Unit	Syllabus
1	Basic Documentation in International trade. Aligned Documentation System (ADS). 10 Need and process of commercial documentation. Major Regulatory, documents, related to Goods, Shipment, Payment. Inspection related legal document. official machinery for consultation.
2	Export Contract - Distinction between domestic sales. Contract and export sales10 contract, mayor laws for Export Contracts. Main elements of Export Contract. Various Disputes and its settlement.
3	Export orders Procedure, Shipping and custom Clearance of Export and import cargo. 10 central Excise Clearance. Role of clearing and agents in International Trade. Types of risk in international trade, Cargo Insurance and Claim Procedure.

FOREIGN TRADE- PROCEDURE AND DOCUMENTATIONS.

Documents Required For International Trade

What is international trade?

International trading is basically the import and export of goods and services between an individual or company in your country and the same party in a foreign country. Trade exists due to demand and supply quotient. When a buyer in another country wants to import something that a seller in a different country is selling, trade between the two parties is enabled. International trade gives access to markets of other countries from where you can source products which may not be available domestically, or is available for a cheaper price overseas.

Before foraying into this massive field, it is imperative to understand what are the documents in international trade. While initiating any trading transactions, the international market requires certain documents that need to be shown. There are several documents and each denote one aspect of the goods/services exchanged like the quantity, quality, description, transportation medium, inspection, indemnity etc. Hence, before engaging in an international trade transaction it is important that both the seller and buyer possess necessary documents to avoid the hassle of even a small error, which could prove extremely costly.

The importance of documents in international trade can be explained with a simple instance. When shipping the consignment if the seller produces the Bill of Lading – a document which proves that the goods have been shipped, the buyer will be assured that the seller has fulfilled the necessary steps and the goods will reach him/her safely. Similarly, an Inspection Certificate proves that the products shipped have been checked by the inspection officer and are up to the quality standards. This way the seller can be assured that the goods shipped to him are sans any fraudulence. This process is similar to a lender inspecting and evaluating your gold jeweler given as collateral why availing a gold loan.

Important documents in International trade

The following is a list of necessary documents in International trade and some of the most important ones explained briefly.

- Air Waybill
- Certificate of Origin
- Bill of Lading
- Combined Transport Document
- Draft (or Bill of Exchange)
- Insurance Policy (or Certificate)
- Packing List/Specification
- Inspection Certificate

Air Waybill

An Air Waybill is typically a document in international trade that proves the goods have arrived and are ready to be shipped by air. There are 3 originals and 9 copies of the document which are signed by export agents and the air carrier. It is considered as a receipt for the goods being transported. The Air Waybill ideally serves as multiple things - a receipt for the consignment being shipped, an insurance certificate, an invoice for the freight and manual for the airlines staff on how to board, unload and dispatch the items.

Certificate of Origin

A certificate of origin is required by the customs department of the country importing the goods to decide upon import duty. This document is issued by the Chamber of Commerce of the origin country and primarily consists of the name and address of the exporter, number and description of the goods, seal of the chamber etc.

Bill of Lading

As mentioned in the example earlier, the Bill of Lading is proof that the consignment has been shipped from one destination to another. It is a document used in import and export business, where the shipping company gives the document and is signed by the carrier of the vessel. The Bill of Lading is handled very carefully and ensured it does not fall in the hands of any unauthorized persons.

Combined Transport document

Combined Transport document or Multimodal Transport document is issued when the goods need to be shipped through multiple modes of transportation. The contract of the combined transport operator for the consignment begins from the place of departure till the place of delivery. The combined transport document needs to clearly mention if the freight charges have been paid fully already or will be paid on delivery at destination port.

Bill of exchange

A bill of exchange is a unique handwritten document raised by the exporter to the importer asking for a certain amount of money to be paid in the future and the importer also agrees. This kind of document is generally used in wholesale trading where a huge amount of money is involved.

Preparing Documents Under The Aligned Documentation System

The Aligned Documentation System (ADS), based on the UN layout key, is a methodology of creating information on a set of standardized forms printed on paper of the same size and in such a way that items of identical information occupy the same position on each form. Under this system the documents are aligned to one another in a manner that the common items of information are given the same relative slots in each of the documents. This enables to prepare one Master Document embodying the information common to all documents included in the aligned system and to zerox all the aligned documents from the same Master Document with the help of suitable masking and reproduction technique. The mask consists of a transparent polyester film with white opaque patches to blank out such information as is not required in a particular document. Separate mask is required for each document. Any information which is specific to a document can either be pre-printed or added as and when required.

For the purpose of aligned documentation system documents have been classified as Commercial Documents and Regulatory Documents. Commercial documents are those which by customs of trade are required for effecting physical transfer of goods and their title from exporter to the importer and the realization of export sale proceeds. Out of the 16 commercial documents in the export documentation framework, as many as 14 have been standardized and aligned to one another. These are proforma invoice, commercial invoice, packing list, shipping instructions, intimation for inspection, certificate of inspection of quality control, insurance declaration, certificate of insurance, mate receipt, bill of lading / combined transport document, application for certificate of origin, certificate or origin, shipment advice and letter to the bank for Collection / Negotiation or documents. As per government indications all documents will have single common number and it would be PAN.

