Course Name	**: Customs clearing and forwarding**
Course Code	**: APBBS 604**
Course Level	**: Level 5**
Credit Units	**: 4 CU**
Contact Hours	**: 60 Hrs**

Course description

This course covers the customs clearing and freight forwarding industry as well as the complication of statuary documentation. It serves learners already employed in the industry or those wishing to embark on a career in customs clearing and forwarding. This will also deal with □□Freight Forwarding and Customs Compliance , □□International Trade , □□Transport and Shipping

Course Objectives/ Learning out comes

By the end of the course, students should be able to;

1. Explaining the functions carried out in an airfreight export, import and consolidation operation.
2. Describe the functions carried out by an over border freight forwarding operation.
3. Describing the work carried out by the clearing/ compliance function in forwarding operation.
4. Describing typical support functions within a freight forwarding organization.
5. Describing a work of a marketing sales department in a freight forwarding organization.

Course Content

Introduction to Customs Clearance –

- Meaning,
- Scope and
- Documentation

CHA licensing regulations, 1984

- Qualifications
    - Clarifications
- _Multimodal transport operators as CHAs
- Licence types
    - Temporary
    - Regular
    - _Disqualifications
- Record-keeping
- _Duties
- Handling changes
- _Information technology

Surface Freight Forwarding environment:

- Roles played by those involved in international multimodal logistics operations.
- Infrastructure for the transport of internationally traded goods by surface.
- Equipment used to pack and transport goods by surface.

Airfreight forwarding environment

- Role of the freight forwarder in the airfreight environment.
- Reasons for using different airfreight services
- Different equipment is used for handling and transportation of air freight cargo.

Clearing And Forwarding Practice

- Customs Declaration
- Cargo Storage And Warehousing
- Shipping Practice

Economics Of Sea Transport And International Trade

- Marine Insurance And Law
- Port Agency
- Ship Management
- Marine Insurance
- Shipping Law
- Forwarding Practice

Import And Export Policy

- Documentation For Custom
- Application Of Tariffs

Mode of delivery Face to face lectures

- **Assessment**
- **Coursework** 40%
- **Exams** 60%
- **Total Mark** 100%

Customs Clearance - Meaning, Scope and Documentation

Customs Departments are the government designated authority to implement the policies related to import and export, collect customs duties and facilitate movement of people, goods, and cargo into and out of the country.

Area of Operations and Authority

Customs departments have offices at all seaports, airports and border gateways that are essentially the exit and entry points for people and cargo movements into and out of the country.

Customs agencies are empowered to make arrests, confiscate goods and enjoy powers similar to that of police departments.

Customs and Trade Logistics

Every country annually publishes its policy for Foreign Trade, which stipulates the conditions under which goods and services are eligible to be exported or imported. Customs departments implement the provisions of the policy under customs rules, regulations and tariffs.

Imports in many countries may be allowed freely, or some categories may be permitted with due licenses. Many items are also published as banned for import and not allowed entry into the country.

All of the items imported into the country have to be custom cleared. This applies to the items brought in as personal effects and also imported by trade and business establishments including governmental and defense agencies. Necessary stipulated duties would have to be paid before the goods are released by Customs.

Cargo imported into the country from any point of entry is warehoused at Customs bonded area under customs jurisdiction until it is released after clearance.

Customs Department - An Introduction

International Trade is facilitated and controlled by Countries with the help of Foreign Policy, Export Import Regulations, Schedule and Tariff of Import and Export Duties as well as Trade Laws and Regulations.

Customs Department is the Federal Government Agency that is invested with Authority to conduct Customs Valuation and collect Import as well as Export Duties on behalf of the Government.

Customs are present in all points of entry into and out of the country. These include airports, sea ports, on road border check posts and any other point of exit and entry into the country.

Customers Departments are invested with quasi powers similar to the police and work in close co-ordination with the border security, police and other security intelligence departments.

Imports and Exports cover two channels of transport of goods. Business related trade is carried on through cargo imports. Caro Import as well as export can be consigned through road network, via shipping as well as airfreight. All the said modes will be covered by Customs Department.

The second mode of export and import relates to personal baggage. Though this mode does not have much of revenue implications but still the baggage has to go through customs inspection to ensure illegal items and prohibited items are not being imported or exported. Items like Narcotics, illegal weapons and cash etc are always smuggled into the country through various routes. Customs department has revenue intelligence teams that are trained to prevent such acts and arrest the accused.

In the Airports and Ports, Customs have designated area and offices where the exporters deposit the export consignments. After customs clearance the cargo is directly handed over to the Airline or the Shipping line from Customs department for onward shipment.

Similarly, imports cargo is offloaded from the aircraft or ship into the Customs designated area and store until it is custom cleared and released to the importer.

The customs designated area is always a bonded area where in only customs is permitted entry. The cargo that is kept within the bonded area cannot be moved or taken out without Customs permission.

Customs Department officials inspect the inbound cargo and based on the descriptions of the items in Invoice and other documents, assign the correct tariff to arrive at the valuation of the consignment based on the Invoice value. The duty amount is calculated and once the duty payment is made by the importer, the cargo is released. The process of submitting the cargo for customs clearance as well as facilitating the documentation and clearance process is handled by Third Party Service Providers called Customs Brokers.

Similar process is followed for customs exports too. Customs Brokers file documents on behalf of the clients to Customs department, facilitate cargo inspection and approval to enable exports to be completed.

Customs Departments also work closely with border security forces and revenue intelligence agencies to work on information related to smuggling and illegal entrants into the country.

Revenue intelligence wing of Customs deals with matters pertaining to valuation of imports and try to check transfer pricing under valuation, under invoicing etc done by importers to evade import duty payments. They also build database of international prices of specific commodities and the trends in the markets to be able to spot under valuation attempts by importers.

A Brief on Customs Brokerage

International trade

International trade is regulated through tariffs and trade laws established by the Country's Federal Governments to control the imports and exports of the country. The Government invests executive powers to the Customs Departments, headed by Custom's Commissioners to administer the policies and tariffs on all imports and exports into and out of the country.

Customs Clearance Departments are setup in all ports of entry and exit at the Country's borders including Airports, Sea Ports and Check Posts at Road.

Customs Clearance involves valuation of the goods for their authenticity in terms of both physical inspection as well as value assessment. The Customs inspect the documents submitted to ascertain that the valuation on the Commercial Invoice is on par with the international markets and approve the assessment based on appropriate classification. Once the consignment is assessed, valuation determined the demand for duty is made on the Importer. On receipt of duty payment, the consignment is released out of the Customs bond.

The entire process of imports is governed not only by the Customs Laws, but all imports are required to be compliant with the other relevant Boards and Bodies like Food and Drug Administration, Department of Agriculture approval, Fisheries and Wildlife Department approval etc. While the import consignment is in the custody of Customs, the rest of the tests and approvals would have to be acquired before the customs can release the consignment.

The above process of customs clearance can take from anywhere from one day to seven days depending upon each case. There are several commercial documents that are to be submitted by the Importer and few Custom related documents have to be prepared and submitted to enable customs clearance of the imports.

The customs clearance process and co-ordination with the Customs and other agencies necessitates the services of engaging a Customs Clearance Broker or Brokerage Agency.

Customs Clearance Brokerage Agency is a Third Party Service Agency that is licensed by Customs Department to operate and represent the Importer. Customs Clearance License Holder is required to have passed Customs Test and Examination and is required to be fully conversant with Customs Laws, Rules, and Processes and ensure adherence to the same.

