EEFC account in India as a remittance. But how you get that money into your account can really make a difference in your earnings. If you have the wrong partner, the costs can really add up with your money transfer fees.

Often money transfer services can cost you in two main ways, first by high transaction fees and secondly with a hidden fee in the exchange rate. Banks can also make transfers expensive through high SWIFT fees and transaction fees. Then on top of that, they give you a weaker exchange rate than the rate they use themselves. In that way, they are able to take a cut of every conversion. So if you are moving money to your EEFC account, you can get hit twice by the banks or old money transfer partners.

Wise offers something brand new. With smart technology, Wise is able to transfer money to and from India for just one low fee. And all at the mid-market exchange rate, that's the rate the banks use themselves.

What is the purpose of an EEFC account?

An EEFC (Exchange Earners' Foreign Currency) account is like a special bank account in India. It's made for people and businesses who earn money from other countries, especially through international trade. The main goals and benefits of having an EEFC account are:

Keeping Foreign Earnings:

With an EEFC account, you can keep the money you earn in foreign currencies without having to change it into Indian rupees right away.

This gives you more control over how you use your foreign money.

Avoiding Exchange Rate Risks:

By having foreign money in an EEFC account, you can try to avoid problems when the value of money changes.

You can choose to change your foreign money into Indian rupees when the exchange rates are good for you.

Making International Transactions Easy:

EEFC accounts make it simple to do business with other countries. You can use your foreign money directly for certain activities, like making purchases from abroad, repaying loans taken in foreign currency, or making other allowed payments.

Encouraging Foreign Earnings:

Having EEFC accounts encourages people and businesses to actively participate in activities that earn money from other countries.

This helps increase the overall amount of foreign money that the country has.

Following Rules:

EEFC accounts follow foreign money transfer rules set by the Reserve Bank of India (RBI).

It's important to follow these rules to make sure that foreign exchange transactions are done transparently and legally, in line with the country's monetary policies.

What are the features of an EEFC account?

An EEFC (Exchange Earners' Foreign Currency) account in India is there to help people and businesses who earn money from other countries, especially through activities like international trade and export. This special account is designed to make foreign exchange transactions easier for those involved. The main goals and purposes of an EEFC account are:

Retaining Foreign Currency Earnings:

With an EEFC account, people can keep the money they earn in foreign currencies without having to change it into Indian rupees right away.

This gives them flexibility in managing and using their foreign money.

Mitigating Exchange Rate Risks:

By keeping foreign currency in an EEFC account, individuals and businesses can try to reduce the risks linked to changes in exchange rates.

They can choose to change their foreign money into Indian rupees when the exchange rates are good for them.

Simplifying International Transactions:

EEFC accounts make it easier to do business with other countries. Account holders can use their foreign money directly for specific transactions, like paying for imported goods under outward remittances from India, repaying foreign loans, or making other allowed payments.

Encouraging Foreign Exchange Earnings:

The presence of EEFC accounts motivates individuals and businesses to actively engage in activities that earn money from other countries.

How do you open an EEFC account as a business entity in India?

To begin the process of opening an EEFC (Exchange Earners' Foreign Currency) account for your business in India, adhere to these steps:

Choose a Bank:

Select a bank that provides EEFC accounts. Many reputable banks in India offer this service. Consider factors like the bank's reputation, services, and proximity to your business.

Contact the Chosen Bank:

Reach out to the business banking department or the relationship manager at the selected bank. Express your intention to open an EEFC account, either by visiting the bank or using official communication channels.

Documentation:

Although specific requirements may vary, generally, you would need:

1. Business registration documents (e.g., Certificate of Incorporation, Memorandum, and Articles of Association).
2. PAN (Permanent Account Number) of the business.
3. KYC (Know Your Customer) documents for authorized signatories.
4. Import Export Code (IEC) if applicable.
5. A board resolution authorizing account opening and specifying account signatories.

Application Form:

Fill out the application form given by the bank to open an EEFC account. Make sure all information is correct and provide the necessary signatures.