Regulatory preshiprnent export documents are those which have been prescribed by different Government bodies in compliance of the requirements of various rules and regulations under relevant laws governing export trade such as export inspection, foreign exchange regulation, export trade control and customs.

Out of 9 regulatory documents, four have been standardized and aligned.

These are

(i) shipping bill/bill of export
(ii) exchange control declaration (OR From)
(iii) Export application dock challan / port trust copy of shipping bill
(iv) Receipt for payment of port charges
(v) The export documents shall be prepared on pre-printed forms available in the market and / or provided by the concerned authority.

Pre-printed shipping bills will be provided by Freight Forwarders / Customs House Agents.

(vi) The documents must only be typewritten to ensure clarity and legibility.

Documents Required for Exporting

1. Proforma Invoice
2. Commercial Invoice
3. Packing List
4. Certificates of Origin
5. Certificate of Free Sale
6. Shipper's Letter of Instruction
7. Inland Bill of Lading
8. Ocean Bill of Lading
9. Air Waybill
10. Dangerous Goods Forms
11. Bank Draft

1. PROFORMA INVOICE

In a typical export exchange, everything starts when you receive an inquiry about one or more of your products. That inquiry may include a request for a quotation.

If the inquiry came from a domestic prospect, you probably have a standard quotation form to use. However, in an international transaction, your quote would be provided as a Proforma invoice. That's because your international prospect may need a Proforma invoice to arrange for financing, to open a letter of credit, to apply for the proper import licenses and more.

A Proforma invoice looks a lot like a commercial invoice, and if you complete it correctly, they will be very similar indeed. A Proforma invoice specifies the following:

- The buyer and seller in the transaction.
- A detailed description of the goods.
- The Harmonized System classification of those goods.
- The price.
- The payment term of the sale, which would typically be expressed as one of the 11 current Inco terms.
- The delivery details, including how and where the goods will be delivered and how much that will cost.
- The currency used in the quote, whether it's U.S. dollars or some other currency.

2. Commercial Invoice

Once you've sent a Proforma invoice to your international prospect and received their order, you need to prepare your goods for shipping, including the paperwork that must accompany the goods. Of those documents, the commercial invoice is one of the most important.

The commercial invoice includes most of the details of the entire export transaction, from start to finish.

I often get questions from people who look at this sample commercial invoice and wonder why it looks so different from the invoices their company uses for domestic orders. Keep in mind that the invoices you create from your company's accounting or ERP system are accounting invoices used to get paid, *not* export invoices. The commercial invoice may look similar to the proforma invoice you initially sent your customer to serve as a quote, although it should include additional details you didn't know before.

3. Packing List

An export packing list may be more detailed than a packing list or packing slip you provide for your domestic shipments. It may be used in the following ways:

- Your freight forwarder may use the information on the packing list to create the bills of lading for the shipment.
- A bank may require that a detailed packing list be included in the set of documents you present to get paid under a letter of credit.
- Customs officials in the U.S. and the destination country may use the packing list to identify the location of certain packed items they want to examine. It's much better that they know which box to open or pallet to unwrap rather than needing to search the entire shipment.

4. Certificates of Origin

Some countries require a certificate of origin to identify in what country the goods originated. These certificates of origin usually need to be signed by some semi-official organization, like a chamber of commerce or a country's consulate office. A certificate of origin may be required even if you've included the country of origin information on your commercial invoice.

Usually a chamber of commerce will charge you a fee to stamp and sign your certificate or require you to be a member of the chamber. You'll need to deliver a completed form to the chamber office where they will stamp and sign it for you.

5. Certificate of Free Sale

Sometimes called a "Certificate for Export" or "Certificate to Foreign Governments," a Certificate of Free Sale is evidence that goods such as food items, cosmetics, biologics or medical devices—are legally sold or distributed in the open market, freely without restriction, and approved by the regulatory authorities in the country of origin (the United States).

A Certificate of Free Sale is used when you are registering a new product in a country. You're essentially informing the customs authority in that country, "This is a new thing I'm going to start importing, and here are my support documents that confirm this product(s) is legal to sell in the country of manufacture."

6. Shipper's Letter of Instruction

One of the most important people you will work with in the export process is your freight forwarder, who usually arranges the transport of your goods with a carrier and helps ensure you've taken care of all the details.

7. Inland Bill of Lading

An inland bill of lading is often the first transportation document required for international shipping created for your export. It can be prepared by the inland carrier or you can create it yourself. It's a contract of carriage between the exporter and the shipper of the goods that states where the goods are going; it also serves as your receipt that the goods have been picked up.

8. Ocean Bill of Lading

If your goods are shipping by ocean vessel, you'll need an ocean bill of lading. An ocean bill of lading can serve as both a contract of carriage and a document of title for the cargo. There are two types:

Straight Bill of Lading

A straight bill of lading is consigned to a specific consignee and is not negotiable. The consignee takes possession of the goods by presenting a signed, original bill of lading to the carrier.

Negotiable Bill of Lading

A negotiable bill of lading is consigned “to order” or “to order of shipper” and is signed by the shipper and sent to a bank in the buyer’s country. The bank holds onto the original bill of lading until the requirements of a documentary collection or a letter of credit have been satisfied.

