

**IMPORT/EXPORT**  
**DOCUMENTATION & PROCEDURE**

**By**

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**A Presentation at**  
**Gujrat Chamber of Commerce,**  
**on Feb.18, 2010 at the behest of**  
**Small and Medium Enterprises Development**  
**Authority(SMEDA)**

**PUNJAB JUDICIAL ACADEMY,**  
**15-FANE ROAD,LAHORE.**

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## **IMPORT/EXPORT DOCUMENTATION & PROCEDURE**

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### **Brief Perspective of Export Documentation**

**Now a days export license is no more required to export.** Only the following initial documents are required to export:

**1) NTN**

National Tax Number Certificate, which is issued by the Income Tax Department on filing of application form accompanied with one attested copy of NIC.

**2) Sales Tax Registration**

Commercial exporter **is not required to register with Sales Tax Department.** But if you pay the sale tax on the goods from local market it will be better for you to get yourself registered with sales tax department so that you **may claim your input tax** deducting on your purchases. Once you are registered in sales tax department you will be obliged to the monthly sales tax return irrespective of the fact that you have been involved in any sales tax activity or not.

**3) Bank Account**

Current Bank Account is required for export proceedings and documents.

**4) Chamber Membership**

Membership certificate of Chamber of Commerce and Industries or any relevant trade association is required.

**5) Documents For Clearing Agent**

Once the consignment, to be exported arrives at the port, usually a clearing agent services are sought. The following documents are required to provide to clearing agent to clear the consignment.

- i) Packing List.
- ii) Commercial Invoice.
- iii) Letter of Credit (L/C).
- iv) Certificate of Origin which is issued by Chamber of Commerce.
- v) National Tax Number Certificate.

**6) Form “E”**

Form “E” (State bank form): All exports from Pakistan which are subject to Foreign Exchange Regulations are required to be declared on form ‘E’ which is in sets of four copies each. The exporter should submit the full set of Form ‘E’ to the bank after it has been completed and signed by the exporter himself or his authorized agent. While certifying Form ‘E’, bank should ensure that exporters give only one address in Form ‘E’. After the form is certified by the bank, it should be submitted to the Customs/Postal authorities at the time of shipment along with the shipping bill. The Customs authorities will detach the original copy and after filling in the portion relating to them and affixing their seal and signature thereon forward it to the State Bank. The Customs authorities will return the duplicate, triplicate and quadruplicate copies to the exporter or his authorized agent who will retain the quadruplicate for his own record and submit the duplicate and triplicate copies to the Authorized Dealer along with the shipping documents within 14 days from the date of shipment.

**7) Submission of Export Documents to the bank.**

All shipping documents covering goods exported from Pakistan and declared on form ‘E’ must be passed through the medium of bank within 14 days from the date of shipment. The exporter must submit the duplicate (bearing Customs seal and signature of Customs Officials with Code number) and triplicate copies of form ‘E’ along with the shipping documents, invoices etc., to the bank who had certified the form ‘E’. An extra copy of the shipper’s invoice must be attached to the triplicate copy of the form ‘E’.

### **Brief Perspective of Import Documentation**

**Now a days import license is no MORE required to import into Pakistan.** Only the following initial documents are required to import into Pakistan:

**1) NTN**

National Tax Number Certificate, which is issued by the Income Tax Department on filing of application form accompanied with one attested copy of NIC.

**2) Bank Account**

Current Bank Account is required for import proceedings and documents.

**3) Sales Tax Registration**

Sales Tax Registration is required to import into Pakistan. For registration, Form ST-1 is required to send to the local sales tax registration office via post with acknowledgment due (courier is preferable). The local registration office shall transmit filled up applications to the Central Registration Office based in CBR Islamabad. The previous requirements of furnishing supporting documents have been done away now there is no need to attach any document with the application. The Central Registration having on line access to database of NTN as well as of NADRA shall verify the particulars declared in the application with database. On verification, it shall generate and issue registration certificate to the applicant directly on his given address.

