International Marketing
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Lecture – 17
Import Export Procedures

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PROTECTIONISM & TRADE BARRIERS

-Int'l business is a world of tariffs, quotas & other obstacles to the sale of goods in a foreign market.
-To encourage development & encourage domestic industries , govt. may impose tariff & non-Tariff barriers such as :
- 1- Tariffs ; 2- Quotas ; 3-Boycotts ; 4- Monetary barriers (reduction in export subsidies) ; 5- Market Barriers etc.
- - This protectionism is designed to protect a country's markets from intrusion by foreign goods.

-Nations are known to utilize Legal barriers , exchange barriers, Psychological barriers to restrain entry of unwanted goods.
-Barriers although arbitrary in nature but they do exist.

Hi, good evening. Welcome to my session module 4, lecture 17. So, we will now go to understand what are protectionism and the trade barriers. So, the international business is a world of tariffs, quotas and other obstacles to the sale of goods in a foreign market. To encourage development and encourage domestic industries government may impose tariff and non-tariff barriers such as tariffs, quotas, boycotts, monetary barriers.

And monetary barriers are reduction in exports subsidiaries and market barriers, etc. The protectionism is designed to protect country's market from intrusion by foreign goods. So, you remember the theory of international theory which taught the mercantilism where the countries were not allowing anything to anything to import. They were only allowing, the countries were only allowing to export.

So, you remember the diagram I have shown, the parent country, home country and they have the two colony countries. So, the transaction the imports were very less, I have shown that two arrows, one is a thick arrow, another is a little less dimension of that arrows, thinner, smaller size of an arrow. So, the imports were less, exports were more from the home country

to the colonial countries whereas in between the colonial countries there was no trade allowed, so that was the mercantilism.

Now, in today's scenario that was many years back, most of the country mercantilism now and they allow the international trades, they allow the imports and export but still the countries try to protect the country's market to intrusion of the foreign goods. Every country will try to protect and that is in a very natural phenomena to try to protect the domestic industry so that the country's domestic goods are still marketed in the country, it should not be intruded intrusion by the foreign goods.

So, nations are known to utilize a legal barrier, exchange barriers, psychological barriers to restrict the entry of unwanted goods. So barriers although arbitrary in nature, but they do exist. So, there are certain barriers they do exist.

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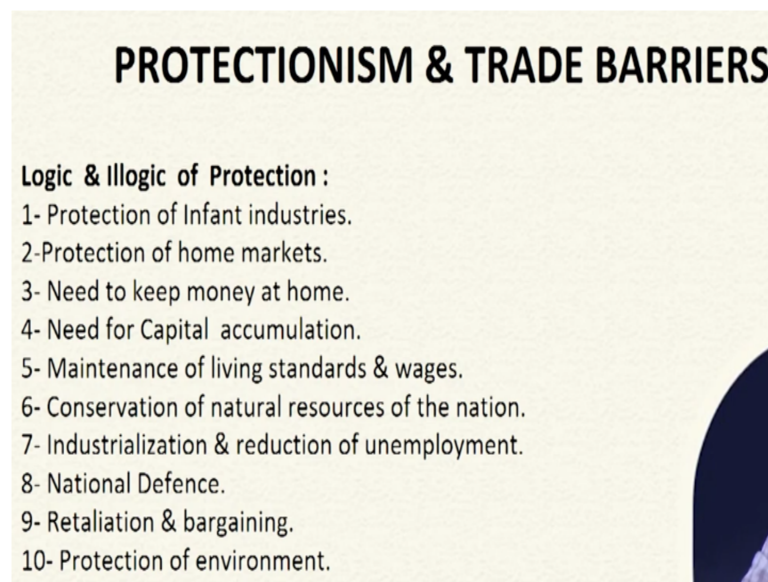

Protectionism, trade barrier, logic and illogical protection. Protection of infant industries. So couple of industries are infants, so you want to protect them. Protection of the home markets. Need to keep money at home. Need for capital accumulation. Maintenance of living standard and wages. Conservation of natural resources of the nation. Industrialization and reduction of unemployment. National defence. Retaliation and bargaining and protection of environment. So, these are typically the logical and illogical of the protection. Some country follows these may be logical, you may think it is illogical, but for them it is logical protection.

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PROTECTIONISM & TRADE BARRIERS

- Tariffs Barriers are a form of monetary barriers which in general.

