DOCUMENTS USED IN FOREIGN TRADE

BILL OF LADING

This is the most important export document that contains a contract of carriage of goods between the exporter and the shipping company. It is issued by master of the ship carrying the goods.

The bill of lading serves the following purposes;

- It is a document of title to the goods i.e a person named on this document can claim the goods.
- It is a contract of carriage.
- It contains details of goods loaded on the ship, terms and conditions under which they have been accepted by the shipper and shipping company.
- It acts as a receipt that the master of the ship has received the goods.
- It contains the name of the consignor (sender), consignee (receiver) and name of the shipping company.

An exporter usually gets the bill of lading from the shipping company and sends to the importer with his invoice and insurance certificate to enable him to receive the goods when the ship docks at the port of destination.

EXPORTER'S INVOICE

This shows the charges for the goods being exported. It is sent by the exporter to the importer and indicates the quantity of goods and quotes the terms and means of sale.

PROFORMA INVOICE

It is sent by the exporter when payment is expected before delivery of the goods to enable the importer sort out the customs formalities before the goods reach the port of destination.

CERTIFICATE OF ORIGIN

This is a document stating the country of origin of the goods so that custom duty is calculated accurately. (It is prepared by the seller and signed by an appropriate government authority of the exporting country and sent to the buyer who presents it to the customs officers with the invoice to value customs duty on goods imported.) It certifies that the goods are of the right quality and standard. *(It is important to know the country of origin because some countries have mutual agreements concerning free trade or reduced trade charges)*

CERTIFICATE OF INSPECTION

This mostly applies to foodstuffs to see whether they are consumable and are free from contamination. It is issued after inspecting the goods.

CONSULAR INVOICE

It is an invoice that has been seen and signed by the consulate (embassy) of the country to which goods are being exported located in the exporting country. Before goods enter a country they must be inspected by the ambassador (consul) of the importing country and must bear the signature and stamp of their embassy (consular offices) in the exporting country to ensure that goods are reasonably priced and that no undesirable goods enter their country.

A small fee called consulee is paid by the exporter to the consul to get his invoice signed. *(consul is a government official who represents his country in a foreign country)*

AN INDENT

An indent is a request from the importer to the agent living in the exporting country to place an order on his behalf (the importer) with an appropriate exporter. It may be conditional in that the importer may ask his agent to inform him of the prices before actually placing the order.

NB: An indent is not an order nor an invoice.

Types of indents

There are two types of indents;

- Closed indent

This is where the supplier or producer from whom goods are to be bought is named.

- Open indent

Is an indent where no specific supplier is named. The agent receiving the indent can obtain the goods from any supplier of his own choice.

WEIGHT NOTE

This shows the weight and quantity of goods delivered at the dock. It states the number of boxes in a particular consignment (delivery) and the name of the person responsible for all costs. It is necessary because weight is one of the ways of determining dock handling changes.

CALLING FORWARD NOTE

It is prepared by the ship owner who sends it to the exporter informing him the date and time by which the goods should be at the dock ready for loading to a particular ship.

AIRWAY BILL

This is a document that shows a contract of carriage between the importer and the airline company for the goods to be imported by air. It is similar to a bill of lading except that the airway bill is not negotiable i.e cannot be transferred to another person by endorsement and delivery.

LETTER OF CREDIT

This is the means by which an importer obtains credit and the exporter gets assurance of payment of the amount due to him. The importer's bank issues a letter of credit to the reputable bank in the exporter's country which (his bank) then makes payment to the exporter. The issuing bank in turn pays the reputable bank in the exporter's country and later the importer makes payment to the issuing bank. (*the exporter asks the importer to open a letter of credit with a branch of his bank in the exporter's country.)*

A letter of credit may be revocable or irrevocable. (to revoke – officially cancel)

A revocable letter is one under which the exporter may be paid or not once it is opened while an irrevocable letter, once opened, the bank has to pay the supplier or exporter.

EXPORT LICENCE

This is issued for the export of certain types of goods i.e. it is issued to allow goods to be exported out of the country. The purpose of an export license may be;

- To limit the outflow of scarce resources especially foodstuffs.
- To control the export of dangerous items like ammunitions and other military equipment.
- To reserve the national heritage incase of art work and design.

LETTER OF HYPOTHECATION

This is a letter from the supplier (exporter) to his bank authorizing it to sell the goods supplied on credit at a reasonable price if the importer has failed to pay for them. This arises when the bank fails to obtain payment of the bill of exchange drawn on the importer which is already discounted for the supplier (exporter). Should the bank

sell the items at a lower price, the deficit is met by the exporter (supplier). In the same way, in case of any surplus, it belongs to the exporter.

DOCK WARRANT

This is a document issued by the dock authorities to the person or trader whose goods are being held at a particular port.

CHARTER PARTY

This a document of agreement between the shipper (charterer) and the shipping company for the purpose of carriage of goods. It implies that the two have agreed on certain terms to carry goods from one destination to another.

