DKB26 - INTERNATIONAL MARKETING

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Unit 1

Imports and exports are the two important components of a foreign trade. Foreign trade is the exchange of goods and services between the two countries, across their international borders. 'Imports' imply the physical movement of goods into a country from another country in a legal manner. It refers to the goods that are produced abroad by foreign producers and are used in the domestic economy to cater to the needs of the domestic consumers. Similarly, 'exports' imply the physical movement of goods out of a country in a legal manner. It refers to the goods that are produced domestically in a country and are used to cater to the needs of the consumers in foreign countries. Thus, the imports and exports have made the world a local market. The country which is purchasing the goods is known as the importing country and the country which is selling the goods is known as the exporting country. The traders involved in such transactions are importers and exporters respectively. The economy of any country relies on the trading of the country with other countries. Every country involves in export and imports. The ability to export goods helps an economy to grow.

Export

Export means shipping of the goods and services to other countries. The seller of such goods and services is referred to as an "exporter". The overseas based buyer is referred to as an "importer". In International Trade, "exports" refers to selling goods and services produced in the home country to other markets. Export is a function of international trade whereby goods produced in one country are shipped to another country for future sale or trade. Export of commercial quantities of goods normally requires involvement of the customs authorities in both the country of export and the country of import. The advent of small traders over the internet such as Amazon and eBay has largely bypassed the involvement of Customs in many countries because of the low individual values of these trades. Nonetheless, these small exports are still subject to legal restrictions applied by the country of export. In national accounts "exports" consist of transactions in goods and services (sales, barter, gifts or grants) from residents to non-residents.

An export may be understood as change of ownership of a good from a resident to a non-resident. To clarify export just does not occur that the good in question physically crosses the border of the country. There are exemptions like cross border financial leasing, cross border deliveries between affiliates of the same enterprise, goods crossing the border for significant processing to order or repair. Export of services consists of all services rendered by residents to non-residents. In national accounts any direct purchases by non-residents in the economic territory of a country are recorded as exports of services i.e all expenditure by foreign tourists in the economic territory of a country is considered as part of the exports of services of that country. Quantum of international trade of goods is mostly obtained from the declarations to custom services. In general trade system, all goods entering or leaving the country are recorded. In special trade system, customs warehouses do not record the details. Exports occur on a large scale between nations that have fewer restrictions on trade, such as tariffs or subsidies.

Most of the largest companies operating in advanced economies will derive a substantial portion of their annual revenues from exports to other countries. One of the core functions of diplomacy and foreign policy within governments is to foster economic trade in ways that benefit both parties involved.

Scope of exporting

When a company is producing a specific product which could not be produced in any other country, the company has a scope to export the product to the company. When the production capacity of the company is not fully utilized the company may search for opportunities abroad. When the company has any competitive advantage to produce the products at cheaper price / better quality / etc., the company attempt for international marketing. When the combined capabilities of two or more companies which are situated in different countries, the companies may enter into collaboration

Reasons for International Marketing

There are many issues behind a company's decision to begin to compete in foreign markets. For some firms, going abroad is the result of a deliberate policy decision, where as for others it is a reaction to a specific business opportunity or a competitive challenge.

Opportunistic development.

Probably the most common reason for international expansion is the recognition that opportunities exist in foreign markets. The company can adopt a more aggressive policy and actively pursue foreign customers, moving beyond filling unsolicited orders. Most of today's large internationally active companies were built initially around an opportunistic strategy, although today these firms have moved to a more orchestrated and deliberate strategy.

Following customers abroad

For a company whose business is concentrated on a few large customers, the decision to internationalize is usually made when one of its key customers moves abroad to pursue international opportunities. The service sector has seen similar expansions triggered by client moves overseas. (Thus, as a firm's customer base becomes international, so will the firm's own operations if it wants to maintain its business.

Taking advantage of different growth rates of economies.

Growth rates among countries are subject to wide variations. In situations where a company is based in a low growth country, the firm may suffer a competitive disadvantage and may want to expand into faster growing countries to take advantage of growth opportunities.

Exploiting PLC differences

When the market for a firm's product becomes saturated, a company can open new opportunities by entering into foreign markets where the product may not be very well known. Thus adding new markets works like an extension of the Products life cycle.

Leveraging key success factors abroad

Although many companies joining the ranks of internationally active firms still do so largely to search for new opportunities, there are also those companies that internationalize to achieve additional leverage for key resources or investments. Leveraging key success factors requires a firm to first become aware of the key functions it must concentrate on to beat both domestic and international competitors.

Internationalizing for defensive reasons

Some times, companies decide to enter international business for largely defensive reasons. When a domestic company sees its markets invaded by foreign firms that company may react by entering the foreign competitor's home market in return. Thus companies who had not needed to compete internationally find themselves suddenly forced to expand abroad.

Benefits to Exporting Company

. Increase in Sales and Profits

Selling goods and services to a market where the company never had before boosts the sales and thus increases the revenues. Additional sales at overseas, over the long term, increases the scope for increasing overall profitability.

Enhance Domestic Competitiveness

Most of the companies become competitive in the domestic market after entering in to the venture of international operations. Being more competitive in the domestic market helps the companies to adopt many strategies from the international experience.

Gain Global Market Share

By going international companies will participate in the global market and gain a piece of their share from the huge international marketplace.

Reduction of Risk

Selling to multiple markets allows companies to diversify their business and spread their risk. Companies will not be affected due to the changes of the business cycle of domestic / one specific market of a country.

Lower Per Unit Costs

Capturing an additional foreign market will usually expand production to meet foreign demand. Increased production leads to reduction in per unit costs when the companies use existing unused capacities.

Benefits to Host Countries

The host country may get benefits like -Transfer of technology, capital and entrepreneurship; improvement of the host country's BOP; Creation of local job an career opportunities; Improved competition in the local economy and better; utilization of available resources; Greater availability of products for local consumers; Greater access to high quality managerial talent that tends to be scarce in host countries, particularly the developing ones; and Encourage to world economic unity and through that political and economic integration-all resulting in world harmony.

Benefits to home countries

The home countries get benefits like - Acquisition of raw materials from abroad, often from a steadier supply and at lower prices than can be found domestically; Technology and management expertise acquired from competing in global markets; Export of components and finished goods for assembly or distribution in foreign markets; Inflow of income from overseas profits, royalties, licensing fees, and management contracts; and Job and career opportunities at home and abroad in connection with overseas operations.

Export and Economic Development

As it is known from microeconomics, international economics and marketing, exporting is one of the market expansion activities of the firm. Except from the involvement of international accounts and currencies, exporting is similar to looking for new customers in the next town or the next regions. This makes exports different in terms of economic development. Also, exports are special because they can affect exchange rate, fiscal and monetary policies of governments, and shapes the public perception of competitiveness.

It should be mentioned also that on the level of the firm, exports offer the opportunity for economies of scale. By broadening its market reach and serving customers abroad, a firm can produce more and do so more efficiently, which is particularly important if domestic sales are below break-even levels. As a result, the firm may achieve lower costs and higher profits both at home and abroad. Through exporting the firm benefits from market diversification, taking advantage of different growth rates in different markets, and gaining stability by not being overly dependent on any particular market. Exporting also lets the firm learn from the competition, makes it sensitive to different demand structures and cultural dimensions, and proves its ability to survive in a less familiar environment in spite of higher transaction costs. All these lessons can make the firm a stronger competitor at home.

Since exporting is only one possible international marketing strategy it may well lead to the employment of additional strategies such as direct foreign investment, joint ventures, franchising or licensing - all of which contribute to the growth and economic strength of the firm, and, on an aggregate level, to the economic growth of a country. Growth of an economy is directly related to exports. If exports increase at a faster pace as compared to imports, nothing can stop an economy from being a developed one. On the other hand, the instability in exports can adversely affects the process of economic development.

Planning for Export

Economic planning is a mechanism for economic coordination contrasted with the market mechanism. There are various types of planning procedures and ways of conducting economic planning. As a coordinating mechanism for socialism and an alternative to the market, planning is defined as a direct allocation of resources and is contrasted with the indirect allocation of the market.

The level of centralization in decision-making in planning depends on the specific type of planning mechanism employed. As such, one can distinguish between centralized planning and decentralized planning. An economy primarily based on central planning is referred to as a planned economy. In a centrally planned economy the allocation of resources is determined by a comprehensive plan of production which specifies output requirements. Planning may also take the form of directive planning or indicative planning. Most modern economies are mixed economies incorporating various degrees of markets and planning.

Market Analysis

Market analysis studies the attractiveness and the dynamics of a special market within a special industry. It is part of the industry analysis and thus in turn of the global environmental analysis. Through all of these analyses, the strengths, weaknesses, opportunities and threats (SWOT) of a company can be identified. Finally, with the help of a SWOT analysis, adequate business strategies of a company will be defined. The market analysis is also known as a documented investigation of a market that is used to inform a firm's planning activities, particularly around decisions of inventory, purchase, work force expansion/contraction, facility expansion, purchases of capital equipment, promotional activities, and many other aspects of a company.

David A. Aaker outlined Market size (current and future); Market trends; Market growth rate; Market profitability; Industry cost structure; Distribution channels; and Key success factors as the dimensions of market analysis. Christina Callaway classifies the dimension of market analysis as four parts namely environmental analysis, competitive analysis, target audience analysis, and SWOT analysis. Market analysis strives to determine the attractiveness of a market, currently and in the future. Organizations evaluate future attractiveness of a market by understanding evolving opportunities and threats as they relate to that organization's own strengths and weaknesses. A good marketing analysis can improve organization investment decision accurately.

Organizations use these findings to guide the investment decisions they make to advance their success. The findings of a market analysis may motivate an organization to change various aspects of its investment strategy like inventory levels, work force expansion/contraction, facility expansion, purchases of capital equipment, and promotional activities.

Market analysis need to be understood as both with internal dimension and external dimension. The internal dimension is the company's internal position such as employees, department structure, budget and other related compenents and the external dimension include Political issues, social potential force, competition and local economy.

SWOT is strengths, weakness, opportunities, and threats. It matches internal strengths and weaknesses up against opportunities and threats. Strengths and weakness are internal factors which the company can control. And opportunities and threats are external factors that businesses could not control. Businesses can get information on its internal and external factors through various means like customer feedback, employee surveys, internal auditing, etc.

Businesses also may get information from secondary data like environmental information, industry information and competitive data.

Market Intelligence

Business Intelligence refers to skills, processes, technologies, applications and practices used to support decision making. Market intelligence is the information relevant to a company's markets, gathered and analyzed specifically for the purpose of accurate and confident decision-making in determining strategy in areas such as market opportunity, penetration strategy, and market development matrices. Market Intelligence (MI), can be defined as "the process of acquiring and analyzing information in order to understand the market (both existing and potential customers); to determine the current and future needs and preferences, attitudes and behavior of the market; and to assess changes in the business environment that may affect the size and nature of the market in the future."

Market intelligence includes gathering of data from the company's external environment, whereas the Business intelligence process primarily is based on internal recorded events – such as sales, shipments and purchases. The purpose of incorporating Market Information or intelligence into the Business Intelligence process is to provide decision makers with a more "complete picture" of

- market and customer orientation
- new opportunities
- new trends in markets and competitors
- competitor moves to enable counter measures
- detecting threats and early market trends
- intensified customer market view
- market selection & positioning, and
- untapped or under-served potential

Effective market intelligence needs accurate market information that is gathered with right tools and methods. To gather information companies can conduct surveys, interviews, visit and monitor competitors' outlets or gather and buy data from different sources. Traditional interviews and surveys can be done either in-house or by using specialist agencies. Now-a-days, the advanced tools using the services of internet have been developed to collect data relating to the market. Market Intelligence is gathered through internal analysis, competition analysis, and market analysis about the total environment forming a broad spectrum of assembled knowledge. The Market Intelligence Model provides a missing link present in organizations at the highest levels.

Market intelligence services are required increase the participation of all importing and exporting organizations any country. Thus these services are likely to bring more awareness among exporters and importers all over.

Market Research

Market research is any organized effort to gather information about target markets or customers. Market research is the process by which market intelligence is derived. Market research process specifies the information required to address the issues, designs the method for collecting information, manages and implements the data collection process, analyzes the results, and communicates the findings and their implications. Market research provides important information to identify and analyze the market need, market size and competition. It is a very important component of business strategy. Market research techniques encompass both qualitative techniques such as focus groups, in-depth interviews, and ethnography, as well as quantitative techniques such as customer surveys, and analysis of secondary data. It is the systematic gathering, recording, and analysis of qualitative and quantitative data about issues relating to the market characteristics. The term is commonly interchanged with marketing research. However, there is a difference that market research is concerned specifically with markets, while marketing research is concerned specifically about marketing processes. The goal of marketing research is to identify and assess how changing elements of the marketing mix impacts customer behavior. Market research is a key factor to maintain competitiveness over competitors. Market research provides important information to identify and analyze the market need, market size and competition. Market research, which includes social and opinion research, is the systematic gathering and interpretation of information about individuals or organizations using statistical and analytical methods and techniques of the applied social sciences to gain insight or support decision making.

Market Research Methods

The research may require either quantitative or qualitative data in either primary or secondary type for analyzing the market. Primary data are collected through surveys, direct observations, interviews and focus groups using predefined schedule. Secondary data are gathered from existing information through available sources like internet, existing market research results, existing data from the stock lists and customer database, information from agencies such as industry bodies, government agencies, libraries and local councils. Quantitative research requires data in numerical form like customer return frequency, sales figures, and financial trends. Quantitative research often produces a lot of statistics. Qualitative research gathers views and attitudes like the feelings and attitudes towards the products, satisfaction with the product / business, and competitors' strategies and customer expectation.

Market research analyses the size and growth of a market, seasonal or cyclical trends and competitor analysis, financial and economic conditions (pricing practices and payment terms, tariffs and other barriers to trade, foreign exchange and currency stability, terms of concessional finance), Cultural, political and legal factors, quality issues**,** foreign investment and consumer/environmental legislation, registration and licensing procedures local labour laws, and Intellectual property protection.

Market Selection

Market selection plays a crucial role at the international level. Market selection is based on a thorough evaluation of the different markets with reference to certain well-defined criteria, given the company resources and objectives. Target marketing tailors a marketing mix for one or more segments identified by market segmentation. Target marketing contrasts with mass marketing, which offers a single product to the entire market. Two important factors to consider when selecting a target market segment are the attractiveness of the segment and the fit between the segment and the firm's objectives, resources, and capabilities.

Attractiveness of a Market Segment

The following are some important aspects that may be considered when evaluating the attractiveness of a market segment.

- Size of the segment (number of customers and/or number of units)
- Growth rate of the segment
- Competition in the segment
- Brand loyalty of existing customers in the segment
- Attainable market share given promotional budget and competitors' expenditures
- Required market share to break even
- Sales potential for the firm in the segment
- Expected profit margins in the segment

Suitability of Market Segments to the Firm

Market segments also should be evaluated according to how they fit the firm's objectives, resources, and capabilities. Some aspects of fit include:

- Whether the firm can offer superior value to the customers in the segment
- The impact of serving the segment on the firm's image
- Access to distribution channels required to serve the segment
- The firm's resources vs. capital investment required to serve the segment
- The better the firm's fit to a market segment, and the more attractive the market segment, the greater the profit potential to the firm.

Market research and analysis is instrumental in obtaining this information. The impact of applicable micro-environmental and macro-environmental variables on the market segment also needs to be considered. It, sometimes, may be more profitable to serve one or more smaller segments that have little competition.

Target Market Strategies

There are several different target-market strategies that may be followed. Targeting strategies usually can be categorized as one of the following:

Single-segment strategy: It is also known as a concentrated strategy. One market segment is served with one marketing mix. A single-segment approach often is the strategy of choice for smaller companies with limited resources.

Selective specialization: This is a multiple-segment strategy, also known as a differentiated strategy. Different marketing mixes are offered to different segments. The product itself may or may not be different - in many cases only the promotional message or distribution channels alone vary. Product specialization: The firm specializes in a particular product and tailors it to different market segments. Market specialization: The firm specializes in serving a particular market segment and offers that segment an array of different products.

Full market coverage: The firm attempts to serve the entire market. This coverage can be achieved by means of either a mass market strategy in which a single undifferentiated marketing mix is offered to the entire market, or by a differentiated strategy in which a separate marketing mix is offered to each segment.

The following are the steps involved in the market selection process:

International Marketing Objectives

The first step in market selection process is to determine or ascertain the export marketing objectives of the organization. The market selected to serve a particular international marketing objective need not necessarily be the best suited to achieve some other international marketing objective.

Parameters for Selection

For proper evaluation and selection of the markets, it is essential to clearly lay down the parameters and criteria for evaluation. The different parameters for the selection of a market are firm's resources, international environment, market situation, nature of competition, government policy, etc.

Preliminary Screening

The objective of the preliminary screening is to eliminate the markets which are not potential. The parameters used for the preliminary screening may vary from product to product. However, parameters like the size of population, per capita income, structure of the economy, infrastructural factors and political conditions are commonly used.

Short Listing of Markets

Preliminary screening enables to eliminate markets which obviously do not meet consideration at the very outset. There would be a large number of markets left even after the preliminary screening. They are further screened with the help of more information than was used at the preliminary screening stage.

Evaluation and Selection

The short listed markets are further evaluated with reference to the cost-benefit analysis and feasibility study. They are then, ranked on the basis of their overall attractiveness. Of the markets, the best one is chosen for the launching of product considering the company’s resources and external environment

Test Marketing

Initially, the market is tested on a smaller scale by launching the product in a part of the markets. This provides a feedback to the producer about the market. At the same time, it helps the producer in assessing overall response of the consumers from a specific market, after tested success, the production can be undertaken on a mass scale.

Commercial Production

Once the product is tested, in the selected market, the company goes ahead with mass production. Minor modifications, if any, are introduced in the product mix during this stage.

ENTRY STRATEGIES

There are a variety of ways in which organisations can enter foreign markets. This involves decisions about how to conduct operations in international market, that is, whether to export, negotiate a licensing or franchise agreement, establish a joint venture, or setup a wholly owned subsidiary.

Mode of Entry

EXPORTING

Exporting is the most traditional and well established form of operating in foreign markets. Exporting can be defined as the marketing of goods produced in one country into another. It is the most common mode for initial entry into international markets. The company may passively export its surpluses from time to time or it may make an active commitment to expand exports to a particular market. A passive exporter awaits orders or comes across them by chance; an aggressive exporter develops marketing strategies which provide a broad and clear picture of what the firm intends to do in the foreign market. Those firms who are aggressive have clearly defined plans and strategy, including product, price, promotion, distribution, and research elements. In either case, the company produces all its goods in its home country. Exporting involves the least change in the company's product lines, organizations, investments or mission.

Major Types of Export Channel

While export channels may take many different forms, for the purposes of simplicity, two major types may be identified:

1. Indirect Exporting
2. Direct Exporting

1. Indirect Exporting

One approach to exporting is to use export agents, or trading companies, or to sell to the sales offices of foreign organizations located in the firm's domestic market.

Advantages

- Limited commitment
- Minimal risk
- Fewer mistakes
- Flexibility

Limitations

- Lack of contact with market
- Lack of control
- Potential opportunity loss.

This approach is most likely to be appropriate for a firm with limited international expansion objectives.

2. Direct Exporting

When a company handles its own export it is called direct exporting. A company can conduct direct exporting in several ways-

i) Setting up an overseas sales branch
ii) Setting up a domestic export department
iii) Sending home-based sales people abroad.

Advantages

- More Potential return
- Better contact
- More control

Limitations

- More investment

- More risks
- More commitment to foreign market.
- Less market information

When sales volume is sufficient and the firm wishes to devote major effort to developing international markets, establishing its own export sales organization is most desirable.

LICENSING

Licensing is a relatively easy way to enter foreign markets. Licensing means, selling the right to use a manufacturing process, trademark, patent, trade secret, or other item of value for fee or royalty. The licensee takes most of the risk because he must invest some capital to use the right. Licensing is defined as "the method of foreign operation whereby a firm in one country agrees to permit a company in another country to use the manufacturing, processing, trademark, know-how or some other skill provided by the licensor".

Advantages

- Minimal risk
- No investment
- Easy and quick way to enter.
- Exploit small markets.

Limitations

- Less control over the licensee
- Builds up potential competition.
- Less returns
- Restricts future market development

This strategy is appropriate when a firm wants to reap the benefits of technological innovation, a brand, a corporate name, or other proprietary assets in international market without itself engaging in either production or marketing operation.

CONTRACT MANUFACTURING

The firm contracts out production to a local manufacturer but retains control of manufacturing.

Advantages

- Flexible
- Lower manufacturing cost.
- Avoids tariff barriers.
- No investment required.
- Quick mode of entry.

Limitations

- Decreased control over manufacturing operation
- Need for quality control.
- Supplier limitation

This strategy may be appropriate in countries where market size is not sufficient to warrant establishing a manufacturing facility and where there are high tariff barriers. Growing nationalistic feelings may take this approach more attractive in the future.

MANAGEMENT CONTRACTING

The firm provides only management skills-the production facilities are owned by others.

Advantages

- No commitment in fixed facilities
- Relatively low-risk approach

Limitation

- Prevents the firm from setting up its own operations for a period of time.

JOINT VENTURE

Joint venturing means a firm enters foreign market by joining with foreign firms to produce or market a product or service. Joint venture can take a variety of different forms depending on the firm's objectives, capital requirements of the venture, and government regulations with regard to foreign ownership. Joint ventures can be defined as "an enterprise in which two or more investors share ownership and control over property rights and operation".

Advantages

- Reduces capital and other resource requirements.
- Spreads risk.
- Access to expertise and contacts in local markets.

Limitations

- Potential problems and conflict between partners
- Cross-cultural differences in managerial attitudes and behavior.
- Partial control.

Joint venture is the only way to enter a country or region if government bid-award practices routinely favor local companies, or if laws prohibit foreign control but permit joint venture.

OWNERSHIP

The most extensive form of participation is 100% ownership and this involves the greatest commitment in capital and managerial effort. The ability to communicate and control 100% may outweigh any of the disadvantages of joint ventures and licensing. However, repatriation of earnings and capital has to be carefully monitored. The more unstable the environment the less likely is the ownership pathway an option.

The disadvantages are that they incur many costs (especially marketing), the risks are high, some may be more effective than others (due to culture) and in some cases their credibility amongst locals may be lower than that of controlled independents. Independent channels offer lower performance costs, risks, less capital, high local knowledge and credibility. Disadvantages include less market information flow, greater coordinating and control difficulties and motivational difficulties. In addition they may not be willing to spend money on market development and selection of good intermediaries may be difficult as good ones are usually taken up anyway.

Factors Impacting the Choice of Mode of Entry

Following the framework in Figure, five sets of factors should be considered in determining the mode of entry. Three of these, country characteristics, Trade barriers and product market characteristics, are external environmental characteristics that are given in the firm entry decision. Two of them, firm management objectives and country selection strategies are internal, firm-specific characteristics.

