94

T.Y.B.A.

ECONOMICS PAPER - IX

EXPORT MANAGEMENT

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CONTENTS

Unit No.	Title	Page No.
	Module 1	
1.	Export management	01
2.	Marketing in Foreign Countries	11
3.	Product Planning and Decision	27
	Module 2	
4.	International Trade Agreements	37
	Module 3	
5.	Tapping Foreign Markets	51
6.	Trade Fairs And Exhibitions	62
	Module 4	
7.	Export Pricing	75
	Module 5	
8.	Export Finance	96
9.	Exchange Control/Regulation Mechanism	109
10.	Export Promotion	118
	Module 6	
11.	Export Documents & Incentives	154
12.	Realisation Of Export Incentives	173

SYLLABUS

T.Y.B.A. PAPER – IX EXPORT MANAGEMENT

Preamble :- India is fast emerging as prominent exporter in rapidly expanding world market as a result of several promotion measures of the Government of India and its protracted efforts to shift the emphasis from traditional and non-traditional items to suit the sentiments of foreign markets. The course provides a deep understanding about the broad principles and concepts, student preparing the relevance trade agreements, tapping foreign markets, export pricing, finance export promotion and documents and procedures, incentives, the contents of the paper spread over different modules.

1) **Significance of Export** (12 lectures)

   Export management : As a profession, functions, importance and scope of export manager, qualities required by a successful export manager – Marketing in foreign countries, regulation/control of foreign trade, tariffs, quotas and other trade barriers – Product development/product design strategy, process-product position : Meaning and steps, branding : definition, significance, decision for market and brand piracy.

2) **International Trade Agreements** (12 lectures)

   Brief introduction to GATT with emphasis on WTO, EU, ASEAN SAARC, UNCTAD, Joint Commisions with India.

3) **Tapping foreign market** (11 lectures)

   Trade delegation, exhibition, trade authority of India, Export through festivals, participation in trade fairs, maintaining foreign office.

4) **Foreign pricing** (10 lectures)

   Cost factor, market imperfections, objectives of export pricing, Export Pricing Policies, export assistances and export pricing, some examples of calculations.

5) **Export Finance and Promotion** (15 lectures)

   Export Finanace : Its Significance, Credit Provision, Pre-shipment Finance, Exchange Control/Regulations Mechanism, ‘R’ Relative, Spot and Forward Exchange Transactions, Exchange Position and Booking of Profits, Liberalized Exchange Rate Mechanism (Lerms) - Export Promotion : Bank Assistance and Incentives, Import Replenishments, some ideas of Trade Protocols, EPZ,

Commodity Boards, ITPO, ECGC, Exim Bank, Exim Policy 2002-2007, Role of other agencies e.g. STC, MMTC – Export Promotion : Bank Assistance and Incentives, Import Replenishments, some ideas of Trade Protocols, EPZ, Commodity Boards, ITPO, ECGC, Exim Bank, Exim Policy 2002-2007, Role of other agencies e.g. STC, MMTC.

6) **Export Documents & Incentives** (15 lectures)

Letter of Credit, its mechanism, types, uniform customs and practices for documentary credit, scrutiny of shipping documents, bill of landing – Procedures for claiming incentives : Recent changes, cash assistance, import entitlement, certificate of origin, other producers, relating to shipping forwarding, insurance, customs inspection, banking, procedures, exchange remittances.

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1

Module 1
SIGNIFICANCE OF EXPORT
EXPORT MANAGEMENT

Unit Structure

1.0 Objectives
1.1 Introduction of Export Management
1.2 Export Management as a profession
1.3 Functions of Export Manager
1.4 Importance of Export Management
1.5 Scope of export Manager
1.6 Qualities of a successful export manager
1.7 Summary
1.8 Questions

1.0 OBJECTIVES

The purpose of this unit is to make understand the meaning of the term Export Management. To know what are the functions, importance and scope of export management and to understand the qualities required to become a successful export manager.

1.1 INTRODUCTION

Management in India today faces new challenges after the recent reforms, which have not only made the market place competitive with many new players, but also with latest technologies becoming prominent.

Today there are more business opportunities and also new challenges. It is no longer the financial parameters along which are enough in evaluating an organization and its growth. They are indeed essential. But what differentiates a company which wants to be in the forefront, from the others, are its forward looking management policies, the choice of personnel and building a good team with complete support. This is what called Export Management.

1.2 EXPORT MANAGEMENT AS A PROFESSION

Simply defined, a manager is a person who has the responsibility and authority for getting results through others who

report to him. The definition tells us that the results a manager can achieve are defined, not by his personal abilities as a finance manager, engineer or expert salesman but by the extent to which he can get a finance manager, engineer or an expert salesman to secure results for him.

If we study export management in detail, we can identify five clear cut categories of management activity, which we refer to as the 'discipline of management', and around which the process of management revolves. A professional manager in the field of exports should master them. These activities may be classified as :

1) Planning
2) Organization
3) Building a team
4) Executive Action
5) Management Control

1) **Planning :** Planning is the pre-determination of a course of action. It has a conscious thinking through every aspect of the work the manager expects to do. Planning helps an organization to make the most effective and economical use of manpower and resources.

   To come to specifies in export, planning involves, first, forecasting. In the light of the forecast, the objectives or goals can be set. Thereafter, it helps the manager to develop his programme which is a step-by-step sequence of the activity he expects to undertake. It is also essential to set time limits for the completion of the different phases of the programme by establishing an operating plan. Finally, the management must allocate the resources available to carry out these plans. The last step is referred as budgeting.

   Planning is broadly divided into –

   a) Short Term : This will comprise an export plan of one to two years, indicating the volume of export, cost profitability, and indicating also the infrastructure one has to develop and personnel needs.

   b) Long Term : This will comprise an export plan of 3 to 5 years, or in some cases, up to 10 years, which will include diversification into new products and markets, export oriented industries, joint ventures, new innovations etc, to sustain export on a long term and substantial scale.

2) **Organization :** This refers to the means by which the programme mentioned earlier is carried out by the export manager who arranges the work to be done by various groups most effectively.

   Organization consists of three basic activities :

   1) Designing organization components i.e. identifying the work that has to be performed to reach the objectives, and grouping this in well balanced jobs, territories, division and other organizational units.

   2) Defining and delegating responsibility and authority

   3) Establishing relationships

   Work assigned to an individual should be specialized so far as it is consistent with effective human effort. Each employee or executive should be assigned the maximum work load that he can handle. Under utilization of a man's capacity to work is as harmful as overloading. The span of supervision should be limited in terms of the diversity dispersion complexity and volume of the work being managed. The span of supervision refers to the number of people reporting directly to one manager.

   Delegation in simple terms, is the process of entrusting a part of one's work to others for performance. The responsibility and authority of each persons should be written down. Only when it is put in writing is the work dearly defined and also indicates whether the workload is balanced or not. Authority and responsibility should be balanced. Development and training of subordinates is essential to enable them to perform the work delegated.

   The organization chart provides a clear picture of the reporting relationship of all the employees. It shows the various levels of authority and who is reporting to whom in the organization. It also shows the individuals responsible for specific functions and the manner in which the various functions are grouped.

3) **Building a Team :** Even though candidates are chosen primarily on the basis of educational qualification previous experience, personality and aptitude, a thorough screening and a detailed personal interview are essential to determine the right candidate for the job.

   Apart from initial selection the other major requirement is executive development which enables an organization to develop the members of the team to the limit of their potential

effectiveness. This is an area where many organizations in the country are not doing enough.

Whenever an employee or a group of employees are not effective, they are either transferred to other jobs or their functions are diluted. The correct procedure would be to study in depth the reasons for inefficiency and take corrective action. This can be done by :

a) Performance Appraisal : This has to be done objectively. A good deal of time should be spent on considering an employee on what he has done and on what you think he can do with proper help and encouragement.

b) Counselling : The full value of performance appraisal can be realized only if we discuss the findings with the person involved, and use them as a basis for developing a programme for improvement. To render effective counseling, one should be frank with employees, establish a friendly relationship and create confidence by listening him very carefully.

c) Coaching : This is a process carried out on the job to help employees improve their performance. This involves creating on-the-job opportunities for him with a view to helping an individual to build up his strong points and overcome his weaknesses.

4) **Executive Action :** Executive action as a management process consists of those activities which a professional manager undertakes to put his plans, organization and controls into operation.

   a) The first and the most important executive action in this connection is decision making consisting of four steps, namely :
      i) Identifying the problem,
      ii) Securing the available facts,
      iii) Analysing the possible alternatives and
      iv) Deciding upon a course of action

   b) Motivation : It is also an essential part of executive activity. It is a process of inspiring, impelling and encouraging people to work at their best. In motivating people, the management should recognize the basic need of every human being.

c) Leadership : This is necessary to motivate people and to get the best out of them. A good leader is one who motivates people and inspires them to do better.

d) Communication : The effectiveness of a professional manager rests in a large measure upon his skill on communication. Plans can be acted upon, organization can be made effective, motivation can take place, controls can be exercised only if he can convey his conception of these activities to others, and also understand what they are trying to convey to him. In an organization, constant communication between the various groups at all levels is vital. The practical manner in which this is done is to have frequent group meetings as also frequent meetings at the highest level. At the operating level, it may be on a daily basis and at higher levels on a biweekly / weekly basis.

5) **Management Control :** This refers to the process of evaluating the completed work, and the work in progress, to ensure that it is carried out according to the plan and programme envisaged at the commencement of operations. Control involves a sequence of activities. It begins with the setting of performance standards which serve as yardsticks against which performance is measured. The results secured are then identified with a view to taking corrective action.

A reporting system should be evolved. This may be in terms of daily meetings of an export organization, which may provide an immediate opportunity to take remedial steps. Or it may be in the form of daily / weekly reports on pre-determined lines. Timely submission of report and the action taken thereupon are extremely important.

1.3 FUNCTIONS OF AN EXPORT MANAGER

1. To decide export objectives of the organization and prepare comprehensive short term and long term plans programmes to achieve such objectives.

2. To conduct marketing research so that export efforts will be concentrated on certain commodities and on foreign market which are highly promising.

3. To introduces product development and to produce quality goods as per specific needs of foreign markets / buyers.

4. To execute long-term export promotion programmes for the products with promising overseas demand.

5. To fix up the prices of exportable items with proper case.

6. To find out new designs for packaging of export items.
7. To look after the advertising and publicity abroad and to maintain effective communication with prospective buyers.
8. To look after prompt execution of export orders so as to avoid inconvenience to foreign buyers.
9. To analyse the Exim policy of the government and the current export regulations and procedures.
10. To look after the opening of new branches / offices abroad.
11. To face the challenges of international competition and changing marketing environment.
12. To evaluate export incentives / facilities offered by the government and to secure benefits from them.
13. To look after the accounting and financial aspects of export transactions.
14. To look after the training of staff working in the export division, to motivate them and to develop human relations.

Check Your Progress:

1. What do you mean by a manager?
2. What are the categories of management activity?
3. Which functions an Export manager is supposed to perform?

1.4 IMPORTANCE OF EXPORT MANAGEMENT

A) From viewpoint of a Nation :

1) **Foreign Exchange :** Exports bring valuable foreign exchange to the exporting country, which is used for the payment of exports. Proper export management can increase the exports.

2) **International Relations :** Export management improve the export trade and through international trade we can maintain political and cultural ties with other countries.

3) **Balance of Payment :** A country's external economic strength depends upon its balance of payment position. Since exports fringe in foreign exchange, it helps a country to solve and improve its Balance of Payments position.

4) **Reputation in the World :** A country which is foremost in the field export gets lot of goodwill and reputation from other countries.

5) **Employment opportunities :** Export trade calls for more production which opens the doors for more employment opportunities.

B) From the view point of Business Organisation :

1) **Reputation :** An organization which undertakes exports can bring fame to its name in both export market and domestic market. E.g. Phillips, Glaxo, Coca cola etc.

2) **Optimum Production :** A company produce on large scale upto its optimum level and enjoy the economic of large scale because it can cover domestic as well as foreign market.

3) **Spreading of Risk :** When a business organization faces recession in the domestic market, it will naturally suffer losses. However, the company can spread its risk of losses by selling its products at good prices in the export market.

4) **Improvement in Organisational Efficiency :** Research, training and the experience in dealing with foreign markets, enable the exporters to improve the overall organizational efficiency.

5) **Financial and Non-financial Benefits :** In India, exporters can avail of a number of facilities from the government. E.g. exporters can get DBK, tax exemption etc.

1.5 SCOPE OF EXPORT MANAGEMENT

1) **Export Marketing Research :** Large scale exports are not possible without the study of foreign market. The research relates to consumers, products and features and also social, cultural, economic and political background of foreign market.

2) **Export Production, Quality Control and Packaging :** For large-scale exports, promising products need to be selected. Quality control is a must in the case of exportable items.

Packaging of export items should be secured, alternative and agreeable to foreign buyers.

3) **Advertising and Public Relations :** For attracting consumers in the sensitive export market, alternative and agreeable advertising is a must. Along with extensive advertising, cordial public, relations are useful for sales promotion.

4) **Export Pricing :** Pricing needs to be competitive and attractive to foreign buyers. Export prices should be fixed on cost calculations and judgment relating to non-price factors such as market competition and substitutes available.

5) **Export Risk Management :** Export risk may be related to the cargo in transit or payment by the foreign importer. For covering export risk ECGC issues different policies.

6) **Export Organisation :** For large-scale export marketing, efficient export organization is essential. It should work in close co-operation with other functional departments. The study of export trading organizations is within the scope of export management.

7) **Export Formalities, Procedures and Documentations :** Export transaction are lengthy, time-consuming and complicated various documents are required to be prepared while exporting goods by the export manager.

8) **Exim Policy and Export Incentives :** Export management need detailed study of EXIM policy in India and abroad. Study of Exim policy and incentives facilitates large scale export.

9) **Sales Promotion :** Sales promotion measures are necessary for capturing foreign markets and also for facing market competition effectively.

10) **After-Sales services :** To the case of certain export items, after sales services are necessary. Such service can be provided through foreign agents. Orders from foreign buyers will be repeated only when such services are provided.

1.6 QUALITIES OF EXPORT MANAGER

A successful export manager should posses the following qualities –

1) **Personality :** The export manager needs to have a pleasing personality as it creates a better impression on the staff and on the outsiders – clients, agents and others.

2) **Intelligence :** He should be intelligent and knowledgeable. This would help him to arrive at good business decisions.

3) **Innovative :** Innovativeness in very vital in today's export business. He should have the imagination to develop new marketing strategies and tactics to develop business.

4) **Initiative :** He should possess the quality of initiative. He should be able to take the right decision of the right time without being directed or dictated by others.

5) **Administrative Skills :** He must have the ability to plan, to organize, to direct and to control export activities. Such skills would enable the export manager to achieve the objectives of his department.

6) **Human Skills :** An export manager must have inter-personal skills. He should be able to get along with others. i.e. Subordinates, Clients, Government – Agencies etc.

7) **Marketing Skills :** He should have knowledge of various marketing mix i.e. product, price, place and promotion.

8) **Communication Skills :** Successful managers are effective communicators. The export manages should have knowledge of foreign languages. He should be able to communicate smoothly with his staff as well as foreign agents and buyers.

9) **Self – Confidence :** He must have self confidence in his work and in solving problems relating to export business. He must also develop self – confidence in his subordinates.

10) **Conceptual Skills :** The conceptual skills are required to analyse situations, and to solve export marketing problems.

11) **Discipline :** The manager need to have application and dedication towards his work. He should also inculcate discipline in his subordinates.

12) **Result Oriented :** The export manager must be result oriented. He must place emphasis on results rather than on mere activities.

Check Your Progress:

1. From viewpoint of a nation why export management is important?
2. When an export manager can be successful?

1.7 SUMMARY

In this unit we have studied what is export management. An export manager should refer to the five disciplines of management classified as 1) planning, 2) organization, 3) Building a team, 4) Executive Action, 5) Management Control.

There are various functions of export manager like decide the export objectives, market research, product development, fix up prices, promotion, follow the EXIM policy motivate and train the staff and face the challenges.

Export Management is important to achieve various advantages like earning foreign exchange, reputation, Balance of Payment, Incentives, Employment opportunities.

We have also studied the scope of Export Management which involves various areas like Market Research, Production, Advertising, Pricing, Export Risk Management, Export Organization, Documentation, EXIM Policy, after sale service etc.

Finally we have launched on the topic of various skills required by export manager to be a successful exporter.

1.8 QUESTIONS

1) Describe briefly the Discipline of Management.
2) What are the various functions of an Export Manager?
3) Give the importance of Export Management from the nation's point of view.
4) What are the qualities required in an export manager to be successful in export business?
5) Explain the scope of Export Management.

2

MARKETING IN FOREIGN COUNTRIES

Unit Structure

2.0 Objectives
2.1 Introduction
2.2 Marketing in Foreign Countries
    2.2.1 Direction of India's Export during last decade
    2.2.2 Composition of India's Export Trade
    2.2.3 FTP: Objectives
    2.2.4 Highlights of FTP 2009-14
    2.2.5 Special focus Incentive
    2.2.6 Negative list of export
    2.2.7 Trade Barriers
2.3 Summary
2.4 Questions

2.0 OBJECTIVES

To make know about :

- The various directions in which India trade with other countries.
- To have a brief idea about India's export trade in percentage in 2000-01 and 2008-09 regarding good and services.
- To learn about Foreign Trade Policies.
- To understand the various tariff and non-tariff barriers.

2.1 INTRODUCTION

India's share in the world export trade has moved up from 0.7% in 2000 to 1.2% in 2009. In 2009, India's export share in world trade is very very low as compared to other developing countries like China (9.1%), South Korea (2.9%), Hong Kong (2.5%) and Singapore (2.1%).

India is one of the leading exporters of services in the world. At present India ranks 9th in the world for overall services exports. Currently, India ranks 2nd in the world for computer and information

services exports. The trend towards globalisation has resulted in steady growth of trade in services.

The foreign trade of India is guided by the Export-Import (EXIM) policy of the Government of India and is regulated by Foreign Trade (Development and regulation) Act, 1992. The EXIM policy is prepared and announced by the Central Government (Ministry of Commerce). It provides a list of initiatives and procedural guidelines for exporters and importers. In 2004, the Government of India renamed the EXIM Policy as Foreign Trade Policy (FTP).

2.2 MARKETING IN FOREIGN COUNTRIES:

2.2.1 Direction of India's Exports during the last decade:

The countries to which India exports are broadly divided into five groups:

1) Organisation for Economic Cooperation and Development (OECD) comprising of USA, Canada, Australia, Japan, European Union.

2) Organisation of Petroleum Exporting Countries (OPEC) which includes Kuwait, Iran, Iraq, Saudi Arabia, UAE and others.

3) Eastern Europe which includes Russia, Georgia and others.

4) Developing countries of Asia, Africa, Latin America and Caribbean.

5) Other countries which do not fall in the above groups.

Direction of India's Export (in percent)

Group	2000-01	2007-08
OECD	52.7	38.4
OPEC	10.9	16.3
E. Europe	3.0	2.1
Russia	2.0	0.6
Developing Countries	29.2	42.6
Others	4.2	0.4
Total %	100	100
US $ Billion	44.6	163.1

Source: RBI Handbook of statistics on Indian Economy 2007-08.

1) **Export to OECD countries:** Over the years the share of total Export Earnings (TEE) to OECD countries have declined. In 2000-01 it was 52.7% and in 2007-08 it has come down to 38%.

2) **OPEC countries:** The share of TEE from OPEC countries has increased. In 2000-01 it was 10.9% and has increased to 16.3% in 2007-08.

3) **Eastern Europe:** The exports to Eastern Europe have declined mainly due to disintegration of USSR. In 2000-01, the TEE from this group was 3%. It came down to 2% in 2007-08.

4) **Developing countries:** There is a considerable growth in India's export to developing countries. In 2000-01, the TEE was 29% which has increased to 42.6% in 2007-08. Among the developing countries the major share comes from China. China's share in India's export has increased from 1.9% in 2000-01 to 6.6% in 2007-08.

2.2.2 Composition of India's Exports Since 2000

The following table shows composition of India's merchandise exports during 2000-01 and 2008-09.

India's Merchandise (in percent)

Products		2000-01	2008-09
I	Agriculture Items	14.0	9.1
II	Ores and Minerals	2.0	4.2
III	Manufactured Items	79.0	66.4
IV	Fuel and Lubricants	4.3	14.9
V	Others	0.7	5.4
	Total (%)	100	100
	Total US $ Billion	44.6	185.3

Source: Economic Survey, 2009-10

India's merchandise export is explained as follows:

I. **Agriculture and Allied Products:** The share of agriculture exports was 14% in 2000-01 and it declined to 9.1% in 2008-09. The top items of agriculture related exports include:
   - Rice
   - Oil cakes
   - Spieces
   - Marine Products

II. **Ores and Minerals:** The overall export performance of ores and minerals has improved. We can see in the above table the percentage of export performance of ores and minerals was 2% in 2000-01 which has increased to 4.2% in 2008-09.

III. **Manufactured Items:** The major share of India's merchandise exports is that of manufactured items. But we can see it has declined from 79.0% in 2000-01 to 66.4% in 2008-09. The top manufactured exports items include:

- Engineering Goods
- Gems and Jewellery
- Ready-made Garments
- Chemicals and Allied Products

IV. **Mineral Fuels and Lubricants:** There has been considerable improvement in the export of mineral fuels and lubricants. The share has increased from 4.3% in 2000-01 to 14.9% in 2008-09.

Services Export:

India's services exports has increased considerably from 16.3 US $ Billion in 2000-01 to 101.7% US $ Billion in 2008-09. The following table shows the growth of services exports between 2000-01 and 2008-09.

India's Export of Services

Services Group		Percentage Share	
		2000-01	**2008-09**
1.	Software services	39.0	45.5
2.	Business services	2.1	16.2
3.	Transportation	12.6	11.1
4.	Travel	21.5	10.7
5.	Financial services	2.1	3.9
6	Communication services	7.0	2.1
7.	Insurance	1.7	1.4
8.	Other services	14.0	9.1
	Total (Percent)	100.0	100.0
	Total (value) US $ Billion	16.3	101.7

Source: Economic Survey 2009-10.

2.2.3 Regulation of Foreign Trade

EXIM Policy now called as Foreign Trade Policy (FTP) means the policy relating to exports and imports, or relating to foreign

trade. Even policies relating to export promotion are covered with EXIM Policy. In India, EXIM Policy is announced by the central Government (Ministry of Commerce) periodically. Amendments to the same are also made normally on yearly basis. EXIM policy contains various policy and procedural decisions taken as per the existing global marketing environment. It suggest the measures adopted to achieve well-defined export objectives and it also provide various incentives and facilities to exporters.

Objectives of Foreign Trade Policy:

1) To strengthen the base for export production for promoting exports.
2) To facilitate Technological upgradation of domestic production to make Indian goods globally competitive.
3) To reduce imports through import substitution
4) To simplify and streamline import-export procedures.
5) To provide liberal import facilities to promote exports.
6) To enable exporters to draw long term export plans and strategies.
7) To offer various export incentives, concessions and facilities to encourage manufactures and exporters.
8) To facilitate availability of necessary imported inputs for sustaining industrial growth.
9) To establish the framework for globalisation of India's foreign trade.
10) To promote productivity, modernisation and competitiveness of Indian industry and enhance exports.

Foreign Trade Policy 2009-14

The earlier policy for 2004-09 was replaced by the new policy for 2009-14. The new policy was announced on 27th August, 2009.

2.2.4 Highlights / Features of FTP 2009-14

1. **Stability and Continuity of the Foreign Trade Policy:** The Duty Entitlement Passbook Scheme (DEPB) is extended till 31.12.2010. Income Tax exemption to 100% EOU, and STPI has been extended till the financial year 2010-11 till March, 2011.

2. **Higher Support for Market:** 26 new markets have been added under focus market scheme which include 16 new markets in Latin America and 10 in Asia-Oceania. Incentives under (FMS) has been raised from 1.25% to 2%

3. **Product diversification:** A large number of products from various sector have been included which cover engineering products (agricultural machinery, parts of trailers, Sewing machines, hand tools, garden tools, musical instruments etc); Plastic, Jute products, technical textiles, green technology products and certain electronic items, Market Linked Focus Product Scheme (MLFPS) has been expanded.

4. **Technological upgradation:** To help technological upgradation in the export sector, EPCG scheme at zero duty has been implemented. This scheme will be available for engineering and electronic products, basic chemicals, pharmaceuticals, apparels, textiles, handicrafts, plastic, chemicals and allied products, and leather and leather products.

5. **EPCG Relaxation:** Export obligation under EPCG scheme has been reduced to 50% in order to increase the life of existing plant and machinery.

   In the light of economic recession hitting export performance, the facility of re-fixation of Annual Average Export obligation for the year in which there is decline in exports from the country has been extended upto 31st March, 2017.

6. **Gems and Jewellery Sector:**
   - To neutralize duty incidence of gold jewellery exports, it has now been decided to allow DBK on such exports.
   - To make India a diamond international trading hub, it is planned to establish ‘Diamond Bourse’.
   - A new facility to allow import on consignment basis of cut and polished diamonds for the purpose of grading / certification purposes has been introduced.
   - To promote export of Gems and Jewellery products, the value limits of personal carriage have been increased from US $ 2 million to US $ 5 million in case of participation in overseas exhibitions.
   - The limit in case of personal carriage, as samples, for export promotion tours, has been also increased from US $ 0.1 million to US $ 1 million.

7. **Status holders:** In order to increase exports and encourage technological upgradation, additional Duty Credit scrips shall be given to status holder @ 1% of the FOB value of past exports.

8. **Marine sector:** In order to boost marine sector import of fishing trawlers, boats, ships and other similar items shall not be allowed.

9. **Agriculture sector:** A single window system has been introduced to help export of perishable agricultural produce. This sector will have multi-functional model agencies to be accredited by APEDA.

10. **Leather sector:** Unsold imported raw-hides and skins can be re-exported along with semi-finished leather from bonded warehouse, subject to payment of 50% of the applicable export duty. FPS rate will be increased by 2% in this sector.

11. **Tea:** Export of tea is covered under VKGUY (Vishesh Krishi and Gram Udyog Yojana) scheme benefits. The sale limit of instant Tea by EOUs has been enhanced from 30% to 50%. Minimum value addition under advance authorisation scheme has been reduced from existing 100% to 50%.

12. **Handloom sector:** Handloom Mark has been removed to get benefits under FPs. (Focus Product Schemes)

13. **Pharmaceuticals sector:** Export obligation period for advance authorisation has been increased from existing 6 months to 36 months. Pharma sector has been extensively covered under MLFPS (Market Link Focus Product Scheme) for countries in Africa and Latin America.

14. **EOUs:** Instead of existing 75%, EOUs have been allowed to sell products manufactured by them in DTA upto 90%. EOUs will be allowed to procure finished goods for consolidation along with their manufactured goods. During the present state of recession, Board of Approvals (BOA) will consider giving extension of block period by one year for calculation of Net foreign exchange earning of EOUs.

15. **Duty Entitlement Passbook Scheme (DEPB):** DEPB rate shall also include factoring of custom duty component on fuel where fuel is allowed as a consumable in standard input output norms.

16. **Automobile sector:** Automobile industry having their own R&D establishment would be allowed free import of reference fuels (Petrol and Diesel), upto a maximum of 5KL per annum, which are not manufactured in India.

Check your progress

1. What is EXIM Policy of Government of India?
2. What are the objectives of Foreign Trade Policy 2009-14?
3. Examine the growth of services exports between 2000-01 & 2008-09.

2.2.5 Special focus Incentives

The FTP 2004-09 has identified certain thrust sectors having prospects for export expansion and potential for employment generation. These thrust sectors include agriculture, handlooms and handicrafts, gems and jewellery and leather and footwear sectors.

1) **Agriculture:** To promote the exports of agriculture sector the following are the initiatives in the FTP 2004-09.

a) A new scheme called Vishesh Krishi Upaj Yojana has been introduced to boost exports of fruits, vegetable, flowers, forest product and their value added products. The product under this scheme are eligible for duty free credit entitlement for importing inputs.

b) Capital goods imported under EPCG will be permitted to be installed anywhere in Agri Export Zones (AEZs).

c) Import of inputs such as pesticides is permitted under advance authorisation for agro exports.

d) Liberalisation of import of seeds, bulbs, tubers and planting materials.

2) **Handlooms and Handicrafts sectors:**

a) Specific funds are earmarked under Market Access Initiatives Market Development Assistance Scheme for promoting handloom exports.

b) Extension of facilities like enhancing (to 5% of FOB value of exports) duty free import of trimmings and embellishments for handlooms and handicrafts.

c) Exemption of samples from countervailing duty (CVD).

d) Authorising Handicraft Export Promotion Council to import trimmings, embellishments and samples for small manufacturers.

e) Establishment of a new Handicraft special Economic Zone.

3) **Gems and Jewellery:**

a) Import of gold of 8k and above is allowed under replenishment scheme subject to import being accompanied by an Assay Certificate specifying purity, weight and alloy contents.

b) Duty Free Import Entitlement (based on FOB value of preceding year's exports) of consumables and Tools for jewellery made out of precious metals (other than Gold and Platinum) -2%, Gold and Platinum -1% and Rhodium finished Silver – 3% and cut and Polished Diamonds -1%.

c) Duty Free Import Entitlement of commercial samples shall be Rs. 3,00, 000.

d) Duty free re-import entitlement for rejected jewellery shall be 2% of FOB value of exports.

e) Import of Diamonds on consignment basis for certification / Grading and re-export by the authorised offices / agencies of Gemmological Institute of America (GIA) in India or other approved agencies will be permitted.

f) Personal carriage of Gems and Jewellery products in case of holding participating in overseas exhibitions increased to US $ 5 million and to US $ 1 million in case of export promotion tours.

g) Extension in number of days for re-import of unsold items in case of participation in an exhibition in USA increased to 90 days.

h) In an endeavour to make India a diamond international trading hub, it is planned to establish "Diamond Bourse (s)".

4) **<u>Leather and footwear:</u>**

a) Duty free import entitlement of specific items is 3% of FOB value of exports of leather garments during preceding financial year.

b) Duty free entitlement for import of trimmings, embellishments and footwear components for footwear, gloves, travel bags and handbags is 3% of FOB value of exports of previous financial year.

c) Machinery and equipment for efficient Treatment plants shall be exempt from basic customs duty.

d) Re-export of unsuitable imported materials such raw hides and skins and wet blue leathers is permitted.

e) Countervailing Duty (CVD) is exempted on lining and inter-living material and raw, tanned and dressed for skins falling under chapter 43 to ITC (HS).

f) Re-export of unsold hides, skins and semi-finished leather shall be allowed from Public Bonded warehouse at 50% of the applicable export duty.

5) **<u>Marine sector:</u>**

a) Imports for technological upgradation under EPCG in fisheries sector (except fishing trawlers, ships boats and other similar items) exempted from maintaining average export obligation.

b) Duty free import of specified specialised inputs/chemicals and flavouring oils is allowed to the extent of 1% FOB value of preceding financial year's export.

c) To allow import of monofilament longline system for tuna fishing at a concessional rate of duty and Bait Fish for tuna fishing at 'Nil' duty.

d) A self removal procedure for clearance of seafood waste is applicable subject to prescribed wastage norms.

e) Marine products have been considered for incentives under Vishesh Krishi and Gramin Udyog Yojana (VKGUY) scheme.

6) **<u>Green Products and Technologies:</u>** India aims to become a hub for production and export of green products and technologies. To achieve this objectives, special initiative will be taken to promote development and manufacture of such

products and technologies for exports. To begin with focus would be on items relating to transportation, solar and wind power generation and other products as may be notified.

2.2.6 A Note on Negative List of Exports:

The negative list consists of goods, the import or export of which is either prohibited, restricted through licensing or otherwise to be canalised through a designated government agency. The negative list of exports, as per the EXIM policy 2002-07, contains the following four categories of export items:

a) **Prohibited items:** This means items which are completely banned from exports. The list of prohibited items are:
   - All forms of wild animals
   - Special chemicals as notified by the DGFT
   - Exotic birds
   - Beef
   - Sea shells
   - Human skeleton
   - Peacock tail feathers including handicraft and articles made there of.
   - All items of plants as specified by the DGFT.
   - Tallow, fat and oils of any animal orgin excluding fish oil.
   - Sandalwood items as notified by DGFT.
   - Red sanders wood in any form.

b) **Restricted items:** The restricted items are allowed to be exported only with special licencing by the DGFT. At present there are 31 items. Some of restricted export items are as follows:
   - Cattle
   - Camel
   - Fabrics / Textile items with imprints of excerpts or verses of the Holy Quran.
   - Seaweeds of all types
   - Fodder including wheat and rice straw
   - Chemical fertilizer of all types
   - Whole human blood and all products derived from it.
   - Silkworm, Silkworm seeds and silkworm Cocoons.
   - Deoiled groundnut cakes

c) **Canalised items:** This list contains those items which are to be exported only through designated canalised agencies. Some of the canalised items are:

Items		Canalising Agency
1.	Petroleum Product	Indian Oil Corporation Ltd.
2.	Gum Karaya	Tribal Cooperative Marketing Federation of India (TRIFED)
3.	Mineral ores & Concentrates	MMTC
4.	Mica waste and scrap	MMTC & MITCO
5.	Nigar seeds	NAFED, TRIFED

2.2.7 Trade Barriers

Trade Barriers are restrictions imposed on movement of goods between countries. Trade barriers are imposed not only on imports but also on exports. The trade barriers are broadly divided into two groups:
a) Tariff Barriers & b) Non-tariff Barriers

A) **TARIFF BARRIERS:** Tariff is a Tax /Import duty on the goods which are being imported from abroad. Tariffs are in the form of custom duties imposed by the importing country. If is a trade barriers.

