



Centre for ASEAN Studies



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**Export Procedures and Documents  
in the Philippines:  
Dyles International Co. - Rayar (France)<sup>1</sup>**

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## 1. Introduction

In this case study is provided detailed documentation of the various steps, procedures and documents used in an export transaction of a company, Dyles International. The company sells items such as stuffed dolls and newly marketed ornaments. Dyles International is essentially a trading company and does not manufacture these goods itself. However, it occasionally directly finances the production of goods for export when orders are too large for the manufacturer to bear the costs alone. As a trading company, Dyles International engages in import and export activities with various countries in the world. Yet, this case study will detail only one activity - i.e. export - to one location, namely - Marseilles (France).

The paper will in the first section detail the trade procedures, from the beginning, with the search for prospective foreign buyers, up to the last step of collecting the export proceeds. The second part presents the problems which the company encounters during its export operation and makes recommendations to avoid certain of these problems in the future. The third part concludes the paper by offering insights into the trading process

## 2. Export procedures and documents

### 2.1 Searching for potential customers

There are three ways by which Dyles International solicits orders. First, it obtains information about foreign markets published by the Department of Trade and Industry in the Philippines from a brochure. The Department of Trade and Industry also publishes a directory of foreign buyers and lists of the products they wish to import. Secondly, Dyles solicits orders from acquaintances living abroad. The third and most frequently used method consists of contacting foreign embassies in the Philippines. Dyles sends letters along with brochures of Dyles' products to these embassies, stating the kind of business it is concerned with mentions it is the intention to do business with local companies in these foreign countries. Many foreign embassies respond by sending Dyles a list of companies interested to do business with Dyles.

### 2.2 Negotiating for an export contract

#### 2.2.1 Making a business offer

Dyles contacts individual companies through introductory letters. Attached to the letters are:

- catalogues and pictures of the company's products. Dyles has a catalogue containing a very large number of products.
- **Conditions of Sale** (Document 1). Dyles quotes at prices FOB Manila, delivers 60-90 days from receipt of Confirmed Letter of Credit, and requires the establishment of on Irrevocable Letter of Credit with its preferred bank.
- lists of prices quoted in US dollars, FOB. Prices may also be CIF upon request of the buyer.

Details on packing and shipment are subject to the buyer's preferences.

The buyer responds by sending a Purchase Order stating the quantity ordered together with the specifications of price and product description.

### 2.2.2 Sending sample shipments

Sample shipments are covered by an export declaration with foreign exchange proceeds and are transported by air for speedy delivery.

### 2.2.3 Confirmation order

Dyles confirms the purchase order by sending a **pro-forma** invoice (Doc. 2). It states the stock number, quantity, description, unit price and total price of the order. The order is confirmed when the pro-forma invoice is returned to Dyles duly signed by the buyer.

### 2.2.4 Opening of irrevocable letter of credit by buyer

After sending the purchase order and receiving in return a pro-forma invoice, the buyer opens an **Irrevocable Letter of Credit** (Doc. 3) with his bank. The foreign buyer's interests in the Philippines are represented by an Authorised (local) Agent Bank (AAB) which is also the bank representing Dyles. The AAB assists the exporter in negotiating the collection of the payment for his exports. The Letter of Credit must be irrevocable to make sure that the seller will be paid and that the bank of the buyer will not revoke its duty to pay. The contents of the letter of credit must be carefully studied and complied with. It states all the demands of the buyer which the seller must fulfil in order to receive the payment. Requirements stated in the Letter of Credit relate to documents which are needed, covering special conditions (see Doc. 3). Also see Appendix 1 for Procedures for Negotiating through Letter of Credit. After all this, Dyles, the exporter, confirms with the bank if the Letter of Credit is irrevocable.

