Syllabus

Class: - I Year

Subject: - Export/Import Management

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UNIT-I

International Bodies (Organizations)

On the other hand, we also find that the UN is generally regarded as the most important international organisation in today's world. In the eyes of many people all over the world, it is indispensable and represents the great hope of humanity for peace and progress. Why do we then need organisations like the UN? Let us hear two insiders: "The United Nations was not created to take humanity to heaven, but to save it from hell." — Dag Hammarskjold, the UN's second Secretary-General

International organisations are not the answer to everything, but they are important. International organisations help with matters of war and peace. They also help countries cooperate to make better living conditions for us all. Countries have conflicts and differences with each other. That does not necessarily mean they must go to war to deal with their antagonisms. They can, instead, discuss contentious issues and find peaceful solutions; indeed, even though this is rarely noticed, most conflicts and differences are resolved without going to war. The role of an international organisation can be important in this context. An international organisation is not a super-state with authority over its members. It is created by and responds to states. It comes into being when states agree to its creation. Once created, it can help member states resolve their problems peacefully. International organisations are helpful in another way. Nations can usually see that there are some things they must do together. There are issues that are so challenging that they can only be dealt with when everyone works together. Disease is an example. Some diseases can only be eradicated if everyone in the world cooperates in inoculating or vaccinating their populations. Or take global warming and its effects. As temperatures rise because of the increase in greenhouse gases in the atmosphere, there is a danger that sea levels will also rise, thereby submerging many coastal areas of the world including huge cities. Of course, each country can try to find its own solution to the effects of global warming. But in the end a more effective approach is to stop the warming itself. This requires at least all of the major industrial powers to cooperate.Followings are some international bodies.

IMF

The International Monetary Fund (IMF) is an international organisation that oversees those financial institutions and regulations that act at the international level. The IMF has 189 member countries (as on 12 April 2016) but they do not enjoy an equal say. The G-7 members US (16.52%), Japan (6.15%), Germany (5.32%), France (4.03%), UK (4.03%), Italy (3.02%) and Canada (2.22%) have 41.29% of the votes. China (6.09%), India (2.64%), Russia (2.59%) Brazil (2.22%) and Saudi Arabia (2.02%) are the other major members.

FOUNDATIONS OF UNITED NATION

1941August: Signing of the Atlantic Charter by the US President Franklin D. Roosevelt and British PM Winston S. Churchill

1942 January: 26 Allied nations fighting against the Axis Powers meet in Washington, D.C., to support the Atlantic Charter and sign the 'Declaration by United Nations'

1943 December: Tehran Conference Declaration of the Three Powers (US, Britain and Soviet Union)

1945 February: Yalta Conference of the 'Big Three' (Roosevelt, Churchill and Stalin) decides to organize a United Nations conference on the proposed world organization

April-May: The 2-month long United Nations Conference on International Organization at San Francisco 1945 June 26: Signing of the UN Charter by 50 nations (Poland signed on October 15; so the UN has 51 original founding members) 1945 October 24: the UN was founded (hence October 24 is celebrated as UN Day)

1945 October 30: India joins the UN

EVOLUTION OF THE UN - The First World War encouraged the world to invest in an international organisation to deal with conflict. Many believed that such an organisation would help the world to avoid war. As a result, the League of Nations was born. However, despite its initial success, it could not prevent the Second World War (1939-45). Many more people died and were wounded in this war than ever before. The UN was founded as a successor to the League of Nations. It was established in 1945 immediately after the Second World War. The organisation was set up through the signing of the United Nations Charter by 51 states. It tried to achieve what the League could not between the two world wars. The UN's objective is to prevent international conflict and to facilitate cooperation among states. It was founded with the hope that it would act to stop the conflicts between states escalating into war and, if war broke out, to limit the extent of hostilities. Furthermore, since conflicts often arose from the lack of social and economic development, the UN was intended to bring countries together to improve the prospects of social and economic development all over the world. By 2011, the UN had 193 member states. These includeed almost all independent states. In the UN General Assembly, all members have one vote each. In the UN Security Council, there are five permanent members. These are: the United States, Russia, the United Kingdom, France and China. These states were selected as permanent members as they were the most powerful immediately after the Second World War and because they constituted the victors in the War. The UN's most visible public figure, and the representative head, is the Secretary-General. The present Secretary-General is António Guterres. He is the ninth Secretary-General of the UN. He took over as the Secretary-General on 1 January 2017. He was the Prime Minister of Portugal. (1995-2002) and the UN High Commissioner for Refugees (2005-2015). The UN consists of many different structures and agencies. War and peace and differences between member states are discussed in the General Assembly as well as the Security Council. Social and economic issues are dealt with by many agencies including the World Health Organisation (WHO), the United Nations Development Programme (UNDP), the United Nations Human Rights Commision (UNHRC), the United Nations High Commission for Refugees (UNHCR), the United Nations