Submission of Documents:

Submit the filled form and required documents to the bank. They may review and ask for more information if necessary.

Approval Process:

The bank will assess your application and documents. Upon approval, they will furnish details about your new EEFC account, including the account number.

Initial Deposit:

Make the initial deposit into the EEFC account. The minimum deposit requirement may vary among banks.

Start Using the Account:

Once the account is activated, you can commence using it for transactions involving foreign exchange earnings. You can hold and transact in foreign currencies as per the permissible usage defined by the Reserve Bank of India (RBI).

Compliance with Regulations:

Ensure ongoing compliance with RBI guidelines related to EEFC accounts. Stay informed about any changes in regulations that may impact the usage of the account.

What is the difference between EEFC and foreign currency account?

The main distinction between an EEFC (Exchange Earners' Foreign Currency) account and a regular foreign currency account lies in their intended use and the source of funds. Here are the key differences:

1 Purpose and Eligibility:

EEFC Account:

- Specifically designed for individuals and businesses in India earning foreign exchange through exports, international trade, or services to foreign clients.
- Encourages retention of foreign currency earnings and facilitates transactions related to foreign exchange earnings.

Foreign Currency Account:

- A regular foreign currency account permits individuals and businesses to retain foreign currencies and might not be bound by the same eligibility criteria related to foreign exchange earnings.

2 Source of Funds:

EEFC Account:

- Primarily meant to hold foreign currency earnings obtained through legitimate channels such as exports or foreign services.

- Intended for funds earned in foreign currencies.

Foreign Currency Account:

- Can be funded with foreign currency from various sources, including international transactions, personal savings in foreign currencies, or any legal means of acquiring foreign funds.

3 Regulations and Usage:

EEFC Account:

- Funds can be used for specific permissible transactions, such as imports, repayment of foreign loans, and other approved payments.

Foreign Currency Account:

- While subject to certain regulations, offers more flexibility in terms of usage.
- Funds can be used for international wire payments, travel expenses, or any other legitimate purpose without the stringent restrictions associated with EEFC accounts.

4 Incentives and Encouragement:

EEFC Account:

- Encouraged by the RBI to promote and streamline foreign exchange earnings.
- Serves as an incentive for businesses and individuals to contribute to India's foreign exchange reserves.

Foreign Currency Account:

- Widely available but may not come with the same level of encouragement or incentives provided by the RBI for holding foreign exchange earnings in an EEFC account.

What is a Letter of Credit?

A Letter of Credit is a contractual commitment by the foreign buyer's bank to pay once the exporter ships the goods and presents the required documentation to the exporter's bank as proof.

As a trade finance tool, Letters of Credit are designed to protect both exporters and importers. They can help you win business with new clients in foreign markets. This means the exporter gets a guarantee of payment while offering the importer reasonable payment terms.

Before Applying for a Letter of Credit

Letters of Credit are one of the most secure payment instruments available but can be labor-intensive and relatively expensive due to bank fees. They are recommended for use in higher-risk situations, when the importer's credit is unacceptable or not available, when dealing with a new or less-established trade relationship or when extended payment terms are requested.

The required documents are detailed and prone to errors and discrepancies. To avoid payment delays and extra fees, documents required by the Letter of Credit should be prepared by trained professionals.

Additionally, the exporter should consult with their bank before the importer applies for the Letter of Credit. Ask about:

- What type and size of export transactions are suitable for a Letter of Credit?
- How much does a Letter of Credit cost? Who pays the fees?
- How are disputes resolved between importer and exporter?

How to Apply for a Letter of Credit

1. The exporter and their bank must be satisfied with the creditworthiness of the importer's bank. Once the Sales Agreement is completed, the importer applies to their bank to open a Letter of Credit in favor of the exporter.
2. The Importer's bank drafts the Letter of Credit using the Sales Agreement terms and conditions and transmits it to the exporter's bank. The exporter's bank reviews and approves the Letter of Credit and sends it to the exporter.

