

International trade assignment

Business



Export/Import Procedures and International Trade Contents 1) Outline on International Trade 2) Problems and Barriers to Trade 3) International Trade Terms 4) Trade Financing & Payment 5) International Trading Pricing 6) Shipping Documents 7) Cargo Insurance 8) Shipping Organizations 9) Containerisation 10) Freight Market 11) Shipping Operation 12) International Organizations 13) Physical Distribution 14) Modes of Transportation Chapter 1 Outline on International Trade 1. Introduction ‘ No country is an island’, so goes the common saying.

Whether it is a socialist or a democratic country, every nation needs to trade. Every country is dependent on each other for a variety of products that they cannot produce locally. International trade is essentially the buying and selling of goods across different countries and boundaries. It involves the transportation of goods from one place to another. If the goods are brought into the country, it is known as import trade. If the goods are sent to another country, it is known as export trade. A country that has more import than export is known to have a trade deficit.

Vice versa, if the country’s export were more than import, the country would have a trade surplus. Products traded can be in the form of finished goods, goods in process, or raw materials. Products can be in solid, liquid, or even gaseous form. Goods can be shipped by conventional means or in container. The mode of transportation can vary from sea, air, land or rail. In addition, international trade also requires other forms of arrangement such as the mode of payment, types of cargo insurance for the goods, warehousing,, and packing. 2. Why Import and Export?

Why is import and export so important in international trade? There are multitudes of reasons. Here are some of them: Why import? a) Some goods are not available locally. b) Products are produced more cheaply overseas. Sometimes, they are even of better quality. c) It complements existing goods. d) Reciprocal trading or buy back. e) Availability of new products from other countries. f) Helps to improve standard of living. Why export? a) Export brings in revenue for the company. b) It creates a wider opportunities for the exporter. c) It lessens the dependency on local market.) The life span of the product can be extended. e) Manufacturer can keep the production going. 3.

Procedure on International Trade Transaction International trade often begins with an offer and an acceptance of the offer. In most cases, the seller may offer to sell and the buyer accepts the offer. Before the acceptance stage, appropriate negotiation on pricing, cargo quantity, cargo specifications, terms of sale, delivery terms, mode of transportation, types of payment and other related requirements are necessary. These conditions will enable both parties to eventually draw a contract of purchase or sale.

The buyer will proceed to issue a purchase order to the seller. Once everything is finished, buyer goes to the bank to open a Letter of Credit nominating the seller as the beneficiary. The approved Letter of Credit will be sent to the seller through the advising bank. The seller must agree to the terms in the Letter of Credit. If he disagrees with any term therein, he must make known the issue before the shipment is made. If no issue is raised, it is implied that he has fully accepted the terms and conditions. The seller proceeds to prepare the cargo for shipment.

When ready, the goods will be shipped on an appropriate date. This is usually before the expiry of the Letter of Credit. After the shipment, seller prepares the necessary shipping documents such as the invoice and packing list. The shipping documents are for submission to the bank for the purpose of negotiation for payment. It is important that the documents do not contain any discrepancy. Otherwise, the bank will hold back the payment. The bank remits the documents to the buyer for the purpose of clearing the cargo from the discharging port.

Sometimes the bank may want the buyer to pay first before releasing the documents. If the buyer is unable to settle the full payment, he may apply for a Trust Receipt. The purpose of the Trust Receipt is to enable the buyer to collect the documents. Buyer will use the documents to clear the cargo first and then pay the bank at a later date. Such payment will often include the principal plus interest. 4. Reliability of the Buyer and Seller International trade is not without its problems. Any seller is naturally reluctant to part with the control of the goods without first receiving payment for it.

Alternatively, he will release the goods only if there is a security for the payment. Vice versa, any buyer will be unwilling to pay for the goods before he has received them unless he can be given some kind of legal rights over them. Both the buyer and seller will not wish to have their money tied up in the goods while they are in transit. The reason is that the duration of the journey can take from a few days to a few weeks. In case of delay, it may even take months. The goods, while in transit, are often subjected to risk of being lost or damaged.

Neither of the parties will want to bear responsibility for such loss or damage. In international trade, the buyer and seller are often from different countries and social backgrounds. The seller and the buyer may not even know each other well. The seller, while he is interested in ensuring that he is being paid, may not be familiar with the buyer's background such as creditworthiness, integrity, solvency, and reliability. He may not even be familiar with the jurisdiction and laws of the buyer's country. This may cause complication in case the seller wants to take up legal proceeding against the buyer.

Similarly, the buyer is concerned that he may receive cargo that is not up to his expectation as per the sales agreement. He may not even receive any cargo at all. As for trustworthiness and credibility of the seller, it can be a tough question for the buyer to answer. 5. Key Organizations For the interest and safety of the buyer and seller, there are certain organizations that can provide adequate protection against risks and dangers. These organizations can provide the relevant services to help the importer or exporter from getting into any pitfall.

They are the bank, insurance company, cargo carrier, and the freight forwarder. Bank Most banks dispense a wide range of services in the area of international trade financing. To many importers and exporters, banks can provide security for payment. It can provide a source of funds for parties to carry out the import and export trade. Examples of the services provided by the banks are: a) Letter of Credit??? This is essentially a letter in which the bank undertakes to pay the seller against his shipping documents.

