

Distribution

GENERAL  
TD/B/WG.2/2/Add.1/Part I  
1993

Original: English

TRADE AND DEVELOPMENT BOARD  
Ad Hoc Working Group on Trade Efficiency  
Second Session  
Geneva, 15 November 1993  
Item 2 of the provisional agenda

**FACILITATING TRADE**

**DRAFT GUIDELINES ON BETTER TRADE PRACTICES**

Report prepared by

SITPRO, the Simpler Trade Procedures Board of the United Kingdom \*

\* **SITPRO** is the United Kingdom's trade facilitation body. It was established by H.M. Government in 1970 to "guide, stimulate and assist the rationalisation of international trade procedures and documentation and the information flows associated with them". The views expressed in this report are those of the authors and do not necessarily reflect the views of UNCTAD or any other part of the United Nations system. The report is reproduced as received and the designations are those of the authors. The designations used do not imply the expression of any opinion whatsoever on the part of the UNCTAD secretariat concerning the legal status of any country, area or territory, or of its authorities, or concerning the delimitations of its frontiers.

## DRAFT GUIDELINES ON BETTER TRADE PRACTICES

For technical reasons, the document is issued in two parts:

PART I: (enclosed)

Executive summary

- A. Strategic overview
- B. Best practice for traders

PART II: (to be issued later)

- C. Best practice for governments and their agencies
  - D. Best practice for international trade services
- Appendix 1 - Aligned Series of documents  
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SITPRO  
August, 1993

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## EXECUTIVE SUMMARY

1. This paper sets out guidelines on the best business practices to be used in all aspects of international trade. It covers three broad areas:-
  - governments and their agencies
  - traders
  - international trade services.
2. It identifies that achieving growth in foreign trade and obtaining new market opportunities requires not only the maintenance of free trade principles, but also substantial improvements in the efficiency of the overall trading process. Trade efficiency can be achieved as a result of combined three activities; trade facilitation, improving access to better marketing information and the adoption of new business concepts such as "just-in-time" purchasing and production.
3. Significant benefits can be expected from these improvements. They might go further than the estimate of 75 billion USD savings initially made.
4. In the context of this report "better practices" encompass any information processing in the international trade process, using the latest techniques and international standards.
5. Besides best practices being necessary for each component of international trade, the individual components need to be co-ordinated so that the trade practice operates as a cohesive whole. This is true both at the level of countries and individual companies.
6. Guidelines have therefore concentrated on how to achieve effective co-ordination; at the national, local and company level; as well as setting out individual guidelines for governments, traders and international trade services.
7. The benefits of using best practice are broadly the same for countries and companies, namely:-
  - greater trading efficiency
  - better management control
  - lower costs
  - better customer service
  - the ability to introduce new business strategies



**1 Trade policy and the role of trade efficiency**

- 1.1 Developing foreign trade, and the identification of new market opportunities are amongst the highest priorities in all countries.
- 1.2 Achieving this growth not only requires the maintenance of the principles of free trade, but also a substantial improvement in the efficiency of the overall trading process.
- 1.3 For individual countries and enterprises to compete successfully in the global market place they need to:-
  - ensure an open and efficient trading process
  - exploit it to their advantage and to strengthen their relationships with their trading partners
  - co-ordinate all aspects of the trade transaction use best practice, especially international standards
  - reduce costs
- 1.4 Significant reductions in procedures, time and costs can be achieved. UNCTAD estimates potential savings of up to 75 billion USD per year. But it can go further than that; new practices, properly harnessing both modern transport links and information technology can mean that new markets can be supplied.
- 1.5 At the level of the individual company savings can be 2-3% of the arrived price of the goods, (perhaps a 20-30% increase in the exporter's profit). Conversely bad practice, especially for smaller traders with low value consignments, can wipe away profits at a stroke.
- 1.6 Historically, unlike manufacturing cost, international trade administration was widely perceived as a relatively unimportant low cost activity. By definition it was not of interest to senior management. This perception remained although it was never true, however, four recent developments are beginning to change this situation. In-house integration of company business applications, global sourcing of components and materials, the advent of electronic trading techniques and the changing role of governments (from excessive control to recognising the national need to facilitate trade).
- 1.7 These developments are leading to a review of the total trading process. Both commercial and administrative management are becoming more aware of the increased efficiency, reduced costs and better customer service that

can be obtained from adopting common, integrated internal and external practices using international standards.

## **2 TRADE EFFICIENCY**

2.1 The objective in any country must be to help local enterprises compete successfully in the global market place and improve their profitability and customer service by:-

- working for an open and efficient trading process
- assisting them to exploit it to their advantage
- encouraging them to use best practice

2.2 For this objective to be achieved there has to be:-

- understanding of the key elements of the international trade and payment process by the analysis and identification of constraints
- knowledge of the opportunities available to improve business practice including how to harness relevant information technology
- a balanced view of all parties to the trade transaction represented in the appropriate national, regional and international negotiations

2.6 Once work has started, the question "when is the trading process efficient" has to be answered. Standards and guidelines exist as targets for most of the elements; overall however there is no set norm. However, at the company level, it will be possible to see if relationships with trading partners have been strengthened and the quality of customer support improved. Other measures are whether the transaction is being completed as effectively as a domestic one and that all the participants have the information they require, at the time when they need it.

## **3. TRADE EFFICIENCY AND TRADE FACILITATION**

### **3.1 Background**

3.1.1 The main objective of the UNCTAD Special Programme for Trade Efficiency (UNCTAD SPTE) initiative is to open international trade to new participants, especially smaller countries and enterprises, by simplifying and harmonising trade procedures worldwide and giving governments and traders access to advanced technologies and information networks.

3.1.2 Trade efficiency can be achieved as a result of combining three activities; trade facilitation, improving access to better market information and the adoption of new business concepts such as 'just-in-time' purchasing and production.

3.1.3 Trade facilitation is the systematic rationalisation of

procedures, information flows and documentation.

- 3.1.4 Trade procedures are activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods and associated payment.
- 3.1.5 The main objectives of the facilitation of trade procedures may be summarised as to:-
- ease the information flow
  - eliminate errors
  - relate procedures more fully to current requirements
  - limit information requirements to essential data, and
  - minimise the delays caused by unavoidable official controls
- 3.1.6 In respect of trade facilitation the key international organisations are the United Nations (UN) and the International Organisation for Standardisation (ISO). The UN facilitation work is focused through the UN Economic Commission for Europe's Working Party on the Facilitation of International Trade Procedures (UN/ECE WP4) and its procedural and EDI technical groups.
- 3.1.7 Market intelligence on markets, trade contacts and goods/services is provided both the public and private sectors. At an international level work is undertaken by the UNCTAD/GATT International Trade Centre.
- 3.1.8 New business concepts are, naturally, primarily developed in the private sector, but are equally applicable to the public sector when it carries out "business", eg the purchase of goods and services.

## 3.2 **The Problem**

- 3.2.1 Lord Thorneycroft, the first Chairman of SITPRO said in his introduction to the 1970 SITPRO Report, "Looked at as a problem, there is nothing inherently too complicated in the systems and procedures for selling goods from one country to another. The difficulties arise in part from the sheer scale of the operations and in part from the vast number of people, interests, nations and languages involved. What may appear as a most elegant solution in one part of this network can often create havoc in another".
- 3.2.2 Those not closely involved in international trade tend to think only of its physical aspects - the movement of goods, containers, vehicles, ships and aircraft. Underlying, controlling and regulating the whole of this movement, however, is an invisible infrastructure of information handling and exchange manifested by a great variety of documents or their electronic equivalents.

- 3.2.3 The purpose of the information flow is not merely to provide essential data. There is the associated and vital element of timing. The best quality information in the world, which arrives days after the cargo, will still cause acute problems.
- 3.2.4 Such delays can be caused by poorly designed documents, by complex processing or bad management "up-stream" (no one told the clerk holding up the documents what impact this might have), or by poor or badly managed communications.
- 3.2.5 Paper has been the main medium for carrying business information for over 2500 years. Unquestionably, as many authoritative surveys have shown, today's paper world is inefficient and costly. The costs arise because of the fundamental inefficiency of the system and through error rates and associated delays in the movement of goods and payment for them.
- 3.2.6 The problem is serious in national trade; it is acute in international trade. A minimum of 12 participants are involved in the simplest international trade transaction. All want information about what is being moved or paid for and the core of that information is the same. Vast amounts of time and resources are spent transferring the information from one document to another. Errors occur frequently; for example 123 becomes 213, 'car parts' becomes 'car ports'. Error rates in excess of 50% have been consistently recorded in Letters of Credit. Error rates of 30% are not uncommon in manual processing of Customs entries. (123 to 213 sounds a small problem. However, if a ship or aircraft manifest, based on an inaccurate waybill, contains wrong information, time and money would be spent looking for the missing 90 packages; probably claims letters and repudiations would have been sent before the mistake was realised).
- 3.2.7 Computers can help. They have already streamlined internal processing within many enterprises and public sector agencies. However, when it comes to communicating with external parties or suppliers, paper documents are still the main medium, even if the computer has originally produced them. We then often seriously compound the problem of information transfer by normally relying on the traditional postal system as transfer medium. 5-7 days between despatch and receipt for international mail is the norm - 2 days is normal domestically.
- 3.2.8 Then after the document carrying vital business data is received at its destination it is often in-put straight into another computer for processing, giving further opportunities for errors and delay. Digital, the US computer company, estimates that 70% of the output of one computer is immediately in-put into another computer.