FREIGHT NOTE

This simply shows the cost of transport from one particular point to another and it is issued by the shipping company. It is given to the exporter who pays the amount and gets a receipt which is then forwarded to the importer together with the bill of lading and invoice.

SHIP'S MANIFEST

This is a document giving full details of the contents on the vessel. It shows the crew, passengers and cargo carried. As soon as the ship arrives at the port, a ship's manifest is presented to the customs office before the ship is unloaded.

SHIPPING NOTE

This is issued by the shipping company to the exporter giving details and conditions of carriage. This document also tells the dock authorities the goods involved on the ship.

CONSIGNMENT NOTE / DELIVERY NOTE

It is normally prepared and issued by the transport company and given to the person who wants to transport the goods with the transport company. This document contains the following key elements;

- The name and address of the consignor.
- Name and address of the consignee.
- Number of packages sent.
- A brief description of the goods sent.
- Type, name of vehicle and registration number where the goods were carried.
- Time when goods will be ready for collection.
- Cost of transport (freight charges) and terms and conditions of hire.

- Signature of the carrier.

Functions of a consignment note

- It acts as an evidence of receipt of goods and also as a document of delivery.
- It shows freight costs.
- It acts as a contract of carriage and it is not negotiable.
- It also acts as an advice note. It shows the quantity and description of goods sent by the named transport company.

TERMS OF SALE IN FOREIGN TRADE

These are price quotations that should be agreed upon by the seller and buyer.

They are expenses involved in any import transaction. Some of these expenses may be paid by the seller and later included in the price quoted to the buyer.

The following terms are used on quotations and invoices to show the positions clearly.

N.B: Standard terms are used worldwide to avoid confusion.

EX-WORKS /EX-FACTORY (EX-*STOCK or EX-WAREHOUSE*)

This implies that the price quoted includes only the cost of goods as they leave the factory (works) and all other expenses are to be born or met by the buyer. It shows the cost of goods at the supplier's warehouse.

LOCO

This means the price of goods at the seller's warehouse.

F.O.R (Free On Rail)

This includes charges for carriage of goods to the nearest railway station from the factory but railway freight is not included i.e transport charges by train not included.

D.D (Delivered Docks)

This price quotation includes the cost of carriage of goods from the seller's warehouse to the docks. Docks are places where ships wait for cargo.

F.A.S (Free Alongside Ship)

This includes carriage charges to the docks, dock handling charges and costs of delivering goods alongside the ship ready for loading but not loading expenses. (loading expenses not included)

F.O.B (Free On Board)

This includes all expenses mentioned above i.e in **F.A.S** and also loading expenses on to the ship but not freight charges.

C&F (Cost and Freight)

It includes all expenses in **F.O.B** and also the shipping freight charges.

C.I.F (Cost, Insurance and Freight)

It includes all expenses mentioned in **C&F** and also insurance premiums to cover goods against marine risks.

LOADED

This includes all costs to the port of destination, plus unloading charges.

IN BOND

This includes all the expenses above plus the cost of handling goods into a bonded warehouse.

DUTY PAID

In addition to all the above expenses, includes the payment of any customs duty.

FRANCO (Free Of Expense)

It includes all expenses above plus delivery charges up to the buyer's premises.

TERMS USED IN INTERNATIONAL TRADE

VISIBLE TRADE

Visible trade consists of the import and export of goods. All tangible goods that can be seen crossing a country's boundary are under visible trade.

INVISIBLE TRADE

This refers to the exchange of services only between nations. These services are intangible like tourism, insurance, transport and banking. When a country receives money from tourists in exchange for transport service or hotel service, it is involved in invisible trade.

BALANCE OF TRADE (B.O.T)

This is the difference between visible imports and visible exports of a

Country for a period of one year.

If a country exports more goods than she imports during a year, she is said to have a favourable B.O.T . And if her imports exceed her exports, the difference would be called Unfavourable B.O.T.

BALANCE OF PAYMENT (B.O.P)

This is the difference between a country's earnings from abroad and her foreign expenditure both visible and invisible for a period of one year.

i.e the difference between the receipts and payments on visible and invisible imports.

If receipts exceed payments, the difference is called Favourable BOP and if payments exceed receipts, then it is termed as unfavourable BOP.

TERMS OF TRADE (T.O.T)

This refers to the price of exports in relation to the price of imports. If the price of exports is higher than the price of imports, a country is said to have a favourable T.O.T. Whereas when the price of imports exceeds the price of exports, then a country is said to have Unfavourable T.O.T.

EXCHANGE RATE

This is the price or rate at which foreign currency is exchanged for domestic currency.

BONDED WAREHOUSE

This is a store where imported goods are kept pending or awaiting payment of customs duty. Bonded warehouses are managed by government officials but do not necessarily belong to the government.

CUSTOMS DRAW BACK

It is money refunded by tax authorities to the manufacturer that was initially paid as duty on imported raw materials when goods are exported.

ENTREPOT TRADE

This refers to the re-exportation of goods that were previously imported. e.g. most commodities exported to East African countries are first imported into Kenya via Mombasa, then later sent to their final destination by road or rail.