There are several Customs Clearance Service Providers who are specializing in the field. There are many freight forwarder companies including Multi National Companies that own and operate Customs Clearance services for their clients.

The Customs Clearance process requires several documents including commercial documents from the Buyer, Seller as well as bill of Transport from the Transporting Company, Certificate of Origin from the Seller country etc. Besides the Customs Bill of Entry is one of the key documents required to be submitted along with the rest of the documents. These documents are filed electronically from the Customs Broker's office before the consignment land. From the time the consignment lands and is warehoused at the Custom's Bonded Warehouse, there is a free period of three days to seven days (varies from country to country) within which the customs clearance process would have to be completed and the consignment released. If not the consignment then starts accruing demurrage on daily basis and would have to be paid up by the Importer before clearance of the Consignment.

Customs Clearance Agent plays a very crucial role in representing the Importer with Customs and takes the responsibility for compliance of all Rules and Regulations on behalf of the Importer.

History of International Trade

Any time you walk into a super market and pick up any stuff like a knife or a toy and chances are that the item has been manufactured in China or assembled in Mexico. Pick up coffee pods and you will see that they have been imported from Africa. When you shop for clothes, it is quite likely that you will see 'Made In China' label.

We all know that international trade has been in vogue for centuries and all civilizations carried on trade with other parts of the world. The need for trading exists due to the variations in availability of resources and comparative advantage. In the present context where technology and innovation in all fields have thrown open borders to globalization, no country can afford to remain isolated and be self-sufficient.

International trade has a rich history starting with barter system being replaced by Mercantilism in the 16th and 17th Centuries. The 18th Century saw the shift towards liberalism. It was in this period that Adam Smith, the father of Economics wrote the famous book 'The Wealth of Nations' in 1776 where in he defined the importance of specialization in production and brought International trade under the said scope. David Ricardo developed the Comparative advantage principle, which stands true even today.

All these economic thoughts and principles have influenced the international trade policies of each country. Though in the last few centuries, countries have entered into several pacts to move towards free trade where the countries do not impose tariffs in terms of import duties and allow trading of goods and services to go on freely.

The 19th century beginning saw the move towards professionalism, which petered down by end of the century. Around 1913, the countries in the west say extensive move towards economic liberty where in quantitative restrictions were done away with and customs duties were reduced across countries. All currencies were freely convertible into Gold, which was the international monetary currency of exchange. Establishing business anywhere and finding employment was easy and one can say that trade was really free between countries around this period.

The First World War changed the entire course of the world trade and countries built walls around themselves with wartime controls. Post world war, as many as five years went into dismantling of the wartime measures and getting back trade to normalcy. But then the economic recession in 1920 changed the balance of world trade again and many countries saw change of fortunes due to fluctuation of their currencies and depreciation creating economic pressures on various Governments to adopt protective mechanisms by adopting to raise customs duties and tariffs.

The need to reduce the pressures of economic conditions and ease international trade between countries gave rise to the World Economic Conference in May 1927 organized by League of Nations where in the most important industrial countries participated and led to drawing up of Multilateral Trade Agreement. This was later followed with General Agreement of Tariffs and Trade (GATT) in 1947.

However once again depression struck in 1930s disrupting the economies in all countries leading to rise in import duties to be able to maintain favorable balance of payments and import quotas or quantity restrictions including import prohibitions and licensing.

Slowly the countries began to grow familiar to the fact that the old school of thoughts were no longer going to be practical and that they had to keep reviewing their international trade policies on continuous basis and this interns lead to all countries agreeing to be guided by the international organizations and trade agreements in terms of international trade.

Today the understanding of international trade and the factors influencing global trade is much better understood. The context of global markets have been guided by the understanding and theories developed by economists based on Natural resources available with various countries which give them the comparative advantage, Economies of Scale of large scale production, technology in terms of e commerce as well as product life cycle changes in tune with advancement of technology as well as the financial market structures.

For professionals who are occupying management or leadership positions in Organizations, understanding the background to the international trade and economic policies becomes necessary as it forms the backdrop for the business organizations to charter their course for growth.

Backdrop to International Trade

Any student or professional wanting to understand more about Imports and Exports would have to understand the history and economic principles that have chartered the course of international trade to its current regime.

In the backdrop of the countries economic policies and financial conditions such as its balance of payments situation, the governments formulate rules and regulations that govern the countries trade with other countries.

World Trade Organization or WTO as it is called is the International Organization that deals with the global rules of trade between nations. Its primary function and goal is to facilitate smooth and free flow of trade between countries.

WTO came into being on 1st January 1995 and is Head Quartered in Geneva, Switzerland. The Organization was created at the Uruguay Round Negotiations and consists of 153 member countries. A Director General and functions with a Secretariat Staff of 637 heads WTO.

WTO functions primarily as the Forum for trade negotiations between countries. Its main functions include Administering WTO Trade Agreements, Handling Disputes, Monitoring National Trade policies of member countries, Technical assistance to Member Countries. Considered to be one of the youngest of International Organizations, the WTO is regarded as a Successor to the GATT agreement that came into being in the after warmth of Second World War.

Historically treaties have been the agreements that ruled between two countries. Post Second World War and creation of WTO and other organizations have paved way for more and more of international co-operations in the field of politico economic environment, with the result there have come to existence many regional, intra regional and global super nations groups engaging in regional trade agreements.

Creation of The European Union is one of the most important events in the History of our Civilization. EU, known as European Union was formed by Masstricht Treaty in 1991 and laid foundation for an economic and monetary union that included creation of one single currency across member nations. The European Free Trade Association was setup in 1960 with one of the main aims to establish multilateral associations between the member countries to abolish customs barriers and creating a single free market across European Union.

Some of the other associations and agreements that have come into being are The North American Free Trade Agreement (NAFTA) signed by Canada, Mexico and US in 1994. The Association of Southeast Asian Nations (ASEAN)

Complexities arise in International Trade due to the nature of economies of the countries all over the world. Less Developed Countries and Developing Countries economies are agriculture based and seasonal and their reliance on export markets is very high. They in turn import manufactured goods from developed countries where in the cost of imports is fairly stabilized. With the variation in export earnings and high or stabilized imports, the countries stand to face huge fluctuations in terms of international trade which in turn effects their domestic economy.

However amongst the developed countries the international trade has always been beneficial. In fact most of the EU member countries have managed to increase their incomes due to the removal of trade barriers within the EU. But the trade relations between developed and under developed countries have always been the bone of contention and controversies. The business orientations of the Multi National Companies who establish manufacturing as well as selling in countries where labor and resources are cheaper is seen as a form of exploitation. WTO meetings and conferences are used as a platform by various interest groups to bring to the table various issues concerning public health and safety, environmental impact and other evils arising out of international trade.

We are slowly seeing the new shades of moral and ethical values as well as other issues that impact our environment and global concerns featuring in and affecting the international trade.

International Trade Integration

No doubt international trade has existed spanning civilizations, in the current global economic situation no country can keep away without participating in international trade. Countries are moving cautiously away from capitalistic and protectionist outlook and engaging in trade with other countries.

With the creation of WTO, there have been constant efforts made to unite countries to create more markets, to standardize tariffs and trade laws as well as remove trade barriers in trying to create free markets.