- 3.2.9 So whilst computers help improve internal efficiency they have not yet radically altered inter or intra-company communications. Until electronic trading techniques are used (see Appendix 2) the costs and inefficiencies associated with the paper world will remain.
- 3.2.10 Finally, there is an assumption that "controls" are only carried out by governments. Everyone has controls to operate, however, and most relate - in the end - to money. For example, in a port the customs authorities operate controls to protect state and collect the taxes; the port authority/stevedore to manage the cargo movement and ensure they are paid for their services; the carrier to manage the shipping operation and ensure they are paid freight charges etc.
- 3.2.11 There is no reason for public sector controls to be more "bureaucratic" than those of anyone else, nor should governments use anything other than sound commercial best practice when operating as a business (such as when buying goods! see section 8).
- 3.2.12 After all it doesn't matter to the traders who gets their procedures out of phase. The result will be the same; the customer will not get the goods when expected - at least without excessive additional charges that were not built in to either the buyer's or seller's price calculations.

### **3.3 The Result of Inefficiencies**

- 3.3.1 The most frequent result of inefficiencies in international trade is delay, which can be critical. Heavy investment in logistical systems is wasted if goods sit idle waiting for the right piece of paper or information. Ports may spend money on new physical facilities if the existing ones are congested - when to change practice to cut delays would have more far-reaching effect.
- 3.3.2 Payments get delayed. UK research has indicated that over 50% of the documents lodged in respect of documentary credits contained errors which delayed settlement by at least two weeks, with the result that exporters lost £70 million per annum. Research in other countries shows a similar situation.
- 3.3.3 There is no more irate customer than the one who knows that the goods he has ordered are nearby, but the paperwork isn't. In fact, with the growing trend towards purchasing "just-in-time", delays are likely to mean lost business. If 'local' suppliers can make goods and deliver in a certain time, the 'remote' supplier must compete - or have significant advantages on price, quality or uniqueness.
- 3.3.4 So trade procedures and related information handling have a decisive effect on the speed, efficiency and reliability of delivery of goods to the buyer and payment to the

seller. Complexities and inefficiencies in them create a formidable "invisible barrier" to improved export

performance. This problem is seriously under-estimated in most countries and requires more attention by traders, service industries and governments.

- 3.3.5 Constant additional costs on transactions to represent the buyer (and their national economies) higher 'arrived' prices of goods; to the seller, at the least, repeated arguments with his customer and loss of profit; in the end probably loss of business.

#### 3.4 How to Facilitate International Trade

- 3.4.1 The concept of trade facilitation is very simple. You will not get the right goods in the contracted place at the correct time unless you have the right information FIRST.

- 3.4.2 Then it has to be recognised that the whole transaction has to be managed as a whole; an import is just an arrived export not another separate activity. This means, even if a trader sells FOB (and the clerk says our responsibility ends when the goods are loaded) that although legal responsibility has ended, a supplier needs to ensure he has a satisfied customer.

- 3.4.3 Each party to each part of the transaction has responsibilities - this is true for both public and private participants. The essence of the technical task is to move the minimum information with maximum efficiency and process it rapidly. The criterion is the minimum information necessary to service the transaction, and not the maximum that people would like to collect for other purposes.

- 3.4.4 Traders have always sought to have standard and simple procedures to follow in dealing with administrations and service suppliers such as carriers, banks and insurers. This would allow traders to have to train staff and install systems to deal with common procedures only, not a different set of procedures for each port, carrier, bank or government agency used. But they also have the responsibility of providing all concerned with accurate timely information.

- 3.4.5 To improve the trading process, and each public or private participants' interaction with it, requires a series of actions to identify problems, develop solutions and achieve use of the new 'best practices'. The use of effective best practices can only be achieved by co-ordination between the relevant participants at company, national or international level. These actions are to:-

- identify constraints in the trading and payment process
- identify solutions including the use of latest technology
- develop best practice in the simplification and

integration of the total trading process

- promote the benefits to traders (especially small and medium sized enterprises), government agencies and business service suppliers

## **4 BETTTER BUSINESS PRACTICE**

### **4.1 The Need**

4.1.1 "Better business practice" is any technique that proves to be beneficial to the users. In the context of this report it covers any information processing by governments and their agencies, traders and the trade and transport service industries. Identifying and using best practice is not just a question of what data and what information technology, but also when to process and - most importantly - do you need to do it at all.

4.1.2 Using the simplest practices is necessary for each individual component of the trading process. A number has been developed in recent years; for example:-

- internationally recognised terms of trade
- traders doing away with detailed invoices (and the need to check each manually against purchase orders)
- central banks simplifying exchange control rules
- ports co-ordinating all the port activities
- shipowner, cargo handling, inland carriers, customs and other formalities, into a single co-ordinated process and;
- customs getting rid of consignment based clearance documents.

International standards for all trade documents and their electronic equivalents are readily available.

4.1.3 Furthermore the individual elements needed to be co-ordinated so that the trade practice operates as a cohesive whole.

4.1.4 One point has to be stressed; facilitating trade is NOT the enemy of control. All of the above examples have at least maintained the quality of the controls required by that participant - in many cases the quality has been improved.

### **4.2 Benefits**

4.2.1 The benefits of using best practice are broadly the same for countries and companies

- greater trading efficiency

- better management control
- lower costs
- better customer service
- the ability to introduce new business strategies

4.2.2 At the national level it means the opportunity to increase one's share of world trade; for the company, greater efficiency, improved customer service and profitability.

### 4.3 **Achieving Best Practice**

4.3.1 In achieving the use of best practice it is not only necessary to identify constraints in the current trading process, develop solutions and simplified practice, but it is also necessary to promote the benefits to participation - both public and private sector - especially small and medium sized traders.

PART B : BEST PRACTICE FOR TRADERS

**5 THE ROLE OF TRADERS**

- 5.1 In a domestic transaction the buyer will expect that goods purchased will be delivered to his factory or warehouse. The supplier is responsible for delivering the goods and the buyer for receiving them and paying for them.
- 5.2 A straightforward operation has both parties responsibilities and obligations clearly defined. An uncomplicated transaction with transport often owned by the supplier, insurance based on annual premiums, payment arranged in local currency on open account, no customs frontiers to cross and, the same legal jurisdiction if things go wrong.
- 5.3 International trade is more complex in two ways. Firstly there are more parties to each transactions, (see 3.4) some 12-15 in most transactions. Secondly the delivery of the goods can be at factory or customer's gate **or at 11 intermediate points.**
- 5.4 This added layer of complexity increases the responsibilities on both the seller (exporter) and buyer (importer).
- 5.5 The seller now has two responsibilities:-
- to deliver the goods to the buyer in good condition at the contracted place, at the right time and for the correct price
  - to supply accurate, timely information to all of the other parties in the transaction in order for the goods to be transported and payment to be returned by the due date.
- 5.6 The buyer also has two responsibilities, even if he buys on terms "Delivered Duty Paid" (see Section 12).
- to complete the obligations required in international trade practice
  - to pay for the goods
- 5.7 These additional responsibilities highlight why trade terms are so important; they tell traders what to do with respect to:-
- carriage of the goods from the seller to buyer, and
  - export and import clearance

They also explain the division of costs and risks between the parties, according to the terms used.

- 5.8 Since 1936 the most widely recognised trade terms have been INCOTERMS, issued by the International Chamber of Commerce (ICC). The latest version, INCOTERMS 1990, came into force on 1 July 1990 to cope with changes in trade practice and the growing trend to replace documents by electronic messages or, as it is known, electronic data interchange (EDI).
- 5.9 To meet both responsibilities the exporter must plan his export operations carefully. An export strategy is required. This should cover:-
- researching the markets
  - arranging the contract
  - getting the goods to the market
  - documentation and export administration getting paid, and
  - customer service
- 5.10 The importer must also play his part, especially if the goods are sold on trade terms where "delivery" is short of the ultimate destination, for example INCOTERMS 1990, CIF (Cost, Insurance, Freight), named port of destination. In this example the importer must accept delivery of the goods upon shipment and receive the goods from the carrier at the named port of destination. The importer will have to obtain import clearance from customs, pay port charges not included in the freight and collect the goods.
- 5.11 General principles of international trade best practice are therefore common to exporters and importers in all countries, whatever their economic structure. This is also true of the basic documents.
- 5.12 The detail of procedures, who does what and the terminology used, can, however, vary greatly. The following six sections therefore set out broad guidelines to best practice for traders.

## 6 EXPORT STRATEGY

- 6.1 When preparing to export it is important, no matter how large or small the company, to have a strategy. The following strategy is a guide for small, medium or large enterprises.
- **Research** countries to which you may be interested in exporting. If you already export successfully, look at other areas. For the new exporter, plan to export to one country at a time.
  - **Do not** generalise or try to penetrate several markets at once.
  - **Assess** the markets. Take account of a country's cultural

needs and how your product and its packaging may have to be adapted, for instance to avoid politically sensitive

colours or religiously sensitive animal products. Also investigate technical standards as your product may have to be adapted at the production stage. It is also important at this stage to begin to evaluate costs.

