

Types and functionality of documents

This chapter is intended to provide a general understanding on documents usually called in international trade. As per sales contract, seller may be required to provide certain documents such as bill of exchange, invoice, transport documents, certificate of origin etc to the buyer. Depending on the functionality, these documents are classified as financial documents and commercial documents. Documents required for clearance of goods in importing country may be referred as official documents. The International Chamber of Commerce (ICC) publication Uniform Rules for Collections (URC) 522 recognises classification as financial documents and commercial documents.

Types of documents

Financial documents	Commercial documents	Official documents
1. Cheque	1. Invoice	1. Consular Invoice
2. Promissory Note	2. Packing List	2. Certificate of Origin
3. Bill of Exchange or Draft	3. Transport Documents	3. Phytosanitary Certificate
	4. Insurance Documents	4. Health/Veterinary/Sanitary Certificate
	5. Inspection Certificates	
	6. Fumigation Certificates	

Financial documents:

1. Cheque

Cheque is a financial instrument used to effect the payment. It is an unconditional order by the drawer to the drawee to pay a certain amount to the payee. In the context of a sales contract, the buyer may use this instrument to effect the payment to the seller against advance payment or open account payment method.

Buyer who is an account holder in the bank, makes the cheque in favour of the seller. In this case, the buyer making a cheque is known as drawer, the party to whom payment is to be made

(i.e seller) is known as payee and the bank on which the cheque is drawn is known as Drawee.

Buyer shall send duly signed and dated cheque to the seller for presentation to the drawee bank. Seller may present the cheque to the drawee bank through their bankers for collection of payment.

If preprinted cheque is in a bearer form, payee field shows PAY.....OR BEARER, then the cheque may be transferred by the named payee to some other party without endorsement and if it is in a order form, payee field shows PAY..... OR ORDER, then payee must endorse the cheque while transferring to a some other party.

2. Promissory note

Pronote is a financial document issued by the borrower to the the lender. It is an unconditional promise to pay a specified amount to the lender at a future date with or without interest. In case of commercial transactions, the borrower and lender are generally referred as debtor and creditor respectively.

In the context of a sales contract, the buyer may issue a promissory note duly signed and dated made in the name of the seller to their bankers against receipt of documents under documentary collections. The buyer's bank may arrange to send the same to the seller thru seller's bank or may retain the same for presentation to the buyer for payment on maturity date. The promissory note to be returned to the buyer upon payment.

3. Bill of Exchange

Bill of Exchange is a financial instrument used to provide an unconditional order to pay. In the context of a sales contract, the seller makes a bill of exchange on the buyer as per agreed payment terms (sight or at future date).

The seller who makes a draft is known as Drawer, the buyer on whom the draft is made is known as Drawee and the party to whom the amount is payable under this instrument is known as Payee usually the seller's bank or order.

Payee in the bill of exchange may be shown in one of the following ways and requirement for the endorsement is provided into brackets.

To self (endorsement of the drawer is required at the time of payment to acknowledge the amount received)

To bearer of this instrument (endorsement is not required as it acts as a currency note)

To order (endorsement of the drawer is required)

To a named party (endorsement is not required)

To the order of a named party (endorsement of the party is required)

Usually payee is mentioned as “ To the order of named seller’s bank” and seller’s bank shall endorse bill of exchange while forwarding documents to buyer’s bank under documentary collections.

Payment instruction must be as per sales contract whether to pay immediately on sight basis or after certain number of days in case of credit sales. This credit period is known as usance or tenor. Instruction for payment may be made in one of the following terms:

At sight Or

At certain number of days after sight Or

At certain number of days after an event such as date of shipment

The bill of exchange being a financial document must be dated and signed by drawer. Bills of exchange are used under documentary collections and documentary credits. In case of documentary collections, the drawee is the buyer, whereas under documentary credits the drawee is a bank that agrees to accept bill of exchange. In case of open account payment method, the seller may send bill of exchange drawn on the buyer along with all other documents directly to the buyer and get accepted bill of exchange from the buyer directly. The accepted bill of exchange is to be returned to the buyer at the time of payment. As such, using this instrument under open account payment method is not common.