-**Increase** : Tax revenue , Govt control with a shadow of political considerations in economic matters.
-**Weaken** : Balance of payment position ; Supply & demand matters.
-**Restrict** : Supply sources , choice for customers, Competition.

- **Non- Tariff Barriers** :

-**Quotas** : Limit on import of TV sets , sugar. i.e. Absolute restriction on the quantity of a specific item through Licensing route.

So the tariff barriers form monetary barriers which in general increase the tax revenue, government control with a shadow of political consideration in economic matters. Weaken balance of payment positions, supply and demand matters. Restrict, supply of sources, choice of customers, competition. And there are non-tariff barriers. So, what is nontariff barrier? So, there are two barriers, one is tariff barriers where you protect with a high duty structure and non-tariff barriers are the quota; limit of import of TV sets, limit of sugar.

Absolute restriction of the quantity of specific items through a licensing route. So, you say quota that this many televisions I will allow to import or this many amounts of sugar I will allow to import. So, these are known as non-tariff barrier. So, these are the quota system. So, I will allow only this much of sugar to import in the country so that is a quota, so that is known as a non-tariff barrier. And tariff barrier as it says it is a monetary barrier where to increase, we can restrict depending on the three situations.

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PROTECTIONISM & TRADE BARRIERS

- **Customs & Administrative Procedures** : Valuation of Goods , Anti-Dumping embargo, Negative list , Complex documentation procedure etc. [e.g.of BARC].
-**Standards :** Government acceptance of testing & quality standards , hazards of operating personnel [e.g. X-Rays] and disposal of wastes etc.
-**Voluntary Export Restraints** : Enacted by exporting country against threat of tariff & quota by importing country.
-**Boycott** : - Absolute restriction on import of goods. [e,g, Toys]
-**Exchange Restriction** : Prior govt approvals for release of foreign exchange for the importer.

Customs and administrative procedures are the valuation of goods, anti-dumping embargo, negative list and complex documentation procedures. Standards, government acceptance of testing and quality standards, hazards operating the personnel. So this is very important the standards what is there and then the voluntary export restraints enacted by the exporting country against the threat of tariffs and quota by the importing country.

Boycott, what is boycott? Absolute restriction of import of goods that is boycott. It is like some of the countries they do not allow to import the toys to save the production of the toy industry in the domestic market. Exchange restriction, prior to the government approval for release of foreign exchange for the importer that is also another restriction. So, these are the various types of restrictions are there like boycott, exchange restriction, etc.

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DUMPING

Dumping is a form of Price Discrimination arising from Export Subsidies to enter markets. It is about charging different prices for the same product in similar markets.

As a result imported goods are sold so low which becomes detrimental to local manufacturers.

Three types of Dumping Occurs :

- **Sporadic Dumping –** which applies for disposal of unsold inventory. Just to get rid of the excess.
- **Predatory Dumping** - To gain access to a market & kill competition leading to a monopoly situation.

-**Persistent Dumping** : Permanent type.
-All price distortions are detrimental to local businesses .

Dumping, dumping is a form of price discrimination. What is dumping? Now it is a price discrimination arising from export subsidies to enter a market. It is about charging different prices for the same product in similar markets. As a result, imported goods are sold so low which becomes detrimental for the local manufacturer. So, there are three types of dumping. One is sporadic dumping which applies to the disposal of unsold inventory and get rid of excess.

Say some country has produced huge amounts of goods and they could not sell it in the domestic market, so that product might have a shelf life of 1 year or might be 6 months or 8 months. So, they sell it at a very low cost, low price to another country, so what will happen this is known as a sporadic dumping. So, when these products come to another country, their domestic industry will get some suffer.

Because, their products will be the domestic products will cost much more than the product which is coming from the foreign market will be at a much lower price. So, what will happen the domestic industry will suffer. So, this type of damping is governed by an anti-dumping rule which will come little later. Predatory dumping, to gain access to a market and kill competition leading to a monopoly situation. So that is another way of dumping.

So that you kill the monopoly of one particular competition and you completely gain access by selling it at a very low price. Persistent dumping, permanent type, all price distortions are detrimental to the local business. Permanent, continuously you sell from a foreign country, continuously sell at a very low price so that is a persistent dumping. So, there are three different types of dumping happens internationally.

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Anti Dumping Duty

- Government of importing country imposes additional surcharge on customs duty called anti dumping duty, proportionate to estimated subsidy given to the exporter through a rigorous valuation exercise through data analysis.