9. Air Waybill

Goods shipped on a plane require an air waybill. It is a contract of carriage between the shipper and the carrier that is distributed by the International Air Transport Association (IATA). Unlike an ocean bill of lading, an air waybill cannot be negotiable.

The purpose of an air waybill differs from the purpose of a bill of lading: An air waybill is a receipt of goods; the carrier or agent sends it in order to show the place of delivery. A bill of lading is a document of title to goods. It is a receipt by the shipping company with an agreement to deliver the goods at the destination only to the party the bill of lading is consigned to.

11. Bank Draft

A bank draft is an important part of the international sales process for transferring control of the exported goods from the seller in exchange for funds from the buyer. It is often called a documentary collection, because the seller attaches various documents to a bank draft and a cover letter. The bank draft may or may not include a transmittal letter, which includes details of the bank draft transaction, including the types of additional documents that are included and payment instructions.

UNIT – 2

Processing of an Export Order & Entering in to Export Contract

The immediate task of the exporter is to acknowledge the export order which is different from its acceptance. Then he should proceed to examine the export order carefully in respect of item, specification, pre-shipment inspection, payment conditions, special packaging labeling and marketing requirements, shipping and delivery date, marine insurance, documentation, arbitration, applicable laws and jurisdiction, etc. The various aspects relating to processing of an export order as are discussed as under :

Scrutiny:

The exporter purchase order should be examined carefully and its contents scrutinized in terms of the Performa invoice / contract sent to the foreign buyer, on the following aspects :

1. Item (product) : The order has been received for the product for which quotation/offer was sent and the exporter is still in the position to supply the product.

2. Size and Specifications : Should be same as per offer / quotation.

3. Pre-shipment inspection : Should be either by exporter himself or any agency easily available. If the buyer desires the inspection to be done by an agency/agent of his choice, financial and physical aspects of inspection should be examined and communicated to the buyer. If compulsory pre-shipment inspection by Indian Export Inspection Agency is required, the buyer should be informed about the applicable scheme.

4. Payment Conditions : are same and stipulated. A confirmed sight and irrevocable letter of credit (L/C) has been opened, where required.

5. Packaging, Labeling and Marking requirements : If any should be noted for compliance. Particular attention should be paid to the individual packaging of consumer goods required for direct sale to the consumers. In such a case labels, price tags, poly pack/skin packing etc. would be required and supply be assured.

6. Shipment and delivery date: It should be in conformity with the exporters plans and whether :

- Part shipment is allowed.
- Trans – shipment is permissible or not.
- Port of shipment/destination is same or changed.

7. Documents particularly those which are required with the bill of exchange. These are :

- Commercial invoice as usual or there is any specific notation required thereon.
- Certification by an authority on the commercial invoice. For instance, it may require certification by Embassy Consulate of the foreign country.
- Bill of lading 'straight' or 'to order', 'shipped', or 'received for shipment'. Make sure that there is no clause in the contract which asks for the AWB or B/L. The importers using their influence with the Airlines/Shipping companies manage to release the goods even before the negotiable copy of the AWB or the B/L reaches through normal banking channels.
- Certificate of origin whether the usual one issued by a trade association or chamber of commerce or special ones like that required for availing of GSP concessions or other preference. Also whether necessary certification on commercial invoice would suffice or a separate certification of origin is required.

- **Packaging list.**
- **Insurance policy or certificate.**

8. Guarantee/Warranty clause should be same as per quotation/offer.

9. Force Majeure clause should cover acts of Gods and other acts, beyond the control of exporter as mentioned at quotation / offer stage by exporter.

10. Arbitration as per Indian council of Arbitration clause for International contracts or other acceptable international clauses as agreed between the parties.

11. Laws applicable and jurisdiction, in case of default / dispute arising during the execution of the contract.

Process of Entering in to Export Contract:

Export Contract should be explicit as possible and without any ambiguity regarding the exact specification of goods and terms of sale including export price, mode of payment, storage and distribution method, types of packaging, port of shipment, delivery schedule, etc. All theses "terms" have a special connotation and meaning in International trade which must be understood by the parties (seller & buyer).

1. Product Standards and specifications: The first important element of an exporter contract is to explicitly state the following:

- Product name including technical name
- Sizes, if any in which to be supplied
- Standard / specifications, national or international or according to specific requirements of buyer or as the sample approved by him.

2. Quantity : Put the quantity both in figures and words clearly specifying whether it is in terms of number, weight or volume. If the quantity refers to goods by weight or measurement, specify the nature of the same.

3. Inspection: Whereas a number of goods are now subject to pre-shipment inspection by designated agencies, the foreign buyer may still stipulate his own conditions and manner of inspection by any other agency. Hence the parties must clearly states in their contracts the nature, manner, aspects and the agency for inspection of goods, different from those laid down under the Quality Control and Pre–shipment inspection rules.

4. Total Value of the Contract : The total value of the contract may also be put in both figures and words specifying the currency along with the name of the country.

5. Terms of Delivery : Also known as type of price, terms of delivery should be clearly incorporated in the contract. It could be f.o.b., c.i.f., c&f. etc.