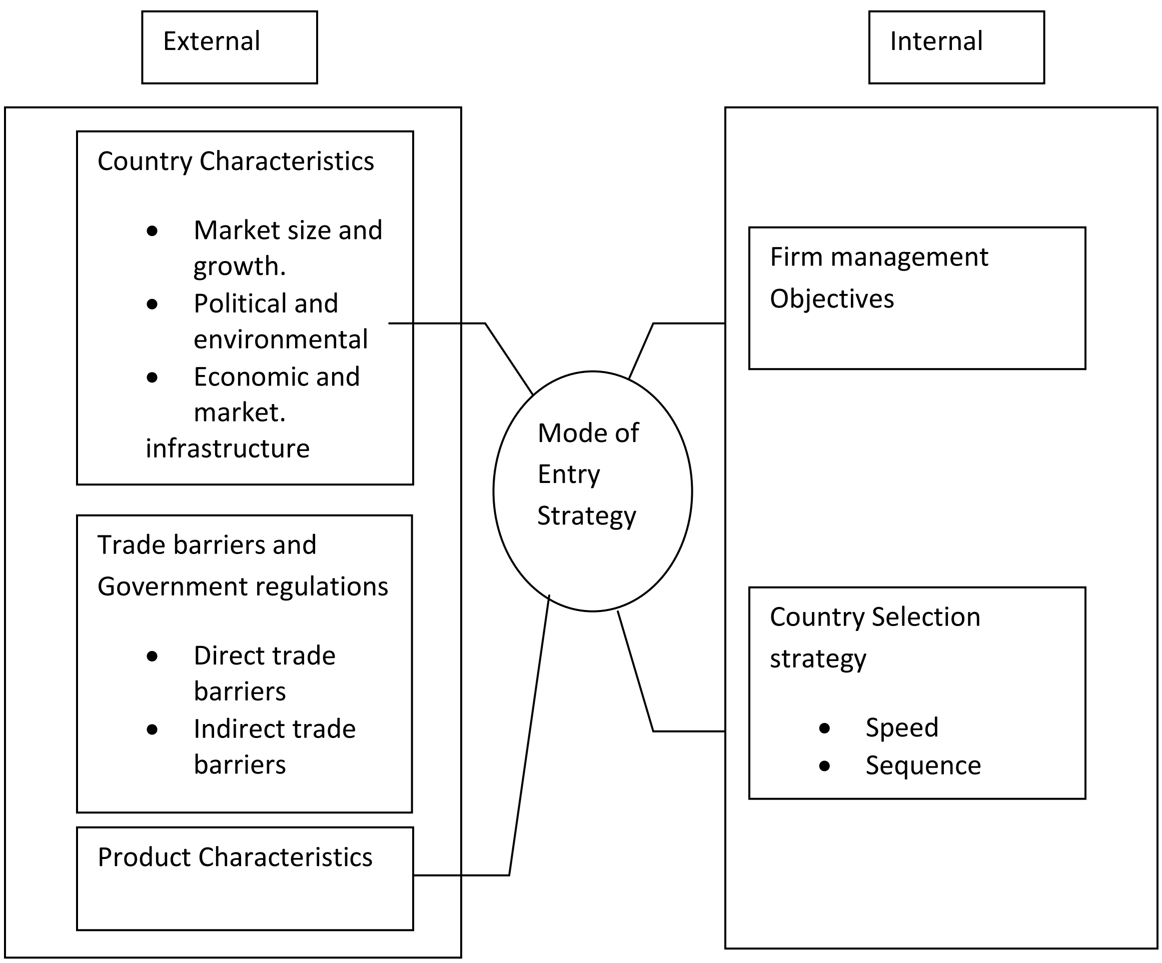


Fig. Factors impacting the choice of mode of entry

Unit 2

Legal Aspects of Export and Trade

Legal aspects are backbone for unbeaten & flourishing business environment of any nation. These legal aspects highlight the reflection of policy makers towards the mass, businessmen, and workers. In some countries, Legal Aspects are very rigid whereas in some others it's too flexible. But the most imperative thing is its effect & implementation. Generally, internal instability occurs in some countries for a long time. Consequently, industrialists & businessman cannot exercise these legal aspects in such rubble. Legal aspects are indispensable for corporate world because it determines the proper & healthy functioning of the organization. Legal Aspects ensure that how to regulate the company & flourish it without any hassle or obstacle.

In India, there are so many acts which regulates the healthy functioning of a company such as the Industries (development & regulation) Act, 1951, Foreign Exchange Regulation Act (FERA), Foreign Exchange Management Act (FEMA), the Arbitration & Conciliation Act, 1996 but the two foremost Act concerned with industries & businesses are - The Companies Act, 1956 and The Contract Act, 1872

The Companies Act, 1956

The foremost law of Indian business industry which control & legalize every aspects of a company is known as Companies Act, 1956. It includes so many important aspects & some of them are role & responsibilities of managerial boards & directorial boards, establishment of company, rebuilding of company & even winding up a company.

The Contract Act, 1872

The Contract Act, 1872 is also an indispensable legislation which deals with various sorts of contracts including basic doctrine related to the formation & enforceability of the contracts. So for the establishment of any company & its proper functioning, its important to know all the legal & technical aspects.

Trade Unions Act:

Trade union is an indispensable part of industrial sector in India. Trade unions play constructive role by acting as a pressure group in a capitalism society. In fact trade unions act as an effective platform for the workers class to enjoy their due rights without being exploited. To strengthen the fundamental rights of voiceless working class trade unions are originated. Gradually trade union got recognition from the authority and became a legally approved representation of labor mass.

In India various trade union related Acts and regulations are enacted to empower the working classes. Indian Trade Union Act 1926 is a principal act that provides adequate safeguards to the rights of labor masses. With the rising complexities in trade union affairs the government has enacted several other labor acts and trade union bills to ensure appropriate representation of labor powers.

The Trade Unions Act, 1926 is a fountain head Act in India that provides varied rules and regulation related to trade unions. It has underlined wide range of provisions for the benefit of labor mass. This Act states all modalities related to trade union registration to trade dispute resolution. The Trade Unions Act, 1926 has defined the role of trade unions and also set certain controlling mechanisms. The main aims and objectives of this Act emphasizes on the reciprocal relationship between the employers and employees.

With the advancement of industrialization process, trade union related issues got more complicated and compelled the union government to enact more effective laws and Acts. Apart to the principal Act, nowadays many amendment Acts and laws are enforced to make the trade Unionism more systematic and constructive in approach. Those Acts include: The Indian Trade Unions (Amendment) Act, 1928, 1960, 1964 and The Central Labour Laws (Extension to Jammu and Kashmir) Act, 1970.Trade Union Acts in India provide effective guidelines for both the trade unions and the industrialists.

Import quotas and licenses

The item in question may be subject to a numerical quota that may be global (originating from anywhere), bilateral (originating from a particular country) to discretionary (changes according to the particular economic situation). Such quotas have been in place for many years, and apply to a wide range of products, from dairy foods to anchovies. Some of these quotas are blatantly for the protection of the farm vote. Others are the result of international commodity agreements. Still others are for national security or foreign policy reasons (e.g. the Cuba boycott). To obtain a share of the quota, an exporter may have to purchase a license, often by public auction.

Non-tariff barriers

Most of these arise out of safety and health regulations, but may also include environmental concerns, consumer protection legislation, and product standards. Excessive use of "product standards" to inhibit imports resulted in the 1979 GATT Agreement on Technical Barriers to Trade (the Standards Code) which provides that imported products (e.g. processed foods) must be accorded the same treatment as the same product sourced domestically. Standards must not create unnecessary obstacles to trade, and must be related to a legitimate domestic objective (e.g. consumer health and safety) or environmental reasons (e.g. the recent import ban on Australian shrimp to the USA because Australian fishermen refused to fit turtle exclusion devices to their nets).

Tariff barriers

These, when added to the imported product, raise the price to a level which may make the import uncompetitive. In many cases, there is a cat and mouse game between the exporter and the importing country's customs agents as to which is the appropriate level of duty to apply. An exporter who is familiar with the importing country's tariffs can find legal ways of minimizing the duties paid and thus maximize returns (for example, setting up operation in an undeveloped country to take advantage of concessional tariff rates given by the USA (or other importer) to that country, or by exporting the product in a form that (legally) attracts minimal duty (i.e. as an ingredient, rather than a separate product). 3

The legal risks of exporting

Exporters expose themselves to various legal risks each time they export. These risks can be grouped as - Home country statute risk; Import country statute risk; Home country third-party risk; Import country third-party risk; and International trade law risk

Home country statute risk

The exporter may run foul of home country laws and regulations directed at exporting. Such laws and regulations may include those relating to quarantine, export inspection, documentation, finance, charges, shipping, occupational health and safety, packaging, and the environment. They also include antitrust and foreign corrupt practices legislation (see earlier). An example would be failure to comply with airline packaging requirements, or misrepresentation of product, or export of a prohibited product or species.

Importing country statute risk

This includes all laws and regulations directed at controlling imports and regulating international trade. Such laws include quarantine, inspection, safety, documentation, and payment of appropriate duties and charges. They may be quite different to those of the exporters home country, in both form and effect. An example would be misrepresentation of product.

Home Country Third-Party Risk

The risk associate with statutory or common-law claims relating to such issues as injury caused by negligence, misrepresentation, or unconscionability that may adhere to the transaction. An example here would be where an employee was injured by a sharp edge or nail on a packing crate.

Importing Country Third-Party Risk

This relates to actions brought by overseas claimants. An example would be an action brought by a company in Japan against an Australian exporter for use of a Japanese registered trademark or brand name, or an outbreak of illness in Japan due to contamination of Australian products during processing in Australia.

International Trade Law Risk

This includes factors such as appropriate jurisdiction, processes for dispute resolution, and claims for damages imposed on domestic traders by international courts. Such risks arise from the adoption of agreements such as the UN Convention for the International Sale of Goods (UN DOC.. If the parties to an export transaction belong to countries which are signatories to this agreement, it automatically applies to all contracts between them. If a dispute arises that cannot be resolved by personal negotiation between the parties, the resolution of the dispute will be according to the Convention. The Convention will also apply for contracting parties whose countries are not parties to the Convention if they elect to have the Convention apply to their transactions.

INTERNATIONAL LAW

An introductory knowledge of the international legal environment will alert global firms to the potential perils and pitfalls of conducting business with organizations of, or in, foreign lands. For the global managers- The most important question is always, how does the law affect our business plans?. The emphasis is on strategic planning, keeping a business from getting into legal trouble, and learning how to ask the right questions worldwide to get the best information for making management decisions.

International law is the body of rules and norms that regulates activities carried on outside the legal boundaries of states. International law is viewed as consisting of two distinct branches-

- Public international law
- Private international law

Public International Law

This law deals primarily with the rights and duties of states and inter-governmental organizations between themselves.

Three types of regulations are of particular interest to the global manager:

- Export controls
- Boycotts
- Sanctions and Embargoes.

Export controls:

These laws are designed to deny or at least delay the acquisition of strategically important goods to adversaries.

Boycotts:

A boycott is collaboration to prevent a country from carrying on international trade by preventing or obstructing other countries from dealing with it.

Sanctions and Embargoes:

Sanctions tend to consist of specific trade measures such as the cancellation of trade financing or the prohibition of high technology trade. Embargoes are usually much broader than sanctions in that they prohibit trade entirely.

PRIVATE INTERNATIONAL LAW

Private International law is the division of international law that deals primarily with the rights and duties of individuals and non- governmental organizations in their international affairs. Private international law is the domain of rights, duties and disputes among persons from different places. It concerns how a nation's courts deal with a different nation's laws. This refers to as the field of 'Conflict of laws' which consists of three areas:

- Choice of law(which law apply to the transaction)
- Choice of forum(who has jurisdiction or the power to hear the case)
- Recognition and enforcement of judgments.

The global manager has to be familiar with International contracts, settlement of disputes, antitrust laws, bribery and corruption, extraterritoriality, intellectual property rights etc.

Private Law for Transport Contracts

Transport documentation is needed to provide instructions to the carrier on what should be done with the goods. They can be used to pass responsibility for, and sometimes ownership of, the goods during their journey.

- If you are exporting goods, you typically complete an Export Cargo Shipping Instruction giving the freight forwarder details of the goods and how they are to reach their destination.
- You also normally complete a Standard Shipping Note, telling the port how to handle the goods.
- The carrier should provide you with documentary evidence that they have received the goods, eg a bill of lading or a waybill. You should keep any documents as evidence in case of later problems with the shipment.
- A CIM Consignment Note gives details of the goods being transported. If you are shipping dangerous goods, you must also complete a dangerous goods declaration. See the guide on moving dangerous goods.
- You may need to insure the goods, and you may also be required to provide proof of insurance to your customer, particularly if you are passing on the costs. You should discuss what documentation is required with your customer and your insurer. See the guide on transport insurance.

INTERNATIONAL CONTRACT

Most global business transactions fall into one of several categories:

i) The sale of goods and services
ii) Licensing and franchising
iii) Direct investment

Each of these categories of global business activity relies heavily on some form of contractual relationship.

Settlement of Disputes

Disputes will inevitably arise in business anywhere and more so when different cultures come together in global market. Settlement of disputes becomes more complex due to differences in language, legal systems, currencies, and traditional business customs.

Incase of disputes, the parties can choose either litigation or arbitration. Litigation is usually avoided as it often involves extensive delays and is very costly. Firms tend to prefer conciliation and arbitration.

Arbitration is the procedure for settling a dispute in which an objective third party hears both side, and makes a decision. It is the procedure for resolving conflict in the international business arena through the use of intermediaries, such as representatives of chamber of commerce, trade association or third-country institutions.

Payment and Credit Settlement of Disputes:

Documentary collections and documentary credits are payment methods often used in international trade. By using special paperwork, the risks of the customer failing to pay or the supplier failing to deliver are reduced:

- With a documentary collection, the exporter prepares a bill of exchange stating how much is to be paid and when. Once the customer accepts this bill of exchange, they are legally liable for payment. Only then does the exporter, usually through the bank in the overseas country, allow the customer to have the transport documents needed to take possession of the goods.
- With a documentary credit, the customer arranges a letter of credit from their bank. The bank agrees to pay the exporter once all the right documentation - such as transport documents showing the right goods have been despatched - is received. The exporter must provide the required paperwork within the agreed time limit and with no discrepancies.
- If you are using one of these payment methods, it’s important to understand what documentation is required and ensure it is accurate. Payments under letter of credit can be

particularly problematic as the exporter must provide exactly the right documentation in order to get paid.

- Regardless of what payment method you agree, you should have a clear written contract stating what amount is due, in what currency, and when. The contract should also make it clear who is responsible for any bank charges.

Antitrust Laws

Antitrust laws exist to combat restrictive business practices in the United States and other nation-states. Restrictive business practices are defined as price fixing, limiting production, market allocation, restraint of technology, and/or any other scheme entered with the specific purpose to avoid competition.

Bribery and Corruption

Bribery and various forms of corruption are not uncommon in global business. Home countries may implement special laws and regulations to ensure that the global business behavior of firms within them is conducted within moral and ethical boundaries considered appropriate.

Extra Territoriality

Government also has specific rules and regulations that restrict global business activity. These restrictions are particularly sensitive when they address activities outside the country. Government's attempt to set policy outside its territorial limits is called extraterritoriality.

Intellectual Property Rights

Rights to intellectual property involve rights to invention, patents, trademarks and industrial designs and copy rights for literary, musical, artistic, photographic and cinematographic works. Currently these types of intellectual property are not completely defined by any international treaty, and the laws differ from country to country on several important points. Some international agreements exist to ease the task of filing for intellectual property rights in those countries in which a firm wants to conduct business or ensure protection.

INDIAN LAWS

In India, exports and imports are regulated by the Foreign Trade (Development and Regulation) Act, 1992, which replaced the Imports and Exports (Control) Act, 1947, and gave the Government of India enormous powers to control it. The salient features of the Act are as follows:-

- It has empowered the Central Government to make provisions for development and regulation of foreign trade by facilitating imports into, and augmenting exports from India and for all matters connected therewith or incidental thereto.
- The Central Government can prohibit, restrict and regulate exports and imports, in all or specified cases as well as subject them to exemptions.
- It authorizes the Central Government to formulate and announce an Export and Import (EXIM) Policy and also amend the same from time to time, by notification in the Official Gazette.
- It provides for the appointment of a Director General of Foreign Trade by the Central Government for the purpose of the Act. He shall advise Central Government in formulating export and import policy and implementing the policy.
- Under the Act, every importer and exporter must obtain a 'Importer Exporter Code Number' (IEC) from Director General of Foreign Trade or from the officer so authorised.
- The Director General or any other officer so authorised can suspend or cancel a licence issued for export or import of goods in accordance with the Act. But he does it after giving the licence holder a reasonable opportunity of being heard.
- As per the provisions of the Act , the Government of India formulates and announces an Export and Import policy (EXIM policy) and amends it from time to time. EXIM policy refers to the policy measures adopted by a country with reference to its exports and imports. Such a policy become particularly important in a country like India, where the import and export of items plays a crucial role not just in balancing budgetary targets, but also in the over all economic development of the country. The principal objectives of the policy are:-

    - To facilitate sustained growth in exports of the country so as to achieve larger percentage share in the global merchandise trade.

- To provide domestic consumers with good quality goods and services at internationally competitive prices as well as creating a level playing field for the domestic producers.
- To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components, consumables and capital goods required for augmenting production and providing services.
- To enhance the technological strength and efficiency of Indian agriculture, industry and services, thereby improving their competitiveness to meet the requirements of the global markets.
- To generate new employment opportunities and to encourage the attainment of internationally accepted standards of quality.

At the central level, the Ministry of Commerce and Industry is the most important organ concerned with the promotion and regulation of the foreign trade in India. The Ministry has an elaborate organizational set up to look after the various aspects of trade. Within the Ministry, the Department of Commerce is responsible for formulating and implementing the foreign trade policy. The Department is also entrusted with responsibilities relating to multilateral and bilateral commercial relations, state trading, export promotion measures and development and regulation of certain export oriented industries and commodities. The matters relating to foreign trade are dealt with by the following divisions of the Department :-

- Administrative and General Division
- Finance Division
- Economic Division
- Trade Policy Division
- Foreign Trade Territorial Division
- Export Products Division
- Export Industries Division
- Export Services Division
- Supply Division

The Department's jurisdiction extends over:-

(a) **Two Attached Offices**:-

- Directorate General of Foreign Trade (DGFT):- with its headquarters at New Delhi, is headed by the Director General of Foreign Trade. It is responsible for implementing the Foreign Trade Policy/Exim Policy with the main objective of promoting Indian exports. The DGFT also issues licences to exporters and monitors their corresponding obligations through a network of regional offices. The regional offices are located at 33 places.
- Directorate General of Supplies and Disposal (DGS&D):- with its headquarters at New Delhi, is headed by the Director General. It functions as the executive arm of the Supply Division of the Department of Commerce for conclusion of Rate Contracts for common user items, procurement of stores, inspection of stores, shipment and clearance of imported stores/cargo. It has three Regional Offices located at Chennai, Mumbai and Kolkata.

(b) **Five Subordinate Offices**:-

- Directorate General of Commercial Intelligence and Statistics (DGCI&S):- with its office located at Kolkata, is headed by the Director General. It is entrusted with the work of collecting, compiling and publishing/ disseminating trade statistics and various types of commercial information required by the policy makers, researchers, importers, exporters, traders as well as overseas buyers.
- Office of Development Commissioner of Special Economic Zones:- The Special Economic Zones (SEZs) are geographically exclusive enclaves separated from domestic tariff areas. The main objective of SEZs is to provide certain common facilities and a duty free environment for exporters. Each Zone is headed by a Development Commissioner and is administered as per the SEZ scheme announced on 31st March, 2000.
- Office of the Custodian of Enemy Property (CEP):- is located in Mumbai with a Branch office at Kolkata. The office is functioning under the Enemy Property Act,1968. All immovable (like land, buildings, etc.) and movable properties (like securities, shares, debentures, bank balances, viz. fixed deposits and other amounts lying in the enemy nationals' bank accounts, Provident fund balances etc.) all over India belonging to or held

by or managed on behalf of Pakistani nationals between the period 10.9.1965 and 26.9.1977 are vested in the Custodian of Enemy Property for India.

- Pay and Accounts Office (Supply):- The payment and accounting functions of Supply Division, including those of DGS&D, are performed by the Chief Controller of Accounts (CCA) under the Departmentalized Accounting System. Payment to suppliers across the country is made through this organisation.
- Pay and Accounts Office (Commerce & Textiles):- The Pay and Accounts Office, common to both the Department of Commerce and the Ministry of Textiles, is responsible for the payment of claims, accounting of transactions and other related matters through the four Departmental Pay & Accounts Offices in Delhi, two in Mumbai, two in Kolkata and one in Chennai.

(c) **Ten Autonomous Bodies**:-

- Coffee Board :- The Coffee Board of India is an autonomous body, functioning under the Ministry of Commerce and Industry, Government of India. The Board serves as a guide of the coffee industry in India. The Board focuses on research, development, extension, quality upgradation, market information, and the domestic and external promotion of Indian coffee.
- Rubber Board :- The board is engaged in the development of the rubber industry. This is done by assisting and encouraging scientific ,technical and economic research; supplying technical advice to rubber growers; and training growers in improved methods of plantation and cultivation.
- Tea Board :- The primary functions of tea board include rendering financial and technical assistance for cultivation,manufacture,marketing of tea; promoting tea exports ;aiding research and developmental activities for augmentation of tea production and improvement of tea quality as well as encouraging and assisting small growers sector financially and technically.
- Tobacco Board:- The Government of India established the Tobacco Board, in place of Tobacco Export Promotion Council, under the Tobacco Board Act of 1975 to regulate production, promotion of overseas marketing and to control recurring instances of imbalances in supply and demand, which lead to market problems,The Tobacco Board

Act aims at the planned development of Tobacco Industry in the country. The activities of the Board includes the regulation of the production and curing of Virginia Tobacco with regard to the demand in India and abroad.

- Spices Board :- Spices Board was constituted on 26th February 1986 under the Spices Board Act 1986. It is one of the Commodity Boards functioning under the Ministry of Commerce & Industry. It is an autonomous body responsible for the export promotion of the scheduled spices and production or development of some of them such as Cardamom and Vanilla.
- Export Inspection Council (EIC), New Delhi :- The Export Inspection Council is responsible for the enforcement of quality control and compulsory preshipment inspection of various commodities meant for export and notified under the Export (Quality Control & Inspection) Act, 1963.
- Indian Institute of Foreign Trade (IIFT), NewDelhi :- is engaged in the following activities:-

- Indian Institute of Packaging (IIP), Mumbai :- is registered under the Societies Registration Act.The main aim of this Institute is to undertake research of raw materials for the packaging industry, to organise training programmes on packaging technology and to stimulate consciousness of the need for good packaging etc.
- Marine Products Exports Development Authority (MPEDA), Kochi :- functions under the Ministry of Commerce, Government of India and acts as a coordinating agency with different Central and State Government establishments engaged in fishery production and allied activities. The Authority is responsible for development of the marine products industry with special focus on marine exports. The role envisaged for the MPEDA is comprehensive covering fisheries of all kinds, increasing exports, specifying standards, processing, marketing, extension and training in various aspects of the marine industry.
- Agricultural and Processed Food Products Export Development Authority (APEDA), New Delhi :- came into existence in 1986 to further develop agricultural commodities and processed foods, and to promote their exports.The aim is to maximize foreign exchange earnings through increased agro exports, to provide better income to the farmers through higher unit value realization and to create employment opportunities in rural areas by encouraging value added exports of farm produce.

(d) **Export Promotion Councils (EPCs)**:-

Presently there are twelve EPCs under the administrative control of the Ministry of Commerce.These councils are registered as non-profit organisations under the Companies Act.The Councils perform both the advisory and executive functions.These councils are also the registering authorities under the Import Policy for Registered Exporters.

