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IMPORT PROCESS

Buying

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Introduction

What is Import?

An import is a good or service bought in one country that was produced in another. Imports and exports are the components of international trade. If the value of a country's imports exceeds the value of its exports, the country has a negative balance of trade (BOT), also known as a trade deficit.

Documents In involved an Import Transaction

Proforma Invoice it is a record that contains points of interest with regards to the quality, review, design, mass, weight, and cost of the exported merchandise and the terms and conditions on which their transportation will occur.

Import order or Indent it is a documentation in which the importer orders for supply of imperative merchandise to the supplier. The order containing the data, for example, amount and nature of merchandise value, a technique for sending the merchandise, packing process, method of payment and so forth.

Shipment counsel the exporter sends shipment advice to the importer for telling him that the merchandise has been dispatched. It contains invoice number, bill of lading/airway bill number and date, the name of the vessel to date, the port of export, description of products and amount and the date of cruising of the vessel.

Bill of lading it is readied and marked by the captain of the ship recognizing the receipt of merchandise on board. It contains terms and conditions on which the products are to be taken to the destination.

Bill of entry it is a form provided by the customs office to the importer who filled it at the duration of getting the merchandise. It must be in triplicate and is to be submitted to the customs office.

Letter of credit it is a document that contains a certification from the importer bank to the exporter’s bank that it is attempted to respect the payment up to a specific sum of the bills issued by the exporter for transportation of the products to the importer.

Trade Enquiry it is a written request made by a logistic firm to the abroad provider for giving data in regards to the cost and different terms and conditions for trading merchandise.

Import process

Trade Enquiry The first stage in an import transaction, like any other transaction of purchase and sale relates to making trade enquiries. An enquiry is a written request from the intending buyer or his agent for information regarding the price and the terms on which the exporter will be able to supply goods.

The importer should mention in the enquiry all the details such as the goods required, their description, catalogue number or grade, size, weight and the quantity required. Similarly, the time and method of delivery, method of packing, terms and conditions in regard to payment should also be indicated.

In reply to this enquiry, the importer will receive a quotation from the exporter. The quotation contains the details as to the goods available, their quality etc., the price at which the goods will be supplied and the terms and conditions of the sale.

Procurement of Import License and Quota The import trade in India is controlled under the Imports and Exports (Control) Act, 1947. A person or a firm cannot import goods into India without a valid import license. An import license may be either general license or specific license. Under a general license goods can be imported from any country, whereas a specific or individual license authorizes to import only from specific countries.

The Government of India declares its import policy in the Import Trade Control Policy Book called the Red Book. Every importer must first find out whether he can import the goods he wants or not, and how much of a certain class of goods he can import during the period covered by the relevant Red Book.

For the purpose of issuing license, the importers are divided into three categories:

- Established importer
- Actual users
- Registered exporters, i.e., those import under any of the export promotion schemes.

In order to obtain an import license, the intending importer has to make an application in the prescribed form to the licensing authority. If the person imported goods of the class in which he is interested now during the basic period prescribed for such class, he is treated as an established importer.

An established importer can make an application to secure a Quota Certificate. The certificate specifies the quantity and value of goods which the importer can import. For this, he furnishes details of the goods imported in any one year in basic period prescribed for the goods together with documentary evidence for the same, including a certificate from a chartered accountant in the prescribed form certifying the c.i.f. value of the goods imported in the selected year.

The c.i.f. value includes the invoice price of the goods and the freight and insurance paid for the goods in transit. The quota certificate entitles the established importer to import up to the value indicated therein (called Quota) which is calculated on the basis of past imports. If the importer is an actual user, that is, he wants to import goods for his own use in industrial manufacturing process he has to obtain license through the prescribed sponsoring authority.

The sponsoring authority certifies his requirements and recommends the grant of license. In case of small industries having a capital of less than Rs.5 lakhs, they have to apply for licenses through the Director of Industries of the state where the industry is located or some other authority expressly prescribed by the Government.

Registered exporter importing against exports made under a scheme of export promotion and others have to obtain license from the Chief Controller of Exports and Imports. The Government issues from time to time a list of commodities and products which can be imported by obtaining a general permission only. This is called as O.G.L. or Open General License list.

Obtaining Foreign Exchange After obtaining the license (or quota, in case of an established importer), the importer has to make arrangement for obtaining necessary foreign exchange since the importer has to make payment for the imports in the currency of the exporting country.