- **Develop** the presentation and marketing material for your product. For example, if exporting to France, ensure that any literature is translated into French. If this material includes pictures, ensure that the buyer can relate to them.
- **Consider** how you intend to get the goods to the market, whether you intend organising everything yourself, including transport and documentation, or using a freight forwarder. Consider what terms of payment you would like to use and how flexible you can be with these with the buyer.
- **Train** staff who will be involved in the everyday export operation and ideally employ someone with a previous knowledge of export documentation and methods of payment. (Or use an export administration company).
- Co-ordinate export operations closely with production sales and finance to plan and to meet timescales and product/service quality. In exporting this area is far more critical than when selling at home and should be carefully considered.
- **Cost** all the above and any other 'outgoings' which may be incurred. These include bank charges, which for certain methods of payment can be quite high, transportation and shipping costs, credit insurance and insurance of the goods in transit. All these costs should be included in the sale price or should clearly be shown as for the buyer's account and should not unexpectedly reduce an exporter's profits.

**Guidelines: Prepare a suitable export strategy.**

## **7 RESEARCHING AND ENTERING MARKETS**

- 7.1 The decision to enter a new market cannot be taken lightly. Does the product need amendment? Are packaging and pricing policies correct? What extra demands will the new business impose on production capacity? Can the existing sales force cover the new outlets?
- 7.2 No company would expect to win business in its home market without properly understanding its customers' needs and then setting out to meet those needs more effectively than its competitors. Commitment from top management is essential for success. There must be a realistic appreciation of the level of investment required and the length of time which will elapse before results are achieved. The benefits to be derived from exporting should include:

1 Increased profitability in the longer term;

- 2 Better utilisation of production capacity;
  - 3 A wider customer base;
  - 4 Increased security by spreading risk over a variety of markets;
  - 5 Sharper marketing skills through exposure to competition in international markets.
- 7.3 For the company new to export, the first question must be 'Where do we start?' Even companies which have been exporting for some years should carry out a regular appraisal of the markets in which they are currently working, as well as those which may offer even more attractive possibilities. However, very few exporters would claim that they have entered every one of their markets as the result of careful research and logical reasoning. Often, it is chance events which create opportunities.
- 7.4 For most new exporters, drawing up a short-list of overseas markets is largely a matter of common sense. They are likely to avoid countries which are politically unstable, or where there is considerable risk that one will not be paid. There are also markets with a high level of discrimination against imports which may manifest itself in embargoes, quotas, tariffs, technical approval and health certificates and excessive labelling requirements. The willingness and ability to overcome such problems often distinguishes the successful exporter from its competitors, as does persistence and a determination to succeed.
- 7.5 Positive market attributes would include the frequency and regularity of shipping links, remembering that distance increases cost in every aspect of exporting. The ability to conduct business in the language of the country will also be a significant advantage.
- 7.6 Companies providing products or services which are highly specialised may find it necessary to generate sales in a number of markets simultaneously, since no one market would be large enough to sustain the necessary investment. This may also be true if a company is at the leading edge of technology, with innovative products which quickly become outdated.
- 7.7 With these exceptions, it is always better to short-list two or three markets where the product is likely to find acceptance and then select one market in which to concentrate effort and resources. In arriving at the short-list, ask the following questions:
- Which industries currently use your products?
  - In which countries are these industries to be found?

- Which countries have significant imports of this product?

- To what international standards does your product conform?
- Which countries accept these standards?
- What restrictions are placed on imports?
- Is the business environment likely to remain stable?
- Are there adequate shipping facilities?
- Do social or business customs differ greatly from yours?
- Which languages are used for business?

7.8 Having made an initial selection, compare one market with another. This can be done, initially, by desk research. At a later stage, it will be necessary to undertake field research in which each market is visited so as to check out the facts and examine the current situation at first hand.

**Guidelines:**

- 1 **Don't spend time examining too many markets; concentrate on a few.**
  - 2 **Select a market which has sufficient potential.**
  - 3 **Remember, a small market may still have a significant niche and less competition.**
  - 4 **Select a market where your product has some competitive advantage, for example; design, performance, quality or price - but do not rely exclusively on price.**
  - 5 **Visit the market yourself before commissioning a detailed field study. Talking to leading buyers or visiting an exhibition can help you to identify key questions.**
  - 6 **Use the services of export promotion, facilitation body, banks, Chambers of Commerce, trade associations and any other contacts you may have.**
- 7.9 One mistake which many companies make is to underestimate the total cost necessary to enter a new market. Research expenditure is only the first small step. The real costs start when products and packaging have to be changed to meet customer requirements, and samples and sales aids provided to the selected distributor who then looks to the exporter for continuous marketing and service support.
- 7.10 When the research has been completed and the market offering the greatest immediate potential identified, it will be essential to secure commitment from top management and allocate production capacity, based on the anticipated level of demand - with a built-in safety margin so as to

be able to support success. It is also essential that, at the outset, a marketing plan is drawn up and a budget made available; not just for the first year but for the first

three years. A large part of the research will have been concerned with identifying how best to enter the market by looking at the available channels of distribution. Only when this decision has been made, will it be possible to assess the financial viability of the project and carry out pricing calculations.

- 7.11 For each market it will be necessary to set specific objectives. Since every company has finite resources, it must define these objectives clearly and realistically. A written marketing plan encourages systematic thinking and provides the means by which performance can be evaluated. It should include sales forecasts for each product and market segment, together with the costs necessary to achieve these sales and the required contribution to profit.
- 7.12 Entering a market is usually achieved in one of four ways:
- Selling direct to users;
  - Appointing a commission agent;
  - Appointing a distributor;
  - Working with a non-competitive manufacturer.

#### **Guidelines:**

- 1 Identify the appropriate market segment for the product.**
- 2 Ensure that the distribution channels used match this segment.**
- 3 Set specific objectives for each product and market segment.**
- 4 Allocate adequate resources.**
- 5 Prepare a marketing plan.**
- 6 Monitor progress.**

#### **8 ARRANGING THE CONTRACT**

- 8.1 All buyers and sellers want to complete their business quickly and efficiently. In order to make this possible it is important that the contract is clear and leaves no doubt as to responsibility and costs. Two very important areas of a contract for consideration are trade and payment terms.
- 8.2 When arranging any sales contract it is very important to ensure there is no confusion over who is delivering and paying for what and what each party's responsibilities are. Confusion will only lead to delay, loss of profit and can

create unnecessary problems between the trading partners.

8.3 An exporter needs to know terms of trade before preparing a contract, quotation or pro-forma invoice. "INCOTERMS 1990" is produced by the International Chamber of Commerce (ICC). There are thirteen Incoterms.

**Guidelines: Train staff to use ICC's INCOTERMS 1990, e.g.**

**EXW - Ex Works**

**FCA - Free Carrier (named place)**

**FOB - Free on Board (named port of shipment)**

**CIF - Cost, Insurance and Freight (named port of destination)**

**DDP - Delivered Duty Paid (named place of destination)**

8.4 Some transport terms get confused with INCOTERMS such as FIO - Free in and out (loading/discharging not charged to ship). If your buyer asks you to use these or any non standard terms please get professional advice (eg. forwarder, Chamber of Commerce) on what they mean. If you use them you will not have the protection of INCOTERMS.

**A misuse or misunderstanding of INCOTERMS could prevent an exporter from meeting contractual obligations, or even make the exporter responsible for unexpected costs. It is, therefore, very important to understand and quote the correct INCOTERM.**

8.5 Terms of payment define the conditions under which the importer (buyer) and exporter (seller) have agreed to settle the financial balance. The basic elements of the terms of payment include:

- the method of payment
- the amount
- the date of payment
- the place of payment
- remittance of funds
- costs related to the payment eg. banking commission
- security given by the creditor for due fulfilment of his obligations.

8.6 There are several basic methods of getting paid, depending on the amount of trust the exporter has in the buyer's ability to pay. Individually tailored terms of payment are sometimes arranged if certain conditions are to be met. The following basic methods are listed in order of security for the exporter.



- 1 Cash in advance
  - 2 Letter of credit
  - 3 Bank documentary collections
  - 4 Open account
- 8.7 More detailed information is contained in Section 11 "Getting Paid".
- 8.8 Which is most appropriate to any contract depends on a number of issues including the financial standing of the buyer and custom and practice. Delays in payment are costly and bad debts more so.

**Guidelines:** Investigate payment options including comparative cost and risks. Take advice of an international bank specialist.

## **9. GETTING THE GOODS TO THE MARKET**

9.1 The main options when considering how to get goods to the market are sea, road or combined sea/road transport, air freight, post, especially air parcel post, or express deliveries, courier services and rail freight. The decision on which of the above to use must be based on a combination of four requirements:

- product requirements
- speed
- reliability, and
- cost

9.2 For all modes, except post and possibly some express parcels or courier services, a freight forwarder will advise. Remember to include the total costs of each method in the quotation linked, where appropriate, to your responsibilities under the agreed INCOTERM including packaging, storage, inventory and, of course, freight costs.

9.3 Besides planning the movement of routine shipments, also have plans ready to cope with 'special' shipments of spare parts, goods returned for repair etc. In the latter case give customer clear instructions on how (and to whom) to consign the goods and get them to fax information once shipped so the consignment can be progress chased.