EXIM POLICY

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

History of EXIM Policy of India

In the year 1962, the Government of India appointed a special Exim Policy Committee to review the government previous export import policies. The committee was later on approved by the Government of India. Mr. V. P. Singh, the then Commerce Minister and announced the Exim Policy on the 12th of April, 1985. Initially the EXIM Policy was introduced for the period of three years with main objective to boost the export business in India

EXIM Policy Documents:

The EXIM Policy of India has been described in the following documents:

- Interim New EXIM Policy 2009 - 2010
- EXIM Policy: 2004- 2009
- Handbook of Procedures Volume I
- Handbook of Procedures Volume II
- ITC(HS) Classification of Export- Import Items

The major information in matters related to export and import is given in the document named "EXIM Policy 2002-2007".

An exporter uses the Handbook of Procedures Volume-I to know the procedures, the agencies and the documentation required to take advantage of a certain provisions of the Indian EXIM Policy. For example, if an exporter or importer finds out that paragraph 6.6 of the EXIM Policy is important for his export business then the exporter must also check out the same paragraph in the Handbook of Procedures Volume- I for further details.

The Handbook of Procedures Volume-II provides very crucial information in matters related to the Standard Input-Output Norms (SION). Such Input output norms are applicable for the products such as electronics, engineering, chemical, food products including fish and marine products, handicraft, plastic and leather products etc. Based on SION, exporters are provided the facility to make duty-free import of inputs required for manufacture of export products under the Duty Exemption Scheme or Duty Remission Scheme.

The Export Import Policy regarding import or export of a specific item is given in the ITC- HS Codes or better known as Indian Trade Clarification Code based on Harmonized System of Coding was adopted in Indiafor import-export operations. Indian Custom uses an eight digit ITC-HS Codes to suit the national trade requirements. ITC-HS codes are divided into two schedules. It related to import policies where as Export Policy Schedule II describe the rules and regulation related to export policies. Schedule I of the ITC-HS code is divided into 21 sections and each section is further divided into chapters. The total number of chapters in the schedule I is 98. The chapters are further divided into sub-heading under which different HS codes are mentioned. ITC(Hs) Schedule II of the code contain 97 chapters giving all the details about the Export Import Guidelines related to the export policies.

Objectives of the EXIM Policy

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

The objectives of the EXIM Policy are

- To accelerate the economy from low level of economic activities to high level of economic activities by making it a globally oriented vibrant economy and to derive maximum benefits from expanding global market opportunities.
- To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components,' consumables and capital goods required for augmenting production.
- To enhance the techno local strength and efficiency of Indian agriculture, industry and services, thereby, improving their competitiveness.
- To generate new employment.
- Opportunities and encourage the attainment of internationally accepted standards of quality.
- To provide quality consumer products at reasonable prices.

Governing Body of EXIM Policy

The Government of India notifies the EXIM Policy for a period of five years (1997-2002) under Section 5 of the Foreign Trade (Development and Regulation Act), 1992. The current Export Import Policy covers the period 2002-2007. The EXIM Policy is updated every year on the EXIM Policy 1992 -1997. In order to liberalize imports and boost exports, the Government of India for the first time introduced the Indian EXIM Policy on April I, 1992. In order to bring stability and continuity, the Export Import Policy was made for the duration of 5 years. However, the Central Government reserves the right in public interest to make any amendments to the trade Policy in exercise of the powers conferred by Section-5 of the Act. Such amendment shall be made by means of a Notification published in the Gazette of India. Export Import Policy is believed to be an important step towards the economic reforms of India.

EXIM Policy 1997 -2002

With time the EXIM Policy 1992-1997 became old, and a New Export Import Policy was need for the smooth functioning of the Indian export import trade. Hence, the Government of India introduced a new EXIM Policy for the year 1997-2002. This policy has further simplified the procedures and educed the interface between exporters and the Director General of Foreign Trade (DGFT) by reducing the number of documents required for export by half. Import has been further liberalized and better efforts have been made to promote Indian exports in international trade.

Objectives of the EXIM Policy 1997 -2002

The objectives of the Export Import Policy 1997 -2002 are as under:

- To accelerate the economy from low level of economic activities to high level of economic activities by making it a globally oriented vibrant economy and to derive maximum benefits from expanding global market opportunities.
- To motivate sustained economic growth by providing access to essential raw materials, intermediates, components,' consumables and capital goods required for augmenting production.
- To improve the technological strength and efficiency of Indian agriculture, industry and services, thereby, improving their competitiveness.
- To create new employment. Opportunities and encourage the attainment of internationally accepted standards of quality.
- To give quality consumer products at practical prices.

Highlights of the EXIM Policy 1997-2002

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

A very important feature of the policy is liberalization. It has substantially eliminated licensing, quantitative restrictions and other regulatory and discretionary controls. All goods, except those coming under negative list, may be freely imported or exported.

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

Export Promotion Capital Goods (EPCG) Scheme The duty on imported capital goods under EPCG Scheme has been reduced from 15% to 10%. Under the zero duty EPCG Scheme, the threshold limit has been reduced from Rs. 20 crore to Rs. 5 crore for agricultural and allied Sectors

Under Advance License Scheme, the period for export obligation has been extended from 12 months to 18 months. A further extension for six months can be given on payment of 1 % of the value of unfulfilled exports.

The EXIM Policy 2004-2009 has the following main elements:

- Preamble
- Legal Framework
- Special Focus Initiatives
- Board Of Trade
- General Provisions Regarding Imports And Exports
- Promotional Measures
- Duty Exemption / Remission Schemes
- Export Promotion Capital Goods Scheme
- Export Oriented Units (EOUs),Electronics Hardware Technology Parks (EHTPS), Software Technology Parks (STPs) and Bio-Technology Parks (BTPs)
- Special Economic Zones
- Free Trade & Warehousing Zones
- Deemed Exports

Permeable of Exim Policy 2004-2009: It is a speech given by the Ministry of Commerce and Industries. The speech for the Exim Policy 2004-2009 was given by Kamal Nath, on 31ST AUGUST, 2004.

Free Export Import

In case an export or import that is permitted freely under Export Import Policy is subsequently subjected to any restriction or regulation, such export or import will ordinarily be permitted notwithstanding such restriction or regulation, unless otherwise stipulated, provided that the shipment of the export or import is made within the original validity of an irrevocable letter of credit established before the date of imposition of such restriction.

- To advise Government on Policy measures for preparation and implementation of both short and long term plans for increasing exports in the light of emerging national and international economic scenarios;
- To review export performance of various sectors, identify constraints and suggest industry specific measures to optimize export earnings;
- To examine existing institutional framework for imports and exports and suggest practical measures for further streamlining to achieve desired objectives;
- To review policy instruments and procedures for imports and exports and suggest steps to rationalize and channelize such schemes for optimum use;
- To examine issues which are considered relevant for promotion of India's foreign trade, and to strengthen international competitiveness of Indian goods and services; and
- To commission studies for furtherance of above objectives.

NEW FOREIGN TRADE POLICY

The Government of India, Ministry of Commerce and Industry announced New Foreign Trade Policy on 01st April 2015 for the period 2015-2020, earlier this policy known as Export Import (Exim) Policy. After five years foreign trade policy needs amendments in general, aims at developing export potential, improving export performance, encouraging foreign trade and creating favorable balance of payments position. The Export Import Policy (EXIM Policy) or

Foreign Trade Policy is updated every year on the 31st of March and the modifications, improvements and new schemes becomes effective from April month of each year.

LAW RELATING TO PACKING

An important stage after manufacturing of goods or their procurement is their preparation for shipment which involves packing and labeling of goods to be exported. Proper packing and labeling not only makes the final product look attractive but also save a huge amount of money by saving the product from wrong handling the export process.

The primary role of packing is to contain, protect and preserve a product as well as aid in its handling and final presentation. Packing also refers to the process of design, evaluation, and production of packages. The packing can be done within the export company or the job can be assigned to an outside packaging company. Packaging provides following benefits to the goods to be exported:

- Physical Protection
- Containment or agglomeration
- Convenience
- Security

Different countries have different norms for packing the physical goods to be sold in their country.

Some important labeling requirements

Product labels must contain the following information:

- Name, trade name or description;
- Name and complete address of manufacturer/packer, importer, country of origin of the imported food;
- Net weight, number or volume of contents in metric units;
- Distinctive batch, lot or code number;
- Month and year of manufacture and packaging;
- Month and year by which the product is best consumed;

- Information about pharmaceutical and industrial products must be in English;
- If food products have been genetically modified this must be indicated in the label.

Countries revise their policies then and there as required to ensure the safety of the consumer and the environment.

LAW RELATING TO PRICING

To establish an overseas price, you need to consider many of the same factors involved in pricing for the domestic market. These factors include competition; costs such as production, packaging, transportation and handling, promotion and selling expenses; the demand for your product or service and the maximum price that the market is willing to pay.

There are three common methods of pricing exports:

- Domestic Pricing is a common but not necessarily accurate method of pricing exports. This type of pricing uses the domestic price of the product or service as a base and adds export costs, including packaging, shipping and insurance. Because the domestic price already includes an allocation of domestic marketing costs, prices determined using the method might be too high to be competitive.

- Incremental cost pricing determines a basic unit cost that takes into account the costs of producing and selling products for export, and then adds a markup to arrive at the desired profit margin. To determine a price using this method, first establish the "export base cost" by stripping profit markup and the cost of domestic selling. In addition to the base cost, include genuine export expenses (export overheads, special packing, shipping, port charges, insurance, overseas commissions, and allowance for sales promotion and advertising) and the unit price necessary to yield the desired profit margin.

- Cost modification involves reducing the quality of an item by using cheaper materials, simplifying the product or modifying your marketing program, which lowers the price.

In addition, consider your company's objectives and the price sensitivity and uniqueness of your product. A Price Determination Worksheet has been included in Appendix H in order to aid you in calculating the proper export price of your product.

Though the companies have different policies to fight the competition in the market, they have to abide by the regulations of the country where the final product is sold. Like packing, for pricing also governments of different countries have regulations, which is to be adopted by the companies.

LAW RELATING TO ADVERTISING

Advertising Law refers to the body of laws related to the means and methods of communicating information about a product or service to the public. Obviously, effective marketing is key to the success of any business, but all businesses also have a legal obligation to ensure that any claims or representations they make in their advertising claims are truthful, not deceptive, or in some other way violate the law. These laws can have a significant impact on a number of areas of a business's operations, including how that business labels its products, how it conducts email and telemarketing campaigns, claims related to results the products might have on one's health or the environment, and many others.

This deals with truth in advertising and unfair trade practices. For examples this deals with - prohibitions against unreasonable health claims (e.g., that a pill well make one fit and beautiful), violations of others trademarks, or representations about the environmental impact of a product (e.g., claiming that a product is made of recycled materials when it is not). There are several laws in India that relate to advertising.

Consumer Protection Act, 1986- Section 6 of the Act grants consumers the right to be informed about the quality, quantity, potency, purity, standard and price of goods or services, as the case may be so as to protect the consumer against unfair trade practices. Section 2(r) of the Act, under the definition of the term "unfair trade practice", covers the gamut of false advertisements including misrepresentations or false allurements. Redress against such unfair trade practices pertaining to false advertisements may be sought under the Act.

Production, Supply and Distribution Act, 2003: Section 5 of this Act, inter alia, prohibits both direct & indirect advertisement of tobacco products in all forms of audio, visual and print media;

Cable Television Networks (Regulations) Act, 1995 and Cable Television Networks (Amendment) Rules, 2006- Section 6 of the Cable Television Networks (Regulations) Act, 1995 provides that no person shall transmit or re-transmit through a cable service any advertisement unless such advertisement is in conformity with the advertisement code prescribed under the Cable Television Networks (Amendment) Rules, 2006. However, the aforesaid provision does not apply to programmes of foreign satellite channels which can be received without the use of any specialized gadgets or decoder. Rule 7 of the Cable Television Networks (Amendment) Rules, 2006 lays down the “Advertising Code" for cable services which are formulated to conform to the laws of the country and to ensure that advertisements do not offend morality, decency and religious susceptibilities of the subscribers;

Doordarshan/ All India Radio (AIR) Advertisement Code- Doordarshan and AIR, both under the control of Prasar Bharati (a statutory autonomous body established under the Prasar Bharati Act), follow a comprehensive code for commercial advertisements which control the content and nature of advertisements that can be relayed over the agencies;

Drug and Magic Remedies (Objectionable Advertisement) Act, 1954- This Act purports to regulate the advertisements of drugs in certain cases and to prohibit the advertising for certain purposes of remedies alleged to possess magic qualities and to provide for matters connected therewith;

Drugs and Cosmetics Act, 1940- Section 29 of the Act imposes penalty upon whoever uses any report of a test or analysis made by the Central Drugs Laboratory or by a Government Analyst, or any extract from such report, for the purpose of advertising any drug. The punishment prescribed for such an offence is a fine which may extend up to five hundred rupees and/ or imprisonment up to ten years upon subsequent conviction;

Emblems and Names (Prevention of improper use) Act, 1950- This piece of legislation prohibits the use of any trade mark or design, any name or emblem specified in the Schedule of the Act or any colorable imitation thereof for the purpose of any trade, business, calling or profession without the previous permission of the Central Government;

Food Safety and Standards Act, 2006- Section 53 of this Act provides a penalty of up to Rs. 10 lakhs for false and misleading advertisements relating to the description, nature, substance or quality of any food;

Indecent Representation of Women (Prohibition) Act, 1986- This Act is aimed at prohibiting indecent representation of women through advertisements or in publications, writings, paintings, figures or in any other manner and for matters connected therewith or incidental thereto (Section 3 and 4 of the Act).

Prenatal Diagnostic Techniques (Regulation and Prevention of Misuse) Act, 1994- Advertisement in any manner regarding facilities of pre-natal determination of sex available at any genetic counseling centre, laboratory, clinic or any other place is prohibited under this Act and has been made a punishable offence under the Act (Section 22);

Young Persons (Harmful Publications) Act, 1956- Section 3 of the Act, inter alia, imposes penalty for advertising or making known by any means whatsoever that any harmful publication (as defined in the Act) can be procured from or through any person;

The Representation of People Act, 1951- The display to the public of any election matter by means of cinematograph, television or other similar apparatus in any polling area during the period of forty-eight hours ending with the time fixed for the conclusion of the poll for any election in the polling area is prohibited under the Act (Section 126).

Indian Penal Code, 1806- The IPC, vide an array of provisions, prohibits obscene, defamatory publication, publication of a lottery and/ or statements creating or promoting disharmony/ enmity in society.

Regulatory Authorities

Advertising Standards Council of India (ASCI) is a self regulatory voluntary organization of the advertising industry. The ASCI has drawn up a code for self regulation in the advertising industry with a purported view to achieve the acceptance of fair advertising practices in the best interests of the ultimate consumer. The ASCI also lays down similar codes for advertisements in specific sectors/industries from time to time. However, the codes are self-imposed discipline to be followed by those involved in the industry and in no way are the codes mandatory. As such, compliance with the code is rare and very few complaints are actually received by the ASCI on account of non-compliance. Nevertheless, the Cable Television Networks (Amendment) Rules, 2006, under Rule 7(9) makes it mandatory for all advertisements carried by cable services to be compliant with the ASCI code. According to the ASCI code, complaints against deviant advertisements can be made by any person who considers them to be false, misleading, offensive, or unfair. The Consumer Complaints Council (CCC) considers and decides on the complaints received from the general public including government officials, consumer groups, complaints from one advertiser against another and even suo moto complaints from the member of the ASCI Board or CCC.

The Reserve Bank of India, SEBI and the IRDA are some of the other regulatory authorities that regulate advertisements in their respective fields.

Comparative Advertising

A popular method of advertisement is comparative advertising where one product/ service is advertised by comparing them with the goods or services of another party. Such other party is usually a competitor or the market leader of that good or service. The comparison is made on the basis of quality, price, availability, performance, etc. with a view towards increasing the sales of the advertiser, either by suggesting that the advertiser's product is of the same or of a superior quality. However, such advertisements often lead to infringement of trademarks of the competitors (as per the Trademarks Act, 1999) and promote unfair competition. Such comparative advertisements also cause disparagement of the product/ service of the competitor although the term ‘disparagement’ is not defined under any of the existing Indian laws.

The Delhi High Court in Reckitt & Colman v. Kiwi TTK clarified the position of law in this regard as “The settled law on the subject appears to be that a manufacturer is entitled to make a statement that his goods are the best and also make some statements for puffing his goods and the same will not give a cause of action to other traders or manufacturers of similar goods to institute proceedings as there is no disparagement or defamation to the goods of the manufacturer so doing. However, a manufacturer is not entitled to say that his competitor's goods are bad so as to puff and promote his goods. It, therefore, appears that if an action lies for defamation an injunction may be granted."

An action against such advertisements may lie at the instance of the manufacturer or marketer before the civil court and at the instance of the consumer, provided it contains a false representation, before the consumer forum under the Consumer Protection Act, 1986.

LAW RELATING TO DISTRIBUTION

Distributorship Law is the law pertaining to the supply chains for certain types of sales arrangements. Distributors and dealers are participants in what is sometimes called a "supply channel." The distributor is typically a wholesaler who sells merchandise to dealers. Dealers, in turn, are typically retailers who sell directly to the public. This traditional terminology is most easily translatable to the automotive industry and the distribution of machinery and mechanical goods. This basic structure has many variants, but the overall scheme is conceptually the same. One company provides the product to a distributor who then re-sells the product to dealers who then sell the items to the end purchaser. There can be multiple levels of distributors and dealers, and in some instances dealers may even sell to the distributors of another retail chain. The laws affecting these business relationships cross over into many practice areas. For example, there are usually a number of contracts securing these relationships, there are shipping and tax implications, there are consumer protection laws, and a variety of intellectual property and licensing issues.

EXPORT FINANCING

Export Trade Finance is a specific topic within the financial services industry. It's much different, for example, than commercial lending, mortgage lending or insurance. A product is sold and shipped overseas, therefore, it takes longer to get paid. Extra time and energy is required to make sure that buyers are reliable and creditworthy. Also, foreign buyers - just like domestic buyers - prefer to delay payment until they receive and resell the goods. Due diligence and careful financial management can mean the difference between profit and loss on each transaction.

Understanding different alternative sources will help borrowers avoid common mistakes like securing the wrong type of financing, miscalculating the amount required or underestimating the cost of borrowing the money.

All sellers want to get paid as quickly as possible, while buyers usually prefer to delay payment, at least until they have received and resold the goods. This is true in domestic as well as international markets. Increasing globalization has created intense competition for export markets. Importers and exporters are looking for any competitive advantage that would help them to increase their sales. Flexible payment terms have become a fundamental part of any sales package.

Selling on open account, which may be best from a marketing and sales standpoint, places all of the risk with the seller. The seller ships and turns over title of the product on a promise to pay from the buyer. Cash-in-advance terms place all of the risk with the buyer as they send payment on a promise that the product will be shipped on time and it will work as advertised.

Today, open account terms with extended dating are becoming more common despite the dangers. Trade finance provides alternative solutions that balance risk and payment.
The two broad categories of trade finance:

- Pre-shipment financing to produce or purchase the material and labor necessary to fulfill the sales order; or

- Post-shipment financing to generate immediate cash while offering payment terms to buyers.

General Considerations

The following factors and considerations apply to financing in general. Financing can make the sale Favorable payment terms make a product more competitive. If the competition offers better terms and has a similar product, a sale can be lost.

In other cases, the exporter may need financing to produce the goods or to finance other aspects of a sale, such as promotion and selling costs, engineering modifications and shipping costs. Various financing sources are available to exporters, depending on the specifics of the transaction and the exporter's overall financing needs.

Financing Costs

The costs of borrowing, including interest rates, insurance and fees will vary. The total cost and its effect on the price of the product and profit from the transaction should be well understood before a pro forma invoice is submitted to the buyer.

Financing Terms

Costs increase with the length of terms. Different methods of financing are available for short, medium, and long terms. Exporters need to be fully aware of financing limitations so that they secure the right solution with the most favorable terms for seller and buyer.

Risk Management

The greater the risks associated with the transaction, the greater the cost. The creditworthiness of the buyer directly affects the probability of payment to an exporter, but it is not the only factor of concern to a potential lender. The political and economic stability of the buyer's country are taken into consideration.

Lenders are generally concerned with two questions:

- Can the exporter perform? They want to know that the exporter can produce and ship the product on time, and that the product will be accepted by the buyer.
- Can the buyer pay? They want to know that the buyer is reliable with a good credit history. They will evaluate any commercial or political risk.

If a lender is uncertain about the exporter's ability to perform, or if additional credit capacity is needed, government guarantee programs are availalbe that may enable the lender to provide additional financing.

Export Intermediaries

Many times, small business owners may not have the time or resources to pursue international sales. If there is a demand for the company's product, use of export intermediaries may prove beneficial. Export Trading Companies (ETCs) and Export Management Companies (EMCs) can help with international sales and marketing efforts. In some instances, EMCs can help finance export sales. Some of these companies may provide short-term financing or may simply purchase the goods to be exported directly from the manufacturer. This eliminates any risks associated with the export transaction as well as the need for financing. Larger enterprises involved in online commerce can expand the way they do business and trading with dependable online payment processing services.

EXPORT FINANCING

Export financing is often a key factor in a successful sale. Contract negotiation and closure are important, but at the end of the day, your company must get paid. Exporters naturally want to get paid as quickly as possible, while importers usually prefer to delay payment until they have received or resold the goods. Because of the intense competition for export markets, being able to offer attractive payment terms customary in the trade is often necessary to make a sale. Exporters should be aware of the many financing options open to them so that they choose the most acceptable one to both the buyer and the seller. In many cases, government assistance in export financing for small and medium-sized businesses can increase a firm's options.

The following factors are important to consider in making decisions about financing:

- **The need for financing to make the sale.** In some cases, favorable payment terms make a product more competitive. If the competition offers better terms and has a similar product, a sale can be lost. In other cases, the buyer may have preference for buying from a particular exporter, but might buy your product because of shorter or more secure credit terms.
- **The length of time the product is being financed.** This determines how long the exporter will have to wait before payment is received and influences the choice of how the transaction is financed.
- **The cost of different methods of financing.** Interest rates and fees vary. Where an exporter can expect to assume some or all of the financing costs, their effect on price and profit should be well understood before a pro forma invoice is submitted to the buyer.
- **The risks associated with financing the transaction.** The riskier the transaction, the harder and more costly it will be to finance. The political and economic stability of the buyer's country can also be an issue. To provide financing for either accounts receivable or the production or purchase of the product for sale, the lender may require the most secure methods of payment, a letter of credit (possibly confirmed), or export credit insurance or guarantee.
- **The need for pre-shipment finance and for post-shipment working capital.** Production for an unusually large order, or for a surge of orders, may present unexpected and severe strains on the exporter's working capital. Even during normal periods, inadequate working capital may curb an exporter's growth. However, assistance is available through public and private sector resources discussed in this chapter.

SOURCES OF EXPORT FINANCING

Companies can choose from many alternatives to finance international marketing transactions. International marketers are increasingly expected to be knowledgeable about complicated financial arrangements.

Private sources

The international firm with ownership of operations in several countries is able to borrow in any of its host environments. When funds are not available in one country, subsidiaries in other areas are often able to secure funds for intra-company transfers.

Public sources

The most important function of public agencies in financing international business efforts has been the provision of loan guarantees to private institutions.

World Bank

The world bank along with its organizations The International Finance Corporation and The International Development Association give long-term loans mainly to developing nations. The World Bank acts as an intermediary between the private capital markets and developing nations. The international development association lends what may be termed soft money to developing nations.