Children's Fund (UNICEF), and the United Nations Educational, Scientific, and Cultural Organisation (UNESCO), among others.

WORLD BANK- The World Bank was created during the Second World War in 1944. Its activities are focused on the developing countries. It works for human development (education, health), agriculture and rural development (irrigation, rural services), environmental protection (pollution reduction, establishing and enforcing regulations), infrastructure (roads, urban regeneration, electricity) and governance (anti-corruption, development of legal institutions). It provides loans and grants to the member-countries. In this way, it exercises enormous influence on the economic policies of developing countries. It is often criticised for setting the economic agenda of the poorer nations, attaching stringent conditions to its loans and forcing free market reforms.

WTO - The World Trade Organisation (WTO) is an international organisation which sets the rules for global trade. This organisation was set up in 1995 as the successor to the General Agreement on Trade and Tariffs (GATT) created after the Second World War. It has 164 members (as on 29 July 2016). All decisions are taken unanimously but the major economic powers such as the US, EU and Japan have managed to use the WTO to frame rules of trade to advance their own interests. The developing countries often complain of non-transparent procedures and WTO being pushed around by big powers.

IAEA- The International Atomic Energy Agency (IAEA) was established in 1957. It came into being to implement US President Dwight Eisenhower's "Atoms for Peace" proposal. It seeks to promote the peaceful use of nuclear energy and to prevent its use for military purposes. IAEA teams regularly inspect nuclear facilities all over the world to ensure that civilian IAEA reactors are not being used for military purposes.

AMNESTY INTERNATIONAL Amnesty International is an NGO that campaigns for the protection of human rights all over the world. It promotes respect for all the human rights in the Universal Declaration of Human Rights. It believes that human rights are interdependent and indivisible. It prepares and publishes reports on human rights. Governments are not always happy with these reports since a major focus of Amnesty is the misconduct of government authorities. Nevertheless, these reports play an important role AMNESTY INTERNATIONAL in research and advocacy on human rights.

Local Bodies

Department of Commerce

- **Ministry of Commerce** – the apex ministry at the central level to formulate and execute India's foreign trade policy and to initiate various exports promotional measures. The Ministry of Commerce and Industry controls the foreign trade in India **(Minister – Piyush Goyal)**
- **Main functions –** formulation of international commercial policy, negotiation of trade agreements, formulation of export-import policy and their implementation.
  It has created a network of commercial sections in Indian embassies and high commissions of various countries for export-import trade flows. It has set up an "Exporters' Grievances redressal Cell" to assist exports in quick redressal of grievances.

DIRECTORATE General of Foreign Trade (DGFT):

- Chairman of DGFT **– Sh. Amit Yadav, IAS**
- Assigning an import-export code (IEC).
- It has set up regional offices in almost all the states and Union territories. These offices are known as Regional Licensing Authorities. The Regional Licensing offices also act as Export facilitation centres.
- The DGFT is the chief body that administers laws related to foreign trade and foreign investment in India.

1. It implements the foreign trade policy or the EXIM (export-import) policy of the government.
2. Its main mandate is to promote exports from India.
3. It is an attached body of the Ministry of Commerce & Industry, GOI.
4. It is headed by the **Director-General of Foreign Trade.**
5. The DGFT was formed in 1991 when the LGP (liberalization, globalization, privatization) policies of the government took off.
6. Before 1991, the DGFT was known as the Chief Controller of Imports & Exports (CCI&E).
7. The organization formulates guidelines for Indian exporters and importers.
8. Since the liberalization, the DGFT is no longer the 'controller', rather it is a facilitator in matters of foreign trade.
   There was a policy shift from control/prohibition to facilitate/promotion of foreign trade.
9. The office works in tandem with other similar organizations such as the Customs

Commissionerate, the DRI authorities, the Central Excise authorities, and the Enforcement Directorate.