We have seen very many bi lateral and multi lateral agreements taken place that have harmonized international trade to a large extent. Together with the agreements, several countries have begun to form unions to harmonize and free trade regulations within themselves in a bid to create free markets. One such example is the Economic Union of European Countries. Initially EU was a Customs Union that further developed into Economic Union.

Countries have also formed several other types of unions as well as zones in a bid to give impetus to international trade. We shall discuss a few of them briefly in this article.

Customs Union

Customs Union refers to a coming together of member countries to form a union where in they allow free trade amongst the member countries without customs duties and tariffs. However they formulate a common external trade policy to determine common import duties that are levied for imports from a third party country other than the member country.

Customs Union is the first step towards harmonizing and removing trade barriers to facilitate smoother and increased trade flow within the member groups. This would result in increased economic efficiency and improve political relationships amongst the members too paving way for further economic integration.

The Customs Union of Zollverein which was formed out of coming together of German States is another example of Customs Union. Customs Union can also be called Free Trade Zones with common Trade Tariffs and Policies.

Free Markets & Economic Integration

Customs Union can also be called Free Trade Zones with common Trade Tariffs and Policies.

Customs Union is the first step towards building Economic integration that leads to formation of common markets and economic unions and federation.

Common markets allow free movement of all resources including labor, capital as well as other resources without tariffs and formalities.

Economic Union

Economic Union is a trade bloc, which consists of both free markets and Customs Union pwithin the member community.

Economic Unions involve close co-ordination and integration of economic and fiscal policies of the member countries

Examples: European Union, CARICOM - Single Market and Economy of Caribbean Community.

Monetary Union, Customs and Monetary Union

Creation of Economic Union paves way for creating a Monetary Union and further evolves into a Customs and Monetary Union.

Under this Union, member countries enjoy common economic union with free markets with no restriction on movement of goods, labor, capital and resources across member countries, common tariffs for external trade, besides combining it with a common monetary currency system.

Examples: Common Monetary and Economic Community of Central Africa.

Economic Integration

Economic Union and Monetary Unions finally lead up to Complete Economic Integration as the final stage. In Economic Integration, the member countries operate with single currency and fiscal policy coupled with single economic policy and function as single economy.

To achieve and stabilize single economy, it necessitates the political integration, which brings into being the concept of United Countries with autonomous states governed by federal government. United States of America is the outstanding example of such integration evolving into one Nation.

Payment Mechanisms in International Trade

Setting up International Trade Mechanisms involves inter disciplinary processes including Finance, Logistics, Taxation and Supply Chain disciplines. Every Business Manager would need to know the nuances of the trade even though he may or may not be involved in the micro management of the processes.

Any Import or Export entails commercial transaction and payment. When an import is made into the US, the foreign supplier would have to be paid in the currency in which he has raised the invoice. Normally international transactions are made using USD as the currency. However in many cases of transactions with Europe, the Euro Dollar is used as the currency too.

When an Export originates out of US to another country, the Exporter would have to receive payment from the End Customer.

In Exports we have several types of trade or export transactions and the nature of the business determines the payment terms.

1. **Advance Payment**

   When a new customer approaches and places an order on the Exporter, normally might insist on advance payment for executing the order. This method normally continues for a few times until mutual trust is built between the two parties and they get to know each other.

2. **Letters of Credit**

   An Exporter if dealing with an unknown customer at the other end may not have any prior exposure to the credit worthiness of the Customer and would normally insist on Confirmed Letter of Credit to be opened by the Customer before shipping the goods. In such cases the Exporter may not be extending any credit. Also in case of high value transactions with known customers too; exporters prefer to get paid through Letter of Credit.

   While dealing with a customer, the Exporter can check seek a credit worthiness rating from the customer's bank to be able to ascertain the authenticity and credibility of the Customer. Normally Large Multi Nationals demand such credit worthiness reports as a part of their policy.

3. **Bill of Exchange of Documentary Drafts**

   When there has been sufficient relation between an Exporter and the Customer (Importer) and the customer's credit worthiness is known through previous records, the Exporter might decide to extend credit and accept payment on bill of exchange basis. This system is also called as Documentary Drafts. Documentary drafts are of two types namely Sight Drafts and Date and Time Drafts.

4. Open or Ongoing Account

When there is a huge volume of continuous business transactions between the Exporter and Importer and exports continue to happen on ongoing basis, the Exporter can simply export on the basis of a purchase order and expect the Importer to pay promptly on due date. This is the usual method adopted by most of the Multi National Companies as well as the large organizations that have sufficient import volumes spread across various countries and are dealing with multiple vendors on ongoing basis. In such cases they just determine the annual volumes to be supplied by each vendor, issue an open purchase order and keep reviewing only the delivery schedule. They offer standard payment commitment on a particular date to all vendors as a global policy. The payment process will be set and determined as a part of their business agreement.

5. Other Types of Trade and Related Payment Mechanisms

Besides the above types of payment mechanisms based on normal Exports and Imports, there are other types of business models which work on various other modes of payment terms too.

6. Consignment Sale

An exporter might sign up a contractor with a distributor overseas to import, hold stock and sell the goods on his behalf. In such a situation, the distributor may not own the stocks and the ownership might continue to lie with the exporter. The distributor would only be an intermediary to sell the stocks and repatriate the money realized back to the exporter and get remunerated in terms of service charges or commission. In such cases there may be a business agreement in place but no fixed payment mechanism may be adopted.

7. Counter Trade / Counter Purchase / Barter Trade

In yet another case of business arrangement called counter trade, exports may be linked with return purchase of some other items from the importer or from another source in the country. The payment may also involve services other than products. This kind of trade becomes a necessity while dealing with countries that do not have sufficient foreign currency. There is also another system of international barter which is not very commonly practiced in the commercial world.

International Payment Systems

Brief Introduction about International Payments

If you have shopped online on international portals or have received payments from abroad, you would have wondered about how the payments flow across the world and which banks and financial institutions underpin global commerce and trade.

Further, if you work in a corporate that has global supply chains with international suppliers and customers, you would be again dealing with a complex network of institutions and banks that route the payments from one end of the supply chain or the value chain to the other.

In addition, when nations trade with each other and when central banks transact with each other as well as banks in different countries deal with each other, then they are all participating in the international payment system that is the bedrock of global payment flows.

Components and Constituents of the International Payment System

So, who and what are the constituents and components of the international payment system? To start with, banks and financial institutions form the first layer of the international payment wherein they hold accounts of other global banks who in turn hold accounts of the former. This enables the banks to send and receive payments from each other as they can simply debit their accounts and credit the other bank's account with them and this in turn leads to payments flowing to the recipient bank that debit the sending bank and credit their account.

Indeed, it can be said that banks such as Citibank which is part of the international financial conglomerate, Citigroup, Standard Chartered, HSBC, and Barclays form the lifeline of the international payment system by routing the money from the senders to the recipients anywhere in the world, anytime of the year, and any place that they are located in.

The SWIFT Protocol

However, it is not enough for banks and other financial institutions to simply transfer money to each other without having a common protocol and standard by which they can communicate with each other. In other words, they need to "talk to each other" in a "language" that is understood by them.

Hence, there is indeed a common protocol that forms the basis for such communication, this is the SWIFT standard wherein the acronym stands for Society for Worldwide International Funds Transfer wherein this payment standard prescribes the rules and regulations that all participants in the international payment network must abide with to ensure that there is a common standard of messaging and communication between the banks and other financial institutions.

For instance, the sender, the recipient, the intermediary, and the address and other details are to be captured in a specific format that is standard across banks so that each participant in the payment value chain knows exactly what is contained in the payment message.