**4) Chamber Membership**

Membership certificate of Chamber of Commerce and Industries or any relevant trade association of Pakistan.

### **SALES TAX ON IMPORT**

#### **Sales Tax Chargeable On Import into Pakistan.**

Every importer is required to pay sales tax on taxable goods at the rate of 15% at the time of importation. "Taxable Goods" means all goods other than those which have been exempted from Sales Tax. The 6th Schedule of the Sales Tax Act, 1990 describes such goods on which Sales Tax is exempted. The Sales Tax in respect of goods imported into Pakistan shall be paid by the importer at the same time as making payment of customs duty.

The Sales Tax on imported goods is chargeable on assessed import value of the goods. "Assessed import value" means the value of imported goods determined under section 25 of the Customs Act, 1969 (IV of 1969), including the amount of customs duties and federal excise duty, if any, levied thereon;

Every importer is required to get himself registered with the sales tax department. For registration, Form ST-1 is required to send to the local sales tax registration office via post with acknowledgment due (courier is preferable). The local registration office shall transmit filled up applications to the Central Registration Office based in CBR Islamabad. The previous requirements of furnishing supporting documents have been done away now there is no need to attach any document with the application. The Central Registration having on line access to database of NTN as well as of NADRA shall verify the particulars declared in the application with database. On verification, it shall generate and issue registration certificate to the applicant directly on his given address.

In general, Sales Tax is chargeable at the rate of 15% but the section 4 of the Sales Tax Act, 1990 provide that the goods specified in the said section shall be charged to sales tax at the rate of zero per cent: (0%).

Every commercial importer shall pay Sales Tax in Value Addition Mode. "commercial importer" means an importer who imports goods for the purpose of further supply to other persons and is registered as commercial importer whether exclusively or otherwise; "value addition" means the difference between the assessed import value of the goods and the value of supply for which the goods, in the same state, are supplied by the importer.

A commercial importer shall pay sales tax on supplies of imported goods, at the rate of 15%, on a value addition of not less than ten per cent, through a challan in triplicate, at the same time as making payment of customs duty and sales tax in the Goods Declaration (GD) for such imported goods, calculated as shown in the Example below:

EXAMPLE: (a) Value of imported goods determined under section 25 of the Customs Act, 1969 (IV of 1969) = Rs. 100.00  
 (b) Customs duty e.g. ( @20% ) = Rs. 20.00  
 (c) Assessed import value ( = a + b ) = Rs. 120.00  
 (d) Sales tax ( @15% ) payable on bill of entry = Rs. 18.00  
 (e) Value of supplies, with value addition of 10%  
 [ = c + ( c x 10 , 100 ) ] = Rs. 132.00  
 (f) Value addition on which sales tax is payable ( = e - c ) =  
 Rs. 12.00  
 (g) Sales tax on value addition ( = f x 15 , 100 )  
 (payable on treasury challan); = Rs. 1.80

## **DOCUMENTARY CREDITS**

Goods can be bought & sold with payment of price in various forms, like ready cash, cash against delivery of goods mail or telegraphic transfer or transfer by any other electronic mode in vogue, "**cash against**

**ocuments**”, such as, cash against acceptance of “**bills of exchange**”, post dated cheques, Promissory Notes etc<sup>1</sup>.

When, however, an international sale transaction is contemplated, the seller does not want to commit to give up control and/or possession over the goods unless he is certain to be paid **on fulfilling his terms of the contract such as quality, quantity and the timing of delivery of the goods etc.** Similarly, the buyer wants to pay the price only when he has gotten the contracted goods as agreed upon or at least when they are out of the possession and control of the seller. In view of this conflict of interest Documentary Credit comes to the rescue of the parties and promotes international business.