Classification of Tariffs:

A) **On the basis of origin and destination:**

1) Export Duty: An export duty is a Tax imposed on a commodity originating from the duty levying country designed for use in some other country. Such duty is levied for revenue purpose.

2) Import Duty: It is a Tax imposed on a commodity originated in a foreign country designed for duty levying country. The purpose of heavy import duty is to earn revenue, to protect domestic industry by making the imported goods costlier.

3) Transit Duty: Transit duty is a Tax imposed on a commodity while crossing the national frontier originating from, and designed for other countries. Countries having favourable geographical location can enjoy this tariff.

B) **On the basis of quantification of tariffs:**

1) Specific Duty: A specific duty is a flat sum per physical unit of the commodity imported. E.g. Rs.5 per meter of cloth or Rs. 1000

on each T.V. set. Such duty is collected at the time of entry of goods.

2) Ad-Valorem Duty: Ad-Valorem duty is imposed at a fixed percentage on the value of a commodity imported. This duty is imposed on the goods whose value cannot be easily determined. E.g. Work of art, rare manuscript, painting etc.

3) Compound Duty: It is a combination of the specific duty and Ad-Valorem duty on a single product. E.g. there can be a combined duty when 10% of value (AD-Valorem) and Re.1 on every meter of cloth is charged as duty.

C) **On the basis of purpose:**

1) **Revenue tariff:** Revenue tariff aims at collecting substantial revenue to the government. Here, the duty is imposed on items of mass consumption even though the rate of duty may be low. It gives income to the government but do not obstruct the flow of imports.

2) **Protective tariff:** In order to protect domestic industries from stiff competition of imported goods, protective tariff is levied on imports. Normally, a very high duty is imposed, so as to either discourage imports or to make the imports more expensive as that of domestic products.

3) **Anti-dumping duties:** Dumping means selling goods in foreign market at a price below their normal price or even below their marginal cost. The purpose is to capture foreign markets initially at a loss and then to have good profit in the long run by raising prices. To offset this effect, duties are levied in additional to normal duties called anti-dumping duty.

4) **Countervailing duties:** Countervailing duties are imposed in order to nullify the benefits offered through cash assistance or subsidy by the foreign country to its manufactures. This duty is proportional to the cash assistance or subsidy granted.

D) **On the basis of trade relation:**

1) **Single column tariff:** Under single column Tariff system, the tariff rates are fixed for various commodities and the same rates are made applicable to imports from all countries.

2) **Double column tariff:** Under this system two rates are fixed. The lower rate is made applicable to a friendly country or to a country with bilateral trade agreement. The higher rate is made applicable to all other countries.

3) **Triple column tariff:** Under this system, three different rates of duty are fixed. These are: (a) General rate (b) International rate and (c) preferential rate. The first two rates are similar to lower and higher rates while the preferential rate is substantially lower than the general rates and is applicable to friendly countries.

B) **NON-TARIFF BARRIERS:** Non-tariff barriers are the quantitative restrictions imposed by the countries. They are :

1) **Quota system:** Under quota system, the country fixed in advance, the limit of import quantity of a commodity that would be permitted from various countries during a given period.

Types of quotas

a) Tariff quota: Here, the imports of a commodity upto a specified volume are allowed duty free or at a low rate duty. Imports in excess of this limit are subject to a higher rate of duty.

b) Unilateral quota: In this, a country on its own fixes a ceiling on quantity of the import of particular commodity.

c) Bilateral quota: In a bilateral quota, negotiations are made between the importing country and a supplier country and the import of quantity is decided.

d) Mixing quota: Under the mixing quota, the producers are obliged to utilise domestic raw materials upto a certain proportion to manufacture finished product.

2) **Import Licensing:** Here, imports are allowed under license i.e. permission from the government. Foreign exchange for imports are provided against such license issued.

3) **Consular Formalities:** Some countries impose strict rules regarding consular documents necessary for importing goods. They include import certificates. Certificate of origin and certified consular invoice.

4) **Preferential treatment through Trading Blocs:** Some countries form small regional groups and offer special concessions and preferential treatment to member countries. As a result, trade develops among the member countries and gives benefits to participating members only.

5) **Customs Regulations:** Customs regulations as well as administrative regulations are made complicated in many countries and are used as invisible tariffs for discouraging imports.

6) **State Trading:** In some countries like India, certain items are imported or exported only through canalising agency i.e. by government. E.g. MMTC. Individual importers or exporters are not allowed to trade canalised items on their own.

7) **Foreign exchange Regulations:** Countries impose various restrictions on the use of foreign exchange earned through exports. The importer has to first obtain a clearance from exchange control authorities whether adequate foreign exchange is available for import before entering into contracts.

8) **Prior Import Deposits:** The importers are asked to deposit even 100 percent of import value of goods in advance with a specified authority (normally the Central Bank). There after, the importers are given permission to import goods.

9) **Health and Safety Measures:** Many countries have their specific rules regarding health and safety regulations applicable to imports from abroad. Such measures are mainly applicable to raw-materials and food items.

Check your progress:

1. State the sectors which identified the sectors for export expansion & potential for employment generation.
2. What do you understand by negative list of exports?
3. Distinguish between Tariff and non-tariff barriers.

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2.3 SUMMARY

- India's export is broadly divided into five groups viz. OECD, OPEC, Eastrn Europe, LDCs and other.
- India's merchandise export consist of many items like agriculture, ores and minerals etc. but the major share is that of merchandise export.
- India is one of the leading exporter of services in the world.

- EXIM Policy now called as FTP provides a list of initialtives and procedural guidelines for exporter and importers.
- The main highlights of FTP 2009-14 are stability and continuity of Foreign Trade Policy, Higher supper for market, product diversification, Technological upgradation, EPCG Relaxation, Gems and Jewellery sector, etc.
- The special focus Incentives are gives to the thrust sector identified as having prospectus for export expansion and potential for employment generation. Like agriculture, Handlooms and Handicrafts, Leather etc.
- Negative list of export means a list of items which cannot be freely exported to other countries. It consist of three parts.

  a) Prohibited items: Which are banned for export purpose.

  b) Restricted items: Where exports are subject to licencing by the DGFT.

  c) Canalised items: which can be exported or routed only through canalising agency.
- Trade Barriers are artificial restrictions imposed by countries on free movement of goods/services between countries. Such barriers are harmful to the growth of free trade. Trade barriers include tariff and non-tariff restriction.

2.4 QUESTIONS

1) Explain the composition of India’s export since 2000.
2) Explain the direction of India’s export since 2000.
3) Write a note on services exports of India.
4) Explain the highlights of FTP 2009-14.
5) Write a note on special Focus Incentives.
6) Explain briefly on Negative List of Export.
7) What is trade barrier? Explain briefly various trade barriers.

3

PRODUCT PLANNING AND DECISION

Unit Structure

3.0 Objectives
3.1 Introduction
3.2 Subject Description
- 3.2.1 What is a Product
- 3.2.2 Product design strategies
- 3.2.3 New product development process
- 3.2.4 Product positioning
- 3.2.5 Steps in product positioning
- 3.2.6 Branding
- 3.2.7 Significance
- 3.2.8 Branding decisions
- 3.2.9 Brand Piracy

3.3 Summary
3.4 Questions

3.0 OBJECTIVES

After studying this unit, you will be able to:

- Know what is product.
- Understand the different product-design strategies.
- Know steps in product development.
- Understand what is product positioning & its process adopted by different firms.
- Know about Brand Piracy

3.1 INTRODUCTION

In this chapter, we have tried to identify the product concept that is most useful for international marketing. Each product to be offered must meet the needs of the potential user. Appropriate selection of the product and its adjustment as per the expectations of foreign buyer are necessary for large scale exporting.

3.2 SUBJECT DESCRIPTION

3.2.1 What is Product?

A product is a set of tangible and intangible attributes that leads to customer satisfaction.

Products that are marked include physical goods, services, experiences, events, persons, places, properties, organisations, information and ideas.

Definition:

Philip Kotler: "A product is anything that can be offered to a market to satisfy a want or need."

William Stanton: "A product is a set of tangible attributes including packaging, colour, price, quality and brand plus the services and reputation of the seller. A product may be a good, service, place, person or idea."

Skinner: "A product is any good, service or idea that satisfies a need or wants and can be offered in an exchange."

3.2.2 Product Design Strategies:

The three main product design strategic options are:

1. Product standardisation
2. Product adaptation
3. Product Innovation

1. <u>Product standardisation strategy:</u>

Product standardisation means selling the identical product in all countries. e.g. Certain multinationals like Coca Cola, Rolex watches have used this strategy successfully.

Advantages:

1. Economies of large scale production.
2. Less expensive.
3. Economies in marketing.
4. Economies in product research and development.

Disadvantages:

1. Change in physical environment.
2. Change in likes, dislikes, preferences, habits and taste of buyers.
3. Cannot satisfy as per customer requirement.

2. <u>Product Adaptation:</u>

Product adaptation means development of a product according to the socio-cultural tastes and economic characteristics

of the foreign country. In short, modifying the product to suit the needs of local conditions, tastes, likes and dislikes. e.g. Nestle prepares over 100 varieties of Nescafe to suit the taste of people in different countries. The Mattel Toys of USA wanted to sell their Barbie Doll in Japan. But the Japanese did not buy. Later the firm introduced a modified Barbie. Slightly oriental eyes and a more girlish figure. The sale in Japan increased.

This strategy involves greater cost both in production and marketing but it may also result in great profit.

3. Product Innovation Strategy:

It is bringing a totally new product in foreign market as per the requirement of the buyers. The company may go for either backward invention or forward invention.

3.2.3 New product development process:

After making market survey if a company finds that there is good opportunity for a new product in overseas markets, it may develop new product to exploit that opportunity. The following are the steps involved in new product development.

1. Idea Generation:

The beginning of a successful product is a creative idea. For the generation of new ideas, it is necessary to gather information about the unfulfilled needs of the consumer, their attitude and the qualities that the product should possess. This can be done through Brainstorming Technique, Nominal Group Technique, Inviting suggestions from customers, obtaining feedback from dealers etc.

2. Evaluation of ideas:

The ideas should be evaluated in the light of profit, risk and cost involved, while translating it into a product. All departments must devote full attention to screen the ideas.

3. Concept Testing:

It means to determine suitability and consumer's acceptance. e.g. if the new idea is for an emergency lamp, concept testing would involve deciding about its size, shape, colour, lighting specification etc.

4. Business Analysis:

At this stage the new product ideas are carefully evaluated for their economic worth i.e. feasibility and viability analysis estimates

of sales, costs and profits are important components of business analysis.

5. Product Development:

The export manager must make arrangement for product development. He has to organize necessary resources. Physical, capital and manpower. At this stage the role of the production department is crucial.

6. Market Testing:

At this stage, it is necessary to measure the consumer reaction to the product market testing enables the firm to improve the product and increase the customer acceptance. It is normally conducted with product sample among potential customers in towns and cities.

7. Commercialisation:

This is the stage of market introduction. It involves launching of the product with full-scale marketing programme. The manager may undertake appropriate promotion-mix, which includes: publicity, advertising, sales promotion, trade fairs participation etc.

8. Feedback of the Market:

The export manager must review the performance of the product in the overseas markets. Feedback from the consumers, dealers and the media will enable him to find out the acceptance of his product. In case of poor performance, he will be required to make suitable changes in the product and sales promotion campaign.

3.2.4 Product Positioning

Philip Kotler defines product positioning as “the act of designing the company’s offer so that it occupies a distinct and valued place in the target customer’s minds.”

There is stiff competition in the overseas markets. It is not adequate for an exporter to select and design a product. It is perhaps more important for him to differentiate and position the product in overseas markets. An exports must make himself aware about two things firstly, how his brand of product should be perceived by the consumers and secondly, how consumers perceive it in comparison to that of competitors product. While positioning his product, the exporter must know needs, buying behaviour and consumption habits of consumers.

Check Your Progress:

1. Define a product.
2. State the main product design strategic options.
3. What are the steps involved in new product development?
4. What do you understand by product positioning?

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3.2.5 Steps in Product Positioning:

The following are the steps in product positioning:

1) **Identify competitive Differences:**

The marketer should identify the competitive differences of his product or service. The differences can be:

a) Product differences such as features, design, packaging, durability, reliability, repairability etc.

b) Service differences such as delivery, installation, training, repair, guarantees etc.

c) Personnel differences such as well-trained and qualified personnel's, service technicians etc.

d) Image differences such as the goodwill of the producer, brand name, brand price, brand advertising etc.

2) **Selecting differences for product Positioning:**

It is important to emphasize the differences which are likely to benefit the consumers. Such differences must be distinctive and should not be found in the product of competitors. These differences must be made to occupy valued and pleasant image in the minds of the buyers. The selected differences should be (1) visible (2) profitable (3) affordable, and (4) economical.

3) **Communicating the company's positioning:**

The product positioning should be clearly communicated to target customers. Yoram J. Wind in his book "Product Policy" has

identified the following six attractive bases for continuing a position strategy.

1) Positioning on specific product features e.g. Stereo effect in TV.

2) Positioning on benefits, problem solutions or needs e.g. credit card from standard chartered Book.

3) Positioning for specific usage occasions e.g. BPL emergency lights.

4) Positioning for user category e.g. the distinctive positioning of Eureka- Forbes water-filter.

5) Positioning against another product e.g. one brand against another-Cinthol Lime against Liril Lime.

4) **Follow up of Positioning:**

The exporter may try to follow up the positioning of the brand. This can be done by undertaking research, or by analysing the sales of the brand. If the positioning strategy is not successful, the exporter may re-position the brand with alternative strategies.

3.2.6 Branding:

Brand is a name, term, symbol or special design that are intended to identify the goods or services of one seller or group of sellers. A brand differentiates one seller's product from those of competitors.

Branding is the management process by which a product is branded. Branding is endowing products and services with the power of a brand. Branding is all about creating differences. To brand a product, it is necessary to teach consumers "who" the product is-by giving it a name and using other brand elements to help identify it – as well as "what" the product does and "why" consumers should care.

Branding can be applied virtually anywhere, a consumer has a choice. It is possible, for instance, to brand physical goods (Maggi noodles, Lux soap, Tata Indica automobile), Services (ICICI Bank, Jet Airways, Blue Dart Courier services), Stores (Big Bazaar, Pantaloons, Shopper's stop), persons (Amir Khan, Rahul Dravid, Sachin Tendulkar), Places (the state of Goa, the city of Bangalore, or the country India).

3.2.7 Significance / Advantages of Branding

Advantages to Buyers:

1) A brand name denotes uniform quality. With it the consumer has the assurance of quality when he buys the product having a particular brand name.

2) Brand names make shopping easier. The customer has to spend less time and energy in buying, as brand name make product identification easier. Moreover, the customer has just to go to the market and buy the products of the brands he prefers without wasting time.

3) Competition among brands can and does, in due course of time, lead to quality improvement.

4) Purchasing a socially visible brand gives immense psychological satisfaction to the buyer.

<u>Advantages to Manufacturer:</u>

1) Branding is a means of product identification.

2) In a highly competitive market, brand names can carve out niches for themselves through product differentiation.

3) The brand loyalty can be developed through successful promotion.

4) Branding gives greater bargaining power to the manufacturer with the dealers. This is because there is already a ‘pull’ in favour of the product; there may be no need for a great ‘push’ by the retailers.

5) Brand makes ‘recall’ easier. The stronger the brand, the stronger its recall among the people.

3.2.8 Branding decisions:

Philips Kotler has listed various questions to be considered for making brand decisions, especially for consumer products.

1) Should product be branded at all?
2) Who should sponsor the product?
3) What quality should be built into the brand?
4) Should the product be individually branded or family branded?
5) Should two or more products be developed in the same product category?
6) Should the established brand be given a new meaning?

Whether to Brand or Not:

This depends on the following factors:

1) Nature of the product
2) Types of the outlet assigned for the product.

3) Perceived advantages of branding.
4) Estimated cost of developing the brand.

Historically, it has been found that brand development is closely correlated with increase in disposable income, sophistication of distribution system and increasing size of the national market.

Example: A few years back, nobody could have thought of selling branded rice or refined flour in India. But several firms in the recent past have been successful even in such product categories. These are: SHAKTI BHOG ATTA, ATHITHI BHOG ATTA and LAL QILA RICE.

National Brand or Private Brand?

This decision is more relevant in developed countries where department stores dominate the retail distribution system. This is, however, largely a hypothetical question in India. Only super Bazars have started marketing a few products, which are specially packed and sold under their names. Some recent examples are NANZ SUPER MARKET and MERA BAZAR. However, if outlets of super Bazar, Mother Dairy and National consumers Co-operative federation increase in sufficient number, it is possible that private brands will become a reality in future.

Attributes to be Built into the Product:

This is a very crucial decision. The matrix of such attributes will decide the product positioning. A marketer has the option to position his product at any segment of the market- top, bottom or intermediate. E.g. SURF is a premium quality and high-priced product. At the other end, NIRMA is low-priced: DET and KEY are somewhere at the middle in quality; TITAN is high priced and HMT is low –priced.

Family Brand and Individual Brand

The decision has to be taken whether to adopt a family brand under which all the products of a company come or an individual brand for each product.

Family brand examples:

KISSAN - Squashes, sauce, jams and ketchup
L & T - Switches, control gears, change-over switches and telecommunication equipments.
TATA - Steel, oil, watches, salt, tea
PONDS - Cold cream, soap, talcum powder

Individual Brands: Individual brands are those where each product has a unique brand name.

Examples:
HLL – Rexona, Lux, Lifebuoy, Pears, Closeup
GODREJ – Evita, Vigil, Ganga, Cinthol, Crowning Glory

Multi Brand decision:

It is a strategy where a seller develops two or more brands in the same product category.

Examples:
I.T.C. – Wills and Gold Flake in cigarettes
GODREJ – Cinthol, Marvel, Evita, Vigil
BATA – Ambassador and North Star in men's wear.

3.2.9 Brand Piracy

One persistent problem that well known brands face in domestic market as well as foreign markets is counterfeiting. Consider, for example, NIRMA is sold as NIRMALA, FAIR and LOVELY is sold as Friends and Lovely. There are three forms of piracy: Imitation, faking and pre-emption, Imitation amounts simply to copying an established brand.

e.g. a manufacturer in Hongkong may produce cheap jeans and put on the RAYMONDS label for sale as a genuine RAYMONDS product. Faking refers to identifying the fraudulent product with a symbol, logo or brand name that is very similar to the famous brand. E.g. in rural markets of one country, CADBURY's brands are sold as CHAUDARY Brands. Piracy through pre-emption of brand names is very popular in various countries. It is feasible in those countries where the law permits wholesale registration of brand names. In such countries, a person may register in his or her name a large number of well known brand names and then get benefit of their registration in a country's market.

Check Your Progress:

1. State the steps involved in product positioning.
2. Explain the meaning of branding.
3. What do you understand by brand piracy?

3.3 SUMMARY

In this unit we have studied various aspects related to product. “A product is any good, service or idea that satisfies a need or wants and can be offered in as exchange.”

The product design strategy are of three types: Product standardisation means Selling identical product in all countries. Product adaptation means modifying the product according to the Socio-cultural taste and economic features of the foreign country and product Innovation means bringing completely new product in foreign market.

There are various stages involved in new product development. They are: Idea Generation, Evaluation of ideas, Concept Testing, Business analysis, Product Development, Market Testing, Commercialisation and Feedback of the Market.

Product Positioning is another important concept in marketing. It means creating a distinct image in the minds of the target customers about our product.

Branding is naming a product. You have to be very careful and selective in Branding especially when you deal in foreign market. Branding includes Brand piracy which means counterfeiting the brand.

3.4 QUESTIONS

1) Define product and explain the Product Design strategies for export.
2) Explain the steps in New product Development Process.
3) What is Product Positioning and steps involved in it.
4) What is Branding and what are the advantages of Branding.
5) Write a brief note on Brand decisions.
6) Write a note on Brand Piracy.

4

Module 2
INTERNATIONAL TRADE AGREEMENTS

Unit Structure

4.0 Objectives
4.1 Introduction to GATT with emphasis on WTO
4.2 European Union (EU)
4.3 ASEAN
4.4 SAARC
4.5 UNCTAD
4.6 Joint Commissions with India
4.7 Summary
4.8 Questions

4.0 OBJECTIVES

- to study the various trade agreements at international level
- to understand the concept of joint commissions

4.1 INTRODUCTION TO GATT WITH EMPHASIS ON WTO

On 1 January, 1948 the agreement was signed by 23 countries: Australia, Belgium, Brazil, Burma, Canada, Ceylon, Chile, China, Cuba, the Czechoslovak Republic, France, India, Lebanon, Luxembourg, Netherlands, New Zealand, Norway, Pakistan, Southern Rhodesia, Syria, South Africa, the United Kingdom, and the United States. According to GATT's own estimates, the negotiations created 123 agreements that covered 45,000 tariff items that related to approximately one-half of world trade or $10 billion in trade.

The history of the GATT can be divided into three phases: the first, from 1947 until the Uruguay Round, largely concerned which commodities would be covered by the agreement and freezing existing tariff levels. A second phase, encompassing three rounds, from 1959 to 1979, focused on reducing tariffs. The third phase, consisting only of the Uruguay Round from 1986 to 1994, extended the agreement fully to new areas such as intellectual

property, services, capital, and agriculture. Out of this round the WTO was born.

GATT signatories occasionally negotiated new trade agreements that all countries would enter into. Each set of agreements was called a *round*. In general, each agreement bound members to reduce certain tariffs. Usually this would include many special-case treatments of individual products, with exceptions or modifications for each country.

The agreement is based on the "*unconditional most favored nation principle*" This means that the conditions applied to the most favored trading nation (i.e. the one with the fewest restrictions) apply to all trading nations.

Whereas GATT was a set of rules agreed upon by nations, the WTO is an institutional body. The WTO expanded its scope from traded goods to trade within the service sector and intellectual property rights. Although it was designed to serve multilateral agreements, during several rounds of GATT negotiations (particularly the Tokyo Round) plurilateral agreements created selective trading and caused fragmentation among members. WTO arrangements are generally a multilateral agreement settlement mechanism of GATT.

In 1948, 23 countries including India signed the General Agreement on Tariffs and Trade (GATT). GATT was created to reduce global depression and to liberalize and regulate the world trade by reducing tariff barriers. GATT has been replaced by WTO in 1995. The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business.

The WTO provides a forum for negotiating agreement aimed at reducing obstacles to international trade and ensuring a level playing field for all, thus contributing to economic growth and development. The WTO also provides a legal and institutional framework for the implementation and monitoring of these agreements, as well as for settling disputes arising from their interpretation and application. The current body of trade agreements comprising the WTO consists of 16 different multilateral agreements (to which all WTO members are parties) and two different plurilateral agreements (to which only some WTO members are parties).

Over the past 60 years, the WTO, which was established in 1995, and its predecessor organization the GATT have helped to create a strong and prosperous international trading system, thereby contributing to unprecedented global economic growth. The WTO currently has 153 members, of which 117 are developing countries or separate customs territories. WTO activities are supported by a Secretariat of some 700 staff, led by the WTO Director-General. The Secretariat is located in Geneva, Switzerland, and has an annual budget of approximately CHF 200 million ($180 million, €130 million). The three official languages of the WTO are English, French and Spanish.

Decisions in the WTO are generally taken by consensus of the entire membership. The highest institutional body is the Ministerial Conference, which meets roughly every two years. A General Council conducts the organization's business in the intervals between Ministerial Conferences. Both of these bodies comprise all members. Specialized subsidiary bodies (Councils, Committees, Sub-committees), also comprising all members, administer and monitor the implementation by members of the various WTO agreements.

More specifically, the WTO's main activities are:

- Negotiating the reduction or elimination of obstacles to trade (import tariffs, other barriers to trade) and agreeing on rules governing the conduct of international trade (e.g. antidumping, subsidies, product standards, etc.)
- administering and monitoring the application of the WTO's agreed rules for trade in goods, trade in services, and trade-related intellectual property rights
- monitoring and reviewing the trade policies of our members, as well as ensuring transparency of regional and bilateral trade agreements
- settling disputes among our members regarding the interpretation and application of the agreements
- building capacity of developing country government officials in international trade matters
- assisting the process of accession of some 30 countries who are not yet members of the organization
- conducting economic research and collecting and disseminating trade data in support of the WTO's other main activities
- explaining to and educating the public about the WTO, its mission and its activities.

The WTO's founding and guiding principles remain the pursuit of open borders, the guarantee of most-favoured-nation principle and non-discriminatory treatment by and among members, and a commitment to transparency in the conduct of its activities. The opening of national markets to international trade, with justifiable exceptions or with adequate flexibilities, will encourage and contribute to sustainable development, raise people's welfare, reduce poverty, and foster peace and stability. At the same time, such market opening must be accompanied by sound domestic and international policies that contribute to economic growth and development according to each member's needs and aspirations

Check your progress:

1. What was the main objective behind creating GATT?
2. Explain the formation of WTO.
3. List out the important activities of WTO.

4.2 EUROPEAN UNION

The **European Union** (**EU**) is an economic and political union of 27 member states, located primarily in Europe. EU Committed to regional integration, the EU was established by the Treaty of Maastricht on 1 November 1993 upon the foundations of the pre-existing European Economic Community. Taken as a whole the EU has a population of 500 million and generates an estimated 30% share (US$18.4 trillion in 2008) of the nominal gross world product.

The EU has developed a single market through a standardized system of laws which apply in all member states, ensuring the freedom of movement of people, goods, services and capital. It maintains common policies on trade, agriculture, fisheries, and regional development. A common currency, the Euro, has been adopted by sixteen member states constituting the Euro zone.

The EU operates through a hybrid system of supranational and intergovernmental. In certain areas it depends upon agreement between the member states; in others, supranational bodies are able to make decisions without unanimity. Important institutions and bodies of the EU include the European Commission, the Council of the European Union, the European Council, the European Court of Justice and the European Central Bank. The European Parliament is elected every five years by member states' citizens, to whom the citizenship of the European Union is guaranteed.

Monetary union:

The European Central Bank in Frankfurt governs the Euro zone's monetary policy. The creation of a European single currency became an official objective of the EU in 1969. However, it was only with the advent of the Maastricht Treaty in 1993 that member states were legally bound to start the monetary union no later than 1 January 1999. On this date the Euro was duly launched by eleven of the then fifteen member states of the EU. It remained an accounting currency until 1 January 2002, when Euro notes and coins were issued and national currencies began to phase out in the Euro zone, which by then consisted of twelve member states. The Euro zone has since grown to sixteen countries, the most recent being Slovakia which joined on 1 January 2009.

All other EU member states, except Denmark and the United Kingdom, are legally bound to join the Euro when the economic conditions are met, however only a few countries have set target dates for accession. Sweden has circumvented the requirement to join the Euro area by not meeting the membership criteria.

The Euro is designed to help build a single market by, for example: easing travel of citizens and goods, eliminating exchange rate problems, providing price transparency, creating a single financial market, price stability and low interest rates, and providing a currency used internationally and protected against shocks by the large amount of internal trade within the Euro zone. It is also intended as a political symbol of integration and stimulus for more.

The Euro, and the monetary policies of those who have adopted it in agreement with the EU, are under the control of the European Central Bank (ECB). There are eleven other currencies used in the EU. A number of other countries outside the EU, such as Montenegro, use the Euro without formal agreement with the ECB.

Following are some of the policies of EU:

The Common Agricultural Policy (CAP):

It is one of the oldest policies of the European Community, and was one of its core aims. The policy has the objectives of

increasing agricultural production, providing certainty in food supplies, ensuring a high quality of life for farmers, stabilizing markets, and ensuring reasonable prices for consumers. It was, until recently, operated by a system of subsidies and market intervention. Until the 1990s, the policy accounted for over 60% of the then European community's annual budget, and still accounts for around 35%.

Competition Policy:

The EU operates a competition policy intended to ensure undistorted competition within the single market. The Commission as the competition regulator for the single market is responsible for antitrust issues, approving mergers, breaking up cartels, working for economic liberalisation and preventing state aid.

Infrastructure Policy:

The developing European transport policies will increase the pressure on the environment in many regions by the increased transport network. In the pre-2004 EU members, the major problem in transport deals with congestion and pollution. After the recent enlargement, the new states that joined since 2004 added the problem of solving accessibility to the transport agenda.

Check your progress:

1. Explain the formation of European Union.
2. State and explain the various policies of EU.

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4.3 ASEAN

The **Association of Southeast Asian Nations**, commonly abbreviated **ASEAN** English, the official language of the bloc, is a geo-political and economic organization of 10 countries located in Southeast Asia, which was formed on 8 August 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand. Since then, membership has expanded to include Brunei, Burma (Myanmar), Cambodia, Laos, and Vietnam. Its aims include the acceleration of economic growth, social progress, cultural development among its

members, the protection of the peace and stability of the region, and to provide opportunities for member countries to discuss differences peacefully.

Free Trade Area:

The foundation of the AEC is the ASEAN Free Trade Area (AFTA), a common external preferential tariff scheme to promote the free flow of goods within ASEAN. The ASEAN Free Trade Area (AFTA) is an agreement by the member nations of ASEAN concerning local manufacturing in all ASEAN countries. The AFTA agreement was signed on 28 January 1992 in Singapore. When the AFTA agreement was originally signed, ASEAN had six members, namely, Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand. Vietnam joined in 1995, Laos and Myanmar in 1997, and Cambodia in 1999.

Comprehensive Investment Area:

The ASEAN Comprehensive Investment Area (ACIA) will encourage the free flow of investment within ASEAN. The main principles of the ACIA are as follows

- All industries are to be opened up for investment, with exclusions to be phased out according to schedules
- National treatment is granted immediately to ASEAN investors with few exclusions
- Elimination of investment impediments
- Streamlining of investment process and procedures
- Enhancing transparency
- Undertaking investment facilitation measures

Trade in Services:

An ASEAN Framework Agreement on Trade in Services was adopted at the ASEAN Summit in Bangkok in December 1995. Under AFAS, ASEAN Member States enter into successive rounds of negotiations to liberalise trade in services with the aim of submitting increasingly higher levels of commitments. The negotiations result in commitments that are set forth in schedules of specific commitments annexed to the Framework Agreement. These schedules are often referred to as packages of services commitments. At present, ASEAN has concluded seven packages of commitments under AFAS.

Free Trade Agreements with Other Countries:

ASEAN has concluded free trade agreements with China, Korea, Japan, Australia and New Zealand. In addition, it is currently negotiating free trade agreement with India and with the European

Union. Taiwan has also expressed interest in an agreement with ASEAN but needs to overcome diplomatic objections from China.

Check your progress:

1. Explain the formation of ASEAN.
2. State and explain the various areas of operations of ASEAN.

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4.4 SAARC

The **South Asian Association for Regional Cooperation** (**SAARC**) is an economic and political organization of eight countries in Southern Asia. In terms of population, its sphere of influence is the largest of any regional organization: almost 1.5 billion people, the combined population of its member states. It was established on December 8, 1985 by India, Pakistan, Bangladesh, Sri Lanka, Nepal, Maldives and Bhutan. In April 2007, at the Association's 14th summit, Afghanistan became its eighth member.

The SAARC Secretariat was established in Katmandu on 16 January 1987 and was inaugurated by Late King Birendra Bir Bikram Shah of Nepal.

It is headed by a Secretary General appointed by the Council of Ministers from Member Countries in alphabetical order for a three-year term. He is assisted by the Professional and the General Services Staff, and also an appropriate number of functional units called Divisions assigned to Directors on deputation from Member States. The Secretariat coordinates and monitors implementation of activities, prepares for and services meetings, and serves as a channel of communication between the Association and its Member States as well as other regional organizations.

Objectives of SAARC:

- to promote the welfare of the peoples of South Asia and to improve their quality of life;

- to accelerate economic growth, social progress and cultural development in the region and to provide all individuals the opportunity to live in dignity and to realize their full potential;
- to promote and strengthen collective self-reliance among the countries of South Asia;
- to contribute to mutual trust, understanding and appreciation of one another's problems;
- to promote active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields;
- to strengthen cooperation with other developing countries;
- to strengthen cooperation among themselves in international forums on matters of common interest; and
- to cooperate with international and regional organizations with similar aims and purposes.

The Agreement on SAARC Preferential Trading Arrangement (SAPTA) was signed on 11 April 1993 and entered into force on 7 December 1995, with the desire of the Member States of SAARC (India, Pakistan, Nepal, Sri Lanka, Bangladesh, Bhutan and the Maldives) to promote and sustain mutual trade and economic cooperation within the SAARC region through the exchange of concessions.

The establishment of an Inter-Governmental Group (IGG) to formulate an agreement to establish a SAPTA by 1997 was approved in the *Sixth Summit of SAARC* held in Colombo in December 1991.

The basic principles underlying SAPTA are:

1. overall reciprocity and mutuality of advantages so as to benefit equitably all Contracting States, taking into account their respective level of economic and industrial development, the pattern of their external trade, and trade and tariff policies and systems;
2. negotiation of tariff reform step by step, improved and extended in successive stages through periodic reviews;
3. recognition of the special needs of the Least Developed Contracting States and agreement on concrete preferential measures in their favour;
4. inclusion of all products, manufactures and commodities in their raw, semi-processed and processed forms.

So far, four rounds of trade negotiations have been concluded under SAPTA covering over 5000 commodities.

Check your progress:

1. Explain the formation of SAARC.
2. State the objectives of SAARC.
3. What is SAPTA ?
4. State the principles of SAPTA.

4.5 UNCTAD

The **United Nations Conference on Trade and Development** (**UNCTAD**) was established in 1964 as a permanent intergovernmental body. It is the principal organ of the United Nations General Assembly dealing with trade, investment, and development issues.