3. The exporter ships the goods in the manner provided for in the letter of credit and submits the required documents to their bank. A freight forwarder may be used to assist in this process.
4. The Exporter's bank checks the documents for compliance with the Letter of Credit terms and conditions. Any document errors and discrepancies must be amended and resubmitted. After approval, the exporter's bank submits the complying documents to the importer's bank.
5. The importer's bank releases payment to the exporter's bank. The importer's account is and their bank releases the documents to the importer to claim the goods and clear customs.

Types of Letters of Credit

The types of letters of credit include a commercial letter of credit, a revolving letter of credit, a traveler's letter of credit, a confirmed letter of credit, and a standby letter of credit. International trade will also sometimes use an unsecured—also called a red clause—letter of credit.

Commercial Letter of Credit

This is a direct payment method in which the issuing bank makes the payments to the beneficiary. In contrast, a standby letter of credit is a secondary payment method in which the bank pays the beneficiary only when the holder cannot.

Revolving Letter of Credit

This kind of letter allows a customer to make any number of draws within a certain limit during a specific period. It can be useful if there are frequent merchandise shipments, for example, and you don't want to redraft or edit letters of credit each time.

Traveler's Letter of Credit

For those going abroad, this letter will guarantee that issuing banks will honor drafts made at certain foreign banks.

Confirmed Letter of Credit

A confirmed letter of credit involves a bank other than the issuing bank guaranteeing the letter of credit. The second bank is the confirming bank, typically the seller’s bank. The confirming bank ensures payment under the letter of credit if the holder and the issuing bank default. The issuing bank in international transactions typically requests this arrangement.

Standby Letter of Credit

A standby letter of credit provides payment if something does not occur, which is the opposite of how other types of letters of credit are structured. So, instead of facilitating a transaction with funding, a standby letter of credit is like an insurance contract. It protects and compensates one party (the beneficiary) if the other party named in the agreement fails to perform the stated duty or meets certain service level agreements outlined in the letter of credit.

Example of a Letter of Credit

Citibank offers letters of credit for buyers in Latin America, Africa, Eastern Europe, Asia, and the Middle East, who may have difficulty obtaining international credit on their own. Citibank’s letters of credit help exporters minimize the importer’s country risk and the issuing bank’s commercial credit risk.

Letters of credit are typically provided within two business days, guaranteeing payment by the confirming Citibank branch. This benefit is especially valuable when a client is located in a potentially unstable economic environment.

How to Apply for a Letter of Credit

Letters of Credit are best prepared by trained professionals, as mistakes in the detailed documents required can lead to payment delays and fees. Due to industry variations and types of letters of credit, each may be approached differently.

Here's an import-export example.

1. The importer's bank credit must satisfy the exporter and their bank. The exporter and importer complete a sales agreement.
2. Using the sales agreement's terms and conditions, the importer's bank drafts the letter of credit; this letter is sent to the exporter's bank. The exporter's bank reviews the letter of credit and sends it to the exporter after approval.
3. The exporter ships the goods as the letter of credit describes. Any required documentation is submitted to the exporter's bank.
4. The exporter's bank reviews documentation to ensure letter of credit terms and conditions were met. If approved, the exporter's bank submits documents to the importer's bank.
5. The importer's bank sends payment to the exporter's bank. The importer can now claim the goods sent.

Advantages and Disadvantages of a Letter of Credit

Obtaining letters of credit may be necessary in certain situations. However, like anything else related to banking, trade, and business, there are some pros and cons to acknowledge.

Advantages and Disadvantages of a Letter of Credit

Advantages

- Can create security and build mutual trust for buyers and sellers in trade transactions.
- Makes it easier to define the specifics of when and how transactions are to be completed between involved parties.
- Letters of credit can be personalized with terms that are tailored to the circumstances of each transaction.
- Can make the transfer of funds more efficient and streamlined.

Disadvantages

- Buyers typically bear the costs of obtaining a letter of credit.