10. The DGFT is the licensing authority for export/import businesses in India. 11.The DGFT's offices offer facilitation to exporters in connection with developments in international trade such as Agreements, Rules of Origin and anti-dumping issues, etc. to aid them in their export and import decisions in an international dynamic environment.

11. The Directorate is headquartered in New Delhi with 38 regional offices all over the country.

DGFT – Functions

The functions of the DGFT are given below.

1. Implementing the foreign trade or EXIM policy of the government.
2. Providing a complete database of all exporters and importers in India.
1. Granting of the Exporter Importer Code (EIC) Number to exporters andimporters in India.
2. The EIC Number is a ten-digit number that is needed for people to export and/or import.
3. It has the authority to prohibit, restrict, and regulate importers and exporters.
4. Regulating and permitting the transit of goods from India to adjacent countries according to the bilateral trade agreements.
5. Promoting trade between India and her neighbouring countries.
6. Granting permission of free export wherever necessary.
7. It plays a vital role in controlling DEPB rates.
3. DEPB: Duty Entitlement Pass Book
4. DEPB Scheme is an export incentive scheme of the GOI given to exporters.
8. Handling quality complaints of the foreign buyers of Indian export products.

10.Formulating or adding new codes in the ITC-HS Codes.

5. ITC-HS codes are also known as Indian Trade Clarification based on the Harmonized System of Coding.
6. These are codes given to export/import products.

Export Promotion Councils (EPCs)

Organizations of exporters, set up under the Societies Registration Act/ Companies Act, with the objective of promoting Indian exports. The councils are responsible for promotion of a particular group of products/ projects/services as given in Appendix 2T of the Foreign Trade Policy (FTP) 2015-2020. The list of 14 such EPCs affiliated to the Department of Commerce is at **Annexure.** Regular joint meetings with the councils to facilitate interactions with exporters and assess performance of the councils are held. The accounts of the councils are subject to mandatory audit. The review reports of performance of the councils are laid in the Parliament along with Annual Report each year.

LIST OF EXPORT PROMOTION COUNCILS AFFILIATED TO DEPARTMENT OF COMMERCE

1. Basic Chemicals, Cosmetics & Dyes Export Promotion Council (Chemexcil),Mumbai
2. Cashew Export Promotion Council of India (CEPCI), Kollam, Kerala
3. Chemical and Allied Products Export Promotion Council (Capexil), Kolkata
4. Council for Leather Exports (CLE), Chennai
5. EEPC India, Kolkata
6. Export Promotion Council for EoUs and SEZs (EPCES), New Delhi
7. Gem &Jewellery Export Promotion Council (GJEPC), Mumbai
8. Indian Oilseeds & Produce Export Promotion Council (IOPEPC), Mumbai
9. Pharmaceuticals Export Promotion Council (Pharmexcil), Hyderabad
10. 10.Plastics Export Promotion Council (Plexconcil), Mumbai

11.Project Export Promotion Council (PEPC), New Delhi
12.Services Export Promotion Council (SEPC), New Delhi
13.Shellac & Forest Products Export Promotion Council (Shefexil), Kolkata
14.Sports Goods Export Promotion Council (SGEPC), New Delhi

This information was given by the Union Minister of Commerce and Industry,Shri Piyush Goyal.

Export Import Cycle

EXPORT AND IMPORT CYCLE

India's customs authorities have launched the Indian Customs Compliance Information Portal detailing customs procedures and regulatory compliances for import-export trade.

Import procedures

Typically, the procedure for import and export activities involves ensuring licensing and compliance before the shipping of goods, arranging for transport and warehousing after the unloading of goods, and getting customs clearance as well as paying taxes before the release of goods.

Below, we outline the steps involved in importing of goods.

1. Obtain IEC

Prior to importing from India, every business must first obtain an Import Export Code (IEC) number from the regional joint DGFT. The IEC is a pan-based registration of traders with lifetime validity and is required for clearing customs, sending shipments, as well as for sending or receiving money in foreign currency. The process to obtain the IEC registration takes about 10-15 days.