The organization's goals are to "maximize the trade, investment and development opportunities of developing countries and assist them in their efforts to integrate into the world economy on an equitable basis." (from official website). The creation of the conference was based on concerns of developing countries over the international market, multi-national corporations, and great disparity between developed nations and developing nations.

In the 1970s and 1980s, UNCTAD was closely associated with the idea of a New International Economic Order (NIEO).

The United Nations Conference on Trade and Development was established in 1964 in order to provide a forum where the developing countries could discuss the problems relating to their economic development. This was set up essentially because it was felt that the then existing institution like GATT and IMF were not properly organised to handle the peculiar problems of developing countries. With more than 170 members, UNCTAD presently is the only body where developed as well as the erstwhile centrally planned countries are members.

The primary objective of the UNCTAD is to formulate policies relating to all aspects of development including trade, aid, transport, finance and technology. The Conference ordinarily meets once in four years. The first conference took place in Geneva in 1964,

second in New Delhi in 1968, the third in Santiago in 1972, fourth in Nairobi in 1976, the fifth in Manila in 1979, the sixth in Belgrade in 1983, the seventh in Geneva in 1987, the eighth in Cartagena(Colombia) in 1992 and the ninth at Johannesburg (South Africa)in 1996. The Conference has its permanent secretariat in Geneva.

One of the principal achievements of UNCTAD has been to conceive and implement the Generalized System of Preferences(GSP). It was argued in UNCTAD that in order to promote exports of manufacturers from developing countries, it would be necessary to offer special tariff concessions to such exports. Accepting this argument, the developed countries formulated the GSP Scheme under which exports of manufacturers and semi-manufacturers and some agricultural items from the developing countries enter duty-free or at reduced rates in the developed countries. Since imports of such items from other developed countries are subject to the normal rates of duties, exports from the developing countries would be more competitive.

Currently, UNCTAD has 193 member States and is headquartered in Geneva, Switzerland. UNCTAD has 400 staff members and an annual regular budget of approximately US$50 million and US$25 million of extra budgetary technical assistance funds.

The organization works to fulfil this mandate by carrying out three key functions:

- It functions as a forum for intergovernmental deliberations, supported by discussions with experts and exchanges of experience, aimed at consensus building.
- It undertakes research, policy analysis and data collection for the debates of government representatives and experts.
- It provides technical assistance tailored to the specific requirements of developing countries, with special attention to the needs of the least developed countries and of economies in transition. When appropriate, UNCTAD cooperates with other organizations and donor countries in the delivery of technical assistance.

The Secretary-General of UNCTAD is Dr. Supachai Panitchpakdi (Thailand), who took office on 1 September 2005.

In performing its functions, the secretariat works together with member Governments and interacts with organizations of the United Nations system and regional commissions, as well as with governmental institutions, non-governmental organizations, the

private sector, including trade and industry associations, research institutes and universities worldwide

Check your progress:

1. Explain the formation of UNCTAD.
2. State the main objective of UNCTAD.
3. What do you mean by GSP?
4. State the important functions of UNCTAD.

4.6 JOINT COMMISSSION WITH INDIA

Meaning:

Developing countries try to improve their trade performance in international market by entering into bilateral agreements with the other countries. Sometimes these bilateral agreements are not possible. Then these developing countries have to organize and expand their trade by setting up joint commissions. Joint commissions study the trade related problems between the countries and provide the solutions for these problems. Thus joint commissions help the developing countries to have smooth and better trade. They also provide some schemes or policies which increase the cooperation between the countries and are beneficial to both the countries. They also discuss on and find out new areas of economic and commercial cooperation. Thus trading activities between the two countries are regulated by such joint commissions. So joint commission can be called as a substitute for trade agreement. It is an attempt to develop trade and commercial relations between countries. It helps the developing countries to overcome their unfavorable balance in trade by increasing their international trade. Joint commissions also cover industrial collaborations, joint marketing, joint ventures, technology transfers etc.

Objectives:

- To develop better trade and commercial relations between the countries
- To discuss the trade related problems and to provide solutions for them which are mutually acceptable and beneficial
- To identify new areas of cooperation and to provide the schemes for this
- To regulate the trade by setting quotas
- To introduce schemes in the interest of countries of joint commission
- To review the progress of economic and commercial cooperation
- To help the developing countries to control their unfavorable balance in trade

Joint commissions with India:

India has taken keen initiative for starting joint commissions with many countries. For example, India-Pak Joint Commission which will be headed by the respective foreign ministers and had three sittings since its inception in 1983. The first meeting was held in the same year while the next took place in 1985 and the third one was in 1989. In the latest meeting, the two sides exchanged draft agreements on liberalizing visa rules and protocols on consular access and on visits to religious shrines to further promote people to people contacts and deal with the humanitarian issues of early consular access and release of prisoners, fishermen and inadvertent border crossers. India has also set up joint commissions with Thailand, Australia, China, Malaysia and also with some of the countries of West Asia and North Africa.

Check your progress:

1. What do you mean by joint commission?
2. State the objectives of joint commission.
3. Name the joint commissions set up by India.

4.7 SUMMARY :

From the above discussion it is clear that the international trade agreements have an important role to play in the international trade. They help the countries to trade better for the overall world development.

4.8 QUESTIONS

1. Discuss GATT in details with reference to WTO.
2. Discuss joint commissions with India in detail.
3. What are trade blocks? Explain briefly various trade blocks prevailing in the world market.
4. Write notes on:
    i. UNCTAD
    ii. SAARC
    iii. EU
    iv. ASEAN

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Module 3
TAPPING FOREIGN MARKETS

Unit Structure

5.0 Objectives
5.1 Introduction
5.2 Definition
5.3 Short listing of market
5.4 Evaluation of market conditions
5.5 Pre-conditions for Tapping Target Foreign Market
5.6 Import Promotion Centres
5.7 Trade Delegation in Tapping Foreign Market
5.8 Functions & Role of Trade Delegation
5.9 Summary
5.10 Questions

5.0 OBJECTIVES

After the completion of the unit the student will be able to -

1) Understand the nature of foreign market
2) Explain the way and means for tapping foreign market
3) Understand the role of Trade Delegations
4) Understand the role of fairs and exhibitions
5) Understand the role of foreign offices
6) Explain the importance of Market Development Assistance to exporters
7) Understand the meaning of I.T.P.O.
8) Understand the role of National Centre for Trade Imformation

5.1 INTRODUCTION

Selection of potential market for export is the most important decision in export field. As we know that there are more than 200

countries in the world. And it is not possible for a exporter to deal with all these markets at a time due to following reasons.

1) There are so many barriers to entry in a number markets.

2) There are markets which may or may not be profitable.

3) Some markets may be risky due to political or other reasons.

4) Exporter's resources may not permit the operation in a large number of countries.

5) If any exporting company is dealing with many countries it is not done over night. But it requires gradual expansion over a long period of time.

6) Too fast an expansion without the resource and organisational strength may be dangerous.

7) The Bulova Watch Company expanded into over one hundred countries, it spread itself too their, made profits in only two countries and lost around 40 million. (Philip Kotler, page 409)

Due to the above mentioned reasons the selection for foreign market is very important. Even a company with good prospectus and ample resources has to select the market and give ranking to those markets on the basis of priority.

5.2 DEFINITION

"The process of selecting and shortlisting of the most potential foreign market is called tapping the foreign market."

"Exploring the world markets for export purposes is also called tapping the foreign market."

5.3 SHORTLISTING OF MARKETS

In order to tap the most suitable export market, detailed study is required. A detailed and preliminary study can help in avoiding the obviously unpossible countries and eliminating loss likely ones.

Such studies can be undertaken at the Government level and also at the business level. Further there are many free sources of information available to exporters to help them, such as Export Promotion Councils.

The India Trade Promotion Organisation and various chambers of commerce, liabraries maintained by foreign embassies in India also provide a number of reference books to assist the exporters. The United Nations publish detailed international trade statistics which could help the exporters to locate the markets for their products. Commercial banks and the Export Credit Guarantee Corporation can provide information about the foreign exchange and payment conditions in different countries as also the credit rating of different importers.

There are some countries which are either impossible or difficult to enter territories. These can be easily eliminated by stating certain conditions. Those conditions may be as follows :-

i) There may be an embargo imposed by the Government of India on export to some countries.

ii) There are restrictions and prohibitions on exports of some commodities to some countries. This is speially so regarding antiques and art products as also export of strategic materials to enemy countries.

iii) Incompatibility of technical standards may eliminate some markets.

iv) In some cases the cost of product adaptation may be so high that an exporter may not be able to afford it.

v) In some cases, importing countries impose embargoes or quotas on the imports of certain specific products, for example, restrictions imposed by developed countries on imports of cotton textiles and readymade garments from developing countries.

vi) There may be formidable tariff barriers which may make the products extremely costly to the consumers in the countries concerned.

vii) There may be many non-tariff barriers which may make the export of some commodities to some countries virtually impossible.

viii) More strong competition which makes it impossible to enter the market.

ix) In some cases shipping costs may be far too high.

x) In the case of technicaly sophisticated products, too much money may have to be spent on preparing sales literature and

catalogues in many languages. Also offering after-sale service and maintainance of stocks of spare parts may be difficult.

xi) Acute shortage of foreign exchange in the importing countries may lend to uncertainty of payments. In fact, evaluation of the ability of the importing country to pay for the product should be an important consideration in the selection of markets.

xii) Political relations with India.

5.4 EVALUATION OF MARKET CONDITIONS

Some of the possible markets may be reduced to more likely markets for exports. This can be done by collecting and analysing the data from the following :-

1) Examination of India's export statistics which are officially published in the "Monthly statistics relating to India's foreign Trade." This enables the potential exporter to find out where similar products are going and whether the exports are declining or increasing. If the exports are increasing, what is the rate of growth of exports ? In doing so, data for a period of three to five years should be collected as it will reveal the trend of the markets. Again, always the latest statistics should looked for. Old statistics may not be very helpful and may a times be misleading.

2) Examination of import statistics of the selected importing countries is the next step. This will give an idea of the relative size of the various markets. How much of the product concerned is being imported in different countries ? Who are the competitors in each market ? Is the market expanding, static or contracting ? Ideally the market to be concentrated upon should be an expanding market since this means that further sales are possible without affecting market since this means the competitors too much. This would also make the marketing task much more easy. Import statistics of foreign countries may be available in foreign embassies or consulates in India and chambers of commerce. In addition, OECD World Trade Statistics and United Nations International Trade Statistics also provide these data.

3) Examination of India's export statistics and foreign import statistics both may give an idea of the possible unit value realisation as also the price paid for imports in foreign countries from different sources.

4) Examination of research studies made by the Indian Institute of Foreign Trade, India Trade Promotion Organisation and Export Promotion Councils. These reports contain useful marketing information about the various markets and products covered by them.

5) It generally pays good dividends to talk to some experienced exporters in this respect, it would be better to approach exporters of allied items. Competitors would not necessarily be helpful. Contacting trade associations and chambers of commerce may also help in the process of appraising markets. In fact, it is one of the important functions of Export Promotion Councils to help the new exporters to find out foreign markets and give important details about each market.

6) The Economics Times and other economic dailies often publish supplements covering one particular country giving lot of information useful to marketrs.

7) Commercial banks may also provide a lot of information about the payments position and exchange control restrictions in different countries. They can also supply status reports on the commercial standing of the foreign by buyers for freight forwarders may help the exporters to find out availability of Shipping Services as also the freight charges to different countries.

8) India's commercial representatives abroad may help in collecting information regarding health, sanitary and other regulations like marketing and labelling requirements and in the selection of agents. An exporter's letter to Indian embassies abroad seeking information must give as much specific information as possible. For example, if the company wants to export refrigerators, it may give the following details, size of the refrigerators made, possible prices, capacity of production that could be set aside for export, description of the refrigerator line accompanied by broachures, small folders, booklets, etc. like types of outlets that are used at home and the terms which the company is willing to offer to the possible distributors.

After having obtained market information from government representatives and other sources, the information in respect of each prospective market is processed and analysed to make a final selection.

5.5 PRE-CONDITIONS FOR TAPPING TARGET MARKET

It has already been pointed out that if there are high tariffs or import quotas or incompatibility of standards in certain markets, it might be desirable to reject those markets. On the other hand, if there are certain preferences available to India, such markets may be more attractive than others. The various types of preferences available to India exporters are discussed below ;

a) **The generalised system of preferences** :- Under the generalised system of preferences, the developed countries are granting duty free entry or entry at reduce rate to imports coming from developing countries like India. It has been shown that the availability of GSP is definitely helping India's exports. For example, while the growth of India's overall exports to United States during 1975-78 was 21 percent, the growth rate of exports covered under the GSP was as high as 47 percent. To take advantage of GSP an exporter must know (i) Whether his product is covered by GSP (ii) the preference margin enjoyed by the product (iii) quotas, if any, and (iv) procedural formalities to avail himself of the preferences. Information on these points can be obtained from the Indian Institute of Foreign Trade, India Trade Promotion Organisation, the Ministry of Commerce and Export Promotion Councils.

b) **Exchange of preference among developing countries** :- India is also a beneficiary of preferences exchanged among 16 developing countries. India is also a party to Bangkok Agreement where developing countries of ESCAP are extending preferences to each other on 93 products. It would be useful for an exporter to find out whether his product is covered by these preferences. This information can also be obtained form the same organisations mentioned above.

c) Some countries have established import promotion centres to promote imports from developing countries and to provide marketing assistance to their exporters. A directory of such import promotion offices and similar organisation has been compiled by the International Trade Centre, UNCTAD/WTO and can be obtained from them on request. Such import promotion centres exist in Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hungery, Israil, Italy, Japan, Netherland, New Zealand, Norway, Poland, Romania, Sweden, Switzerland, Russia, United Kingdom and in many other countries.

Check Your Progress:

1. Give the reasons for the selection of foreign market.
2. What are the conditions for the shortlisting of markets?
3. Explain the process for the final selection of a foreign market.
4. Discuss the preferences availabll to Indian exporters.

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5.6 IMPORT PROMOTION CENTRES

The following statement gives an idea of the types of services offered by the various import promotion centres;

1) Statistical information on the market concerned.
2) Information on sales opportunities in the market concerned.
3) Information on import regulations and procedures.
4) Information on marketing techniques and business practices in the country concerned.
5) List of importers, wholesalers, agents and distributors.
6) Arrangements for contacts for visiting businessmen.
7) Trade fair exhibition assistance.
8) Publications on the market concerned.
9) Names of buyers seeking supplies of a specific product in specific quantities.
10) Training programmes.

11) Free advertisements of product offers in weekly trade information bulletin; circulation of product offers to the importers.

12) Showrooms for product display.

13) Answering of initial inquiries regarding exports to the country concerned.

14) Seminars on trade promotion.

15) Promotion of exports through exchange visits.

16) Promotion of films useful for exporters selling to the market concerned.

17) Establishment of national and regional trade information centres in the countries with technical and financial support.

18) Briefing papers and other assistance for trade missions visiting the country concerned.

19) Information on training possibilities in universities and research institutions.

20) Advice and planning for marketing in the country concerned.

21) Trade mark assistance for the market concerned.

22) Occasional combined marketing seminars and trade exhibitions.

Special facilities provided by U.K. Import Promotion Centre:

1) Acts for the European Community (EC) on all matters relating to the visit of missions sponsored by E.C. Commission to the U.K.

2) Gives assistance to overseas companies seeking a U.K. joint ventre partner.

In most cases, these services are provided without any charge.

Annexure – IV gives the addresses of the import promotion centres, Annexure – V gives a note on the CBI, the Netherlands centre for the promotion of imports from developing countries. We may also examine whether India has got any particular advantage in the market. The advantage may fall in the following categories. i) Proximity, ii) Trade dominated by persons of Indian origin, iii)

Ethnic Population, iv) Existence of shipping facilities, and v) Political relations – Political factors may hamper business even if the terms offered are more attractive.

5.7 TRADE DELEGATION IN TAPPING FOREIGN MARKET

Trade delegation is a small group of interested businessmen sent abroad for study of foreign markets and make negotiations for large scale exports abroad. Trade delegation is a group of persons/traders, experts, professionals, manufacturers, businessmen sent abroad for study purpose. Such delegations study the position of foreign markets, estimate their potentials for exports and make negotiations with traders and businessman in order to promote exports to concerned countries. Trade delegations play a constructive role in tapping foreign markets for large scale exports.

Trade delegations are frequently sent by all countries. India sends such trade delegations on various occasions to different countries. It may be government sponsored or may be sent by trade associations, chambers of commerce, export promotion councils and so on. The basic purpose is to explore export marketing opportunities and supply information to exporting community for pormoting exports. In addition, negotiations are made with foreign buyers. Information on exportable goods is also supplied to them. In brief, trade delegation performs various functions and facilitates the process of tapping foreign markets. Such delegations are also sent along with trade fairs and exhibitions arranged in different countries.

Check Your Progress:

1. State the services offered by the various import promotion centres.

2. What is Trade delegation? What are their functions?

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5.8 FUNCTIONS & ROLE OF TRADE DELEGATIONS

1) **Market study** :- Trade delegations makes on the spot study of foreign markets and finds out export potentials in such countries.

2) **Information to foreign buyers :-** Trade delegations provide information to foreign buyers as regards what can be exported. This enables foreign buyers to establish contract with Indian exporters for placing orders.

3) **Negotiations for exports** :- Members of trade delegation make negotiations with the importers, manufacturers and businessmen of the countries which they visit. They also address the meetings of trade associations and chambers of commerce. In such meetings, information as regards exportable items, marketing environment in the home country, incentives offered by the government, etc. is provided. This facilitates cordial trade relations and creates good image of the country.

4) **Information to exporters :-** The study of needs of consumers, market potentials, government policies, etc. is made by trade delegation. This information is supplied to domestic businessmen and exporters so as to enable them to tap markets available in such countries.

5.9 SUMMARY

1. The process of selecting and shortlisting of the most potential foreign market is called tapping the foreign market.

2. A detailed and preliminary study can help in avoiding the obviously unpossible countries and eliminating loss likely ones.

3. After having obtained market information from government representatives and other sources, the information in respect of each prospective market is processed and analysed to make a final selection.

4. Trade delegation is a group of persons/traders, experts, professionals, manufacturers, businessmen sent abroad for study purpose. They study the position of foreign markets, estimate their potentials for exports and make negotiations with traders and businessman in order to promote exports to concerned countries.

5.10 QUESTIONS

1) Discuss various ways and means of tapping foreign market.

2) Enumerate different ways and means of tapping foreign markets.

3) Write short notes :

    a) Tapping of foreign market

    b) Means of tapping foreign market

    c) Ways and means of tapping foreign market

4) What is meant by tapping foreign markets ? State the methods available for tapping promising foreign markets.

5) Trade Development Authority or ITPO.

6

TRADE FAIRS AND EXHIBITIONS

Unit Structure

6.0 Objectives
6.1 Introduction of Trade fairs and Exhibitions
6.2 Selection of Trade fair for Participation
6.3 Pre-fair Planning
6.4 Basic Trade fair checklist
6.5 Trade authority of India now called ITPO
6.6 National Centre for Trade Information (NCTI)
6.7 Export through Festivals
6.8 Maintaining foreign office
6.9 Summary
6.10 Questions

6.0 OBJECTIVES

1. To understand the meaning of Trade fairs and Exhibitions
2. To understand the process of selecting Trade fair for participation
3. To know the action plan for a fair
4. To prepare and consider the basic trade fair checklist before, during and after the fair and exhibition
5. To understand the formation and functions of ITPO
6. To know about National Centre for Trade Information
7. To understand export through festivals
8. To understand how to maintain a foreign office

6.1 INTRODUCTION

Fairs and exhibitions constitute the means of presenting goods and services in an attractive manner with the aid of colour, light and motion in order to catch the imagination of the visitor, attract his attention and get him interested in the objects displayed. They help reach the public which may not be reached in any other way useful for industrial products where demonstration is more effective.

Participation in a trade fair will help an exporter to have an idea of i) what is available in the market concerned, ii) who would be his competitors, iii) to what extent would the product have to be adapted iv) Prevailing prices in world markets, and v) strengths and weaknesses of competing products. In addition, he would be able to know the new development and technological trends in his industry. He may also come across a possible buyer for his product and an agent to represent him.

Though fairs traditionally had been the medium of business from time immemorial, the use and popularity of trade fairs and exhibitions of late have increased tremendously. So has increased the number of trade fairs and exhibitions. Generally the term 'Trade fair' is used to mean general and large fairs, whereas 'Exhibitions' mean specialized fairs or 'solo' or 'company' exhibitions. Even in the category of trade fairs, there are different types :

a) **General fairs** :- In these fairs there are exhibits of all types and they have attraction both for the business firms as well as for the household buyers. There may be separate pavilions for separate product groups. But side by side, national pavilions exhibiting diverse products are also there. A good example of such a fair is the Milan trade fair.

b) **Specialised fairs** :- These fairs are highly specialised in the sense that only specific produts are displayed. For example, the Leather fair in Paris or the Book fair at Frankfurt. These fairs are intended for the trade and industry and not for the general public. The objective of such fairs is not only to conclude deals immediately but also to have first hand knowledge of technical developments in that particular sector, to identity business partners on a long-term basis or to get ideas for product development.

IDEAS FOR PRODUCT DEVELOPMENT:

Solo Exhibitions (National) :- Sometimes, the government of a country may organise an exhibition of its export products in a country. Where market prospects are bright, the exhibition may be a specialised one i.e. where only a small number of related products of the country. Indee79, the exhibition of Indian Engineering Products in Indonesia in 1979 is an example of a Specialised National Exhibition.

Company Exhibitions :- Such an exhibition is organised by an exporting firm to exhibit its own products. Depending on the nature of the products the exhibitions may be open to trade and consumers both.

6.2 SELECTION OF A TRADE FAIR FOR PARTICIPATION

There has been a tremendous increase in the number of trade fairs and exhibitions being organised all over the world. While this development definitely increases the range of choice available to an exporting firm, this also necessitates identification of a set of criteria for taking a decision with regard to participation in a particular trade fair. Participation in these events costs money and that too in foreign exchange. Therefore, it is very important for a company to think twice before taking a decision for participation in such events. Participation in trade fairs and exhibitions must be thought of as an integral part of the strategic export marketing planning. This must have a definite role to play in the entire scheme of market-cum-product promotion. To make an appropriate decision as to whether to participate or not in a particular event, it would be desirable to have information about the fair on the following points.

1) **Statistics on exhibitors and audience over a number of years** :- This will reveal whether the level of participation is increasing over the years. More importantly are the major firms in the product line participating.

2) **Quality of the audience/visitors :-** How many of them were business vistitors ? The factor is crucial because what is important is not the number of visitors but whether the right people, namely the potential buyers and decision makers are visiting the stalls.

3) Importance of the firms exhibiting in the past and the contries to which they belonged. Try to obtain a catalogue of exhibitors.

4) Charges and expenses involved and what are the services included in the charges.

5) Support, particularly publicity support given to the exhibitors.

6) Ask important buyers about their opinion in the fair.

7) If you intend to participate in a particular fair, try to go to the fair earlier and talk to the exhibitors and buyers. Get the feel of it as an export promotion tool.

In addition, the following questions should be asked and an answer sought :

1) What are the company objectives in the market where the fair/exhibition is going to be held ?

2) Could participation in this fair, either as a main activity or supplementary to other promotional activities, assist in the achievement of these objectives ?

3) Could the time, effort and cost involved in such participation, achieve more through other forms of activity ? What are the other alternative forms of promotion available to the company ?

4) Have the products to be displayed a potentially substantial market which presently is not fully exploited but could be done through participation in the event ?

5) Does the local agent enthusiastically support the idea of participation ?

6) Would the anticipated costs of participation be commensurate with the anticipated results ?

If answers to these questions are in the affirmative, it follows that the company should decide to participate, but if answers are in the negative there is no case for incurring such expenditure which can more profitably be spent an other forms of promotion.

6.3 PRE-FAIR PLANNING

Once the decision is taken that the company should participate in the fair or the exhibition, it must prepare an action plan to derive maximum benefit out of this participation. It must see that all the organisational problems associated with the participation are identified are solved. Secondly, it must prepare a marketing and follow-up plan to concretise the lends that may be obtained during the fair. The basic points which should be considered in this connection are given in the form of a checklist below.

6.4 BASIC TRADE FAIR CHECKLIST

The checklist for the consideration of an exporter is noted as below :-

A) Before the fair and exhibition

1) Prepare market research report.

2) Draw up marketing plan.

3) Draft preliminary budget.

4) Make site booking.

5) Reserve hotel accomodation.

6) Appoint customs agent to clear exhibits and display materials.

7) Finalised budget.

8) Prepare publicity and advertising materials.

9) Submit draft stall design to fair authorities for approval.

10) Issue general invitation (direct mailing).

B) **During the fair and exhibition**

1) Ensure that the stall is adequately manned throughout.

2) Ensure that all the visitors to the stall are welcome and their enquiries are answered and recorded.

3) Ensure that handout material is always available but not wasted.

4) Visit other stalls to establish personal contacts.

5) Arrange follow-up appointments with visitors as required.

C) **After the fair and exhibition**

1) Arrange disposal of stall and exhibits in accordance with local customs and regulations.

2) Compute details of all enquiries received and business conducted.

3) Prepare the action plan for following up the enquiries.

When a firm participates in a fair, it should ensure that the persons manning the stall should be knowledgeable about the company and its products. They should be empowered to conduct business negotiations and should be clear about the objectives of firms participation in the fair. All questions should be answered as forthrightly and as factually as possible. Remember that you have to sell your company and your products. Relate your remarks to the visitor’s interests. Conversation should be used to elicit information about the market and reactions to your products.

Samples may be distributed at the fair. They give the customers a chance to see and try the products. Of course, this would cost money and should, therefore, be included in the budget

for the fair. Gifts like calenders, pens, diaries and key-rings may also be distributed to remind the receiver about your company.

The Indian Trade Promotion Organisation organises the India International Trade fair annually as also a number of product specific fairs in India. In addition, it participates in nearly 40 fairs internationally and encourages participation by Indian parties.

Indian firms are now participating in a number of fairs in foreign countries; for example, between 1987 and 1996, the number of Indian firms participating in Messe Frankfurt's fair has grown incredibly from a mere 35 to 625. The Confenderation of Indian Industry organises nearly 40 trade fairs both in India and abroad. As the firms become bigger in size, the compulsion to widen their portfolio of clients in promoting them to display their waves to a wider spectrum of potential buyers. The Ministry of Commerce also proposes to have product – specific trade fairs in various developed countries. They will include mainly companies holding ISO 9000 certificates.

The Export-Import Bank of India has also set up a permanent display centre at its Headquarters. The centre named EXIMIUS will exhibit product of select medium and small companies. The centre is expected to be a showcase of India's exports specially those aimed at developed country markets for visiting trade delegations. The products are to be rotated every few months to give new companies a chance to participate.

Check Your Progress:

1. What are the different types of fairs?
2. On what basis a company takes decision whether to participate or not in a fair?
3. Write notes on:
   - i) Basic trade fair checklist before fair and exhibition
   - ii) Basic trade fair chechlist during the fair and exhibition
   - iii) Basic trade fair checklist after the fair and exhibition

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6.5 TRADE AUTHORITY OF INDIA NOW CALLED ITPO

It is the ultimate responsibility of Government of India to promote foreign market for Indian products. For this purpose Government had set up two organisations i.e. Trade Development Authority and Trade Fair Authority of India. These two organisations have been merged together to form new organisation in January 1992 called The Indian Trade Promotion Organisation, with the main objectives of promoting exports and imports and upgradation of technology through the medium of fairs to be held in India & abroad, to undertake publicity through the print and electronic media, to assist Indian companies in product development, to organise programmes, buyer-seller meets, contact promotion programmes for specific products in specific markets. The India Trade Promotion Organisation provides information and market intelligence to the business community in India. It also organises visits of buyers and trade delegations to industry and trade establishments in India with a view to promote business contacts.

The India Trade Promotion Organisation is a service organisation and has close and periodical interaction with the trade, industry by entering into comparatively less explored markets, provides information and support for participation in fairs, for developing exports of new items and gathers and disseminates imported trade related services. ITPO has four foreign offices located at New York, Frankfurt, Tokyo and Dubai. The major activities of ITPO's foreign offices include :-

- Provide necessary inputs Head Office and Regional Offices for various ITPO activities.
- Assist in fixing appointments and business meeting for Indian exporters travelling abroad.
- Sponsoring buying delegations to India.
- Generation of trade enquiries and dissemination of trade information.
- Collect latest information on fashion trends, pricing, distribution channels, standards, specifications, drawing etc.
- Mobilisation of foreign participation for fairs being organised in India.
- Provide assistance in space booking, custom clearance and other arrangements like, stand erection, decoration, etc. for trade fairs being organise by ITPO in their region.

- Publicise the ITPO participation in international fairs in their region by direct mailing, telephone contacts, press conference, etc.

- Invite buyers, government officials and the representatives of industry associations, buyer-seller meets, India promotions and other export developmental activities.

- Follow-up of the enquiries of buyer's visit and India's participation in trade fairs abroad.

- Feedback on India's participation in international trade fairs, trade delegations, buyer-seller meets, India promotion and other export development activities.

- Procurement of samples for product development & adaptation.

- Assist in setting up of joint venture and promote upgradation of technology in India.

- Arrange visit of designers, experts, consultants, etc. for product development and adaptation.

- To liase with government offices, industry associations, chambers of commerce, standards institutions & other similar organisations.

6.6 NATIONAL CENTRE FOR TRADE INFORMATION (NCTI)

NCTI is a joint venture of ITPO and National Informatics Centre. It was established in October 1994 to provide the latest trade, business and economic Information to help Indian and foreign enterprises in the promotion of trade from and to India. The NCTI uses high speed NICNET National Information Highway for collection and dissemination of information. This network is connected to 200 networks in 160 countries.

Objectives :

The centre acts as a promotional and operational agency and helps synergise the efforts of different organizations presently engaged in the collection, processing, analysis and dissemination of trade and commerce information. It would develop value added information using the raw data available in different organizations. The centre is establishing inter linkages at national and international levels for the promotion of international trade of products and services. It is increasingly establishing linkages with

export promotion organizations, regulatory bodies and trade and industry associations in collection and dissemination of information. In addition, NCTI uses modern methods of storage, processing communication and dissemination of information.

Functions :

The main functions of the centre are :

- To create database at national and international levels for export promotion;
- To collect information on various aspects of trade and commerce in different countries;
- To disseminate information on countries and products to trade and industry;
- To establish linkages with trade promotion bodies, regulatory bodies, chambers and associations among others,
- To establish linkage with commercial wings of Indian missions abroad and foreign mission in India;
- To create information base for all types of marketing intelligence on trade aspects;
- To organize training, seminars and conferences on matters related to trade and commerce;
- To maintain liaison with trade commercial bodies of different countries;
- To publish papers, periodicals and other literature having a bearing on trade and commerce;

Trade Fair Portal :

The ITPO has commissioned the country's first trade for fair portal along with its technology pitner, virtual soft systems limited. The online exhibition site sub serves both global and national trade and everyone from giant companies to petty shopkeepers could establish virtual stalls each complete with 3 sections. The first profiles each participating company, the second displays products and the third carries a "contact us" response mechanism.

Participation in the virtual trade fair portal costs a mere Rs.3,600/- which covers the construction of a "virtual stall" of 3 sections and vent for a year. This initiative has the potential to pane. Potential costs drastically for TDA customers.

A Business Information Centre was also inaugurated on December 15, 2001. Thus, an electronically accessible data bank with connectivity linkages and interacting to Indian exporters.

6.7 EXPORT THROUGH FESTIVALS

Along with trade fairs and exhibitions festivals are also useful for tapping foreign market. Festivals are arranged where cultural programmes, music & dance programmes etc. are organised. It may be organised within the country or outside. Businessmen and trade representatives are specially invited for such festivals. Festivals are a source of attracting big crowd for entertainment and they are provided information about goods, exportable items, new products, technological developments, Government policies, export assistance and incentives etc. Thus festivals can be used as platforms for tapping the foreign market.

In our country Government organises much festivals, often in big cities like Mumbai, Delhi, Chennai, etc. India also makes the arrangement of cultural festivals abroad in different countries such as U.K., France & Germany, etc.

There is difference between festivals and exhibitions. Exhibitions and trade fairs are arranged for commercial purpose. While festivals are arranged basically for cultural purpose which can be used for export promotion and for tapping the market.

Check Your Progress:

1. What are the main objectives of ITPO?
2. What are the major activities of ITPO?
3. What are the objectives of NCTI?
4. Discuss the main fumctions of NCTI.

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6.8 MAINTAINING FOREIGN OFFICE

This is also one of the methods of tapping foreign market. But it is too costly. Therefore it can be adopted by big business houses like Star Export houses. They can open branch offices in foreign countires. The most suitable strategies to develop foreign offices are:

1) Appoint foreign agents.
2) Establish foreign office.

The second one is costly affair and needs RBI's permission as well as permission of foreign Government. Foreign offices requires sufficient fund in terms of foreign exchange for its maintenance.

Benefits of Foreign Office

1) Marketing activities are planned and executed efficiently through the foreign office due to its direct involvement in export promotion.

2) Foreign office is directly connected with marketing activity and supply reliable information about changes in the market environment quickly. Such market information relates to latest prducts in the market, selling methods of competitors, packaging requirements and government regulations. Such information enables the head office to frame suitable export marketing strategy to face the new situation easily, quickly and with confidence.

3) Exports are promoted by the foreign office as it keeps close contact with importers and provide timely services to them. This creates favourbale impression among foreign buyers and dealers.

4) Foreign office provides feedback to the head office about market competition, competitor's products, policies, pricing and sales promotion techniques, etc. All these information can be used to formulate marketing policies and strategies in a right manner.