Anti-dumping duty; so government of importing country to avoid this type of thing, when another country is selling something at a very low price which is not protecting the industry in the country, say from some country steel is coming at a very low price to our country, our country steel plants will not able to compete with that products, their prices will be higher, then automatically the steel users will prefer to import from a country where they get at a lower price.

To stop that whole thing, to stop the protection of the steel industries in India, government will put an anti-dumping duty. So government of importing country imposes additional surcharge on the customs duty. So, whatever on the steel the duty structure was there as per the HS code, they will put some additional surcharge as an anti-dumping duty proportionate to estimate subsidy given to the exporter through a rigorous valuation exercise through data analysis.

These all anti-dumping helps the domestic industry to maintain its market, otherwise some country where there is an excess product available and is not used domestically in that country, they will try to export to a country and sell it at a very low price where the domestic industry in that market will severely suffer. So, to protect that government on the top of customs duty they put an anti-dumping duty on the top of that as a surcharge to play a level playing ground for the domestic companies.

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THIRD PARTY INSPECTION (TPI)

- Accredited Agency of Third Party Inspection **(TPIA)** provides conformity assessment services Viz: Testing, Inspection & Certification. [Lloyds Register; SGS; OSS follow ISO 17020]
- The guidelines for assessment are contained in ISO/IEC Int'l standards.
- Gives buyer the confidence that it meets its requirements & of required safety concerns.
- TPI stands f or Competence, Neutrality & Objectivity.
- Is a direct contrast to a pure self declaration certificate made by manufacturers / suppliers.
- TPI certificate is a marketing tool due to transparency involved
- Banks accept TPI when sanctioning a loan to buyer.

Third party inspection, this is also important. For all the equipment and machinery when you sell, typically a third party inspection is important. Why third party insurance? Suppose I am buying this machinery, this is bottle, just hypothetic understand this is some equipment and it is manufactured somewhere in Taiwan or somewhere in Philippines and I am importing these goods to India. So, this has a specification, it is all features and everything of the specification.

This specification, the manufacturer or in the Philippines or Taiwan has given the specification and I have seen the specification and I have signed a contract with the Philippine company and also and to import this particular item from Philippines. But I do not know whether the Philippine company is following the quality control and the specification whatever they have mentioned in their sales brochure or in the contract are exactly following or not. Are they following exactly or not, we need to put some third party agents.

So, internationally the third party agencies are very renowned like Lloyds and others, they are a very renowned third party agency, so they will be employed by the importer and they will go in the manufacturers' plant in Philippines to check the product quality and the features and specifications see that whether it meets the customer requirement or not, so this is known as third party inspection, so this certificate. One of the large companies in this third party are the Lloyds, SGS, OSS.

They are the large third party inspectors. So, they will inspect your product at the customer at the exporters plant or warehouse. They will check exactly what you have placed the order and

what is mentioned in your contract. Are they giving exactly the same product or they are not giving some different product or it is giving a product which is totally defective or quality control is not followed as per the guidelines whatever they have said in the sales brochure or the performance of the equipment is not so good.

All these checks are done by the Lloyds and SGS, OSS they are the very qualified third party inspection agencies throughout the world and they are internationally renowned. So you can give them this responsibility, they will go and do that. So, give buyers the confidence that it meets and of required safety concerns. TPI stands for competence, neutrality and objectivity. They are a third party neutral.

So, they will work on behalf of the buyer, go to the seller's plant to check or the warehouse to check the performance of the machine and see that the seller has sold exactly as per the contract. The specification, performance, quality whatever they specified to the buyer they are exactly producing the same, they are not giving any defective item there. So, this agency goes there and checks the performance and then they stamp it and seal it.

So SGS or OSS these companies they go and stamp and seal it, after that you can once you receive the consignment at customs port in your country, you can only see and no one can break their seal, so that us sealed basically. TPI stands for as I said competence, neutrality and objectivity. Is a direct contrast to pure and self-declaration made by the manufacturer and supplier. TPI certificate is marketing tool due to transparency involved.

Banks accept TPI when sanctioning a loan to buyer. So the TPI is very important. You bought a brand new machine, you are not getting a second hand old machine, so the TPI takes care of that. So that is very important, you never know the foreign supplier is selling a brand new machine to you or really selling a second hand machine to you or giving a junk to you. So, this third party inspector goes and checks the quality of the product and the performance and then seals that product, so that is the job of the third party inspector.