So, in case of a letter of credit, the buyer (Applicant of Credit) requests the bank in his (importing) country which is called the “Issuing Bank” to open and issue in favour of the foreign seller (beneficiary) a letter of credit and to pay the beneficiary (exporter/seller) such amount on his fulfilling the terms and conditions specified in the letter of credit also mentions the period for which the credit is open and invariably the beneficiary is required through it’s bank (Confirming Bank) to submit to the Issuing Bank specified documents such as Invoice, Insurance Policy, Bill of Lading, Certificate of origin, weight, Inspection and the like, to convince the Issuing Bank (on behalf of the buyer) that he has fulfilled his part of the contract and is entitled to the price. The “Confirming Bank” of the seller in the Seller’s country **acting as an agent of the “Issuing Bank”, independently** confirms payment to the Seller – beneficiary of the conditions as specified in the letter of credit are fulfilled.

In order to bring uniformity in matters pertaining to documentary credits the International Chamber of Commerce (I.C.C.) Paris has published a set of rules called “Uniform Customs and Practice For documentary Credits” U.C.P.D.C. The latest revised version is U.C p.500 (w.e.f. 01-01-1994) which updates and consolidates the previous U.C p.400. It has also been subscribed by India. There are different expressions which basically means the same thing “documentary letter of credit” “Commercial letter of credit” “simple letter of credit”. There are **different types of letters of credit.** A letter of credit may be “back to back” (countervailing) ; clean or documentary, “confirmed or unconfirmed” “fixed or revolving”, “real clause anticipatory”, “revocable or irrevocable”, “sight or acceptance”, “transferable or divisible” and with or without recourse.

**Letter of credit is/are separate transactions from the main contract.**

**A Letter of Credit & a Loan Application**

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<sup>1</sup> Distinction between a Promissory Note and bills of exchange is that in a promissory note the executant promises himself to pay, whereas, in a bill of exchange he directs another to pay. There are two parties to a promissory note and three parties to a bill of exchange.

There is virtually no difference, except while issuing an letter of credit bank lends only its name without any disbursement of funds. It must, however, be ready to meet its commitments viz a viz the confirming bank.

### **A Letter of Credit & a Bank Guarantee.**

A letter of credit is almost like a Bank Guarantee. An issuing or confirming Bank's liability is independent of the main contract between the owner and the contractor or in this case between the Buyer and the Seller. On this point an ultimate & final judgment has been given by the Honourable Supreme Court in the case of "Shipyard Demen vs. Karachi Shipyard" cited as PLD 2003 S.C. page 191 in which judgment the Supreme Court has equated an Irrevocable Letter of Credit with that of a Bank Guarantee and has restrained the lower courts not to give injunction/stay order in the cases of encashment except if the case falls under very strict exceptions such as happening of irretrievable injustice or helping a fraud. The lower courts have been stopped to look into the main contractual matter(s) between the Buyer and the Seller and have been instructed to strictly adhere to the language of the guarantee or and irrevocable letter of Credit itself.

If a bank is asked to open a Letter of Credit in favour of a foreign seller, if it uses the services of a "**correspondent bank**" located in foreign Seller's place. This second bank is also called "advising bank". It forwards the Credit (not hard cash/money) of the issuing bank to the beneficiary/seller. After receipt, the beneficiary checks whether he can meet the conditions mentioned in the credit and whether they agree with those conditions contained in "purchase agreement", if no, the conditions can be modified, and if yes, the exporter will start manufacturing and/or transporting/delivering. Following shipments the beneficiary will assemble the required documents and present them to the "**advising bank**". "The advising bank" after having checked the documents that they are in accordance with the terms and conditions agreed upon shall make payment and transmit those documents to the "issuing bank". The latter reimburses the advising bank the amount specified by the documents.