- Letters of credit may not cover every detail of the transaction, potentially leaving room for error.
- Establishing a letter of credit may be tedious or time-consuming for all parties involved.
- The terms of a letter of credit may not account for unexpected changes in the political or economic landscape.

How Does a Letter of Credit Work?

Often, in international trade, a letter of credit is used to signify that a payment will be made to the seller on time and in full, as guaranteed by a bank or financial institution. After sending a letter of credit, the bank will charge a fee, typically a percentage of the letter of credit, in addition to requiring collateral from the buyer. Among the various types of letters of credit are a revolving letter of credit, a commercial letter of credit, and a confirmed letter of credit.

Common Export Documents

Pro Forma Invoice

A pro forma invoice is an important document used as a negotiating tool between the seller and the buyer prior to an export shipment. This document should be used by the seller to quote at the beginning of an export transaction and it will eventually become the final commercial invoice used when goods are cleared through customs in the importing country. The document contains a description of goods (e.g., quantity, price, weight, kind and other specifications) and is a declaration by the seller to provide the products and services to the buyer at the specified date and price.

Commercial Invoice

The commercial invoice is a legal document between the exporter and the buyer (in this case, the foreign buyer) that clearly states the goods being sold and the amount the customer is to pay. The commercial invoice is one of the main documents used by customs in determining customs duties. A commercial invoice is a bill for the goods from the seller to the buyer. These documents are often used by governments to determine the true value of goods when assessing customs duties. Governments that use the commercial invoice to control imports will often specify its form, content, number of copies, language to be used and other characteristics.

Packing List

Considerably more detailed and informative than a standard domestic packing list, an export packing list lists seller, buyer, shipper, invoice number, date of shipment, mode of transport, carrier, and itemizes quantity, description, the type of package, such as a box, crate, drum, or carton, the quantity of packages, total net and gross weight (in kilograms), package marks and dimensions, if appropriate. Both commercial stationers and freight forwarders carry packing list forms. A packing list may serve as conforming document. It is not a substitute for a commercial invoice. In addition, U.S. and foreign customs officials may use the packing list to check the cargo so the commercial invoice should reflect the information shown on the packing list.

Certification of Origin

Standard Shipments

Required by some countries. A signed statement as to the origin of the export item. Certificates of origin are usually validated by a semi-official organization, such as a local chamber of commerce. A certificate may be required even if the commercial invoice contains the same information.

Transportation Documents

Air Waybill

Air freight shipments require airway bills. An air way bill accompanies goods shipped by an international air carrier. The document provides detailed information about the shipment and allows it to be tracked. Air waybills are shipper-specific and are not negotiable documents (as opposed to “order” bills of lading used for vessel shipments).

Bill of Lading

A bill of lading is a contract between the owner of the goods and the carrier (as with domestic shipments). For ocean shipments, there are two common types: a straight bill of lading, which is non-negotiable, and a negotiable, or shipper’s order bill of lading. The latter can be used to buy, sell or trade the goods while in transit. The customer usually needs an original bill of lading as proof of ownership to take possession of the goods from the ocean carrier.

Export Compliance Documents

The Foreign Trade Regulations 15CFR Part 30 requires that Electronic Export Information (EEI) shall be filed through the Automated Export System (AES) by the United States Principal Party In Interest (USPPI)[the exporter], or an authorized agent of the USPPI or Foreign Principal Party In Interest (FPPI) for all exports of physical goods, including shipments moving pursuant to orders received over the Internet when the value of the commodity classified under each individual Schedule B number is over $2,500, or if there exists a mandatory filing requirement, i.e., an export license is required. See **Foreign Trade Regulation 30.2(a)(1)(iv)**.

A complete guide to filing electronic export information in the Automated Commercial Environment (AESDirect) is an excellent resource. See **EEI and AESDirect**. To sign up and log into the ACE system directly, visit the portal at **U.S. Customs and Border Protection**.

*Note: The EEI is required from persons exporting goods from the United States, Puerto Rico, Foreign Trade Zones (FTZs) located in the United States or Puerto Rico, the U.S. Virgin Islands, between Puerto Rico and the United States, and to the U.S. Virgin Islands from the United States or Puerto Rico.