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VOLUMETRIC CARGO

Shipping cost is often determined by the amount of space that a pkg takes up rather than weight of the pkg.

Say Package L= 60 Cm ; W = 50 cms & H = 40 cms.

Formula is L x B x H divided by DIM Factor.

For Intl Airfreight 60x50x40 / 5000 = 24 Kg.

For Road DIM is 4750 , For Sea LxBxH x 100.
(120 Kg for same 60x50x40 Pkg)

Volumetric cargo; shipping cost is often determined by the amount of space that the package takes up rather than the weight of the package. Say a package length is 60 centimetre, weight is 50 centimetre, height is 40 centimetre. Formula known as length × breadth × height divided by the DIM factor. So what is DIM factor, I will come to that. For international airfreight DIM factor is 5000. So that means length × breadth × height divided by 5000.

So 5000 is a DIM factor for international air freight. For DIM factor by road is 4750, DIM factor by road and for sea DIM factor is 100. So that is the DIM factor. So, there is a small typography it should be divided by 100, not into 100.

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METHODS OF PAYMENT, COMMON PROCEDURES & INSTRUMENTS OF REMITTANCE FOR IMPORT – EXPORT BUSINESS

Then comes the most another very important part about the; payments. How do you make payments in an international transaction? So, there are various ways of making the payment

and which payment is safe for you, which are the payments are unsafe for you and remittances all those we learn here. This is a very practical learning which is required mandatorily for any international manager. So, you must know various terms, methods of payment and common and procedures instruments for this.

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A Recap of Previous Discussion

- Business Transaction
- Title of Goods
- Certificate for Country of Origin
- Harmonized Tariff System (HS Code)
- Hazardous Cargo Classification & MSDS.
- Force Majeure.
- Protectionism / Tariff & Non tariff Barriers.
- Dumping & Anti Dumping.
- Inspection- Self and Third Party.
- Quick Response Time Or Cycle Time Compression.
- Meeting deadline on deliveries.

A recap just what we studied. We studied what is a business transaction. We studied the title of goods. We studied certificate of origin. We studied the Harmonized Tariff system HS code. We studied the hazardous cargo classification or MSDS Material Safety Data, force majeure clause. We studied protectionism and tariffs and non-tariff barriers, dumping and anti dumping. We studied inspection; self-inspection and third party.

Self-inspection is not always possible because if the distance of travel and all those is not possible, sometimes we take the help of third party. Quick response or Cycle Time Compression and meeting the deadline of the deliveries.

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INCO Terms [Int'l Commercial Terms]

- Incoterms - published by Int'l Chamber of Commerce(ICC) since 1936, aimed to help understand the commercial trade.
- Inco-terms, recognized globally, prevent ambiguity by clarifying doubts of Buyers and Sellers.
- May be called as a "short-hand" to spell exact terms of a business deal.
- Examples: EXW – Ex Works , DAT- Delivered at Terminal (Chennai) (named place).
- Requirement for effective movement of goods: involvement of three parties, namely, the buyer, seller, and the carrier, plus clarity over national laws (no confusion).
- Incoterms are a clause in a Buy/Sell contract that specifies when the Seller's risk ends and the Buyer's risk begins.
- The means of transportation are used to classify Incoterms. 1- Any means of transportation, and 2- Ocean/Sea and inland waterway modes.

Now, a very important term we will discuss which is known as Incoterms or international commercial terms. So, throughout the world all countries follow these international commercial terms, published by the International Chamber of Commerce since 1936, aimed to help understand the commercial trade. So, it is a uniform practice followed by every country in the world and this is known as INCO terms or International Chamber of Commerce, this followed in 1936.

So, Incoterms recognized globally, prevent ambiguity by clarifying doubts of buyers and sellers. So it is a uniform guideline. May be called as a shorthand to spell exact term of a business deal. Example Ex Works, what does it mean? DAT, delivery at terminal what does it mean? So, that is all these definitions and what is the responsibility, legal term in that, Incoterms explain each one of that.

So, be with me, I will try to explain to you as simple as possible because these are very crucial for you, the Incoterms in this international business. Requirement for effective movement of goods, involvement of third parties, namely the buyer, seller, carrier plus clarity of national laws. Incoterms are a clause in a buy and sell contract that specifies when the seller's risk ends and when the buyer's risk begins.