An Example of How International Payments Work

To take an example, if you are located in the United States and want to send a funds transfer to India, you must first setup the beneficiary and then transfer funds from your account to the beneficiary. While this completes your end of the value chain, the next step is when your bank in the United States debits your account and credits its account with the funds. After this, it transfers the money to its partner bank in India or if it does not have any dealings with Indian banks, it contacts a bank in the United States that has such dealings and in both these cases; the funds are then transferred from the banks in the United States to the bank in India.

Once the banks in India receive the funds, they must then send it to the ultimate beneficiary wherein the funds are debited from its account and credited to the recipient. Again, this step might be a single or two step processes depending on the recipient holding an account with the concerned bank that receives the funds.

Automation and Digitalization of the International Payment System

As you can see from the above example, international payments involve a complex chain of transactions and payment routes that entail cooperation and coordination between multiple banks and financial institutions. All these flows are made possible by automated payment systems that use the SWIFT standard which as explained earlier enables and ensures that the payments flow smoothly throughout the value chain.

Further, in recent years, there has been so much automation and digitalization of the payment systems that funds from one country to the other are flowing in an almost real time manner with just minor delays because of the clearing houses in between.

Clearing houses are financial institutions such as the Reserve Bank of India in India and the United States Federal Reserve in the US which function as the node for the payments between domestic banks and international banks. Clearing houses are also places where traditionally there have been like the village markets where at the end of the day, the various merchants gather to settle their accounts and square the debts and the credits.

Conclusion

As can be seen from the points raised so far, international payment flows go smoothly as long as all participants in the value chain do their part in addition to adhering to the SWIFT protocol. Further, the global payment value chain is efficient mainly because globalization has led to liberalization of the banking rules and regulations that have enabled banks anywhere to deal with other banks everywhere and anytime and every time.

Finally, the next time you send or receive an international payment, just think about what it takes to enable your payment and imagine bits and bytes of data and information streaming across the world so that your payment is processed smoothly and successfully.

Letter of Credit - Meaning and Different Types of LC

International trade between an Exporter and Importer would entail multiple transactions in terms of documentation exchange, physical cargo movement as well as settlement of payment which have to be clearly defined and setup in order to ensure smooth business transaction.

Over the years international trade has established various methods and payment mechanisms that are accepted globally by all financial institutions and other related parties.

Normally when the Customer is new to the Exporter, the business transactions are done either based on advance payment or Letter of Credit option. LC is one of the safest mechanisms available for an Exporter to ensure he gets his payment correctly and the importer is also assured of the Exporters adherence to his requirement in terms of quality, quantity, shipping instructions as well as documentation etc.

A letter of Credit is the Buyer’s Banker’s promise to the Bank of the Seller / Exporter that the bank will honor the Invoice presented by the Exporter on due date and make payment, provided that the Seller/Exporter has complied with all the requirements and conditions set by the Importer in the said letter of credit or the Buyer’s Purchase Order and produced documentary evidence to prove compliance, along with the necessary shipment related documentation.

Confirmed Letter of Credit

A Letter of Credit is always sent by the Buyer's bank to the Seller's Bank or any bank that is becomes an advising bank. Normally the Seller's bank becomes an advising bank when a normal LC is received and it delivers or advises the buyer regarding the receipt of LC with no responsibility towards it. In case of a Confirmed LC, the Seller's bank checks out the authentication of the LC from the Buyer's bank and confirms to stand responsible for negotiating, collecting payment from the Buyer's bank and making payment to the seller in line with the terms and conditions stipulated in the LC. By adding confirmation to the LC, the Seller's bank too becomes equally responsible to make payment for the transaction under the LC.

Seller's Bank in turn will charge and collect service charges from the Seller for the same.

Revocable and Irrevocable Letter of Credit

Normally the Letter of Credits issued is irrevocable, which means that no single party can unilaterally make any changes to the LC, unless it is mutually agreeable to both the parties involved. However an LC is said to be revocable if the terms allow any one single party to be able to make changes to the LC unilaterally.

However it is in the interest of the buyer that he should always insist on irrevocable Letter of Credit.

Sight LC

When the LC is opened, stipulating the condition that, on presentation of the negotiable set of shipping document by the seller as per the terms of the LC are made, the buyer's bank will make payment at sight meaning immediately to the seller's bank subject to fulfillment of terms and conditions of the LC being fulfilled, the LC is called Sight LC.

Future or Credit LC

If the payment schedule under the said LC stipulates payment at certain future dates after presentation of negotiable set of shipping documents by the Seller and fulfilling the LC terms and conditions, such an LC is termed Future LC or Credit LC. It is quite normal for sellers to extend credit of 30 days to 60 days under LCs. However the shipping documents would have to be presented to the bank immediately so that they documents reach the buyer well ahead in time before the consignment reaches the foreign shores and the buyer is able to clear the consignment and take delivery.

International Trade Terms – INCOTERMS

Globalization has given impetus of international trade which is increasing by the day. International trade involves multiple agencies, transportation agents, carriers as well as Customs and Banks etc of the two countries involved in trade. Any Export or Import transaction involves transportation of goods predominantly via sea or air and in some cases over the road transportation too. Export and Import transactions are essentially dependant upon documentation and information to flow across all related agencies smoothly. In fact it is essential for information to flow to the agencies involved in each sector in advance before the physical goods arrive or move. The advancement of technology in terms of internet and EDI has helped smoothen the transactions internationally across all countries. Similarly in the case of international terms of trade too, things have been smoothened and standardized across all countries with the introduction of INCOTERMS published by ICC or International Chamber of Commerce in 1936.

INCOTERMS are the standard terms of trade that define the rights and obligations of the parties involved in trade. It specifies the responsibility of the buyer and the seller by defining the transaction and the cost aspects concerning the transaction and especially related to carriage, custom duties as well as Insurance, etc. However it limits itself to the scope of the liability of costs and definition thereof and does not deal with the ownership or transfer of title of goods.

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

1. **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.

2. **GROUP – F**

   Consists of FCA, FAS & FOB terms. Under this category the Seller pays for the pre carriage expenses at the Origin and the main carriage as well as Destination charges are borne by the Buyer.

   FCA - Free Carrier - Seller delivers goods to the Buyer&s nominated vehicle and his responsibility ceases with delivery. Unloading, transportation as well as Insurance from this point will be borne by the Buyer.

FAS - Free Alongside Ship - Seller completes Export formalities and delivers cargo alongside ship. From this point onwards the risk and costs including transportation and Insurance pass on to the Buyer.

FOB - Free On Board - Seller responsible for inland transportation, Export clearance as well as delivery cargo onboard the Ship. Once Onboard the Ship the risk and responsibility shifts to the Buyer who pays the transportation, Insurance and Destination Charges.

3. GROUP – C

Under this group the 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 - 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.

4. GROUP – D

Under this group the Seller assumes all or most of the risk and takes responsibility of delivery at Destination upto the agreed point of delivery.

DAF - Delivered at Frontier - Seller responsible to deliver cargo upto the point of entry at Destination. Risk and responsibility further passes on to the Buyer.

DES - Delivered Ex Ship - Seller assumes risk until the ship with the cargo reaches the port of Destination. Then the risk shifts to Buyer from the point of discharge of vessel onwards.

DEQ - Delivered Ex. Quay Duty Paid - Seller takes responsibility until the cargo is delivered after import clearance at destination and customs duty paid and delivered to the point on buyers dock.