5) Foreign offices can also be used by big exporter for networking of other foreign offices, who is marketing the products in different countries of the world.

6) Foreign office also acts as a connecting link and line of communication between Indian manufacturer-exporters or Indian Export House and foreign dealers & Commerce.

6.9 SUMMARY

1. Fairs and exhibitions constitute the means of presenting goods and services in an attractive manner in order to catch the imagination of the visitor, attract his attention and get him interested in the objects displayed.

2. Participation in a trade fair will help an exporter to know the new development and technological trends in his industry. He may also come across a possible buyer for his product and an agent to represent him.

3. A company must prepare an action plan to derive maximum benefit out of the participation in the fair or exhibition.

4. It should prepare a ckecklist before, during and after the fair and exhibition.

5. The Indian Trade Promotion Organisation organises the India International Trade fair annually as also a number of product specific fairs in India. In addition, it participates in nearly 40 fairs internationally and encourages participation by Indian parties.

6. The India Trade Promotion Organisation (ITPO) provides information and market intelligence to the business community in India. It also organises visits of buyers and trade delegations to industry and trade establishments in India with a view to promote business contacts.

7. ITPO has four foreign offices located at New York, Frankfurt, Tokyo and Dubai.

8. NCTI is a joint venture of ITPO and National Informatics Centre. The NCTI uses high speed NICNET National Information Highway for collection and dissemination of information. This network is connected to 200 networks in 160 countries.

9. Festivals are a source of attracting big crowd for entertainment and they are provided information about goods, exportable items, new products, technological developments, Government policies, export assistance and incentives etc. Thus festivals can be used as platforms for tapping the foreign market.

10. Foreign offices is one of the methods of tapping the foreign markets. It requires sufficient fund in terms of foreign exchange for its maintenance.

6.10 QUESTIONS

1) Bring out the significance of trade fairs, exhibitions and festivals in expansion of foreign market.

2) Explain the role of the following in tapping foreign markets;

   a) Trade delegations

   b) Festivals

   c) Trade fairs

   d) Legislation

3) Analyse the role of participation in trade fairs and foreign offices as sources of tapping export markets.

4) Explain the role of trade fairs and exhibitions in tapping foreign market for Indian good.

5) What is a trade delegation ? Explain its role in export promotion and in tapping promising foreign markets.

6) Explain briefly the function and role of ITPO in promoting India's exports.

7) Writ short notes on :

   a) Trade Development Authority

   b) ITPO

   c) Opening of foreign offices for tapping foreign markets

   d) Trade fairs and exhibitions

   e) Trade delegation

   f) Role of NCTI

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Module 4
EXPORT PRICING

Unit Structure

7.0 Objectives
7.1 Introduction
7.2 Factors determining export price
7.3 Objectives of export pricing
7.4 Pricing policies
7.5 Cost items determining export price
7.6 Break Even Analysis
7.7 Export assistance and pricing
7.8 Summary
7.9 Questions

7.0 OBJECTIVES

- To study and discuss the concept of export price
- To make the students aware about the market imperfections
- To discuss the objectives of export pricing
- To discuss the various pricing policies for understanding how the price is fixed
- To understand the impact of export incentives on pricing

7.1 INTRODUCTION: Export Pricing

Price is one of the important elements of marketing mix along with product, place and promotion. It is the only variable in the marketing mix which generates income. Where all other variables account for cost of product, price brings revenue from the product. It is the exchange ratio between a product and money as determined by the prices of demand and supply in the market place. It is the monetary value of the product paid by the customers for the satisfaction of their needs and wants. Pricing is an important decision in any domestic or international business which affects revenue and profitability. Price is the value of goods and services expressed in terms of money.

Export pricing plays an important role in export marketing and therefore it is an important element of export marketing management. However, export prices are more complex and

difficult than domestic prices. International market is highly competitive in nature. Therefore, export pricing involves a careful consideration of variety of factors like additional costs involved in packaging, packing, labeling, covering export risks, export incentives etc. International market being buyers market, the price quoted by an exporter should be reasonable and final. In export business, pricing assumes great significance.

7.2 FACTORS DETERMINING EXPORT PRICE:

Export price of the product is determined by various factors. These factors are mainly classified into internal factors and external factors. Following are the factors which affect export pricing decision:

A) Internal factors:

1. Cost:

Cost is one of the important factors which affect the product price. A firm while finalizing the price should consider the production cost of the product. Cost of the product constitutes direct cost and indirect cost. Direct cost includes cost of materials, labour cost and other direct expenditure. Indirect cost includes manufacturing cost, administrative cost, selling and distribution cost etc. Price should be able to recover both fixed cost and variable cost. Fixed cost is that cost which does not vary with the scale of operation such as salaries, rent, factory overhead expenses etc. On the other hand variable costs are those of material and labour used. When the firm is selling bulk of its supplies in the home market and part of production in the overseas market, then all the fixed cost may be recovered from the home market and only variable costs may be recovered from the overseas market.

The impact of costs on pricing strategy can be studied by considering the following three relationships:

- the ratio of fixed costs to variable costs
- the economies of scale available to a firm
- the cost structure of a firm as well as of competitors

2. Pricing objective factor:

The marketer must consider the objectives behind pricing. Product price is directly related to firm’s objectives. The objectives can be defined in terms of profit or volume. Sometimes, business defines their pricing objective in such general terms as image

building, stability and ethics. For instance, if the objective of a firm is to increase return on investment, then it may charge higher price and if the objective is to capture a large market share, then it may charge a lower price.

3. Image if the firm:

Consumers have trust and confidence in the firms enjoying name and reputation in the market. These firms enjoying good image in the market may charge a higher price as compared to those firms which do not enjoy reputation in the market.

4. Product life cycle:

It refers to life span of the product. The stage of product life cycle affects pricing decision. There are five stages in product life cycle namely development, introduction, growth, maturity and decline. During introduction stage firm may charge lower price to attract the customers. During growth stage firm may increase the price especially in a low competition market.

B) External factors:

1. Competition factor

The nature of competition in every country is another important factor to be considered in price. In order to survive intense competition, an exporter has to charge reasonable price. Business has to consider the degree of competition in the market. The competition in an industry can be analyzed with references to such factors as the number of firms in the industry, product differentiation etc. The price of competing brands as well as those of substitutes must be considered while fixing the prices.

2. Elasticity of demand:

Product price is directly related to demand of the product. An increase in demand may lead to an increase in price, even though there may be no increase in cost. Demand may increase due to economic conditions in the market, problems with the competitor's supplies, etc. In the markets, where demand for exporter\s product is inelastic, he may charge a higher price and can earn supernormal profit while in the markets where demand is elastic he may earn normal profit by charging a marginal price.

Consumers:

Consumer demand for a product is another key factor in pricing. The marketer should consider various consumer factors

while fixing prices. The consumer factors include price sensitiveness of buyers, purchasing power, buying pattern, willingness, the place of product in customer's lifestyle, substitute's prices, the potential market for the product etc. For instance, in developing countries like India, customers are price sensitive and they may not buy highly priced brands. The relationship between price level and demand is called elasticity of demand or price sensitivity. It refers to the number of units of a product that would be demanded at different prices.

3. Government regulations:

Government's rules and regulations pertaining to pricing should be taken into account is setting prices. Legal requirements of both the host and importing country's government must be satisfied. While fixing the product price, various government policies like fiscal policy, monetary policy etc. need to be studied and considered. If the overall export environment in terms of these policies is favourable then the exporter can certainly charge lower prices in the international market.

4. Economic conditions:

The economic conditions prevailing in the market must be considered while fixing prices. During recession times when consumers have less money to spend, the marketers may reduce the prices. However, during economic boom, the marketers may charge higher prices.

Check your progress:

1. Explain the concept of export price.
2. List out the internal factors affecting export price.
3. List out the external factors affecting export price.

7.3 OBJECTIVES OF EXPORT PRICING:

Pricing objectives are generally derived from the overall objectives of an organization. Such objectives provide clear cut

guidelines to the exporter in setting actual prices and in designing pricing policies and strategies. The main objectives of export pricing are as follows:

1. **Profit maximization:**

This is a common objective of most of the exporting firms to have higher return upon their investments in the export business. Exporting goods is an economic activity which is carried on by exporters with the intention of making higher profits. With the help of export prices, exporter tries to enjoy profits in both the markets i.e. domestic market as well as international market.

2. **Facing the competition:**

There is a tough competition between exporters from developed countries and those from developing countries. Developed countries are capable to minimize price due to their technological advancements and managerial expertise whereas the exporters from the developing countries are at a disadvantage. So the main concern is that the export price should be designed in such a way which will help the exporters to face the international competition successfully.

3. **Image building:**

Firms selling in international market enjoy more reputation compared to firms operating only in domestic market. Moreover firms offering a competitive export price which is easily accepted by the foreign customers, attract the domestic customers also. Thus with the help of proper pricing strategy a firm can build and maintain good corporate image.

4. **Increase in market share:**

International market is a very large market with number foreign customers. There can be a great demand for the product from the various sections of the international market. This is possible with the help of proper pricing strategy. Capturing different foreign markets will be possible when the price is brought down compared to other competitors. Exporters have to consider different pricing strategies at entry level, growth level and maturity level of a product in a particular foreign market. With the help of proper pricing strategy at various stages of product life cycle, will help the marketer to increase its market share in the international market.

5. **Keeping out of competition:**

Marketers do not like the entry of many new comers in the foreign market. As far as possible, they want to keep the new entrants out of competition. For this pricing strategy may help the exporters to a large extent. Exporters therefore, price their goods for export to make it less attractive for new comers to enter the market.

6. **Fulfillment of National Policy:**

Every country's government has its own national policy for export transactions. Therefore the exporters have to take into consideration these rules and regulations while fixing the export price. Export price should be derived and finalized in such a way that it will be able to fulfil requirements of the government as per national policy.

7. **Contribution to export revenue of the country:**

Increase in exports always has a positive impact on the country's economy. Every exporter has to give his best by contributing more to nation's economy. Therefore export price should be fixed in such a way which will attract the foreign customers and thereby will contribute more to nation's economy.

8. **Reflecting quality of the product:**

There is a general belief that low price means low quality of product and high price means better quality. In order to create a favourable impression about the product quality, exporting firms keep the price of their product substantially high. Thus many a times export price is used to create a quality impression of the product.

9. **Early cost recovery:**

In many cases, exporters want to recover all the cost related with export as early as possible. They fell that slow recovery may create problems and they want to have shorter pay back period in exporting activities. By keeping in mind this objective some exporters charge higher price, so that export cost can be recovered at the earliest.

10. **Growth and expansion:**

Some exporters have growth and expansion as an objective behind export activities. In such cases, export price is fixed in such

a way that firm can easily expand its business activities all over the international market.

Check your progress:

1. State and explain the various objectives behind export pricing.
2. Explain the ‘profit maximization’ as a main objective of export pricing.

7.4 EXPORT PRICING POLICIES AND STRATEGIES:

Pricing policies provide effective guidelines for formulating suitable pricing strategy and implementing them. Pricing policies once formulated require constant review adjustment in the light of changing situations. This is because; no pricing strategy can serve the purpose for all times and in all the situations.

An exporter is required to adopt variable pricing policy when he has to deal with different market situations and buyers. This policy helps the exporter to make adjustments according to the competitive conditions, size of orders, types of buyers, period of payments etc. Pricing strategy refers to a plan of action designed to attain pricing objectives. Exporter should constantly review the pricing strategy adopted. Following are some of the important pricing strategies:

1. **Skimming pricing strategy:**

Under this strategy, a high premium price is charged when a product is launched in the market. The main objective behind this strategy is to earn high profits in the early stages of product introduction. Skimming pricing strategy can be of two types:

1. **Rapid skimming pricing:**
   Here high prices are charged and the product is promoted with heavy promotional expenditure.

2. **Slow skimming pricing:**

   Where high prices are charged and there is limited promotional effort to promote the product.

This strategy is suitable to those products that offer important benefits to the target audience and the target audience doesn't mind paying higher price. Secondly, for skimming pricing to be successful, there should be little chance for competitors to enter in the market in a short period of time. This is possible in case of highly technical and complex products.

2. Penetration pricing strategy:

The pricing strategy of charging low price in the early stages of product introduction is called as penetration pricing strategy. The main objective is to capture a large share of the market in the early stages of production. Penetration pricing strategy can be of two types:

1. **Rapid penetration pricing strategy:**

   Where low prices are charged and the product is promoted with heavy promotional expenditure.

2. **Slow penetration pricing strategy:**

   Where low price is charged and there is limited promotional expenditure to promote the product.

   This strategy is suitable to those newly introduced products, which can generate a large volume of business.

3. Probe pricing strategy:

Under this strategy, exporter charges higher price in the export market during the early stages of product introduction. The main objective is to find out or probe the reaction of the buyers towards the price. The prices are then adjusted accordingly. This pricing strategy is mainly followed when sufficient information is not available in respect of competitors' pricing, purchasing power of the buyers etc.

4. Follow the leader pricing strategy:

The exporter may fix the prices depending upon the prices of the leading competitor. However, this strategy may not be advisable as the situation of the exporter may differ from that of the leader in terms of product quality, features, costs etc.

5. Differential Trade Margins pricing strategy:

The exporter may adopt differential trade margins pricing strategy. He may allow various types of discounts or trade margins. The various discounts include quantity discount on bulk orders, seasonal discounts during off season to push up sales, cash discounts to encourage prompt payments, goodwill discounts, trade discounts etc. The prices are accordingly adjusted depending upon the type of discount offered.

6. Standard export pricing strategy:

In this case, the exporter may charge the same price for all the export markets in developing countries as well as in developed countries. However, this strategy is mostly not followed as prices depend upon a number of factors. Also, prices need to be fixed on the lower side for developing markets compared to developed countries.

7. Differential pricing:

In this case, different prices are charged to different markets depending upon a number of factors. The exporter can have differential pricing strategy for home markets and for overseas markets. Differential pricing is justified because of differences in expenses, differences in cost, differences in level of competition, differences in demand, different attitude of buyers etc.

8. Transfer pricing strategy:

Transfer pricing refers to the pricing of goods or services among subsidiaries within a corporation. It servers as the major of economic performance of profit centers within the enterprise. This strategy is adopted by multinational corporations. The subsidiaries of multinational corporations trade among themselves or with the parent firm. If the selling price is relatively low, the profit is made by the buying subsidiary. If the price is relatively high, the profit is made by selling firm. In any case, profit is made by parent company. However, one subsidiary may gain at the cost of another. This may lead to disputes which must be resolved. For this transfer pricing strategy is followed. The exporter must search for appropriate prices on goods moving from

1. **Product division to international division:**
    a. Transfer on manufacturing cost
    b. Transfer at arm’s length
    c. Transfer at cost plus

2. **International division to foreign subsidiary**
    a. Domestic tax authority's interest
    b. Foreign tax and customs authority
    c. The level of involvement
3. **Managing international transfer pricing**

    The determination of transfer prices in MNCs is an important issue because a substantial proportion of international exchanges consist of transactions between a parent company and its subsidiaries.

9. Trial pricing:

In this case, a firm may launch a new product with low price for a limited period of time. The purpose is to win customer acceptance first and make profits later. Trial pricing is an alternative to give away samples of a product in order to make people to have a trial of the product.

10. Flexible price strategy:

In this case, a firm offers the same product and quantities to different customers at different prices. For instance, when a new product is introduced, a firm may sell it at a special price to its loyal customers. The special price is a reward for customer's loyalty.

11. Marginal cost pricing:

Marginal cost is the cost of producing one extra unit of a product. Under this approach, exporter simply considers variable cost or direct cost while arriving at a price to be charged in international market and fixed cost is fully recovered from the domestic market.

Check your progress:

1. What is price policy and strategy?
2. State and explain the various export pricing strategies.
3. What do you mean by transfer pricing?
4. What do you mean by marginal cost pricing?

7.5 COST ITEMS DETERMINING EXPORT PRICE:

A typical structure of the export price is as under:

No.	Particulars	Amount
	Material Cost	××
	Labour Cost	××
	Direct Expenses	××
	Factory Overheads	××
	Cost of production	××
	Sales and Distribution cost	××
1	Cost of product	××
2	Producer's profit	××
	Ex-factory cost (a)	××
3	Expenditure in exporter's country • Packing and marking • Loading charges at factory • Transportation charges to dock or airport • Handling charges and fee at port or airport • Documentation charge • Export duty	 ×× ×× ×× ×× ××
	FOB Price (b)	××
4	Sea or air freight charges	××
	C & F Price (c)	××
5	Cost of insurance	××
	CIF Price (d)	××
6	Expenditure in importer's country (at the port) • Unloading charges at destination • Import duties and taxes • Fee paid to clearing agent	 ×× ×× ××
	Landed Price (e)	××
7	Expenditure in importer's country (ex-port) • Transportation charges to importer's warehouse	 ××
8	Importer's margin	××
9	Margin of market intermediaries in the importing country	××
	Price to final consumer (f)	××

Some of the above items of cost are explained as follows:

1. **Material cost:**

   It includes of raw materials, consumables and other items. These costs vary as per the number of units produced.

2. **Labour cost:**

   It includes cost of labour like wages etc. that are directly related to the production of a product from raw material stage to finished component stage.

3. **Direct expenses:**

   These are other direct expenses, other than direct labour and material, such as power, which varies as per the number of units produced.

4. **Factory overheads:**

   These are indirect expenses such as indirect labour, indirect material and indirect expenses.

5. **Sales and distribution cost:**

   These costs include advertising and other sales promotional expenses, salaries of the staff, transportation expenses from factory to warehouse. These expenses are more or less fixed and they do not vary as per units produced.

6. **Packaging cost:**

   Since packaging is very important in export trade, a considerable amount is spent on designing a good packaging so that it not only protects the product in transit from damage but also to give an attractive appearance, especially, in case of gift and fashionable items.

7. **Cargo handling charges:**

   These include commission to forwarding agent, forwarding charges, port dues, documentation etc.

8. **Freight charges:**

   These include freight charged by shipping company for transporting the goods from the port of shipment to the port of destination.

9. **Marine insurance:**

   Since goods in transit are subject to loss or damage to ship, the exporter has to get the cargo insured and such charges can be included in the export price.

10. **Packaging cost:**

    Since packaging is very important in export trade, a considerable amount is spent on designing and developing a good packaging.

7.6 BREAK EVEN ANALYSIS:

Break-even analysis is a graphical representation of the relations between cost, volume and profit. It indicates various levels of sales with varying degree of cost and output. It is a technique used in costing to analyze the cost-volume-profit relationship.

The main objective of break even analysis is to determine the break even point. Break even point is the point where the total revenue is equal to the total cost (variable + fixed). It is a point at which there is no profit or nor loss. If the amount of sales is below break even point then a firm suffers loss while if it is above it, the firm makes profit. It can be said that it is the first or the starting point towards profit. Anything that is sold over and above BEP level of output indicates profit to the firm.

Assumptions of break even analysis:

1. Fixed cost remains constant.
2. Prices of variable cost factors remain unchanged.
3. Semi-variable cost is segregated into variable cost and fixed cost.
4. Whatever is produced is sold out, i.e. production equals sales.
5. Other factors such as method of production, operating efficiency, pricing policy, product mix etc. remains constant.

Break even analysis is useful to exporters

1. To decide the minimum quantity of goods to be sold in the markets.
2. To fix the export price so as to recover the cost of goods sold.

Following is the formula for calculating BEP

$$BEP = \frac{FC}{Contribution}$$

OR

$$BEP = \frac{FC}{SP - VC}$$

Where, SP = Selling price
VC = Variable Cost
FC = Fixed Cost

For example:

Fixed cost	= Rs. 2,00,000
Variable cost	= Rs. 5 per unit
Selling price	= Rs. 10 per unit
Production capacity	= 1,00,000 units p.a.

Therefore,

$$BEP = \frac{FC}{SP - VC}$$

$$\frac{2,00,000}{10 - 5}$$

40,000 units

The BEP can be illustrated in the following diagram:

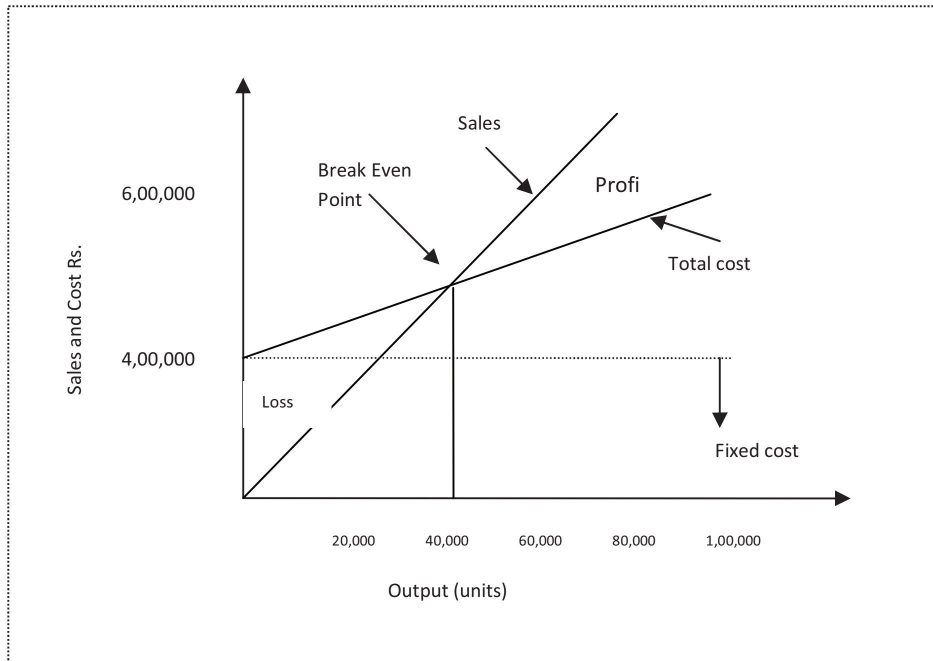

Figure 7.1

Thus the firm will break even at 40,000 units. If the firm exports 40,000 units, it will not make any profit, but if it sells more than 40,000 units, it will make a profit.
Solved problems on Break Even Point

1. From the following information supplied by an exporter to you, find out the break even point. FOB cost: Rs. 21 per unit, DBK 10%, FOB price Rs. 20 per unit, Fixed cost: Rs. 10,000. Also ascertain the profit on sale of 2,00,000 units per year.

Solution:

$$BEP = \frac{\text{Fixed Cost}}{\text{Contribution}}$$

To find out contribution:
FOB Price + Incentives = FOB Cost + Contribution

Let profit contribution be x.
20 + 10% of 20 = 21 + x
20 + 2 = 21 + x
x = 1
Profit contribution is Re. 1

$$BEP = \frac{10000}{1}$$

= 10000 Units

BEP = 10000 units.

Profit = 2,00,000 ×1 = 2,00,000

Net profit = 2,00,000 – 10,000 = 1,90,000

2. From the following information supplied by an exporter to you, find out the break even point. Also ascertain the profit on sale of 50,000 units per month. FOB cost: Rs. 11.20 per unit, DBK 10%, FOB price Rs. 12 per unit, Fixed cost: Rs. 20,000.

Solution:

$$BEP = \frac{\text{Fixed Cost}}{\text{Contribution}}$$

To find out contribution:
FOB Price + Incentives = FOB Cost + Contribution

Let profit contribution be x.
12 + 10% of 12 = 11.20 + x
12 + 1.20 = 11.20 + x
x = 2
Profit contribution is Re. 2

$$BEP = \frac{20000}{2}$$

= 10000 Units

BEP = 10000 units.

Profit = 50,000 ×2 = 1,00,000

Net profit = 1,00,000 – 50,000 = 50,000

Check your progress:

1. What is BEP?
2. State the formula to calculate BEP.
3. Explain with diagram the concept of break even analysis in export pricing.
4. From the following information supplied by an exporter to you, find out the break even point. Also ascertain the profit on sale of 1,50,000 units per month. FOB cost: Rs. 14 per unit, DBK 15%, FOB price Rs. 15 per unit, Fixed cost: Rs. 3,25,000.

7.7 EXPORT ASSISTANCE AND EXPORT PRICING:

In order to promote exports, most of the countries, resort to a number of export promotion incentives. These incentives are monetary as well as non-monetary. To the extent, the exporters get export incentives, the price disadvantage in the export markets is either eliminated or reduced and then they can quote competitive prices in overseas markets.

The various incentives offered to Indian exporter are as follows:

1. Duty drawback
2. Exemption from sales tax
3. excise duty rebate
4. Rail/ocean/air freight concession
5. Income-tax exemption
6. Marketing Development Assistance
7. Other incentives such as finance at low rates of interest

To the extent, exporter gets these incentives, it amounts to financial assistance and thereby, they can charge lower prices or competitive prices in international markets. The impact of these incentives on the price quotations can be explained with the help of the following illustration:

Calculate FOB price to be quoted by an exporter considering the following:

Ex-factory cost	17,000
Special packing charges	3,000
Transportation (from factory to dock)	1,500
Marine loading charges	500
Contribution	10% of FOB cost
Duty drawback	10% of FOB price

Calculate minimum FOB price in pounds if 1 pound = 40 rupees.

Case 1 : When incentives are not offered

Particulars	Rs.
Ex-factory cost	17,000
Special packing charges	3,000
Transportation (from factory to dock)	1,500
Marine loading charges	500
Total cost	22,000
Profit margin (10% on FOB cost)	2,200
Total revenue	24,200

Therefore, FOB price = Rs. 24,200/40 = 605 pounds

Case 2 : When incentives are offered

Particulars	Rs.
Ex-factory cost	17,000
Special packing charges	3,000
Transportation (from factory to dock)	1,500
Marine loading charges	500
Total cost	22,000
Profit margin (10% on FOB cost)	2,200
Total revenue	24,200

FOB Price + Incentives = FOB Cost + Contribution
$x + 10\%$ of $x = 22{,}000 + 2{,}200$
$x + 0.1x = 24{,}200$
$1.1x = 24{,}200$
$x = 22{,}000$
Therefore, FOB price = 22,000/40 = 550 pounds

Thus it can be seen from the above illustration, that given the cost structure and contribution, incentives reduce the price of goods to be exported. But reduction in price does not mean reduction in profit or total sales revenue.

Conclusion:

By analyzing the above illustration, it can be concluded that when the exporters receive incentives they are in a position to quote a lower price i.e. Rs. 22,000 rather than Rs. 24,200.

Solved problems on FOB Price:

1. Calculate the minimum FOB price which can be quoted by an exporter to Australia from the following details. Also calculate the amount of foreign exchange that can be earned @ Rs. 25 /- per Australian dollar:
   Ex-factory cost Rs. 75, 000
   Packing cost Rs. 15,000
   Transport cost Rs. 10,000
   Contribution of profit @ 10% of FOB cost
   Duty drawback @ 10% of FOB price

Solution:

Ex-factory cost	75, 000
Packing cost	15,000
Transport cost	10,000
Total FOB cost	1,00,000
10% profit margin	10,000
FOB revenue	1,10,000

FOB price + incentives = FOB cost + profit

Let FOB price be x.

$$X + \frac{10x}{100} = 1,00,000 + 10,000$$

$$110x = 1,10,000$$

$$X = 1,00,000$$

FOB price = Rs. 1,00,000

Foreign exchange that can be earned:

Exchange rate = 1 Australian dollar = Rs. 25

$$\frac{1,00,000}{25} = 4,000 \text{ Australian dollars}$$

2. Calculate the minimum FOB price in U.S. Dollars to be quoted by an Indian exporter. Also calculate the amount of foreign exchange that can be earned @ Rs. 50 /- per U.S. dollar:
   Ex-factory cost Rs. 1.50, 000
   Packing cost Rs. 30,000
   Transport cost Rs. 20,000
   Contribution of profit @ 10% of FOB cost
   Duty drawback @ 10% of FOB price

Solution:

Ex-factory cost	1,50,000
Packing cost	30,000
Transport cost	20,000
Total FOB cost	2,00,000
10% profit margin	20,000
FOB revenue	2,20,000

FOB price + incentives = FOB cost + profit

Let FOB price be x.

$X + \frac{10x}{100} = 2,00,000 + 20,000$

$110x = 2,20,000$

$X = 2,00,000$

FOB price = Rs. 2,00,000

Foreign exchange that can be earned:

Exchange rate = 1 U.S. dollar = Rs. 50

$\frac{2,00,000}{50} = 4,000$ U.S. dollars

7.8 SUMMARY:

From the above discussion it is clear that, deciding export price is an important decision for the exporter. He has to consider many factors for doing same. It is an important activity because it has multiple objectives behind it. There are many methods followed for finalizing export price.

Similarly, we understood that assistance and incentives provided by the government affects export pricing decision.

7.9 QUESTIONS:

1. What is export price? Explain the factors affecting export price.
2. State and explain the various strategies of export pricing.
3. What is BEP? Discuss the break even analysis in detail.
4. Enumerate different objectives behind export pricing.
5. Discuss the various items of cost included in export price.
6. Calculate the minimum FOB price which can be quoted from the following details. Also calculate the amount of foreign exchange that can be earned @ Rs. 45 /- per dollar:

Ex-factory cost	Rs. 17, 000
Packing cost	Rs. 3,000
Transport cost	Rs. 1,500
Marine Loading	Rs. 500

   Contribution of profit @ 10% of FOB cost

   Duty drawback @ 10% of FOB price
7. From the following information supplied by an exporter to you, find out the break even point. Also ascertain the profit on sale of 1,50,000 units. FOB cost: Rs. 14 per unit, DBK 15%, FOB price Rs. 15 per unit, Fixed cost: Rs. 3,25,000.

8

Module 5
EXPORT FINANCE

Unit Structure

8.0 Objectives
8.1 Introduction
8.2 Importance/Significance of Export Finance
8.3 Credit Provision
8.4 Summary
8.5 Questions

8.0 OBJECTIVES

1. To understand the concept of export finance
2. To study the importance of export finance
3. To study how an exporter meets his financial assistance
4. To study various aspects of pre-shipment credit
5. To study various aspects of post-shipment credit

8.1 INTRODUCTION OF EXPORT FINANCE

Finance is the life blood of every business. So is the export business. Each transaction in export requires huge amounts. Thus export business can not be carried out without financial support. Government of India has taken various measures to provide financial support to exporters. The exporter may require short term, medium term or long term finance depending upon the type of goods exported and the terms of payment offered to overseas buyer.

Export finance means "the funds required by exporters for financing their export transactions from the time of getting an export order to the time of full realisation of the payment from importers". Exporters generally require finance at two different stages viz. at the pre-shipment stage and at the post-shipment stage.

Export finance is a comprehensive term and includes total financial needs of exporters. Such financial needs start soon after the export order is received and continue till the financial payment is received from the foreign buyer. Export is needed for ordering conduct of his export operations.

8.2 IMPORTANCE / SIGNIFICANCE OF EXPORT FINANCE

Export finance is important to the exporter in a number of export trade & export promotion. Financial support encourages exporters to export goods on the large scale. Similarly, easy availability export finance facilittes export promotion. In India, government takes special initiative in providing liberal financial facilities to exporters as it is a pre-condition for success on the export promotion front. Pre-shipment as well as post-shipment finance are equally important to exporters and adequate supply of finance facilitates continuous and orderly conduct of export marketing activities.

Export finance is important/significant as adequate supply of export finance provides following benefits to the exporters :-

1) An exporter meets production and distribution needs of export transactions when adequate pre-shipment finance is made available to him.

2) An exporter can use modern technology and methods in the management of export trade when adequate funds are made available to him. He can face market competition effectively with the use of modern techniques.

3) An exporter can adopt effective & aggressive sales promotion techniques in his export trade when adequate funds are made available to him.

4) Competitive capacity of an export increases when adequate funds are made available to him in time and also at less cost.

5) An exporter can meet his delivery schedule properly and develop market reputation when he gets adequate supply of pre-shipment and post-shipment finance. He can develop confidence among his customers by providing timely services. All this is possible when he has adequate financial backing.

6) An export can face competition in foreign countries effectively because of the availability of adequate and timely finance. He can create credit standing abroad due to the availability of adequate credit and loan facilities.

Check Your Progres:

1. What do you understand by the term export finance?
2. Why export finance is important to the exporter?

8.3 CREDIT PROVISION

Finance is the most important resource for the export trade. Every exporter needs sufficient amount of finance before dealing with export transaction. Therefore he needs the assistance of financial institutions as well as the Government. Government of India has established adequate institutional framework in the country to help exporters.

Therefore this aspect can be discussed in following heads :-

Exporters generally require finance at two different stages i.e. Pre-shipment stage and Post-shipment stage.

A) Pre-Shipment Finance (Packaging Credit)

Pre-shipment finance is also known as “Packaging Credit.” It is an advance credit facility obtained by an exporter from a bank or financial institution. The Reserve Bank of India defines it as “any loan to an exporter for financing the purchase, processing, manufacturing or packing of goods.” Pre-shipment finance is working capital finance provided by a bank for helping the exporter to purchase, process, pack & ship the goods.

Features of pre-shipment finance :-

1) **Eligibility** :- Pre-shipment loan is granted only to those exporters who actually export and produce a confirmed export order and/or a letter of credit received against the export contract. However, indirect exporters who export through established export houses, STC, etc. are also eligible for packing credit on the following conditions –

a) They produce a letter from the concerned export house or other concerned party stating that a portion of the export order has been allotted in his favour.

b) The export house or other concerned party should also state that they do not wish to obtain packing credit for the same.

2) **Packing** :- Packing credit is granted for the specific purpose of procuring / purchasing / manufacturing processing / storing / packing and shipping the goods.

3) **Documentary Evidence** :- Pre-shipment finance is granted against the evidence of irrevocable L/C established through a reputed bank or against a confirmed order for export. The doument of L/C or confirmed order must be deposited with the lending institution.