6. Taxes, Duties and Charges: The taxes, duties and charges relating to exportation of goods are normally a part of price i.e. terms of delivery quoted by seller. Similarly such levies, if any in the country of importation are to be account of the buyer.

7. Period of Delivery / Shipment: As distinguished from terms of delivery, period of delivery/shipment relates to the actual dates of delivery/shipment. In addition, it must be place of dispatch and delivery because if it is not designated, the place of the business of the seller is usually deemed to be the place of delivery. It also depends upon the terms of delivery. Moreover, it should be clarified whether the time for delivery will run from the date of the contract or from the date of receipt of the advance money by the seller or from the date of receipt of the notice of issuance of the import license by the seller, etc. The importers invariably ask for a firm date of the receipt of the goods at the port in the country of import, whereas due to certain circumstances beyond the control of the exporter the goods do not reach the port of destination within the time frame mentioned in the contract. Hence the exporter should make sure that the L/C or contract should have specific date of dispatch from the country of origin, rather than the arrival date in the country of import.

8. Part shipment/Transshipment/Consolidation by Cargo scheme : The contract must clearly state whether part shipment / transshipment are agreed upon by the parties. In the absence of such stipulations, disputes generally arise when the exporter is enable to ship the goods in one lot or directly to the port of delivery. Also indicate the port of transshipment and the number, if any part shipment agreed upon. In case the goods are likely to be dispatched under the Consolidation of Export – Cargo scheme, do make a reference to the same in the export contract.

9. Packing, Labeling and Marketing: The exporter contract must be explicit as possible about the type of package and particulars labels and marking requirements. These requirements are normally quite different in case of export consignments and as such involve additional cost necessitating and upward revision in export prices. The language, color of labels and even marking have to be taken care as of required by the buyer.

10. Terms of Payment – Amount , Mode and Currency : The mode and manner of payment for the goods to be exported vary from contract to contract depending upon the terms settled between the parties. While quoting different payment terms, the exporter should specify as to whether the prices are based on current rate of exchange of the Indian rupee on the basis of another currency say US Dollar or any other currency.

11. Discounts and Commissions : Depending upon the source of export enquiry and the intermediary involved, if any in the execution of an order the contract should specify the amount of discount / commission to be paid and by whom i.e. by exporter or importer. The basis of calculation of commission and rate of the same may also be clearly stipulated. The commission / discount may or may not be included in the export price to be quoted / agreed by the exporter / importer.

12. Licenses and Permits: Normally all exporter/importer transaction involve obtaining the licenses and permits/quotas to the export/import in the country of exportation/importation. The problem with regard to import licenses in the buyer's country is sometime more prominent and acute in different developing countries. The parties should therefore clearly state as to whether the export transaction would involve any export (import) licenses and whose responsibility and expense it would be to obtain the same.

13. Insurance : The terms of delivery normally take care of the aspects of insurances to be obtained by the buyer/seller. In any case, it is important in international trade contracts to provide for insurance of the goods against loss, damage or destructions during the voyage as it takes a long time before they are received by the buyer. The extent of insurance risk and its incidence needs to be clearly described and proper insurance policies should be obtained.

14. Documentary Requirements: International Trade transactions usually involve certain special documents which can be broadly divided in to four categories :

- Documents required for exportation/importation of goods
- Documents needed by the buyer for taking delivery of the goods
- Documents relation to the payments.
- Special documents depending upon the nature of goods and the conditions of the sale.

Methods of dispute settlement

Generally, the most common methods of settling contract-based disputes are Mediation, Litigation and Arbitration (listed in arbitrary order), as further outlined in the following:

Mediation

Mediation involves a usually voluntary arrangement whereby a third party (a mediator) chosen by the parties or by a method approved by the parties listens to the argument of each side, discusses the case with them separately or together, and tries to help them reach a settlement. Typically the mediator has no authority but assists them in recognizing the strengths and weaknesses of their arguments and looks for a solution on which they can agree, usually an agreement on common ground.

Litigation

Litigation is the process of taking a case through the courts for an enforceable settlement, although a potential problem is how enforceable the order from a court of one country will be in a different country. The enforceability depends on a number of factors that will be considered in a later note.

Arbitration

Arbitration involves placing the dispute before one or more arbitrators, who are much like private judges. Several well-known international organizations are available for dispute settlement of this sort, following their respective methods of qualifying and selecting arbitrators and following their own procedural rules or other rules that the parties choose. Typical costs include fees for the organization as well as hourly fees for the arbitrators, in addition of course to the fees of the attorneys that represent the parties in the arbitration. The most reliable are those that have published their fees and rules and that have high ratings of fairness, transparency, and consistency from parties whose cases they have heard.

UNIT -3

Meaning of customs clearance

Customs clearance procedures entail the preparation and submission of documentation necessary to facilitate exports or imports into the country, identifying the owner during customs scrutiny, evaluation, payment of duty, and receiving cargo from the customs department.

Customs clearance is a crucial step in the process of allowing goods to enter a country via an authorized customs broker. This procedure includes information about shipments including imports and exports, as well as parties participating in the process. All international ocean freight shipments, whether import or export, must adhere to each country's customs clearance requirements. This process includes declaring certain information on the shipment being imported or exported and the parties involved.