DDU - Delivered Duty Unpaid - Seller takes responsibility to deliver cargo at the destination port where the Buyer takes on the responsibility for import clearance, Import duties and onward delivery.

DDP - Delivered Duty Paid - Seller takes responsibility until the cargo reaches destination, clears the customs, pays the duty and delivers cargo at Buyer&s dock.

Types of Licenses in International Trade

International Trade has become the order of the day in the current environment of Globalization. The nature of economies namely under developed, developing and developed countries as well as the availability of natural resources, labor, technology and capital required for production etc play a important role in countries economy as well as its reliance on international trade. While countries which are rich in resources look for exporting to other countries and earning foreign exchange, countries mostly the developed countries rely on imports from developing countries for their use.

Countries like Europe and Us are heavily dependant upon Imports, developing countries like China and other Asian countries tend to rely on exports to these countries.

Though the countries and WTO have been advocating free trade and several Bi Lateral Treaties and Multi Lateral treaties have come into being to remove trade barriers from one member county to another, all of the countries still find the need to practice and have protectionist attitude towards international trade. There are political as well as economic considerations that govern the import and export duties levied by Governments. Primarily import and export duties aim to encourage or restrict the consumption as well as production in the domestic economy and market.

Countries levy Import and Export Duties on specific items and also based on countries of origin. The management of duties and tariffs is managed through Trade Laws and Policies. Besides imposing duties, countries also restrict and manage the import and export of items with the help of Licenses to Import and Export.

Types of Licenses

1. **Open General Licensed Items**

   While normal items and traded goods like textiles, consumer durables, Handicrafts, electronics items, Food articles, Drugs etc are generally allowed to be imported and exported by all countries freely without restrictions.

2. **Imports against Specific Import Licenses**

   Many items like second hand capital equipment, plant and machinery, engines etc are traded, transferred and imported normally by developing and under developed economies.

   Such second hand machinery and goods are allowed to be imported into the receiving countries only through specific license obtained for the said purpose. Such license would set forth conditions required to be met by the importer to prove the residual life of the machinery etc.

   Import of Fire Arms and Ammunitions are always covered under specific licenses in most of the countries.

3. **Import - Quantity Restrictions or Quota**

   Some countries like USA do allocate quantity restrictions for import of items like textile on certain countries and exporters would have to adhere to the quota norms, which are periodically reviewed and amended as required.

4. **Export Licenses**

   While the domestic industries are engaged in export of some important natural resources and raw materials like iron and steel, certain kinds of herbs etc, Governments control and restrict the export through issuing Export Licenses.

5. **Negative List**

   Most countries maintain a negative list of items which prohibit import and export of certain items like animal hides and other wildlife, precious wild life, live stock, narcotics and many more sensitive items.

When people import or export items into the country without applicable licenses, do not bring in consignments avoiding customs clearance and thus avoid paying duties as well as those items that are prohibited are brought into the country illegally, such trade is labeled as smuggling.

International Trade and Taxes - Types of Customs Duties

The International Trade is rapidly changing and evolving as a result of Globalization and advancement of electronic and communication science. These have brought the entire world under global economy. Benefits of global economy ensure that despite different states of economic development in various countries, technology and products become accessible across countries. It enables all countries to specialize in particular trade and participate and benefit from global markets, thereby they are able to benefit from utilizing their resources, labor or whatever advantages of production they are endowed with.

Globalization has also given rise to the Multi National Companies that operate globally and are able to leverage on setting up production wherever it is cheaper and market their goods in countries where markets exist.

When countries have domestic markets and domestic industries, they cannot be left open to compete in global market without regulatory controls. Domestic industries need to be protected and supported to face up to competition and markets need to be regulated to ensure no dumping takes place. Moreover countries need to watch over depletion of their natural resources too and control the pricing and financial aspects of international trade related to their country.

All countries exercise controls over international trade through Trade Laws, Tariffs and Taxes which are called Import Duty and Export Duty. These are aimed at making trade practices safer, fair and ethical too. Tariffs are influenced by political as well as economic and financial outlook of the Governments as well as the bilateral relationship of the country with the other partnering country.

In a bid to made global markets accessible to all freely, the WTO has been trying to negotiate with all member countries. Uruguay Round did manage to bring about commitments from countries to cut down tariffs and bring them to base levels which remain standard across member countries, while the recent DOHA round of discussions have been centered around agriculture market access and resultant tariffs.

Types of Customs Duties

All countries maintain and publish schedule of tariffs annually and these are filed with WTO and generally in line with the international community tariffs. The rate of duty under the published tariff is called Bound Rates or basic customs duty.

Applied Rates or Basic Customs Duty

Applied Rates are the effective rate of duties charged by the Customs at the specific period or time of import. The affective rate can vary from the Schedule. Generally the trend is to keep the applied rates same as schedule or at lower than schedule tariff. Countries do not generally tend to charge more than the schedule.

Application of Duty

Normally the customs duty is set as a set percentage against the value of the consignment. This percentage value ensures that with the fluctuation of prices in the international market, the duty component gets automatically adjusted.

However besides basic customs duty, additional duty in terms of fixed value per ton or per unit quantity as specific or special duty are also applied for various purposes, to control and balance the import or export, or at times to augment revenue collection and various other purposes related to international as well as national situations.

Governments also levy special and temporary duties as percentage over the portion of customer duty on specific purpose and for specified time. It can also be applicable only on specific categories.

The tariffs can be based on revenue generation, prohibitive or protective outlook of the regulatory policy and authorities. It can also be on retaliatory mode as well as based on bi lateral or specific trade pact with other countries.

All duties incase of both imports as well as exports are valued and collected by Customs Authorities through their branches set up at every port of entry in the Country.

Customs Department - An Introduction

International Trade is facilitated and controlled by Countries with the help of Foreign Policy, Export Import Regulations, Schedule and Tariff of Import and Export Duties as well as Trade Laws and Regulations.

Customs Department is the Federal Government Agency that is invested with Authority to conduct Customs Valuation and collect Import as well as Export Duties on behalf of the Government.

Customs are present in all points of entry into and out of the country. These include airports, sea ports, on road border check posts and any other point of exit and entry into the country.

Customers Departments are invested with quasi powers similar to the police and work in close co-ordination with the border security, police and other security intelligence departments.

Imports and Exports cover two channels of transport of goods. Business related trade is carried on through cargo imports. Caro Import as well as export can be consigned through road network, via shipping as well as airfreight. All the said modes will be covered by Customs Department.

The second mode of export and import relates to personal baggage. Though this mode does not have much of revenue implications but still the baggage has to go through customs inspection to ensure illegal items and prohibited items are not being imported or exported. Items like Narcotics, illegal weapons and cash etc are always smuggled into the country through various routes. Customs department has revenue intelligence teams that are trained to prevent such acts and arrest the accused.

In the Airports and Ports, Customs have designated area and offices where the exporters deposit the export consignments. After customs clearance the cargo is directly handed over to the Airline or the Shipping line from Customs department for onward shipment.

Similarly, imports cargo is offloaded from the aircraft or ship into the Customs designated area and store until it is custom cleared and released to the importer.

The customs designated area is always a bonded area where in only customs is permitted entry. The cargo that is kept within the bonded area cannot be moved or taken out without Customs permission.