There are instances when the EEI is not required, such as the following examples:

- When the value of the commodity classified under each individual Schedule B number is $2,500 or less and mandatory EEI filing is not required.
- Shipments FROM the U.S. to Canada of ANY amount and mandatory EEI filing is not required.
- Shipments TO U.S. possessions, except those territories where EEI filing is required, i.e., between the US and Puerto Rico and from the US to the US Virgin Islands). See the exemptions listed on the eCFR **eCFR website** for a list of exemptions.

U.S. Principal Party in Interest (USPPI)

The USPPI, a required field in the EEI as defined in the Foreign Trade Regulations ("FTR"), is the person in the United States that receives the primary benefit, monetary or otherwise, of the export transaction. See **ecfr.gov** for scenarios involving the types of USPPIs.

Export Licenses

An export license is a government document that authorizes the export of specific goods in specific quantities to a particular destination for a particular end-use. This document may be required for most or all exports to some countries or for other countries only under special circumstances. Examples of export-license certificates include those issued by the U.S. Department of Commerce's Bureau of Industry and Security (dual use articles), the State Department's Directorate of Defense Trade Controls (defense articles), the Nuclear Regulatory Commission (nuclear materials), and the U.S. Drug Enforcement Administration (controlled substances and precursor chemicals).

Destination Control Statement

A **Destination Control Statement** (DCS found in part 758.6 of the BIS Export Administration Regulations, or EAR) is required for exports from the United States for items on the Commerce Control List that are outside of EAR99 (products for which no license is required) or controlled under the International Traffic in Arms Regulations (ITAR). A DCS appears on the commercial invoice, ocean bill of lading, or airway bill to notify the carrier and all foreign parties that the item can be exported only to certain destinations.

Depending on the type of product, nature of transaction (i.e. standard or temporary shipment), and destination country, you may be required to submit additional export documentation. This could include a generic or FTA certificate of origin, ATA Carnet, letter of credit, or other documentation.

Special Export Documents

Documents not falling under the category of "commonly used" (e.g., commercial invoice, bill of lading, packing list) are covered here. The country of import may require special documents for a variety of reasons. Certain products may require certificates to show cleanliness, compliance with standards, safety, and health. Other products may require pre-shipment inspections before departing the country of export or be qualified for a free trade agreement tariff rate. Asking the foreign buyer at the beginning of the transaction which documents will be needed for goods to clear customs in the country of import is a best practice.

What Is Trade Finance?

Trade finance represents the financial instruments and products that are used by companies to facilitate international trade and commerce. Trade finance makes it possible and easier for importers and exporters to transact business through trade. Trade finance is an umbrella term meaning it covers many financial products that banks and companies utilize to make trade transactions feasible.

How Trade Finance Works

The function of trade finance is to introduce a third-party to transactions to remove the payment risk and the supply risk. Trade finance provides the exporter with receivables or payment according to the agreement while the importer might be extended credit to fulfill the trade order.

The parties involved in trade finance are numerous and can include:

- Banks
- Trade finance companies
- Importers and exporters
- Insurers
- Export credit agencies and service providers

Trade financing is different than conventional financing or credit issuance. General financing is used to manage solvency or liquidity, but trade financing may not necessarily indicate a buyer's lack of funds or liquidity. Instead, trade finance may be used to protect against international trade's unique inherent risks, such as currency fluctuations, political instability, issues of non-payment, or the creditworthiness of one of the parties involved.

- Lending lines of credit can be issued by banks to help both importers and exporters.
- Letters of credit reduce the risk associated with global trade since the buyer's bank guarantees payment to the seller for the goods shipped. However, the buyer is also protected since payment will not be made unless the terms in the LC are met by the seller. Both parties have to honor the agreement for the transaction to go through.
- Factoring is when companies are paid based on a percentage of their accounts receivables.
- Export credit or working capital can be supplied to exporters.
- Insurance can be used for shipping and the delivery of goods and can also protect the exporter from nonpayment by the buyer.

