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| **Date :**<br>**Marks : 30** | FYJC<br>**Subject : Organisation of Commerce & Management**<br>**Ch. 5. International Business** | **Duration: 1 Hr. 15 Min.**<br>**Set No. :** |

# SOLUTION

**Q.1. Select the correct answer from the possible options given below and rewrite the statement: (05)**

1. In **Wholly owned subsidiaries** the parent company makes 100% investment in its equity capital and thus acquires full control over the foreign company.
   (a) Contract Manufacturing
   (b) Wholly owned subsidiaries
   (c) Foreign Companies

2. Certificate of Origin is issued by the **Exporting Country**
   (a) Importing Country (b) Exporting Country (c) Custom House

3. Contract between the shipping company and exporter for transporting of goods to the importer's country is known as **Bill of Lading**
   (a) Bill of Lading (b) Application of export (c) Dock receipt

4. Proof of receipt of goods on board the ship is known as **Mate's Receipt**
   (a) Dock Receipt (b) Mate's Receipt (c) Certificate of Origin

5. When a company directly invests in properties such as plant and machinery in foreign countries, **Direct investment** takes place.
   (a) Direct selling (b) Indirect exporting (c) Direct investment

**Q.2. Match the correct pairs: (03)**

| | Group "A" | | Group "B" |
|---|---|---|---|
| 1. | Consular Invoice | a) | Landing & Shipping clues office |
| 2. | Performa Invoice | b) | Consulate of exporting duty |
| 3. | Trust dues Receipt | c) | Sent by exporter to importer |
| | | d) | Consulate of importing duty |
| | | e) | Sent by importer to exporter |
| | | f) | Evidence of origin |

**Ans. : (1 - d), (2 - c), (3 – a)**

**Q.3. Write a word / term / phrase which can substitute each of the following statements: (02)**

1. The document issued as a proof of the fact that the goods have been produced in the country. - **Bill of Entity**
2. Name of the firm which is temporary partnership. - **Joint Venture**

**Q.4. Distinguish between: Licensing and Franchising. (05)**

| | Licensing | Franchising |
|---|---|---|
| (1) Meaning | Licensing is a type of international business in which the manufacturer in one country gives the rights to use its technology, work methods, copyrights, trade marks, etc. to the manufacturer in the other country. | Franchising is a type of business in which an authorisation is granted by a manufacturer to a distributor to market its products. |
| (2) Parties | The manufacturer giving the rights is called licensor and the manufacturer to whom such rights are given is called 'licensee'. | The manufacturer granting an authorisation is called 'franchisor' and the distributor to whom such rights are given is called 'franchisee'. |
| (3) Type of business | Licensing takes place between the manufacturers of two different nations. | Franchising takes place between the manufacturers and distributors of the same country or different countries. |
| (4) Forms | Licensing is a form of direct export. | Franchising is a form of licensing. |
| (5) Areas | Licensing is more applied or related to production and marketing of goods. | Franchising is more often applied to services. |

**OR**

**Write a note on:** Explain the meaning of following documents used in connection with import transaction. (a) Trade enquiry (b) Import license (c) Shipment of advice (d) Import general manifest (e) Bill of entry.

**Ans:** Importing of goods and services involves purchasing them from another country. The import procedures differ from country to country and depending on the import-export policies of the country.

The import procedure goes through the following steps:

**(1) Trade Enquiry:**

(a) The importer first collects information on the goods he wants to import. This includes information about the countries that export the product, the name of the firm, etc. Then he approaches the export firm with a trade enquiry. This is a letter written by the importer to the exporter requesting him to supply information about the price, terms and conditions for the goods he wants to import.

(b) The exporter then prepares a Proforma Invoice. This is a document which contains information about the goods including their quality, grade, size, weight, design and price of the product. The terms and conditions of export are also included.

**(2) Import License:** The Export Import (EXIM) Policy of our country indicates which goods need license for import and which can be imported freely. For goods that require a license, the importer has to acquire the license. At the time of importing goods, the IEC number is to be mentioned.

**(3) Foreign Exchange:** The exporter has to be paid in foreign exchange by the importer as he resides in a foreign country. For this, the Indian currency has to be exchanged for foreign currency. This is done by the Exchange Control Department of the Reserve Bank of India (RBI). The importer has to get the foreign exchange sanctioned. For this, he applies in a prescribed form to a bank authorized by RBI. After scrutiny of the documents, the necessary foreign exchange is sanctioned.

**(4)** **Placing Order:** Once the license is obtained, the importer places an import order with the exporter for supply of goods. This order contains information on all aspects relating to the goods to be imported. These include quality, quantity, size, grade, price, packing, shipping, ports of shipment, insurance, delivery schedule and modes of payment.