Customs Department officials inspect the inbound cargo and based on the descriptions of the items in Invoice and other documents, assign the correct tariff to arrive at the valuation of the consignment based on the Invoice value. The duty amount is calculated and once the duty payment is made by the importer, the cargo is released. The process of submitting the cargo for customs clearance as well as facilitating the documentation and clearance process is handled by Third Party Service Providers called Customs Brokers.

Similar process is followed for customs exports too. Customs Brokers file documents on behalf of the clients to Customs department, facilitate cargo inspection and approval to enable exports to be completed.

Customs Departments also work closely with border security forces and revenue intelligence agencies to work on information related to smuggling and illegal entrants into the country.

Revenue intelligence wing of Customs deals with matters pertaining to valuation of imports and try to check transfer pricing under valuation, under invoicing etc done by importers to evade import duty payments. They also build database of international prices of specific commodities and the trends in the markets to be able to spot under valuation attempts by importers.

A Brief on Customs Brokerage

International trade is regulated through tariffs and trade laws established by the Country's Federal Governments to control the imports and exports of the country. The Government invests executive powers to the Customs Departments, headed by Custom's Commissioners to administer the policies and tariffs on all imports and exports into and out of the country.

Customs Clearance Departments are setup in all ports of entry and exit at the Country's borders including Airports, Sea Ports and Check Posts at Road.

Customs Clearance involves valuation of the goods for their authenticity in terms of both physical inspection as well as value assessment. The Customs inspect the documents submitted to ascertain that the valuation on the Commercial Invoice is on par with the international markets and approve the assessment based on appropriate classification. Once the consignment is assessed, valuation determined the demand for duty is made on the Importer. On receipt of duty payment, the consignment is released out of the Customs bond.

The entire process of imports is governed not only by the Customs Laws, but all imports are required to be compliant with the other relevant Boards and Bodies like Food and Drug Administration, Department of Agriculture approval, Fisheries and Wildlife Department approval etc. While the import consignment is in the custody of Customs, the rest of the tests and approvals would have to be acquired before the customs can release the consignment.

The above process of customs clearance can take from anywhere from one day to seven days depending upon each case. There are several commercial documents that are to be submitted by the Importer and few Custom related documents have to be prepared and submitted to enable customs clearance of the imports.

The customs clearance process and co-ordination with the Customs and other agencies necessitates the services of engaging a Customs Clearance Broker or Brokerage Agency.

Customs Clearance Brokerage Agency is a Third Party Service Agency that is licensed by Customs Department to operate and represent the Importer. Customs Clearance License Holder is required to have passed Customs Test and Examination and is required to be fully conversant with Customs Laws, Rules, and Processes and ensure adherence to the same.

There are several Customs Clearance Service Providers who are specializing in the field. There are many freight forwarder companies including Multi National Companies that own and operate Customs Clearance services for their clients.

The Customs Clearance process requires several documents including commercial documents from the Buyer, Seller as well as bill of Transport from the Transporting Company, Certificate of Origin from the Seller country etc. Besides the Customs Bill of Entry is one of the key documents required to be submitted along with the rest of the documents. These documents are filed electronically from the Customs Broker's office before the consignment land. From the time the consignment lands and is warehoused at the Custom's Bonded Warehouse, there is a free period of three days to seven days (varies from country to country) within which the customs clearance process would have to be completed and the consignment released. If not the consignment then starts accruing demurrage on daily basis and would have to be paid up by the Importer before clearance of the Consignment.

Customs Clearance Agent plays a very crucial role in representing the Importer with Customs and takes the responsibility for compliance of all Rules and Regulations on behalf of the Importer.

Imports and Customs Clearance
Freight Forwarders who coordinate the international transportation also provide customs clearance services to the clients. The activity is called customs brokerage.

Customs clearance work involves preparation and submission of documentations required to facilitate export or imports into the country, representing client during customs examination, assessment, payment of duty and co taking delivery of cargo from customs after clearance along with documents.

Some of the documents involved in customs clearance are :

1. **Exports Documentation:** Purchase order from Buyer, Sales Invoice, Packing List, Shipping Bill, Bill of Lading or Airway Bill, Certificate of Origin and any other specific documentation as specified by the buyer, or as required by financial institutions or LC terms or as per importing country regulations.
2. **Imports Documentation:** Purchase Order from Buyer, Sales Invoice of supplier, Bill of Entry, Bill of Lading or Airway bill, Packing List, Certificate of Origin, and any other specific documentation required by the buyer, or financial institution or the importing country regulation.

Customs Agents prepare the document of Shipping Bills in the house for submission while rests of the documents are obtained from the client. Preparing shipping bill involves Classification of cargo under specific classification that is a critical activity in the entire process.

Customs clearance agents are also called Carrying and Forwarding agents. They are registered and licensed by Customs to operate. Their role is limited to acting on behalf of and representing clients as third party agencies engaged in customs clearance.

Customs Agents are linked through EDI with customs in most of the countries and use documentation software to facilitate entire process.

Imports and Customs Clearance – Overview

When any Organization Imports any item into the country, the cargo would need to be Custom Cleared. The consignment transported by Air, Ship or by Trailer on the Road, would have to be deposited at the Customs Notified and Bonded Area.

Customs Clearance or brokering is done by third party service providers who are licensed by Customs for the said purpose. They represent the Importer and co-ordinate with Customs Department as well as other specific departments to Custom Clear the cargo.

There are list of several items that cannot be imported into the countries freely and would require specific License. Alcoholic Beverages, Animals and Animal products, Fire Arms and Ammunitions, Meat and Meat products, Milk, Diary and Cheese products, Plants and Plant products, Poultry and Poultry Products, Petroleum and Petroleum products etc would have to be imported under the License issued by various agencies and such imports would have to be in compliance with the rules and conditions laid down by respective agencies.

There are several other items such as art materials, artifacts and antiques, cultural property, hazardous and toxic materials, internationally banned products like ivory etc are usually prohibited for imports into the Country.

Bureau of Alcohol, Tobacco, and Firearms, Animal and Plant Inspection Service, Fish and Wildlife Service, Food and Drug Administration are few of the agencies that exist in most of the countries which regulate and oversee imports of the specific items covered under their schedule.

When the Cargo lands at the Customs Bonded W/house, along with Customs Clearance, the licensed items would need to be inspected and approved for clearance by these specific agencies too. Customs brokers carry out the necessary process of submitting documentation, facilitate sampling and inspection and follow up to obtain approvals.

All cargo being imported as well as export from a country would have to be deposited at Customs Bonded warehouse to complete export and import formalities and receive Customs approval to hand over the cargo to the freight forwarder in case of Export and to the Importer incase of Imports. The customs bonded warehouse is a customs notified area and the cargo while in bonded warehouse is under the Customs Charge. Normally bonded warehouses are available and operated by Customs Departments at the Airports and Seaports. In case of larger airports and Shipping yards, the Government set up a separate corporation or agency to setup and operates such bonded warehouse. In many cases Governments do give licenses to the Customs Clearing Agents to setup bonded warehouses for exports wherein the cargo can be offloaded by the exporter, customs formalities completed and after customs approval the cargo can be stuffed into the Shipping container. Generally if the export cargo is of smaller lots, the clearing agents move the cargo to these bonded warehouses. If the export is of one full container volume, then the cargo is stuffed into the container at the exporter's premise itself and the container is deposited at the shipping yard in the customs bonded warehouse or designated area waiting for export clearance.