Although international trade has been in existence for centuries, trade finance facilitates its advancement. The widespread use of trade finance has contributed to international trade growth.

Methods of Payment

Import financing procedures in India adhere to Western business practices. The safest method of receiving payments from Indian importers is through an irrevocable letter of credit (L/C).

L/Cs should be payable in favor of the supplier against presentation of shipping documents through the importer's bank. Importers open L/Cs valid for three to six months depending upon the terms of the agreement. Typically, L/Cs are opened for a specified period to cover products and shipping. There are several lines of credit available to U.S companies doing business in India.

The Indian Rupee is a partially convertible currency. The Reserve Bank of India (RBI) and the Foreign Exchange Management Act, 1999, govern transactions involving foreign exchange. The RBI delegates its powers to authorized dealers within suitable guidelines to deal in foreign exchange.

Indian importers must comply with RBI guidelines on the Master Direction – Import of Goods and Services for import related payments. The guidelines specify time limits for import payments and advance remittances, including the interest payment mechanism. The guidelines also cover procedures for receiving import documents and for purchases of foreign currency, gold, aviation goods, non-physical imports, and situations such as import payments through online Payment Gateway Service Providers.

A resident Indian may pay for the import of goods in foreign currency with an international credit card or debit card issued through the servicing bank in India against the charge slip signed by the importer (assuming the transaction conforms to the foreign trade policy in force). However, international cards are often not accepted by vendors as payment processors regularly refuse to complete such transactions.

RBI authorized banks to enter factoring arrangements with international factoring companies, preferably members of the Factors Chain International. RBI approval is not required for transactions compliant with the latest foreign trade policy and import-related foreign exchange guidance.

Deferred payment arrangements, including supplier and buyer credit, up to five years are treated as trade credits. The RBI has issued related guidance in Master Direction - External Commercial Borrowings, Trade Credits and Structured Obligations. Indian importers have access to trade credits extended by overseas suppliers, banks, financial institutions, and other lenders recognized in this framework. Importers can choose between local currency or foreign currency for importation of capital goods and non-capital goods allowed under India's foreign trade policy.

The Securities and Exchange Board of India registers and authorizes Indian credit rating agencies. Such agencies compute and share credit scores and reports with financial institutions and applicants. Credit rating agencies in India include Credit Rating Information Services of India Ltd., India Rating and Research Pvt. Ltd., The Investment Information and Credit Rating Agency, Credit Analysis and Research Ltd., Brickwork Ratings India Pvt. Ltd., SMERA Ratings Ltd., and Infometrics Valuation and Rating Pvt. Ltd.

India allows a wide variety of debit and credit cards issued by banks and supported by the Visa, MasterCard, Discover, American Express, RuPay and JCB networks. According to the RBI, as of April 2022, the number of credit and debit cards issued has soared to 75.16 million and 920 million, respectively. As noted above, international credit cards issued by these networks may not be accepted in India.

Recently, an Inter Departmental Group (IDG) was constituted by the Reserve Bank of India (RBI) for internationalization of Indian Rupee, now enabling use of INR for settling foreign trade thereby achieving internationalization of INR. The RBI made regulations permitting banking arrangements for invoicing, payment and settlement of exports and imports in INR. Currently, the RBI allows banks of 18 countries to trade internationally in INR via vostro accounts (special rupee vostro account) on approval.

Banking Systems

India has an extensive banking network that includes 12 public sector, 22 private sector, and 46 foreign commercial banks. Eleven small finance banks and six payment banks are the latest additions to the banking network to improve financial inclusion in the country. In addition, there is a large network of regional rural banks and cooperative banks. Public sector banks in India that have dominated the Indian banking industry for many years have witnessed turmoil in recent years due to poor quality and non-performing assets. The Indian government recently led a massive restructuring and recapitalization of public sector banks to address non-performing assets and rising loan defaults.