2. Ensure legal compliance under different trade laws

Once an IEC is allotted, businesses may import goods that are compliant with Section 11 of the Customs Act (1962), Foreign Trade (Development & Regulation) Act (1992), and the Foreign Trade Policy, 2015-20. However, certain items – restricted, canalized, or prohibited, as declared and notified by the government – require additional permission and licenses from the DGFT and the federal government.

3. Procure import licenses

To determine whether a license is needed to import a particular commercial product or service, an importer must first classify the item by identifying its Indian Trading Clarification based on a Harmonized System of Coding or ITC (HS) classification. ITC (HS) is India's chief method of classifying items for trade and import-export operations. The ITC-HS code, issued by the DGFT, is an 8-digit alphanumeric code representing a certain class or category of goods, which allows the importer to follow regulations concerned with those goods. An import license may be either a general license or specific license. Under a general license, goods can be imported from any country, whereas a specific or individual license authorizes import only from specific countries. Import licenses are used in import clearance, renewable, and typically valid for 24 months for capital goods or 18 months for raw materials components, consumables, and spare parts.

4. File Bill of Entry and other documents to complete customs clearing formalities

After obtaining import licenses, importers are required to furnish import declaration in the prescribed Bill of Entry along with permanent account number (PAN) based Business Identification Number (BIN), as per Section 46 of the Customs Act (1962). A Bill of Entry gives information on the exact nature, precise quantity, and value of goods that have landed or entered inwards in the country. If the goods are cleared through the Electronic Data Interchange (EDI) system, no formal Bill of Entry is filed as it is generated in the computer system. However, the importer must file a cargo declaration after prescribing particulars required for processing of the entry for customs clearance. If the Bill of Entry is filed without using the EDI system, the importer is required to submit supporting documents that include certificate of origin, certificate of inspection, bill of exchange, commercial invoice cum packing list, among others.

Determine import duty rate for clearance of goods

India levies basic customs duty on imported goods, as specified in the first schedule of the Customs tariff Act, 1975, along with goods-specific duties such as anti-dumping duty, safeguard duty, and social welfare surcharge.

Export procedures

Just as for imports, a company planning to engage in export activities is required to obtain an IEC number from the regional joint DGFT. After obtaining the IEC, the exporter needs to ensure that all the legal compliances are met under different trade laws. Further, the exporter must check if an export license is required, and accordingly apply for the license to the DGFT. An exporter is also required to register with the Indian Chamber of Commerce (ICC), which issues the Non-Preferential Certificates of Origin certifying that the exported goods are originated in India.

Import and export documents

Businesses are required to submit a set of documents for carrying out export and import activities in India. These include commercial documents – the ones exchanged between the buyer and seller, and regulatory documents that deal with various regulatory authorities such as the customs, excise, The Foreign Trade Policy, 2015-2020 mandates the following commercial documents for carrying out importing and exporting activities:

- Bill of lading or airway bill;
- Commercial invoice cum packing list;
- Shipping bill or bill of export, or bill of entry (for imports).

Additional documents like certificate of origin and inspection certificate may be required as per the case. The important regulatory documents include:

- GST return forms (GSTR 1 and GSTR 2);
- GSTR refund form;
- Exchange Control Declaration;
- Bank Realization Certificate; and
- Registration cum Membership Certificate (RCMC).

TERMS OF DELIVERY

I – INCOTERMS:- Terminology of various terms commonly used worldwide for delivery and transportation of goods is grouped into four categories in the INCOTERMS-2000 as under:-