## **TYPES OF LETTERS OF CREDIT**

### **Revocable/Irrevocable**

It should be indicated in the letter of credit, otherwise, the credit will be treated as Irrevocable as per Article-(c) of U.C.P-500 contrary to U.C.P-400. The inherent weakness of revocable credit is that it may be cancelled or modified without prior notice by the issuing bank to the beneficiary and may have recourse to the drawer. Irrevocable credits are "**confirmed**" for obvious reasons. An "**unconfirmed**" irrevocable letter of credit constitutes an irrevocable commitment of the issuing bank. **In this case, the issuing bank has no recourse to the drawer in the even of non-payment.**

When the beneficiary insists on a bank in his own country to add undertaking to pay against presentation of proper documents, the credit is deemed to bear “Confirmation” of the advising bank and the credit is called “Confirmed Credit”. The credits are confirmed under the express authority or request of issuing bank. By adding its confirmation, the advising bank steps into the shoes of the issuing bank. The advantage to the beneficiary under a confirmed letter of credit is that, even if he does not know the standing of the “opening bank”, he may rely solely on the confirming bank in his country and thus, beneficiary is relieved from “Sovereign risk” or “transfer risk”

**An unconfirmed credit may be a credit not even confirmed by the opening bank and if so it is in fact a revocable credit. It is normally however, a credit which is irrevocable on the part of the opening bank but not confirmed by the advising bank in the Seller’s (beneficiary) country.**

### **Transferable Credit**

A letter of credit is not a negotiable instrument and is not transferable by delivery or endorsement except under express authority of the opener. When the business is transacted through a middle man, credits are some time marked “transferable” and/or “assignable” and/or “transmissible”. A transferable credit permitting part shipments may even be “divisible” in which case the amount of the credit can be split in favour of more than one beneficiary against separate shipments with or without recourse credit.

### **Revolving Letter of Credit**

It is automatic restoration of the amount already drawn under the credit, thus, omitting the necessity of opening new letter of credit for each dispatch/shipment. It may revolve with reference to amount and/or validity period. Further kinds of letters of credit are as follows:-

- Bank to Bank Credit.
- The Sight Credit.
- The Credit Available Against Time Drafts.
- The Deferred Payment Credit.
- Acceptance Credit.
- Anticipatory Credits.
- Credits Available by Installments.
- Restricted & Unrestricted Credits.
- Fixed Credit.
- Clean Credit.
- Standby Letter of Credit.

### **Benefits of Documentary Credit to “Exporter”**



- i) The bank pays, as specified, in the credit, independent of the buyer.
- ii) The buyer cannot withhold the payment under any pretence.
- iii) If buyer wishes to complain about the goods, he must do this separately from the documentary credit, which gives the exporter a stronger negotiating position.
- iv) In case of credits in foreign currencies, the exchange risk can be eliminated by means of a forward sale of foreign exchange.

### **Which Kind of Credit “Exporter” should demand**

It is better to open irrevocable credit, not confirmed by the advising bank or may be confirmed by the advising bank, it depends on the extent of security the exporter needs.

#### **An Irrevocable, Unconfirmed Credit**

If the buyer's country is stable having good banking system and the goods are capable of being sold to some one else, if necessary.

#### **An Irrevocable, Confirmed Credit.**

If the position is not as stated above, and the goods are such as “custom made” or very few potential customers exist, then, this kind of credit will be better.

As a term of the credit, the exporter should also prescribe that the documents will be presented in his country and also payable there. Otherwise, the possibilities of loss of documents in the mail or delay transmission of them may occur. As a rule, it is impossible to confirm a credit payable in other countries.

### **CONTRACT NEGOTIATIONS**

It is purely a business matter and the terms and conditions of the contract shall depend upon the nature of goods, while the buyer will try to ensure the quality of goods according to specifications, at the same time the seller shall try his best to ensure the payment through the terms and conditions of the letter of credit.

#### **What the Exporter should do at Contract Closure**

The supply contract should contain the main date of the credit to be provided by the buyer, e.g.

- i) Issuing Bank.
- ii) Confirmation by the Exporter's Bank.
- iii) Time allowed for payment.
- iv) Validity period.
- v) Bearer of the documentary credit expenses.

#### **Specimen Clause**

“To secure payment, the buyer shall have \_\_\_\_\_ Bank open an irrevocable credit (which is to be confirmed by \_\_\_\_\_ Bank). The credit must remain valid for

\_\_\_\_\_ months (corresponding to the delivery period) after issuance and be available at sight against presentation of the following documents.