Open banking in India is gaining popularity with the success of the Unified Payment Interface (UPI) and mobile wallets for digital payments. Indian banks, realizing the need to be a part of the digital innovation process, have embraced financial technology solutions by offering digital lending, insurance, capital market and asset management, and robo-advisory services. India's UPI is steadily becoming globally attractive amid measures to enable seamless cross-border transactions. This is lowering the cost of fund transfers and remittance payments. Overseas markets accepting UPI payments include Singapore, Malaysia, UAE, France, BENELUX countries, Nepal, UK, UAE, Saudi Arabia, Bahrain, Singapore, Maldives, Bhutan, and Oman.

The RBI has sole authority to issue banknotes and is also responsible for granting licenses for new bank branches. The RBI is also the supervisory body for banking operations in India and administers exchange control, banking regulations, and the Indian government's monetary policy. Indian banks must also adhere to the prudential norms laid down by the Basel Group.

Indian companies that are importing goods or borrowing from U.S. companies should comply with RBI guidelines in administering Foreign Exchange Management Act, 1999.

For more information about the methods of payment or other trade finance options,

Foreign Exchange Controls

The RBI sets India's exchange-control policy and administers foreign exchange regulations in consultation with the Indian government. The RBI also acts as a custodian of foreign exchange reserves in India. India's foreign exchange control regime is governed by the **Foreign Exchange Management Act**. This act facilitates external trade and payments and promotes the orderly development and maintenance of the foreign exchange market in India.

Export-Import Bank of the United States (EXIM)

The EXIM is the official export credit agency of the United States. When private sector lenders are unable or unwilling to provide financing, EXIM fills the gap for U.S. businesses by equipping them with the financing tools necessary to compete for global sales. In doing so, the EXIM Bank levels the playing field for U.S. goods and services competing with foreign competition in overseas markets so that American companies can create more jobs at home. EXIM consistently maintains a low default rate and closely monitors credit and other risks in its portfolio. This ensures comprehensive management of EXIM transactions throughout the entire transaction lifecycle.**EXIM's County Limitation Schedule** outlines the level of support available for the Indian market.

Foreign trade in India is promoted and facilitated by the Directorate General of Foreign Trade (DGFT), under the Ministry of Commerce and Industry (MoCI). The DGFT issues the authorisation to exporters and monitors their corresponding obligations through a network of 38 regional offices. The DGFT also implements the Foreign Trade Policy of India.

Foreign Trade Policy (FTP) is the prime policy that lays down simple and transparent procedures that are easy to comply with and administer for efficient management of foreign trade in India. The Policy aims at enhancing the country's trade for economic growth and employment generation. The Customs Tariff Act and the Central Excise Tariff Act are the other two important Acts that lay down how the Customs and Excise duties shall be levied on trade, respectively.

India's overall exports (Merchandise and Services combined) in FY 2023-24 exhibited a positive growth to reach $776.68 Bn worth of exports. Merchandise exports have been recorded at $447.46 Bn during FY 2023-24. Services export leads the overall export growth and has set a new record annual value of $339.62 Bn with a growth rate of 4.3% during FY 2023-24 over FY 2022-23.

Under merchandise exports, 17 of the 30 key sectors exhibited positive growth during FY 2023-24 as compared to FY 2022-23. These include Iron Ore (117.74%), Electronic Goods (23.64%), Tobacco (19.46%), Ceramic Products & Glassware (14.44%), Fruits & Vegetables (13.86%), Meat, Dairy & Poultry Products (12.34%), Spices (12.3%), Coffee (12.22%), Drugs & Pharmaceuticals (9.67%), Cereal Preparations & Miscellaneous Processed Items (8.96%), Oil Seeds (7.43%), Oil Meals (7.01%), Handicrafts Excl. Hand Made Carpet (6.74%), Cotton Yarn/Fabs./Made-Ups, Handloom Products Etc. (6.71%), Carpet (2.13%), Engineering Goods (2.13%) and Tea (1.05%).

India's overall exports in July 2024 stand at $62.42 Bn.
