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Importing Air-filters from the U.S. in Thailand: A Case Study of Procedures and Documents

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1. Introduction

This case study illustrates the procedures and documents needed to import industrial equipment from the US in Thailand. The case study describes a real-life transaction, but for confidentiality reasons, the names of the companies involved have been omitted. We will use as pseudonyms: Thai Company Limited and American Company Limited. Thai Co. Ltd. is one of the leading producers in the chemical sector in Thailand. For their production equipment, parts and spare-parts, they rely on foreign suppliers, mainly American companies. In this case, the Thai company needs a number of air-filters; and American Co. Ltd. seems to offer the best price for the given specifications.

2. Import Procedures

STEP 1

Thai Co. Ltd. pre-selects potential suppliers from company directories (Yellow Pages, etc.) or other sources of in-house or external information and requests from these suppliers a quotation (terms and conditions) by telex, fax, phone or letter. In our case the inquiry is sent by fax (Document 1). Subsequently, the American Co. Ltd. sends a quotation to the Thai Company (Document 2).

The quotation contains the following information: (a) delivery/shipment specifications, (b) required date, (c) price on FOB basis, (d) banking details, (e) payment method, (f) estimated shipping weight (Kgs) and volume (sqF or sqM). Further details can be found in attached sheets: (a) further product specifications, (b) specific freight charges (e.g. for inland freight).

QUESTION: What is missing in American Co. Ltd.'s quotation? Are there any striking differences between the request for quotation and the quotation itself.

STEP 2

Thai Co. Ltd. and American Co. Ltd. agree upon the terms of the sale, i.e. the quotation meets the buyer's terms and conditions. The buyer issues a purchase order in which it is also specified that a letter of credit is to be used to finance the transaction (L/C 100% within 30 days from B/L date) (Document 4). In addition, a letter of order confirmation with the freight forwarding agent will be arranged.

The seller issues a pro forma invoice and sends it to the buyer. This pro forma document is an important document for asking the bank to issue the L/C (Document 5).

In case of high-priced and very specific products, it is recommended that a selling contract is drawn-up. In other cases, all other documents such as telex, fax, quotation, and purchase order shall automatically be recognised as mutually binding obligations between the two parties.

The Thai company forwards an application for a letter of credit to the bank (Document 6). The value is specified (22645 USD, 100% of the invoice value); copies of the pro forma invoice, the bill of lading, and the packing list are added.

QUESTION: Check the details of the purchase order from the point of view of American Co. Ltd. What is a clean on board B/L? The attached sheet (additional conditions) of the application for opening of a documentary credit mentions that house bills of lading are acceptable. What are the differences with a clean on board B/L? Is this conform the ICC Rules of 1983? Why should the original B/L be endorsed to the order of Thai Farmers Bank?

STEP 3

The banker (in this case the Thai Farmers Bank) will verify the credit line and then issues a documentary credit to the correspondent bank in the US (Document 7). The correspondent bank relays the letter of credit to the American company. The Thai company contacts the Nakritac freight forwarding company to ship the air filters from the US (Long Beach port of loading) to Bangkok (port of discharge). The Thai Company is informed of the shipment by Nakritac (Document 8). The shipper is Arc United Co.; the vessel is Ever Gleeful V.510.

An insurance policy (Document 9) is opened by the Thai company with the following details: (a) name of the assured, (b) name of the vessel, (c) sailing date, (d) voyage, (e) amount insured (and valid exchange rate), (f) subject-matter insured, and (g) other clauses and special conditions together with the full set of insurance policies, Deves Insurance Co. sends to Thai Co. Ltd. a debit note for the amount of the premium and taxes, which is paid against receipt (Document 10).

QUESTION: Why is the amount insured USD 26,856.50 instead of USD 22,645?

What are Institute Cargo Clauses A?

STEP 4

Having received assurance of payment, the American company makes the necessary shipping arrangements, informs the Thai Co. that the orders have been shipped, and sends the commercial invoice and packing list (Document 11).

The American Co. prepares the documents required under the letter of credit and delivers them to the advising bank.

After checking the documents, the correspondent bank sends them to the issuing bank, and if named the paying bank, the correspondent (or advisory) bank pays the American company in accordance with the terms of the letter of credit.