The foreign exchange reserves in many countries are controlled by the Government and are released through its central bank. In India, the Exchange Control Department of the Reserve Bank of India deals with the foreign exchange. For this the importer has to submit an application in the prescribed form along-with the import license to any exchange bank as per the provisions of Exchange Control Act.

The exchange bank endorses and forwards the applications to the Exchange Control Department of the Reserve Bank of India. The Reserve Bank of India sanctions the release of foreign exchange after scrutinizing the application on the basis of exchange policy of the Government of India in force at the time of application.

The importer gets the necessary foreign exchange from the exchange bank concerned. It is to be noted that whereas import license is issued for a particular period, exchange is released only for a specific transaction. With liberalization of economy, most of the restrictions have been removed as rupee has become convertible on current account.

Placing the Indent or Order After the initial formalities are over and the importer has obtained the license quota and the necessary amount of foreign exchange, the next step in the import of goods is that of placing the order. This order is known as Indent. An indent is an order placed by an importer with an exporter for the supply of certain goods.

It contains the instructions from the importer as to the quantity and quality of goods required, method of forwarding them, nature of packing, mode of settling payment and the price etc. An indent is usually prepared in duplicate or triplicate. The indent may be of several types like open indent, closed indent and Confirmatory indent.

In open indent, all the necessary particulars of goods, price, etc. are not mentioned in the indent, the exporter has the discretion to complete the formalities, at his own end. On the other hand, if full particulars of goods, the price, the brand, packing, shipping, insurance etc. are mentioned clearly, it is called a closed indent. A confirmatory indent is one where an order is placed subject to the confirmation by the importer's agent.

Dispatching a Letter of Credit Generally, foreign traders are not acquainted to each other and so the exporter before shipping the goods wants to be sure about the creditworthiness of the importer. The exporter wants to be sure that there is no risk of non-payment. Usually, for this purpose he asks the importers to send a letter of credit to him.

A letter of credit, popularly known as 'L/C or 'L.C is an undertaking by its issuer (usually importer's bank) that the bills of exchange drawn by the foreign dealer, on the importer will be honored on presentation up to a specified amount.

Obtaining Necessary Documents After dispatching a letter of credit, the importer has not to do much. On receipt of the letter of credit, the exporter arranges for the shipment of goods and sends Advice Note to the importer immediately after the shipment of goods. An Advice Note is a document sent to a purchaser of goods to inform him that goods have been dispatched. It may also indicate the probable date on which the ship is expected to reach the port of destination.

The exporter then draws a bill of exchange on the importer for the invoice value of goods. The shipping documents such as the bill of lading, invoice, insurance policy, certificate of origin, consumer invoice etc., are also attached to the bill of exchange. Such bill of exchange with all these attached documents is called Documentary Bill. Documentary bill of exchange is forwarded to the importer through a foreign exchange bank which has a branch or an agent in the importer's country for collecting the payment of the bill.

There are two types of documentary bills:

- D/P, D.P. (or Documents against payment) bills.
- D/A, D.A. (or Document against acceptance) bills.

If the bill of exchange is a D/P bill, then the documents of title of goods are delivered to the drawee (i.e., importer) only on the payment of the bill in full. D/P bill may be sight bill or usance bill. In case of sight bill, the payment has to be made immediately on the presentation of the bill. But usually a grace period of 24 hours is granted.

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Usance bill is to be paid within a particular period after sight. If the bill is a D/A bill, then the documents of title of goods are released to the drawee on his acceptance of the bill and it is retained by the banker till the date of maturity. Usually 30 to 90 days are provided for the payment of the bill.

Customs Formalities and Clearing of Goods After receiving the documents of title of the goods, the importer's only concern is to take delivery of the goods, when the ship arrives at the port and to bring them to his own place of business. The importer has to comply with many formalities for taking delivery of goods. Unless the following mentioned formalities are complied with, the goods lie in the custody of the Custom House.

(a) To obtain endorsement for delivery or delivery order:

When the ship carrying the goods arrives at the port, the importer, first of all, has to obtain the endorsement on the back of the bill of lading by the shipping company. Sometimes the shipping company, instead of endorsing the bill in his favor, issues a delivery order to him. This endorsement of delivery order will entitle the importer to take the delivery of the goods.

The shipping company makes this endorsement or issues the delivery order only after the payment of freight. If the exporter has not paid the freight, i.e., when the bill, of lading is marked freight forward, the importer has to pay the freight in order to get green signal for the delivery of goods.