**(5)** **Letter of Credit:** If the exporter agrees to a letter of credit, then the importer obtains it from his bank and forwards it to the exporter. It minimizes the risk of non-payment for the exporter. At the same time, the importer should arrange for sufficient funds to be paid on delivery of the goods.

**(6)** **Shipment Advice:** Once the goods are loaded on the vessel, the exporter sends a shipment advice to the importer. This document contains details about the goods, invoice number, bill of lading, and name of the vessel, the port of export and date of sailing of the vessel.

**(7)** **Dispatch of Documents:** After the goods are shipped, the exporter submits a set of documents to his banker for further proceedings. These include bill of exchange, bill of lading, packing list, certificate of origin, marine insurance policy, etc. The bill of exchange submitted with these documents is called documentary bill of exchange. This can be a sight draft or usance draft. In case of sight draft, the documents are handed over to the importer only against payments. In case of usance draft, the documents are handed over against the acceptance of bill of exchange. The acceptance of bill of exchange for delivery of documents is known as retirement of import documents.

**(8)** **Arrival of goods:** Once the goods are dispatched, the person in charge on the ship informs the officer in charge at the unloading dock about the arrival of goods. A document called the import general manifest is handed over. This contains all the details of the imported goods. On the basis of this document, the goods are unloaded.

**(9)** **Release of goods:** Before the goods are released, they have to be cleared by customs. The procedure for clearance is lengthy. Most importers carry out this procedure through their C & F agents. The procedure takes place as follows:

(a) For taking delivery of the goods, a delivery order is needed. This can be done either by a formal order issued by the shipping company or through an endorsement by the shipping company on the back of the bill of lading. Once this is done and the freight charges are paid, the goods can be collected by the importer.

(b) The importer also has to pay port trust dues. This is levied by the Landing and Shipping Dues Offices. The dues are paid by filling a form in duplicate. One copy is given back to the importer after payment of dues. This is known as the trust dues receipt.

(c) The goods have also to be assessed for customs import duty. For this, the importer fills a form known as bill of entry. The documents are scrutinized by the concerned authority and if duty is levied, it is paid by the importer.

(d) The bill of entry is presented to the dock superintendent for release of goods. An examiner physically checks the goods and marks his report on the bill of entry. This is then submitted to the port authority and the goods are released.

**Q.5. State with reasons whether the following statements are True or False: (05)**

**1. When a trader of one country purchases the goods from a trader of another country, it is known as export trade.**

**Ans:** This statement is **FALSE**.

**Reasons:**

(1) Foreign trade is the trade between different countries. It takes place between the people of one country with the people from the other countries. Foreign trade is classified as import trade and export trade.

(2) Import trade is that part of the foreign trade in which goods and services are purchased (imported) by a trader of one country from a trader of another country. In import trade, there is inflow of goods and services in the home country from other countries.

(3) Import may be import tangible goods or import intangible goods. Importing of goods means buying tangible goods such as finished goods, machinery, equipment, etc. from a foreign country. Purchasing intangible goods or invisible goods or services such as communication, education, entertainment, etc. from a foreign country is called import of intangible goods.

(4) The Importer requires foreign exchange to pay the export bill to the exporter. For this the importer has to convert his currencies in the exporter's currencies with the help of a foreign exchange bank.

Thus, when a trader of one country purchases the goods from a trader of another country, it is known as import trade and not export trade.

**2. Advance License Scheme is a duty exemption scheme.**

**Ans:** This statement is TRUE.

Reasons:

(1) The term 'Licence' implies formal permission in writing from an authority recognized by law to perform an act which without that permission would be unlawful.

(2) Advance Licence Scheme is one of the measures and schemes announced by the Ministry of Commerce and Trade to expand business in the field of exports.

(3) Advance Licence Scheme is a duty exemption scheme. In this scheme, the exporter manufactures the goods for export by making use of duty free imported and domestic inputs such as raw materials, technology, etc.

(4) The exporter is not required to pay any customs duty if he uses imported goods for manufacturing goods for export. The exporters who regularly export the goods to foreign countries can get licence under Advance Licence Scheme against their production programmes. For adhoc (for particular purpose only) export, the exporters get the licence under Advance Licence Scheme for a specific period.

Thus, Advance License Scheme is a duty exemption scheme.

**Q.6. Explain the various incentives given by the Indian Government to Exporters. (10)**

**Ans:**

(a) Our country is always striving to keep its economy healthy. Exports contribute to the finances of the country. The Government offers support in different forms to this sector to increase exports.