QUESTION: What is a packing list? What are the required documents under the L/C? Calculate the exchange losses/gains of Thai Co. Ltd, taking into account that at the time of the payment advice of Thai Farmers Bank, the USD exchange rate (12 October 1993) was 25.28 Baht per USD.

STEP 5

After examining the documents, the issuing bank will charge the Thai company's account and send the documents to the Thai company (Document 12). The issuing bank will reimburse the correspondent (advising) bank.

Against the bill of lading (Document 13) the Thai company receives the delivery order (Document 14) from the shipping agent (Green Siam Co. Ltd.). The freight forwarder in Bangkok will contact the Thai Customs to release the goods. An Import Entry Form (Document 15) has to be filled in, containing the following information: name and address of importer, tax identification number, name and registration

number of formality card, import license or certificate, date of issuing the foreign transactions form, mode of transportation, name of the carrier, number of the bill of lading, port of destination, date of arrival, restricted goods/tax refund, guarantee (in THB), excise tax, local tax, VAT, other taxes and fees, country of origin (incl. country code), country of loading, number of the tax/guarantee payment, marks and numbers of packages, quantity and nature of the packages, net weight and quantity, tariff code in case of preferential treatment, description of the goods, exchange rate, tariff heading, statistical code, value (in foreign currency of excise tax, rate of excise tax, VAT base, signature of the importer or his authorised agent, date of loading. Supporting documents are: an invoice, packing list, bill of lading, import license, foreign transaction form, and possibly other documents.

For the release of the goods to the Thai company, the freight forwarder is required to produce a duty receipt. The customs authorities, after checking the original receipt submitted by the importer against the duplicate received from the cashier division, will examine the supporting documents, and subsequently issue a release order to the officer of the Port Authority to release the goods under customs supervision.

The freight forwarder will invoice the Thai Co. Ltd. for the payment made (advance sea freight, handling service charge, etc.) for an amount of 48,629.05 THB (Document 16).

QUESTION: Compare Documents 13 and 14. Explain the 232.05 THB VAT on document 16. Explain the calculations of the Import Entry Form (doc. 15).

In addition, the reader is asked to prepare a flow chart of import documents and procedures, which summarises in a concise way the logical and chronological steps as well as the relationships between the actors involved.

TUTORIAL NOTES

Step 1: The Thai company has to check the quotation in full details and to consider the correctness of the material. In our case the company is not sure whether the offer corresponds with the exact needs, therefore they ask the supplier to submit a drawing by fax for consideration (Document 3). Then the company considers the delivery time and compares with the required date. If the delivery time exceeds the required date, the buyer will request the seller to shorten the time and to send a confirmation of the new date. Usually the buyer suggests the ways of transportation, taking into account the weight and the dimensions of the product, and the cost and speed of the transportation mode.

In addition, the quotation mentions that payment should be made by an irrevocable letter of credit at sight, whereas Thai Co. Ltd had indicated as payment method: 'credit 30 days by T/T after invoicing, delivery'

The quotation mentions the FOB price. This implies that Thai Co. has to contact with a carrier or contract a freight forwarder in Los Angeles.

In order to allow Thai Co. to request the opening of an irrevocable L/C, a pro forma invoice is needed. It also should be noted that the quotation is in USD, which shifts the exchange risks entirely to the buyer.

Step 2: "Manual on Freight Forwarding"¹ (UN, ESCAP, 1990) provides the following definitions of Clean on board bill of lading and House bill of lading.