## 2.3 Preparing to export

### 2.3.1 Release of purchase order to manufacturer: production/purchase of goods.

Since Dyles is a trading company and therefore does not manufacture its own products, it has to send a **purchase order** to the manufacturer (Doc. 4). This purchase order gives the quantity, code number, description, unit price and total amount of the order of Dyles's customer. As was already mentioned, Dyles also partly may finance in the production of the order, particularly in situations where the manufacturer does not have the necessary capital. In this way, Dyles may act a financier and indirectly participates in the production process. The relationship between Dyles and the manufacturer involves a downpayment-delivery-downpayment chain. Dyles gives an initial downpayment for production. It receives partial delivery of the goods, then gives a second downpayment. Only when it receives the last batch of the goods does it pay in full. This is the standard operational procedure agreed upon in the sales contract.

The lead time for manufacturing is 45-60 days. It is less than the lead time for delivery of the goods because the latter accounts for a transportation period of 15 to 30 days. The date and place of termination takes into account the manufacture and delivery of the goods and the corresponding documents. All goods and documents must be with the buyer by this date for the seller to avail of the payment. After this date, the Letter of Credit will no longer be effective. The seller cannot claim his payment.

### 2.3.2 Marking, labelling, packing

Marking: The goods are marked MADE IN THE PHILIPPINES, the country of origin.

Labelling: The label includes information about the name and address of the exporter, Dyles International, as well as the weight, volume or quantity of contents, and the description of the kind and quantity of the goods. The information is written in the language of the importing country, using its weight and measurement system.

Packing: Packing varies according to the characteristics of the product, transportation, climate, pilferage susceptibility, freight rates, customs duties, and customer's requirements.

## 2.4 Instructions to freight forwarder

### 2.4.1 Transportation of the goods

Dyles International employs a German freight forwarder firm, **Royal Cargoes**, whose responsibilities include: arrangement of transportation from the exporter's location to the destination, follow-up on shipments to make sure that these move along the required routes, preparation of necessary export and shipping documents, assistance in packing, containerisation of cargo, and loading of goods aboard the ship.

Dyles prefers to use sea freight for two reasons: it is most commonly used in the Philippines and is cheaper. The freight forwarder receives an Instruction for **Dispatch of Goods** (cfr. Doc. 8) which contains all the necessary details regarding the handling and transport of the goods as specified in the Letter of Credit. Royal Cargoes then selects the shipping line and the particular vessel. They also book for shipping space and send the booking note to the shipping company. Royal Cargoes also takes care of registering the details of the export declaration (ED3) and sends it to the Customs.

The freight rate quotations are obtained from the freight forwarder. Rates are commonly quoted on a weight or measurement (volume) basis, whichever is higher. There are also surcharges (Currency Adjustment Factor, Bunker Adjustment Factor, Container Service Charge, Port Congestion Surcharge). Apart from these, a fee is also charged for the services the processing of the documents. Often, all these fees are put together in one package price for a particular shipment.

## 2.4.2 Insuring of Goods

Marine insurance is often required by the buyer to safeguard the goods against possible loss, pilferage, damage, theft, etc. during transportation. The coverage varies depending on the specifications given by the buyer.

The freight forwarder usually takes care of insuring the goods. However, Dyles may, upon its own initiative insure the goods if the coverage is only minimal and not comprehensive.

## 2.5 Processing of export documents

### 2.5.1 Transaction with the bank

Two weeks before the shipping date, Dyles International files with its bank (Allied Bank), the documents required by the Customs and the buyer as stated in the Letter of Credit. The documents include an export declaration, pro-forma invoice, commercial invoice, and the packing list.

Dyles International files an **Export Declaration (ED)/Export Permit (EP)** (Doc. 5) with foreign exchange (forex) proceeds. It is a form required by the Central Bank to be filed with Dyles's bank (it is filed/sent with an approved and registered Report of Foreign Sales (RFS) which is a form filed by an exporter of traditional products (like Dyles's) within 24 hours after the closing of a sales contract).

If it is the first time that the exporter carries out an export transaction, an Information Sheet for the Exporters (ISE) must be submitted to the Central Bank through an Authorised Agent Bank (AAB), preferably where the L/C is issued. An ISE will ensure that Export Declarations involving foreign exchange payments are issued only to bonafide exporters (Philippine Exporters Manual, Vol. 1, Bureau of Export Trade Promotion, Manila 1990, p. 38).