**Guidelines:** For all methods except post, it is sensible to use a carefully chosen freight forwarder, or export administration company, who can obtain comparative quotations for your products and can arrange transport, insurance, official documentation and

customs clearance. At a later stage, once regular

**markets are established, the exporter might deal directly with chosen transport operators.**

- 9.4 **Sea transport** services come in many shapes and sizes and offer a range of competitive rates, so it is important to 'shop around' and obtain several quotes. These are three basic types of sea carriers, regular services carrying either containerised or break-bulk cargo (or both); regular ferry services primarily carrying road vehicles loaded with cargo and 'tramps', the latter like taxis plying for business to make individual voyages generally carrying bulk cargoes such as grain, coal and oil.
- 9.5 The rating of sea freight can vary between a specific commodity rate, FAK rates (freight all kinds) or a rate for a containerload. Freight is usually charged on weight or measurement, whichever is the greater. Container rates can be FCL - full container load; LCL - less than full load or groupage.
- 9.6 On most major trade routes there is considerable choice for the exporters. Questions of routing, costs, selection of carriers etc are complex issues that should be dealt with by skilled staff - or by your forwarder.
- 9.7 As with sea transport, **road transport** rates can be agreed based on full container loads (FCL), less than full container loads (LCL), groupage etc, and the method chosen is reflected in the cost. Rates can also be based on whether a vehicle is driver accompanied for the sea leg or driver unaccompanied.
- 9.8 'Trailers', as they are sometimes called, are very flexible and it is important, especially when using container traffic, to request the correct type. Trailers tend to come in lengths varying between 20 to 40 feet and are constrained to a maximum legal weight. For guidance on maximum legal weights and the type of vehicle to use either consult your forwarder or contact the national road transport association.
- 9.9 Rates for the **air freight** industry are based on weight and volume. The size of the consignment is far more sensitive in relation to the costs than in other modes and tends to restrict air freight to smaller consignments. There are possibilities of chartering an aircraft for larger consignments but this should only be considered through an approved air freight forwarder/carrier.
- 9.10 Airfreight has the benefit of speed, especially for longer distances. If using a letter of credit, however, ensure that an Airway Bill is acceptable, and that transshipment (the aircraft having to refuel on route) is permitted.
- 9.11 This particular mode of transport is also more sensitive than most to hazardous or dangerous goods restrictions and

strict compliance to the International Air Transport Association's (IATA) regulations must be carried out. (All

modes have specific rules for dangerous cargoes which must be pre-booked and are usually specially documented). If in doubt consult the air forwarder or carrier at an early stage.

- 9.12 In some parts of the world **air parcel post** is becoming increasingly popular. It gives rapid delivery, usually door to door, for a competitive all-in rate and with simple documentation. Large parcels up to 20 kilograms (and sometimes more) can be carried to almost anywhere in the world. Other facilities such as insurance, cash on delivery (C.O.D) and prepayment of customs duty are often available. Dangerous goods cannot be carried.
- 9.13 **Express or Courier** services are applicable, as their name suggests, for fast and/or secure delivery services. They offer door-to-door rates and are gaining in popularity with more companies using just-in-time systems. The cost of using an express freight company is reflective of the speed and treatment of the goods and it is best to obtain several quotes before proceeding.
- 9.14 It is impossible to generalise on how much it will cost to deliver to the market as costs vary considerably with destination, weight, bulk, value and quality of service. Other delivery costs, including insurance and related indirect costs such as inventory costs, will vary with value. A quotation should be obtained to cover carriage, fees, and insurance up to the point at which the goods are handed over. It is the only safe way.
- 9.15 It is essential to find out how long delivery will take, before giving any undertaking to the importer. Remember to include the time necessary for all the steps up to the point the goods are handed over. For some markets it also depends on the frequency of sailings; the importer, however, will only be interested in the date he receives the goods - not the despatch date.
- 9.16 Insurance of some type will always be required, even if "sellers interest" only. Most delivery terms require the exporter to cover against damage or loss to the goods in transit, with marine insurance. Carriers do have certain levels of liability but all modes can limit their liability, usually under international convention, and these levels usually fall well below the actual value of the goods. Your forwarder or an experienced marine insurance broker can advise you.

## 10 DOCUMENTATION AND EXPORT ADMINISTRATION

- 10.1 When talking to experienced traders the first thing that they will stress is the need to make sure you have all the documentation in order. Documents are the foundation upon which the whole export transaction chain sits. If there is an error, missing data or no document at all, the

consequences can be catastrophic. So ensure it is right!

- 10.2 Make sure to tell the customer what has been done with the documents as well as the goods; in fact ask him beforehand if he has any special documentary requirements that you can help with.
- 10.3 In many countries documents physically have to arrive - through the post, by courier, through the banking system or via the carrier - before clearance procedures can be completed and your customer gets the goods. There is nothing more disconcerting to an importer than seeing the goods he has paid for in the transit shed, but not be able to get them because of one or more missing documents.

**Guidelines:**

Documents and their electronic equivalents should follow international standards and the national aligned system. A system compatible with requirements should be installed; this can vary from multi-part sets, through the use of overlays and photocopiers/duplicators, to PC or main frame computer system. (See Appendices 1 & 2).

Careful attention should be paid to providing accurate, timely information to the customer, customs and other official bodies and to those providing services to the exporter eg. forwarders, ports, carriers, insurers and banks.

Document systems should be reviewed periodically, in order to use up-to-date technology and eliminate redundant forms and copies.

**11 GETTING PAID**

- 11.1 When considering how to get paid the exporter should take account of several factors, such as credit worthiness of the buyer, consignment value, bank charges and what method the buyer has requested (if any). It is a good rule to study how established exports get paid in your trade. (For example, up to 70% of trade from the UK is based on open account terms; but it is important to remember that 60% of UK trade is with the other European Community member states).

**Letters of Credit/Documentary Credit**

- 11.1.1 A letter of credit can be described simply as a written undertaking given by a bank on behalf of the buyer, to pay the seller an amount of money within a specified time, provided the seller present documents strictly in accordance with the terms laid down in the letter of credit.
- 11.1.2 A more formal definition is "a conditional undertaking of the issuing bank that settlement will be made by a bank

nominated in the credit (paying bank) and in the manner specified in the credit, if the seller (beneficiary) presents to that bank documents as stipulated in the credit

and complies with the terms and conditions thereof. The issuing bank is ultimately responsible for settlement if the nominated bank does not honour such compliant documents".

- 11.1.3 If used correctly a letter of credit (L/C) provides substantial security. However, it does involve a level of expertise in the preparation of the required documents and surveys show considerable errors in documents lodged against credits.

**Guidelines:**

**L/C transactions should be carefully managed.**

**With the considerable number of errors on in-coming credits a pro-forma credit should be sent to the buyer at an early stage. When the L/C is received by the exporter it should be checked thoroughly against the instructions (pro-forma) sent to the buyer to see whether it is acceptable or what amendment is required.**

- 11.2 It is clear that the driving force for the process of managing export payments must be the exporter. It has to be recognised that the export or shipping department that controls this process has a major loss preventing function within the export company.

**Guidelines:**

**The exporter must plan and manage the export payment process, selecting the most appropriate payment methods; maintaining close liaison with the buyer; co-ordinating internal practices and training staff to ensure the most efficient and cost effective handling of the whole transaction.**

- 11.3 The main payment options are summarised below:-

**Revocable Credits**

**Irrevocable Credits.**

**Confirmation**

**Bank Documentary Collection (Bills of Exchange)**

and **Open Account**

**Other Alternative Methods of Payment** include Factoring and Invoice Discounting and Forfaiting by Banks and other Specialised Finance Houses

**12 THE CUSTOMER**

- 12.1 The prime objective of any exporter should be to ensure quality customer service. This should cover not only the

product but also the necessary documents and information on progress in the despatch and delivery of the product.

- 12.2 Many exporters, especially those selling non-proprietary goods, such as chemicals, against local competition, have to show that they can deliver to the customer's factory as effectively as the competitor on his doorstep. Effective customer service is essential for survival.
- 12.3 Administration of the transaction is not often a subject of close liaison, but to be efficient it is essential for the exporter and importer to get together and identify the customer's shipping and documentation needs. These discussions would cover routing, the correct use and interpretation of trade terms, clearer and simpler shipping marks, the right type of documentation to us and what can be simplified or cut out, especially in documentary credit transactions. Many importers' or sales agents' purchasing departments are simply following tradition in calling for certain documents, shipping marks and actions. It is often evident from the wording of many, if not most, documentary credits that they are following a set pattern. Even when some documentary credit requirements stem from government regulations and not from the normal commercial considerations of credit control, much can often be done.
- 12.4 The customer, quite rightly, will not be too interested in hearing about the exporter's difficulties, but will almost certainly appreciate direct interest in his problems. Many exporters would be horrified to see what can happen to their goods in transit or at destination.
- 12.5 A few careful checks when the order is placed, or the contract drawn up, can save time-consuming problems later. Perhaps the most obvious precaution is a definite system for scrutinising documentary credits when they are first received, including a progress or diary routine to check that they are opened and received in good time.
- 12.6 It is also wise to arrange and check on routings as soon as orders are received. Perhaps the routing on which the original quotation was made is no longer suitable. It may be necessary to consult at the outset on the co-ordination or production, packing and despatch or shipping schedules.
- 12.7 On some occasions, the delivery terms quoted may be impractical, fail to include all the costs which will be incurred, or be incorrect. Examples abound of quotations specifying, say, "CIF" without stating the precise place of delivery, or "C & F" with no arrangements to cover seller's interest risks, or "Delivered" without saying where, or what costs will be paid. Extra unplanned costs, resulting from hastily quoted delivery terms, quickly erode profit margins. If these terms are put right at the earliest stage of order processing, or, preferably, quoted correctly in the first place, these costly mistakes can be avoided.

12.8 Even after the order is received, and acknowledgement made, the customer will appreciate being kept informed of

progress, and especially of any foreseen delays.