The Export –Import bank

EXIM bank has special services for short-term, medium-term, and long-term financing requirements. Export–Import Bank of India is the premier export finance institution in India, established in 1982 under Export-Import Bank of India Act 1981. Since its inception, EXIM Bank of India has been both a catalyst and a key player in the promotion of cross border trade and investment. Commencing operations as a purveyor of export credit, like other export credit agencies in the world, EXIM Bank India has, over the period, evolved into an institution that plays a major role in partnering Indian industries, particularly the Small and Medium Enterprises, in their globalization efforts, through a wide range of products and services offered at all stages of the business cycle, starting from import of technology and export product development to export production, export marketing, pre-shipment and post-shipment and overseas investment. EXIM Bank is managed by a Board of Directors, which has representatives from the Government, Reserve Bank of India, Export Credit Guarantee Corporation of India, a financial institution, public sector banks, and the business community.

The Bank's functions are segmented into several operating groups including:

- Corporate Banking Group which handles a variety of financing programmes for Export Oriented Units (EOUs), Importers, and overseas investment by Indian companies.
- Project Finance / Trade Finance Group handles the entire range of export credit services such as supplier's credit, pre-shipment Agriculture Business Group, to spearhead the initiative to promote and support Agricultural exports. The Group handles projects and export transactions in the agricultural sector for financing.
- Small and Medium Enterprise: EXIM Bank India handles credit proposals from SMEs under various lending programmes of the Bank.
- Export Services Group offers variety of advisory and value-added information services aimed at investment promotion.
- Export Marketing Services Bank offers assistance to Indian companies, to enable them establish their products in overseas markets. The idea behind this service is to promote Indian export. Export Marketing Services covers wide range of export oriented companies and organizations. EMS group also covers Project exports and Export of Services.
- Besides these, the Support Services groups, which include: Research & Planning, Treasury and Accounts, Loan Administration, Internal Audit, Management Information Services, Information Technology, Legal, Human Resources Management and Corporate Communications.

Financing through commercial banks

Commercial banks both in domestic and foreign are interested in financing transactions of first-rate credit risks. Large multinational banks are generally thought to be the most experienced in trade finance. These banks are less interested in working with small businesses because of smaller deal size and volumes accompanied by greater risk. In fact, small importers and exporters often present a business profile that creates obstacles to financing. Even SMEs with large trade deals are not attractive to larger banks due to risk and credit issues such as loan concentration, debt-earnings ratio restrictions or insufficient collateral. It is important to select a lender that is sincerely interested in serving businesses of similar type or size.

Government –sponsored financing

Government Subsidized financing now exceeds that which commercial banks and exporters formerly provided. Governments all over the world have realized that government sponsored banks can faster exports and, therefore employment.

TERMS OF PAYMENT FOR EXPORT

Cash-in-Advance

With this payment method, the exporter can avoid credit risk, since payment is received prior to the transfer of ownership of the goods. There are three types of cash- in advance-payment method: wire transfer, credit card, and payment by check. Wire transfers and credit cards are the most commonly used cash-in-advance options available to exporters. However, requiring payment in advance is the least attractive option for the buyer, as this method creates cash flow problems. Foreign buyers are also concerned that the goods may not be sent if payment is made in advance. Thus, exporters that insist on this method of payment as their sole method of doing business may find themselves losing out to competitors who may be willing to offer more attractive payment terms.

Letters of Credit

A letter of credit (LC) is a document issued by a financial institution, or a similar party, assuring payment to a seller of goods and/or services provided certain documents have been presented to the bank. Letters of credit are used primarily in international trade for transactions between a supplier in one country and a customer in another. These are documents that prove that the seller has performed the duties under an underlying contract (e.g., sale of goods contract) and the goods (or services) have been supplied as agreed. Letters of credit are among 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 have been met, as verified through the presentation of all required documents. The buyer pays its bank to render this service. In return for these documents, the beneficiary receives payment from the financial institution that issued the letter of credit. The letter of credit serves as a guarantee to the seller that it will be paid regardless of whether the buyer ultimately fails to pay. The parties to a letter of credit are the supplier, usually called the beneficiary, the issuing bank, of whom the buyer is a client, and sometimes an advising bank, of whom the beneficiary is a client. Almost all letters of credit are irrevocable, i.e., cannot be amended or canceled without the consent of the beneficiary, issuing bank, and confirming bank, if any. An LC is useful when reliable credit information about a foreign buyer is difficult to obtain, but you are satisfied with the creditworthiness of your buyer's foreign bank. An LC also protects the buyer since no payment obligation arises until the goods have been shipped or delivered as promised. In this way, the risk that the buyer will fail to pay is transferred from the seller to the letter of credit's issuer. The letter of credit can also be used to ensure that all the agreed upon standards and quality of goods are met by the supplier, provided that these requirements are reflected in the documents described in the letter of credit. The letters of credit can take many forms: irrevocable or revocable, confirmed, or special (transferable, revolving or standby). To obtain a letter of credit, contact the international division of your local bank .

Documentary Collections

A documentary collection is a transaction whereby the exporter entrusts the collection of a payment to the remitting bank (exporter's bank), which sends documents to a collecting bank (importer's bank), along with instructions 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. Documentary collections involve the use of a draft that requires the importer to pay the face amount either on sight (document against payment—D/P) or on a specified date in the future (document against acceptance—D/A). The draft lists instructions that specify the documents required for the transfer of title to the goods. Although banks do act as facilitators for their clients under collections, documentary collections offer no verification process and limited recourse in the event of nonpayment. Drafts are generally less expensive than letters of credit. For more detailed information on the letter of credit payment method see chapter go to Chapter 4 of the *Trade Finance Guide*. To obtain a letter of credit, contact the international division of your bank. Alternatively, see the list of commercial banks listed by state on the U.S. Export –Import Bank's Lender Referral List

Open Account

An open account transaction means that the goods are shipped and delivered before payment is due, usually in 30 to 90 days. Obviously, this is the most advantageous option to the importer in cash flow and cost terms, but it is consequently the highest risk option for an exporter. Due to the intense competition for 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 face the possibility of the loss of the sale to their competitors. However, with the use of one or more of the appropriate trade finance techniques, such as export working capital financing, government-guaranteed export working capital programs, export credit insurance, export factoring, the exporter can offer open competitive account terms in the global market while substantially mitigating the risk of nonpayment by the foreign buyer. For more detailed information on the open account payment method

INSTITUTIONAL AID FOR EXPORT FINANCING

Aid for Trade is an initiative that assists developing countries, particularly least-developed countries, in building their supply-side capacity and trade-related infrastructure to expand their trade opportunities, and to integrate better into the multilateral rules-based trading system.

The Export-Import Bank :

The Export-Import Bank of the United States (Ex-Im Bank) is an independent U.S. Government agency with the primary purpose of facilitating the export of U.S. goods and services. Ex-Im Bank meets this objective by providing loans, guarantees, and insurance programs on market-related credit terms.

Ex-Im Bank's insurance and guarantee programs are structured to encourage private financial institutions to fund U.S. exports by reducing the commercial risks (such as buyer insolvency and failure to pay) and political risks (such as war and currency inconvertibility) of international trade that could lead to nonpayment of export receivables or debt. The financing made available under Ex-Im Bank's guarantees and insurance is on market terms, and most of the commercial and political risks are borne by Ex-Im Bank.

Ex-Im Bank's loan program, on the other hand, is structured to neutralize interest rate subsidies offered by foreign governments. By responding with its own loan assistance, Ex-Im Bank enables U.S. financing to be competitive on specific sales with that offered by foreign exporters.

Pre-export Financing

The Working Capital Guarantee Program enables lenders to provide financing an exporter needs to purchase or produce a product for export, as well as finance short-term accounts receivable. If the exporter defaults on a loan guaranteed under this program, Ex-Im Bank reimburses the lender for the guaranteed portion - generally, 90 percent of the loan - thereby reducing the lender's overall risk. The Working Capital Guarantee Program can be used either to support ongoing export sales or to meet a temporary cash flow demand arising from a single export transaction.

The loan principal can be up to 100 percent of the value of the collateral put up by the exporter, a relatively generous percentage. Eligible collateral includes foreign receivables, exportable inventory purchased with the proceeds of the loan, and goods in production. The term of the guaranteed line of credit is generally one year, but a longer period of renewals may be arranged.

Post-export Financing

Ex-Im Bank offers commercial and political risk insurance. Under the majority of policies, the insurance protects short-term credit extended for the sale of consumer goods, raw materials, commodities, spare parts, and other items normally sold on terms of up to 180 days. If the buyer fail to pay, Ex-Im Bank reimburses the exporter in accordance with the terms of the policy. Coverage is also available for some bulk commodities sold on 360-day terms and for capital and quasi-capital goods sold on terms of up to five years. Ex-Im Bank insurance is by far the largest federal program supporting short-term export credit.

Ex-Im Bank insurance policies for exporters include the Small Business Policy, Single-Buyer Policy, and Multi-Buyer Policy. Another policy, the Umbrella Policy enables an administrator to handle most administrative duties for a group of exporters. With prior written approval, an exporter can assign the rights to any proceeds to a lender as collateral for financing.

Ex-Im Bank's policies generally cover up to 100 percent of defaults due to specified political risks, such as war and expropriation, and up to 95 percent due to defaults arising from other commercial risks, such as buyer default and insolvency. Exporters generally must meet U.S. content requirements and, under some policies, must insure all eligible foreign sales.

Ex-Im Bank insurance premiums reflect various risk factors, including length of credit period, payment method, and the country of the buyer. In keeping with insurance principals, Ex-Im Bank seeks a reasonable spread of risk among the different export markets and avoids unduly concentrated credit exposure.

Several private companies also offer export credit insurance covering political and commercial risks. Private insurance is available for established exporters with a proven track record, often at competitive premium rates, although underwriting capacity in particular markets may be limited. Coverage for contract repudiation and wrongful calling of a bid or performance bond may also be available in the private market. Contact an insurance broker for more information.

Under a separate program, Ex-Im Bank offers its guarantee to encourage banks and other lenders to make export loans to creditworthy foreign buyers of U.S. goods and services. Ex-Im Bank's guarantee supports either medium-term financing (one to five years repayment after delivery or equipment installation) or long-term financing (in most cases, over five and up to ten years repayment) for heavy equipment and capital projects such as power plants, telecommunications systems, and transport facilities and equipment. Lenders charge the market rate for interest on the loan. A minimum 15 percent cash payment is required from the buyer; the remaining 85 percent is financed. Ex-Im Bank's guarantee covers 100 percent of the political and commercial of default on the principal on loans. Coverage for the loan's interest is also provided. Ex-Im Bank guarantees loans made in U.S. dollars or any other freely convertible currency. Ex-Im Bank charges a fee for its guarantee depending on the risk it assumes and the duration of the credit.

Ex-Im Bank also extends medium- and long-term loans of its own as an alternative to its guarantees. Ex-Im Bank loans ate made on the same terms and conditions as guarantees, with the important difference that the bank sets the interest rate in accordance with international agreements. Often, an Ex-Im Bank guarantee results in an all-in cost that is lower than an Ex-Im Bank loan. In fiscal year 1996, $1.2 billion in loans and $6 billion in guarantees were approved by Ex-Im Bank.

Ex-Im Bank guarantees and loans, by law, must bear a reasonable assurance of repayment. To satisfy this requirement, Ex-Im Bank takes into consideration the financial soundness of the credit recipient and capacity to repay the export debt supported by Ex-Im Bank. In some cases, Ex-Im Bank may require credit enhancements such as a counter-guarantee by the government or by a creditworthy party. Under Ex-Im Bank's project loan program for major projects lacking a sovereign guarantee, the bank will help develop an appropriate project structure that offers the requisite reasonable assurance of repayment. For more information on Ex-Im Bank's programs, contact the Business Development Group, Export-Import Bank, 811 Vermont Avenue NW, Washington, DC 20571; telephone 202-565-EXIM, or your local Export Assistance Center.

ECGC:

The ECGC Limited (Formerly Export Credit Guarantee Corporation of India Ltd) is a company wholly owned by the Government of India based in Mumbai, Maharashtra. It provides export credit insurance support to Indian exporters and is controlled by the Ministry of Commerce. Government of India had initially set up Export Risks Insurance Corporation (ERIC) in July 1957. It was transformed into Export Credit and Guarantee Corporation Limited (ECGC) in 1964 and to Export Credit Guarantee Corporation of India in 1983.

Over the years, it has evolved various export credit risk insurance products to suit the requirements of Indian exporters and commercial banks. ECGC is the seventh largest credit insurer of the world in terms of coverage of national exports. The present paid up capital of the Company is Rs. 1000 Crores and the authorized capital is Rs. 1000 Crores.

ECGC is essentially an export promotion organization, seeking to improve the competitive capacity of Indian exporters by giving them credit insurance covers comparable to those available to their competitors from most other countries. It keeps it's premium rates at the lowest level possible.

- Provides a range of credit risk insurance covers to exporters against loss in export of goods and services
- Offers Export Credit Insurance covers to banks and financial institutions to enable exporters to obtain better facilities from them
- Provides Overseas Investment Insurance to Indian companies investing in joint ventures abroad in the form of equity or loan

- Offers insurance protection to exporters against payment risks
- Provides guidance in export-related activities
- Makes available information on different countries with it's own credit ratings
- Makes it easy to obtain export finance from banks/financial institutions
- Assists exporters in recovering bad debts
- Provides information on credit-worthiness of overseas buyer

Commercial Banks

The same commercial bank facilities used to finance domestic activities, including revolving lines of credit for working capital, are often sought to finance export sales until payment is received. Banks do not regularly extend financing solely on the basis of an individual order as they prefer to establish an ongoing business relationship.

A logical first step for an exporter seeking to finance short-term export sales is to approach the local commercial bank with which it already does business. If the bank previously has extended credit to the exporter, the bank will be familiar with the exporter's financial standing, credit need, repayment record, and ability to perform. The bank may be willing to raise the overall limit on an existing working capital line of credit, expand its scope to cover export transactions, or approve a separate line specifically adapted to export-related transactions such as discounting.

Alternatively, the exporter may wish to approach a commercial bank with an international department. Such a bank will be familiar with export business and also be in a position to provide international banking services related to documentary collections and letters of credit, including the discounting of drafts. An intermediate approach is to retain a relationship with the exporter's bank, but seek a referral to a correspondent bank that has an international department.

The exporter should visit the bank's international department, to discuss export plans, available banking facilities, and applicable charges. The exporter may wish to inquire about such matters as: fees for amending or confirming a letter of credit; processing drafts; and about the bank's experience in working with U.S. Government agencies that offer export financing assistance. Generally, the bank's representative handing the exporter's account will not be lodged in the international department. It is in the exporter's best interest to create and foster a close working relationship with the international department.

The responsibility for repaying a working capital loan ordinarily rests with the exporter, even if the foreign buyer fails to pay. The bank takes this contingency into account in deciding on an export working capital line of credit. It is to the benefit of the bank and the exporter to improve the quality of the export receivables by using letters of credit by making use of credit insurance, or by using Export-Import Bank or Small Business Administration working capital guarantees.

An exporter shipping capital goods may want the commercial bank to make medium-term loans directly to the foreign buyer to finance the sale. Such loans are available for well-established foreign buyers in more stable markets, but where there is an element of risk, the bank may require a standby letter of credit, recourse on the exporter in case of default, or similar repayment reinforcement. The exporter should be knowledgeable about loans from his own bank with Export-Import Bank medium- and long-term export guarantee programs, assuming that the commercial bank is willing to utilize them.

EXPORT PRICING

Price, a critical marketing mix tool, is the amount of money that customers pay for the product. In the international marketing effective pricing policy become an essential element in achieving the desired rate of growth in exports. Prices must be set to enable a company to achieve its marketing strategy to develop an overseas market. Different factors will determine a pricing strategy depending on economic and political factors, competitor pricing, consumer demand and the desired rate of return on the investment.

Determinants of pricing

It is a popular fallacy to believe that price depends upon costs alone, while cost-price relationship is importants it does not follow that costs alone determine prices, Very often it is the other way round over a period of time cost and quality are adjusted to the given price. Even then, there are differences in costs to different producers, they fix the price close together for a some what similar product.

Major determinants of pricing are cost, competition, demand and supply, legal, economic and political constraints, Inflation, devaluation and revaluation, and government controls and subsidies.

Cost

Cost represents the price floor beyond which prices cannot be dropped, normally. Sometimes, a firm may sell below cost to penetrate the market for a predetermined periods of time. Price cannot be increased with the increase of cost because of high elastic nature of price elasticity of demand. Some times, an increase in demand may lead to an increase in price without any increase in costs . A marketer may sell the product at a price lower than the cost when the marketer is able to sell some other product (the product) in the market (in some other market) with higher margins, The marketer may also sell at a lower price, when the marketer producing the product by utilizing the excess capacity.

The additional costs, including tariffs, special taxes, transportation costs, handling costs, special packaging, insurances, anticipated losses from currency fluctuations, should also be considered while pricing for international markets.

Competition

There may be a marked difference between the competitors' cost in offering the product. But the prices of the product cannot be fixed in different levels as equivalent to the cost of the products. If there is no direct competition in foreign markets, the price can be set as it would be by a monopolist. In most markets, competitors will quickly appear. Since price is the starting point for comparison between products, the nature and extent of competition has an important effect on market demand. Increasing competition in many world markets, also means prices must be more carefully evaluated.

Demand and supply

The demand conditions are interpreted from the market conditions and the consumer behaviours. A company should be alert to the effect of price adjustments upon demand for its products in the market. The supply conditions are interpreted by an analysis of the competition. The elasticity of demand is always an important element in pricing decisions. If demand is inelastic, there is little reason to lower price. It may even be wise to raise it. If demand is elastic, a price change may be the most important factor in increasing the size of the market. The price quality relationship has an opposite effect on demand from price elasticity. Foreign products can often compete at prices higher that local products because of its foreigness. Normally, the consumers perceive the foreign products as better than the domestic products. The objective of a business is not merely to maintain any specific gross or operating margin but to survive and operate as profitably as possible.

Legal, economical, and political constraints

These are the Uncontrollable parameters outside the market forces which influence price structure. Economic policies as well as economic positions of the countries have an important bearing on price structures. Governments themselves involve in pricing decisions in many ways. They sometimes, put restrictions on minimum retail price to safeguard the local manufacturers.

Price controls are established where creeping inflation threatens to dilute consumer buying power. Government, sometimes, directly enter into the market as a competitor to protect the price levels. The government is frequently a major buyer in a market for particular products.

Government can influence pricing decisions by controlling buyers' access to foreign exchange. Governments can limit the price by granting or not granting the buyers a license to buy foreign currency to pay for the goods. Governments can enter negotiations directly with the seller for a reduced price or for some form of barter or counter trade arrangements. Cost of capital varies widely among countries which ultimately have an impact on the price. Risks of loss in transportation and ware housing are quite high comparing to domestic marketing. Access to low-cost financing has become an increasingly important competitive tool that firms can use to give them price advantages in the market place.

Inflation

The rate of inflation can affect product cost and may force a company to take specific action. Inflation rates have traditionally fluctuated over time and differed from country to country. An essential requirement of pricing in an inflationary environment is the maintenance of operating profit margins.

Devaluation and Revaluation

One of the most unpredictable factors affecting prices is foreign exchange rate movement. Devaluation and revaluation take place when currency values fluctuate in foreign markets. Devaluation is the reduction in the value of one currency against other currencies; revaluation is an increase. Devaluation actually puts upward pressure on costs and prices in country. The effect of revaluation on an exporter or a marketer sourcing in a revaluing country is the opposite of devaluation.

Government controls and subsidies

In many countries government and regulatory agencies influence the prices of products and services. Controls may be applied to an entire economy to combat inflation or regulation may be applied only to specific industries. When government imposes selective use of price controls; foreign companies are more vulnerable to control than local business. Government subsidies can also challenge a company to use sourcing strategically in order to be price competitive. The company can take advantage of the lower cost derived from subsidies and eliminated price escalation due to tariffs and duties.

Other relevant Variables

Apart from the above determinants, Range of products offered, Prompt deliveries and continuity in supply, After-sales service in products like machine tools, consumer durables, Product differentiation and brand image, Frequency of purchase, Presumed relationship between quality and price, Specialty value goods and gift items, Credit offered, Preference or prejudice for products originating from a particular source, Aggressive marketing and sales promotion, Prompt acceptance and settlement of claims, Unique value goods and gift items, etc also affect the pricing in export

Pricing Strategies

The strategy that you will eventually adopt might any one or more of the following objectives in mind:

- Aiming to reach a particular profit level
- Striving to become a low-cost competitor
- Attempting to carve out a specific market share for your firm
- Establishing an acceptable market image (as a bargain or premium supplier)
- Reinforcing a product differentiation strategy that you may have decided to follow in a particular market, i.e. based on a unique feature which differentiates your product from its competitors
- Combating competition
- Attempting to stabilise prices
- Creating a competitive advantage for your firm based on your price
- Securing wider distribution by offering your intermediaries a great share of the income

Demand-led Pricing: Demand-led pricing is based on consumer demand for the product. Demand is affected by factors such as income levels, the availability of substitute goods, and whether the products are necessities or luxury items. High levels of demand can lead to increased prices.

Cost-based pricing: Cost-based pricing is determined by calculating the product costs, overheads, profit margin and additional costs relating to the international sale. Companies new to exporting use this strategy to gain a toehold in the global market place. Cost-plus pricing strategy requires adding up all the costs required to get the product, plus shipping and ancillary charges and a profit percentage. This approach is commonly used in the case of industrial goods where it is often difficult to differentiate between products in terms of their perceived value to the customer.

Penetration Pricing: Penetration pricing aims to rapidly capture market share by offering low prices. Prices may be increased once market leadership is obtained and competitors are squeezed out. This strategy is used as a competitive weapon to gain market position. The marketer sets a low initial price in order to penetrate the market quickly and deeply – to attract a large number of buyers and win a large market share.

Price Skimming: A company charges a high price hoping to maximise profits on a new product before competition emerges. The price can be reduced later when level of demand has been determined or as competition increases. This strategy is often used in the introductory phase of the product life cycle. The goal of this strategy is to maximize revenue on limited volume and to match demand to available supply. Another goal is to reinforce customers' perceptions of high product value.

Flexible Pricing: Flexible pricing is when a company offers the same product at different prices to different customers, with the aim of maximising returns within a specific time.

Static Pricing: Static pricing offers the same price to all customers. This strategy is easy to maintain but competitors can easily under-cut or price-match which can reduce your market share.

Market Holding: This strategy is adopted by companies that want to maintain their share in the market. The companies set prices based on the competitive situation in each market and the ability and willingness of customers to pay.

Now a days, some international players perceive price as a least effective of the elements of marketing strategy because of the ease and speed with which competition can duplicate pricing changes. This leads to non-price competition.

Pricing in Foreign Currencies:

In markets with high inflation rates, a completely different procedure may be required to administer prices, with pricing reviews. It does not make sense to stamp prices on packages in such an environment. The business cycle may also vary from country to country. One country may be experiencing a very sharp recession, while another experiences only a mild slow down or even expansion, depending upon how much each is affected by international influences. The international marketer often has to adjust prices to reflect the differences in these markets. It may be wise to reduce margins and/or prices in the more depressed economies so as to maintain a high enough level of sales to support distribution and promotional programs.

If your business exports goods or services, you will need to decide whether to quote in either the domestic or local currency. If you quote in local currency you will need to manage the risk of exchange rate fluctuation and how to receive foreign currency payments.