4) **Security** :- The exporter is required to provide personal bond from sureties known to the bank. Also compulsorily, relevant policy issued by ECGC.

5) **Form of finance** :- Packing credit can be either in the form of funded or non-funded advance. Red clause/Green clause L/C's are the forms of funded finance. Non finance facilities include domestic L/C's, bank to bank L/C's and various guarantees.

6) **Amount of finance** :- Pre-shipment finance depends on the amount of exporter and credit rating of the exporter done by the bank. The only guiding principle to be applied in this respect is the need based finance. The bank usually considers the percentage of exporter's profit margin depending on the nature of order, nature of goods, exporters ability to repay and export incentives receivable such as IPRS, DBK, etc.

7) **Period of loan** :- Pre-shipment finance is available for a period not exceeding 180 days. If the exporter requires extension of time, additional 90 days are allowed with prior approval of RBI.

8) **Rate of Interest** :- Interest is charged at 10% for a period upto 180 days and 13% for period upto 270 days. Concessional rate of interest is not available beyond 270 days. If the advance is not adjusted within 360 days, domestic rate of interest plus 2% is chargeable from day one of advance.

9) **Loan Agreement** :- The exporter has to sign a loan agreement with the bank in order to get packing credit.

10) **Maintenance of Accounts** :- As per the RBI directives, the bank are required to segregate and maintain separately the accounts in respect of each packing credit. However, running account are permitted in case of certain products produced in FTZ's/FPZ's and by the 100% EOU's.

11) **Sanction of Loan** :- Bank sanction the loan at one time but the amount is given to the exporter as per the progress of work.

12) **Monitoring the use of loan** :- The lending bank montior the use of finance by the exporter to ensure that the amount is used for export purpose only. The bank can impose penalty for misuse.

13) **Repayment/Liquidation of loan** :- The exporter should repay the amount of packing credit out of the proceeds of export bill.

<u>Procedure for obtaining pre-shipment finance</u> :-

1) **Submitting Application to the Bank** :- The exporter who intends to obtain packing credit should apply in a prescribed form to his banker giving all details of the credit requirements. The form must accomany the following documents :

   i) Confirmed export order or contract or letter of credit

   ii) An undertaking that the finance will be utillised for the purpose of exports.

   iii) Copies of income tax and wealth tax assessment orders for the past two or three years in case of a sole propreitorship and partnership firm.

   iv) Copy of Board resolution in case of a company to open a bank account.

   v) Letter of authority to operate the account.

   vi) An appropriate ECGC policy.

   vii) Undertaking that the shipment will be effected within fixed time limit.

viii) In case of manufacturer who exports through some export house or a merchant exporter, an undertaking from the export house/ merchant exporter stating that he does not wish to avail of the packing credit against the same transaction and for the some purpose until the original credit is liquidated.

ix) Copy of Registration-cum-Membership certificate held by the exporter.

x) Any other document needed by the concerned bank.

2) **Processing of Application** :- On submission of application with necessary documents, the bank scrutinises the same and if satisfied as regards documentary evidence and creditworthiness of the exporter, establishes the packing credit limit.

3) **Sanctioning of Loan** :- As a practice, the bank sanctions loan equal to the F.O.B. value of export order or L/C or equal to market value of the goods whichever is less. It also depends on the value of export incentives receivable by the exporter.

4) **Loan Agreement** :- The bank executes a formal loan agreement with the exporter before the actual disbursement of the loan.

5) **Manner of Payment** :- Packing credit advances are not dipending on the need of the exporter.

6) **Maintenance of Accounts** :- As per the RBI directives lending bank must maintain a separate account of each pre-shipment advance sanctioned by it. However, running account are permitted in case of certain products produced in FTZ's/EPZ's and by the 100% EOU's.

7) **Monitoring of the use of loan** :- The lending bank is required to periodically monitor the use of packing credit advance by the exporter to ensure that the same is used for export purpose only. Penalty may be imposed by the bank for misuse, if any.

8) **Repayment/Liquidation of loan** :- The exporter is expected to liquidate or repay the amount of advance together with interest charge as soon as the export proceeds or incentives are realised.

Methods/Types/Forms of pre-shipment finance :-

1) **Extended packing credit loan** :- This facility though for a short period, is granted to those exporters who rated first class by the bank. Loan is granted for making advance payment to suppliers for acquiring exportable goods.

2) **Packing Credit Loan (Hypothecation)** :- In this case packing credit is extended for obtaining raw materials, work-in-process and/or finished goods. The goods acquired are treated as securing for the loan granted. Goods remain in the possession of the exporter and he is required to execute hypothecation deed in favour of the bank.

3) **Packing Credit Loan (Pledge)** :- This facility is available for seasonal goods or those acquired by the exporter under odd lots. The documents relating to acquisition of raw materials are pledged to the bank while possession of goods remains with the exporter.

4) **Advances against Back-to-Back Letter of Credit** :- An exporter, who has received original letter of credit from importer, requests his banker to open a domestic letter of credit in favour of his supplier. This is known as back-to-back L/C.

5) **Advance against Red Clause L/C** :- When the exporter receives red clause L/C from the importer, it authorises the exporter's bank to provide advances to complete production.

6) **Advance against Export Incentives** :- Advances against export incentives such as DBK is provided by the bank both at the pre-shipment and post-shipment stage.

7) **Packing Credit for Imports against Advance Licence Entitlement** :- This credit facility is available to manufacturer exporters who are not in receipt of letter of credit or confirmed export order. Finance is made available for imports against licence for manufacture of export goods.

8) **Special Packing Credit Schemes** :-

   a) EXIM Bank's Foreign Currency Pre-Shipment Scheme.

   b) IDBI's Pre-Shipment Credit in Foreign Currency (PSCFC).

   c) Packing Credit for Deemed Exports.

B) Post-Shipment Finance

Post-shipment finance is provided to meet working capital requirements after the actual shipment of goods. It bridges the financial gap between the date of shipment and actual receipt of payment from overseas buyer thereof. The salient feature of post-shipment fiance are :

1) **Eligibility** :- It is extended to the exporter who has export documents in his name, attested by the customers.

2) **Purpose** :- Post-shipment finance provides working capital to the exporter from the date of shipment to the date of realisation of export proceeds.

3) **Documentary Evidence** :- It is extended against the evidence of shipping documents indicating the actual shipment of goods or necessary evidence in case of deemed exporters.

4) **Forms of Post-Shipment Finance** :- Post-shipment finance may be provided in one of the following forms.

   a) Export bills negotiated under L/C.

   b) Advance against DBK.

   c) Advance against bills under collection, etc.

5) **Amount of Post-Shipment Credit** :- The amount of post-shipment finance depends upon the working capital requirements of the exporter after shipment of goods.

6) **Period of a Post-Shipment Finance** :- The short term period is usually 90 days. The loan is provided by commercial banks. Additional 90 days may be provided.

7) **Rate of Interest** :- Post-shipment finance facility is granted at a concessional rate of interest, as compaired to the rate of interest charged for domestic or local parties.

8) **Loan Agreement** :- Before disbursement of loan, the bank requires the exporter to execute a formal loan agreement.

9) **Maintenance of Accounts** :- As per RBI directives of loan, the bank must maintain separate account in respect of each post-shipment advances. However, running accounts are permitted in case of units in SEZ/EPZ and 100% EOU’s.

10) **Disbursement of Loan Account** :- Normally post-shipment credit advances are not sanctioned in lump-sum but disbursed in a phased manner.

11) **Monitoring the use of Advance** :- The bank advancing post-shipment credit should monitor the use of post-shipment credit by the exporter i.e. whether the amount is used for export purpose or not, penalty can be imposed for misuse.

12) **Repayment** :- As soon as the export proceeds and/or incentives are received, the exporter should repay the amount to bank advancing credit. Normally, the advancing bank realises the export proceeds and then makes necessary entries in the exporter's account. It is to be noted that no repayment of post-shipment advance can be effected from local funds.

Procedure to obtain post-shipment :-

Post shipment finance means an advance to an exporter after shipment of goods. The exporter :

a) Shipping documents.

b) Export incentives receivable, such as DBK.

1) **Application** :- The application must be supported by relevant shipping documents and such other documents/undertakings as required by the Bank.

   The other documents may include :

   a) Demand pronote signed on behalf of the company/firm.

   b) Letter of continuity signed on behalf of the company/firm.

   c) Certificate of the Board of Directors resolution.

   d) Letter of Authority to operate the account.

2) **Processing of Application** :- The application is processed after verification of shipping documents. The bank also takes into consideration the creditworthiness of the exporter and the importer and also the characteristics of the product exported.

3) **Sanctioning of Amount** :- If the application is found in order, the bank normally sanctions the amount. The normal short term period of post-shipment finance in 90 days.

4) **Loan Agreement** :- Before disbursement of loan, the banks require the exporter to execute a formal loan agreement.

5) **Disbursement of Loan Amount** :- Normally, post-shipment credit advances are not santioned on lumpsum but it is disbursed in a phased manner.

6) **Maintenance of Accounts** :- As per RBI directives, banks must maintain separate account in respect of each post-shipment advance. However, running accounts are permitted in case of units in SEZ/EPZ and 100% EOU's.

7) **Monitoring the use of Advance** :- The bank advancing post-shipment credit should monitor the use of post-shipment credit by the exporter i.e. whether the amount is used for export purpose or not. Penalty may be imposed for misuse.

8) **Repayment** :- As soon as the export proceeds and/or incentives are received, the exporter should repay the amount to bank advancing credit. Normally the advancing loan realises the export proceeds and then makes necessary entries in the exporter's account.

Forms/Types of Post-Shipment Finance:

1) **Export bills negotiated under L/C** :- The exporter can claim post-shipment finance by drawing bills or drafts under L/C. The bank insist on the necessary documents as stated in the L/C. If all documents are in order, the bank negotiates the bill and advance is granted to the exporter.

2) **Purchase of Export bills drawn under confirmed contracts** :- The banks may sanction advance against purchase or discount of export bills drawn under confirmed contracts. If the L/C is not available as security, the bank is totally dependent upon the creditworthiness of the exporter.

3) **Advance against Bills under collection**:- In this case, the advance is granted against bills drawn under confirmed export order/L/C and which are sent for collection. They are not purchased or discounted by the bank. However, this form is not as popular as compared to advance against purchase or discounting of bills.

4) **Advance against claims of Party Drawback (DBK)** :- DBK means refund of custom duties paid on the import of raw materials, component parts and packing material used in the export product. It also includes refund of central excise duties paid on the indigenous materials. Banks offer pre-shipment as well as post-shipment advances against claims for DBK.

5) **Advance against goods sent on Consignment Basis** :- The bank may grant post-shipment finance against goods sent on consignment basis.

6) **Advance against Undrawn Balance of Bills** :- There are cases where bills are not drawn to the full invoice value of goods. Certain amount is undrawn balance. Which is due for payment after adjustments due to different in rates, weight, quality, etc. Banks offer advance against such undrawn balances subject to a maximum of 5% of the value of export and an undertaking is obtained to surrender balance proceeds to the bank.

7) **Advance against Deemed Exports** :- Specified sales or supplies in India are considered as exports and termed as 'deemed exports.' It includes sales to foreign tourists during their stay in India and supplies made in India to IBRD/IDA/ADB aided projects. Credit is offered for a maximum of 30 days.

8) **Advance against Retention Money** :- In respect of certain export capital goods are projects exports the importer retains a part of cost of goods/services towards guarantees of performance or completion of project. Banks advance against retention money, which payable within one year from date of shipment.

9) **Advance against Deferred Payments** :- In case of capital goods exports, the exporter receives the amount from the importer in installments spread over a period of time. The commercial bank together with EXIM bank to offer advances at concessional rate of interest for 180 days.

Distinguish between Pre-Shipment Finance & Post-Shipment Finance

Pre-Shipment Finance	Post-Shipment Finance
1. **Meaning** :- Financial assistance extended to the exporter prior to shipment of goods.	Post-Shipment finance is provided after the actual shipment of goods from India.
2. **Purpose** :- It is required to meet working capital before shipment of goods for exports.	It is required to meet working capital needs after shipment of goods.
3. **Beneficiary** :- It is offered to Indian exporters or suppliers of export goods.	It is offered to Indian parties as well as to overseas buyers and agencies.
4. **Documentary Evidence** :- Pre-shipment finance is provided against the documentary evidence of Export Order/L/C.	It is provided against the documentary evidence of shipping documents attested by customs.
5. **Form of Finance** :- It can be granted against DBK, Letter of hypothecation, red L/C, back-to-back L/C. etc.	It can be granted against purchase of bills, deferred exports, deemed exports, etc.
6. **Amount** :- The amount of finance depends upon the export order and credit rating by the Bank	The amount of finance depends upon the type and value of goods exported.
7. **Period of Finance** :- The period is normally180 days before shipment of goods.	The period is normally 90 days after shipment of goods.

Check Your Progress:

1. What is pre-shipment credit finance?
2. What is post-shipment credit finance?

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8.4 SUMMARY

1. Export finance means "the funds required by exporters for financing their export transactions from the time of getting an export order to the time of full realisation of the payment from importers".

2. The exporter may require short term, medium term or long term finance depending upon the type of goods exported and the terms of payment offered to overseas buyer.

3. Export finance is important to the exporter as it encourages exporters to export goods on the large scale and it export promotion.

4. Exporters generally require finance at two different stages i.e. Pre-shipment stage and Post-shipment stage.

5. Pre-shipment finance is working capital finance provided by a bank for helping the exporter to purchase, process, pack & ship the goods.

6. Post-shipment finance is provided to meet working capital requirements after the actual shipment of goods. It bridges the financial gap between the date of shipment and actual receipt of payment from overseas buyer thereof.

8.5 QUESTIONS

1. Explain the term Export Finance and give its signifaicance.

2. What is pre-shipment finance? Explain its features.

3. Discuss the procedure for obtaining pre-shipment finance.

4. What are the various forms of pre-shipment finance?

5. Explain the features of post-shipment finance and explain the procedure to obtain it.

6. What are the different types of post-shipment finance?

7. Distinction between Pre-shipment and Post-shipment finance.

9

EXCHANGE CONTROL/REGULATION MECHANISM

Unit Structure

9.0 Objectives
9.1 Introduction
9.2 Objectives of Exchange & Regulations
9.3 Foreign Exchange Fluctuations
9.4 Factors determining Exchange Rates
9.5 Strategies in Management of Foreign Exchange Fluctuations
9.6 Foreign Exchange Management Act, 1999 (FEMA)
9.7 Liberalised Exchange Rate Management System (LERMS)
9.8 Summary
9.9 Questions

9.0 OBJECTIVES

1. To understand the concept of exchange control
2. To study the need of exchange control
3. To understand the term foreign exchange fluctuation
4. To study the factors determining exchange rates
5. To study the strategies in management of foreign exchange fluctuations
6. To study the Foreign Exchange Mangement Act, 1999
7. To study Liberalised Exchange Rate Mangement System

9.1 INTRODUCTION OF EXCHANGE CONTROL

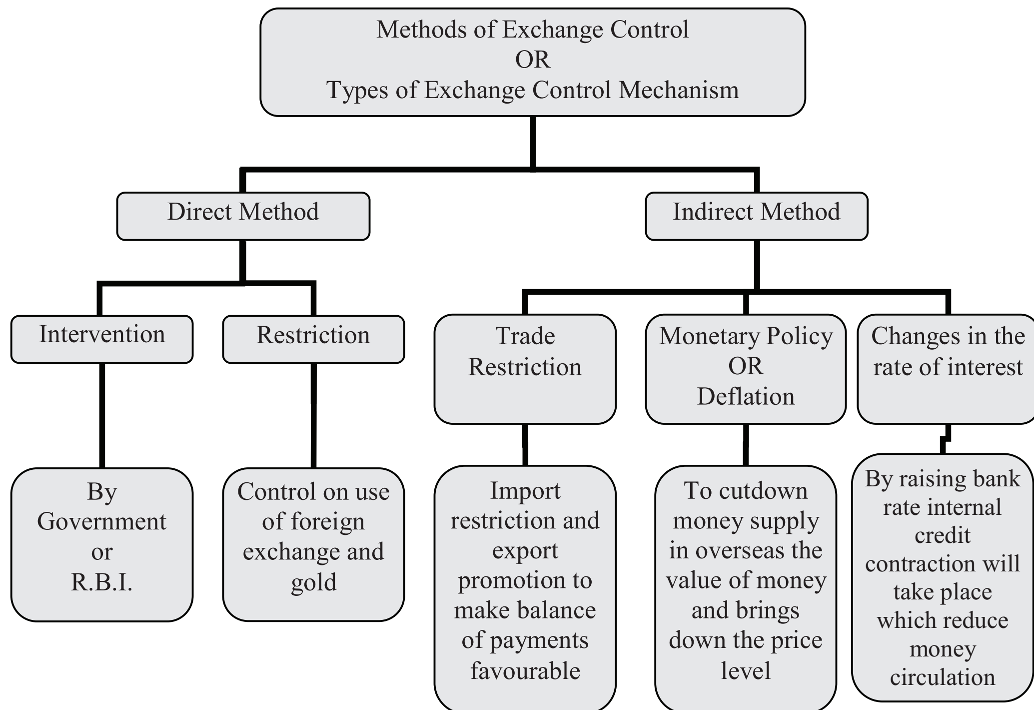
All the countries make foreign exchange regulations in order to restrict imports & so it is one of the types of non-tariff barriers created by importing countries for making balance of payment favourable. The main aim of this regulation is that foreign exchange received should be properly utilised according to the policies of the Government. Government of India has made FERA (Foreign Exchange Regulation Act), which is now replaced with FEMA (Foreign Exchange Management Act). The Act is made for regulating the availability and use of foreign exchange through exports. Thus foreign exchange may not be easily available for imports.

In India separate Act was passed in 1973 called FERA which was amended in 1993 by FEMA. This Act is the basic for Exchange Control in India. Indian Exporters have to follow certain regulations under FEMA e.g.

1) Exporters have to register with RBI and obtain code No.
2) They have to receive payment from importers within 180 days of shipment of goods as prescribed by RBI
3) RBI has authorised certain banks to deal in foreign exchange operations. So the exporter has to approach their banks only.

9.2 OBJECTIVES OF EXCHANGE & REGULATIONS

1) To introduce rational fixation of exchange rates.
2) To prevent flight of foreign capital.
3) To secure imports of essential goods etc. on reasonable terms.
4) To secure guaranteed market for domestic products.
5) To make the balance of payments favourable.
6) To give protection to home industries.
7) To check the import of continuous consumption.
8) To help in economic development of country.
9) To provide revenue to the Government.
10) To protect the country from the adverse effect of the policies of other countries.
11) To prevent the sudden fall in foreign exchange rates.
12) To prevent the outflow of capital.
13) To help in import of defence and essential items.



9.3 FOREIGN EXCHANGE FLUCTUATIONS

If the export bills are drawn in rupees, the exporter is not affected by the fluctuations in exchange rates. But generally the importer prefers to be invoiced in his own currency to know the actual cost of goods in his country. This will lead to exchange fluctuation risk to the exporter. It may be possible that the entire amount of profit may be wipe off if the amount received is less that expected due to depreciation of currency and which it appreciates the exporter may gain. Thus it may be used as marketing strategy.

Check Your Progress:

1. What do you understand by foreign exchange control/regulation?

2. Why foreign exchange control is required?

9.4 FACTORS DETERMINING EXCHANGE RATES

Following factors influence the exchange rates.

1) **Primary Determinants** :-

   a) Demand and supply of foreign currency. e.g. If the country has import surplus its exchange rate will depreciate and in case export surplus rate will increase. In foreign exchange market there are three types of transactions :-

      i) Purchases and Sales for trading purposes.

      ii) Speculative deals by professional dealers.

      iii) Protective movements by substantial holders.

   b) Domestic economic policies affecting the internal purchasing power of that currency. A country with high rate of inflation than other countries may face a decline in the value of its currency relative to other currencies and vice versa.

2) **Secondary Determinants** :-

   a) Psychological factors such as expectations of people may influence on exchange rate e.g. flight of hot money or short term capital movements.

   b) International differentials in interest rates have important effect on the exchange rates.

   c) Political events like change in Government leads to change in Government policies may have impact on the exchange rate for a currency.

   d) Sentiment of investors about future exchange rates. If it is bearish (selling the currency with the fear of depreciation) it will have impact on the spot exchange rates. If the sentiment is bullish (Buying the currency with hope of appreciation), the spot rate is likely to go up.

9.5 STRATEGIES IN MANAGEMENT OF FOREIGN EXCHANGE FLUCTUATIONS

The exporter should have expert knowledge in understanding the exchange market trends so that he can gain from managing the risk of exchange fluctuations. Exporters can

also subscribe to forecasting services that provide either long term predictions of general trends or short term trading advice.

Thus following steps may be suggested in management of foreign exchange fluctuation risks :-

1) Quantify the risk and its timings.
2) Undertake a risk assessment of the likely fluctuations of foreign currencies envisaged.
3) Operate under a clearly defined policy.
4) Continuously study and analyse the local foreign exchange market.
5) Obtain forward cover at optimal points.
6) Evaluate/monitor actual performance.

9.6 FOREIGN EXCHANGE MANAGEMENT ACT, 1999 (FEMA)

The Foreign Exchange Management Bill was introduced by the GOI in Parliament in July 1998. It was adopted by the Parliament in 1999 and is called Foreign Exchange Management Act, 1999 (FEMA 1999), the purpose was to repeal FERA, 1973 and consolidate and simplify the law relating to foreign exchange with the purpose of facilitating external trade and payments and for promoting the orderly development and maintenance of foreign exchange market in India.

The salient features of FEMA are as noted below :-

1) **Use of Foreign Exchange** :- Section 3 of the Act stated that no person who is not authorised under the Act and Section 4 of the Act states that no person residents in India shall acquire, hold, own, posses or transfer any foreign exchange or any immovable property situated outside India.
2) **Current Account and Capital Account Transactions** :- Section 5 and 6 states any person may sell or draw foreign exchange to or from an authorised person if such sale is a current account transation. However the Central Government may in public interest and in consultation with RBI, impose such reasonable restrictions for current account transactions as may be prescribed.
3) **Contravention and Penalties** :- Section 13 states that if any person contravenes any provisions of this Act he shall upon

adjudication, be liable to a penalty upto thrice the sum involved in such contravention or upto Rupees Five Thousand for every day during which the contravention continues. Section 14 states that if the person concerned fails to makes full payment of the penalty within 90 days, he shall be liable to civil imprisonment.

4) **Adjudication and Appeal** :- Section 16 says that the Central Government may appoint Adjudicating Authorities to hold inquiry. Before imposing any penalty, the accused person will be given reasonable opportunity to be heard.

5) **Directorate of Enforcement** :- Section 35 states that the Central Government shall establish a Directorate of Enforcement with a Director and such other class of officers as it thinks fit, who shall be called Officers of Enforcement.

6) **Repealing FERA** :- Section 49 provides for repeal of the FERA, 1973 and for dissolution of the Appeallate Board.

Under FEMA, the emphasis is on exchange management. The purpose of FEMA is “to facilitate external trade and payments” and “Promote the orderly development and maintenance of foreign exchange market in India.” Under FERA violation of the provisions of the Act attracted criminal proceedings but in case of FEMA contraventions of the Act is treated as Civil offence.

FEMA is considered as improvement over FERA mainly relating to :

a) It is seen as the first step towards capital account convertibility.

b) Under FEMA, government seem to have decided to give up regulating foreign capital in the country, regulating foreign capital in the country.

The replacement of FERA by FEMA is a step in the right direction as the conditions under which FERA, 1973 was enacted and implemented do not exist any more. India has now huge forex reserves and there is no place for the fear complex that characterised regulatory efforts in the post. Moreover with the new culture of liberalisation and globalization, strict exchange control regime as visual. FERA, 1973 will have to be disbanded.

FEMA attempts to simplify the provision of FERA. Many strict provisions of FERA are removed from FEMA. For example, only monetary penalty will be slapped for contravention of any of the provisions of FEMA but there is no punishment by way of imprisonment for contravention of any of the provisions.

Check Your Progress:

1. Discuss the Primary and Secondary determinants of exchange rates.
2. Discuss the steps which are suggested in management of foeign exchange fluctuation risk.
3. Distinguish between FEMA and FERA.

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9.7 LIBERALISED EXCHANGE RATE MANAGEMENT SYSTEM (LERMS)

In India, exchange control regulations were extremely strict prior to 1992. Exporters were not allowed to retain the export proceeds earned through export trade transactions. They had to deposit the entire foreign exchange earned with the RBI. The Bank used to convert their foreign exchange earnings into rupees at the official rate and pay them accordingly. This arrangement was introduced as foreign exchange is most scares and precious commodity. Its conservation and rational use is a must. For this, the exporters were asked to deposit their foreign exchange earnings with the RBI. Exporters were supplied our currency in place of foreign currency surrendered to RBI.

This system was rather inconvenient to exporters in promoting exporters. The government introduced some modifications in the rules and made them liberal. The new system introduced is called Liberalised Exchange Rate Management System (LERMS). The purpose was to provide more foreign exchange to exporters for their business purpose.

LERMS was for the first time introduced in the Budget of 1992-93 LERMS is a dual rate exchange system. The scheme operates as per the following details :

1) The exporter will surrender 40% of foreign exchange earnings at the offical exchange rate. The remaining 60% to be converted at a market determined rate.

2) The foreign exchange surrendered at offical exchange rate will be used to import essential items.

3) The foreign exchange converted at the market rate will be used to finance other imports.

4) On the day of realisation of payments foreign exchange receipts are surrounded to the authorised deals in foreign exchange.

5) The Exchange Control Regulation Act controls all the transactions under LERMS.

6) RBI enjoys the authority to select either US dollar or Pound Sterling as the intervention currency incidentally.

9.8 SUMMARY

1. Government of India has made FERA (Foreign Exchange Regulation Act), which is now replaced with FEMA (Foreign Exchange Management Act) for regulating the availability and use of foreign exchange through export.

2. Various factors influences the exchange rates, such as demand and supply of foreign currency, domestic economic policies affecting the internal purchasing power, psychological factors, international differentials in interest rates, political events, sentiments of investors about future interest rates etc.

3. The exporter should have expert knowledge or can also subscribe toforecasting services that provide predictions so that he can gain from managing the risk of exchange fluctuations.

4. Foreign Exchange Management Act, 1999 (FEMA 1999), replaced FERA, 1973 and consolidate and simplify the law relating to foreign exchange with the purpose of facilitating external trade and payments and for promoting the orderly development and maintenance of foreign exchange market in India.

5. Liberalised Exchange Rate Management System (LERMS) was introduced to provide more foreign exchange to exporters for their business purpose. It is a dual rate exchange system.

9.9 QUESTIONS

1. What do you understand by the concept foreign exchange regulation? Why does it require?

2. What are the factors which determine the exchange rates?

3. Explain how foreign exchange fluctuation risks can be managed.

4. Write a note on FEMA.

5. What is Liberalised Exchange Rate Management System?

10

EXPORT PROMOTION

Unit Structure

10.0 Objectives
10.1 Introduction
10.2 Bank Assistance to Exporters
10.3 EXIM Policy 2002 – 07
10.4 Some Ideas of Trade Protocols
10.5 Export Promotion Council (EPC)
10.6 Commodity Board
10.7 India Trade Promotion Organisation
10.8 Export Credit and Guarantee Corporation
10.9 EXIM Bank of India
10.10 Role of Other Agencies
10.11 Summary
10.12 Questions

10.0 OBJECTIVES

1. To understand the concept and role, objectives of Export promotion in India.
2. To study the role of banks in Export promotion i.e. fund-based and non fund-based assistance.
3. To study the EXIM Policy 2002-07.
4. To understand the concept and objectives of EPZs.
5. To study the role and functions of EPCs.
6. To study the functions of Commodity Boards.
7. To study the formation and functions of ITPO.
8. To study the objectives and the risks covered by ECGC.
9. To study the purpose, functions and assistance by EXIM Bank of India.
10. To study role, objectives, functions and future of STCs.
11. To study role of HHEC
12. To study role and objectives of MMTC.

10.1 INTRODUCTION OF EXPORT PROMOTION

Export trade is an engine for the economic growth of the country. Therefore, all the countries take keen interest in export promotion. Government of India has taken several steps since independence in this respect. India is continuously trying to develop infrastructure in the country to help exporters.

Jawaharlal Nehru our first Prime Minister has given a slogan "Export or Perish" which was universally accepted and inspired many countries to promote export in their countries. The term export promotion includes various measures, incentives and assistance given to the exporter after analyzing the situation and studying the environment. It is one of the important aspects of export trade policy of the country. We can not expect growth of export without systematic and planned export promotion measures. India has introduced various measures since independence.

Role of Export Promotion in India :

There is a need of export, at both levels. i.e. business level and government level in the country.

Following are the various benefits of export promotion.

1) Foreign Exchange Earning : Foreign exchange is needed for different purposes including import of essential goods & services technologies and so on.
2) Removing deficit in the balance of trade and balance of Payments and creating comfortable position as regards foreign exchange reserves.
3) Raising industrial production and generating massive employment opportunities in the country.
4) Bringing expansion in the activities of tertiary sector.
5) Repaying foreign loans taken from international financial institutions etc.
6) Utilising the available resources (natural and human) to the optimum level.
7) Creating reputation and goodwill in global market.
8) Making the country politically and economically strong with stable position and prestige in world economics and politics.

The point noted above also suggests the growing importance of export promotion in the case of India is economy.

Objectives of Export Promotion :

1) To stimulate growth by providing easy access to essential capital goods.
2) To promote efficient import substitution and self-reliance.
3) To promote exports by improving the quality of incentives and their administration.
4) To provide incentives to exporters so that they will take special interest in export trade through expansion and diversification of exports.
5) To provide timely assistance to exporters so as to enable them to conduct export transactions easily and smoothly. The assistance may be financial and / or non-financial.
6) To make Indian goods superior in quality and lesser in cost. In other words to raise their competitiveness at the global level.
7) To give publicity of Indian goods abroad by using different media of communication and through participation in trade fairs and exhibitions.
8) To permit liberal imports for massive exports.

There are various incentives and assistance offered to exporters. Incentives are monetary benefits to attract exporters and assistance provide them to do export business more efficiently and effectively.

Brief differences between these two are given below.

(A) Export Incentives	(B) Export Assistance
1. Duty Drawback	1. IRMAC Scheme
2. Income Tax Exemption	2. Back to back Inland Letter of Credit
3. Excise Duty Rebate	3. Marketing Development Assistance (MDA)
4. Exemption from Sales Tax	4. EPCG Scheme
5. Liberal loan facility from commercial banks and EXIM Bank (pre-shipment and post-shipment)	5. Institutional assistance (from ECGS, EPCS, IIP, EIC, ICA, IIFT, ITPO, etc.)
6. Special incentives to 100% EOUs and units operating in EPZs.	6. Easy foreign exchange for foreign tours, overseas marketing communication, publicity and participation in trade fairs.

7. Transport subsidy (rail, ocean, air freight concession)	7. Assistance for technological up gradation, quality improvement and cost reduction.
8. Advance against cash assistance / duty drawback	8. Industrial Price Reimbursement Scheme (IPRS)
	9. Duty Entitlement Pass Book scheme, (DEPB)
	10. Diamond, Gem and jewellery export promotion scheme.

10.2 BANK ASSISTANCE TO EXPORTERS

Financial support is essential for large scale exports. It is required for production, packaging of goods and so on. In export trade, payment is available after a long period but funds are required continuously for the conduct of production and other activities. In India, efforts are being made to provide liberal credit facilities to exporters. Along with commercial and public sector banks, RBI, EXIM Bank and ECGC also play a positive role and thereby encourage commercial banks to offer liberal credit facilities to exporters.

A major portion of export finance in India is provided by commercial banks. They provide pre-shipment and post-shipment finance on priority basis and also on liberal terms and conditions. The RBI also supplements the resources of commercial banks by providing refinance facilities. In short, commercial banks play a key role in providing financial support to Indian exporters. The liberal, simplified and attractive financial and non-financial services of banks have made the export business attractive and profitable.

Role of Commercial Banks in Export Finance :

Commercial banks provide a major portion of total export finance. They extend financial assistance both at pre-shipment as well as at post shipment stage to exporters on priority basis.

Services of commercial banks to the exporting community can be summed up into the following two categories.

1) Financial services (also known as fund-based Assistance).

2) Non-financial services (also known as Non-fund based assistance.

1) **Financial services / fund based Assistance :** These services are in the form trade of advances, credit and loans at various stages of and export trade transactions. Financial assistance is offered under the following two categories.

   a) Pre-shipment finance and

   b) Post-shipment finance

   a) **Pre-shipment Finance :** As explained in the chapter on export finance, Pre-shipment funds are made available in the form of credit or loan prior to actual shipment of goods. These finances help an exporter in purchasing raw materials and components, equipment and machinery. Manufacturing or storing the goods meant for export. Pre-shipment finance is available in the following forms :

      i) Extended Packing Credit

      ii) Packing Credit Loan (Hypothecation)

      iii) Packing Credit Loan (Pledge)

      iv) Secured Shipping Loan

      v) Advance against back-to-back Letter of Credit

      vi) Advance against Red Clause Letter of Credit

      vii) Packing credit for Imports against Advance License Entitlement

      viii) Pre-shipment credit in foreign currency system

      ix) Credit against proceeds of cheques / Drafts etc. received directly towards Advance payments for Exports.