- 12.9 It is important to keep the customer advised by fax or telex. As soon as possible the despatch advice should be sent with any documents which are available, especially the export invoice. It is most helpful to tell the customer that the goods are on their way and that the remaining documents will follow shortly. Pre-advice assists the customer to plan his own import routines to avoid delays when the goods arrive.

**Guidelines:**

The exporter and importer should liaise about their administrative requirements. The exporter should provide customer service before and after the despatch of the goods.

The importer needs to ensure that his purchasing practices are up-to-date and realistic and that he can carry out import clearance as soon as the goods arrive.

**13 THE ROLE OF GOVERNMENT**

**13.1 Government's Three Roles**

13.1.1 Governments, whether they have privatised much of their country's infrastructure or the latter is still run by the public sector, have three roles in ensuring an open and efficient trading process.

- running, planning and developing a national economy,
- operating official controls on a day-to-day basis, and
- running a large business, which buys and sells goods and services.

13.1.2 The relative importance of each of these three components will vary from country to country, just as the amount of simplification already achieved will vary considerably. So it is not possible to propose a set of standard actions. It is, however, possible to give broad guidelines that can be refined and targeted once set against the actual situation in any country. These guidelines are set out in sections 6-8.

13.1.3 The objective for any government in any of these roles is quite clear - be effective, be efficient and be economic. There is a growing realisation that governments have customers, just as businesses do. Customer satisfaction is a high priority. In managing the national economy and operating controls effectiveness, efficiency and economy have to be considered in the overall framework, not just the individual cost elements to government.

**14. FACILITATION AT THE NATIONAL LEVEL**

Any government that wants to develop its country's foreign trade and see a substantial improvement in the efficiency of the trading process needs to take three policy decisions:-

- to consider trade facilitation issues when formulating trade and transport policy
- to ensure that trade facilitation work is co-ordinated at the national level and that government agencies play a pro-active role
- to participate in international work on international standards and trade facilitation

**14.1 Trade and Transport Policy**

#### 14.1.1 Ignoring trade facilitation when developing national trade

and transport policies can be expensive. Setting trade promotion priorities for countries when there are inadequate transport links or financial services is inefficient. Having a policy to attract inward investment without offering the simplified formalities that go with these activities is a waste of national resources and time. Keeping port/airport storage charges at low levels may well congest ports with imports and make the shipment of the countries exports more difficult and expensive. Building new port facilities to relieve congestion when the actual constraint is poor port practices is a waste of money.

**Guideline: Governments should ensure that trade facilitation issues are taken into account when formulating trade and transport policies**

## 14.2 National Co-ordination

14.2.1 To achieve substantial improvements in the overall trading process requires a co-ordinated approach at national level. All significant participants in the trading process, public and private sector need to participate.

14.2.2 Customs and other relevant government agencies, central banks, inspection agencies, exporters, importers, forwarders, carriers of all modes, port/airport operators, bankers and insurers should all be represented.

14.2.3 UN/ECE/WP4's Recommendation 4 recommends that national committees on the facilitation of international trade procedures (FALPROs) should be established. A number are already in existence, especially in Europe.

14.2.4 For such committees to be successful, it is essential that they:-

- have senior governmental backing
- have adequate human and financial resources
- are independent to avoid the group being either dominated by one sector or being simply a pressure group
- use international standards already available (and take part in their development and maintenance)

14.2.5 Trade Points being developed under the UNCTAD Trade Efficiency Special Programme are invaluable laboratories where the practical functioning of international trade procedures and commercial practices may be examined and assessed. They should therefore work closely with the national facilitation committee.

**Guideline: It is recommended that national committees (FALPROs) are set up, where not already in**

existence, with a clear remit,

- to eliminate red tape, in both public and private sectors,
- to encourage the use of best practice including information technology throughout the trading, distribution and payment processes, following international standards and
- to help to develop the skills of the people involved.

### 14.3 Facilitation Policy

- 14.3.1 A FALPRO's policy should be to work nationally, regionally and internationally to identify procedural bottlenecks in the international trade, transport and payment processes which affect its traders, and to analyse the issues and propose solutions based on advanced techniques. Increasingly achieving these goals requires a move from the current transaction-based procedural environment to one which is generally audit based. (Control based on periodic inspection of traders' records rather than on individual detailed consignment documents). Countries not yet at this stage will need to understand the implications of this new concept so as to ensure that any intermediate changes allow them to develop such control in the future.
- 14.3.2 It also requires the use of the appropriate international standards for information exchange so that the required business and administrative data can be supplied in an efficient, standard way.
- 14.3.3 For countries still basing control on individual transaction documents there are two objectives. Besides planning to move to audit based controls at some stage in the future, attention should be placed on getting traders to link their external documents with their in-house applications, such as sales order processing and accounts. The in-house use of computers and the external use of EDI makes this progressively simpler to achieve. These are all linked steps as countries and companies develop.
- 14.3.4 Communications is also an important issue. Is there an adequate range of communications media available, mail, telex, facsimile, courier services, E-mail and EDI? If not, what are the constraints? - lack of facilities, inefficiency, restrictive government telecommunications policy, purchasing etc. In 1919 a UK coal exporter used an aircraft to fly ships manifest to mainland Europe because of major delays to his coal ships caused by the poor communications left after the First World War. (Eventually the aircraft carried passengers as well - to fill the empty seats and reduce costs!).
- 14.3.5 Any country, however short of resources, can make immediate use of EDI. Communicating ship/aircraft manifests by EDI,

in a format, acceptable to both public and private sectors,  
can provide immediate advantages. Lack of telecoms

equipment can make this difficult. As mentioned in section 3.3 the objective of trade facilitation is to get the information to the importing country before the goods. Fax, telex and E-mail can do that as well as EDI, but not in a processable form without re-keying into another system, which will cost time and lead to increased errors.

- 14.3.6 It is becoming increasingly apparent that legal and commercial practices are not well adapted to the use of EDI. The implementation of the best practice principles of trade facilitation and the use of information technology will be constrained unless these existing legal and commercial constraints are revised to take account of current developments, eg. acceptance of paperless trading, electronic payments and authentication.
- 14.3.7 A further key issue that needs to be dealt with as a national co-ordinated activity is the question of whether national practices have been adopted to cope with container and trailer transport. This is not only a question of official controls but also the associated commercial practices. For example, it is pointless to sell goods FOB (free on board) named port, when the goods are loaded into a container at an inland depot, because a tally will no longer take place on loading on board ship.
- 14.3.8 In order to obtain the maximum benefit from container and trailer transport three things are needed:-
- the ability to carry out customs clearance at the place where the transport unit is loaded/unloaded, ie. the factory/warehouse for full loads or approved inland depots for part loads,
  - transport operators, who provide traders with the required services; factory to factory; depot to depot; port to port etc under one contract of carriage; and
  - a document and procedures system to match the above.
- 14.3.9 This is a very important subject, which has transport policy implications, and government may wish to review its national transport policy before bodies, such as a national FALPRO, deal with further individual elements.
- 14.3.10 It is natural that the emphasis on simplification should be on export procedures and documents. One of the prime roles of the exporter is to provide accurate, timely information for the trade, transport and financial service suppliers used, so that they can provide the services they have been contracted to supply. The exporter also needs to ensure that all necessary official controls have been carried out.

14.3.11 There are, however, two significant reasons to look at import processing changes as well. One is congestion at

ports and airports - a problem not necessarily solved by modern techniques, the other the need to provide simplified procedures to match policy plans, such as inward investment.

- 14.3.12 The most obvious symptom of information inefficiency is port/airport congestion. Sometimes the prime cause of congestion can be the lack of physical facilities but far too often it is simply a physical reflection of the inability of the information systems to cope. Shed and container park congestion are invariably caused by problems with imports. In turn this will delay exports or at least create excessive extra handling charges.
- 14.3.13 On container and ferry trade congestion is often caused because clearance practices have not been updated from the old, leisurely, cargo liner days when a ship could take 10 days to discharge, allowing the paperwork to catch up. In the majority of cases, however, the paperwork is not available to start the clearance processes especially if controls can only be carried out when the original documents arrive.
- 14.3.14 The growth in global sourcing means that many components or materials for an export product have to be imported first for use in the production process. Simplified procedures for temporary importation need to be developed to save unnecessary complexity in this link between importation (with deferred duty payment) and re-export.
- 14.3.15 Many countries are trying to increase their exports, in some cases by making manufactured or semi-manufactured goods for export. These, unlike raw material, generally move in small consignments or by container, road trailer or general cargo liner vessels. The exporter will have to compete on speed and reliability of delivery as well as price and quality. In practice exporters, particularly those making goods to order such as textiles and footwear, will want the consignment to catch the next available departure, and commercial and official procedures must be streamlined to allow such quicker movements.
- 14.3.16 In the export part of any international transaction a good deal of the information for the whole of the communication chain between seller and buyer has to be generated by the exporter and fed into the system before the goods in question can leave the country of origin.
- 14.3.17 Some information is necessary to book and pass the goods to the carrier and secure movement to the port. Consular authentication, quality inspection, and export licensing will be needed before this stage, together perhaps with a certificate of origin from the appropriate Chamber of Commerce. Certain documents will

be necessary to secure entry for the goods into the port, to pass through any intermediate warehousing, to

direct the goods to the right vessel, to secure custom clearance to validate the necessary insurance arrangements and to pay various charges.

- 14.3.18 All these requirements will have to be met before the goods can be loaded. In an increasing proportion of world trading the time interval available between the allocation of the goods in a factory to a particular transaction and the physical point of acceptance onto the chosen vessel is very short indeed. Yet this time often has to accommodate some very complex documentation and procedures.