- Foreign Currency and Exchange Risks: Business Link guide
  This guide is aimed at businesses which regularly deal with foreign customers. It explains how to price goods or services, how to combat the risk of exchange rate changes and the practicalities of dealing in foreign currencies.
- Forward Foreign Exchange Contracts
  This is an agreement to buy or sell an amount of foreign currency at a specified rate of exchange on or before a certain date. This means you know exactly the amount of currency you are going to receive and eliminates the exchange rate risk. Forward foreign exchange contracts can be arranged through most UK clearing banks.

- The Foreign Exchange Market

  This SITPRO briefing explains the risks involved with sales and purchases made in a foreign currency and the actions you can take to reduce the risks.
- Currency Converter

  The xe.com website provides up-to-date information on currency exchange rates and also provides a currency converter facility which allows you to input an amount and convert it to another currency for an exact conversion.

Pricing and costing are two different things and an exporter should not confuse between the two. Price is what an exporter offer to a customer on particular products while cost is what an exporter pay for manufacturing the same product.

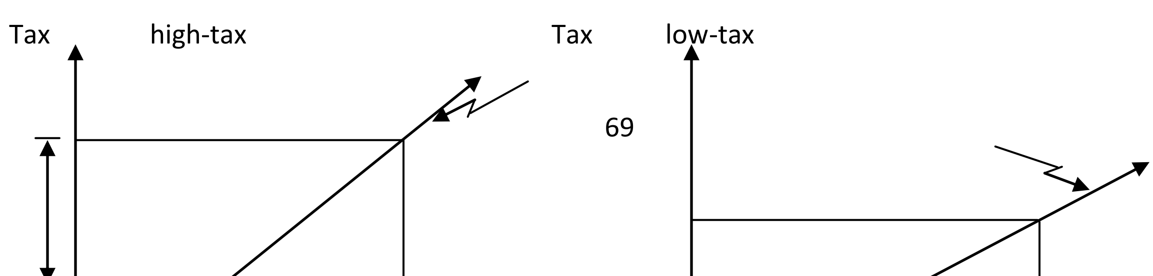
Export pricing is the most important factor in for promoting export and facing international trade competition. It is important for the exporter to keep the prices down keeping in mind all export benefits and expenses. However, there is no fixed formula for successful export pricing and is differ from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

TRANSFER PRICING

Multinational organizations are operating in an environment of unprecedented complexity. The rising volume and variety of intercompany transactions and transfer pricing regulations, accompanied by increased enforcement activities worldwide have made transfer pricing a leading risk management issue for global businesses. Transfer pricing is an art that can be produced by accountants of any firm dealing with itself across national borders. Transfer pricing is normally practiced to evade corporate income tax.

Mechanism of Transfer Pricing

The firm can have its unit in the high-tax country be over changed for goods and services that unit buys from the less-taxed branch. And the firm can have it unit in the high-tax country be under paid for goods and services that unit sells to the less-taxed branch.



Profit curve

T_a Profit curve

Tax Saved

T_b

fig 1 Ps P_a Profit fig 2 P_a P_s Profit

This enables the firm to show higher profits in the unit in the low-tax country and lower profits in the unit in the high-tax country.

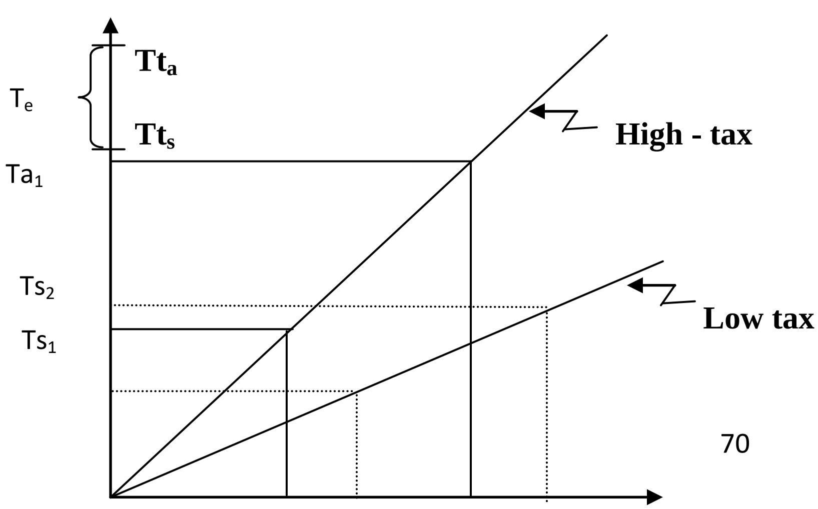
The additional profit shown in low-taxed unit is equivalent to the reduced profit in high-taxed unit. The above fig-s(1 & 2) clearly shows that the tax saved in the high-taxed unit is more than the additional Tax added in the low-taxed unit.

$(T_a - T_s)_{\text{fig.1}} > (T_s - T_a)_{\text{fig.2}}$

Tax evaded = $(T_a - T_s)_{\text{fig.1}} - (T_s - T_a)_{\text{fig.2}}$

Tax evaded is the difference between the tax reduced in the high-taxed unit on the additional tax added in the low- taxed unit.

In this mechanism, the total profits from the low-taxed and high-taxed units with transfer pricing is same as the total profits from the low-taxed and high-taxed units without transfer pricing.



Ta_2

Ps_1 Pa_2 Pa_1 Ps_2

Ta_1 - Fax to be paid (without transfer pricing) in High tax country
Ts_1 - Tax to be paid (with transfer pricing) in High tax country.
Ta_2 – Tax to be paid (without transfer pricing) in Low tax country.
Ts_2 - Tax to be paid (with transfer pricing) in Low tax country.
Pa_1 - Actual profit in the unit in the High tax country.
Ps_1 - Profits in accounts in the unit in the High tax country.
Pa_2 - Actual profit in the unit in the Unit in the Low tax country
Ps_2 - Profits in accounts in the unit in the Low tax country
Tt_a – Total tax to be paid (without transfer pricing)
Tt_s - Total tax to be paid (with transfer pricing)
Te – Tax evaded

Total tax (without transfer pricing)

$$Tt_a = Ta_1 + Ta_2$$

Total tax (with tranfer pricing)

$$Tt_s = Ts_1 + Ts_2$$

The evaded = $Tt_a – Tt_s = T_e = [(Ta_1 – Ts_1) – (Ts_2 – Ta_2)]$

Problem of Transfer Pricing

International firms need to pay close attention to transfer pricing – the pricing of goods and services exchanged in intra corporate purchase transactions. When determining transfer prices to subsidiaries, global companies must consider market – conditions, the ability of potential customers to pay for a company's product, different profit transfer rules, conflicting objectives of joint-venture partners, and government regulations.

Governments are often suspicious of such arrangements being manipulated to gain tax advantages – exporting country regulatory bodies may think that a transfer price is too low, whereas the authorities in the importing country may consider them to be too high.

Prevention Mechanisms:

a. Tax officials can, in principles spot and punish the evasion by proving that the prices that one branch charges another are for from market prices.

b. By implementing ‘Unitary taxation’ system.

c. By regulating intra-corporate prices to be established on an “arm’s –length” basis.i.e. what another buyer/seller would pay/charge for (Market Price)

Dispute avoidance: Advance pricing agreements (APAs)

Transfer pricing presents many tax, legal and operational challenges. To many taxpayers the magnitude of uncertainties – including the potential commitment of management time to successfully defend a transfer pricing examination – is not an acceptable business risk. APAs allow taxpayers to proactively achieve greater certainty via advance agreements on their transfer pricing methods with one or more tax authorities. Deloitte’s experience with the APA process spans the entire history of all the national programs. Our historical knowledge of how to achieve successful results helps companies manage their transfer pricing issues – particularly the risk of double taxation – on a prospective basis.

DUMPING

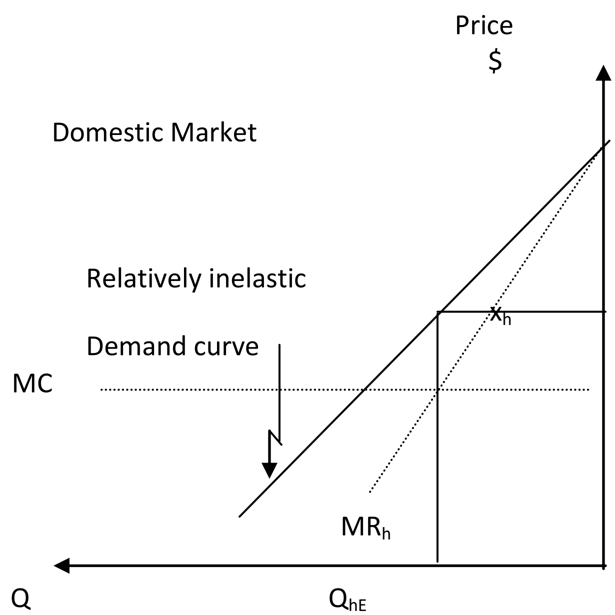
Dumping is international price discrimination in which a MNC sells at lower price in a foreign market than it changes in (other markets) home market. Dumping is generally defined as selling at a price below that at which the product is offered in the domestic market, or selling at a price that is lower than that offered in other foreign markets, or selling below costs of production.

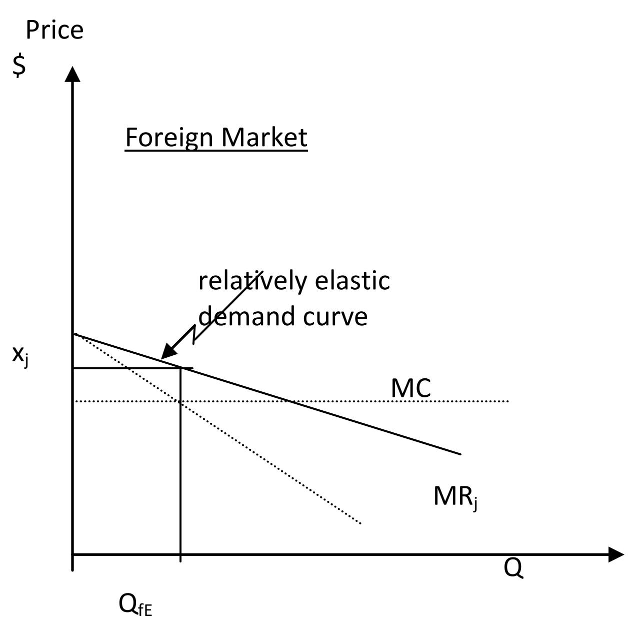
GATT defined dumping the following way:

The parties recognized that dumping, by which the products of one party are introduced into the commerce of the other at less than the normal value of the products, is to be condemned if it causes or threatens material injury to an established domestic industry (or to traditional patterns of domestic trade) in the territory of the other party or materially retards the establishment of a domestic industry.[3]

Mechanism of dumping

Price is fixed so that the marginal cost equals the marginal revenue in the market which lead to the sale of equilibrium quantity (Q_{Em}) The price charged abroad need only cover marginal cost as, all other costs are being covered through domestic sales. The fig explains how dumping works.





X_h - Price in domestic market
X_j - Price in foreign market
Qh_E – Equilibrium quantity in domestic market

Qj_E – Equilibrium quantity in foreign market
M_c - Marginal cost
MR_h - Marginal revenue curve in domestic market
MR_j – Marginal revenue curve in foreign market.

From the above fig, we can say that Dumping is possible only when the price elasticity of demand of the domestic(home) market is more inelastic than that of the foreign market and when the MNC has greater monopoly power in the domestic market.

Dumping can be categorized into three classes.

Sporadic dumping: This occurs when producers (MNCs) dispose of unexpected surpluses abroad at lower prices than at home. This happens at the end of a season, when companies liquidating their excess stocks.

Predatory dumping: This occurs when a product (MNC) sells its products at lower price in a foreign market to weaken or to threaten or to eliminate some or all competitors. After eliminating the competitors the firm raises its price simply because of its monopoly power.

Persistent dumping: This occurs when a producer (MNC) sells its products at lower price in a foreign market for indefinite period.

A producer (MNC) will maximize profits by charging a lower price to foreign buyers when the producer has greater monopoly power in its domestic market. When the producer(MNC) has monopoly power in domestic market and importing that product from abroad is not cheaper to a domestic buyer, the MNC can exploit the domestic buyers heavily.

Impact of dumping

Dumping is advantageous only when the importing country cannot produce that product. This enable the buyers of the importing country to select from variety of cheaper products. Except persistent dumping all other classes of dumping will invariably lead to the fall of domestic marketers of the importing country. Dumping leads to accusations of unfair practice. Dumping can be defined as the sale of an imported product at a price lower than that normally charged in a domestic market or country of origin. Few economists would object to long-run or continuous dumping. If this were done, it would be an opportunity for a country to take advantage of a low-cost source of a particular good and to specialize in other areas. This type of dumping practiced by most companies is sporadic and unpredictable and does not provide a reliable basis for national economic planning. Instead it may injure and hurt domestic enterprises.

Anti dumping measures

1. The importing country can restrict dumping by insisting full or partial or selected restrictions on imports of certain products or (Producers) MNCs.
2. The importing country may impose antidumping duties to discourage the foreign firms.
3. The importing country may announce subsidies to encourage domestic marketers.
4. Dumping can be prevented by negotiated agreements.

INTERNATIONAL PRICE QUOTATIONS

The right pricing and the way you provide quotes for your goods or services are both crucial for a successful and ongoing export business. Export pricing and domestic pricing are different. The pricing is affected by different overseas market conditions, different costs, different quoting formats and different currencies. The quoting format is important as any small variation may affect the realization of the money in terms of the exporting Country's currency.

INCOTERMS

The INCOTERMS rules or International Commercial Terms are a series of pre-defined commercial terms published by the International Chamber of Commerce (ICC) that are widely used in International commercial transactions or procurement processes. A series of three-letter trade terms related to common contractual sales practices, the INCOTERMS rules are intended primarily to clearly communicate the tasks, costs, and risks associated with the transportation and delivery of goods.

The INCOTERMS rules are accepted by governments, legal authorities, and practitioners worldwide for the interpretation of most commonly used terms in international trade. They are intended to reduce or remove altogether uncertainties arising from different interpretation of the rules in different countries. As such they are regularly incorporated into sales contracts¨ Trade terms published by the International Chamber of Commerce (ICC) that are commonly used in both international and domestic trade contracts. Incoterms, short for "International Commercial

Terms," are used to make international trade easier by helping traders in different countries understand one another. Incoterms were first developed in 1936 and are updated from time to time, in order to conform to current trade practices. Because of these updates, contracts should specify which version of Incoterms they are using.

Trade terms used in different countries may appear identical on the surface, but actually have different meanings as they are used domestically. Incoterms are internationally recognized and thus help to prevent confusion in terms of foreign trade contracts, by helping sellers and buyers understand their obligations in any transaction.

INCOTERMS lists the price quotation terms which are internationally used.

Mode of Transportation	Abbreviation	Expansion
Any mode of transport	EXW	Ex works(______named place)
Including multi modal	FCA	Free carrier(______named place)
	CPT	Carriage paid to (______named place of destination)
	CIP	Carriage and Insurance paid to (______named place of destination)
	DAF	Delivered at frontier (______named place)
	DDU	Delivered duty unpaid (______named place of destination)
	DDP	Delivered duty paid (______named place of destination)
	DAT	Delivered at Terminal
Sea and inland waterway transport	FAS	Free alongside ship (_____named port of shipment)
	FOB	Free on Board (_____named port of shipment)
	CFR	Cost and freight (______named port of destination)
	CIF	Cost, insurance, freight (______named post of destination)
	DES	Delivered Ex ship (______named post of destination)
	DEQ	Delivered Ex quality

(______named port of destination)

INDIA'S EXPORT PERFORMANCES

India's merchandise exports reached a level of US $ 251.14 billion during 2010-11 registering a growth of 40.49 percent as compared to a negative growth of 3.53 percent during the previous year. India's export sector has exhibited remarkable resilience and dynamism in the recent years. Despite the recent setback faced by India's export sector due to global slowdown, merchandise exports recorded a Compound Annual Growth Rate (CAGR) of 20.0 per cent from 2004-05 to 2010-11.

World Trade Scenario

As per IMF's World Economic Outlook October, 2011, world trade recorded its largest ever annual increase in 2010, as merchandise exports surged 14.4 per cent. The volume of world trade (goods and services) in 2011 is expected to slow down to 7.5 per cent compared to the 12.8 per cent achieved in 2010. Growth in the volume of world trade is expected to decline in 2012 to 5.8 per cent as per IMF projections.

The IMF has moderated its growth projections of world output to 4 per cent in 2012. The advanced economies are expected to grow at 1.9 per cent in 2012 while the emerging and developing economies to grow at 6.1 per cent. The projected growth rates in different countries are expected to determine the markets for our exports.

As per WTO's International Trade Statistics, 2010, in merchandise trade, India is the 20th largest exporter in the world with a share of 1.4 per cent and the 13th largest importer with a share of 2.1 per cent in 2010.

The year 2011 has been a difficult year with Japan facing a major earthquake and tsunami, the swelling of unrest in the Middle East oil producing countries, the slowing down of US economy and the Euro area facing major financial turbulence. The current global economic slowdown has its epicenter in the Euro-region but the contagion is being witnessed in all major economies of the world. As a result, India's short-term growth prospects have also been impacted.

Exports

Exports recorded a growth of 40.49 per cent during April-March 2010-11. The Government has set an export target of US $ 300 billion for 2011-12. With merchandise exports reaching US $ 217.66 billion in 2011-12(Apr-Dec), the export target of 300 US $ billion is expected to be achieved. Export target and achievement from 2004-05 to 2010-11 and 2011-12 (Apr-Dec) is given in the Chart 2.1 below:

Imports

Cumulative value of imports during 2011-12 (Apr-Dec) was US $ 350.94 billion as against US $ 269.18 billion during the corresponding period of the previous year registering a growth of 30.4 per cent in $ terms. Oil imports were valued at US $ 105.6 billion during 2011-12 (Apr-Dec) which was 40.39 per cent higher than oil imports valued US $ 75.2 billion in the corresponding period of previous year. Non-oil imports were valued at US $ 245.35 billion during 2011-12 (Apr-Dec) which was 26.49 per cent higher than non-oil imports of US $ 194.0 billion in previous year.

Trade Balance

The Trade deficit in 2011-12 (Apr-Dec) was estimated at US $ 133.27 billion which was higher than the deficit of US $ 96.21 billion during 2010-11 (Apr-Dec). Performance of Exports, Imports and Balance of Trade during 2004-05 to 2011-12 (April-Dec) is given in the table below:

(Values in ₹ Crores)

S.No	Year	Exports	%Growth	Imports	%Growth	Trade Balance
1	2004-2005	3,75,340	27.94	5,01,065	39.53	-1,25,725
2	2005-2006	4,56,418	21.6	6,60,409	31.8	-2,03,991

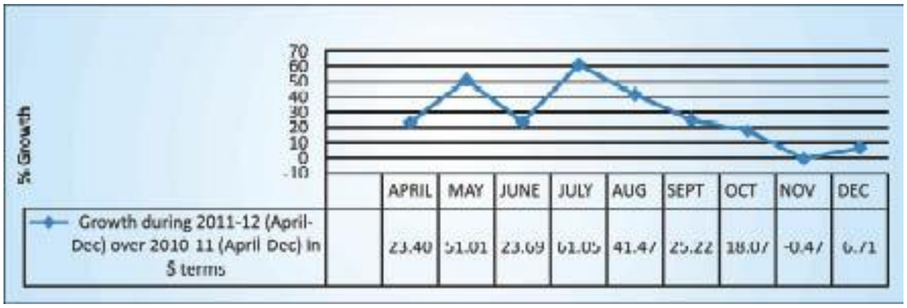
3	2006-2007	5,71,779	25.28	8,40,506	27.27	-2,68,727
4	2007-2008	6,55,864	14.71	10,12,312	20.44	-3,56,448
5	2008-2009	8,40,755	28.19	13,74,436	35.77	-5,33,680
6	2009-2010	8,45,534	0.57	13,63,736	-0.78	-5,18,202
7	2010-2011 (Provisional)	11,42,649	35.14	16,83,467	23.45	-5,40,818
8	2010-11 (Apr-Dec)	7,89,069		12,28,074		-4,39,006
9	2011-12 (Apr-Dec)	10,24,707	29.86	16,51,240	34.46	-6,26,533

Data Source: DGCIS, Kolkata

S.No	Year	Exports	%Growth	Imports	%Growth	Trade Balance
1	2004-2005	83,536	30.85	1,11,517	42.7	-27,981
2	2005-2006	1,03,091	23.41	1,49,166	33.76	-46,075
3	2006-2007	1,26,414	22.62	1,85,735	24.52	-59,321
4	2007-2008	1,63,132	29.05	2,51,654	35.49	-88,522
5	2008-2009	1,85,295	13.59	3,03,696	20.68	-1,18,401
6	2009-2010	1,78,751	-3.53	2,88,373	-5.05	-1,09,621
7	2010-2011 (Provisional)	2,51,136	40.49	3,69,769	28.23	-1,18,633
8	2010-11 (Apr-Dec)	1,72,965		2,69,175		-96,210
9	2011-12 (Apr-Dec)	2,17,664	25.84	3,50,936	30.4	-1,33,272

Chart 2.2

Month-wise Growth during 2011-12 (April-Dec) over 2010-11 (April-Dec)



Strategy for Increasing Exports

Global economic outlook is a major determinant of export performance of any country. Export growth cannot, therefore, be viewed in isolation from economic outlook in the world economy. Keeping in view the urgency of managing the growing trade deficit and uncertain global economic scenario, Department of Commerce, in May 2011 finalized a Strategy Paper for doubling merchandise exports in three years from US $ 246.00 billion in 2010-11 to US $ 500 billion in 2013-14. Exports were envisaged to increase at compounded average growth of 26.7% per annum.

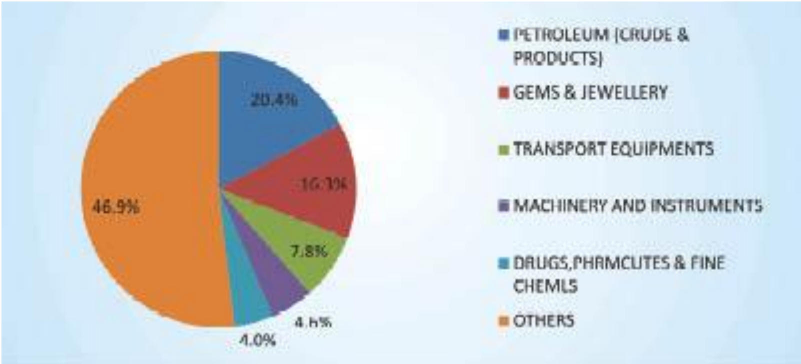
Exports by Principal Commodities

Disaggregated data on exports by Principal Commodities, both in Rupee and Dollar terms, available for the period 2011-12 (April-October) as compared with the corresponding period of the previous year are given in Table 2.1, and 2.2 respectively. Exports of the top five commodities during the period 2011-12 (April-October) registered a share of 53.1 per cent mainly due to significant contribution in the exports of Petroleum (Crude & Products), Gems & Jewellery, Transport Equipments, Machinery and Instruments, Drugs, Pharmaceuticals & Fine Chemicals.

The share of top five Principal Commodity Groups in India's total exports during 2011-12 (April-October) is given at Chart 2.3 below:

Chart 2.3

Share of Top Principal Commodities in India's Export 2011-12 (April-October)



The export performance (in terms of growth) of top five commodities during 2011-12 (April-October) vis-a-vis the corresponding period of the previous year is shown at Chart 2.4.