Commercial documents:

1. Invoice

Invoice is a bill for the value of the goods shipped, made by the seller on the buyer , providing full description of goods, quality specifications, packaging , markings, quantity , unit price with incoterms.

2. Packing list

Packing list is made by the seller providing detailed description of packing for the quantity of the goods shipped

3. Transport documents

Transport documents are generally issued by the shipping company to the shipper of the goods at the time of accepting the goods for carriage. It acts as a proof of shipment and also acts as contract of carriage between the shipping company and merchant who arranges the transportation. By providing transport document, the seller can establish that the goods are shipped within the time agreed as per sales contract. Depending on the mode of transport, these documents are referred as per below:

<u>Mode</u>	<u>Name of transport document</u>
Sea	Seaway Bill
Air	Airway Bill
Rail	Railway Receipt
Road	Roadway Bill / CMR
Courier	Courier receipt
Multimodal	Multimodal / Combined transport document

Apart from other details, these documents must indicate the name of consignee (receiver of goods). Shipping company shall deliver the goods to the named consignee without presentation of these documents at the place of destination.

If the seller intends to deliver the goods to the buyer only upon effecting the payment, seller may indicate buyer's bank name as a consignee in transport documents. The buyer must have concurrence of their bank before including such terms in a sales contract.

When goods are consigned in the name of the bank, buyer's bank may issue a delivery order to the shipping company after collecting invoice amount from the buyer. This arrangement can be made if mode of transport is by Sea, Air or Rail in which cases the buyer must pickup the goods from a shipping company facility.

Buyer can not sell the goods to any other party until they receive goods physically. So, buyer is exposed to market risks especially when the journey time is longer viz mode of shipment is by sea.

In case of sea shipments with a longer voyage, merchants may use option of the Bill of Lading, which is a document of title and can be issued in a negotiable form. Shipping company delivers the goods to the party who surrender original bill of lading at port of destination. Since this document can be issued in negotiable form, it can be transferred by endorsement and delivery to subsequent buyers.

Similarly, Charter Party Bill of Lading issued by the owner of the ship is also acts as document of title subject to the charter party agreement and can also be issued in a negotiable form.

Summary:

1. Except Bill of Lading and Charter party Bill of Lading , all transport documents are not documents of title and not required for delivery at destination
2. There are three transport documents against shipments effected by Sea i.e Seaway Bill, Bill of Lading and Charter Party Bill of Lading
3. Seaway bills are used for short voyages
4. Bill of Lading is a document of title and can be issued negotiable form which is required to take delivery of the goods at the destination port.

5. Charter Party BL is also document of title subject to charter party agreement and required to take delivery of the goods at the destination port.

4. Insurance documents

Seller is responsible to cover insurance against transportation risks if agreed as per sales contract under CIP or CIF terms.

5. Inspection certificate

Inspection of goods may be carried out by the independent inspection agency usually appointed by the buyer to certify that the quality of goods , packing, markings are as per sales contract.

6. Fumigation certificate

Products that are prone to infestation by pests such plant based products or wood products/goods packed in wooden pallets require fumigation treatment by a licensed fumigators prior to shipment and certificate to this effect may be required.

Official documents:

1. Consular Invoice

Seller may be required to provide invoice attested by the consulate office of the importing country. This attested invoice may be required by certain countries for import clearance as part of country regulatory requirements.

2. Certificate of origin:

This document is required by importing country to satisfy compliance with trade regulations, including restrictions on goods originating from sanctioned or embargoed countries. Usually this document is issued by the chamber of commerce and industry in an exporting country .

Some trade agreements between the countries offer preferential tariff rates or exemptions for goods originating from certain countries.

Many developed countries offer preferential tariff rates to goods from designated beneficiary countries under their GSP Generalized System of Preferences program. These programs aim to promote economic growth and development in eligible countries by providing duty-free or reduced-duty access to their markets. In this case, certificate of origin may be required from a government agency of exporting country GSP FORM A

3. Phytosanitary certificate

Shipments related to plants or plant products such as cereals, vegetables require this certificate from the ministry of agriculture Plant Protection Organization of the exporting country to the government of importing country to certify that goods are free from pests.

4. Health certificate

Health Certificate / Veterinary Certificate / Sanitary Certificate may be required by the government of exporting country for the food products to certify that goods are fit for human or animal consumption