**Guidelines: Traders can be assisted in carrying out this part of their work in two ways:**

- simplifying, co-ordinating and standardising port management, shipping lines, customs reception and release procedures and documents between the various ports/airports/container depots in a country so that they can develop one basic set of export procedures for all exports by sea and air and will only have to train staff to understand and operate one system; and
- developing an aligned export document system, for both paper documents and their electronic equivalents.

#### 14.4 Representation

- 14.4.1 In dealing with procedural bottlenecks that affect a country's traders, national action is often not sufficient and regional and international work is also necessary. Besides the appropriate regional bodies, the two key international organisations are the United Nations (UN) and International Organisation for Standardisation (ISO). The UN work has been focused through the UN Economic Commission for Europe's Working Party on the Facilitation of International Trade (UN/ECE/WP4) and the UNCTAD Facilitation Unit (FALPRO) now part of SPTE. Since Cartagena UNCTAD's work is now concentrated on its Special Programme for Trade Efficiency (UNCTAD/SPTE). Other significant international activities include the Customs Co-operation Council (CCC), the International Chamber of Commerce (ICC) and various commercial and transport organisations.

- 14.4.2 National policy should be to represent national facilitation interests, with the support of government, in bilateral, regional and international negotiations.

## 15 ADMINISTRATIVE OPERATIONS

### 15 Principles

- 15.1.1 Government needs to ensure that all its departments and agencies take a pro-active role in facilitating trade. It may be worthwhile to hold briefing seminars to ensure all are aware of the need for improving the efficiency of the overall process.
- 15.1.2 It might be appropriate for the overall management of these activities to be undertaken within the Trade Ministry. Some countries have placed overall control in the Prime Minister's Office. A national plan should be developed with objectives and performance targets.
- 15.1.3 Each department/agency should ensure its plans reflect trade facilitation objectives, as well as those on control.
- 15.1.4 The basic objective of all government operations (including Central Bank) should be that necessary controls should have the minimum impact on the trading process. In most cases control should be undertaken before or after the physical movement of the goods rather than during transit. The use of audit techniques should be encouraged so that controls can be carried out by periodic inspections, or audits, of traders records.
- 15.1.5 Where controls are undertaken during the movement of the goods maximum use should be made of commercial documents rather than requiring the creation of separate official forms, and any physical controls should be undertaken where the goods are being handled for commercial purposes. Therefore break-bulk and bulk goods should be controlled at the port/airport; groupage goods where the groupage transport unit is loaded/unloaded (inland depot or groupage operators premises) and full container loads at traders' premises.
- 15.1.6 Controls undertaken should follow the appropriate international standards.
- 15.1.7 All documentary requirements should follow the national aligned system when developed, the FALPRO organisation being given the responsibility to check conformance of each document/electronic message against the national system.
- 15.1.8 The rest of this section deals with individual aspects of official control. Key points in terms of recommended best practice are highlighted.
- 15.1.9 More detail is contained in UN/ECE/WP4 Recommendation No 18 - "Facilitation measures related to international trade procedures (ECE/TRADE/141/Rev 1 September 1982, in twenty two other UN/ECE/WP4 Recommendations addressed to governments, to international governmental and non-

governmental organisations and those involved in

international trade operations, and in a wide range of international Conventions, Recommendations, Standards, Recommended Practices and Guidelines developed by various inter-governmental and non-governmental organisations.

15.1.10 A 'Compendium of Trade Facilitation Recommendations' is being prepared by UN/ECE/WP4, to cover the above, in co-operation with the UNCTAD Special Programme on Trade Efficiency, for submission to the United Nations International Symposium on Trade Efficiency to be held in October 1994.

15.1.11 The subjects covered below are:-

- Licensing
- Exchange control
- Consular formalities
- Origin statements
- Pre-shipment inspection
- Dangerous goods
- Customs and other official procedures
- Statistics

15.1.12 In some countries activities such as marine insurance and port operations may be carried out in the public sector. Guidelines on these activities are set out in Part D "Guidelines on Better Business Practice - Business Services".

15.1.13 Any country's policy on standards should be to give priority to the development, use and maintenance of a national series of aligned export document based on the UN Layout Key for Trade Documents (see Appendix 1) and of the global Electronic Data Interchange (EDI) standard UN/EDIFACT (see Appendix 2).

15.1.14 Priorities in procedural improvements should be identified by a study to identify:-

- where bottlenecks to efficient trading are
- what causes them.

15.1.15 Care must be taken to find the real cause of bottlenecks, not that necessarily recounted by local participants. In a study several years ago inward congestion was blamed on "customs clearance". In fact, whilst the customs procedures had been outdated by

transport developments, and were slow, they were not the prime cause. This was the inefficiency of state import

agencies and high import duties, which meant commercial importers did not submit the customs entry until they had sold the goods. Congestion led to excessive amounts of stored goods and increased pilferage. This was 'rectified' by increased 'controls', which led to more confusion, cost etc.

## 15.2 **Licensing**

15.2.1 Most countries require export licences to be issued for some restricted or sensitive goods before they can be shipped. In these cases an export licence application has to be prepared, submitted and processed and an export licence issued. This licence is then checked by customs when processing the export customs entry.

**Guideline:** It should be a straightforward process for exporters to obtain licences for acceptable exports of such products. Once a licence is issued control should be linked to routine export controls (eg. customs clearance).

## 15.3 **Exchange Control**

15.3.1 Many countries operate exchange control procedures on exports to ensure that moneys due to exporters for their goods are remitted to that country in accordance with its exchange control regulations. Similar procedures are operated with import transactions. The need for such controls generally is part of fiscal policy. Copies of these forms are generally processed by customs, the Central Bank and the commercial bank. Most countries set minimum value levels under which no approval is required. Exchange control procedures can be very complex and time consuming. Although such procedures do not generally affect port operations - except where booked cargo does not arrive because of unexpected delays - they can affect efficient exporting.

15.3.2 In some countries it is compulsory for payment of exports to be effected through documentary credit, as a means of ensuring receipt of foreign export earnings through the intermediary of the banks involved. With the changing pattern of payment arrangements, this requirement tends to preserve the use of documentary credits where other methods of payment could more sensibly be employed. Where possible other, cheaper and more effective, methods of payment should be used.

15.3.3 The need for exchange controls does not mean that the current rules in place are necessarily in the best interests of the country concerned. All too often exchange control regulations stipulate rules that pre-date the latest container and other transport developments and build in delays, the cost of which is ultimately paid by the buyer. There are notable examples of countries

rationalising their exchange control rules in line with modern trade and transport without weakening their ability

to defend the country's financial resources.

**Guideline:** Exchange control practices should be brought up to date and simplified. Control should be carried out by the commercial bank (on behalf of the Central Bank) on the basis of commercial documents. Minimum value levels should be realistic.

#### 15.4 Consular Formalities

15.4.1 Consular invoices are required by a few remaining importing countries and are authenticated by their consular officials in the country of export. A consular invoice usually confirms that the exporting company is a bona fide foreign trade enterprise and that statements concerning the commodity, price, total invoice amount, insured value (if any), place of despatch, number of packages and weight of the goods are correct. If satisfied, the Consulate adds its visa and charges a fee to be paid by the exporter.

15.4.2 Most of the details of a Consular invoice may already be found in the Commercial Invoice and the intervention of a Consulate therefore has little justification; it creates delays and extra costs which are eventually reflected in the price paid by the consumer in the importing country. The elimination of such Consular invoices would lead to a significant reduction in the cost of imports.

15.4.3 With the increased pace of international trade it is increasingly difficult to carry out the necessary procedures before goods arrive at destination. Delays can therefore occur and financial penalties can be imposed.

**Guideline:** Consular invoices, consular visa requirements and consular fees should be abolished.

#### 15.5 Origin Statements

15.5.1 Declarations or certifications of origin on commercial invoices or on specific forms should be required only where this is essential for the proper application of trade policy measures or for the prevention of fraud. When such declarations or certificates are deemed indispensable, the competent authority should apply a simple measure that provides the minimum of control considered as sufficient for the particular case. Preferably, an exporter's declaration of origin on the Commercial invoice should be accepted. If a separate form for Certificate of origin is required, it should be based on defined criteria and designed in accordance with the model contained in Annex D.2 of the Kyoto Convention. It should be permitted to produce certificates on plain paper in a one-run system using a photocopier; printing of forms on security paper should not be required.

**Guideline:** Where they are deemed necessary, controls of origin

should be carried on the basis of the relevant commercial documents.

## 15.6 Pre-shipment Inspection

15.6.1 Exporters often face a number of pre-shipment inspections where the quality, quantity, and sometimes the value of the goods are checked. These can be carried out for such purposes as excise control, customs control, inter-state and national border controls, government quality inspection (perhaps linked with export incentives) and overseas government requirements. If these inspections are not reduced where possible, simplified and co-ordinated considerable delays occur and exporters find it difficult to match production and sailing schedules and to quote competitive shipment dates to their customers.

**Guidelines:** The practice of pre-shipment inspection, carried out on behalf of the importing country, should be discouraged. Where carried out, governments should seek to simplify them. Random sampling techniques and periodic inspections for regular, approved exporters should be used.

## 15.7 Dangerous Goods

15.7.1 Procedures relating to the movement of dangerous cargoes are naturally more stringent than those for ordinary consignments. In nearly all cases carriers require prior notification from the exporter or carrier before they will accept certain classes of dangerous goods.