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

The cost of the credit shall be borne in full by the buyer.”

The documents prescribed can vary considerably depending upon the import regulations of the buyer’s country.

### **Precautions**

1. An exporter should never work on a revocable letter of credit.
2. The name of the exporter should be very correctly given in the letter of credit, otherwise, importer can create many pretexts for not receiving goods or for non-payment. The exact name and address as written in the letter of credit should be written in all other documents like Invoice, Bill of Lading, Insurance Policy, G.R.Form, Certification of origin etc. The difference in name and address between Head office, branch office, Factory etc. may create a very big problem.
3. It is very important that as to whom do we declare as the consignee on the Bill of Lading. It should always be the letter of credit Opening Bank and not the customer. If you make the customer as consignee, he can get the shipment released without even collecting documents from the Bank which means without payment.
4. Expiry date of letter of credit must be mentioned, otherwise, the last date for negotiating of documents will be considered as expiry date.
5. Value of letter of credit should be the full value of goods and currency should also be mentioned.
6. Correct quality and quantity should appear on letter of credit. The quality, depending upon the kind of good should be in as much detail as possible and accompanied by Lab Text (if applicable). Most of the disputes arise on the quality of goods ordered and the goods supplied.
7. A letter of credit may provide for shipping particulars, legalized invoice, Consular Invoice etc. The invoice of the exporter should be certified by the custom authorities.
8. A letter of credit should the same terms & conditions as in the original contract of sale.

## **CHCK LIST FOR EXPORTERS.**

Check the following immediately letter of credit is received-

1. Does the type of letter of credit gives you the security of payment. You wanted keeping the new several kinds of letter of credits.
2. Is it payable where and when you wanted in the currency as agreed in the main contract.
3. Is the value of the letter of credit is correct.
4. Are the terms of delivery the same as you quoted or provided in main contract e.g. FOB, CIF, C & F etc.
5. Is your business name and address spelled and stated correctly and shown exactly as on your Invoice heading.
6. Are partial shipment prohibited – what have you already agreed upon.
7. Can you meet the expiry date and also present documents within transport documents – time limit?
8. Has any export or import license been obtained.
9. Are the goods described accurately enough to identify them properly and are the quantities and other units correct.
10. Can you provide the transport documents called for.
11. Can you obtain insurance cover for the risks specified.
12. Can you supply all other documents in the way called for.
13. Are there any contradictions in the letter of credit such as requiring Bill of Lading for air freight instead of Airway Bill.
14. In the above situations, immediately either you have to change your plans and adapt according to letter of credit or ask the customer to amend such things.
15. If letter of credit is emailed, telexed or sent through other electronic media, you must seek its confirmation from your own bank and the advising/payment bank.
16. Watch out for forgeries at the end of the advising bank.

## **Check List for Presentation of Documents to the Bank**

When assembling documents for presentation to the bank

1. Check that the documents match the Letter of Credit and ensure that,
  - i) You have the correct number of copies of each; they carry the information called for and the name of each is correct. The document name must match exactly what the Letter of Credit calls for.
  - ii) They are consistent, for example, the shipping marks, quantities/weights transport details, references and in general terms the description must tally.

- iii) The description of goods is correct. They may be described in general terms, not inconsistent with the Letter of Credit, in all documents except the invoice, where the exact Letter of Credit description must be reproduced. Letter of Credit details should preferably not be repeated in full in transport documents.
  - iv) Documents are authenticated where necessary – import regulations in some countries still make it essential to sign, and possibly witness documents and any alternations of additions to them.
  - v) Any restrictions in the Letter of Credit are catered for.
2. Check each document to ensure it is in order

#### **Transport document**

- i) Type of transport document
- ii) Consignor – can be different from beneficiary
- iii) Consignee's name and spelling
- iv) Places and ports
- v) Clauses
- vi) On-deck shipment
- vii) “intended”, “received”, “on-board”, or “transshipment” notations (if the Letter of Credit for Marine Bills of Lading).
- viii) “Freight paid” notation – authenticated if an addition
- ix) Full set of originals – unless otherwise permitted
- x) Date of shipment (on board or dispatch or taking in charge date, as applicable) and date of issue – watch the time limit for presentation.