An imported consignment can be imported and warehoused in Customs bonded warehouse for certain period of time in bond. This gives the flexibility to the importer to custom clear the consignment in parts when required for consumption and pay customs duty only for the consignment that is being de bonded. They can further sell the materials to third party while in bond and it would be considered as high sea sale. Un till the importer files bill of entry for home consumption and pays customs duty to take delivery of the consignment, the import consignment technically is not considered to be imported and owned by the importer. Customs bonded warehouses charge normal warehousing rental and other transaction charges for the goods warehoused. Additionally beyond a certain free period ascertained by Customs in advance, the importer may be charge a certain interest on the customs duty payable on the said import, depending upon case to case basis.

Documentation in Customs Clearance

Any Importer wishing to bring in cargo into the country may do so through air, ship, and road or multi modal transport. Every import consignment is required to be deposited by the transportation agency or the freight forwarder into the Customs Designated Bonded warehouse for Customs Clearance.

Customs Clearance is facilitated by Customs Clearance Agent or Broker who is Authorized, Licensed agency or operator to file the necessary

documents on behalf of the importer and co-ordinate the clearance activity.

Customs Clearance Process entails filing of Bill of Entry in electronic form by Clearing Agent on behalf of the Importer with Customs, along with other Commercial Documents including Declarations from Importer, Commercial Invoice, Packing List, P. Order Copy as well as Certificate of Origin and Licenses to Import if any.

Bill of Entry is the main key document on which the Customs approves clearance of the cargo and the document is crucial for availing duty credits if any by the Importer post clearance. The Bill of Entry document is also required as an important record for audit purposes and any further inspection from any agencies.

Types of Bill of Entry
Depending upon the nature of transaction the Bill of Entry form varies. Few important types of BOE are discussed herein:

- **BOE for Home Consumption**

  When an import consignment is required to be custom cleared and the importer wishes to take delivery and use the cargo for internal consumption in his business organization, the Bill of Entry for Home Consumption is filed. The Bill of Entry for Home Consumption is in white color.

- **BOE for Bonding**

  If the Importer does not wish to custom clear the imported consignment right away and wishes it to be warehoused at the Customs Bonded Warehouse, then the Bill of Entry for Bonding is submitted, so that the customs can permit the transfer of import shipment to be warehoused at the customs bonded warehouse without payment of duty but on execution of a bond by the importer and postpone the clearance to a future point of time. The importer by filing the Yellow colored BOE for bonding is able to defer the payment of duty until such time that he requires clearing the consignment.

  When this BOE for bonding is filed, the customs assess the consignment and determine the duty payable and the importer executed a bond for the required value but is not required to pay the actual customs duty.

- **Ex-Bond Bill of Entry**

When import consignments are not custom cleared immediately on arrival and are warehoused at the customs bonded warehouse, the importer can choose to custom clear the entire consignment or in parts whenever he requires by filing Ex-Bond Bill of Entry to clear the consignment from the warehouse on payment of duty.

The valuation under the Ex-Bond Bill of Entry will take into account the prevailing rates of duty at the time of actual removal of imported consignment from the warehouse and not the duty assessed through Bonding BOE. In case there has been a revision in the tariff, the prevalent tariff at the time of removal from the bonded warehouse will prevail.

Role of Freight Forwarding & Logistics Companies in Supply Chain Management

Global Logistics Scene is dominated by a handful of ten to twelve multinational Companies followed by smaller companies altogether numbering below fifty. Entire global trade is facilitated by these service providers. Major players in the field are lead by DHL, Kuehne + Nagel, Schenker/BAX, UPS, Geodis, Expeditors, Agility, CEVA Logistics, Hellman worldwide logistics, etc. The last two decades have seen the emergence of multinational companies having acquired and bought out local and smaller players to acquire the multinational status coupled with the global network. The entire logistics field is filled with mergers and acquisitions in quick succession in the recent past.

Most of the logistics players have been traditionally freight forwarders dealing with cargo bookings coupled with origin and destination services. However, as the global business practices changed, and supply chain managements started gaining ground, these companies realized the potential of being able to offer multiple services including ground transportation, warehousing, and contract logistics under one umbrella as the future trend and quickly turned themselves to acquire the required capabilities and have managed to become single window service providers on global scale.

In any supply chain, these 3PL Service Providers further outsource certain functions and segments to many other local service providers. Any SCM expert would naturally wonder if it is possible to deal directly with the other service providers and cut out the 3PL Lead provider and thereby save some cost. In a global scenario, this would not be possible for many reasons.

3PL Service Providers can offer you standard operating processes and procedures across all locations and countries. If you are dealing with a 3PL office in Europe and another in Japan besides your local office in Houston for example, all three offices will follow the same methodology, documentation, and processes. Secondly, 3PL providers know the local situations and can adapt international processes to suit local situations better. A principle company may not be able to get into the local situation be it with transportation or customs or legal compliance and is better left to the 3PL to deal with it effectively. By the size of these companies 3PL logistics providers have built core competencies and capabilities in all of the functions namely Freight, Customs Clearance and Contract Logistics and are equipped with cutting edge technology to support international operations and provide visibility to the customers at all time. 3PL companies rely heavily on electronic exchange of data and information in their businesses. Today 3PL companies not only provide highly specialized inventory management and warehousing operations, but they also offer another value adds like Purchase Order Management, Semi, and Light Manufacturing, other value added services designed for niche segments called as Integrated Logistics Services.

3PL service providers are today investing in building distribution networks and facilities to cater to the client's requirements wherever required. They are building in-house capabilities with employing SCM Experts to specialize in Automotive Logistics, Aero Spares, Medical & Environmental Logistics and other specific segments.

SCM strategy of the company today aims at converting logistics cost to transactional cost and thus avoids any investments into managing Supply Chain.

It would not be possible for a principal company to invest in setting up and managing logistics services and facilities in origin and destination locations for its Supply Chain and manage local regulations etc. It is best left to the best Service Provider as the partner and leverage on his competencies and skill sets as is being done today.

"**Clearing and Forwarding** Agent" means any person who is engaged in providing any service, either directly or indirectly, connected with the **clearing and forwarding** operations in any manner to any other person and includes a consignment agent; (Section 65(25) of the Finance Act, 1994)

A party authorized by international **customs** authorities to certify and manage consignments between countries. Also called **customs** and forwarding **agent**, **customs** broker.

A freight **forwarder**, **forwarder**, or **forwarding** agent, also known as a non-vessel operating common carrier (NVOCC), is a person or company that organizes shipments for individuals or corporations to get goods from the manufacturer or producer to a market, customer or final point of distribution.

Consolidation, transportation and and insurance of the **freight** is the responsibility of the **forwarder**. They also book cargo space and negotiate rates for transport. The main **difference between forwarders** and **brokers** is that a **freight broker** never takes possession of items being shipped.

What is clearing and forwarding?

Freight Forwarder : Essentially secures the business of various exporters and importers and has the ability/facility to

Store cargo belonging to the clients at their warehouse (usually all big forwarders have their own warehouses)

Arrange the distribution or "forwarding" of the cargo as per the instructions of their client.. This could be a regular routing or various routing

Negotiate freight rates with the shipping line to cover the interest of their clients

Book the cargo with the shipping line as per the requirement of the client

Prepare bills of lading and associated shipping/negotiating documentation (F178, Certificate of Origin, etc)

Issue their approved house bill of lading as applicable

Clearing Agent : Essentially takes care of the customs clearance aspect of the business..

is a company accredited with the local customs authorities, border agencies, port etc

arranges to pass the relevant documents at customs

arrange for customs inspections as required

check and process Duty and VAT payments as applicable

apply for refunds etc where applicable

cannot issue own bills of lading if not registered or acting as a freight forwarder.