15.7.2 When dangerous goods are received by shipping companies they are checked and the necessary authority to receive the cargo (eg. port authority) and to load it (eg. shipping company) obtained. The exporter or his agent is then advised of the time and place at which the goods are to be delivered.

15.7.3 One problem with dangerous cargo is often the checking of the documentation of groupage trailers and containers to ensure that all dangerous cargoes and their contents had been declared.

15.7.4 Another problem is that the regulations for the carriage of dangerous goods are developed on a different basis in some countries, using different numbering systems and declarations. Add to this the fact that in many cases each interest in the goods movement asks for his own dangerous goods declaration to be completed and one can see that the exporter has some difficulties in establishing the correct procedures for documenting and handling these cargoes.

15.7.5 Attention is drawn to UN/ECE/WP4 Recommendation 11, which sets out methods of documentation and of providing transport emergency information for dangerous goods.

**Guideline:** National regulations should conform to the relevant international standards. Wherever possible the

dangerous declaration should be incorporated in, or combined with, an existing commercial document;

**which should be part of the national aligned document system.**

**15.8 Customs and other Official Procedures**

- 15.8.1 Government requirements, and the documentation and procedures which stem from them, have various aims and the facilitation of trade is probably not their primary purpose. All government documents and procedures should therefore be kept under regular review. This in no way questions the validity of the fiscal, protective, trade control and health control necessary for government to carry out its business.
- 15.8.2 Customs administrations tend to be responsible for operating a wide variety of measures on behalf of other governmental departments. Besides collecting duties and taxes they may enforce exchange control regulations and import and export prohibitions; apply provisions to imported goods; ensure compliance with certain public health regulations; compile overseas trade statistics and, may collect certain agricultural levies.
- 15.8.3 Acceptance by customs of the need to facilitate trade in no way relieves traders of their obligation to make accurate declarations for goods. They still need to meet the necessary detailed customs requirements for information and documents. In many countries customs are now willing to accept electronic, telex or faxed information, and will release imported goods accordingly. Nevertheless, errors by importers continually hinder the swift clearance of goods. Errors include omissions of essential information, incorrect statistical classification, and failure to produce supporting documents. Full use of aligned systems and EDI should ensure reduced error rates.
- 15.8.4 Customs objective should for both export and import clearance to increasingly be undertaken at the trader's premises, subject to movement and 'approved' trader status. Existing or simpler customs documentation linked to audit based controls give the opportunity to examine radically how official procedures can be changed.
- 15.8.5 The Harmonised System was created to meet a vital and pressing need for single classification system which would respond to the basic commodity description and coding requirements of the entire international trade community. 60 countries and 1 customs or economic union currently use the H.S for official customs purposes, which accounts for over 85% of world trade. However, one of the basic objectives of the H.S, with its multi-purpose features, is to apply the classification code outside the customs environment and ensure its wider application, ie. not only by customs or statisticians but also by trade interests such as traders, carriers and producers.

Guideline: Customs authorities should simplify their requirements for export, transit and import

procedures in line with the International Convention on the Simplification and Harmonisation of customs procedures (Kyoto Convention of the Customs Co-operation Council). This should be undertaken with national trade and transport interests to ensure full co-ordination of carrier, port and customs controls.

Customs authorities should ensure that:-

- their forms are aligned to any national system of aligned export documents;
- the data content is kept to the minimum essential with their then current requirements;
- the number of different formats of shipping bill is reduced to the minimum possible;
- they accept copies of commercial documents to provide proof of export and for other pre-shipment controls (particularly where the main function is to provide trade statistics), collecting statistics after the goods have been loaded by customs entry or periodically submitted paper or computer or EDI produced customs schedules;
- they and port/airport interests accept copies of commercial documents - or EDI messages - from shipping and airlines rather than requiring the information to be transcribed onto their own forms. (eg, following IMO and ICAO facilitation conventions).

## 15.9 **Statistics**

- 15.9.1 A certain level of statistics is acknowledged as necessary in both public and private sectors. In too many cases, however, statistical demands are over detailed, duplicated and sought at an inappropriate time. On occasion it appears that the statistics become more important than the actual trade transaction.
- 15.9.2 The need for traders and their service providers to have to prepare separate detailed statistical forms, and the timing of this requirement, can delay the movement of goods. Whilst transaction based documents are required, either commercial documents or the customs entry, should be used. Some countries, especially on exports, operate system where statistics are collected after shipment.
- 15.9.3 The use of periodic schedules for approved traders, either on paper or preferably by EDI, speeds up both traders' and customs/statistical office processing. Experience also shows that scheduling greatly reduces errors - dropping from 30% to about 2%.

**Guidelines:** International trade statistical requirements should be reviewed periodically in order to restrict the

information called for to a minimum and to ensure it is collected at a time that causes the minimum delay to goods movements. Periodic scheduled returns should be used where possible, preferably via EDI.

Government should operate a simple interface with traders, ensuring that statistical demands are not repeated by different departments/agencies.

## 16 GOVERNMENT AS A BUSINESS

- 16.1 Where government acts as a business, buying or selling goods or services, it should act like a commercial operation. Its objectives will be to provide goods and services to the satisfaction of the "customer" and to purchase efficiently at the minimum overall cost.
- 16.2 In providing goods and services, operations should be developed to meet user needs in terms of quality, speed and price.
- 16.3 In purchasing, the minimum stock should be held.
- 16.4 In both cases normal standard commercial sales and purchasing procedures and documents should be used. The use of EDI should be developed at the same time, changing practice as the opportunity exists. (For example, a major UK store and overseas clothing manufacturer have revised procedures, introduced EDI and reduced the order-make-deliver cycle from 20 to 10 days - thus reducing stock holding with significant savings. Most governments are major purchasers).

**Guideline:** In buying or selling goods and services government departments should use commercial best practice to maximise their efficiency. Standard commercial documents, EDI messages and procedures should be used wherever possible.

**PART D : BEST PRACTICE FOR INTERNATIONAL TRADE SERVICES**

**17 THE ROLE OF INTERNATIONAL TRADE SERVICES**

- 17.1 The prime function of international trade services is to supply services to their clients, mainly to the exporter and importer, but sometimes to each other. The services provided should be effective, efficient and economic.
- 17.2 As indicated in section 2, if enterprises are to compete successfully in the global market place they have, amongst other things, to strengthen their relationships with their trading partners. International trade services are the cement that can help join buyers and seller into closer relationships. Especially where new companies or less developed countries are moving into international trade.
- 17.3 In these cases either experienced service operators can provide significant expertise or, will need to be developed and operated, with the added requirement of staff training.
- 17.4 In the real world of international trade most traders will use several ports, airports, banks, shipping and airlines, road/rail operators. In some cases the decisions of which service to use may be taken by each customer.
- 17.5 Therefore one of the main responsibilities of international trade service providers is to follow international or national standards, especially with documents, so that the traders only have to train staff to operate a single set of common procedures. This still leaves service operators to compete with each other on the quality, speed, reliability and price for the services. (A concept well recognised by airlines for many years).

**Guidelines:**

**All companies supplying international trade services should simplify their services as far as possible and use international standard practices and information standards such as the UN Layout Key for Trade Documents and UN/EDIFACT EDI standards. Where appropriate, national standards should also be followed so that their documents can be part of national aligned systems. (See Appendix 1, Annex 2 to see an example of the range of documents within a national system).**

- 17.6 It is impossible to draw up a definitive list of services provided by international trade service suppliers. They can, however, broadly be dealt with in three groups; advisory services, transport services and financial services. Even here there is some overlap as, for example, one of the key roles of banks is to provide advice on financing and paying for international trade.
- 17.7 Other examples of advisory services include government departments such as those providing export promotion

services and trade statistics; Chambers of Commerce, export groups, training institutes, trade associations and facilitation

bodies.

**Guidelines: Advisory services to traders should be co-ordinated to avoid duplication and increase effectiveness.**

17.8 'Transport' services covers an enormous area and includes road haulage operators, container bases, airports, port authorities and services and international carriers of all modes. They also include official interventions in the movement of goods such as customs and health administrations. Here the main consideration in making the trade process more efficient, besides the use of international standards, is to ensure that 'transport' services are properly co-ordinated at the key 'nodes' of trade such as ports, airports, container bases and frontier posts.

**Guidelines: co-ordinate all 'transport' service activities as set out in section 6.3.**

17.9 The third group of services are financial. These range from companies providing credit status reports, through banks and other financial institutions, to export credit and maritime/air insurers.

17.10 Besides using international standards in their documentary links with their customers, financial service suppliers need to ensure that the services they supply continue to meet the ever-changing needs of international trade. This is not easy, especially when older trade practices prevail, but banks, like customs administrations, have the ability to set new standards and should do so wherever possible.

**Guidelines: Financial services should be reviewed periodically to ensure use of current best practices.**

17.11 A final point to be made at the overall level is about public service provision of those international trade services more commonly associated with the private sector, such as ports, transport services and insurance.

17.12 It may be that embryo services are being developed in the public sector, protected from international competition. Experience sometimes shows that such protected operations are relatively inefficient, either providing limited services or charging higher prices.

17.13 At the level of trade and transport policy government will often have to decide what is more important nationally, developing an open and efficiency trading process to help local enterprises compete successful in the global market place, or maintaining protected services.

**Guideline: International trade services provided by the public sector should provide competitive customer services and be effective, efficient and economic.**

17.14 The final two sections of this paper look at transport and

financial services to international trade in more detail.