Chart 2.4

Top five commodities of Export by Growth 2010-11 & 2011-12

Plantation Crops

Export of Plantation crops during 2011-12(April–October), increased by 39.29 per cent in US $ terms compared with the corresponding period of the previous year. Export of Coffee registered a growth of 77.50 per cent, the value increasing from US $ 313.53 million to US $ 556.52 million. Export of Tea also increased by 9.34 per cent.

Agriculture and Allied Products

Agriculture and Allied Products as a group include Cereals, Pulses, Tobacco, Spices, Nuts and Seeds, Oil Meals, Guar gum Meals, Castor Oil, Shellac, Sugar & Molasses, Processed

Food, Meat & Meat Products, etc. During 2011-12 (April–October), exports of commodities under this group registered a growth of 62.90 per cent with the value of exports increasing from US $ 8165.03 million in the previous year to US $ 13300.63 million during the current year.

Ores and Minerals

Exports of Ores and Minerals were estimated at US $ 4700.29 million during 2011-12 (April-October) registering a negative growth of 8.32 per cent over the same period of the previous year. Sub groups viz. Processed Minerals and Iron Ore has recorded a negative growth of 17.22 per cent and 23.29 per cent. Coal registered a growth of 35.76 per cent and Other ores & minerals 78.37 per cent respectively. Mica has registered a growth of 5.74 per cent

Leather and Leather Manufactures

Export of Leather and Leather Manufactures recorded a growth of 27.64 per cent during 2011-12 (April-October). The value of exports increased to US $ 2704.51 million from US $ 2118.86 million during the same period of the previous year. Exports of Leather and Manufactures have registered a growth of 30.19 per cent and Leather Footwear also registered a growth of 24.55 per cent.

Gems and Jewellery

The export of Gems and Jewellery during 2011-12(April-October) increased to US $ 27664.09 million from US $ 16770.33 million during the corresponding period of last year showing a growth of 64.96 per cent.

Chemicals and Related Products

During the period 2011-12 (April-October), the value of exports of Chemicals and Allied Products increased to US $ 21977.24 million from US $ 16276.94 million during the same period of the previous year registering a growth of 35.02 per cent. Rubber, Glass & Other Products, Residual Chemicals & Allied Products, Basic Chemicals, Pharmaceuticals & Cosmetics and Plastic & Linoleum have also registered a positive growth.

Engineering Goods

Items under this group consist of Machinery, Iron & Steel and Other Engineering items. Export from this sector during the period 2011-12(April-October) stood at US $ 36694.23 million compared with US $ 27098.96 million during the same period of the previous year, registering a growth of 35.41 per cent. The growth in export of Iron & Steel Bar rod stood at 51.86 per cent, Transport Equipments 39.38 per cent, Primary & semi-finished iron & steel 23.20 per cent, Non ferrous metals 13.59 per cent, and Machine Tools at 10.99 per cent.

Electronic Goods

During the period 2011-12 (April-October), exports of Electronic Goods as a group was estimated at US $ 5024.92 million compared with US $ 4299.36 million during the corresponding period of last year, registering a growth of 16.88 per cent.

Textiles

During the period 2011-12 (April-October), the value of Textiles exports was estimated at US $ 15101.96 million compared with US $ 11987.38 million in the corresponding period of the previous year, recording a growth of 25.98 per cent. The export of Readymade Garments registered a growth of 28.60 per cent, Cotton yarn/Fabrics/Made-ups etc. registered a growth of 23.06 per cent, Wool and Woolen manufactures 54.21 per cent, Coir and coir manufactures 38.85 per cent, Manmade Textiles & Made Ups has shown a growth of 30.25 per cent, Natural Silk Textiles and Jute manufactures registered a negative growth of 35.15 per cent and 4.67 per cent respectively.

Handicrafts and Carpets

Exports of Handicrafts declined to US $ 101.67 million during 2011-12 (April- October), from US $ 128.24 million during the corresponding period of the previous year registering a negative growth of 20.72 per cent. Export of carpets decreased to US $ 439.66 million from US $ 536.98 million during the same period last year registering a negative growth of 18.12 per cent.

Project Goods

During 2011-12 (April-October), the export of Project Goods were estimated at US $ 29.05 million compared with US $ 38.18 million during the corresponding period of last year registering a negative growth of 23.91 per cent.

Petroleum Products

Export of Petroleum Products increased to US $ 34667.02 million during 2011-12 (April-October), as compared with US $ 21135.13 million during the same period of last year recording a growth of 64.03 per cent.

Cotton Raw including Waste

There was a growth in the exports of Cotton Raw including waste by 178.63 per cent from US $ 389.52 million in 2010-11 (April-October) to US $ 1085.30 million during 2011-12 (April- October).

Imports by Principal Commodities

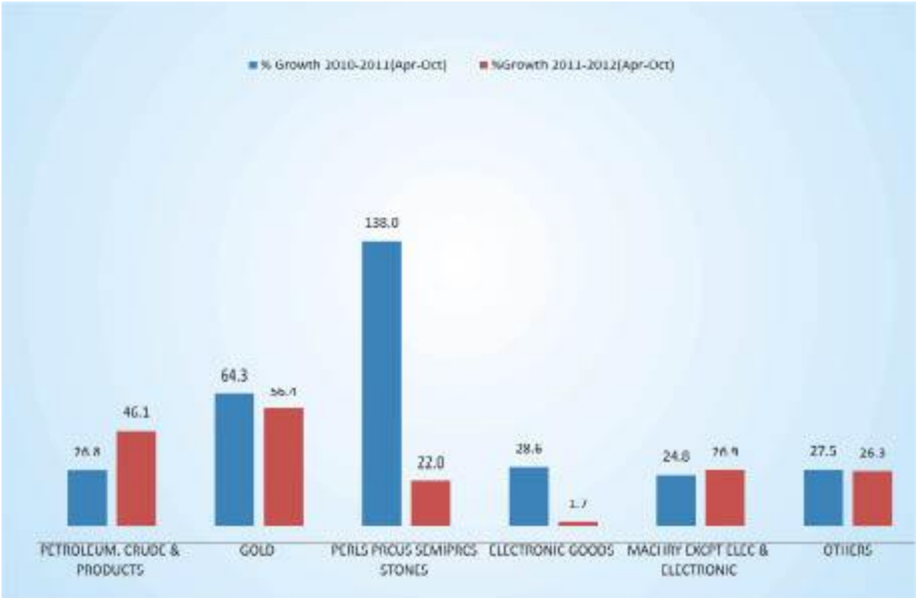
Disaggregated data on imports by principal commodities, both in Rupee and Dollar terms, available for the period 2011-12 (April– October), as compared to the corresponding period of the previous year are given in Table 2.5 and Table 2.6 respectively. Imports of the top five commodities during the period 2011-12 (April-October) registered a share of 62.8 per cent mainly due to significant imports of Petroleum (Crude & Products), Gold, Electronic Goods, Pearls, precious and semi-precious stones and Machinery except electrical and electronic.

The share of top five Principal Commodity in India's total imports during 2011-12 (April– October) is given at Chart 2.5 below:

The import performance by growth of top five Principal commodities during 2011-12 (April–October) vis-a-vis the corresponding period of the previous year is shown at Chart 2.6.

Chart 2.6

Top Five Commodities of Import by Growth 2009-10 & 2010-11



Fertilizers

During 2011-12 (April–October), import of Fertilizers (manufactured) decreased to US $ 4413.85 million from US $ 4695.51 million in April-October 2011 recording a negative growth of 6.00 per cent.

Petroleum Crude & Products

The import of Petroleum Crude & Products stood at US $ 85002.32 million during 2011-12 (April - October) as against US $ 58175.62 million during the same period of the previous year registering a growth of 46.11 per cent.

Pearls, Precious and Semi-Precious Stones

Import of Pearls and Precious and Semi-Precious Stones during 2011-12 (April–October) increased to US $ 17187.45 million from US $ 16907.33 million during the corresponding period of the previous year registering a marginal growth of 1.66 per cent.

Capital Goods

Import of Capital Goods, largely comprises of Machinery, including Transport Equipment and Electrical Machinery. Import of Machine Tools, Non-Electrical Machinery, Electrical Machinery and Transport Equipment registered a growth of 43.24 per cent, 26.87 per cent, 26.39 per cent, and (-) 8.74 per cent respectively.

Organic and Inorganic Chemicals

During 2011-12 (April– October), import of Organic and Inorganic Chemicals increased to US $ 10884.61 million from US $ 8847.19 million during the same period of last year, registering a growth of 23.03 per cent. Import of Medicinal and Pharmaceutical Products increased to US $ 1615.63 million from US $ 1425.68 million during the corresponding period of last year registering a growth of 13.32 per cent

Coal, Coke & Briquettes

During 2011-12 (April– October), import of Coal, Coke & Briquettes increased to US $ 9870.14 million from US $ 6570.07 million during the same period of last year, registering a growth of 50.23 per cent.

Gold & Silver

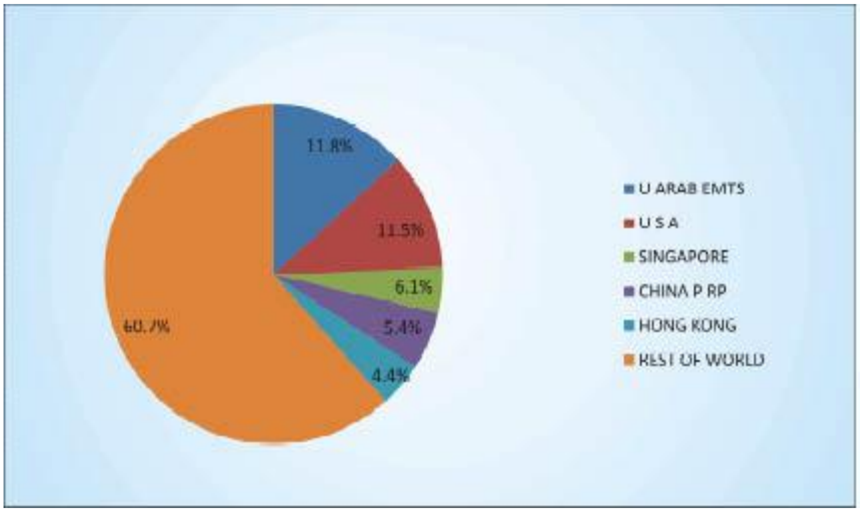
During 2011-12 (April– October) import of Gold and Silver increased to US $ 38817.81 million from US $ 23320.39 million during the corresponding period of the previous year registering a growth of 66.45 per cent.

Direction of India's Foreign Trade

The value of India's exports and imports from major regions/ countries both in Rupee and Dollar terms are given in Table 2.3, 2.4, 2.7 and 2.8 respectively. Share of major destinations of India's Exports and sources of Imports during 2011-12 (April– October) are given in Chart 2.7 and 2.8 respectively.

Chart 2.7

Major Destinations of India's Exports for 2011-12 (April-October)

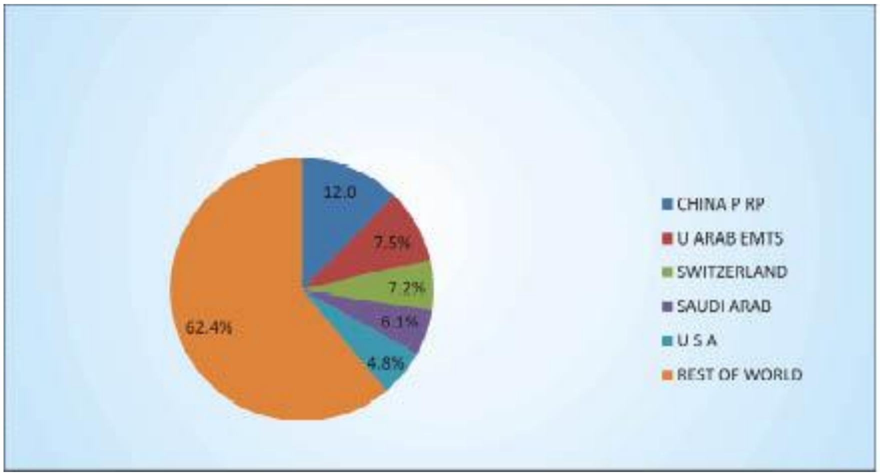


During the period 2011-12 (April– October), the share of Asia and ASEAN region comprising South Asia, East Asia, Mid-Eastern and Gulf countries accounted for 50.69 per cent of India's total exports. The share of Europe and America in India's exports stood at 19.73 per cent and 16.68 per cent respectively of which EU countries (27) comprises 17.81 per cent. During the period, United Arab Emirates (11.82 per cent) has been the most important country of export destination followed by USA (11.51 per cent), Singapore (6.13 percent), China (5.35) per cent), Hong Kong (4.44 per cent).

Asia and ASEAN accounted for 61.36 per cent of India's total imports during the period followed by Europe (19.27 per cent) and America (8.92 per cent). Among individual countries the share of China stood highest at (12.00 per cent) followed by UAE (7.51 per cent), Switzerland (7.21 per cent), Saudi Arabia (6.06 per cent), USA (4.78 per cent) Iraq (3.85 per cent), Germany (3.25 per cent), Nigeria (3.25 per cent), Indonesia (3.06 per cent), Australia (2.96 per cent).

Chart 2.8

Major Source of India's Imports for 2011-12 (April-October)



PROBLEMS IN EXPORT TRADE

The export potential of small and medium-sized firms has been a growing subject of interest.

Strong growth potential: Only a small percentage of SMEs in developing countries are now engaged in export trade, yet they account for approximately 40% of export earnings. The current trend points strongly towards a sustained growth in this share, supported by expanding output and employment. Recognizing their growth potential, most governments in developing countries are giving priority to SMEs through policy support and other incentives.

New legal framework: The WTO Agreement has created a framework for a more open global trading system, which has implications for smaller firms. An appropriate export strategy could provide the corresponding internal framework to enable smaller businesses to engage more successfully in external trade and meet international competition. By reducing tariff and non-tariff barriers and ensuring non-discriminatory treatment in foreign markets, the smaller exporters have been offered the same market access that was previously available to larger companies with resources to set up local operations to beat the tariff walls.

Lower transport and communications costs: Technological developments in communications and reduced international transport costs make it easier for smaller firms to enter international markets. An export promotion strategy could facilitate market entry by assisting smaller firms to acquire technical know-how and familiarize themselves with new cost-saving innovations. SMEs, who have no in-house servicing facility, benefit significantly in terms of lower overall trade service cost and higher competitiveness.

Shifting comparative advantage: Globalization of trade, investment and production has substantially altered comparative advantages between large and small firms. The smaller enterprises that have responded flexibly and adapted to the new environment-often linking with new partners and forming new alliances-are positioned for strong growth. These types of smaller firms generally enjoy advantages over large enterprises: they are usually able to preserve better labour relationships, bring a personal touch to their operations, cater to specialized market segments and have smaller capital investment requirements. The constant market pressure to stay competitive also spurs them to be inventive, innovative and flexible in their business operations. This makes it much easier for them to adjust quickly to changing economic conditions and market requirements.

In other words, small enterprises may be better positioned to adapt to changes in the 1990s than larger enterprises. In the United Republic of Tanzania, successful new product lines have emerged due to trade liberalization, including oil presses and expellers, water pumps, storage tanks and drill presses. Similarly, small textile producers in Sri Lanka have become more export-oriented in response to trade liberalization measures initiated in 1997, through the planned development of skills and institutions, which has improved product quality.

Relative impact: Large enterprises are more likely to have the means to promote their own activities; most have resources to establish marketing channels, trade information systems and trade representation offices. A trade support institution will probably make only a marginal contribution. Furthermore, some large companies regard government-supported promotional activities as interference with their business decisions and may therefore be unwilling to cooperate.

SMEs, on the other hand, are almost entirely dependent on outside trade service providers. The impact of easily accessible and efficient services at affordable cost is correspondingly greater for them. This is crucial at the stage of initial market development efforts when SMEs need to commit scarce financial resources in advance without any guarantee of returns.

FORGING A STRATEGY

An export promotion strategy needs to define how best to help smaller firms exploit these opportunities and to overcome some of their constraints. Among the most formidable challenges to those seeking to develop new export promotion measures are the need to improve infrastructure, access to finance, and marketing. A review of the past trading performance of small firms has shown that these deficiencies are major obstacles to export success.

Developing export infrastructure: Setting up infrastructure like export industrial estates, export processing zones, and bonded production centres can provide a real boost to export development. In the least developed countries (LDCs) the problems are at a more basic level such as electrical power, water, roads, ports, shipping and telecomunication.

Improving financing conditions: Restricted access to finance for small firms which lack collateral and are considered high-risk borrowers puts a cap on production expansion. A recent ITC survey revealed that SMEs think of financing as their most critical problem.

Strengthening marketing channels: Many small enterprises are unable to market their goods effectively in existing markets. Small firms continue to lack knowledge of marketing channels and fail to establish marketing networks, or have not entered into strong market relationships with existing customers.

Several options are worth exploring to improve SME marketing channels. Some trading houses have been effective channels between small producers and the market in areas such as packaging, shipping, financing, insurance, quality management, publicity and delivery, as can be seen in the box above. (See also Forum 2/98, "Using an Export Development Company".) Joint marketing consortia have also been successful in certain cases.

Another option to stimulate SME export development is provided by subcontracting from large enterprises to small enterprises, as can be seen from the box below.

The primary responsibility for SME competitiveness, of course, is with the firm's management. There is ample need, however, for trade promotion support. Some private sector and SME associations, which played mainly an advocacy role in the past, have gradually introduced market information and training services that complement public sector efforts. They can and should do more, as businesses are receptive to their generally market-driven approach. Many governments have set up technical support institutions for management training, product design, quality control, packaging, loan guarantees and trade promotion. Their success is often contingent upon the degree of their commercial orientation, to well-trained staff, equipment and financial resources. Public authorities need also to bear in mind that delays, poor services and high costs for infrastructure will cut the competitive edge of their SMEs.

The general weakness of trade promotion and export development of SMEs in many countries in all developing regions is a pervasive concern that demands sustained attention. Institutions that design export promotion strategies face a critical choice: whether to adopt an all-embracing approach or, given resource limitations, to focus on particular sectors. With few exceptions, national trade promotion organizations have chosen to adopt a broad approach in the past. With their resources spread too thinly, this approach has reduced the effectiveness of many export promotion programmes. The changing trade environment demands a second look at the prevailing trade promotion strategies for SMEs.

Challenges of a Global Market

SMEs are becoming increasingly aware of the growing competition at home and abroad. They especially require information on markets, buyers, suppliers, prices, trade regulations and business procedures in the target market.

Trade information and commercial intelligence gathering require market research and information analysis skills as well as experience with modern information technology. For most SMEs this turns out to be a tall order.

In an attempt to differentiate a product, create a brand image or meet the latest consumer preferences, SMEs need to undertake product development, re-design or adaptation. This calls for expertise that is in short supply everywhere, especially in developing countries.

SMEs must consider how to upgrade product quality and packaging to internationally acceptable standards.

Most SMEs do not possess quality control laboratories nor have quality control specialists. Target market regulations or overseas buyers may demand higher quality or technical specifications. Packaging should be seen as a powerful marketing tool. New packaging regulations are being introduced to protect the environment.

Market competition is strongly driven by price. Improving productivity and reducing cost is thus an important preoccupation. SMEs in developing countries could use advice for competitive costing and pricing techniques.

Cost saving can be achieved by careful sourcing and inventory planning-as much as 15-20%. Few SMEs in developing countries, however, have developed the skills to achieve this level of economy. Many are content with traditional suppliers and large inventory that keep import costs unnecessarily high.

Outdated technology may lower quality and raise cost, making the product uncompetitive. Many old technologies are also highly polluting. Sooner or later these SMEs will face exclusion from the market.

Knowledge, skills and experience soon become obsolete unless continuously upgraded. While opportunities for academic qualifications proliferate, SMEs in developing countries have little access to practical training they really need.

Option

Subcontracting

Programmes that link SMEs to larger firms as subcontractors have been introduced in the Republic of Korea, Taiwan Province of China and Singapore. The most successful ones help increase the response capacity of small enterprises to make them more attractive to large firms as suppliers for exports. Part of the secret of success is that all three countries have strong coordinating agencies to provide support: the Investment Development Bureau in Taiwan Province of China, the Ministry of International Trade and Industries in the Republic of Korea and the Economic Development Board in Singapore.

Intra-country measures to attract subcontracting links and direct foreign investment have proved beneficial in creating a wider network of inter-firm linkages in Japan and the Republic of Korea. It permitted firms in the latter country to penetrate international markets. These arrangements were supported by government screening of the technology transfer process from foreign investment, ensuring that local small firms benefited.

Working with Trading Companies

Some larger companies have developed models that benefit SME development. The creation of associated trading companies and trading houses by large enterprises has facilitated export marketing for SMEs. Several large company groups in Brazil, India and Turkey have created their own trading companies to act as their exporting and importing arms. While their priority is to manage trade for products of the companies within the group, they may also act as the marketing channel for a large number of SMEs. Similarly, trading houses have been established in Japan. These trading houses are not involved in production, but often act as intermediaries between small enterprises and world markets. Governments have encouraged links with SMEs, by setting up publicly funded financial incentives (tax breaks, concessionary finance) for trading companies that measurably demonstrate SME export promotion.

EXPORT PROMOTION INDIA

Export promotion refers to that policy of the government that offers encouragement to the exporters with a view to enhance the export of the country. In order to achieve this objective they are given numerous incentives and facilities

Export Promotion Schemes

The Export Promotion Schemes can be categorized as,-

(i) Duty exemption scheme which permit duty free import of inputs required for export production viz.Advance Authorisation and Duty Free import Authorisation (DFIA);

(ii) Duty remission scheme which enable post-export replenishment of / remission of duty paid on inputs viz.Duty Entitlement Pass Book Scheme;

(iii) Reward schemes which entitle exporters to duty credit scrips subject to various specific conditions like Served from India Scheme (SFIS), Vishesh Krishi Gram Udyog Yojana (VKGUY), Focus Market Scheme (FMS), Focus Product Scheme (FPS) and Status Holder Incentive Scheme.

(iv) Export Promotion Capital Goods (EPCG) Scheme which permits an exporter to import Capital Goods at concessional / Nil duty against an export obligation to be fulfilled in specified time.

Advance Authorisation Scheme

The Advance Authorisations are issued to allow duty free import of inputs, which are physically incorporated in the export product (after making normal allowance for wastage). In addition, fuel, oil, energy catalysts, etc., which are consumed in the course of their use to obtain the export product are also allowed under the scheme. The raw materials/inputs are allowed duty free as per the quantity specified in the Standard Input-Output Norms (SION) notified by the DGFT or as per self-declared norms of the exporter in terms of Para 4.7 of Handbook of Procedures (HBP) Vol.1. The Advance Authorisations are not issued for some specified items like vegetable oils, cereals, spices, honey etc.. The Advance Authorisation holder is required to fulfil the export obligation (EO) by exporting a specified quantity/value of the resultant product.

The Advance Authorisations are issued both for physical exports as well as deemed exports. These are also issued on the basis of annual requirements of the exporter, which enables him to plan his manufacturing / export programme on a long term basis.

The Advance Authorisations are issued on pre-export or post export basis in accordance with the FTP and procedures in force on the date of issue of Authorisation.

The Advance Authorisations are issued either to a manufacturer exporter or merchant exporter tied to a supporting manufacturer(s). They can also be issued to sub-contractors in respect of supplies of goods to specified projects provided the name of such sub-contractor appears in the main contract.