Customs Clearance Process

Customs clearance is the process of taking items through the customs authorities in order to allow the flow of cargo into and out of a country. It is a process confirming that all tariffs have been paid and the shipper's goods have been cleared for import/export. The following is a step-by-step approach for Customs Clearance.

1. Paperwork Verification

A customs officer checks that the paperwork for shipments is complete and accurate. Commercial invoices are required for international shipping. Once the paperwork is validated, the document will include a shipper and the receiver's contact information. Additionally, the cargo will have the date and airway bill number.

2. Cargo Validation

A customs officer will validate the cargo and the applicable fees for a consignment depending on the nature of the commodities, their worth, and the laws enforced by the importing country. If the value of the items exceeds a specified tax bracket, the officer will verify that all applicable taxes and charges have been paid.

3. Duty Payment

The customs broker will guarantee that the relevant taxes and duties are pre-paid or collected based on the type of items in the shipment, their declared value, and the importing country's customs legislation. Customs officers are responsible for verifying and tracking the payment of these charges. If there are any unpaid taxes or duties, customs will request payment. There are two modes of payment available: DDU (Delivery Duty Unpaid) and DDP (Delivery Duty Paid)

4. Release of Shipment

Once any outstanding taxes and duties are paid, customs releases the shipment and allows it to proceed to its final destination. Certain companies operate warehouses that allow a consignment to proceed past the border while being kept 'in bond' at the warehouse until cleared. Generally, there is a fee connected when not having the required documents on hand to legally clear a shipment.

Documents required for Customs Clearance

The documentation necessary for customs clearance is typically determined by the nature of the items being sent. Additionally, it varies according to the country of origin and destination of the goods. However, as a general rule, most enterprises must comply with a set of general paperwork when importing or exporting commodities.

1. Commercial Invoice

This attests to the parties' trading activity. The commercial invoice must include the fiscal information of both parties, a description of the cargo, the Inco term under which the transaction is taking place, and the value of the shipment.

2. Packing list

The seller generates the packing list, which is included with the business invoice. It should provide details about the merchandise (number and type of packages, weights, volume, etc.)

3. Bill of Lading

The transport business issues the Bill of Lading, or B/L. It attests that the products have been put onto the mode of conveyance. This document must be presented to the customs official in its original form.

Role of Clearing and Forwarding (C&F) Agents in Exports

Shipping is the most commonly used method of dispatching goods to a foreign country. Under shipment, one shall cover all the procedural aspects from the time the product meant for export leaves the factory site till it is loaded on board the ship and the relevant documents are collected from the shipping company. Since the type of work involved is somewhat specialized it is usually entrusted to the clearing and forwarding agents. This section focus on role of clearing and forwarding agents in export assignment.

1. Customs Formalities

Goods can be shipped out of India only after obtaining the customs clearance. To obtain the customs clearance, the clearing and forwarding agent should submit a shipping bill in the prescribed form. The shipping bill is to be prepared in quadruplicate. The shipping bills should be accompanied by the following documents.

- Contract with the overseas buyer in original.
- Invoice for the goods.
- Packing list.
- GR-1 form or EP forms prescribed by the Exchange Control under the Foreign Exchange Regulation Rules.
- AR 4 or AR 4A forms in original and duplicate.
- A Proforma showing details of drawback of duty if any claimed.
- In case deferred payment, a copy of the approval of the RBI.
- Copy of the L/C if any.

The customs authorities scrutinize the shipping bill and other requisite documents and if prima facie satisfied, they put it for export subject to the physical examination of the cargo by the customs staff. The export cargo can enter the port and can be kept in the Harbour Transit Shed even before the shipping bill is passed by the customs. However, only after obtaining the shipping bill the authorities allows the cargo to ship into the vessel.

2. Obtaining of the Carting Order

The export cargo lying in the Harbour Transit Shed should then be moved inside the port area and subsequently loaded on board the assigned ship. Permission should be obtained from the Superintendent of the Port Trust, in charge of the shed for moving the goods into the concerned shed of the port. The order issued by him is known as carting order.

3. Customs Examination of Cargo at Docks

The main purpose of the customs examination at the dock is to verify whether the goods packed and kept ready for shipment are the same as those mentioned in the shipping bill. The customs‘ appraiser, if necessary, may physically examine the goods packed inside. He shall make an endorsement on the shipping bill thus certifying that the goods have been examined. Once the endorsement is made, the goods are deemed to be "Out of Charge" of the customs.

4. Let Ship Order

The preventive officer of the customs department shall supervise the loading of the cargo on board the vessel nominated for export. Before the goods are actually loaded, permission from the preventive officer should be obtained. The permission is known as "Let Ship Order". The let ship order is given as an endorsement on the duplicate copy of the shipping bill. It is in fact an authorization given by the customs department to the shipping company to accept the cargo on board of the vessel.

5. Mate Receipt

As soon as the goods are loaded on board the vessel, the captain or master of the ship shall issue a document known as Mate Receipt direct to the port trust superintendent, in charge of the shed.