## 18 TRANSPORT SERVICES

Two of the key 'transport' documents at the start of an international trade transaction are the consignment (or shipping) instruction and the shipping note. The former starts the process of both goods movement and document creation by telling the recipient (freight forwarder or carrier) what is to happen to the goods, what processes should be covered and what documentation raised. The latter provides full information about the goods, their handling and routing when delivering goods to an inland depot, port or airport.

18.2 Both these documents should be multi-functional and suitable for all modes of transport. This allows the exporter only to have to produce two standard external documents if he is leaving other transport and official documents to be prepared by a freight forwarder or carrier. The use of standard documents also improves the efficiency and quality of port/airport and related services.

18.3 The consignment instructions should follow UN/ECE/WP4 recommendation 22 "Layout Key for Standard Consignment Instructions" and cover the functions of:-

- movement and handling of goods
- customs clearance and duty payment
- distribution of documents
- allocation of freight and other charges
- special instructions eg. insurance, dangerous goods etc.

18.4 The shipping note (and its dangerous goods equivalent) can be used as a document on which information is built up as the goods are received, stored and re-loaded for export. Thus it can cover functions required by the

- road carriers
- port authority
- shed/container terminal operator covering both condition of goods upon receipt and despatch and charges
- international carrier

**Guidelines: Multi-purpose shipping notes and consignment instructions should be developed as part of national aligned systems.**

18.5 In maritime transport one of the most important best practices developed in the last twenty years has been the concept of offering traders non-negotiable waybills as

alternatives to negotiable bills of lading. This concept started when European/Scandinavian carriers discovered, with the advent of container ships, that the containers arrived up to a week before the bill of lading, the original(s) of which had to be handed back to the carrier at the discharging port before the goods could be released. Switching concepts is not entirely straight forward as historically the bill of lading original has acted as **the** control document with letters of credit. However non-negotiable maritime documents are now acceptable under the latest ICC rules (and in any case most of the world's trade is not handled by letter of credit).

**Guidelines:**

**Shipping lines should offer traders non-negotiable documents, as an alternative to negotiable bills of lading, based on UN/ECE/Recommendation 13 : Maritime transport documents.**

- 18.6 To make maximum use of the latest transport technologies and best practices, it is obvious that all relevant procedures and documents have to be reviewed and revised. Traders often clamour for official controls to be amended, to be able to do customs clearance inland on sealed containers and trailers. The service provided by the 'transport' industry has to change too.
- 18.7 Combined (multi-modal-) transport services needs to be developed and offered; services need to be able to operate under combined transport conditions, government procedures on national transit and temporary importation of transport units and vehicles needs to be updated etc. The old transport industry structure of many services, all providing a single service to the trader, needs to change as much as official practices.

**Guidelines: Commercial and official practices need to be revised as countries develop container and trailer transport services.**

**19 FINANCIAL SERVICES**

- 19.1 The role of banks in trade facilitation falls under at least four different categories:
- the contractual framework - the development by the ICC of common rules for letters of credit, documents sent for collection,
  - the provision of credit information on potential customers and updating this information regularly on continuing trading partners
  - the provision of finance on a cost effective and flexible basis, often linked to export credit insurance cover
  - the provision of international cash management services to speed the payment of sales proceeds to the required account in the specified currency.
- 19.2 International cash management services include:
- the planned location of accounts for international money transfer and currency bookings
  - the choice of efficient international money transfer

methods depending on the amounts, currency and costs involved

- the use of collection accounts for the regular receipt of proceeds from a number of customers in anyone country
  - direct collections of trade documents
  - means of managing the exporter's foreign exchange risks.
- 19.3 Part of the decision on methods to be used is the speed at which money can move through the banking system for the exporter to obtain prompt receipt of export proceeds.
- 19.4 Methods of payment are often inefficient because of government imposed exchange control regulations, because traders are trying to over protect the payment or because traders are not fully conversant with the implications of each method.
- 19.5 This is particularly true with letters of credit. A recent UK survey "Exporters' Problems with Commercial Letters of Credit" showed that nearly half of the credits studied in the survey contained serious defects or errors.
- 19.6 The report concluded that the letter of credit process was complex and potentially expensive - especially with low value consignments, particularly if not properly planned, managed and operated by the commercial parties. This was not considered surprising, with the high reliance on manual processing by all parties and the number of times data can be rewritten or rekeyed at separate states in the process.
- 19.7 One finding is worth repeating
- "Not only did issuing banks (the buyer's bank) appear to change or add conditions to the credit, usually without advising the applicant, some banks, especially in less developed countries, persist in out-of-date restrictions on documents and procedures which have been commonly accepted elsewhere for some time. Combined, in some cases, with badly designed forms and the lack of international standards it is not surprising that the survey showed that the bulk of defects and errors originated at the stage of processing the applicant's application for the credit and issuing the credit document itself".

**Guidelines:**

**Commercial payment procedures associated with letters of credit and documentary collections should be reviewed to ensure that they follow current trade/transport requirements and use best practice. The objective is to be that processes do not hold up the efficient movement of goods or payment.**

**Express money transfer systems, which reduce payment 'float time' to the minimum, should be introduced and encouraged.**

19.8 Insurance for goods moving in international trade normally involves the notification to an insurer of the consignment and its insured value and the issue of an insurance

certificate and/or an insurance policy. Insurance can either be arranged on a consignment basis, or for period of time under so-called "Open cover policies".

- 19.9 Cover provided can vary between "minimum cover" or "all risks cover". The best known examples of cover are the Institute Cargo Clauses drafted by the Institute of London Underwriters. Clause A on "all risks" and Clauses B and C on less extended cover).
- 19.10 According to the ICC, in 1991 seller or buyers in more than 40 countries could be compelled to take out insurance in their own country to minimise expenditure in foreign currency and/or support a domestic insurance industry.
- 19.11 Insurance documents should be included in national aligned systems.
- 19.12 Marine insurance is a complex business, traders should seek assistance from professional advisers to ensure they are adequately covered as reasonable cost.

**Guidelines:**

**Cargo insurance procedures should be simplified. The 'open cover' concept should be used whenever possible. Insurance certificates and policies (when issued for individual shipments) and insurance declarations under open cover should be part of the national aligned document system.**

**20 COMMUNICATIONS SERVICES**

- 20.1 A wide range of communications media are now available including letter post, air parcel, courier services, telecommunications, facsimile, and telex.
- 20.2 For the purposes of EDI value-added network services (VANs) are third-party network providers. Other options are dedicated telecommunications connections (ideal if high volumes of EDI with a single trading partner); and private networks.
- 20.3 VANs provide
- an electronic postal service based on 'store and forward' (for EDI and E-mail)
  - security and audit facilities
  - support for the major communications protocols
  - 24 hour service
  - groups of EDI users
  - national and international coverage



20.4 Because of the number of participants in international trade, and because it is international, participants will almost certainly be using different VANs. To achieve full commercial links with customers and suppliers users will require VANs to interconnect with each other. They will expect service suppliers to provide the security levels and end-to-end audit capability required.

**Guidelines:** VANs need to interconnect, so that traders can contact all their customer/suppliers. Levels of security and end-to-end audit should be provided to meet commercial requirements.

## **National Aligned Series of Export Trade Documents**

### **Introduction**

The purpose of this paper is to explain the benefits of using aligned systems to produce export documents. Aligned forms are a series of forms so designed that items of information common to all forms appear in the same relative positions on each system.

Aligned systems are national series of commercial, transport, financial and official export documents developed to be produced from a single master document. The system is based on the UN Layout Key for Trade Documents.

### **How the System Works**

Individual groups of forms can be produced in simple one typing sets using NCR (no carbon required) technology. Only a single typing has to be checked before shipment.

The full range of documents can be produced from a Master Document (which specifies the position to be occupied by individual items of information on each aligned form). As much information as possible can be added to the Master Document for each consignment and carefully checked. See UK example in Annex 1.

The information, and the forms, can then be prepared mechanically using a photocopier and overlays, or as computer output to laser printers on EDI messages.

The great benefit is that all systems, from the simple multi-part form to sophisticated laser or EDI output, uses the same standard building blocks or data elements. The system is therefore usable by small and large traders as a stand-alone operation or integrated into in-company order processing, stock control and accounting programs.

With overlay systems each overlay represents and produces a specific export document. It is a transparent plastic folder printed with individual export document designs and solid white masking areas where applicable.

The completed Master Document is inserted into the overlay. Using a plain paper copier will now produce the completed document. Using different overlays the exporter can produce all his export forms. The current list of documents in the UK system are shown in Annex 2.

The next option is a computer software package to process information relating to export shipments. Documents can then be printed onto continuous stationery, onto cut sheets or sets or via a suitable laser printer. Ideally such packages provide links

allowing shipment data to be transferred to or from other applications. Data should also be able to be output to an EDI

module which can produce standard UN/EDIFACT messages.

### **The Benefits of an Aligned System**

The main benefits are:-

- cuts costs
- increased accuracy
- greater efficiency

On costs studies in the UK showed saving of about 50% of traders costs in document preparation (savings of around £40 per consignment) when using the overlay systems. Interestingly the savings for smaller firms (up to 200 employees) were higher than for larger firms. Computer systems are significantly more cost effective.

An aligned system reduced error because only one document is prepared, in a single operation, and multiple forms checking is eliminated. Increased accuracy means all documents provide identical shipment details, with fewer misunderstandings and delays.

Greater efficiency is possible because such systems save time, allow easier training of staff and produce quality documents to agreed international guidelines.