So, this line is very important. Incoterm says that when up to which point the risk of the material or the responsibility the material is with the seller and where it ends and when the buyer's risk starts. So, Incoterms defines that. So, once I explained to you it may be a little bit confusing timing being, but once you understand what is Incoterm it will be clear to you. This

means that transportations are used to classify Incoterms, any means of transportation ocean, air, inland or Incoterms modes.

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INCO TERMS

INCOTERMS are divided into 4 groups namely E,F,C & D.

GROUP – E

This group contains only one Incoterm namely EXW - Ex. Works.

This term represents minimum liability on the part of the Seller. Seller's responsibility ends with delivering goods at his factory doc. The rest of the risk and expenses involved are borne by the Buyer and would have to be carried out through his agent at Origin.

So, the Incoterms, there are five different Incoterms. So, when Incoterm is known as Group E Incoterms, this group contains only Incoterms known Ex Works. So, what does it mean Ex Works? I am telling the price of this pen is 10 dollars Ex Work, what does it mean? This term represents minimum liability on the part of the seller. I am the seller, so my liability, the seller's responsibility ends with delivering the goods at the factory.

The rest of the risk and expenses involved are borne by the buyer and would have to be carried through the agent at the origin. So, that means if I am quoting 10 dollars for this pen, this responsibility or my responsibility as a seller is to hand over these goods at my works or at my factory there and then the next from there, from factory to the nearest sea port or airport and then by air to the importer's country.

And then after clearance to importer's warehouse in different destination in that country, all responsibility will be by the buyer, not by the seller. So as a seller, the responsibility ends if I quote the price Ex Works. That means my responsibility of delivering the goods is at my plant, at my factory or my warehouse or wherever I say that is Ex Works. Then the all cost, insurance of inland transportation, say my factory is in Kolkata, sorry let us understand my factory is somewhere in Kharagpur. My price of this product is Ex Works Kharagpur.

That means, I am quoting this price at my Kharagpur workshop at my factory. From Kharagpur to Kolkata airport the cost of these travel by the road transport will be the buyer's responsibility, say the buyer is in United States. So, buyer has to bear the cost from Ex Works from the factory to Kolkata port and if the consignment suppose you are sending by air, then the cost of transportation by air will be borne by the buyer in US. And then insurance also from Kharagpur to Kolkata and Kolkata to US port will be borne by the buyer in US.

And after reaching this consignment in US, then clearing from US, say in US maybe cleared at JFK airport at New York. And then after clearing this, the responsibility of the cost of inland transportation from New York say to nearest another city in Washington will be taken care by the buyer in Washington and the transportation and insurance up to Washington will be borne by him. My responsibility of the price includes only up to my factory in Kharagpur that is known as Group E which is the Incoterms Group E which is Ex Works.

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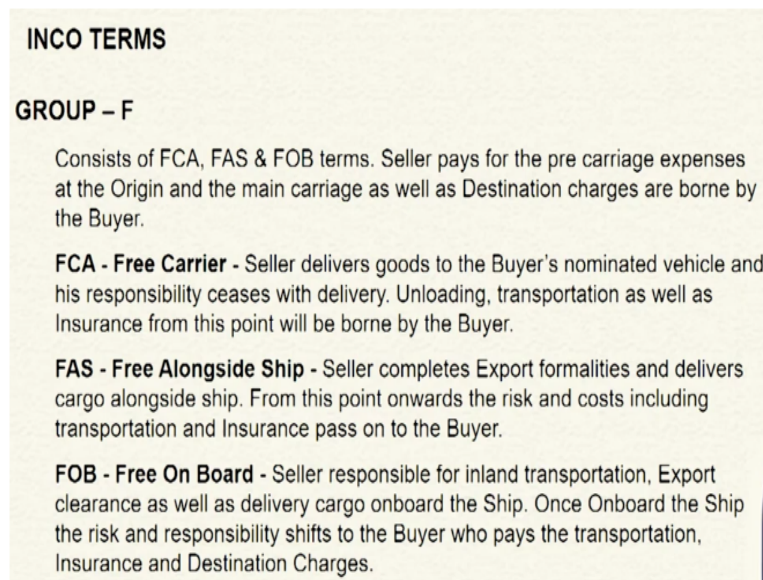

Then Incoterms comes Group F Incoterms. So, what is Group F? There are three different types of Incoterms which is known as FCA, FAS and FOB terms. Seller pays for the pre carriage expenses. If I quote as a seller, my price is FCA, FAS or FOB, I will explain all three of this, at the origin and the main carriage as well as destination charges are borne by the buyer. So, up to what point is I will carry my cost?