The pro-forma invoice shows the order made by the buyer as well as his confirmation of that order. It contains the description of the items, the quantity, price, and the total amount of the transaction.

The **commercial invoice** (Doc. 6) is used as a payment claim. It is the accounting document by which the seller charges the goods to the buyer. It includes the following: date, name and address of buyer and seller, order or contract number, quantity and description of goods, unit and total price, weight of goods, number of packages, shipping marks and numbers, terms of delivery and payments and shipment details.

The **packing list** (Doc. 7) is usually required when merchandise is packed in many containers or cases or when quantities, weight or content of individual units in a shipment vary. This is the case with Dyles's because its stuffed dolls, carnival dolls, shell crafts are of varying weights. The list indicates the contents, weight, and measurements of the individual parcels.

Upon receipt of the accomplished ED/EP, the AAB:

1. stamps all copies with the date of the receipt;
2. determines that it is correctly accomplished and accompanied by the required documents;
3. indicates the Report of Foreign Sales' (RFS) control number (in case of traditional exports);

4. assigns an expiry date; and
5. has each copy signed by its authorised officer. The distribution of copies for ED with foreign exchange proceeds shall be as follows:
  - ED1 and ED4 has to be delivered by the AAB to the appropriate office of the Bureau of Customs (BOC). The exporter may opt to process his ED with the Bureau of Customs at the One-Stop Export Documentation Centre. ED4 shall be transmitted by Customs to the National Statistics Office (NSO);
  - ED2 and copies of the shipping documents shall be attached to the Daily Report of Export Negotiations and forwarded to the Central Bank-Export Declaration (CB-ED);
  - ED3 shall be submitted by the exporter to the BOC for getting Authority to Load (AL);
  - ED5 shall be attached to the Daily Report of Payments Received from Exports and forwarded by the agent bank to the CB-ED.
  - ED6 shall be the AAB's copy;
  - ED7 shall be the exporter's file.

### 2.5.2 Transfer of documents and handing over of goods to the freight forwarder

Dyles International hands over the goods to its freight forwarder, Royal Cargoes. More often than not, the transport of goods from the factory to the custody of Royal Cargoes is handled by Dyles itself. Although sometimes, the price package of one shipment includes the cost of transport, Dyles opts to take care of the delivery (from factory to freight forwarder) to save on added costs.

Together with the goods, Dyles provides Royal Cargoes with the documents it filed with the bank, namely the export declaration, pro-forma invoice, commercial invoice and the packing list. An **Instructions for Dispatch of Goods** (Doc. 8) is also given. This document follows all the requirements stated by the buyer in the Letter of Credit. It contains all the necessary instructions to be strictly followed by Royal Cargoes, e.g. the details which are to be included in the bill of lading, what documents are to be attached together with the dispatch instructions, the customs value and carriage value of the cargo, the insurance and specific description of the goods.

### 2.5.3 Freight forwarder services: clearance from three departments

#### **a. Customs:**

With the documents and goods already in its possession, Royal Cargoes puts the goods in containers. The complete containerisation process consists of loading the goods in the containers, transferring the goods past the ship's rail and completing all required documents. Then, Royal Cargoes goes to the Customs to know how much customs duties have to be paid for the shipment.

The Customs, upon inspection of the containers, will decide whether the load is LCL (Less than Container Load) or FCL (Full Container Load). An LCL shipment has cargo from several shippers destined to several consignees. In this particular case, Dyles's shipment did not have exclusive use of the container. In LCL shipments, either the liner company or the freight forwarder is responsible for packing and unpacking the container. In this particular situation, Royal Cargoes takes care of it. For FCL ship-

ments, when the cargo occupies one whole container, both the shipper and the consignee are responsible for packing and unpacking the container.

If the shipment from Dyles is declared LCL, Royal Cargoes would have to pay the ARRASTRE office a fee to be paid to stevedores who are government employees, and to WARFAGE for the rent for that part of the dock the ship occupies. The cargo is measured by volume, usually in cubic meter.