The Advance authorisations are issued with a minimum of 15% value addition witheffect from the current FTP, 2009-14. The value addition for gems and jewellery and for specified goods is specified as per Appendix-11B and para 4A2.1 of HBP Vol.1. In case of Authorisation for Tea, the minimum value addition is 50% as per para 4.1.6 of FTP (RE-2010). Higher value additions are prescribed for exports for which payments are not received in freely convertible currency.

The imports/exports against Advance Authorisations and their utilization require proper monitoring as the goods are imported duty free against a liability to export. For this, the Advance Authorisation holder is required to maintain a proper record of his imports and exports and to pay the duties in case he is unable to fulfil his export obligation, the Advance Authorisation holder is required to indicate the Advance Authorization No./ date on the body of the Shipping Bill/ Invoice (in case of deemed exports). After fulfillment of specified export obligation, the Advance Authorisation holder is required to submit relevant export documents along with Advance Authorisation to the DGFT authorities for obtaining Export Obligation Discharge Certificate (EODC). After obtaining EODC, the Advance Authorisation Authorization holder produces the same before the Customs for the purpose of obtaining redemption of bond/Bank Guarantee filed by him.

Industrial Support for Export Promotion

Exports have come to be regarded as an engine of economic growth in the wake of liberalization and structural reforms in the economy. A sustained growth in exports is, however, not possible in the absence of proper and adequate infrastructure as adequate and reliable infrastructure is essential to facilitate unhindered production, cut down the cost of production and make our exports internationally competitive.

While the responsibility for promotion of exports and creating the necessary specialised infrastructure has largely been undertaken by the Central Government so far, it is increasingly felt that the States have to play an equally important role in this endeavour. The role of the State Governments is critical from the point of view of boosting production of exportable surplus, providing the infrastructural facilities such as land, power, water, roads, connectivity, pollution control measures and a conducive regulatory environment for production of goods and services. It is, therefore, felt that coordinated efforts by the Central Government in cooperation with the State Governments are necessary for development of infrastructure for exports promotion.

Department of Commerce currently implements, through its agencies, schemes for promotion and facilitation of export commodities and creation of infrastructure attendant thereto. The Export Promotion Industrial Parks Scheme (EPIP), Export Promotion Zones scheme (EPZ), and the Critical Infrastructure Balancing Scheme (CIB) are also implemented to help create infrastructure for exports in specific locations and to meet specific objectives. However, the general needs of infrastructure improvement for exports are not met by such schemes. With a view, therefore, to optimizing the utilization of resources and to achieve the objectives of export growth through a coordinated effort of the Central Government and the States this scheme has been drawn up. The features of the Scheme and the Guidelines for consideration of proposals in respect of the Scheme are given below.

Objective

The objective of the scheme is to involve the states in the export effort by providing assistance to the State Governments for creating appropriate infrastructure for the development and growth of exports.

States do not perceive direct gains from the growth in exports from the State. Moreover, the States do not often have adequate resources to participate in funding of infrastructure for exports. The proposed scheme, therefore, intends to establish a mechanism for seeking the involvement of the State Governments in such efforts through assistance linked to export performance.

Scheme

The scheme shall provide an outlay for development of export infrastructure which will be distributed to the States according to a pre-defined criteria. The existing EPIP, EPZ and CIB schemes shall be merged with the new scheme. The scheme for Export Development Fund (EDF) for the North East and Sikkim (implemented since 2000-2001) shall also stand merged with the new scheme. After the merger of the schemes in respect of EPIP,EPZ,CIB and EDF for NER and Sikkim with the new scheme, the ongoing projects under the schemes shall be funded by the States from the resources provided under the new scheme.

Approved purposes for the scheme

The activities aimed at development of infrastructure for exports can be funded from the scheme provided such activities have an overwhelming export content and their linkage with exports is fully established. The specific purposes for which the funds allocated under the Scheme can be sanctioned and utilised are as follows:

i. Creation of new Export Promotion Industrial Parks/Zones (including Special Economic Zones (SEZs)/Agri-Business Zones) and augmenting facilities in the existing ones.
ii. Setting up of electronic and other related infrastructure in export conclave.
iii. Equity participation in infrastructure projects including the setting up of SEZs.
iv. Meeting requirements of capital outlay of EPIPs/EPZs/SEZs
v. Development of complementary infrastructure such as roads connecting the production centres with the ports, setting up of Inland Container Depots and Container Freight Stations,
vi. Stabilising power supply through additional transformers and islanding of export production centres etc.
vii. Development of minor ports and jetties of a particular specification to serve export purpose.
viii. Assistance for setting up common effluent treatment facilities for which guidelines are placed at Annexure I.
ix. Projects of national and regional importance.
x. Activities permitted as per EDF in relation to North East and Sikkim (Annexure – II)

Allocation of funds

The outlay of the scheme will have two components. 80% of the funds (State component) shall be earmarked for allocation to the States on the basis of the approved criteria as indicated in para 6 to be utilised for the approved purposes (para 4). The balance 20% (central component), and amounts equivalent to un-utilised portion of the funds allocated to the States in the past year(s), if any, shall be retained at the central level for meeting the requirements of inter state projects, capital outlays of EPZs, activities relating to promotion of exports from the NER as per the existing guidelines of EDF and any other activity considered important by the Central Government from the regional or the national perspective.

Criteria for State-wise allocation

The State Component will be allocated to the States in two tranches of 50% each. The inter-se allocation of the first tranche of 50% to the States shall be made on the basis of export performance. This shall be calculated on the basis of the share of the State in the total exports. The second tranche of the remaining 50% will be allocated inter-se on the basis of share of the States in the average of the growth rate of exports over the previous year. The allocations will be based on the data of exports of goods alone and the export of services will not be taken into account.

As full and reliable data about the exports from the States is not likely to be available during the year 2001-2002, the State-wise allocations will be made on the basis of the project proposals received from the State Governments.

A minimum of 10% of the Scheme outlay will be reserved for expenditure in the NER and Sikkim. The funding of Export Development Fund for NER and Sikkim will be made out of this earmarked outlay and the balance amount will be distributed inter-se among the States on the basis of the export performance criteria as laid down.

The export performance and growth of exports from the State will be assessed on the basis of the information available from the office of the Director General of Commercial Intelligence & Statistics (DGCIS). The office of the DGCIS will compile the State-wise data of exports from the Shipping Bills submitted by the exporter. The Shipping Bill form provides a column in which the exporter will enter the name of the State/UT from where the export goods have originated. Filling up of this column is mandatory with effect from 15.6.2001 under the FT(D&R) Act. Each State/UT Government would periodically interact with the exporters to guide and motivate them to make proper entries in the Shipping Bills so that State of Origin of the exported goods are entered correctly. The States may set up appropriate mechanisms at the field level in cooperation with the trade and industry associations to disseminate this information amongst exporters.

Release of Funds

The release of the funds to the States shall be subject to the limit of the entitlement worked out on the basis of the laid down criteria. On receipt of the pre-receipt bill from the Nodal Agency nominated by the State Government funds will be directly disbursed to it. Format of the bill is given at ANNEXURE – III. The funds will be kept in a separate head in the accounts of the Agencies. The unutilised funds, if any, out of the allotted funds will be counted against allocations for the next year and suitable deductions for equivalent amounts may be made from the allocations next year.

50% of allocation shall be released in the first quarter of financial year. Balance amount shall be released in third quarter based on utilisation of funds and adherence of the State to guidelines of the scheme. States would be advised to take up projects for utilising full amount in the beginning of the year. They would also be advised to identify such projects in advance.

Approval of Projects and Implementation

There shall be a State Level Export Promotion Committee (SLEPC) headed by the Chief Secretary of the State and consisting of the Secretaries of concerned Departments at the State level, & a representative of the States cell of the Department of Commerce (DoC) and the Joint Director General of Foreign Trade posted in that State/region and the Development Commissioners of the SEZ/EPZ in the State as per Annexure – IV as Members. SLEPC will scrutinise and approve specific projects and oversee the implementation of the Scheme.

Each State/UT shall appoint/designate one of its officers as Export Commissioner who shall be the convener of SLEPC and with whom DoC will interact on the issues pertaining to ASIDE. He shall draw up five year and annual export plans for the State/UT in consultation with the trade & industry, the Export Promotion Councils and the DoC. He shall also draw up a shelf of location specific projects, for the approval of the SLEPC, which are proposed to be taken up under this scheme. He shall also act as a single point interface with the exporters from the State/UT.

The SLEPC will ensure that the proposals will be location specific and selection of location and inter-se prioritising will be done by the SLEPC. For this, SLEPC will draw a list of centres to be focused for developing export infrastructure over next 2-3 years and a shelf of projects will be kept in advance to take full advantage of this Scheme each year. The list of Centres may be drawn in consultation with Export Promotion Councils (EPCs) and other export promotion bodies. On approval of the proposals by the SLEPC, funds shall be disbursed to the implementing agency of the project by the Nodal Agency. State Governments are advised to put in place a system for Disbursement of funds by Nodal Agency to Implementing Agency of the project. As far as possible the States may leverage the funds released by the DoC with other schemes and projects of the State Govt. Private Sector could be involved in the infrastructure projects as per the guidelines given at Annexure – V.

Before sanctioning new projects, the SLEPC will allocate funds for the likely expenditure of the ongoing projects. The SLEPC will ensure that except in exceptional cases no new project has a gestation period of more than 2 years.

For outlays under the Central component, there shall be an Empowered Committee in the Department of Commerce, headed by the Commerce Secretary and consisting of representatives from the Planning Commission and the respective ministries to consider and sanction the proposals received as per the procedure prescribed in para 9. If any project has any bearing on the external sector, a representative of the Ministry of External Affairs would be invited for the meeting of the Empowered Committee.

The 20% Central component would be approved as per the delegation of powers under Financial Rules of Government of India. The 80% State component would be approved by the State Government as per the Rules of Business of the State Government

Payments made under the scheme will be subject to audit by the Comptroller & Auditor General of India as also by other means as deemed fit by Government of India. Government of India will cause physical verification and other such enquiries as deemed fit, of the projects sanctioned under the Scheme.

The Implementing Agency of each project will see that wherever feasible, users of the infrastructure will pay a service charge for the same, which could meet the expenditure on operation and maintenance of the infrastructure so created.

Note : Clarification regarding Utilization of ASIDE Funds -

i. State Governments/UTs have been advised to earmark at least 15%- 20% of their ASIDE funds on AEZ projects.
ii. SLEPC of the respective State Govt. would give priority for projects covering facilities like laboratories/CETPs etc. on public private sector participation (PPP) basis and in order to ensure that these instructions are complied with, representatives of DOC would invariably be present in the meetings of SLEPC.

Criteria for approval of projects

The proposals must show a direct linkage with the exports. The proposed investments should also not duplicate the efforts of any existing organisation in the same field. The funding for the project should generally be on cost -sharing basis, if the assistance is being provided to a non-government agency. However, the SLEPC/Empowered Committee may consider full funding of the project on merits.

Eligible Agencies

Under the scheme, funds for the approved projects may be sanctioned to: -

i. Public Sector undertakings of Central/ State Governments
ii. Other agencies of Central/ State Governments
iii. Export Promotion Councils/ Commodity Boards
iv. Apex Trade bodies recognised under the EXIM policy of Government of India and other apex bodies recognised for this purpose by the Empowered Committee
v. Individual Production/ Service Units dedicated to exports.

Administrative expenses

All administrative expenses connected with the implementation of the scheme will be met by the concerned State Governments from out of their own budget and no part of the scheme funds shall be used to meet such expenditure.

Submission/scrutiny of project proposals

The project proposal should be exhaustive and precise. All aspects related to projects should be supported by data, surveys and projections for future etc.

The project proposal should be accompanied by an executive summary, which should contain the following facts:-

i. Name and complete address of the proposing organisation
ii. Name and complete address of the implementing organisation
iii. Status of the implementing agency (whether government agency, or Trade Body or Individual Exporters etc.)
iv. Total cost of the project
v. Financing pattern
vi. Whether finance from source(s) has been tied up
vii. Whether land, if required, is available for the project
viii. Project phasing and date of completion
ix. Scope of work(Type of facilities required)
x. Main benefits accruing from the project

Details on each of the parameters indicated above should be included in the detailed project report. The report should also contain, inter alia, detailed cost benefit analysis, details of cost of each components of the project, benefits accruing from the projects in both qualitative and quantitative terms, for growth and exports.

Monitoring and Review

Each State/UT/Agency/Central Agency shall submit a quarterly report in the prescribed format as given at Annexure-VI through the web site of Department of Commerce. This report will be used to review the progress of utilisation of the funds released as also the basis for further release of funds by the Ministry. The annual utilization of funds shall be submitted on Form GFR 19-A through the web site by using digital signatures"

The Empowered Committee shall periodically review the progress of the Scheme and will take steps to ensure achievements of the objectives of the Scheme.

EXPORT PROMOTION INCENTIVES

Export Promotion Schemes

- Software Technology Parks (STPs)
- Special Economic Zones (SEZ) Scheme

After the economic reforms of 1991-92, liberalization of external trade, elimination of duties on imports of information technology products, relaxation of controls on both inward and outward investments and foreign exchange and the fiscal measures taken by the Government of India and the individual State Governments specifically for IT and ITES have been major contributory factors for the sector to flourish in India and for the country to be able to acquire a dominant position in offshore services in the world. The major fiscal incentives provided by the Government of India have been for the Export Oriented Units (EOU), Software Technology Parks (STP), and Special Economic Zones (SEZ).

Software Technology Parks (STPs)

For the promotion of Software exports from the country, the Software Technology Parks of India was set up 1991 as an Autonomous Society under the Department of Electronics and Information Technology. The services rendered by STPI for the Software exporting community have been statutory services, data communications servers, incubation facilities, training and value added services. STPI has played a key developmental role in the promotion of software exports with a special focus on SMEs and start up units. The STP Scheme has been extremely successful in fostering the growth of the software industry. The exports made by STP Units have grown many folds over the years. Today the exports made by STPI registered unit during 2008-09 are INR 215571 Crores about 90% of total software exports from the Country.

THE STPI Scheme is lauded as one of the most effective schemes for the promotion of exports of IT and ITES. The 51 STPI centres that have been set up since inception of the programme have given a major boost to IT and ITES exports. Apart from exemption from customs duty available for capital goods (with a few exemptions) there are also exemptions from service tax, excise duty, and rebate for payment of Central Sales Tax. But the most important incentive available is 100 percent exemption from Income Tax of export profits, which has been extended till 31st March 2011. The strength of the scheme lies in the fact that, it is a virtual scheme, which allows, software companies to set up operations in the most convenient and cheapest locations and plan their investment and growth solely driven by business needs. STP Scheme is a pan India Scheme, which has centres spread across India, over 8000 units are registered under STP Scheme.

Benefits under STP Scheme:

- Income Tax benefits under Section 10 A & 10 B of the IT Act upto 31st March 2011.
- Customs Duty Exemption in full on imports.
- Central Excise Duty Exemption in full on indigenous procurement.
- Central Sales Tax Reimbursement on indigenous purchase against from C.
- All relevant equipment / goods including second hand equipment can be imported (except prohibited items).

- Equipment can also be imported on loan basis/lease.
- 100% FDI is permitted through automatic route.
- Sales in the DTA up to 50% of the FOB value of exports permissible.
- Use of computer imported for training permissible subject to certain conditions.
- Depreciation on computers at accelerated rates up to 100% over 5 years is permissible.
- Computers can be donated after two years of use to recognized non-commercial Educational Institutions/Hospitals without payment of duty.
- Export proceeds will be realized within 12 months.
- Units will be allowed to retain 100% of its export earning in the EEFC account.

Special Economic Zones (SEZ) Scheme

In 2005, the Ministry of Commerce, Government of India has enacted the Special Economic Zone (SEZ) Act, with an objective of providing an internationally competitive and hassle free environment for exports. A SEZ is defined as a "specifically demarked duty-free enclave and shall deemed to be foreign territory (out of Customs jurisdiction) for the purpose of trade operations and duties and tariffs". The SEZ Act, 2005, supported by SEZ Rules, came into effect on 10th February, 2006. It provides drastic simplification of procedures and a single window clearance policy on matters relating to central and state governments. The scheme is ideal for bigger Industries and has a significant impact on future Exports and employment The SEZ Scheme offers similar benefits to SEZ units as compared to those under STPI in respect of indirect taxes, with some minor differences in operational details. There is a however a significant difference, in respect of income tax holiday. In SEZ Scheme the exemption from income tax is tapered down over 15 years from the date of commencement of manufacture. There is 100% exemption of export profits from income tax for the first five years, 50% for the next five years and 50% for the five years subject to transfer of profits to special reserves. The SEZ policy aims at creating competitive, convenient and integrated Zones offering World class infrastructure, utilities and services for globally oriented businesses. The SEZ Act 2005 envisages key role for the State Governments in Export Promotion and creation of related infrastructure. A few salient features of SEZ scheme are as under:

- Special Economic Zones (SEZs) are being set up to enable hassle free manufacturing and trading for export purposes.
- Sales from Domestic Tariff Area (DTA) to SEZs are being treated as physical export. This entitles domestic suppliers to Drawback/ DEPB benefits, CST exemption and Service Tax exemption.
- 100% Income Tax exemption on export profits available to SEZ units for 5 years, 50% for next 5 years and 50% of ploughed back profits for 5 years thereafter.

Export Processing Zones (EPZ)

Export Processing Zones (EPZs) can be summarized as a unit bearing clusters of specially designed zones of aggressive economic activity for the promotion of export. The main concept of Export Processing Zones was conceived in the early 1970s to promote the growth of the sickening export business of India. Further, the meaning of Export Processing Zones (EPZs) can be broadly defined as an area enjoying special government of India support with respect to fiscal incentives, tax rebates and other exclusive benefits for the growth of export. Whilst not strictly speaking an entry-strategy, EPZs serve as an "entry" into a market. They are primarily an investment incentive for would be investors but can also provide employment for the host country and the transfer of skills as well as provide a base for the flow of goods in and out of the country.

Free Trade Zone (FTP)

A free trade zone (FTZ), also called foreign-trade zone, formerly free port, is an area within which goods may be landed, handled, manufactured or reconfigured, and reexported without the intervention of the customs authorities. Only when the goods are moved to consumers within the country in which the zone is located do they become subject to the prevailing customs duties. Free-trade zones are organized around major seaports, international airports, and national frontiers—areas with many geographic advantages for trade.[1] It is a region where a group of countries has agreed to reduce or eliminate trade barriers.[2] Free trade zones can also be defined as labor-intensive manufacturing centers that involve the import of raw materials or components and the export of factory products.

Export Oriented Units (EOU)

EOU scheme was introduced in the year 1980 vide Ministry of Commerce resolution dated 31st December 1980. The purpose of the scheme was basically to boost exports by creating additional production capacity. It was introduced as a complementary scheme to the Free Trade Zones/ Export Processing Zone (EPZ) Scheme introduced in the sixties, which had not attracted many units due to locational restrictions. The exporters showed willingness to set up units with long term commitment to exports under Customs bond operations provided they had the freedom to locate them in places of their choice and given most of the benefits as provided to units set up in the Zones.

The Export Oriented Units (EOUs) are governed by the provisions of Chapter 6 of the Foreign Trade Policy (FTP) and its procedures, as contained in the Handbook of Procedure (HBP). Provisions of the said Chapter 6 and its procedures have also been made applicable to the Electronics Hardware Technology Parks (EHTPs), Software Technology Parks (STPs) and Bio Technology Parks (BTPs). Hence the scheme is for EOU/STP/EHTP/BTP and is referred in common parlance as EOU scheme.

Over the years, the EOU Scheme has undergone various changes and its scope has also expanded substantially as compared to the initial Scheme, which was basically for manufacturing sector with certain minimum value addition in terms of export earnings. Presently, the units undertaking to export their entire production of goods are allowed to be set up as an EOU. These units may be engaged in the manufacture, services, development of software, repair, remaking, reconditioning, re- engineering including making of gold/silver/platinum jewellery and articles thereof, agriculture including agro-processing, aquaculture, animal husbandry, bio- technology, floriculture, horticulture, pisiculture, viticulture, poultry, sericulture and granites. The EOUs can export all products/ services except prohibited items of exports in ITC (HS).

Some benefits that are extended to the EOUs to impart to them a competitive edge to compete in export market are, as follows:

I. EOUs are allowed to procure raw materials/ capital goods duty free, either through import or through domestic sources;

II. Reimbursement of Central Sales Tax (CST);

III. Re imbursement of duty paid on fuels procured from domestic oil companies;

IV. CENVAT credit on the goods and service and refund thereof

EXPORT HOUSES

Export House is defined as a registered exporter holding a valid Export House Certificate issued by the Director general of Foreign Trade in India. Export House in India• Origin – 1958 for the development of specialized agencies for the promotion of non traditional items•The initiative was necessary to help the small scale sector in the export of their products

Objectives of Export House supplies of essential commodities to consumers at reasonable prices on a to ensure a fair price of the produce to the farmers so regular basis. To that there may be an adequate incentive to increase production. Minimize violent price fluctuations occurring as a result of seasonal To arrange for supply of fertilizers variations in supply and demand. To undertake the procurement and maintenance of and insecticides. To buffer stock and their distribution whenever and wherever necessary. Arrange for storage, transportation, packaging and processing.

TRADE HOUSE

A business that specializes in facilitating transactions between a home country and foreign countries. A trading house is an exporter, importer and also a trader that purchases and sells products for other businesses. Trading houses provide a service for businesses that want international trade experts to receive or deliver goods or services.

A trading house serves as an intermediary. It might purchase t-shirts wholesale from China, then sell them to a retailer in the United States. The U.S. retailer would still receive wholesale pricing, but the price would be slightly higher than if the retailer purchased directly from the Chinese company. The trading house must mark up the price of the goods it sells to cover its costs and earn a profit. However, the t-shirt retailer avoids the hassles of importing. The retailer also may be able to simplify its operations by dealing with one or two trading houses to get its inventory instead of dealing directly with numerous wholesalers.

STAR HOUSE

Merchant as well as Manufacturer Exporters, Service Providers, Export Oriented Units (EOUs) and Units located in SEZs, Agri Export Zones (AEZs), Electronic Hardware Technology Parks (EHTP), Software Technology Parks (STPs), and Bio Technology Parks (BTPs), are eligible for applying for status as Star Export Houses.

PROJECT AND CONSULTANCY EXPORT

Projects involve activities like engineering, procurement, construction (civil, mechanical, electrical or instrumental), including provision of all desired and specified equipment and / supplies, construction and building materials, consultancy, technical know-how, technology transfer, design, engineering (basic or detailed), commissioning with other all such related services as are needed by the existing or new projects / plants / processes involving international competitive bidding (thus including even Multilaterally Funded Projects in India). Project exports occupy an important place in India's export portfolio. The contracts secured in the recent years have been quite diverse in nature, indicating the growing versatility and technological capabilities of Indian project exporters.

EXIM Bank extends funded and non-funded facilities for overseas turnkey projects, civil construction contracts, technical and consultancy service contracts as well as supplies.

- Turnkey Projects are those which involve supply of equipment along with related services, like design, detailed engineering, civil construction, erection and commissioning of plants and power transmission & distribution
- Construction Projects involve civil works, steel structural works, as well as associated supply of construction material and equipment for various infrastructure projects.
- Technical and Consultancy Service contracts, involving provision of know-how, skills, personnel and training are categorised as consultancy projects. Typical examples of services contracts are: project implementation services, management contracts, super vision of erection of plants, CAD/ CAM solutions in software exports, finance and accounting systems.
- Supplies: Supply contracts involve primarily export of capital goods and industrial manufactures. Typical examples of supply contracts are: supply of stainless steel slabs and ferro-chrome manufacturing equipments, diesel generators, pumps and compressors.