There is no specific definition of the term **Clearing and Forwarding** but one to understand this concept first must know who is a **Freight Forwarder.** This is because different states or countries know freight forwarder by different names; **clearing agent**, **customs broke**r, **shipping and forwarding agents** but despite their different names they play almost the same role within the supply chain process.

The following are simplified roles of freight forwarders

Consultants

Freight forwarders they advise importers and suppliers within the supply chain process in many ways; For instance, they advise on the choice of packaging, the choice of the route and the mode of transport, the kind of insurance cover needed for the cargo, the customs rules and regulations and also the

transportation documentation also the freight forwarder is consulted when during **processing of the letter of credit** as per the banking requirements.

Organizer/planner for imports

Imports and exports while in transit may be required to undergo a lot of processes before reaching the final destination. This processes are very complex and need freight forwarders to tackle a number of stages for example consignments may require consolidations which involves groupage of consignments to suit the required standard of similarity and same destination for example during transshipment or when dealing with special cargo.

The freight forwarder is also responsible for transport planning as far as heavy project cargo is concerned depending on capacity he negotiates rates of the transport to the best rates on behalf of the client(importer, exporter or any other party interested with 3pls services.

Takes care of the offloading of the cargo from carriers means of transport may also break bulk of consolidations, verification of the cargo, local delivery and in case of any marine survey during cargo loss or damage the exercise should be conducted in his presence on behalf of the cargo owner.

Organizer for exports

Freight forwarders are very key parties during the process of exportation of cargo. Organizes for the following; picking up of the cargo being exported from the source may be from the factory, packing and maybe marking it is required to do so, freight and space booking, issue of transport documents, freight escorting documents, supervising departure and dispatch advice to customs clearance.

Clearing and forwarding provides a service, on behalf of an importer or exporter, with the physical movement (logistics) and legalities (customs) in importing or exporting goods from one country to another. This service involves two service providers, namely the clearing agent and the freight forwarder.

A clearing agent is a licensed person who submits declarations to Customs on behalf of the importers and exporters. They are be liable for the fulfilment of all obligations imposed on their traders. The clearing agent has the following responsibilities:

Facilitating the Customs and Excise process to declare goods entering and leaving the country;

Paying duty on behalf of the importer;

Correct declaration of the goods, i.e. using the correct harmonised tariff codes to describe goods;

Usage of the correct customs forms and documentation;

A freight forwarder provides freight forwarding services which means services of any kind relating to the carriage, consolidation, storage, handling, packing or distribution of goods as well as ancillary and advisory services in connection therewith; including but not limited to customs and fiscal matters, declaring the goods for official purposes, procuring insurance for the goods and collecting or procuring payment or documents relating to the goods.

Roles:

1. To provide different range of services to exporters
2. To ensure smooth and timely shipment of goods
3. To select mode and route of transport
4. To guide in the selection of the shipping line/air line
5. To achieve optimal cost in transporting the goods, well within the delivery schedule
6. To undertake marking, labeling, packing of goods, advising on trade laws, arranging local transportation as well as apprising developments on transportation and claiming duty drawback claims on behalf of the exporter.

There are no standardised rates for the services provided by the clearing and forwarding agents. The exporter negotiates the fees, depending on the range of services provided and competence of the clearing agent. Selection of a competent clearing agent is highly important for the smooth completion of export contract. Fees, naturally, depends on experience of the clearing agent in the product/country exported and on the frequency of exports of the exporter, above all, bargaining capacity of the mutual parties.

International freight forwarders typically handle international shipments. International freight forwarders have additional expertise in preparing and processing customs and other documentation and performing activities pertaining to international shipments.

Information typically reviewed by a freight forwarder includes the commercial invoice, shipper's export declaration, bill of lading and other documents required by the carrier or country of export, import, and/or transshipment. Much of this information is now processed in a paperless environment.

History

One of the earliest freight forwarders was Thomas Meadows and Company Limited of London, England, established in 1836. According to "Understanding the Freight Business," written and published by the executive staff of Thomas Meadows and Company in 1972, the advent of reliable rail transport and steamships created demand for the fledgling freight forwarding industry. Trade developed between Europe and North America, creating additional demand. The first international freight forwarders were innkeepers in London who held and re-forwarded the personal effects of their hotel guests.

The original function of the forwarder was to arrange for carriage by contracting with various carriers. Forwarder responsibilities included advice on documentation and customs requirements in the country of destination. His correspondent agent overseas looked after his customers' goods and kept him informed about matters that would affect movement of goods.

In modern times, the forwarder accepts the same responsibilities. It operates either as a domestic carrier or otherwise with a corresponding agent overseas or with his own branch-office. In a single transaction, the forwarder may be acting as a carrier (principal) or as an agent for his customer or both.

Document transfer fee/document handover fee

International freight forwarders, NVOCCs and customs brokers often charge for transferring documents to another transportation company at destination. This fee is a part of the ocean freight charges, being paid by the importer at the port of discharge in the International Commercial Term (incoterm) FOB (free on board), and by the exporter at the origin in the incoterms CFR (cost and freight) and CIF (cost, insurance and freight). This fee is separate from documentation fees charged by carriers and NVOCCs as part of the freight charges on a bill of lading and is separate from other fees for document preparation or for release of cargo. Some companies call this an administration fee, document fee, document transfer fee, but it exists in some form in most destinations and is well known to most shippers. Steamship carriers do not have this fee.

International ocean freight forwarders arranging for shipments to and from the US must be licensed by the Federal Maritime Commission as *Ocean Transportation Intermediaries*.[8] An Ocean Transportation Intermediary is either an *ocean freight forwarder* or a *non-vessel-operating common carrier* (NVOCC). An *ocean freight forwarder* is "an individual or company in the United States that dispatches shipments from the United States via common carriers and books or otherwise arranges space for those shipments on behalf of shippers; ocean freight forwarders prepare and process documentation and perform related activities pertaining to shipments."[9] An *NVOCC* is "a common carrier that holds itself out to the public to provide ocean transportation, issues its own bills of lading or equivalent documents, but does not operate the vessels that transport cargo"; or, "a shipper in its relationship with the vessel-operating common carrier involved in the movement of cargo."[9] Companies may obtain both licenses and may act in both capacities. The U.S. legal distinction between the two is that a freight forwarder acts as the agent of a principal (typically a shipper or consignee) whereas the NVOCC is a transportation company (carrier) that is physically responsible for the carriage of goods and acts as its own principal. Companies acting strictly as an Ocean Freight Forwarder typically do not issue their own contract of carriage (*bill of lading*) and as agent are generally not liable for physical loss or damage to cargo except in cases of errors in judgment or paperwork or fiduciary responsibility. NVOCC s act as ocean freight carrier and issue their own bill of lading and are legally responsible for physical loss or damage in accordance with the terms and conditions of their bill of lading and tariff. Similar to other countries, freight forwarders that handle international air freight frequently obtain accreditation with the International Air Transport Association (IATA) as a cargo agent; however, they must obtain an Indirect Air Carrier (IAC) certification from the Department of Homeland Security (DHS). If importing merchandise into the US for commercial purposes that are valued over $2,500, you will need to purchase a Customs Bond.[10]

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