An FCA, free air carrier that means seller delivers the goods to the buyer nominated vehicle and his responsibility ceases with delivery. Unloading and transportation as well as insurance from the point will be borne by the buyer. See Incoterms how clearly defines up to what point

buyer’s responsibility and from where the buyer’s responsibility starts and up to what point is a seller's responsibility.

So in free carrier or if it is a free alongside ship, that means if it is a ship, alongside of the ship by the seller completes the export formalities and delivers the cargo alongside of the ship. So, it is not boarded in the ship, it is alongside of the ship and from this point onwards the risk and cost of including transportation and insurance passes on to the buyer. So, if my payment like terms if I quoted 100 dollars, if it is Kolkata port, so my cost from Kharagpur up to Kolkata port as a seller is with me, I have to bear.

The insurance from Kharagpur to Kolkata port I have to beer, but up to Kolkata port alongside of the ship is my responsibility, from that point boarding to the ship and the cost of insurance from there up to the buyer’s country will be borne by the buyer, not by dealer, not by me, so if it is up to the responsibility alongside of the ship. And the third one is free on board. Sailor is responsible for inland transportation which I said Kharagpur to say Kolkata.

Export clearance as well as delivery cargo on board to the ship up to the ship. So, I am putting it inside the ship also. Once on board the ship risk and responsibility shift to the buyer. So, my responsibility ends if I am quoting the price up to the ship. So, my price FOB 100 dollars, is the cost all these costs up to the ship, so insurance and everything up to the ship. Now from that ship up to the destination on the buyer’s country will be the buyer’s responsibility.

And once the onboard ship risk and responsibility shifts to the buyer who pays the transportation, insurance and destination charges, so all these will be the buyer’s responsibility. So clearly see the terms of your seller, are you quoting Ex Works, Ex Works means what? As per Incoterms we have clearly said up to what point seller’s responsibility and what point the buyer’s responsibility starts.

Then Group F up to what point is the seller’s responsibility and up to what point buyer’s responsibility of paying the insurance and the cargo charges. So, there are three different types of F terms.

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INCO TERMS

GROUP – C

Seller arranges for and pays for transportation but does not take on the risk.

CFR - Cost and Freight - Seller pays transportation cost up to Destination Port. Insurance and Risk are with the Buyer from the time the Seller delivers cargo on board.

CIF - Cost, Insurance & Freight - Seller pays for transportation and Insurance but the Risk passes to the buyer as soon as the cargo is delivered on board the ship.

CPT – Carriage Paid To: Seller pays transportation cost. The risk and insurance lies with the buyer from the point of delivery of cargo to the carrier by the Seller.

CIP - Carriage & Insurance Paid to - Seller pays transportation and Insurance. The risk passes to the buyer when Seller delivers cargo to carrier.

Then comes C terms. So these C terms is CFR, cost and freight. So, there are three different C terms. One is cost and freight. Seller pays the transportation cost up to the destination port. Insurance and risk are with the buyer. See the I word is not there, insurance is not there. So, I am taking the cost, seller is taking the cost, transportation cost up to the destination port, insurance and risks are with the buyer. So, if the seller is quoting CFR, then the buyer has to take care of the insurance, be careful, this is the Incoterms.

Why Incoterm is so crucial for you and I have seen in my professional career a lot of people misunderstanding of Incoterms has created a huge problem or maybe financial loss for the company because did not understand the meaning of these terms. The company if the term is given CFR it mentions that the seller’s responsibility is not the insurance, insurance is a buyer's responsibility. CIF; in this case cost, insurance, and freight everything is paid by the seller.

So, the seller pays the transportation, insurance, but the risk passes to the buyer as soon as the cargo delivered on board the shipment. CPT, carriage paid to; seller pays transportation costs. The risk and insurance with buyer from the point of delivery of cargo to the carrier by the seller and CIP which is carriage and insurance paid to, seller pays the transportation and insurance. The risk passes on to the buyer when the seller delivers the cargo to the carrier. So, these are the various C terms of the Incoterms. Thank you very much.