TYPES OF RISKS IN INTERNATIONAL TRADE

The various types of risks that an international trader faces are divided into the following categories:

1. Commercial risks

2. Political risks

3. Risks arising out of foreign laws

4. Cargo Risks

5. Credit risks

6. Foreign exchange fluctuations risks.

Now, let us discuss these risks, in detail.

1. Commercial Risks

Causes of Commercial Risks: Commercial risks are caused due to the factors:

(i) Lack of knowledge about the foreign markets:

(ii) Inadaptability of the export product to change to the conditions of the foreign market requirements

(iii) Longer transit time and

(iv) Varying situations to be handled, not anticipated before export.

Nature of Risk different in International Trade

Commercial risks exist in domestic market too. But, their impact in international market: is greater, in comparison. to domestic market. The changes in international market are hazardous and difficult to anticipate. Suitability and acceptability of the product international market is rather difficult to gauge. Variations in demand and supply conditions are more unpredictable.

Most of the commercial risk s are to he borne by the exporters. Exporters cannot shift these risks to the professional risk bearers, paying insurance premium. The exporter is not, aware of the conditions in the foreign market as the way he is aware of domestic market. Long distances to travel along with cost and time implications distinguish international trade from domestic trade. Exporter cannot visit Paris with the same ease he does Mumbai from Bhopal. If goods are not sold or price realization is lower than anticipated, due to changes in demand or supply, exporter has to bring back the goods, incurring additional freight cost or opt to sell the goods at a loss.

In international. market, as in domestic market, presence of competitors influences the demand and supply conditions and entry of new competitors depresses the market more. Further, local production may bring down the prices. Introduction of substitutes to capture the market may take away the exporter's share in the market.

The price realization of the product in export market is influenced by:

(**a) Changes in Exchange Rates:** Changes in home currency or foreign currency affects the price realization. If the home currency is devalued, the competitive capacity' of the exporter is enhanced. If the foreign currency is depreciated, there is ; considerable reduction in the exporter's competitive strength.

(b) Changes in import Duties or Tariff Barriers: Changes in import duties and creation of tariff barriers disturb even an established market. In this field, through the efforts of GATT, import duties have been fairly reduced and market has become stable. On account of these impediments, exporters open manufacturing facilities in the importing countries to overcome these problems.

(C) Changes in Transport costs: Transport costs constitute, generally, a major part the invoice value and so any change in transport costs affects the competitive edge of the exporter. Change in transport costs does not affect FOB price., There, is no problem even in CIF contracts, which have escalating clause in respect of transport costs. Exports Have to worry in CIF contracts, which have escalating clause in respect of transport costs have to worry in case of CIF contracts that are net with escalation clause:

d) Change in Foreign Market Characteristics: A classical example is change in styles soon after shipment of goods in particular, when the shipment is made without letter of credit , ready made garments suffer, greatly from this problem.

Minimization of Commercial Risks: Commercial risks can be minimized by using forecasting techniques and keeping a careful watch on the changing business conditions in the concerned country, in particular, and also keeping a track of the changes in the world economy. Exporters have to be prepared to face any eventuality and wisdom lies in forecasti,44 and anticipating, of course, finally, quick responding, at the earliest hour.

2. Political Risks change in These risks arise due to change in political situations in the concerned importing and exporting countries. Following are the factors, affecting the political situation:

(i) Changes in the party in power in the concerned countries, followed by 1 head of the Government;

(ii) Coups, civil wars and rebellions:

(iii) Wars between the countries or among- many countries and

(iv) Capture of cargo by enemies during war.

Political Asks can be avoided, to a certain extent, by judicious selection of the countries to which goods are exported. Insurance companies may agree to provide cover for some of these risks, by collecting additional premium. Export Credit. Guarantee Corporation (ECGC.) also 'covers seine of the risks.

3. Risks Arising out of Foreign Laws (Legal Risks) Every country has its own commercial law. So, different laws prevail both in exporter and importer countries. Legal proceedings are complex as well as expensive. In every relationship, however cordial and long-standing may be, differences are likely to arise. Legal risks can be avoided to a great extent by incorporating the provision for appointment of an arbitrator, in case of dispute about contractual terms.

The various types of risks that an international trader faces are divided into the following categories:

1. Commercial risks
2. Political risks
3. Risks arising out of foreign laws
4. Cargo Risks
5. Credit risks
6. Foreign exchange fluctuations risks.

Now, let us discuss these risks, in detail.

1. Commercial Risks

Causes of Commercial Risks: Commercial risks are caused due to the factors:

(i) Lack of knowledge about the foreign markets:

(ii) Inadaptability of the export product to change to the conditions of the foreign market requirements

(iii) Longer transit time and

(iv) Varying situations to be handled, not anticipated before export.

Nature of Risk different in International Trade

Commercial risks exist in domestic market too. But, their impact in international market: is greater, in comparison. to domestic market. The changes in international market are hazardous and difficult to anticipate. Suitability and acceptability of the product international market is rather difficult to gauge. Variations in demand and supply conditions are more unpredictable.