COMMODITY MARKETS

These are highly specialized markets where raw materials are bought or sold on an international level.

INTERMEDIARIES IN IMPORT TRADE

An intermediary is a person who acts as a link or helps to make an agreement between two or more people.

- **IMPORT MERCHANTS**

These are traders who buy goods from abroad in their own names and sell them locally. Their profit consists of the difference between the cost price and the selling price of goods imported. They resemble wholesalers.

- **IMPORT COMMISSION AGENTS**

These are people who import goods at the exporter's risk i.e on behalf of others and are paid on commission basis. They deduct their commission from the proceeds of sale or total sales and remit (send) the difference to the exporter. They do not take any risk and if goods remain unsold, they can return them at the exporter's expense.

- **IMPORT BROKERS**

These are middlemen who do not buy or sell goods themselves but arrange deals (contracts) between buyers and sellers in international trade. They receive commission called brokerage.

- **FORWARDING AGENTS**

These basically transport goods on behalf of others.

- **FACTORS**

A factor is an agent who sells goods in his possession and under his control on behalf of his principal. A factor is referred to as a commission salesman. Factors sell under their own names at prices they feel are best. Their commission is also expressed in percentage of their sales.

- **DEL CREDERE AGENTS**

A del credere agent is the one who guarantees his principal that he will receive payment for the goods he sells on his behalf. He guarantees to collect all monies from the people who take goods on credit.

ECONOMIC INTEGRATION

Economic integration or regional integration refers to co-operation of several countries for the sake of enjoying economic benefits or to promote trade among themselves.

Or It is a situation where countries or regions join together and form a **trading bloc.** Their aim is to offer preferential treatment like reduced taxes, or taxes removed completely on goods coming from member states.

Examples include;

- East African Community (EAC)
- Organization of Petroleum Exporting Countries (OPEC)
- Association of South East African Nations (ASEAN)
- Economic Community of West African States (ECOWAS)
- South African Development Community (SADC)- Angola, Namibia, Botswana, South Africa, etc
- European Economic Community (EEC)
- Common Market for East & Southern Africa (COMESA)

FORMS OF REGIONAL CO-OPERATION

PREFERENTIAL TRADE AREA (PTA).

This is where countries reveal the need for integration and reduce tariffs among themselves on selected commodities.

FREE TRADE AREA (FTA)

Here countries eliminate all tariffs charged among themselves but continue to charge different tariffs on goods that are imported from non-member states or countries.

CUSTOMS UNION

This includes (all elements of free trade area) elimination of all tariffs on goods from member states but countries adopt a common tariff on all goods from non-member states and also allow free movement of goods and services between themselves.

COMMON MARKET

This is a higher form of economic integration in which there are no trade restrictions, a common tariff with non-member states and free movement of factors of production like capital, labour and entrepreneurship.

ECONOMIC COMMUNITY / UNION

All elements of a common market are embodied. In addition countries in the community introduce a system of ownership of certain enterprises e.g roads, railways, posts and telecommunication and a common currency may be introduced or established.

CONDITIONS NECESSARY FOR THE SUCCESS OF ECONOMIC INTEGRATION.

- Countries should be geographically close to each other.
- Countries should approximately be of the same size.
- Countries should have the same ideology (set of ideas on economic system is based).
- Countries should use the same language.
- Countries should use a common currency.
- Countries should be at equal stages of development, otherwise resources would flow from a less developed to a more developed country where there is good infrastructure and favourable investment climate.

ADVANTAGES OF ECONOMIC INTEGRATION

1.It creates a large market among member states.

2.It leads to quality products since it encourages industries within the region to compete as the market expands.

3.Member countries can conduct research and collect information jointly at a lower cost.

4.Countries can share common services like railways, posts and telecommunications, airways etc.

5.When countries start using a common currency, trade goes on smoothly since there are no problems of converting currencies.

6. Countries can easily get foreign loans i.e most financing bodies can easily lend to the community than to a single country.

7. It enables countries to get cheap goods from states in the union as tariffs are removed compared to importing them from non-member states.

8.It increases gains from international trade and reduces duplication i.e once an industry is established in one country, another country may not need to establish the same industry in the same region.

9.It allows sufficient allocation of resources especially through specialization e.g labour and capital can fully be utilized.

DISADVANTAGES OF ECONOMIC INTEGRATION

1.It leads to loss of revenue from member states since tariffs are abolished.

2.Member countries may be exposed to low quality products which may even be at higher prices since members may be forced to only buy from the union other than importing from non-member states.

3.Movement of goods may be in one direction due to better infrastructure leaving other countries without goods.

4.There can be uneven distribution of industries due to better infrastructure in some countries e.g. during the former EAC, industries were located in Kenya because of good transport and infrastructure, Uganda and Tanzania were losing.

5.Most LDCs almost produce similar products, therefore there is need to trade with developed countries so as to acquire capital goods, which may not be possible with economic integration like EAC.

6.It may lead to over exploitation of some resources e.g minerals due to specialization.