(a) "E" – Terms - Implies Ex-works, where under, the seller only makes the goods available to the buyer at the seller's own premises. The responsibility of providing the carrier is that of the buyer.
(b) "F" – Terms - FCA, FAS and FOB are various clauses of "F" terms under which the seller is called upon to deliver the goods to a carrier appointed by the buyer. The responsibility of providing the carrier is that of the buyer.
(c) "C" – Terms - CFR, CIF, CPT and CIP are various clauses of "C" terms under which the seller has to contract for carriage, but without assuming the risk of loss of or damage the goods or additional costs due to events occurring after shipment and dispatch.
(d) "D" – Terms - DAF, DES, DEQ, DDU and DDP are various clauses of "D" terms under which the seller has to bear costs and risks needed to bring the goods to the placed of destination.
1. Ex-works (EXW) – "Ex-Works" means that the seller delivers when he places the goods at the disposal of the buyer at the seller's premises or another named place (i.e. works, factory, warehouse, etc.) not cleared for export and not loaded on any collecting vehicle. This term thus represents the minimum obligation for the seller and the buyer has to bear all costs and risks involved in taking the goods from the seller's premises. However, if the parties wish the seller to be responsible for loading of the goods on departure and to bear the risks and all the costs of such loading, this should be made clear by adding explicit wording to this effect in the contract of sale. This term should not be used when the buyer cannot carry out the export formalities directly or indirectly. In such circumstances, the FCA terms should be used provided the seller agrees that he will load at his cost and risk.
2. Free Carrier (FCA) - "Free Carrier" means that the seller delivers the goods, cleared for export to the carrier nominated by the buyer at the named place. This term may be used irrespective of the mode of transport including multi-modal transport. "Carrier" means any person who in a contract of carriage undertakes to perform or to procure the performance of transport by rail, road, air, sea, inland waterway or by a combination of such modes. If the buyer nominates a person other than a carrier to receive the goods the seller is deemed to have fulfilled his obligation to deliver the goods when they are delivered to that person. 3. Free Alongside Ship (FAS) - "Free Alongside Ship" means that the seller delivers when the goods are placed alongside the vessel at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of or damage to the goods from that moment. The FAS terms requires the buyer to clear the goods for export. However, if parties wish the buyer to clear goods for export this should be made clear by adding explicit wording to this effect in contract of sale. This term can only be used for sea or inland waterway transport.
4. Free on Board (FOB) - "Free on Board" means that the seller delivers when the goods pass the ship's rail at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of or damage to the goods from the point. The FOB terms requires the seller to clear the goods for export. This term can be used only for sea or inland waterway transport. If the parties do not intend to deliver the goods across the ship's rail, the FCA terms should be used.

5. Cost and Freight (CFR / C&F) - "Cost and Freight" means that the seller has delivered when the goods pass the ship's rail in the port of shipment. The seller must pay the cost and freight necessary to bring the goods to the named port of destination but the risk of loss of or damages to the goods or any additional costs due to events occurring after the time of delivery are transferred from the seller to the buyer. The CFR terms requires the seller to clear the goods for export. This term can be used only for sea and inland waterway transport. 6. Cost, Insurance and Freight (CIF) – "Cost, Insurance and Freight (CIF) means that the seller delivers when the goods pass the ship's rail in the port of shipment. The seller must pay the costs and freight necessary to bring the goods to the named port of destination. In case of CIF terms, the seller also has to procure marine insurance against the buyer's risk of loss of or damage to the goods during the carriage. Consequently, the seller contracts for insurance and pays the insurance premium. The CIF term requires the seller to clear the goods for export. This term can be used only for sea and inland waterway transport. If the parties do not intend to deliver the goods across the ship's rail the CIP term should be used.

7. Carriage Paid To (CPT) - "Carriage Paid to (CPT)" means that the seller delivers the goods to the carrier nominated by him but the seller must in addition pay the cost of carriage necessary to bring the goods to be named destination. This means that the buyer bears all risks and any other cost occurring after the goods have been so delivered. He CPT term requires the seller to clear the goods for export. The term may be used irrespective of the mode of transport including multi-modal transport.

8. Carriage and Insurance Paid To (CIP) - "Carriage and Insurance Paid To (CIP)" means that the seller delivers goods to the carrier nominated by him but the seller must in addition pay cost of carriage necessary to bring goods to be named destination. This means that the buyer bears all risks and any additional cost occurring after the goods have been so delivered. However in CIP, the seller also has to procure insurance against the buyer's risk of loss of or damages to the goods during the carriage. Consequently, the seller contracts for insurance and pays the insurance premium. The buyer should note that under the CIP term, the seller is required to obtain insurance only on minimum cover. Should the buyer wish to have the protection of greater cover, he would either need to agree as much expressly with the seller or to make his own extra insurance arrangements. "Carrier" means any person who, in a contract of carriage, undertakes to perform or to procure the performance of transport by rail, roads, air, sea, inland waterway or by a combination of such modes. If subsequent carriers are used for the carriage to the agreed destination, the risk passes when the goods have been delivered to the first carrier. The CIP requires the seller to clear the goods for export. This term may be used irrespective of the mode of transport including multi-modal transport.