Most of the commercial risk s are to he borne by the exporters. Exporters cannot shift these risks to the professional risk bearers, paying insurance premium. The exporter is not, aware of the conditions in the foreign market as the way he is aware of domestic market. Long distances to travel along with cost and time implications distinguish international trade from domestic trade. Exporter cannot visit Paris with the same ease he does Mumbai from Bhopal. If goods are not sold or price realization is lower than anticipated, due to changes in demand or supply, exporter has to bring back the goods, incurring additional freight cost or opt to sell the goods at a loss.

In international. market, as in domestic market, presence of competitors influences the demand and supply conditions and entry of new competitors depresses the market more. Further, local production may bring down the prices. Introduction of substitutes to capture the market may take away the exporter's share in the market.

The price realization of the product in export market is influenced by:

(**a) Changes in Exchange Rates:** Changes in home currency or foreign currency affects the price realization. If the home currency is devalued, the competitive capacity' of the exporter is enhanced. If the foreign currency is depreciated, there is ; considerable reduction in the exporter's competitive strength.

(b) Changes in import Duties or Tariff Barriers: Changes in import duties and creation of tariff barriers disturb even an established market. In this field, through the efforts of GATT, import duties have been fairly reduced and market has become stable. On account of these impediments, exporters open manufacturing facilities in the importing countries to overcome these problems.

(C) Changes in Transport costs: Transport costs constitute, generally, a major part the invoice value and so any change in transport costs affects the competitive edge of the exporter. Change in transport costs does not affect FOB price., There, is no problem even in CIF contracts, which have escalating clause in respect of transport costs. Exports Have to worry in CIF contracts, which have escalating clause in respect of transport costs have to worry in case of CIF contracts that are net with escalation clause:

d) Change in Foreign Market Characteristics: A classical example is change in styles soon after shipment of goods in particular, when the shipment is made without letter of credit , ready made garments suffer, greatly from this problem.

Minimization of Commercial Risks: Commercial risks can be minimized by using forecasting techniques and keeping a careful watch on the changing business conditions in the concerned country, in particular, and also keeping a track of the changes in the world economy. Exporters have to be prepared to face any eventuality and wisdom lies in forecasti,44 and anticipating, of course, finally, quick responding, at the earliest hour.

2. Political Risks change in These risks arise due to change in political situations in the concerned importing and exporting countries. Following are the factors, affecting the political situation:

(i) Changes in the party in power in the concerned countries, followed by 1 head of the Government;

(ii) Coups, civil wars and rebellions:

(iii) Wars between the countries or among- many countries and

(iv) Capture of cargo by enemies during war.

Political Asks can be avoided, to a certain extent, by judicious selection of the countries to which goods are exported. Insurance companies may agree to provide cover for some of these risks, by collecting additional premium. Export Credit. Guarantee Corporation (ECGC.) also 'covers seine of the risks.

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4. Cargo risks Transportation of cargo has undergone radical improvements over a period. Most of the goods are transported by sea. Transit risks are a common hazard for those engaged in export/import business. The list of dreary and hazardous risks in transit is long viz. Storms, collisions, theft, leakage, explosion, spoilage, fire, and high sea robbery. Every exporter should have working knowledge of marine insurance so that he knows whether he is getting the required risk protection at the minimum cost, It is always possible to transfer the financial losses resulting from perils of sea and perils in transit to professional risk bearers known as underwriters Principles of marine insurance are also equally applicable to insurance of air cargo also.

5. Credit Risks, Risks are inherent in credit transactions; more so in international business. International business is invariably riskier than the domestic trade. Credit risk. is not the same whether one sells the goods in domestic market or in foreign market. Success, in international business depends, largely, on the ability of the exporters to give credit to importers on tree competitive and favorable terms.

Export business has become highly risky as selling on credit has become very common. Importers are sought after so it is but natural they dictate terms as there are many exporters competing for the cake of international trade. Insolvency rate is on the increase. Balance of payment difficulties has severely affected the capacity of many countries to pay the import price. However, offering credit has become unavoidable to the exporters to face competition. Two issues stand before the exporters:

(i) The exporter must have sufficient funds to offer credit to the buyers abroad and

(ii) The exporter should be prepared to take credit risks.

Meaning of Credit Risk

Once goods are sold on credit risks arising in realizing the sale proceeds are referred as credit risks. Risk may arise due to inability of the buyers to pay on the due date. Alternatively, even if the buyer makes the payment, situations may change in the buyer's country that the funds of 'buyer do not reach the exporter. An outbreak of war, civil war, coup or an insurrection may block or delay the payment for goods exported. Whatever the reason may be, if funds are not received, sufferer is, finally, exporter. Credit risk has assumed an alarming proportion on account of large volumes in international business and sweeping changes in political and economic conditions, globally. In such a high risky situation, credit risk insurance is of immense help to the exporters as well as banks that finance the exporters.

Organization covering Credit Risk

There are more than 40 organizations covering the credit risk, all the world over. In India, we have Export Credit Guarantee Corporation of India Limited to cover export credit risks. This is a Government of India enterprise, with its Head office located in Mumbai, under the administrative control of the Ministry of Commerce. Board of Directors representing Government, Banking, Insurance, Trade and Industry manages this organization.