EXPORT PROCEDURE AND DOCUMENTATION

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 our 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 - If so, from what agency.

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 electronically at most of the locations - both for air or sea consignments - the C&F Agents are 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 effected 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 has to be intimated 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, on the basis of the 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.

EXPORT ORDER EXECUTION

When you successfully receive the order then process the order carefully. There are various steps involved in processing of an export order.

Step 1

The exporter should write a simple letter to the buyer thanking him for the export order and stating that the confirmation of the some would be sent.

Step 2

The export order should be examined carefully and its contents scrutinizes in terms of the profoma invoice/contract sent to the buyer, on the following steps

* The exporter should reconfirm the source of the supply of the product. If exporter is manufacturer exporter and manufacturer the product or his is merchant exporter then purchase the product.
* Size and specification should be same as per your offer/quotation.
* Arrange the re shipment inspection. if the buyer desire the inspection to be done by an agents/agency of his choice, financial and physical aspect of inspection should be examine and communication to the buyer.

Step 3

The exporter should make reservation of cargo space for air freighting or freighting of the export consignment as per the delivery period commitments made to the buyer. You can also take the services of clearing and forwarding agents for obtained space.

Step 4

If your product is in the list of restricted item then apply for the grant of export authorization.

Step 5

Prepare the document required in export order and submit the document to your bank. Ensure the following things before submitting the documents to bank

* You have the correct number of copies of each documents and they carry information called for.
* The document name must match exactly what the L/C or contact calls for.
* Name and address of importer should be correct and same in each document.
* Complete set of document required by buyer
* the description of goods should be same.

CLEARING AND FORWARDING (C&F) AGENTS

It is essential in export trade that the shipment of goods is sent to the buyer in time. In fact timely delivery is one of the conditions of the export trade. No exporter can relax on this aspect. He should ensure smooth and timely shipment of goods. Clearing and forwarding agents provide this service. Clearing and forwarding (C&F) agents provides services to an exporter to ensure smooth and timely shipment of goods. The clearing and forwarding (C&F) agents provides various essential and desirable services. these are as follow

Essential services

* Warehousing facilities before the goods are transported to docks/port
* Transportation of goods to docks and arrangement of warehousing at port
* Booking of shipment space and air fright space.
* Arrangement for shipment to be on board
* Obtaining marine insurance policy
* Preparation and presenting of shipping documents, bill of lading, dock receipt, export declaration and extra

Desirable services

* Warehousing facilities abroad, at least in major international market, in case of importer refuse to take delivery of the goods for any reason.

* He can trace the goods, if shipment goes as tray, through his international connection

* Arrangement for assessing damage to the shipment.

PROJECT PREPARATION

During the preparation phase, meetings required to complete the necessary tasks are arranged as and when necessary. Outputs from these meetings are the initial operational plan, a financial estimate, personnel selections and a description of how the Export Partner Group will operate, i.e. the compatibility of the companies and the products involved.

- clarifying the basic idea
- company analysis and assessment of mutual suitability
- evaluation of the target market area
- recruiting of a joint export manager and associated orientation
- operational planning and the production of a financial estimate
- obtaining commitment from the companies involved and making the decision to establish an Export Partner Group

Companies complete a company information form and the information in this is used to check eligibility for internationalisation aid from the Ministry of Employment and the Economy. To ensure that the Export Partner Group's operations are launched effectively, participation by all the involved parties in meetings held during the preparation phase is important. Once mutual agreement has been achieved, the date when the Export Partner Group will be launched is decided on.

Participating companies can be recognised by the following:

- good synergy with other participants (product, customer, distribution method synergies)
- no competing products participating in the project
- each company has a ready product and functional production
- adequate financial resources
- commitment and an active contribution to the Export Partner Group's operations

Each participating company's active participation and commitment to the Export Partner Group project will have a noticeable influence on achievement of the project objectives. The better the participating companies' and the Export Partner Group's readiness for internationalisation, the better the export results will be. Companies can obtain an assessment of their readiness for internationalisation from their local Centre for Economic Development, Transport and the Environment or other sources.

Company Compatibility

The basic objective when forming an Export Partner Group is to achieve a clear and positive synergy between the participating companies.

Synergistic benefits can include:

- product synergies
- customer synergies
- distribution route synergies

Export Partner Groups based on product synergies usually result from customer needs and are company-driven. In such cases, the driving company may already have export operations and is seeking subcontractors or companies whose products support its own offering. The starting point can also be an Export Partner Group built around companies which have a common product portfolio. In such cases, the companies' products should represent a logical whole from a customer perspective.

The starting point for customer synergies is the existence of a target customer group to whom the companies in an Export Partner Group can offer complete packages in terms of the products they produce.

To achieve distribution route synergies, a common distribution channel will have to be defined. Wholesaler chains whose product selections include a wide range of products fall into this category.

QUALITY CONTROL AND SHIPMENT INSPECTION

Export Inspection Council of India (EIC) was set up by the Government of India under Section 3 of the Export (Quality Control & Inspection) Act, 1963 as an apex body to provide for sound development of export trade through quality control and pre-shipment inspection. The Act empowers the Central Government to notify commodities and their minimum standards for exports and to set up suitable machinery for inspection and quality control.

The EIC is assisted in its functions by the Export Inspection Agencies (EIAs) located at Chennai, Kochi, Kolkata, Delhi and Mumbai having a network of 38 sub-offices and laboratories to back up the pre-shipment inspection and certification activity.

In the WTO regime, as India's trading partners are installing regulatory import controls, the EIC has also introduced voluntary certification programmes, especially in food sector and is seeking recognition for its certification by official import control agencies of its trading partners to facilitate easier access to their markets for Indian exporters.

With the liberalization of the trade regime, the role of EIAs has become voluntary for many items. However, in the areas of Fish & Fishery Products, Dairy Products, Poultry Products, Eggs Products, Meat & Meat Products and Honey, certification for exports remains mandatory. The EIAs are also providing support, by way of training and awareness to the trade and industry for overall upgradation of their quality and quality assurance systems, in line with international requirements.

INSPECTION AGENCY RECOGNITION SCHEME

EIC continued to recognize Inspection Agencies under the provisions of Section 7 (1) of Export (Quality Control and Inspection) Act, 1963. Under the EIC Inspection Agency Recognition Scheme 2002, which is aligned with the International Standard on Acceptance of Inspection Bodies, ISO/IEC 17020:1998, to make the scheme internationally acceptable, 34 Inspection Bodies have so far been approved and notified by the Government of India.

MOU with Republic of China

An important Agreement of Cooperation on Inspection of Iron Ore between the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (AQSIQ) and Export Inspection Council of the Republic of India (EIC) was signed in 2006. The Agreement aims at establishing a working mechanism which will strengthen co-operation between both sides and develop and promote trade in Iron Ore in a mutually beneficial manner between India and China. Under the Agreement, only those inspection agencies which have been approved and recognised by Export Inspection Council of India would be able to inspect the Iron Ore being exported from India to China as per standards of China and the applicable international standards. Inspection Certificates issued by the EIC's approved inspection agencies would be accepted as such by Import Regulatory Authorities of China without any further testing thereby resulting in increased free trade of Iron Ore from India to China. It has also been agreed that in case of non-standard inspection behaviour of these approved inspection agencies, further action would be taken through consultation between AQSIQ, China and EIC of India so as to ensure a mutually acceptable and effective resolution of the problems. This agreement is expected to solve many inspection related problems in the export of Iron Ore from India to China.

CECA between India & Singapore

The Comprehensive Economic Cooperation Agreement signed between India and Singapore during the month of July 2005, includes the Mutual Recognition Agreement on Goods. Under this agreement, each side would accept certification of results of conformity assessment activities of the other side to demonstrate compliance with its mandatory requirements. The designating criteria for Electrical & Electronics Sector were developed for the purpose of designating Conformity Assessment Bodies for export.

Memoranda of Understanding (MOU) with French Ministry of Agriculture and Fishery

During the 14th Session of Indo-French Joint Committee held at Paris on 31st May 2006, India expressed its willingness to sign an agreement between the French Ministry of Agriculture and Fishery and the EIC, under the Department of Commerce to facilitate the import of Food and Fishery Products by France. The French side reaffirmed its willingness to facilitate technical exchanges with the relevant entities to facilitate the implementation of import regulations. EIC has been designated as the Competent Authority for the implementation of the Memorandum for the Indian side.

PACKAGING

Packaging is the technology of enclosing or protecting products for distribution, storage, sale, and use. Packaging also refers to the process of design, evaluation, and production of packages. Packaging can be described as a coordinated system of preparing goods for transport, warehousing, logistics, sale, and end use. Packaging contains, protects, preserves, transports, informs, and sells. In many countries it is fully integrated into government, business, institutional, industrial, and personal use.

Attractive packaging is a key factor in retail sales success – but packaging appeal differs from country to country. We again see that color plays a very important factor in shelf appeal – as well as typeface, material, shapes, and patterns. Your international marketing strategy should account for the different tastes of your target market.

Environmental concern is a growing global trend and many consumers around the world prefer products that are “green” and use as little excess material as possible. In fact, some recent reports indicate that up to 75% of consumers in developing countries are willing to pay 10% more for products that are better for the environment.

Packaging also plays an important role in the perception of value and quality. In the U.S., for example, products that are heavier and have more “heft” to them are considered to be more valuable. Some manufacturers go as far as to put extra weights in their products to take advantage of this perception!

Shipping goods internationally exposes the in-transit product to risks it would not otherwise encounter. Among the greatest risks for damage to goods in foreign trade are: theft; environmental risks such as heat, cold and moisture; transportation by ocean freight or rail; and lack of mechanized physical handling equipment in some of the lesser developed countries. There may be certain documentation required in international trade that would reflect the proper packaging, packing, handling and stowing of goods in order to satisfy the importers’ requirements as well as their governments’.

FREIGHT FORWARDERS

An international freight forwarder is an agent for the exporter and can move cargo from "dock-to-door," providing several significant services such as:

- Advising on exporting costs including freight costs, port charges, consular fees, costs of special documentation, insurance costs and freight handling fees;
- Preparing and filing required export documentation such as the bill of lading and routing appropriate documents to the seller, the buyer or a paying bank;
- Advising on the most appropriate mode of cargo transport and making arrangements to pack and load the cargo;
- Reserving the necessary cargo space on a vessel, aircraft, train, or truck.
- Making arrangements with overseas customs brokers to ensure that the goods and documents comply with customs regulations.

Export freight forwarders are licensed by the International Air Transport Association (IATA) to handle airfreight and the Federal Maritime Commission to handle ocean freight.

CARGO INSURANCE

Cargo insurance is used to insure cargos that are carried by all type of transport used to carry cargo in Lithuania and abroad. You can insure cargos for one-time transportation, i.e. insure the exact cargo which would be carried from a described place during a determined period of time, or You can sign long-term insurance contracts, i.e. insuring all cargo being transported during the contract term.

The cargo can be insured against all damage, destruction or other losses, except listed cases that don't fall under the insurance policy and except some other individually chosen risks: fire, transport accident, ship drowning, etc.

CUSTOMS CLEARANCE

Customs Departments are the government designated authority to implement the policies related to import and export, collect customs duties and facilitate movement of people, goods, and cargo into and out of the country. Customs departments have offices at all seaports, airports and border gateways that are essentially the exit and entry points for people and cargo movements into and out of the country. Customs agencies are empowered to make arrests, confiscate goods and enjoy powers similar to that of police departments.

Every country annually publishes its policy for Foreign Trade, which stipulates the conditions under which goods and services are eligible to be exported or imported. Customs departments implement the provisions of the policy under customs rules, regulations and tariffs. Imports in many countries may be allowed freely, or some categories may be permitted with due licenses. Many items are also published as banned for import and not allowed entry into the country. All of the items imported into the country have to be custom cleared. This applies to the items brought in as personal effects and also imported by trade and business establishments including governmental and defense agencies. Necessary stipulated duties would have to be paid before the goods are released by Customs.

Cargo imported into the country from any point of entry is warehoused at Customs bonded area under customs jurisdiction until it is released after clearance. Freight Forwarders who coordinate the international transportation also provide customs clearance services to the clients. The activity is called customs brokerage. Customs clearance work involves preparation and submission of documentations required to facilitate export or imports into the country, representing client during customs examination, assessment, payment of duty and co taking delivery of cargo from customs after clearance along with documents.

Some of the documents involved in customs clearance are:

1. Exports Documentation: Purchase order from Buyer, Sales Invoice, Packing List, Shipping Bill, Bill of Lading or Airway Bill, Certificate of Origin and any other specific documentation as specified by the buyer, or as required by financial institutions or LC terms or as per importing country regulations.
2. Imports Documentation: Purchase Order from Buyer, Sales Invoice of supplier, Bill of Entry, Bill of Lading or Airway bill, Packing List, Certificate of Origin, and any other

specific documentation required by the buyer, or financial institution or the importing country regulation.

Customs Agents prepare the document of Shipping Bills in the house for submission while rests of the documents are obtained from the client. Preparing shipping bill involves Classification of cargo under specific classification that is a critical activity in the entire process. Customs clearance agents are also called Carrying and Forwarding agents. They are registered and licensed by Customs to operate. Their role is limited to acting on behalf of and representing clients as third party agencies engaged in customs clearance. Customs Agents are linked through EDI with customs in most of the countries and use documentation software to facilitate entire process.

DOCUMENTATION PROCEDURE AND CLEARING EXPORT BILL

Export documentation is far more than just shipping paperwork; it includes all of the important records of an international transaction. Using the correct trade terminology, clearly defining the transfer of interest and liability, selecting the right method of payment and sending the best quotation possible are the keys to effective exporting. After the sale has been made, proper and timely selection, preparation and distribution of documents are essential.

Documents used in international trade are a reflection of the understanding of the agreement between the seller, the buyer, and third party service and regulatory agencies. It is vital for the seller to understand that any document produced with their name as a party to the document is totally responsible for the actions of the service provider in the course of their performance.

Although often underrated and overlooked, export documentation and procedural concerns are an integral part of the export process and should be considered as important as anything else related to the sale. The term “export” documentation is actually a relative misnomer, as most paperwork is really being prepared on behalf of the buyer, and is used for customs clearance and other legalities at the port of import, and thus are really “import” documents.

Successful exporters usually are very adept at preparing export documents, or else use service providers who are. Problems with documentation can lead to delay in shipment, penalties, unwanted storage costs and an aggravated buyer. An exporter should always put themselves in the importer's shoes. Consider what you would do, if as an importer, your supplier caused delays and extra expenses due to a lack of proper paperwork. Eventually, you would probably find a new supplier.

IMPORT PROCEDURE

Imports to India are governed by the Foreign Trade (Development and Regulation) Act 1992 (External website that opens in a new window). Under this Act, imports of all goods are free except for the items regulated by the policy or any other law in force. The present, foreign trade arrangements for different commodities are stated in the EXIM Policy of 2004-2009 (External website that opens in a new window). This policy is announced once every five years with annual supplements coming out every year. It is also known as the Foreign Trade Policy or Export Import Policy.

Items on the 'Prohibited' list like tallow, fat or oils of any animal origin, animal rennet and wild animals including their parts and products and ivory cannot be imported. For import of items that appear in the 'Restricted' list you need secure an import licence. Import of items that are enumerated in the canalised list of items are permitted to be imported through canalising Agencies. All other products can be freely imported.

Registration with a regional licensing authority is a precondition for the import of goods. Customs officials will not permit clearance of goods unless the importer gets an Import Export Code (IEC) number from the regional licensing authority.

Import Procedure for Livestock Products

Livestock products include meat and meat products of different types that comprise fresh, chilled and frozen meat as well as tissue or organs of poultry, pig, sheep and goat. It also consists of egg and egg powder; milk and milk goods; pet foods of animal origin and embryos, ova or semen of cows, sheep and goats. No livestock product may be imported into India without a valid sanitary import permit. All livestock products with valid sanitary import permits may be brought into India only through seaports or airports where Animal Quarantine and Certification

Services Stations (External website that opens in a new window) are situated. These stations are located in the cities of Delhi, Mumbai, Kolkata and Chennai. When livestock products arrive at the checkpoint, they will be checked by the Officer-in-charge of the Animal Quarantine and Certification Services Station or any other veterinary officer duly approved by the Department Of Animal Husbandry and Dairying (External website that opens in a new window).

Import Procedure for the Fisheries Sector

License under EXIM policy is not required for the import of 125 species/groups of fish, crustaceans, molluscs and other aquatic invertebrates covered under FREE policy under the EXIM policy. Import of five groups of live fish is permitted under Restricted Policy. Import of Whale Shark (Rhincodon types) and parts and products of the species is restricted.

Import Procedure for Horticulture (External website that opens in a new window) - According to the Foreign Trade Policy, there is no quantitative restriction on import of spices into the country except for items such as 'seed quality' spices and garlic. The tariffs for import have also been steadily brought down. Under a bilateral agreement with Sri Lanka, duty free import of spices is permitted. This is useful for value addition and re-exportation.

IMPORT LICENSING

An import license is a document issued by a national government authorizing the importation of certain goods into its territory. Import licenses are considered to be non-tariff barriers to trade when used as a way to discriminate against another country's goods in order to protect a domestic industry from foreign competition.

Each license specifies the volume of imports allowed, and the total volume allowed should not exceed the quota. Licenses can be sold to importing companies at a competitive price, or simply a fee. However, it is argued that this allocation methods provides incentives for political lobbying and bribery. Government may put certain restrictions on what is imported as well as the amount of imported goods and services. For example, if a business wishes to import agricultural products such as vegetables, then the government may be concerned about the impact of such importations of the local market and thus impose a restriction.

You do not need a license to act as an importer. However, some items require a license or permit from various government agencies in order to be imported. For more complete information, please see our publication "Importing Into the U.S." The chapter on "Special Requirements" provides very complete information. (Some common items that may require licenses or permits are food products ordered from a commercial vendor, plant, animal and dairy products, prescription medications, trademarked articles such as name-brand shoes, handbags, luggage, golf clubs, toys, etc. and copyrighted material such as CDs, DVDs and tapes)

CBP paperwork does require an "importer number" as a means of identifying who the final recipient of the goods is. If you have a business tax number with the IRS, this number should be used as the importer number. If you do not have a business tax number, you may use your Social Security number.

A license is required to act as a Customs Broker, which is someone who clears goods through CBP on behalf of importers who do not want to handle the various technicalities that are involved in importing themselves.

REPLENISHMENT LICENSE

An exporter can obtain a Replenishment License for duty free imports of consumables, equal to 1% of FOB value of exports of the preceding year. He has to produce a Chartered Accountant's Certificate, indicating the export performance during the preceding licensing year. This license will be issued against the surrender of REP license with a balance validity period of minimum three months, issued under Chapter-8. This license shall be non-transferable and subject to actual user condition. This Replenishment License shall be valid for duty free imports of consumables as notified by the customs.

A Replenishment License for imports of plain/studded jewelry items equal to 2.5% of the FOB value of exports of preceding year may be issued on production of Chartered Accountant's Certificate indicating the export performance. These imports shall be on payment of applicable duty.

ADVANCE IMPORT LICENSE

An advance license is granted for the import of inputs without payment of basic customs duty. Such licenses shall be issued in accordance with the policy and procedure in force on the date of issue of the license and shall be subject to the fulfillment of a time-bound export obligation, and value addition as maybe specified. Advance licenses maybe either value based or quantity based.

As per the latest amendments to the EXIM Policy, the facility of Back to Back Inland Letter of Credit has been introduced, to enable an Advance License holder to source his inputs from domestic suppliers.

Value based advance license

Under a value based advance license, any of the inputs specified in the license maybe imported within the total CIF value indicated for those inputs, except inputs specified as sensitive items. Under a value based advance license, both the quantity and the FOB value of the exports to be achieved shall be specified. It shall be obligatory on the part of the license holder to achieve both the quantity and FOB value of the exports specified in the license.

Amendments to the Advance License Scheme

The Advance License Scheme has been expanded and liberalised with the amendments made to the EXIM Policy, announced on 31st March 1995.

- Modvat credit can be taken on inputs which go into the manufacture of export products, under the Advance License Scheme.
- Expansion of the concept of Advance Intermediate License, which hitherto was only quantity based to value based.
- Advance licenses can now be transferred after the export obligation has been fulfilled, and the bank guarantee or LUT redeemed.
- Drawbacks are permitted in respect of duty paid materials, which are imported or indigenous.
- Import of mandatory spares upto 5% of the CIF value of the license is now allowed.

- The list of sensitive items has been pruned. Flexibility has also been granted to the exporter for using the unutilized CIF value of sensitive items for importing non-sensitive items.

On the 1st of March, 1995, the Engineering Products Export (Replenishment of Iron and Steel Intermediates) scheme was announced as an alternative to the International Price Reimbursement Scheme, which was withdrawn in April 1994. Under the new scheme, primary steel producers would be able to import intermediates like coal and fuel, using advance licences, and then provide steel to engineering exporters at international prices

PASS BOOK SCHEME

DEPB (Duty Entitlement Pass Book) is an export incentive scheme of Indian Government provided to Exporters in India. Duty Entitlement Pass Book Scheme in short DEPB is an export incentive scheme. Notified on 1/4/1997, the DEPB Scheme consisted of (a) Post-export DEPB and (b) Pre-export DEPB. The pre-export DEPB scheme was abolished w.e.f. 1/4/2000. Under the post-export DEPB, which is issued after exports, the exporter is given a duty entitlement Pass Book Scheme at a pre-determined credit on the FOB value. The DEPB rates allows import of any items except the items which are otherwise restricted for imports. Items such as Gold Nibs, Gold Pen, Gold watches etc. though covered under the generic description of writing instruments, components of writing instruments and watches are thus not eligible for benefit under the DEPB scheme. The DEPB Rates are applied on the basis of FOB value or value cap whichever is lower. For example, if the FOB value is Rs.700/- per piece, and the value cap is Rs.500/- per piece, the DEPB rate shall be applied on Rs.500/-. The DEPB rate and the value cap shall be applicable as existing on the date of exports as defined in paragraph 15.15 of Handbook (Vol.1).

DEPB Scheme is issued only on post-export basis and pre/export DEPB Scheme has been discontinued. The provisions of DEPB Scheme are mentioned in Para 4.3 and 4.3.1 to 4.3.5 of the Foreign Trade Policy or Exim Policy. One significant change in the new DEPB Scheme is that in terms of Para 4.3.5 of the Exim Policy even excise duty paid in cash on inputs used in the manufacture of export product shall be eligible for brand rate of duty drawback as per rules framed by Department of Revenue which was not mentioned in the earlier DEPB Scheme.

IMPORT OF CAPITAL GOODS

A capital good is a durable good (one that does not quickly wear out) that is used in the production of goods or services. Capital goods are one of the three types of producer goods, the other two being land and labor, which are also known collectively as primary factors of production. This classification originated during the classical economic period and has remained the dominant method for classification.

Capital goods are acquired by a society by saving wealth which can be invested in the means of production. In terms of economics one can consider capital goods to be tangible. They are used to produce other goods or services during a certain period of time. Machinery, tools, buildings, computers, or other kind of equipment that is involved in production of other things for sale represent the term of a Capital good. The owners of the Capital good can be individuals, households, corporations or governments. Any material that is used in production of other goods also is considered to be capital good.

Many definitions and descriptions of capital goods production have been proposed in the literature. Capital goods are generally considered as one-of-a-kind, capital intensive products that consist of many components. They are often used as manufacturing systems or services themselves.

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