9. Delivered at Frontier (DAF) – "Delivered at Frontier" means that the seller delivers when the goods are at the disposal of the buyer on the arriving means of transport not unloaded, cleared for export, but not cleared for import at the named point and place at the frontier, but before the customs border of the adjoining country. However, if the parties wish, the

seller to be responsible for the unloading of goods from the arriving means of transport and bear the risks for costs of unloading, this should be made clear by adding explicit wording to this effect in the contract of sale. This term should not be used irrespective of the mode of transport when goods are to be delivered at a land frontier.

10. Delivered Ex-Ship (DES) – "Delivered Ex-Ship" means that the seller fulfils his obligation to deliver when the goods have been made available to the buyer on board the ship un-cleared for import at the named port of destination. The seller has to bear all the costs land risk involved in brining the goods to the named port of destination before discharging. If the parties wish, the seller to bear the costs and risks of discharging the goods, then the DEQ term should be used. The term can only be used only when the goods are to be delivered by sea or inland waters way transport on a vessel in the port of destination.

11. Delivered Ex-Quay (Duty Paid) (DEQ) – "Delivered Ex-Quay (Duty Paid)" means that the seller fulfils his obligation to deliver when he has made the goods available to the buyer on the quay (Wharf) at the named port of destination, cleared for importation. The seller has to bear all risks and costs including duties, taxes and other charges of delivering the goods thereto. This term should not be used if the seller is unable directly or indirectly to obtain the import license. If the parties wish the buyer to clear the goods for importation and pay the duty, the words "duty unpaid" should be used instead for "duty paid".

II – GENERAL TERMS: Other terms for delivery and transportation of goods are;

1. Free on Rail / Road (F.O.R on Destination) – In case of FOR on destination the seller delivers the goods to the carrier nominated by him but the seller in addition pays the cost of carriage necessary to bring the goods to the named destination which is transporter's godown nearest to the buyer in case of road transport & nearest railway station to the buyer in case of transport by rail. Under this term the buyer should confirm the extent of insurance cover provided by the seller. Should the buyer wish to have the protection of greater cover, he would either need to agree as much expressly with the seller or to make his own extra insurance arrangements.

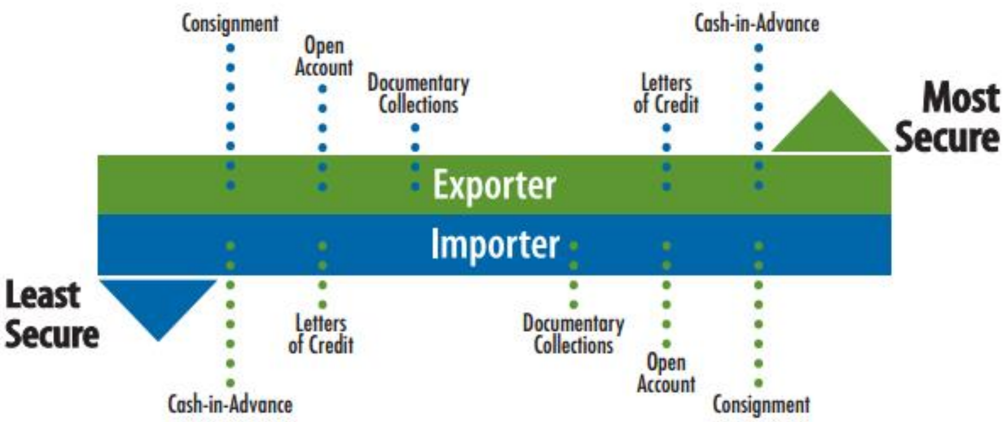
2. Free on Rail / Road (F.O.R on Depatching Station) – In this case the seller delivers the goods to the nominated carrier (Transporter's godown in road transport & Railway station in rail mode) nearest to the seller on freight to pay or freight pre-paid basis as agreed between the buyer & seller. This means that the buyer bears all risks and any other cost occurring after the goods have been so delivered.

3. Door Delivery Basis - In this case the seller delivers the goods in the store or other such place specified by the buyer with all charges towards freight, insurance, clearance etc duly paid by the seller such as dispatches by courier service etc.

Methods of Payment

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

Figure 1: Payment Risk Diagram



Key Points

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

Cash-in-Advance

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

Letters of Credit

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

Documentary Collections

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

Open Account

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

Consignment

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