      These forms of pre-shipment finance have already been explained in the chapter of finance.

   b) **Post-shipment Finance :** Post-shipment finance is made available only after the shipment of goods. This is made available under the following types / forms :

      i) Negotiation of bills drawn under Letter of Credit.

      ii) Purchase / Discounting of Bills under – confirmed orders.

      iii) Advance against Bills sent for collection.

      iv) Advance against Export on consignment basis.

      v) Advance against Undrawn Balances.

      vi) Advance against Duty Drawback Entitlements

      vii) Advance against Retention Money

viii) Financing Exports under Deferred Payment arrangements, turn key projects, construction contracts etc.

ix) Post-shipment Export credit denominated in foreign currency scheme (PSCFC)

x) Short-term loans to EOUS on self-liquidating basis.

xi) Advances against Deemed Exports.

xii) Advances against Deferred payments.

These forms of post shipment finance have also been explained in the chapter on export finance.

2) **Non-financial Services / Non-fund based Assistance :** Apart from financial services, commercial banks also provide services which are non-fund based. They are as follows.

   1) **Bank Guarantees :** Commercial banks are authorized to issue guarantees and furnish bid-bounds in favour of overseas buyers. Prior permission of RBI is not needed for the issue of guarantees, except in case of export of capital goods under deferred payments, construction contracts, constancy and technical services contracts and turn key projects. The various guarantees issued by banks are as under.

      a) **Bid-Bonds :** Banks issue bid bonds so as to enable exporters to participate and quote prices in various global tenders.

      b) **Performance Guarantees :** This is mostly required in case of export of Capital goods and turn key projects and construction contracts.

      c) **Advance Payment Guarantee :** After bidding or quoting a tender, if the exporter gets a contract, and the overseas buyer may pay an advance against the contract. For such advance money to be paid, the importer may insist on a bank guarantee.

      d) **Guarantee for payment of Retention Money :** As a security against performance of contract and completion of such contract, the buyer may not make payment in full but retain a part of the same until completion of a contract. For such money retained by the importers bankers can issue guarantee to the exporter.

e) **Guarantee for loans in Foreign Currency :** Sometimes, Indian exporters have to raise money in foreign currencies for financing export project. For this the lending financial institutions abroad ask for bank guarantees. Commercial banks provide such guarantees also.

2) **Credit rating of Importers :** Banks undertake credit rating of importers on request from exporters. They collect information about their credit worthiness and supply the same to the exporters.

3) **Information about foreign exchange :** With rupee convertibility, managing foreign exchange is no more an easy job. In this respect, banks provide valuable information on exchange ratios, forward premiums and hedging instruments. They also provide guidance on foreign exchange management.

4) **Dollar Accounts :** Commercial bank provide services to their clients by opening 25% Dollar Account. Under this account, an exporter is allowed to retain 25% of the receipts in foreign currency accounts with a bank in India. These accounts help exporters to meet payments in foreign currencies.

5) **Documents, Rules and Regulations :** Banks provide services in advising exporters as regards rules and regulations about foreign trade, documents etc.

6) **Invoicing in a Foreign Currency :** Sometimes, a buyer insist for involving in a foreign currency which is generally suitable to him. Banks provide necessary information on this matter, such as whether the said currency is marketable or not, if the contract is not for major currencies.

7) **Confirmation of Letters of Credit :** Banks also undertake the job of advising and confirming of letters of credit is not for major currencies.

8) **Forward Exchange Contracts :** Foreign exchange rates keep on fluctuating between the commencement and conclusion of large – scale export contracts, thereby posing the risks of exchange rate fluctuating. Banks provides an important service to exporters by covering these risks by fixing the rate in advance to future transactions. Such rates are known as Forward Exchange Rates.

9) **Currency for invoicing Services :** Banks provide foreign currencies for invoicing services, as all currencies are not readily available and may require prior permission for their prelease.

10) **Other Bank Services :**
   i) Issue of banks drafts,
   ii) Collection of payments,
   iii) Sending duplicate copies of GR form to RBI,
   iv) Issuance of bank certificates in respect of export sales value which are useful for claiming export incentives and so on.

Check Your Progress:

1. State the role of export promotion.
2. What are the objectives of Export promotion?
3. Distinguish between Export incentives and export Assistance.
4. State the categories of services of commercial banks to the exporters.
5. Distinguish between Pre-shipment and Post-shipment finance.

10.3 EXIM POLICY 2002 – 07

The following are the highlights of EXIM-policy 2002-07.

1. **Special Economic Zones :** The EXIM Policy 2002-07 placed emphasis on SEZs – Certain measures are recommended in this respect.
   - Supplies to units in SEZs would be exempted from Central Sales Tax from DTA.

- Exemption for SEZs units from restrictions on external commercial borrowings.
- Offshore Banking units are permitted in SEZs.

2. **Agriculture Sector :** The EXIM policy 2002-07 gave importance to the agriculture sector. Certain measures are listed in this respect.
   - To promote diversification of agriculture, transport subsidy shall be available for export of fruits, vegetables, poultry and dairy products.
   - To promote export of agro and agro-based products, so agriculture export zones have been notified.

3. **Cottage Sector and Handicrafts :** The EXIM Policy 2002-07 placed emphasis on the cottage sector and handicrafts. Certain measures are suggested in this respect :
   - An amount of Rs. 5 Crore has been allocated to cottage sector exports under market access initiative fund.
   - SSI units can obtain export house certificate with an export turnover of Rs. 5 Crore instead of Rs.15 Crore for others.

4. **SSI units :** The EXIM Policy 2002-07 gave importance to the SSI units. Certain initiatives are recommended.
   - SSI units can obtain export house certificate with an export turnover of Rs. 5 Crore instead of Rs. 15 Crore.
   - Common service providers in SSI belts can get the benefit of EPCG scheme.
   - SSI units in industrial clusters can have access to Market Access Initiating fund.

5. **Gems and Jewellery :** The EXIM Policy 2002-07 placed focus on Gems and Jewellery sector. Customs duty on import of rough diamond is being reduced to zero. Import of rough diamonds is already freely allowed. This would help the country emerge as a major international center for diamonds.

6. **Chemicals and Pharmaceuticals :** The EXIM placed emphasis on chemicals and pharmaceuticals. Certain measures are recommended.
   - Free export of samples without any limit.
   - Reimbursement of 50% of registration fees for registration of drugs.

7. **Customs :** The EXIM policy simplified customs formalities. The percentage of physical examination of cargo has already been reduced to less than 10% except for a few sensitive destinations.

8. **EPCG Scheme :** The scheme of EPCG scheme has been simplified. The export obligation under EPCG scheme has revised. Indian, parties can import capital goods and at 5% import duty. The export obligation is 8 times the value of duty saved over a period of 8 years.

Implications of EXIM Policy 2002 – 07 :

1. **Implications of Import of Capital Goods:** The EXIM Policy has liberalized import of capital goods. The policy has allowed import of second hand capital goods. This would benefit the Indian industry to improve their technology. However, this may badly affect the local capital goods manufactures.

2. **Implications for Agriculture Sector:** In order to promote agriculture exports, transport subsidy has been provided to agriculture items such as dairy products, horticulture, etc. This would help to increase exports of agriculture items. However export of agriculture items are adversely affected due to poor infrastructure facilities. Therefore, emphasis should have been placed on infrastructure facilities.

3. **Implications for SSI units :** The EXIM Policy provides number of incentives to the SSI sector. For instance, a SSI unit can obtain export house status with an export turnover of Rs. 5 Crore instead of, Rs. 15 Crore for others. The SSI unit can also get the benefit of market Access Initiative Fund. This would help the SSI units of increase their exports.

4. **Implications for SEZs :** The policy has placed a lot of emphasis on SEZs. Some of the measures recommended for SEZs include setting up of offshore banking units, realization of export proceeds within a period of 360 days instead of 180 days etc. This would improve the competitiveness of Indian exporters in such zones.

5. **Implications for Gems and Jewellery Units :** The EXIM Policy 2002 – 07 placed lot of emphasis on Gems and Jewellery (G&J) units. Some of the measures recommended include import.

6. **Implications of simplification of customs clearance :** The EXIM Policy has simplified customs clearance. The percentage of physical examination of export cargo has been reduced to

less than 10% except for a new sensitive destination. This would enable quicker movement of goods at the part and docks.

7. **Implications of Extension of Credit period :** The realization of export proceeds has been extended from 180 days to 360 days in case of consumer goods in the case of export houses, trading houses, and units in SEZs. This means that Indian firm can now give 10% of their overseas sales. This facility would provide a big boost to key sectors like healthcare tourism professional services.

8. **Implications for Electronic Hardware Units :** The Electronic Hardware Technology Park Scheme has been modified to enable the sector to face zero duty regime of WTO. The units in EHTP are entitled to :

   - Net foreign Exchange as a percentage of Exports Positive in 5 years.
   - No other export obligation.

   This would boost the performance of units in EHTP which in turn would generate employment.

9. **Implication of Diversification of markets :** The EXIM Policy 2002 – 07 has emphasized the need to diversify markets for Indian exports with initiatives like "focus AFRICA". This initiative is a welcome move, as it would help Indian exporters to explore fast growing markets of sub Saharan Africa, which was neglected by India in the previous years.

Export Replenishment :

Government of India offers various incentives for export promotion to large export scale exporters. These incentives are offered for developing competitiveness of Indian goods in foreign markets. Exporters securing the benefit of incentives are expected to reduce export price in the same promotions. As a result Indian goods will be cheaper in foreign markets and as that too with out any reduction in the margin of profit of the exporter.

One of there incentives are import replenishment license. This license is given to some exporters who fulfill various conditions. The exporters possessing REP license can reduce the export price in that ratio. This given the advantage of quoting cheaper rate of export prices to importers.

But report replenishment (REP) has been abolished after the introduction of partial compatibility of Indian Rupees in 1992.

In place of this incentives other incentives are offered to exporters such as :

1. Duty Drawback (DBK)
2. Excise Duty Refund / Exemption from excise duty
3. Sales Tax Refund
4. Octroi Refund
5. Refund of Transport Charges
6. IPRS Reimbursement

10.4 SOME IDEAS OF TRADE PROTOCOLS

International trade is more competitive and complex. In which there are various restrictions, conditions which the exporter has to take care of. In this chapter we are discussing various trade protocols (Trade organisation) which provide an infrastructure for Indian exporters.

There are various organisation and agencies and other institutions which help exporters in different fields. They help the exporters in providing technical help, necessary information, financial help and securities from various types of risks.

These are discussed in next page.

Export Processing Zones (EPZs) :

It is selected area by the Government near airport with a well developed infrastructure which is used for manufacturing of goods for export purpose. After developing such zones Government invites the exporters to set up their Business for the manufacture of goods for export purpose. Following are the various zones in India:

i) Kandla Free Trade Zone (KFTZ)
ii) Santacruz Electronic Export Processing Zones
iii) Falta Electronic Export Processing Zones
iv) Noida Electronic Export Processing Zones
v) Madras Electronic Export Processing Zones
vi) Cochin Electronic Export Processing Zones
vii) Visakapatnam Electronic Export Processing Zones
viii) Surat Electronic Export Processing Zones

The units in these zones can avail various benefits e.g. they can import without previous licensing and without payment of excise duty or import duty. They can enjoy a 10 years holidays. It is obligatory on such units to export 100% of their production.

Objectives of the Zones :

a) Earning of foreign exchange through stimulation of exports.

b) Generating more employment opportunities in the industrially backward area of Kutch (Gujarat), and

c) Assisting in the growth of the Kandla port

The industrial projects approved by the Board of Approval in the Ministry of Commerce, GOI, are allowed to set up manufacture facilities in the Zones. All the units are under obligation to manufacture pre-dominant for exports. Most of them are engaged in import based exports.

The zone is fully developed industrial area provided with excellent infrastructure facilities such as roads, water supply, drainage, electricity, warehousing, postal, telecommunications, services and banking facilities.

The zone offers to entrepreneurs an attractive package of incentive and concessions, gradually introduced over a period of time.

a) All imports into the zone such as capital goods, raw materials, packing materials, components, office equipment, etc. have been placed under OGL system and such imports are permitted duty free entry into the zone, subject to the project approval.

b) Indigenous goods such as capital goods, raw materials and other production, requirement can be procured from domestic tariff are a (DTA) into the zone free of central excise duty.

c) There is a total waiver of the provisions of the export trade control order with regard to the products manufactured and exported from to SEZ.

d) Central Excise is also exempted on the products manufactured within the zone for export purposes.

e) Central Sales Tax paid on the purchase of raw materials, components, etc. from areas outside the state of Gujarat is reimbursed to the units under a scheme operated by the Development Commissioner.

f) A five year tax holiday is the most significant fiscal benefit to units.

g) The import policy permits sales up to 25% of their annual production in the home market without requirement of import license but subject to payment of leviable customs duty. This is in addition to the facility otherwise available to the units for sale in the DTA against valid import licenses subject to payment of customs and other duties.

h) For attracting foreign investors, equity participation even up to 100% is permitted in the industrial ventures promoted in SEZ.

i) Repatriation of dividends and profits is freely permitted, subject to payment of taxes as applicable.

j) For export promotion, units in SEZ, are given an special facility of blanket permits.

k) Units in SEZ can give a longer credit period of up to 360 days.

10.5 EXPORT PROMOTION COUNCIL (EPC)

The EPCs are non-profit organisations registered under the Companies Act or the Societies Registration Act, as the case may be. The basic objective of EPCs is to promote and develop the export of the country. Each EPC is responsible for the promotion of a particular group of products projects and services.

At present, there are 20 EPCs operating in India. The various EPCs are as following.

1) Apparels EPC
2) Basic chemicals pharmaceuticals and cosmetics EPC
3) Chemicals and Allied products EPC
4) Cotton Textiles EPC
5) Carpet EPC
6) Cashew EPC
7) Engineering EPC
8) Gems and Jewellery EPC
9) Handloom EPC
10) Indian silk EPC
11) Council for Leather Export
12) Plastics and Linoleum EPC
13) Synthetic and Rayon Textiles EPC
14) Sports Goods EPC
15) Shellac EPC
16) Wool and Woolens EPC
17) Electronics and Computer Software EPC
18) Handicrafts EPC
19) Overseas Construction Council of India
20) The Power loom Development and EPC

There are three other organisations considered as EPCs.

21) Agricultural and Processed Food Product Export Development Authority

22) Federation of India Export Organisations (FIEO) and

23) The Marine Product Export Development Authority (MPEDA)

Role / Functions of EPCs :

The main role of EPC is to project good image of India products. The EPC performs its role by performing the following functions :

1. **Issue of Certificate of Origin :** Certain countries demand certificate origin to the exporters certifying the origin of goods.
2. **Collection of Information :** It collects valuable information on overseas imports, import regulations, about competitors, market potential and other developments in foreign trade.
3. **Supplying information :** It provides information on latest developments in the field of export trade. It may relate to various aspects of foreign trade. Such information is vital to the exporters to promote their sales abroad.
4. **Organising Seminars :** It organizes Seminars, workshops, discussions, meetings, conferences on various aspects of foreign trade. Exporters are invited to take part in such seminars and workshops. The exporters can make use of such participations to get better understanding of foreign trade.
5. **Trade Fairs and Exhibitions :** It may also assist the concerned authorities in organising trade fairs and exhibitions in India and abroad. It may also assist the exporters to take part in such trade fairs and exhibitions. It may also arrange buyer – seller meets, so as to promote Indian exports.
6. **Advising the Government :** It advises the government authorities on current export problems and suggest measures for export import policies from time to time. It may also recommend certain modifications in the existing government policies and programmes.
7. **Invite Trade Delegations :** It may invite trade delegations from abroad, both at private level and at governmental level. Such trade delegations are very important to promote export trade of India. Foreign delegations visit India and sign contracts with Indian exporters.
8. **Send Delegations Abroad :** It may undertake the responsibility of sending trade delegations comprising Indian businessmen. Indian parties may visit abroad and enter into contacts with overseas buyers. Thus, foreign trade of India can be expanded.

9. **Professional advice :** It may offer professional advice to exporters in areas such as technology upgradation, quality and design improvement, Standards and Specifications, product development, innovation, etc. Such advice goes along way to improve product and organizational efficiency of the exporter.
10. **Exploration of Overseas Markets :** It may assist the exporter in exploration of overseas markets and identify items having export potential. It may also assist the exporter to open offices or branches abroad. It may guide the exporter in setting up of joint ventures abroad.
11. **Developing Export Consciousness :** This organisation makes all the possible efforts to develop export consciousness in our country. This is because there is a great need for exports for a country like ours so as to earn foreign exchange.
12. **Other Functions :** It may allocate or distribute quotas in respect of certain items.

It may fix minimum floor price or may advice the government in such fixation of floor prices.

EPC may undertake publicity through schemes like Joint Foreign Publicity in Export Markets.

Check your Progress:

1. Discuss the highlights of EXIM Policy 2002-07.
2. What is export replenishment?
3. Discuss the objectives of EPZs.
4. Explain the functions of EPCs.

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10.6 COMMODITY BOARD

CBs have been set up by GOI in order to organize develop and promote production on exports of certain traditional commodities. At present, there are about nine commodity boards, namely :

1) Tea Board
2) Coffee Board
3) Rubber Board
4) Spices Board
5) Coir Board
6) Coconut Development Board
7) Tobacco Board
8) Central Silk Board
9) National Horticulture Board

Although, CBs and EPCs look after registration and promotion of exports of those products which come under their purview. The CBs perform additional tasks. They are responsible for the development of cultivation increased productivity, processing and so on. They also ensure adequate remuneration to growers by encouraging them to undertake cooperative activation and marketing.

The CBs look after the development of primary commodities, whereas EPC, mostly promote finished or manufactured items, like EPC, some of the boards have opened their offices abroad to promote and encourage the consumption of their commodities.

Functions of CBs : (Please refer functions of EPC)

Advantages / Benefits enjoyed by the exporters under CBs :

a) Exporters can be apart of the study team or trade delegations abroad.
b) Exporters can exhibit their products in trade fairs and exhibitions arranged by the Board.
c) Necessary advice is offered by Commodity Boards to their members in respect of finance, banking etc.
d) They get the benefit of publicity undertaken by boards in India and abroad.
e) They are supplied with information and statistics in respect of their trade.

f) Outstanding exporters get awards for their outstanding performance in export.

g) Growers / products / cultivators get finance from commercial banks at low rates of interest.

10.7 INDIA TRADE PROMOTION ORGANISATION

The ITPO came into existence on 1st Jan, 1992, with the merger of Trade Fair Authority of India (TFAI) and Trade Development Authority (TDA). ITPO has set up five regional offices in Mumbai, Bangalore, Calcutta, Kanpur and Chennai and four foreign offices in German, Japan, UAE and USA.

ITPO acts as a publicity agency of Government of India, for organising and for participating in trade fairs and exhibitions in India and abroad.

ITPO has set up a Trade Information Centre its headquarters in New Delhi, which is considered as the best source of information on import and export trade.
The functions of ITPO are summarized as follow :

1. **Organises Trade Fairs and Exhibitions :** ITPO organizes trade fairs and exhibitions. It organizes trade fairs in India in respect of various Indian products such as textiles, leather goods, engineering goods and so on.

2. **Publicity :** It gives publicity in connection with the organisation of trade fairs and exhibitions in India so the foreign parties may visit India to visit in such trade fairs and exhibitions.

3. **Trade Delegations :** It invites trade delegations to participate in trade fairs and exhibitions in India. It also sends trade delegations abroad. Trade delegations are invited to book orders for Indian products. Trade delegations are sent abroad to sign contracts for Indian products.

4. **Overseas Trade Fairs :** ITPO book necessary stalls or space Indian exporters to participate in overseas trade fairs and exhibitions.

5. **Consultancy Services :** It provides consultancy services to Indian exporters to participate and display their product in trade fairs and exhibitions in India and abroad.

6. **Seminars and Workshops :** ITPO conducts seminars and workshops in respect of trade fairs and exhibition. The exporters and importers can take part in such seminars and workshops.

10.8 EXPORT CREDIT AND GUARANTEE CORPORATION

In order to provide export credit and insurance support to Indian exporters, the GOI has set up the Export Risks Insurance Corporation (ERIC) in July, 1957. It is now known as ECGC of India Ltd.

ECGC is a company wholly owned by the GOI. It functions under the administrative control as the Ministry of Commerce and is managed by a Board of Directors representing Government, Banking, Insurance, Trade and Industry.

Objectives of ECGC :

- To protect the exporters against credit risks, i.e. non-repayment by buyers.
- To protect the banks against losses due to non-repayment loans by exporters.

Covers issued by ECGC :

The covers issued by ECGC can be divided broadly into four groups.

A) Standard Policies : issued to exporters to protect them against payment risks involved in exports on sort term credit.

B) Specific Policies : designed to protect Indian firms against payment risk involved in (i) exports on deferred terms of payment (ii) services rendered to foreign parties and (iii) Construction works and turn key projects undertaken abroad.

C) Financial Guarantees : issued to banks in Indian firms against from risks of loss involved in their extending financial support to exporters at pre-shipment and post-shipment stages and

D) Special Scheme such as Transfer Guarantee meant to protect banks – which add confirmation to letters to credit opened by foreign banks, Insurance cover for Buyer’s credit, etc.

A) Standard Policies :

The standard policy is issued in the case of consumer goods, which are sold on credit not exceeding 180 days. It is a whole turnover policy. All shipments are covered under one policy for a period of 180 days.

ECGC has designed 4 types of standard policies to provide cover for shipments made on short term credit.

a) Shipments (Comprehensive Risks) Policy – to cover both political and commercial risks from the date of shipment.
b) Shipments (political risks) Policy : to cover only political risks from the date of shipment.
c) Contracts (Comprehensive Risks) Policy : To cover both commercial and political risks from the date of contract.
d) Contracts (Political Risks) Policy – to cover only political risks from the date of contract.

Risks covered under the standard policies.

i) Commercial Risks :

- In solvency of the buyer
- Failure of the buyer to make the payment due within a specified period normally four months from the due date.
- Buyer's failure to accept goods subject to certain conditions.

ii) Political Risks :

- Imposition of restrictions on remittances by the government in the buyer's country or any government action which may block or delay payment to exporter.
- War revolution or civil disturbances in the buyer's country.
- Cancellation of a valid import license or new import licensing restrictions in the buyer's country after the date of shipment of contract, as applicable.
- Payment of additional handling, transport or insurance charges occasioned by interruption or diversion of voyage which cannot be recovered from the buyer.
- Any other cause of loss occurring outside India not normally insured by commercial insures and beyond the control of the exporter and / or buyer.
- Any other cause of less occurring outside India not normally insured by commercial insurers and beyond the control of the export and / or buyer.
- Risks not covered under standard policies :

The losses due to the following risks are not covered.

- Commercial disputes including quality disputes raised by the buyer, unless the exporter obtains a decrease from a competent court of law in the buyer's country in his favour.
- Causes inherent in the nature of the goods.

- Buyer's failure to obtain import or exchange authorization from authorities in his country.
- Insolvency or default of any agent of the exporter or of the collecting bank.
- Loss or damage to goods with can be covered by commercial insurers.
- Exchange fluctuation.
- Discrepancy in documents.

B) Specific Policies :

The standard policy is a whole turnover policy designee to provide a continuing insurance for the regular flow of exporter's shipment of raw materials, consumer goods and consumer durable for which credit period does not normally exceed 180 days.

Contracts for export of capital goods or turn key projects or construction works or rendering services abroad are not of a repetitive nature. Such transactions are therefore, insured by ECGC on a case-to-case basis under specific policies. Specific policies are issued in respect of supply contracts (on deferred payment terms). Services abroad and construction works abroad.

i) **Specific Policy for supply contracts :** Specific policy for supply contracts is issued in case of export of capital goods sold on deferred credit. It can be of any of the four forms.

   - Specific shipments (Comprehensive Risks) Policy to cover both commercial and political risks at the post-shipment stage.
   - Specific Shipments (Comprehensive Risks) Policy to cover only political risks after shipment date.
   - Specific contracts (Comprehensive Risks) Policy to cover political and commercial risks contract date.
   - Specific contracts (Policy Risks) Policy to cover only political risks after contract date.

   This policy like standard political covers 96% of the loss on account of commercial and political risks.

ii) **Service Policy :** Indian firms provide a wide range of services like technical or professional services hiring or leasing to foreign parties (private or government) where Indian firms render such service, they would be exposed to payment risks similar to those involved in export of goods such risks are covered by ECGC under this policy.

If the service contract is with overseas governments then specific services (political risks) policy can be obtained and if the service / contract is with overseas private parties then specific services (Comprehensive Risks) policy can be obtained especially those contracts which are not supported by bank guarantees.

Normally cover is issued on a case-to-case basis. The policy covers 96% as the toss suffered.

iii) Construction Works Policy : This policy covers civil construction jobs as well as turn key projects involving supplies and services. This policy covers construction contracts both with private and foreign government.

This policy covers 85% of loss suffered on account of contracts with government agencies and 75% of loss suffered on account of construction contracts with private parties.

C) Financial / Guarantees :

Exporters require adequate financial support from banks to carry out their export contracts ECGC banks the lending programmes of banks by issuing financial guarantees. The guarantees protect the banks from losses on account of non-repayment of loans by exports.

The ECGC charges a premium for its services which may very from 5 paise to 7.5 paise per month for Rs.100/-. The premium charged depends upon the type of guarantee and it is subjected to change, ECGC so desires.

i) Packing Credit Guarantee : Any loan given to exporter for the manufacture, processing purchasing or packing of goods meant for export against a firm order of LIC qualifies for this guarantee.

Pre-shipment advances given by banks to firms who enter contract for export of services or for construction works abroad to meet preliminary expenses are also eligible for cover under this guarantee ECGC pays two thirds of the whole turnover packing credit guarantee. This is a variation of packing credit Guarantee. This guarantee is issued to banks which undertake to obtain cover so packing credit advances granted to all its customs on an All India basis. In this case the risk covered is 759.

ii) Export Production Finance Guarantee : This guarantee enables banks to provide finance at pre-shipments stage to the full extent of the domestic cost of production and subject to certain guidelines.

The guarantee under this scheme covers some specifics products such as textiles, Woolen carpets, readymade garments etc. The loss covered is two thirds.

iii) Export Finance Guarantee : This guarantee covers post shipment advances granted by banks to exporters against export incentives receivable such as DBK. In case the exporter does not repay the loan then the banks suffers loss. The loss ignored is up to three-fourths on 75%.

vi) Post shipment Export Credit Guarantee : Post shipment finance given to exporters by banks through purchase, or discounting of export bills qualifies for this guarantee. Before extending such guarantee, the ECGC makes sure that the exporter has obtained shipment sure that the exporter has obtained shipment or contract risk policy. The loss covered under this guarantee is 75%.

v) Export Performance Guarantee : Exporters are often called upon to execute bid bonds supported by a bank guarantee and if the contract is secured by the exporter then he has to furnish a bank guarantee to foreign parties to ensure due performance or against advance payment or in lieu of retention money. An export proposition may be secured if the exporter's bank is unwilling to issue the guarantee.

This guarantee protects the bank against 75% of the losses that it may suffer on account of guarantee given by it on behalf of exporters.

vi) Export finance (Overseas Lending) Guarantee : IF a bank financing an overseas project provides a foreign currency loan to the contractor by obtaining this guarantee. The loss covered under this policy is to the extent or 75% to 90% depending upon premium rate.

D) Special Schemes :

Apart from providing policies (Standard and Specific) and guarantees ECGC provides special schemes. These schemes are provided to the banks and to the exporters. The schemes are

i) Transfer Guarantee : The transfer guarantee is provided to safeguard banks in India against losses arising out of risks of confirmation L/C. The risks can be either political or commercial or both. Loss due to political risks is covered up to 90% and loss due to commercial risks up to 75%.

ii) **Insurance cover for Buyer's Credit and Lines of Credit :** Financial Institutions in India have started direct lending to buyers or financial institutions in developing countries for importing machinery immediate payment to exporters an prices then from the problem of credit management.

ECGC has evolved this scheme to protect financial institutions in India which extend exports credit to overseas buyers or institutions.

iii) **Overseas Investment Insurance :** With the increasing exports of capital goods and turn key projects from India. The involvement of exporters in capital participation in overseas to projects has assumed importance. ECGC has evolved this scheme to provide protection for such investments. Normally the insurance cover is for 15 years.

iv) **Exchange Function Risk Cover :** This scheme provides protection of exporters of capital goods. Civil engineering contractors and consultants who have to receive payment over a period of years for their services where such payments are to be receive in foreign currency. They are even to exchange fluctuation risks as the forward exchange market does out provide cover for such deferred payments.

10.9 EXIM BANK OF INDIA

The Export Import Bank of India came into existence in 1982. It has headquartes at Mumbai and its branches and offices in important cities in India and abroad.

Purpose :

The EXIM Bank was established for the purpose of 'financing' medium and long term loans to the exporters thereby promoting foreign trade of India. It took over the functions of international wing of IDBI.

The main objectives of EXIM Bank are:

a) To provide financial assistance (medium term and long term) to exporters and importers.

b) To function as the principal financial institution for coordinating the working of institutions engaged in providing export finance.

c) To provide foreign trade of India.

d) To deal with all matters that may be considered to be incidental or conducive to the attainment of above objectives.

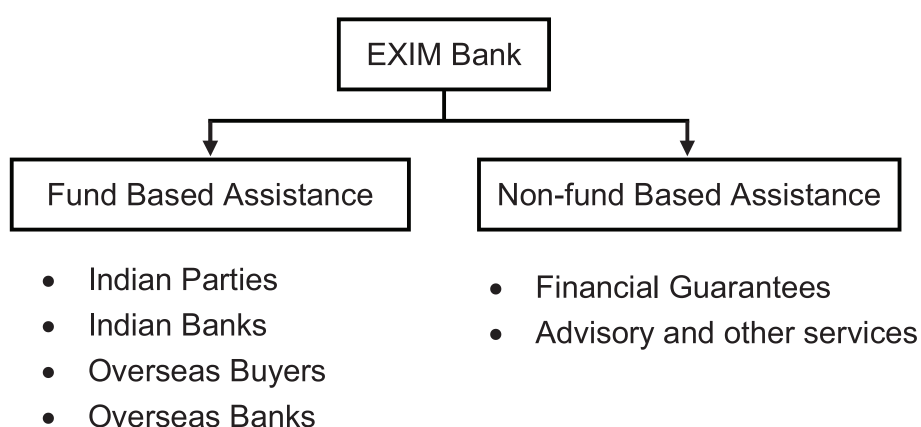
Functions of EXIM Bank :

The assistance provided by EXIM bank to the exporters can be grouped under two heads.

A) Fund Based Assistance

B) Non-fund Based Assistance

The various assistance provided by EXIM Bank can be charted as follows:



- Indian Parties
- Indian Banks
- Overseas Buyers
- Overseas Banks

- Financial Guarantees
- Advisory and other services

A) Fund Based Assistance :

1) Assistance to Indian Exporters :

a) It provides financial assistance to Deferred Credit Export

b) It offers credit facilities to "Deemed Exports".

c) It finances Indian joint ventures in foreign countries.

d) Finances units in EPZ / SEZ and 100% EOUs.

e) It provides pre-shipment finance to exporters for procuring raw materials and other inputs required to produce machinery and equipment to be exported.

f) It finances export / import of machinery and equipment on lease basis.

g) It provides Computer Software Exporters foreign exchange loan subject to RBI clearance.

h) It provides finance facility against deferred credit to exporters of consultancy, technology and other services.

i) It provides finance to Indian exporters to undertake various export marketing activities in India and abroad through Export Marketing Fund (EMF).

j) It also operates Export Development Fund (EDF) to finance techno-economic survey research or any other study for the development of Indian.

2. Assistance to Indian Commercial Banks :

a) It provides Refinance facilities so as to enable commercial bank to offer credit to Indian exporters who extend term credit to importers.
b) It offers Export Bills Rediscounting Facility to commercial bank in India who have discounted bills of exporters.

3. Assistance to Overseas Buyers :

It offers overseas Buyer's credit facility to foreign importers for import of Indian capital goods and related services with repayment spread over a period of years.

4. Assistance to Overseas Banks :

a) Long term finance is also provided under "Lines of credit" to finance financial institutions abroad, who in turn extend finance to importers of their country to buy Indian capital goods.

b) It provides relending facility to overseas banks to make available term finance to their clients for import of Indian goods.

B) Non-Fund based Assistance :

5. Guarantees and Bonds :

EXIM bank provides non fund based assistance in the form of guarantees in the nature of bid bonds, performance guarantees etc. These guarantees are provided together with commercial banks.

6. Advisory and Other Services :

a) It advises Indian Companies in executing contracts abroad and on sources of overseas financing.

b) It advises Indian exporters on global exchange control practices.

c) The EXIM bank offers financial and advisory services to Indian construction projects abroad.

d) It advises small – scale manufacturers on export markets and product areas.

e) It provides access to Euro financing sources and global credit services to Indian exporters.

f) It assists the exporters under forfeiting scheme.

Forfeiting Scheme :

Meaning : The word "forfeiting" comes from French word "for fait" meaning the surrender of rights. The forfeiting scheme has been introduced by EXIM Bank in India. The Bank acts as an intermediary between Indian Exporter and Forfeiting Agency.

Incase of forfeiting the exporter receives immediate cash payment from the forfeiter. For this these exporter has to surrender the rights to receive payment from importer in favour of the forfeiting agency.

Product eligible for forfeiting :

All exports of capital goods and other goods exported on deferred payment terms i.e. medium term and long term credit basis are eligible to be finance through forfeiting.

Role of EXIM Bank in Forfeiting :

The EXIM bank has been authorized by RBI since February 1992, to facilitate export financing through for forfeiting EXIM Bank acts as an intermediary between the Indian exporter and the overseas forfeiting agency.

Benefits of forfeiting scheme of the Exporter :

- The exporter can improve his liquidity position as the credit sales are converted into a cash transaction.
- There are no chances of commercial risks as the exporter forfeits his right to receive payment without resources to him, to the forfeiting agency. The exporter need not face the problem of political risks.
- The exporter can obtain finance upto 100% of the export value.
- Forfeiting does away with the export credit insurance.
- Exporter is free the burden of credit administration and collection problems of export proceeds.