(b) To pay Dock dues and obtain Port Trust Dues Receipts:

The importer has to submit two copies of a form known as 'Application to import' duly filled in to the 'Lading and Shipping Dues Office'. This office levies a charge on all imported goods for services rendered by the dock authorities in connection with lading of goods. After paying the necessary charges, the importer receive back one copy of the application to import as a receipt 'Port Trust Dues Receipt'.

(c) Bill of Entry:

The importer will then fill in form called Bill of Entry. This is a form supplied by the custom office and is to be filled in triplicate. The bill of entry contains the particulars regarding the name and address of the importer, the name of the ship, packages number, marks, quantity, value, description of goods, the name of the country wherefrom goods have been imported and custom duty payable.

The bill of entry forms are of three types and are printed in three colors-Black, Blue and Violet. A black form is used for non-dutiable or free goods, the blue form is used for goods to be sold within the country and the violet form is used for re-exportable goods, i.e., goods meant for re-export. The importer has to submit three forms of bill of entry along-with Port Trust Dues Receipt to the customs office.

(d) Bill of Sight:

If the importer is not is a position to supply the detailed particulars of goods because of insufficiency of information supplied to him by the exporter, he has to prepare a statement called a bill of sight. The bill of sight contains only the information possessed by the importer along-with a remark that he is not in a position to give complete information about the goods. The bill of sight enables him to open the package and examine the goods in the presence of custom officer so as to complete the bill of entry.

(e) To pay Customs or Import Duty:

There are three types of imported goods:

- Non dutiable or free goods
- Goods which are to be sold within the country or which are for home consumption
- Re-exportable goods i.e. goods meant for re-export. If the goods are duty free, no import duty is to be paid at the custom office.

Custom authorities will permit the delivery of such goods after usual examination of the goods. But if the goods are liable for duty, the importer has to pay custom or import duty which may be based on weight or measurement of goods, called Specific Duty or on the value of imported goods Ad-valorem Ditty.

There are three types of import duties. On some goods quite low duties are levied and they are called revenue duties. On some others, quite high duties are charged to give protection to home industries against foreign competition. While goods imported from certain nations are given preferential treatment for the levy of import duties and in their case full protective duties are not charged.

(f) Bonded and Duty paid Warehouses:

The port trust and custom authorities maintain two types of warehouses-Bonded and Duty paid. These warehouses are situated near the dock and are very useful to importers who do not have godown of their own to store the imported goods or who, for business reasons, do not wish to carry them to their own godowns.

The goods on which the duty has already been paid by the importer can be kept in the duty paid warehouses for which a receipt called 'warehouse receipt' is issued to him. This receipt is a document of title and is transferable. The bonded warehouses are meant for goods on which duty has been paid by the importer. If the importer cannot pay the duty, he may keep the goods in Bonded warehouses for which he is issued a receipt, called 'Dock Warrant'. Dock Warrant, also like warehouses receipt, is a document of title and is transferable.

The bonded warehouses are used by the importer when:

- He has no godown of his own.
- He cannot pay the duty immediately.
- He wants to re-export the goods and thereby does not want to pay the duty.

(iv) He wants to pay the duty in installments.

A nominal rent is charged for the use of these warehouses. One special advantage of these warehouses is that the importer can sell the goods and transfer the title of goods merely by endorsing warehouse receipt or dock-warrant. This will save the importer from the trouble and expenses of carrying the goods from the warehouses to his godown.

(g) Appointment of clearing Agents:

By now we understand that the importer has to fulfill many legal formalities before he can take delivery of goods. The importer may take the delivery of the goods himself at the port. But it involves much of time, expenses and difficulty. Thus, to save himself from the botheration of complying with all the complicated formalities, the importer may appoint clearing agents for taking the delivery of the goods for him. Clearing agents are the specialised persons engaged in the work of performing various formalities required for taking the delivery of goods on behalf of others. They charge some remuneration on performing these valuable services.

(viii) Making the Payment:

The mode and time of making payment is determined according to the terms and conditions as agreed to earlier between the importer and the exporter. In case of a D/P bill the documents of title are released to the importer only on the payment of the bill in full. If the bill is a D/A bill, the documents of title of the goods are released to the importer on his acceptance of the bill. The bill is retained by the banker till the date of maturity. Usually, 30 to 90 days are allowed to the importer for making the payment of such bills.

(ix) Closing the Transactions:

The last step in the import trade procedure is closing the transaction. If the goods are to the satisfaction of the importer, the transaction is closed. But if he is not satisfied with the quality of goods or if there is any shortage, he will write to the exporter and settle the matter. In case the goods have been damaged in transit, he will claim compensation from the insurance company. The insurance company will pay him the compensation under an advice to the exporter.