1. Shipped on board bill of lading

This means that the cargo is on board the vessel. In terms of payments using documentary credits, payments will be made usually against the presentation of "shipped on board" B/L only because it is this document which confirms to the buyer that the goods have actually been shipped. (UN, ESCAP, 1990, 3.20)

2. Clean bill of lading

If the carrier has not contradicted the particulars inserted by the shipper or made any adverse comments on the bill of lading regarding the goods, it would be considered a "clean bill of lading". (UN, ESCAP, 1990, 3.22)

3. House bill of lading

Whenever the forwarder acts as a carrier and provides consolidation or groupage services by sea or air he issues his own bills of lading to the consignors of individual consignments. (UN, ESCAP, 1990, 8.15)

The Uniform Customs and Practices for Documentary Credits, issued by the International Chamber of Commerce (Publication Nr. 400) in 1983, contains a number of provisions regarding transport documents. Articles 25-34 indicate which transport documents will be accepted or rejected by the banks. Articles 25 and 26 say that the transport documents must indicate the name of the carrier. A house bill

¹ Manual on Freight Forwarding, United Nations, Economic and Social Commission for Asia and the Pacific, Bangkok 1990.

of lading issued by a freight forwarder who is not acting or signing as a carrier, is not conform these provisions.

Also refer to UN, ESCAP (1990: 10.46-1051).

The original B/L is endorsed to the order of the Thai Farmers bank, because possession of the B/L by Thai Co. Ltd would entitle this company to take delivery of the goods. Now, the goods will only be delivered to Thai Co. upon presentation to the shipping agent of a delivery order issued by Thai Farmers Bank unless Thai Co. Ltd obtains the B/L from the bank before arrival of the goods.

Step 3: The insured amount is the CIF price Bangkok and contains apart from the FOB price Los Angeles the freight and other costs.

Institute Cargo Clauses A is identical to an All Risks coverage.

According to "Manual on Freight Forwarding" (UN, ESCAP, 1990, 11.10-11) the usual types of cargo insurance coverage are:

1. Free of Particular Average (FPA);
2. With Average (WA) or With Particular Average (WPA);
3. All Risks (AR);
4. All Risks (AR) including War and Strikes, Riots and Civil Commotions (W and SRCC)

The All Risks coverage is the most widely used in the transport of general cargo because it:

- provides better coverage than WA/WPA type;
- provides insurance against all risks of loss of or damage to the cargo insured except for those damages or losses which are due to delay or inherent vice.

However, this is not the most comprehensive type of cover because it does not cover risks of war, strikes, riot and civil commotions, which must be covered separately.

Please refer to the full text of the Institute Cargo Clauses A at the end of these tutorial notes.

Step 4: Packing list

Notice that the packing list contains no information on the value of the goods, but on the total weight.

According to document 7 the required documents are

- signed commercial invoice in 8 copies, price FOB USA
- full set of clean on board ocean bills of lading made out and endorsed to the order of Thai Farmers Bank, in triplicate plus 3 non-negotiable copies.
- packing list in quadruplicate

Calculation of the exchange losses/gains of Thai Co. Ltd:

25.28 Baht per USD	12.10.93
25.41 Baht per USD	27.10.1993 (document 9)
25.47 Baht per USD	28.11.1993 (document 12)

Step 5: Comparison of Documents 13 and 14: the goods were transhipped in Singapore from Ever Gleeful to Ever Better. Transhipment is allowed according to the conditions of the documentary credit.

VAT is not due on the sea freight paid to the foreign shipping company, but only on the charges and fees of the freight forwarder ($7\% \times 3,315 \text{ THB} = 232.05 \text{ THB}$)

Calculation on the Import Entry Form:

FOB-value Los Angeles:	USD 22,645.00	(Ref. Doc.11)
Freight LA-Bangkok:	USD 1,770.00	(Ref. Doc.11)
	<hr/> USD 24,415.00 x 25.39	
	or THB 619,896.85	
Insurance:	THB 1,239.00	(Ref. Doc.10)
CIF-value Bangkok:	<hr/> THB 621,135.85	

On the CIF-value Bangkok a 5% import duty is levied (the goods are falling under tariff heading 8421.990, and by notification of the Ministry of Finance No. 13/33 the base rate of 35% is reduced to 5%), i.e.

import duties Bangkok	THB 31,056.00
CIF-value Bangkok (import duties inclusive)	<hr/> THB 652,191.85
VAT 7% on CIF value incl. import duties	THB 45,653.00
CIF-value Bangkok customs cleared and VAT incl.	<hr/> THB 697,844.85

For the tutor's convenience, a tentative diagram is given below, illustrating the route of the documents over time. The shaded area of the diagram is related to the actors outside of Thailand. The procedures in the exporter's country have been neglected.