Procedure involved in forfeiting Scheme :

1. **Negotiations with overseas Buyers :** The exporter negotiates with the prospective oversea buyer in respect of the basic contract price and terms of credit.

2. **Obtaining Indicative Discounting Quote :** After negotiations with the overseas buyer, the exporter furnishes to EXIM bank relevant particular scheme as name and country of overseas buyers, nature of goods to be exported, terms of credit name and address of buyer's bankers.

   The exporter requests EXIM Bank for an indicating discounting quote EXIM Bank obtains from the overseas forfeiting agency, the indicative quote of forfeiting discount together with commitment fee and other charges if any to be paid by the exporter.

3. **Finalising for the contract :** On receipt of the indicative quote from the forfeiting agency. The exporter finalises the terms of contract with the overseas buyer.

4. **Obtaining firm forfeiting quote :** The exporter requests EXIM Bank for obtaining a firm (final) quote from the overseas forfeiting agency.

5. **Obtaining Avalised Promissory Notes / Bills of Exchange :** the exporter requests the importer to issue qualised (guaranteed by a bank) promissory notes in his favour. The promissory notes are endorsed with the words "without recourses" by the documents.

6. Alternatively, the exporter may draw bills of exchange on the importer. The bills are sent along with the shipping documents through the buyer's the bankers in turn hand them over to the EXIM Bank.

7. **Forwarding of Notes / Bills to forfeiting Agency :** The EXIM Bank verifies the promissory notes or bills and then forwards it to the forfeiting agency for discounting purpose.

8. **Collection of Amount :** The EXIM Bank then makes arrangement to collect the discounted proceeds of promissory notes or bills from the overseas forfeiting agency. The EXIM Bank then credits the proceeds to the exporter through his bankers.

On the due date of the promissory note / bills, the forfeiting agency makes arrangement to realize the payment from the overseas buyer.

Check Your Progress:

1. State the main functions of Commodity Board.
2. Write a note on ITPO.
3. What are the objectives of ECGC?
4. State the covers issued by ECGC.
5. What are the risks covered under the standard policies?
6. What are specific policies?
7. State the types of Financial guarantees.
8. Explain the functions of EXIM Bank.
9. What do you understand by Forfeiting scheme?

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10.10 ROLE OF OTHER AGENCIES

These are various other analysing agencies set by the Government. These agencies also help in export promotion of the country.

A) State Trading Corporation (STC)

STC was established in May, 1956, as an autonomous corporation for diversifying foreign trade and supplementing efforts of the private trade and industry in developing India's foreign trade. STC is the first public sector organisation which participated in foreign trade. It is a premier international trading house set up by the Central Government in 1956 and is operating for 45 years.

The institution of public sector Commercial Corporations was created in the fifties when India started developing trade exchange

with the East European countries. India was one of the few developing countries to have established trade with the East European countries. The Rupee payment Agreement was instrumental in improving trade with these countries. In the initial year of India's planning era, this agreement had helped the country to have access to Capital Goods and equipment as well as key inputs like fertilisers non-ferrous metals and petroleum for which other wise payment would have been made in hand earned foreign exchange. India was also able to develop some of its export sectors especially wool and woolen products, ready made garments and leather footwear by exploring the market of East Europe. These exports and imports were under taken by the state trading organisation like STC. Over the year STC has become the premier international trading organisation. It offers wide range of services and handles export of almost every thing that India produces from coffee to compressors, Tobacco to textile machinery and roses to rolling shock. It imports wide range of products from raw materials to equipment. The role of STC as a path finder for the Indian industry has been quite praise worthy. As an international marketing agency, its services relating to negotiating contracting, financing product development, quality control, market intelligence, shipment and settlement of trade disputes has been quite significant.

In addition to earning foreign exchange for the country it has added stability to the industrial sector. STC continuously looks for new products and new markets. STC has excelled in marketing non-traditional commodities abroad. One of the major achievements of STC relates to formational joint marketing groups of the manufacturers of engineering equipment, drugs and pharmaceuticals to bid for international business. STC has done commendable works in promoting difficult-to-sell products overseas. STC imports scarce commodities through the foreign exchange earned under different marketing strategy. The soyabean project of STC aims at reducing dependence on traders or processors and to have its own supply base for export of Soyabean meal.

After the introduction of the policy of economic liberalization in 1991, STC has reoriented its strategies by putting emphasis on :

1) To provide new areas of exports for diversification.
2) To achieve economies of scale through high volume export
3) To buy and sell directly to cut down overhead costs and achieve competitiveness.
4) To practice professionalism and specialization in its operations by employing best talents.

5) To upgrade information technology to obtain latest commercial intelligence.
6) To undertake financial planning and result oriented trade investment.

Objective of STC :

1) To organize and effect export from and imports into India of all such goods and commodities as the corporation may form time to time determine.
2) To organize and effect the purchase, sale and transport of such general trade in such goods and commodities in India and abroad.
3) To do all such other acts and things which may be helpful in achieving the above objectives.
4) Exploration of new markets for existing and new products, expansion and diversification of India's export trade and promotion of long-term export operations and of difficult to sell items are the specific objectives in relation to export promotion.

Function (Services) of STC :

1) To arrange for exports where bulk handling and long term contracting are advantageous.
2) To promote the production of non-traditional items and open up new fields for the exports of traditional items.
3) To provide development finance for the production of export oriented goods and boost export of small scale sector.
4) To facilitate bulk purchasing for bulk selling abroad.
5) To undertake internal trade as and when the situation warrants it and to ensure adequate and regular supplies at reasonable prices of essential commodities to meet local demand.
6) To facilitate the implementation of trade agreements and bilateral deals.
7) To organize production to meet export demands and to help production units to overcome difficulties of raw materials and other essential requirements.
8) To act as a vehicle for the implementation of government trade policies and trade plans.
9) To undertake price support operations to protect the interest of growers.
10) To look after buffer stocking to ease the problem of shortage of some essential items.

Canalysing Agency :

STC is operating as an important **canalysing** agency for the export and import of certain items. Canalisation means that the items can be exported or imported through the concerned state agency like STC or its subsidiaries. Such canalized items account for a major part of STC's turnover. The canalized items for exports include Sugar, Cast or oil, molasses and groundnut extractions. Canalised items include edible oil, writing and printing paper non-edible oil etc.

Associates desiring to take help from STC can obtain marketing assistance in the form of distribution of samples, market surveys, product design, packaging advice, assistance in tender participation and general sales promotion. Such associates must route their exports through STC.

For effective marketing STC has opened branch offices in many countries and has associates in other parts of the world. These office and their services extend to Tehran, Sydney, Singapore, Prague, Paris, Colombo, Budapest, Berlin, Belgrade and Bangkok.

i) Future Role of STC :

It is a fact that public sector trading organisation like the STC and MMTC have traditionally depended heavily on canalized trade. However the list of canalize items has been drastically reduced in recent years. This suggests that in future, STC will have to take up new areas for its business activities. The STC will have to be reoriented to achieve the objective of emerging as International Trading House Capable of operating in a competitive global environment, of servicing an effective instrument of public policy and of providing adequate support services to the small / cottage sectors. In short, STC needs to be given more purposeful role through suitable restructuring. The following are the major state Trading organisations in India.

i) The STC of India

ii) The Handicrafts and Handloom Export Corporation of India (HHEC), a wholly owned subsidiary of STC.

iii) The Minerals and Metals Trading Corporation of India Ltd. (MMTC)

iv) The Projects and Equipment Corporation (PEC) of India Ltd. a wholly owned subsidiary of STC.

v) The Cashew Corporation of India Ltd. [CCI] a wholly owned subsidiary of STC.

vi) Central Cottage Industries Corporation [CCIC] a subsidiary of STC

vii) The Tea Trading Corporation of India (TTCI) a subsidiary of STC.

viii) The Mica Trading Corporating (MITCo), a wholly owned Subsidiary of MMTC.

ix) Spices Trading Corporation

x) The State Chemicals and Pharmaceuticals Corporation of India Ltd, (SCPC), a subsidiary of STC.

B) Handicrafts and Handlooms Exports Corporation (HHEC) :

The HHEC was set up in 1962 as a wholly owned subsidiary of the STC. It undertakes the export of handicrafts (including woolen carpets) handlooms products (inducting ready-to-wear garments) and gold jewellery. It also acts as a supplementary agency to private sector agencies participating in the export of handicrafts and handloom products. In 1976 the HHEC has started its wholly owned subsidiary called the Central Cottage Industries Corporation of India (CCIC).

The HHEC studies consumer preferences abroad and introduces new products with special attention to qualify. The Corporation provides information and financial facilities in the form of loans to those engaged in the manufacturing of handicrafts and handloom products for exports.

The corporation participates in the trade fairs and exhibitions abroad and also arranges visits of foreign trade delegations. It has also established showrooms at New York, Boston, Paris and Tokyo. The simple office-cum-showrooms provide wholesale business to the corporation while its “sonar” retail outlets offer to public a variety of handicrafts not usually available in the market.

The Corporation is doing good business in the USA and West European markets as regards handicrafts and handloom goods.

C) M.M.T.C. Minerals and Metals Trading Corporation of India :

The minerals and Metals Trading Corporation of India Ltd. is an independent Corporation set up in October 1963 in the public sector and occupies a prominent position in India’s foreign trade. This corporation was established through the bifurcation of the STC and all activities of STC relating to minerals and metals were transferred to this new corporation.

MMTC is basically for expanding the exports of mineral ores (iron-ore, manganese ore, coal and cake, ferro manganese and bauxite) from the country and also for importing and distributing some of the essential raw materials for the industry in India.

It occupies a prominent position in India's foreign trade in minerals and metals. Export of iron, manganese and chrome ores and among finished fertilizers only import of urea is canalized through it. However, MMTC is not concerned with the exports of mineral oil from India. It is concerned mainly with the export of minerals and metals.

Objectives of MMTC :

1) To organize and undertake export from and import into India of minerals, ores and concentrate metals, including iron and their alloys and other allied commodities as may be entrusted to it from time to time by the Government of India.

2) To explore and develop new markets for the export of minerals and allied commodities with a view to diversifying and expanding their exports;

3) To organize and procure stocks of, and sell within India or outside India, minerals ores and concentrate metals including iron and steel and their alloys;

4) To undertake, at the instance of Union Government, the import and / or internal distribution of minerals, ores and concentrate metals with a view to stabilizing their prices and rationalizing their distribution.

5) To implement special arrangements such as link deals and barters for import / export, internal trade and / or distribution of minerals and ores, etc. as the government may specify from time-to-time in the public interests and

6) To purchase take on lease or otherwise acquire any mines, mining rights and metals, fallow land in the country or else where and any interest there in and to explore, work and exercise develop and to turn to account the same.

The MMTC has taken number of steps in order to achieve the objectives noted above. The corporation is participating in certain joint sector projects abroad. The corporation also imports rough diamonds from producing countries and other markets for sale to Indian diamond exporters against their Registered Exporter Policy (REP) and advance impress licenses. It has also made a

modest entry in the international market for cut and polished diamond.

The MMTC has in the recent past diversified into many other areas and has been able to export diverse items like quartz Shellac, aluminium conductor, coffee, niger seeds, brass hardware, Soya extractions, industrial gloves, kitchen utensils, photocopiers and many engineering items.

The MMTC occupies a prominent place in India’s foreign trade in minerals and metals. The corporation buys non-ferrous metals, fertilizers and different categories of steel from different countries and supply these metals to Indian manufacturers exporters at competitive prices. It has recently opened its foreign offices at Singapore and New York.

10.11 SUMMARY

This chapter explaining the importance of export in India, therefore there is a need for export promotion also. Then it describes the Government’s objectives of export promotion and difference between export incentives and export Assistance. Next topic is the role of commercial Banks in export finance they provide two types of services i.e. Financial services and non financial services EXIM Policy 2002-2007 is described mentioning its highlights and implications. The next topic causes the establishments of zones in India, their types, objectives and facilities enjoyed by these zones.

The descriptions of different export promotions organization like EPC, Commodity Bonds, ITPO, ECGC, EXIM Bank etc. Their objectives functions and roles for promoting export.

This will give the insight of export facilities provided by the Govt. to exporters. In our country we have very strong infrastructure of export. Export Promotion are provided with various facilities, guidance resources etc. so that they may export more and more. Thus there are the organizations in the country which provide liberal finance in huge amount like EXIM Bank and organization which covers the various types of political and commercial risks like ECGC.

At last but not the least, the role of other agencies have been discussed . There are for example, STC, HHEL and MMTC.

10.12 QUESTIONS

1. What is meant by export promotion organization? Describe its main features.
2. What is EPC? Bring out its main functions.
3. Describe the functions, services and role of Export Promotion Councils.
4. Explain the various measures taken by the Government of India to promote export.
5. With reference of export promotion, enumerate the functions of commodity boards.
6. Explain the role ECGC in Export Promotion.
7. What is export processing Zone? How does it help in promoting exports?
8. What are the various types of Zones? Outline the facilities and incentives offered to units operating in FTZS.
9. What is an EXIM Policy? What are its highlights and implications?
10. Explain features of Export Promotion Organisations.
11. Explain the functions of Export Promotion Councils.
12. State and explain the role and functions of EXIM Bank.
13. What is Export Promotion?
14. Discuss the role of export promotion in India.
15. What are the objectives of Export Promotion? Differentiate between Export Incentives and Export Assistance.
16. What are the roles of other agencies of export promotion?

11

Module 6

EXPORT DOCUMENTS & INCENTIVES

Unit Structure

11.0 Objectives
11.1 Introduction of Letter of Credit
11.2 Types of Letter of Credit
11.3 Merits and Demerits of Letter of Credit
11.4 Mechanism of Letter of Credit
11.5 Uniform Customs and Practices for Documentary Credit
11.6 Curtons and Shipping Formalities
11.7 Computerisation of Documents
11.8 Bank formalities in the realization of Export proceed
11.9 Summary
11.10 Questions

11.0 OBJECTIVES

1. To define and understand the concept of Letter of credit
2. To study various types of Letter of credit
3. To study the merits of Letter of credit to the exporeter and importer
4. To understand how Letter of credit operates
5. To study domcumentary credit as a method of payment
6. To understand the customs procedure for the shipment of export cargo
7. To understand the classification of ADS documents
8. To study the bank formalities in the realization of export proceed

11.1 INTRODUCTION OF LETTER OF CREDIT

Meaning :

Its main purpose is to avoid fraud in making payment to exporter. This method of paymnet has become the most popular form in recent times, as it is more secured as compared to other methods of payments.

A letter of credit in short is an authorisation issued by the opening bank to the negotiating bank that if the exporter presents the relevant set of documents, make the payments.

Definition :-

"an undertaking by importer's bank stating that payment will be made to the exporter if the required documents are presented to the bank within the validity of the L/C."

Parties of Letter of Credit :-

a)	Applicant	:	Importer of good
b)	Issuing Bank	:	Importer's Bank who issues the L/C.
c)	Beneficiary	:	The Supplier of good
d)	Advising Bank	:	Issuing Bank's branch or correspondent bank in the country of the exporter.
e)	Confirming Bank	:	The Bank in beneficiary's country which guarantees the credit on the request of the issuing bank.
f)	Negotiating Bank	:	Exporter's Bank to whom the exporter presents the documents for payment.

11.2 TYPES OF LETTER OF CREDIT

There are several types of letter of credit which are stated as follows :

1) **Revocable & Irrevocable Letter of Credit**

Revocable L/C:- In this type of L/C, the issuing bank reserves the right to withdraw, cancel or modify the credit, at any time without the prior consents of the beneficiary.

Irrevocable L/C:- This type of L/C is preferred to revocable letters of credit. In this type, once the L/C is accepted by the exporter, it can not be cancelled or modified by the buyer or issuing bank.

2) **Confirmed & Unconfirmed Letter of Credit**

Confirmed L/C:- When the issuing bank is practically unknown in the beneficiary's country, the exporter may ask the issuing bank to make arrangements to confirm the credit by a local bank. The confirming bank undertake to honour all the draft/bills drawn or presented by the exporter within the term of L/C.

Unconfirmed L/C:- An unconfirmed L/C, one to which confirmation is not added by the advising bank. The risk of non-payment is high.

3) **Transferable & Non-Transferable Letter of Credit**

Transferable L/C:- It is one which contain an express provision that the benefits under it may be transferred either fully or partly to one or more passes.

Non-Transferable L/C:- This type of L/C can not be transferred to a third party. When in a L/C both the terms transferable & Non-transferable are missing, such a L/C is non-transferable.

4) **Restricted & Unrestricted Letter of Credit**

Restricted L/C:- A L/C is called restricted because of its mode of operation. If the shipping documents are to be negotiated through a specific bank (other than negotiating bank) such L/C is called restricted L/C.

Non-Transferable L/C:- A L/C which does not specify any specific bank authorised to negotiate documents such a L/C is called unrestricted L/C.

5) **Red & Green Clause Letter of Credit**

Red Clause L/C:- The issuing bank authrorises the negotiating bank to provide pre-shipment finance to the exporter to enable him to purchase new material.

Green Clause L/C:- The L/C not only allows packing credit advances but also provides payment for warehousing charges at the post of shipments.

6) **Fixed & Revolving Letter of Credit**

Fixed L/C :- When a L/C is issued for a fixed amount & for a fixed period, it is called a fixed L/C. Under this credit the beneficiary has the right to draw the bill upto the specified amount within the specified period. The validity of the L/C gets over as soon as the bill upto the specified amount has been paid within the specified time.

Revolving L/C :- The importer opens a L/C with substantial amount for a specific period in favour of the exporters. The exporter can make one or more shipments & withdraw payment against the original L/C. When the amount is used up, the importer reimburses the amount & restores the balance. This L/C is suitable when there is regular flow of trade activities between the importer & exporter.

7) **Back to Back Letter of Credit**

When the domestic L/C is supported by the original L/C, it is called Back to Back L/C. In this the exporter requests the negotiating bank to open a domestic L/C on the strength of the original L/C in favour of local suppliers.

8) **Documentary Letter of Credit**

The important documents required to be submitted by the exporter under documentary L/C includes the following.

i) Bill of Lading
ii) Shipping Bill
iii) Commercial Invoice
iv) Insurance Policy
v) GSP/CWP Certificate.
vi) Certificate of Origin
vii) Packing List
viii) Bill of Exchange

Check Your Progress:

1. Define a Letter of credit.
2. State the parties involved in Letter of credit.
3. Distinguish between:
   i) Revocable and Irrevocable Letter of credit
   ii) Transferable and Non-transferable Letter of credit
   iii) Fixed and Revolving Letter of credit
4. State the documents which are required to be submitted by the exporter under documentary L/C.

11.3 MERITS OF LETTER OF CREDIT

Letter of Credit offers many advantages to the exporter as well as the importer that advantages are explained beow :

Benefits of L/C to the Exporter

1) **Provide Packing Credit**

   Exporters can easily collect pre-shipment finance (Packing Credit) from the bank against Letter of Credit. As a matter of fact, red clause letter of credit is issued to the exporter to enable him to collect pre-shipment finance from bank.

2) **Avoid blocking of Fund**

   The exporter gets immediate payment from the bank when he submits full set of negotiable documents to the bank. If the documents are drawn as per the terms of the letter of credit the bank pays the exporter in full. Therefore, the exporter does not have to block his funds.

3) **Clearance of Import Regulation**

   Once, the L/C is issued by the issuing bank, the exporter can be reasonably sure that all the import trade & exchange control regulation in the importer's country have been complied with and that the transfer of funds against payment would not create a problem from the exchange control authorities.

4) **Free from Liability**

   Where the L/C is a confirmed & without resource one, liability of the exporter ceases once he presents the documents & adheres to all the conditions of terms of trade.

5) **Certainty of Payment**

   The importer can not refuse to take possession of the goods & to clear the payment when the terms of payment is the letter of credit. This problem of no-possession of goods & non-payment may arise in case of D/P's D/A.

6) **Reduction in Bad Debts**

   Under L/C, the exporter does not run the risk of bad debts because the payment is guaranteed by the issuing bank. In the case of confirmed L/C, there is a double guarantee by the issuing bank & confirming bank.

Merits to the Importer

1) **Delivery on time**

   The importer can obtain required documents on time under the terms of L/C. Thus, he can get the delivery of good on time.

2) **Better Terms of Trade**

   The opening bank provides credit facility to the importer. This helps the importer to obtain better terms of trade from the foreign supplier.

3) **Better relations**

   Letter of Credit creates a better relationship between the buyer & the seller as all the terms are specified & both parties are protected.

4) **No Blocking of Funds**

   The importer need not block his funds by making advance payment to the exporter.

5) **Sure Shipment of Goods**

   The exporter can not get any benefit under the letter of credit without shipping the goods & submitting documents to the bank. Therefore, the importer is certain to get the supply.

6) **Overdraft facility**

   When the importer falls short of payment, he can take possession of the documents against overdraft facility.

11.4 MECHANISM OF LETTER OF CREDIT

When the contract between exporter and importer has been made, the exporter requests the importer to open a letter of credit. So the importer has to initiate for opening the letter of credit and complete various formalities.

However following steps are taken in opening of Letter of Credit :

1) **Request to the Bank** :- The importer will request his bank to open a L/C in favour of the exporter. He can get his L/C opened either by depositing cash in advance or by showing sufficient balance in his current account. Such L/C is necessary when the exporter is willing to sell to the importer

on the security of L/C issued by the banker of the importer. The contract for sale will be made between the exporter and importer on the basis of L/C.

2) **Issue of L/C** :- The opening bank issues the L/C and forwards it either directly to the negotiating bank or the advising bank.

3) **Possession of L/C** :- In case the exporter wants confirmation of L/C, advising bank is authorised by the opening bank to add confirmation. Nowadays exporters prefer confirmed L/C. Here after, the exporter can take possession of L/C.

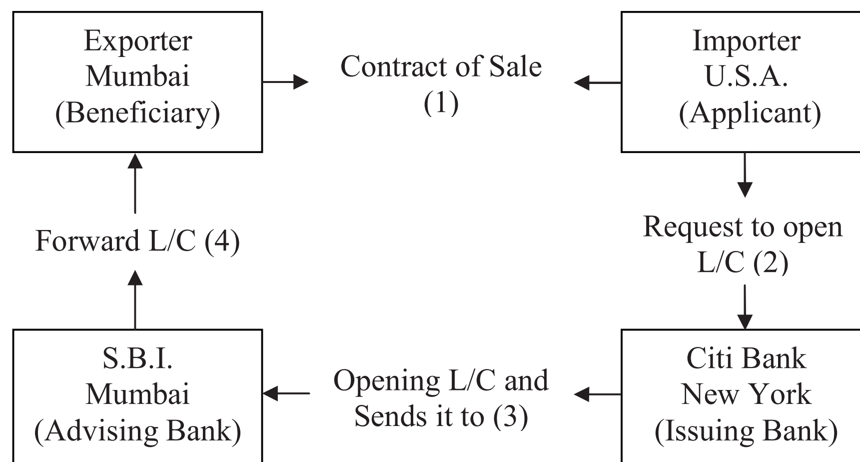
4) **Submission of Documents** :- After shipment of goods through the customs the exporter presents relevant set of documents to the negotiating bank.

5) **Security of Documents** :- The negotiating bank will minutely scrutinize the documents to ensure that they are as per the requirements of the importer. If documents are found to be in order, the negotiating bank will make the payment to the exporter.

6) **Realisation of Payment** :- The amount paid by the negotiating bank to the exporter is reimbursed by the opening bank.

7) **Documents to Importer** :- The documents sent by the negotiating bank to the opening bank are now handed over to the importer.

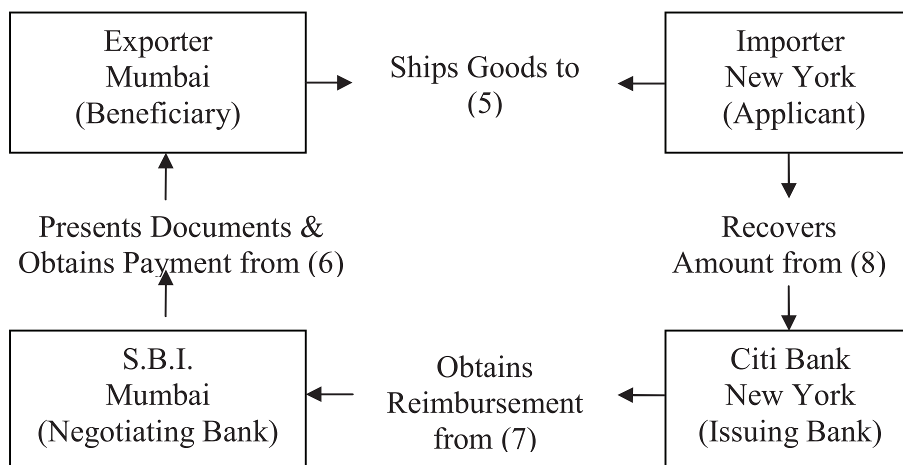
The chart shows the Procedure of opening L/C.



Opening of L/C

1) After opening the letter of credit in favour of the exporter, the bank forwards the same to him either directly to the negotiating bank or through the intermediary bank in exporter's country. Through the opening of letter of credit the bank undertakes a contingent liability and enters into a firm commitment for payment to the overseas supplier.
2) The exporter who receives the letter of credit through advising bank verifies the same and finds out whether it is in accordance with the terms of sale contract. If there is not required, the exporter proceeds to effect shipment of goods.
3) After completing the export formalities, the exporter draws a bill of exchange under letter of credit to obtain payment and forwards it to negotiating bank.
4) The negotiating bank checks the bill of exchange and other documents to ensure that bill is in order, in all respect.
5) If the bill and document are in order, the negotiating bank negotiates the bill and pays for the same to the beneficiary of the letter of credit.
6) The opening bank receives the bill and documents through negotiating bank. The bank verifies bill of exchange and documents with the office copy of the letter and if everything is in order, reimburses or confirms it to the negotiating bank.
7) The bill is, then, forwarded to the importer alongwith the documents for acceptance or payment as the case may be.

The chart showing the Procedure of Realisation of Payment against L/C.



Check your Progress:

1. Explain the advantages of Letter of credit to the exporter.
2. Explain the advantages of Letter of credit to the Importer.
3. Show with the help of a chart the procedure of opening Letter of credit.
4. Show with the help of a chart the procedure of realization of payment against Letter of credit.

11.5 UNIFORM CUSTOMS AND PRACTICES FOR DOCUMENTARY CREDIT

This method of payment has become the most popular form in recent times, as the credit and payment risks of the exporter can be eliminated under appropriate forms of documentary credit. Incidentally, this method of payment is the costliest from the stand point of the importer.

Documentary credits have been described in the following terms and "any arrangement, however named or described, whereby a bank (the issuing bank) acting at the request and in accordance with the instructions of a customes (the applicant for the credit) (i) is to make payment to or to the order of a third party (the beneficiary) or is to pay, accept or negotiate bills of exchange (Drafts) drawn beneficiary or ii) authorises such payment to be made or such draft to be paid, accepted or negotiated by another bank against stipulated document, provided that the terms and conditions of the credit are complied with."

In simpler terms, under documentary credits, the importer approaches his bank wich, on the basis & the instructions given by the importer, gives a written undertaking to the overseas exporter that if the exporter presents certain shipment and payment

documents covering the goods in the contract of sale within a fixed period, the bank will make payment of the given amount to the exporter in effect, the credit of the issuing bank is substituted for that of the buyer there are various forms of letters of credit. It is specially important to distinguish between revocable and irrevocable letters of credit and unconfirmed and confirmed letter of credit.

Irrevocable and Revocable Credit :-

Revocable letter of credit is not very common in export trade. Under revocable letter of credit the importers bank opens a credit in favour of the exporter, but expressly states that the credit can be revokes at any time without the consent & or notice to the beneficiary. This type of credit obviously does not protect the interest of the exporter who may leave at the last moment or, even after shipment, may come to know that the credit hs been revoked, and once, it is revoked, he has no means to recover his dues when the credit is irrevocable, this problem does not arise. The issuing bank in this case irrevocably, commits itself to make the payment if the credit terms, as given in the letter of credit, are satisfied, i.e. the required documents are presented on or before the due date mentioned in the letter of credit. The exporter can, therefore, feel secure about the payment as this credit cannot be cancelled without the consent of all the parties. According to the uniform customs, all credits should specifically mention whether they are revocable or irrevocable and if not indicated, the credits as deemed to be irrevocable under the UCPDC effecive from January 1, 1994.

Confirmed and Unconfirmed Credit :-

In export business, the buyer and seller reside in different countries. The exporter may not be familiar about the soundness of the importer's bank. To reduce his payment risks, he want that a local bank in his own country irrevocably committs itself to make the payment on presentation of the documents again it is easier to him to deal with a local bank. Here system works in the following way : the importers bank (issuing bank) asks its correspondent bank in the exporters country to confirm the original credit as opened by it. The correspondent bank, while advising the exporter about the opening of the letter of credit adds a clause to the effect that :-

"The above credit is confirmed by us and we hereby undertake to honour the drafts drawn under this credit on presentation provided that all the terms and conditions of the credit are duly satisfied."

When the advising bank adds its confirmatikon to the irrevocable credit issued by the importers bank. The credit

becomes confirmed and irrevocable. The advantage of such credit so far as the exporter is concerned, is that the payments risk becomes localised, i.e. can secure payment from one, local bank. The disadvantage to the importer is that the credit becomes costlier, because the advising bank will ask for confirmation charges from the issuing bank, which in turn will recover the same from the importer. This is the basic reason why many importers would like to open only irrevocable but not confirmed letter of credit.

When the letter of credit is irrevocable but non-confirmed, the issuing bank asks the conrrespondent bank to advise about the letter of credit without any confirmation of the letter, in such a case the advise of the correspondent bank only contain a clause that :-

"The credit is irrevocable on the part of the issuing bank but is not confirmed by us and therefore it does not involve by undertaking on our part."

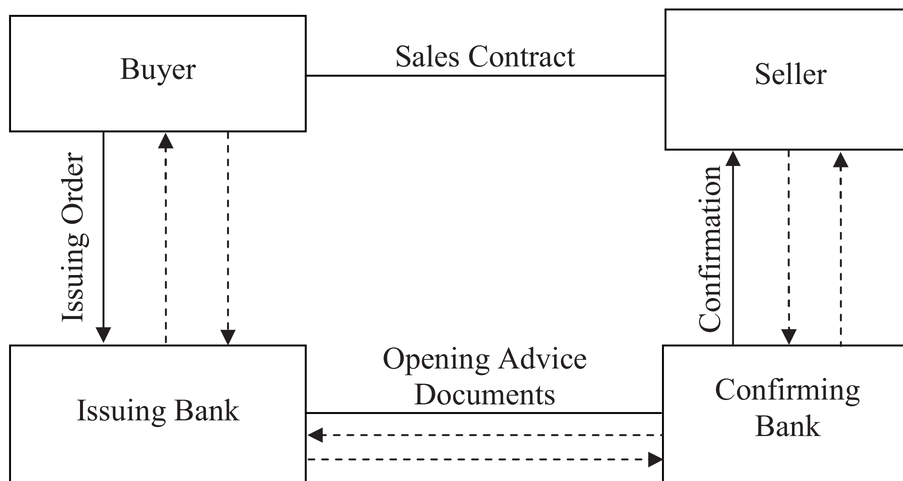
If the issuing bank is well known and of good standing, the exporter need not worry too much about the confirmation. It is unlikely that he will face any problem in negotiating documents if he fulfils the conditions of the credit. However, it would be mentioned that there is a contingency risk involved in unconfirmed irrevocable letter of credit when the exporter receives the advice from the local bank that it is willing to negotiate the documents, the exporter can present the documents and receive the payment promptly; but in such cases bills are usually to be drawn on the issuing bank, so that the negotiating bank can have recourse to the drawn (exporter) until the documents have been presented to and bills paid by the issuing bank. The exporter remains contingently liable for this period.

Flow Chart of Documentary Credit :-

In documentary credits, four parties are involved, viz. the applicant for the credit (Importer), the beneficiary of the credit (Exporter), the issuing bank and the adivising bank in the case of unconfirmed credit or the confirming bank in the case of confirmed credit. The step by step procedure involved can be discussed by taking an example. M/s. ABC Co., Mumbai has secured a contract for the supply of 200 ceiling fans to a Nijerian Importer. It has been decided that the terms of payment will be by a confirmed irrevocable letter of credit. The total c.i.f. value of the contract $5,000. Once the contract is duly signed. The Nigerian bank then sends instructions to its correspondent bank in India to add its confirmaiton to the credit and advise the ABC Co.. Accordingly on receipt of this advice from the local correspondent bank the ABC Co. makes the shipment of the ceiling fans and gets the shipping documents and other related documents. These are presented by him to the correspondent bank which scrutinises the documents. If

these are in full confirmity with the terms of the credit it will accept the document and make the payment to the exporter. The documents are then forwarded to the issuing bank which reimburses the amount to the correspondent bank. The issuing bank in turn present the documents to the importer and debits his account for the corresponding amount.

The steps involved, therefore, related to three distinct activities viz. opening of credit presentation of documents and the process of payment. The entire scheme & operation can be easily visualised with reference to the flow chart given below :-



The straight lines show the flow of the credit. The dashed lines show the flow of the documents and dotted lines shows the process of payment.

There are some specific points which an exporter should check on receipt of a letter of credit.

i) It is necessary to establish the genuieness of the letter of credit itself. Recently, banks have come across some spurious letters of credit purported to have issued by institutions which do not exist. However, if the credit is advised by a bank in India, it will verify the signature and establish the genuieness of the credit.

ii) He must examine every ward of the credit immediately on receipt. If he feels that it would be impossible to keep to any of the credit terms, he must relax to opener forthwith and attempt to have the offending terms amended.

iii) He must note and adhere precisely to the expiry date and conditions specified in the credit.