If the shipment is declared FCL, customs duties are paid per container. In other words, fees are based on the number of containers. Normally, the containers are either 20 or 40 feet containers.

Once all the fees are determined and paid, the Bureau of Customs will issue the Authority to Load, the Certificate of Origin, and the Certificate of Shipment.

The **Authority to Load** (Doc. 9) is the approval or permission granted by the Bureau of Customs (written at the back of the Export Declaration) for the loading of export goods on board of the carrier specified in the Export Declaration. If the cargo is containerised, the Customs Container Control Division assigns its responsible stuffing officer to supervise stuffing of the cargo and forwards Export Declaration number 3 to the Arrastre Office.

The **Certificate of Origin** (Doc. 10) is the declaration of the exporter, certified by the Bureau of Customs that his export product complies with the origin requirements specified for goods under the Generalised System of Preferences (GSP) and other schemes of tariff preferences.

The **Certificate of Shipment** (Doc. 11) is the document issued by the Bureau of Customs certifying to the nature of shipment of the export goods, which could either be full shipment, short shipment, shut-off or non-shipment.

#### ***b. Garments and Textiles Export Board (GTEB)***

The GTEB facilitates the exportation of garments and textiles and the processing of export documents, monitors quota utilisation as well as exporters' compliance with GTEB rules and regulations, and engages in market promotion and development assistance to the garments and textile industry to hasten the diversification and expansion of export markets, among other functions.

The cargo has to pass through GTEB inspection because of the quota on Philippine textile exports. Since one of the company's products use textiles (carnival dolls), Royal Cargoes has to secure a **GTEB Certificate of Origin** (Doc. 12). Also, this procedure allows GTEB to ensure that the Philippines is not surpassing its quota which can be attested to by a **Textile Export Clearance** (Doc. 13).

#### ***c. Bureau of Fisheries:***

Dyles International also exports products made out of shells (capiz). Such shipments need to be inspected by the Bureau of Fisheries because there are certain Philippine shells which are protected species to avoid extinction and are therefore not allowed to be harvested for raw material uses of export products. Therefore, the shipment requires a **Commodity Clearance** (Doc. 14).

## 2.6 Actual shipping

Having secured the Certificates of Origin from the Bureau of Customs and/or GTEB, the GETB Textile Export Clearance and the Bureau of Fisheries Commodity Clearance along with the other supplementary documents, Royal Cargoes then handles the transfer of goods from the customs port to the ship. The **Bill of Lading** (Doc. 13) is released by the shipping line when the cargo is already on board the ship (FOB). The Bill of Lading contains the information relating to the general nature of the goods, the marks and numbers required for the identification, the number of packages and pieces, weight and quantity of goods and the apparent condition. Information relating to the shipper, freight forwarder and consignee are all stated.

By this time, the freight forwarder (or the Authorised Agent Bank) should have in his possession all the documents required i.e.: Bill of Lading, Certificate of Origin (from the Bureau of Customs and GTEB), Bureau of Fisheries Commodity Clearance, pro-forma and commercial invoice, the packing list, Certificate of Shipment, insurance certificate. This is to allow Dyles to collect payment from the buyer through Dyles's bank. Meanwhile, the shipment will be sent on its way to its destination.