(b) The Ministry of Commerce and Trade tries to help the industry with its infrastructure, promotion and marketing. For this, a number of schemes have been launched and a number of organizations have been formed to help the exporters.

**Measures and Schemes:**

**(1) Exemption from sales tax:** Goods to be exported are exempted from sales tax. Earlier, export firms were also entitled to a 'Tax Holiday's i.e. they were exempted from paying income tax for a certain period of time. Now-a-days, tax holidays are given only to manufacturing units set up in the Export Processing Zone (EPZs), 100 percent Export Oriented Units (EOUs) and to units set up in the Special Economic Zones (SEZs).

**(2) Export Promotion Capital Goods Scheme (EPCG):** Export Promotion Capital Goods Scheme (EPCG) is a scheme in which one can import the capital goods which may be for pre-production, production or post production as well as computer software systems, spares parts, fixtures, dyes, moulds at very concessional rate, of custom duty at 0% in some sectors and about 3%for all sectors (the normal custom duty is nearly 24%). This scheme helps manufacturers who are interested in upgrading their plant and machinery. The main objective of this scheme is to encourage the import of capital goods for export production.

**(3) Duty Drawback Scheme:** The Duty Drawback Scheme enable exporting companies to obtain a refund of customs duty paid on imported goods where those goods will be treated, processed or incorporated into other goods for export, or are exported unused.

**(4) Manufacturing under Bond Schemes:** Under this scheme, all export manufacturers are exempted from import duty and other taxes on inputs used to manufacture such goods. The manufacturer is allowed to import goods without paying any customs duty.

**(5) Advance License Scheme:** It is a duty exemption scheme. In this scheme, the exporter manufactures goods for export by using duty free domestic and importer inputs. The exporter does not pay customs duty if he uses imported goods for manufacturing of export goods. The exporter who is regular in exporting of goods can get this license against their production programmes and for adhoc exporters; they can get the license for a specified period.

**(6) Scheme of recognising export firms as export house, trading home and superstar trading house:** The Government grants the status of Export House, Trading Home and Superstar Trading House to some of the selected firms to promote established exporters and help them for marketing their products in the International Market. This status is given on the performance of the firms in past few years.

These firms also have to fulfill other conditions of the import – export policy, along with their performance. They act as highly professionals, dynamic institutions and important instrument of export growth.

**(7) Export of Services:** Various service houses are recognised with an aim to encourage services related to export. On the basis of the performance of the services of the firms in the past few years, they are referred as International Service Export House, International Star Service Export House, etc.

**(8) Export Finance:** As discussed earlier, exporters approach banks for finance for manufacturing goods required for export. They also need finance to ship their goods. They can approach the banks for two kinds of finance. The pre-shipment finance is provided to the exporter for manufacturing, purchasing, processing and packaging of goods for export. The post-shipment finance is given to the exporter from the date of extending credit after the shipment of goods. Finance from the banks is available at very attractive concessional rates to the exporters.

**(9) 100 percent Export Oriented Units (EOUs):** The Export Oriented Units (EOUs) scheme, introduced in early 1981, is complementary to the SEZ scheme. It adopts the same production regime but offers a wide option in locations with reference to factors like source of raw materials, ports of export, availability of technological skills, existence of an industrial base and the need for a larger areas of land for the project. As on 31st December 2006, EOUs are mainly concentrated in textiles and yarn, food processing, electronics, chemicals, plastics, granites and minerals/ ores.

**(10) Export Processing Zones (EPZs):** These are areas or estates set up generally in developing countries by their governments to promote industrial and commercial exports. These zones offer incentives such as exemptions from certain taxes and business regulations. They are also called development economic zone or special economic zone. Most of them are set up near ports or airports and provide an internationally competitive duty free environment at very low cost.

(a) The exports from SEZs during 2010-11 is to the tune of ₹ 3,15,867 crore representing a growth of 43% over the previous year. The SEZ sector provided employment to 6,76,608 people in the country as on 31.3.2011. The total investments in SEZs are ₹ 2,02,810 crores as on 31.3.2011. The SEZ Council was set up in January 2003 and the Council recognizes the efforts of EOUs and SEZ units by presenting Export Awards for their excellent performance in exports every year since inception

(Source: Speech of Union Minister for State for commerce at the Awards Function in May, 2011)

(b) The Santa Cruz Electronics Export Processing Zone (SEEPZ) is meant exclusively for the exports of electronics, and gems and jewellery, while all other zones are multi-product zones. The EPZs have now been converted to Special Economic Zones (SEZs). These zones are free from all rules and regulations governing imports and exports units excepting those relating to labour and banking.

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