11.6 CURTONS & SHIPPING FORMALITIES

The shipment of export cargo has to be made with prior permission of, and under the close supervision of the custom authorities. The goods cannot be loaded on board the ship unless a formal permission is obtained from the custom authorities. The custom authorities grant this permission only when it is being satisfied that the goods being exported are of the same type and value as have been declared by the exported or his C & F agent, and then the duty has been properly determined and paid, if any.

The custom procedure can be briefly explained as follows :-

1) **Submission of Documents** :- The exporter or his agent submits the necessary documents, alongwith the shipping bill to the customs house. The documents include -

    - GR (original and duplicate)
    - AR-4/AR-4A (original and duplicate)
    - Shipping Bill (five copies)
    - Commercial Invoice (required number of copies)
    - Packing List
    - Inspection Certificate and other doucments

2) **Verification of Documents**:- The customs appraisers verifies the documents and appraises the value of goods. He then makes an endorsement of examination order on the duplicate copy of shipping bill regarding the extent of physical examination of the goods at the docks.

    - Original copy of GR to be forwarded to RBI
    - Original copy of Shipping Bill
    - One copy of Commercial Invoice

3) **Carting Order**:- The exporter's agent has to obtain the carting order from the port. Trust Authorities. Carting order is the permission to bring the goods inside the docks. The carting order is issued by the superintendent of Port Trust.

    Carting order is issued only verifying the endorsement on the duplicate copy of shipping bill by the customs appraisar. The endorsement must also be there on the part trust copy of shipping bill. The Carting order enables the exporter's agent to card goods inside the docks and store them in proper sheds.

4) **Storing the goods in the sheds** :- After securing the carting order, the goods are moved inside the sheds in the docks.

5) **Examination of goods** :- The exporter's agent then approaches the customs. Examiner with the goods. The customs examiner examines the cargo and records his report on the duplicate copy of the shipping bill. The customs examiner then signs the 'Let Export Order'.

6) **Let Ship Order** :- The Let Export Order is then shown to the Customs Preventive Officer alongwith other documents. The CPO is in charge of supervision of loading operations on the vessel. If CPO finds everything in order, he endorses the duplicate copy of shipping bill with the "Let Ship Order". This order helps the exporter/shipper to load the goods on the ship.

7) **Loading of Goods** :- The goods are then loaded on the ship. The CPO supervisors the loading operations. After loading is completed, the Chier Mate (Cargo Officer) of the ship issues the Mate's Receipt.

   The Mate's Receipt is sent to the port trust office. The C & F agent pays the port trust dues and collects the Mate's Receipt. The C & F agent then approaches the CPO and gets the cartification of shipment of goods on AP forms and other documents.

8) **Obtaining Bill of Loading** :- The Mate's Receipt is then handed over to the shipping company (on whose vessel the goods are loaded). The shipping company issues Bill of Loading. The Bill of Loading is issued in 1.

   - 2 or negotiable copies
   - 10 to 12 non-negotiable copies

   The negotiable copies have title to goods. Whereas non-negotiable copies do not have title goods but are used for record purpose.

   1) Shipping Bill
   2) AR-4/AR-4A forms
   3) GR forms
   4) Commercial Invoice copies
   5) Packing List
   6) Original Letter of Credit/Export Order/Export Contract copy

7) Weightment Certificate (wherever required)
8) Rail Freight Concession form (wherever required)
9) Inspection Certificate
10) Export Licence (wherever required)
11) Shipper's Declaration form
12) Excise Invoice
13) Certificate of Origin (if required)
14) Other relevent documents (if required)

11.7 COMPUTERISATION OF DOCUMENTS

In India, since 1991 new standardised documents are introduced by the Government under Aligned Documentation System (ADS). This system is based on the UN layout key. Exporters should use such standard forms while preparing export documents. This gives convenience to all concerned parties moreover such standard forms are now used in more than 100 countries. ADS has simplified the export documentation procedure and has also bought uniformity in the export documents which need to be prepared in each and every export trade transaction.

The export documents can also be prepared with the help of computer. Indian Institute of Foreign Trade (IIFT) and National Informatic Centre (NIC), New Delhi have developed software package. The sizes and layout of each form shall be strictly as prescribed under Aligned Documentation System (ADS). Various documents to be prepared by the exporter can now be completed with the use of 'Master Document'. This system facilitates photocoping and computerisation. Photocopy can be done by using the Master Document or the appropriate Master Document-II, as the case may be. Under ADS documents have been classified under two groups.

1) Commercial Documents and 2) Regulatory Documents

With effect from 1st November, 1996 customs introduced electronic processing of export document at the IGI Airport, New Delhi. This was done to ensure increased automation in the processing of import and export documentation for quick clearance of cargo. This scheme proved to be of great success and was later introduced at Mumbai. It will be introduced at other custom houses in a phased manner.

Export documentation procedure is made standardised and easy in recent years. Uniformity is also introduced in the preparation and submission of export documents. These

documents have made export documentation easy, quick and uniform in India. Every lengthy form is replaced by new and compact form. This gives lot of convenience to export organisation and also the government agencies dealing with such export documents.

Check Your Progress:

1. Explain documentary credit with a flow chart.
2. State the documents which are required to be submitted to the customs house by the exporter.
3. What do you understand by carting order?
4. State the classification of ADS documents.

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11.8 BANK FORMALITIES IN THE REALISATION OF EXPORT PROCEED

Payment against exports should be realised only through an authorised dealer (commercial bank allowed to deal in foreign exchange). No payment can be received even through bank drafts and cheques, unless exempted otherwise by RBI.

The following are the steps in realising export proceeds.

1) **Approaching Bank** :- After despatch of goods, either by sea or by air, the exporter should approach his bank (authorised dealer) with a formal request to realise sale proceeds from the foreign buyer.

   It is obligatory to submit the shipping document to an authorised dealer within 21 days of the shipment (subject to certain exceptions).

   In India, the exporter have to realise the full value of exports within 180 days from the date of shipment (unless the payment terms offered are “deferred payment terms”).

Where it is not possible to realise the sale proceeds within the prescribed period the exporter should apply for extension in prescribed form ETX-1 in duplicate) to RBI.

2) **Submission of Documents to the Bank** :- The exporter should submit the following document :-

   a) Bill of Exchange
   b) Full set of Bill of Loading
   c) Commercial Invoice copies
   d) Certificate of Origin
   e) Insurance Policy
   f) Inspection Certificate
   g) Certificate of Origin
   h) Packing List
   i) GR (duplicate copy to forwarded it to RBI)
   j) Bank Certificate
   k) Other relevant documents

The above document need to be submitted in two complete sets because it is customary to despatch two sets of documents one after the other. This is because if one set is misplaced or delayed in transit, the importer can get at least the other set alongwith the goods.

3) **Verification of Documents** :- The bank will verify the document to find :-

   a) Whether the required documents are in order.

   b) Whether the required documents are attested by customs and other authorities.

4) **Letter of Indemnity** :- If the exporter wants immediate payment from his bankers, then his bankers may provides advance payment only when the exporter signs an indemnity letter. The implication of an indemnity letter is that in the event of refusal of payment by the issuing bank in respect of LIC, then the negotiating bank can ask the exporter to pay back the money advanced along with necessary charges.

5) **Discounting of Bills** :- The bank may discount or purchase the bills drawn against L/C amount and make immediate payment to the exporter, if so required.

6) **Despatch of Documents** :- Before the transmission of documents for negotiation/collection the bank examines them thoroughly with reference to the terms and conditions of the buyers order/letter of credit and the laws relating to foreign exchange control. If after scrutiny, the documents are in order, the bank despatches them to its overseas branch, correspondent branch as early as possible. The overseas branch of the bank then submits the documents to the importer's bank and the importer's bank hands it over to importer.

7) **Methods of Realisation** :- For purpose of receiving payments against exports, countries have been divided into two groups.

Group	Countries Involved	Currency of Payment
Asian Clearing Union	Bangladesh, Burma, Pakistan, Iran and Sri Lanka	Indian Rupees or any permitted currency
External Group	All other countries	Any permitted currency

8) **Processing of GR form** :- After realising the export proceeds, the exporter's bank makes necessary entries in the account of the exporter. The bank also records the realised payment on the duplicate copy of GR and then forwards it to RBI.

   The RBI then cross checks the original copy of GR, which it has received earlier from the customs with that of the duplicate copy received from the exporter's bank. The amount mentioned in the original GR and the amount realised by the bank must match.

11.9 SUMMARY

1. A letter of credit is an authorization issued by the opening bank to the negotiating bank that if the exporter presents the relevant set of documents, make the payments. Its main purpose is to avoid fraud in making payment to exporter.

2. Letter of credit is advantageous to both importer and exporter.

3. When the contract between exporter and importer has been made, the exporter requests the importer to open a letter of credit. So the importer has to initiate for opening the letter of credit and complete various formalities.

4. Documentary credit has become the most popular form as the credit and payment risks of the exporter can be eliminated under appropriate forms.

5. In documentary credits, four parties are involved, viz. the applicant for the credit (Importer), the beneficiary of the credit (Exporter), the issuing bank and the advising bank in case of unconfirmed credit or the confirming bank in the case of confirmed credit.

6. The custom authorities grant permission to the shipment of export cargo only when it is being satisfied that the goods being exported are of the same type and value as have been declared by the exported or his C & F agent, and then the duty has been properly determined and paid, if any.

7. Under Aligned Documentation System documents have been classified under two groups. a) Commercial Documents and b) Regulatory Documents.

8. Payment against exports should be realised only through an authorised dealer. No payment can be received even through bank drafts and cheques, unless exempted otherwise by RBI.

11.10 QUESTIONS

1. Define and explain the meaning of Letter of credit.

2. Describe the various types of Letter of credit.

3. Examine the merits of Letter of credit.

4. Explain how the importer opens a letter of credit.

5. What is documentary credit?

6. Explain the customs procedure for the shipment of export cargo.

7. Explain the procedure for realization of export proceed.

12

REALISATION OF EXPORT INCENTIVES

Unit Structure

12.0 Objectives
12.1 Introduction of Export Incentives
12.2 Duty Drawback
12.3 Procedure in Central Excise Clearance
12.4 Export Promotion Capital Goods Scheme
12.5 Deemed Exports
12.6 Duty Entitlement Pass Book (DEPB) Scheme
12.7 Marketing Development Assistance
12.8 Octroi Duty Refund
12.9 Sales Tax Exemption
12.10 Transport Subsidy
12.11 Marine Insurance Procedure
12.12 Summary
12.13 Questions

12.0 OBJECTIVES

1. To study different kinds of incentives available to the exporter.
2. To study the meaning, rates and the procedure to obtain Duty drawback.
3. To study Excise duty and the procedure for Excise clearance under rebate.
4. To understand Export promotion Capital Goods Sxheme and export obligation under EPCG Scheme.
5. To study the term Deemed exports and different categories of Deemed exporters and benefit to them.
6. To study the Duty Entitlement Pass Bok (DEPB) Scheme.
7. To study the purposes for which Marketing development Assistsance Fund is available to the exporters.
8. To understand the meaning of Octroi Duty Refund.

9. To study the registration procedure and procedure for exemption of sales tax.
10. To study the term Transport subsidy.
11. To study the various provisions under Marine Insurance Procedure.

12.1 INTRODUCTION OF EXPORT INCENTIVES

Exporter can claim a number of export incentives on the completion of shipment of goods.

The incentives offered are as follows:-

1) Duty Drawback
2) Central Excise Duty Refund
3) Export Promotion Capital Goods Scheme
4) Deemed Export
5) Duty Entitlement Passbook Scheme
6) Marketing Development Assistance
7) Octroi Duty Refund
8) Sales Tax Refund
9) Transport Subsidy

12.2 DUTY DRAWBACK

DBK means refund of custom duties paid on the import of raw materials components and packing material. DBK also involves refund of central excise duties paid on indignous material used in the manufacture of export products.

Drawback is available on the following items :-

i) Raw materials and components used in the process of manufacture.
ii) Materials used in the manufacture of raw materials and components used in the manufacture of finished products.
iii) Irrecoverable wastages which arises in the process of manufacturing.
iv) Material used for packing the finished export products.
v) Finished products.

DBK is not admissible if the :-

i) Amount of drawback entitlement is less than Rs.50/-.

ii) Goods have been taken into use after manufacture, except tea chest used as packing materials for export of blended tea.

iii) Goods are produced using imported materials or excisable materials in respect of which duties have not been paid.

iv) Products manufactured by 100% EOU and units located in FTZ's/EPZ's.

v) Amount of drawback is less than 2% of net FOB value of exports.

vi) Goods exported to Nepal, Bhutan, Tibet and Hong Kong**.**

There are two rates of duty drawback :-

a) **All Industry Rates** :- These rates are declared by the Government of India from time to time. These rates are applicable to all units in the industry for example, if the Government declares 20% DBK for textiles then all units in the textile industry can get 20% DBK.

b) **Special Brand Rates** :- These rates are provided by the Government on the special application made by a particular unit. If a particular company is not satisfied with the all industry rates then a special application need to be made to the Ministry of Finance for grant of Special Brand Rates. If the Ministry of Finance is satisfied with the application, then the exporter can get a higher rate of DBK. i.e. special brand rate.

Procedure to claim DBK :-

1) **Whom to Apply** :- The application need to be made to the nearest customs house.

2) **When to Apply** :- Application must be made within a period of 60 days from the date of obtaining "Let Export Order" from the Customs Examiner.

3) **What Documents Required** :- The application must be supported by the following documents :-

   a) Non-negotiable copy of Bill of Lading

   b) A copy of Duty Drawback

   c) A copy of Commercial Invoice

   d) A copy of Special Brand Rate Letter (if required)

   e) Other required documents.

12.3 PROCEDURE FOR CENTRAL EXCISE CLEARANCE

Excise duty is a tax levied on the event of manufacture duties collected when the goods are removed from the factory. Export goods are exempted from central excise duty. However, necessary clearance has to be obtained in either of the following two ways :-

a) **Export under Bond** :- Under this system, the exporter need not pay any amount of duty but export the goods under a bond supported by a bank guarantee, for a sum equivalent to excise duty chargeable on such goods. As this system amounts to a "Running Bond Account". The bond is arranged for a suitably large amount with the approval of the Excise Authorities so that several consignments may be exported under the same bond without frequent renewals.

b) **Export under Rebate** :- Under this system, the manufacturer/ exporter initially pays the duty and then claims its refund after shipment of the goods.

Procedure for Excise Clearance under Rebate :-

1) **Filling up ARE-1 Forms** :- ARE-1 Form is used to obtain excise clearance of goods. The exporter has to fill up ARE-1 Form in five copies of the following different colours :

   Original Copy ………………………………………... White

   Duplicate Copy ……………………………………… Buff

   Triplicate Copy ……………………………………… Pink

   Quadruplicate (fourth) Copy ………………………. Green

   Quatriplicate (fifth) Copy …………………………… Blue

2) **Application to Assistant Collector** :- The exporter now has to remove the goods from the factory/warehouse premises for which he has to apply to Assistant Collector of Central Excise.

3) **Instruction to Range Superintendent** :- The ACCE will instruct the Range Superintendent of Central Excise under whose jurisdiction the factory is located.

4) **Appointment of Inspector** :- In order to comply with excise duty clearance, the Range Superintendent will appoint an

inspector. The inspector will clear the goods either at the factory or at port.

5) **Processing of ARE-1 Form** :- The duly filled in ARE-1 Forms should be accompanied by three copies of Gate pass (GP-1) and the Personal Ledger Account (PLA) Book of Central Excise alongwith the necessary amount of duty. The Excise Inspector, after verifying the same, returns the original and the duplicate copies of ARE-1 Form, the original and the triplicate copies of GP-1 and the PLA Book. The original GP-1 should accompany the cargo on its way to the dock. The exporter prepares five copies of ARE-1 and submits to the excise officer. The processing of ARE-1 is as follows :-

Check Your Progress:

1. State the items on which Duty drawback is available.
2. Which are the two rates of Duty drawback?
3. Explain the procedure to claim Duty drawback.

Explain the procedure for excise clearance under rebate.

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12.4 EXPORT PROMOTION CAPITAL GOODS SCHEME

Capital goods (CG), both new and second hand may be imported under the EPCG Scheme. Capital goods (including spares upto 20% of the CIF value of the capital goods) may be imported at a concessional rate of 5% customs duty subject to Export Obligation (EO) be fulfilled over a period of time.

Export Obligation under EPCG Scheme :

The export obligation under the EPCG Scheme has been modified w.e.f. 1.4.2003 goods including spares as well as

computer system can be imported at 5% customs duty subject to an export obligation as follows :

a) 8 times of duty saved on capital goods imported to be fulfilled over a period of 8 years starting from the issue date of EPCG licence.

b) EPCG licence with a CIF value of Rs.100 crore or more, the same export obligation shall be required to be fulfilled over a period of 12 years instead of 8 years.

c) Units in Agri-export zones and companies under the revival plan of BIFR can fulfill the export obligation over a period of 12 years instead of 8 years.

What can be imported ?

Both new and second hand capital goods can be imported under this scheme at a concessional duty. The second hand capital goods shall have a minimum residual life of ten years.

Capital goods means any plant, machinery, equipment or accessories required for manufacture or production, either directly or indirectly, of goods, or for rendering services, including those required for replacement, modernisation, technical upgradation or expansion. Computer Software Systems may also be imported under EPCG Scheme.

Capital goods also include packaging machinery and equipment, refractories, refrigeration equipment, power generation, sets, machine tools, catalysts for initial charge, and equipment, and instruments for testing, research and development, quality and pollution control. Capital goods may be for use in manufacture, mining, agriculture, aquaculture, animal husbandry, floriculture, horticulture, piscieculture, poulture, and seri- culture as well as for use in the services sector.

Who are eligible ?

Under this scheme, manufacturer, exporters, merchant exporters tried to supporting manufacturer (s) are eligible to import capital goods. Also service provider such as hotels, hospitals, travel & tourism operator etc. are eligible.

12.5 DEEMED EXPORTS

Deemed exports are not physical exports, it involves those transactions of goods within the country as specified by the Government of India. In other words, goods supplied do not leave the country and the payment for such goods are made in India, by

the recipient of the goods. The deemed exports are treated as exports for certain facilities and benefits under the Exim Policy.

The Exim Policy defines deemed exports as those transactions in which the goods supplied do not leave the country and the payment for goods is received by the supplier in Indian rupees.

Categories of Deemed Exporters.

1) Supply of goods against duty free licence issued under the Duty Exemption Scheme.

2) Supply of goods to units located in EPZ's or EHTP's or STP's or to 100% EOU's.

3) Supply of capital goods to holders of licence under EPCG Scheme.

4) Supply of goods to projects financed by multilateral or bilateral agencies/funds as notified by the Department of Economic Affairs, Ministry of Finance.

5) Supply of capital goods to fertiliizer plants if the supply is made under the procedure of international competitive bidding.

6) Supply of goods to such projects in the power, oil and gas sectors notified by Ministry of Finance.

7) Supply of Marine Freight Containers by 100% EOU to shipping companies provided the payment for the same is received in free foreign exchange.

8) Supply to projects funded by UN agencies.

9) Supply of goods to nuclear power projects through competitive bidding.

10) Any other category notified by Government of India.

Benefits to Deemed Exporters

1) The supplier can claim duty drawback.

2) Refund of excise duty paid on finished articles supplied to the categories of deemed exporters.

3) The deemed exporters can import duty free import of inputs.

12.6 DUTY ENTITLEMENT PASS BOOK (DEPB) SCHEME

The value based advance licensing (vabal) Scheme and the old pass book schme have been replaced by a new scheme called the DEPB Scheme in the EXIM policy 1997-2002.

Under the DEPB Scheme, an exporter can claim duty credit at a specified percentage of FOB value of exports made in freely convertible currency. Any item, except those on the negative list, can be imported under the scheme without payment of basic customs duty, special customs duty or additional customs duty against the duty credit.

Third party exports will be admissible for grant of credit under the scheme and the DEPB will be valid for 12 months from the date of issue.

The DEPB Scheme will be allowed to be operated on a pre and post export basis by manufacturer exporters and merchant exporters. The DEPB on pre-export basis aims to provide the facility to eligible exporters to import inputs required for production. The scheme will therefore, be open to manufacturer exporters and merchant exporters tied with the supporting manufacturer with export performance in the preceding three licensing years.

The credit of DEPB on pre-export basis will be granted at the rate of 5% of the average export performance during the three preceding licensing years. This scheme will carry an export obligation which has to be affiset by the DEPB holder by making exports.

In the case of post-export basis, DEPB will be granted against exports already made and will be transferable. The transfer will however be for inpurt at the port specified in the DEPB which will be the port from where the exports been made. Both merchant and manufactuers exporters will be eligible for it.

DEPB modification w.e.f. 1-4-2001.

- Provision made for claiming DEPB under advance payment.
- Validity of DEPB extended upto the last day of the month in which the same is expiring.
- Coverage of additional ports under DEPB.
- Rationalisation of DEPB rates in line with changes in customs duty on account of Union Budget.
- TRA facility extended to all notified ports under DEPB Scheme.

12.7 MARKETING DEVELOPMENT ASSISTANCE

The Government of India has created Marketing Development Fund for the purpose of developing and diversifying the export trade of India. Indian Export Organisation can claim the MDA assistance for the following purposes.

- Marketing research in India and abroad.
- Export publicity in India and abroad.
- Participation in trade fairs and exhibitions.
- Trade delegations and study-cum-sales teams abroad.
- Display of exhibits in showrooms abroad.
- Opening of showrooms in India for the benefit of foreign buyers visiting India.
- Setting up of warehouses/after-sale-service centres abroad.
- Research & Development.

Amount of Assistance :-

The amount of assistance is normally 50% of the actual expenditure. However, 60% of the actual expenditure may be considered in respect of small scale units.

Disbursing Authorities :-

a) Ministry of Commerce in respect of opening of foreign offices, setting up warehouses and after-sale-service centres and research and development.

b) Federation of Indian Export Organisation (FIEO) for participation in fairs and exhibitions abroad, advertising in foreign media and one person sale-cum-study for abroad.

Importance of MDA to Exporters :-

- The exporters can expand their markets.
- It enables to earn valuable foreign exchange to the country.
- The market research helps to develop and design the products for export markets.
- It helps the Indian exporters to face competition in the overseas markets.

Check Your Progress:

1. Which items can be imported under EPCG Scheme?
2. What are the categories of Deemed exporters?
3. What is DEPB Acheme?
4. State the purposes for which MDA assistance can be claimed.

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12.8 OCTROI DUTY REFUND

Octroi is a local (municipal) tax imposed when goods transported in the exporter brings manufactured goods inside the city. Exporter has to pay octroi duty to the municipal corporation. Generally it is called Zakat Naka. But he can claim the refund of octroi by giving the proof of exports to the authorities.

The procedure is that the exporter should approach the authority and show the documents for the proof of exports and he can claim the refund of octroi duty.

12.9 SALES TAX EXEMPTION

State Governments have exempted exportable goods from payment of sales tax. However, exemption is not granted unless the exporter or his firm is registered with sales tax authorities.

Registration Procedure :-

For the registration to sales tax authorities these steps are there :-

1) **Application to STO** :- An application in prescribed form should be submitted to the Sales Tax Office (STO) in whose jurisdiction the exporter's office instituted. On receipt of application, STO deputes an inspector to visit the office of the exporter.

2) **Inspection of Documents** :- The inspector inspects relevant books and documents like :-

   i) Purchase register
   ii) Sales register
   iii) Memorandum of Association
   iv) Articles of Association
   v) Partnership Deed if any
   vi) Other relevant document

3) **Report of Inspector** :- The inspector submits his report to STO for verification of report. The STO will grant Sales Tax registration number.

4) **Submission of Security Bond** :- The exporter will submit Security Bond from another firm already having a sales tax registration number. Then only he gets a registration number for his firm.

5) **Grant of Sales Tax No**. **:-** When the formalities mentioned above are completed, STO will grant the Sales Tax Registration No.

Procedure for Exemption

In order to get the Sales Tax exemption these steps are followed by the exporter :-

1) **Obtaining Form "H"** :- The exporter will apply to STO to get Form "H". Along with the application following documents should be attached :-

   i) Export Order
   ii) Letter of Credit
   iii) Purchase Invoice of the materials purchased for export purpose
   iv) Shipping Bill approved by customs office.

The exporter should submit Form "H" with court fee stamp to STO who puts the exporters company startup on Form "H".

2) **Processing of Form "H"** :- After the shipment of goods, the exporter has to fill up Form "H" in triplicate. he keeps one copy for himself and two copies are given to the seller from whom he purchased the goods for export purpose.

The seller sends one copy to STO along with his sales tax return. The other copy is retained by him. STO will gicreate the refund order for the Sales Tax amount already paid.

12.10 TRANSPORT SUBSIDY

The exporter can claim such subsidy when he transports exportable item by rail, air or ship. Such subsidy can be given as under :-

a) **Rail Freight Rebate** :- The Indian Railways allow freight rebate upto 50% on exportable items transported by rail.

b) **Air Freight Rebate** :- Air freight subsidy is given on certain item like fruits, flowers, leather items, vegetables, etc.

c) **Ship Freight Rebate** :- Marine freight @ 10% deferred commission is offered by the Government of India.

Procedure of Pre-Shipment Inspection

Exporters who are not covered under the system of self certification and in-process quality control must settle for consignmentwise inspection procedure which is explained below :

1) **Application** :- The exporter has to apply to EIA in a prescribed form in duplicate. The original copy is sent to EIA and the duplicate to EIC. The application must include the following document.
   i) A crossed cheque/DD in favour of EIA towards inspection fee.
   ii) A copy of export control detailing importer's specification.
   iii) A copy of Commercial Invoice.

2) **Visit of Inspector** :- EIA sends an inspector to the factory premises of the exporter to inspect the goods.

3) **Inspection and Testing** :- Inspector may conduct either random inspection or cent percent inspection work on the premises. He can also send the sample to independent laboratories. He will give his report only after obtaining the lab report.

4) **Parking of Goods** :- When the inspector is satisfied with the quality of goods, he will instruct to get the goods packed in his presence. Later the consignment is marked and sealed with the official EIA seal.

5) **Submitting Report to EIA** :- Having completed the inspection formality and convinced about the quality of goods, the inspector submits a favourable report to EIA.

6) **Issue of Inspection Certificate** :- Based on the favourable report of the inspection, EIA issues an inspection certificate in triplicate; original for the customs, duplicate for the importer and triplicate for the exporter.

7) **Rejection Note** :- If the report of the inspector is unfavourable, the Deputy Director of EIA will issue a rejection note. Now the exporter cannot ship his consignment.

8) **Appeal against Rejection Note** :- When the exporter receives rejection note, he can appeal against the rejection note within 10 days to a panel of exports. They will review the report and their decision is final.

Check Your Progress:

1. What do you understand by Octroi Duty refund?
2. Write a note on Form "H".
3. What are the types of Transport subsidy?

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12.11 MARINE INSURANCE PROCEDURE

Marine Insurance is governed by Marine Insurance Act, 1963. It covers :

a) Transportation by Sea, Air or Land

b) Inland Water Voyages

c) Rail/Road Transport

d) Registered Post

What risks are covered ?

Normally marine insurance policy covers the loss or damage caused by :

a) Fire or explosion
b) Sinking or grounding of the vessel
c) Derailment of land transport
d) Collision of the Vessel
e) Discharge of cargo at a port of distress
f) Theft, Pilferage and non-delivery
g) Total loss of any package lost overboard or dropped whilst loading on to, or unloading from the vessel or craft.
h) Loss/damage to goods caused by entry of sea, lake or river water into the vessel, craft, etc.
i) Any other reason accepteble to the insurance company.

The exporter is bound to insure the export cargo CIF quotation. He may also insure the goods under FOB contract, if the importer requests to do so. To obtain marine insurance policy the following is the procedure normally followed :

1) **Selecting the Insurance Company** :- There are a number of insurance companies operating the marine insurance business. Exporters in India should insure with General Insurance Corporation or its four subsidiaries. Prior permission of RBI is required if the exporter intends to insure with insurance companies in foreign countries.

2) **Deciding on the type of the Policy** :- There are several types of policies. The proposer must decide which policy to be selected.

3) **Proposal Form** :- To obtain a marine insurance policy, there is a need to fill up the proposal form. Complete, correct and clear information must be mentioned in the proposal form. Any miss-presentation or non-disclosure will render the contract null and void.

4) **Payment of Premium** :- The proposer is then asked to make payment of premuin. Normally, the premium paid in lumpsum. The insurance premium depends upon the nature of product, distance of voyage, type and condition of packing, etc.

5) **Verification of Proposal Form** :- The insurance company verifies the proposal form and checks the relevant details. If it is satisfied it accepts the proposal form.

6) **Insurance Policy** :- After making payment of insurance the insurance company issues the insurance policy which contains the following :

   a) The name and address of the insurance company
   b) The name and address of the insured.
   c) A description of the risks covered.
   d) A description of the goods insured.
   e) The sum insured.
   f) The date of insured and the period of the policy.
   g) The places where claims are payable together with details of the agent to whom claims may be directed.
   h) Any other details as applicable.

Certificate of Origin

Certain countries required their importers to obtain Certificate of Origin from the exporter. Certifying the origin of goods, without which clearance of imported goods is refused. This certificate may form a part of the commercial invoice itself. This certificate is issued by the Chamber of Commerce or Trade Association or some other competent authority.

Some countries, such as countries in the Middle East and Gulf insist on Certificate of Origin attested by their consulate stationed in India.

Types : The certificate of origin is three types normally :

a) Certificate required in general by all countries for clearance of goods by the importer.

b) Certificate required for availing concession under GSP extended to imports from India by certain countries like Germany, Benelux, countries, Italy, Japan, USA, New Zealand, etc.

c) Certificate required for availing concessions under Common Wealth Preferences. (CWP)

All the three types of certificates are to be obtained in prescribed form from specified authorities.

For type No. A :- The certificate can be obtained from Chamber of Commerce/Trade Association.

For type No. B :- The certificate can be obtained from EIA. Jt. DGFT Central Silk Board, Textile Committee Development Commissioner, Handicrafts, Coir Board, Jute Commissioner EIA and Jt. DGFT can issue certificate for item, whereas the other agencies can issue certificates for only those products facility within their proview.

For type No. C :- The certificate has to be obtained from the officer of the High Commissioner of the country concernes.

Importance of Certificate of Origin to the Exporter :-

- It acts as a proof that the goods are of Indian origin.
- It helps to clear the goods from the customs of exporter's country.

Importance of Certificate of Origin to the Importer :-

- Importer can claim concessional tariff rates extended to products from India under CWP and GSP arrangements.
- He can get easy clearance of goods from his customs.
- It ensures that there are not re-shipped by the exporter.

a) The original (white) and the duplicate (buff) copies are returned to the exporter.

b) The third (pink) copy is sent to Maritime Collector of Central Excise at the port of shipment.

c) The fourth (green) copy is sent by Excise Authorities to the Chief Accounts Officer of Central Excise.

d) The fifth (blue) copy is returned to the exporter.

e) The exporter hands over the original and the duplicate copies to the Customs Authorities.

f) The Customs Preventive Officer sends the original to the Maritime Collector (MCCF) and the duplicate copy is returned to the exporter or his agent.

g) Refund of Excity Duty :- The exporter has to apply to Maritime Collector of Central Excise (MCCE) after the shipment of goods along with the duplicate copy of ARE-1. If MCCE is satisfied, it will instruct the Refund Section to prepare cheque and hand it over to the exporter.

12.12 SUMMARY

1. Exporter can claim a number of export incentives on the completion of shipment of goods.
2. DBK means refund of custom duties paid on the import of raw materials components and packing material. It also involves refund of central excise duties paid on indignous material used in the manufacture of export products.
3. Excise duty is a tax levied on the event of manufacture duties collected when the goods are removed from the factory. They are exempted from central excise duty.
4. Capital goods (CG), both new and second hand may be imported under the EPCG Scheme. Capital goods may be imported at a concessional rate of 5% customs duty subject to Export Obligation (EO) be fulfilled over a period of time.
5. The Exim Policy defines deemed exports as those transactions in which the goods supplied do not leave the country and the payment for goods is received by the supplier in Indian rupees.
6. Under the DEPB Scheme, an exporter can claim duty credit at a specified percentage of FOB value of exports made in freely convertible currency.
7. The Government of India has created Marketing Development Fund for the purpose of developing and diversifying the export trade of India.
8. Octroi is a local (municipal) tax imposed when goods transported in the exporter brings manufactured goods inside the city. It is to be paid by the Exporter.
9. State Governments have exempted exportable goods from payment of sales tax. However, exemption is not granted unless the exporter or his firm is registered with sales tax authorities.
10. The exporter can claim Transport subsidy when he transports exportable item by rail, air or ship. Such subsidy can be given as rail freight rebate, air freight rebate and ship freight rebate.
11. Marine insurance is governed by Marine Insurance Act, 1963 which covers Transportation by sea, air or land, Inland water voyages, Rail/road transport, Registered post.
12. The exporter is bound to insure the export cargo CIF quotation. He may also insure the goods under FOB contract, if the importer requests to do so.

12.13 QUESTIONS

1. Explain the various kinds of export incentives which can be claimed by the exporter.
2. What do you understand by Duty drawback?
3. Explain the procedure for Central excise clearance.
4. Explain fully the Export Promotion Capital Goods Scheme.
5. What do you understand by the concept Deemed export?
6. Write a note on DEPB Scheme.
7. What is Marketing Development Assistance?
8. Explain the procedure for Sales Tax Exemption.
9. Write notes on:

i) Transport subsidy

ii) Marine Insurance Procedure