## 2.7 Collection of export proceeds

Dyles International now receives all the certified and cleared documents from Royal Cargoes. Dyles traces back the Letter of Credit to check all the documents required for the payment to be collected. Once all the documents are completed, these are sent to the bank. The normal lead time for reviewing the Letter of Credit and fulfilling the requirements is seven days following the date of completion of loading. The following documents are usually required by the bank (as stated in L/C): Bill of Lading, Commercial Invoice, Certificate of Shipment. Other supplementary documents include insurance certificate, packing list and Certificates of Origin (from Bureau of Customs, GTEB, and Bureau of Fisheries). It is important to mention that the importer or buyer will not succeed the cargo to be released by the shipping line unless he has an original copy of the Bill of Lading. For this two reasons Dyles will have to send the documents (including B/L) as soon as possible: First by for the buyer to ask his bank to make the payment transfer so that Dyles can get hold of the payment through its bank in the Philippines (Allied Bank). Secondly for the buyer to be able to claim the shipment from the shipping line. Upon receipt of the documents, Dyles's bank (Allied Bank) -together with its documentary draft (Doc. 16)- transmits these to the foreign correspondent bank. The foreign bank will then send a credit advice upon approval of the buyer who will then claim all the required documents (most importantly, the Bill of Lading). Upon receipt of the credit advice from the foreign correspondent bank, Allied Bank, Dyles's authorised local agent bank, endorses the documentary draft to Dyles's account. Finally, Dyles collects the payment in documentary draft form in the currency stated in the Letter of Credit.

## 3. Problems and recommendations

Dyles had to struggle with late deliveries because of the natural calamities (typhoons, floods, etc.), power failures and production blunders which seem to occur regularly in the Philippines. This problem has to be addressed by appropriating a longer lead time for production. Also, contingency

power/energy sources should be tapped. Manufacturers should study the trend of the export orders to know the peak and slack periods and thus adjust the production schedules accordingly.

Another problem is that certain importers are only interested in the samples in order to be able to imitate the products. Hoax orders are difficult to detect and to avoid. However, research on the background of the prospective buyer via embassies, trade associations and specialised governmental departments (e.g. Bureau of Export Trade Promotion), such dishonest companies may be detected. If unfortunately, the company has sold samples to opportunistic importers anyway, it is easier to keep track of them if one has collected the necessary information. Also, the time when orders are placed and confirmed needs to be thoroughly checked. The details of the documents must be clear and consistent with the company's payment demands.

Often, samples are being sent to Dyles by companies in the countries of importation as a prototype for production and sale. Although these samples have no real commercial value and no customs duties needed to be paid, some customs officers still exact money for these "importations". If the "duty" is not paid, they may delay the release of the samples.

The processing of all necessary documents takes time. Pending documents delay shipments and therefore delivery. This is especially difficult when the expiration date of the Letter of Credit is nearing. Again, delays can only be avoided if there is a longer lead time. A good sense of anticipation is needed to determine the waiting time for document processing and to adjust the schedules well enough to avoid such delays.

"Honest mistakes" are often committed by the persons who assess the Letter of Credit and its contents. Discrepancies arise (e.g. as to type of shipping) as a result of insufficient scrutiny of the Letter of Credit. Sometimes documents are missing. Employees who prepare the documents according to L/C specifications must be extremely careful. Stipulations must be double checked by more than two persons. If possible, one should specialise on particular checks in the L/C so as not to overlap responsibilities and accountability.

#### **4. Summary of export procedures and documents**

The user of this case study is asked to make a summary of the export procedures and documents, described above. In doing this, he has to distinguish between the various logical steps connected with the exportation, as well as the actors involved.

#### **5. Tutorial information**

In discussing the problems that Dyles is facing and in making recommendations, the tutor can also draw the student's attention to the following:

Dyles has a catalogue which lists its many products (see above). Yet, it may not be wise to include a large number of different products in the catalogue. Product specialisation gives an impression of

product expertise. For the company, the products must be categorised or grouped to achieve this purpose.

Normally when making offers, Dyles does not specify its references (i.e. information such as name and address of the company's bank, membership in local trade associations or chambers of commerce, past experience, performance, etc.). It might be helpful to include such information as it adds to the trustworthiness of the offer.

There have been experiences with unreliable and inefficient insurance companies which delayed their payment of the insurance coverage. To solve this, it would be best for the company to completely leave the "insuring" to the freight forwarder who is more reliable and has readily available expertise.

For the tutor's convenience, a tentative diagram is given below. The shaded area of the diagram is related to actors outside the Philippines. For the sake of simplicity, the procedures in the importer's country and most of the relations between the importer and his bank were omitted.

The student's assignment of summarising the export procedures in the Philippines and the documents used, can be facilitated by asking them to prepare a diagram showing the route of the documents.