Topics Covered – AMB210 Final Exam Notes

Week 6 -- Export Documentation and Insurance

Week 7 – Export Support

Week 8 – Export Payment and Finance

Week 9 – Export Market Entry Options

Week 10 – International Export Conventions

Week 11 – Fundamentals of Importing

Week 12 – Customs and Importing

Week 13 – Contemporary Issues

Example Notes – Week 6: Export Documentation

<u>Importance of Proper Documentation:</u>
Proper documentation is essential for the completion of an import/export transaction:-

- Crucial to business efficiency and profitability because documentary discrepancies…
    - may result in shipment delays for the importer and the likelihood of making unnecessary payments (eg. storage costs, port charges, etc.)
    - may result in delayed payment for the exporter (eg. when using letter of credit, an exporter will not receive payment from the bank if the required documents are not presented)

Importance of preparing documents correctly:-

- Ensures timely order delivery and better customer service
    - Buyer (importer) can easily/quickly clear cargo from port without incurring additional charges
- Fulfills customs requirements
    - Discrepancies (eg. wrong declaration) may lead to fines or penalties being imposed by customs

EDN: Exporter applies to customs for Export Declaration Number (EDN)

Documentations --

<u>Proforma Invoice:</u>

Once an order has been accepted (terms agreed by M and X), the exporter must: Arrange transport, prepare required documents **(including Proforma invoice)**, and apply to customs.

Exporter prepares a <u>pro-forma invoice</u> to send to buyer as a statement of a planned commitment

- This is a draft of the formal commercial invoice and serves multiple functions
- Buyer may need the pro-forma invoice…
    - to apply for a letter of credit with the bank,
    - to arrange for import licence with local customs, and/or;
    - for cargo price quotation

<u>Commercial Invoice:</u>

- Defined as a bill for the merchandise from the seller to the buyer; information includes:-
    - Goods description, delivery and payment terms, order date and order number, prices, etc.
- Overseas buyers use this to clear goods from customs (valuation), prove ownership and arrange payment
- Government in the importing country use this to determine value to assess duties and charges

- There are 21 sections to be filled in this document.

Bill of Lading:

- Issued by the carrier to acknowledge receipt of goods on board for transportation to a specific location for delivery to the consignee (to whom the goods are shipped – receiver)
- Serves as:-
  - evidence of the contract of carriage between exporter and carrier
  - evidence of shipment for customs and insurance purposes
  - document of title transfer (entitles the person holding it to take delivery of the cargo)
- May be negotiable (eg. made transferable to the order of the consignee – pass onto another)
- Shipping or airline company will prepare a bill of lading or air waybill (same but not negotiable or title)
- *Carrier: Send to customer and usually enough for them to be able to collect goods (For customs); Can be title or negotiable (can pass onto someone else)*
- The Bill of Lading must meet all the requirements of the credit as well as complying with UCP500

Other Documents:

- Certificate of Origin/Inspection, Consular invoice, Packing list, Non-commercial value invoice;

Insurance –

The insurance contract is:-

- An agreement by which the insurer agrees to reimburse the insured for specified future losses
- Procedures: -
  - Before an insurance contract is entered into, an insurer will require a potential insured to fill in a proposal form
  - The law treats a completed proposal form as an offer by the potential insured to enter into a contract with the insurer
  - The law takes the issuing of a policy as an acceptance of the offer (the contract is formed)

Who is responsible?

- Insurance may be paid by either buyer or seller (depending on conditions stated in the agreed Incoterm);
- Export sales contract must state who is responsible for arranging insurance at all stages of the cargo movement. Insurance contract - the certificate (from insurer) states cover type, terms and amount

Importance of insurance:-

- The risk of loss in trade is still part of modern international business
- Insurance was a feature of trade as long as 2000 years ago in Roman trade with Egypt
- Putting your goods on a ship is part of a 'marine adventure' with a legal understanding of joint risk in a common (ad)<u>venture</u>
- There is no legal obligation for exporters/importers to insure their cargo… however insurance will minimise risk of loss or damage in the event that unexpected problems do occur

Commercial or Buyer Risk	**Economic/Country/Political Risk**
• Insolvency • Default • Repudiation (Non-acceptance)	• Exchange blockages/delays • Import ban • Cancellation of Import Licence • War • Diversion costs • Government buyer repudiation

The fundamental principles

Insurable interest

- An insured has to have some involvement in the insured cargo, which is expressed as getting a profit on its delivery or arrival, losing value by its loss or damage, incurring a liability if it is lost or damaged. This provides something to insure against. Documentation is important at the time of a claim against loss as you do not have to prove an insurable interest when obtaining insurance.

Utmost good faith

- **'Uberrimae fidei':** The parties have a **duty of disclosure** and to deal with each other on the basis of **utmost good faith** (must be up front and honest). Fully disclose risk, don't omit material circumstances

Indemnity

- Depends on terms set in contract (may be based on an 'agreed value' or based on 'sufficient compensation' for replacement)
- Allowance will be made for depreciation and wear/tear; old goods cannot be replaced with new ones (although policy can based on an agreed value)

Subrogation

- You can't claim insurance for the same cargo from two insurers as the insurers agree to indemnify you against loss and if you have been indemnified then there is no right to be overcompensated.

Institute Cargo Clauses (ICC): Marine Insurance - A (all risks cover); B (intermediate); C (minimum cover)

EFIC: Export Finance Insurance Corporation - COMM (Competitive finance and insurance to Aus. exporters)

What makes insurance cheaper?

- A **good vessel**
- **Packaging** issues
- **Characteristics** of the goods; including, **Value** (the more expensive, the higher the premium)
- **Transit** issues (such as time, distance, location)
- **Experience** of past losses
- The **level of cover needed** (eg. 100% full coverage is more expensive than 20% indemnity)
- The **volume** of trade to be insured