#### **Insurance document**

- i) Type e.g. a Certificate.
- ii) Correct amount e.g. CIF plus 10 percent
- iii) Same currency as the Letter of Credit unless otherwise stipulated in the Letter of Credit.
- iv) Risks covered.
- v) Date – not later than date of issue of the transport document
- vi) Endorsed if necessary.

#### **Invoice**

- i) Invoice heading in your Company's name, expressed and spelled as in the Letter of Credit.
- ii) Made out in name of buyer, expressed and spelled exactly as in the Letter of Credit.
- iii) Description of goods – including import licence or proforma details price and terms of delivery – worded and spelled exactly as set out in the Letter of Credit.

- iv) Clauses or statements – word for word identically spelled.
- v) Value not more than the Letter of Credit permits and the same as Bills of Exchange – you can under certain conditions sometimes under draw by up to 5 percent.
- vi) Quantity – a 5 percent variation is sometimes permitted – see Uniform Customs on variations – but only where the value of the Letter of Credit allows for this.
- vii) Reproduced and authenticated as necessary in a way allowed for by Uniform Customs and in the Letter of Credit e.g. copier, computer, carbons.

**Other Documents**

- i) Correct issuer
- ii) Correct wording or content
- iii) Clearly relates to the goods invoiced
- iv) Letters, telexes to the buyer correctly set out and addressed and dated.

**Certificates to cover any other Letter of Credit requirement.**

**Bills of Exchange (if any).**

- i) Date
- ii) Signature
- iii) Endorsement
- iv) Clause
- v) Letter of Credit number
- vi) Term-sight or usance dates
- vii) Amount and currency
- viii) Words and figures tally
- ix) Drawn on correct party
- x) Correct number e.g. “sole” or “1<sup>st</sup> and 2<sup>nd</sup> of exchange”.

**The following Documents must be taken into Account**

- i) Compliance with Letter of Credit Terms
- ii) Tender of Documents.
- iii) Draft (Bill of Exchange)
- iv) Invoice.
- v) Bill of Lading.
- vi) Air Consignment Note (A.C.Note).
- vii) Insurance Policy/Certificate
- viii) Certificate of Origin.
- ix) Packing List.
- x) Post Parcel Receipts.

**Common Discrepancies**

Following are few of the commonly observed discrepancies in the documents and the exporters are advised to keep them in view while tendering the documents:

- i) Credit expires.
- ii) Late shipment.
- iii) Clause Bill of Lading
- iv) Presented after permitted time from date of issue of shipping documents.
- v) Short shipment.
- vi) Credit amount exceeded.
- vii) Underinsured.
- viii) Description of goods on invoice differs from that of credit.
- ix) Mark and numbers differ between documents.
- x) Goods shipped on deck.
- xi) Bill of Lading, insurance documents, bill of exchange not endorsed correctly.
- xii) Absence of documents called for under credit.
- xiii) Insurance Certificate submitted instead of policy.
- xiv) Weight in various documents differs.
- xv) Class of Bill of Lading not acceptable – charter party or house bill of lading.
- xvi) Insurance cover expressed in currency other than that of credit.
- xvii) Absence of signature, where required on documents.
- xviii) Bill of exchange drawn on wrong party.
- xix) Bill of exchange not drawn as per tenor stated in credit.
- xx) Insurance risks covered not being those specified in credit.
- xxi) Insurance risks specified in credit not covered.
- xxii) Absence of ‘freight paid’ statement on bill of lading where credit covers C & F or CIF shipment.
- xxiii) Bill of lading does not bear ‘Shipped on Board’ stamp.
- xxiv) Amount shown on invoice and bill of exchange differ
- xxv) Shipment made between ports other than those stated in credit.
- xxvi) Documents inconsistent with each other.
- xxvii) Transshipment/part shipment effected when prohibited by credit.