Types of Cover issued by ECGC: They are broadly divided into four groups:

I Standard Policies: They are ideally suitable to exporters to cover payment risks involved in exports on short-term credit basis.
2. Specific Policies: These policies are specifically designed to protect Indian exporters from the risks involved in

(a) Exports on deferred payment contracts

(b) Services rendered to foreign parties and

e) Construction works and turnkey projects undertaken abroad.

Special Policies, beside the risks covered under Standard policies, are issued 1-, - ECGC to meet the specific requirements of export transactions.

3. Financial Guarantee: They are the policies issued to banks for covering risks in extending credit at pre-shipment as well as post shipment stages.

4. Special Schemes: They are meant to cover risks involved in confirmation to letters of credit opened by foreign banks, insurance cover for buyers credit,, line of credit and exchange fluctuations risks.

Standard policies: The ECGC has designed four types of standard policies for shipment made on short-term credit.

(a) Shipments (Comprehensive Risks) I OCY This covers from commercial and political risks from the date of shipment.

(b) Shipments (Politico Risks): This covers from political risks from the date of shipment.

(e) Contracts (Comprehensive Risks) Policy: This covers from commercial and political risks from the date of contract.

(d) Contracts (Political Risks) Policy: This covers from political risks from the date of contract.

The Shipments (Comprehensive Risks) policy is the one ideally suitable for goods exported on short-term credit basis. This policy covers from commercial and political risks from the date of shipment. Risk of pre-shipment losses on account of frustration of contract are practically nil in respect of export of raw materials, consumer durable or consumer good,: as they can be sold easily. Contract policies cover from the date of contract so they are ideally suitable in case goods are to be manufactured to meet the specific requirement of buyers and do not have alternative buyers. Further, the risk of ban on export of goods is covered by the contract policy only.

Cargo insurance

Cargo insurance is an exemplary risk management tool that protects against financial losses due to lost or damaged cargo. The cargo insurance coverage includes events mentioned in the policy like vehicle accidents, cargo renunciation, damage due to natural calamities, acts of war, piracy, etc. It covers up to the limit of an amount insured and is different from carrier liability.

Types of Cargo Insurance?

Generally, cargo insurance is of two types – marine and land cargo insurance.

Land Cargo Insurance

As the name suggests, land cargo insurance is for the cargo which uses the road as its mode of transportation and is usually shipped in trucks and other utility vehicles. This insurance offers coverage in incidence related to collision damages, theft, and other risks in freight shipping. This type of insurance is for the shipment of goods within the country's geographical boundaries.

Marine Cargo Insurance

Marine cargo insurance is used for international shipment through sea routes and covers the air portion when it is the part of that same journey. This type of insurance offers coverage on any damages due to bad weather conditions, loading and unloading of goods, piracies, and other possible losses involved while the cargo is in possession of the Airline and Shipping line.

In addition, this freight insurance has several kinds of policies which are mentioned below in brief:

1. Single Coverage

Single coverage policies are also known as specific coverage policies and offer coverage on single shipment basis. Generally, small business owners who have started getting sales or businesses who send shipments infrequently use single coverage policy.

2. Contingency Policies

Contingency policies are the ones where a consumer has liability to bear the cargo insurance cost. A lot of times, customers avoid liability for the damage and refrain from accepting the goods. However, this involves getting assistance from legal bodies who will pass an order for a consumer to pay on being proven responsible. Hence, for these reasons, contingent policy includes additional charges and requires time.

3. Open Coverage

This kind of policy is suitable for companies that send shipments through airlines and shipping lines frequently. Open coverage is opted for covering more than one shipment for a year or specific period. This effective instrument used for risk management has two types:

- **Permanent** The permanent policy is imposed for a certain period, like one year and offers coverage to an unlimited number of shipments within this timeframe.
- **Renewable** This kind of policy can be renewable in between the delivery of cargo which makes it ideal for businesses to transport single shipments.

Free from particular average

Also known as named peril policy, this kind of ocean cargo insurance covers the major damages which all-risk coverage policy does not cover. This includes Force Majeure or unpredictable events, rough weather conditions, theft or piracy, collision, damage due to sinking, non-delivery of the cargo, etc.

5. All-Risk Coverage Policy

The all-risk coverage covers a wide array of damages that are caused due to uncontrollable external factors. This insurance policy covers primarily new products and is not easily vulnerable to any damage, leakage, or spoilage. Some of the damages that this policy does not cover are:

- Customs rejection
- Force Majeure events like a volcanic eruption or natural calamities
- Damage or loss due to war, riots or any civil unrest as mentioned in WSRCC
- In cases of unpaid goods
- Occurrence of damage due to negligence on exporter or importer's behalf
- Cargo abandonment

This policy offers industry's best coverage rates and has easy accessibility under any circumstances.

General average

General average is quintessential for marine freight as the principle of this concept helps businesses to a great extent. As per this policy, even if the cargo of a specific owner does not go through any damage or loss due to any turbulence during transit via sea, they will be liable to pay for damages of other cargo. In other words, owners of surviving merchandise on board a same ship must share the cost of loss or damage if some of the goods belonging to other owners are in bad condition or lost completely.

The policyholder must separately include a general average in a policy as it will not be present by default. Statistically, though this type of claim happens every 8-9 years, it puts an owner of a damaged cargo in an advantageous position.