For the payment to be effected, the terms and conditions of the Letter of Credit must be strictly complied with. b) Telegraphic Transfer (TT) ?? bill of lading This is an inter-bank transfer of funds by the buyer's bank to the seller's bank. This method is simple and does not incur expensive bank charges as in the case of Letter of Credit payment. c) Trust Receipt In normal practice, buyer must settle the payment with the bank before he can obtain the shipping documents in order to clear his cargo from the port. In some cases, the buyer may not have sufficient resources to pay the bank.

Under such circumstances, the buyer may request the bank for a Trust Receipt facility. This means that the goods can be released while remaining under the bank's proprietary rights. d) Discounting Bill When the term of payment is on a credit term, seller may find his financial resources restricted. To raise available cash, he can seek the bank assistance to discount his invoice at a certain percent. This means that he can get his cash up front to pursue other business interest. Insurance Company Insurance company insures the cargo against any loss or damage during the course of transportation and shipment.

To ensure that the cargo is well protected, the buyer and seller must buy an insurance policy from the insurance company or an authorized agent. The type of policies will depend on the insured's needs and the type of risks to be insured. Payment for the policy is known as premium. Having an insurance policy means that the cargo is under protection from any loss or damage. This gives the exporter or importer a peace of mind knowing that there is security for his cargo. With this peace of mind, he can concentrate an carry on with his other areas of business. Cargo Carrier

<https://assignbuster.com/international-trade-assignment-essay-samples/>

Shipping companies, airlines, and the railway companies are known as the cargo carriers. They play an important role in the worldwide physical distribution of goods. The carrier's responsibility is to transport cargoes from the seller's port to the buyer's port. Shipper who uses these carriers is often issued with a contractual document known as the Bill of Lading if the shipment is by sea, Air Waybill if the shipment is by air, and a Rail Cargo Receipt (or Railway Consignment Note) if the shipment is by rail. Such documents are contractually binding between the shipper and the carrier.

Cargo arriving at the destination will only be released to the holder of the appropriate shipping documents, such as the Bill of Lading or the Air Waybill. In the case of Bill of Lading, only the original can be used to clear cargo from the port. Freight Forwarder???? Over the years, the freight forwarder's role has become more important than ever in the worldwide distribution of goods. More and more importers and exporters are using the services of the freight forwarder for a variety of shipping needs. Basically, the job of the freight forwarder is multi-functional, that is they are able to perform different type of services to bring the cargo from the seller's warehouse to the buyer's warehouse. Such service is known as a door-to-door delivery. Apart from door-to-door delivery service, most forwarders also provide services such as documentation, declaration of permit, transportation, packing, warehousing, inventory control, port arrangement and clearance of cargo, booking of freight with carrier, customs clearance, consolidated services, NVOCC (Non-Vessel Operator Common Carrier), and many others.

6. Forms of Sales Contract

In the international trade transaction, the contract of sales may have countless terms that the buyer and seller will have to agree upon. The contract of sales not only mention how goods are to be delivered by the seller and the price to be paid by him, but it will also have to include other matters such as the insurance for the goods while in transit, method of payment to be made to the seller, number of credit days given for the payment, and the arrangement for the carriage of the goods overseas to the buyer. The list of terms regarding the costs and responsibilities can be endless.

However, the buyer seller will have to compromise and adopt a recognized and established form of contract. The existence of these established forms of contract does not remove all the parties' responsibilities. The buyer and seller are free to depart from the established form of contract in various respects. Both parties must be aware that the contract can be subjected to different legal systems in different countries. It is useful if there is a standardized form of international sales contract. In fact, many organizations are trying to do just that.

These are the trade associations such as the International Chamber of Commerce. They produce a standard form of contract for their own trade. Such standard form is widely in use. Chapter 2 Problems and Barriers to Trade 1. Introduction International trade is a complex business matter. It encompasses the understanding of various cultures of different countries, government's restrictions, documentation requirements, and variation in languages, weight, measurement and currencies. Individual country often has its own laws and regulations to protect its own system of trading.

<https://assignbuster.com/international-trade-assignment-essay-samples/>

Such protection often becomes a trade barrier. Over the years, trade barrier become serious, it may cause the other trading country to retaliate by implementing counter barriers. Trade barriers imposed by such countries may be due to the follows: a) Political Reasons These may be embargo or boycott enforced on another country. For example, the Arab countries in the Middle East have a law that boycott the importation of goods that are manufactured or originated from Israel. b) Economical Reasons These are protectionist policies.

The aim is to reduce imports into the country. This is done by imposing high import duties, strict quotas on certain goods or strict exchange control regulations. For example, the Japanese Government has strict control policy on rice imports from overseas. This is to protect the livelihood of its local farmers. In 1989, the Diet (Japan Parliament) passed a resolution urging the government to maintain self-sufficiency in rice. A senior official of the Ministry of Agriculture, Forestry and Fisheries even declared that not a single foreign grain of rice would enter Japan.

The remark of course produced a chorus of protests in the United States and other rice producing countries. 2. Culture The Encyclopedic World Dictionary defines culture as the total sum of ways of living built up by a group of human being, which is transmitted from one generation to another. Culture has a great influence on the way in which business is transacted. This is because responses, attitudes and prejudices are influenced by culture. Thus, because a way of living is built into us, it is often very difficult or almost impossible to change a person's culture overnight.

Sometimes, it would take several generations before one's culture is transformed. Understanding each other's culture can lead us to the path of a successful business deal. It can help to reduce the occurrence of misunderstanding and conflict in international trade. Blending oneself with the local cultural values and customs can be very enriching as it helps one to establish a strong personal bond and ensure long-term business relationships. An example of the understanding of such culture is when dealing with the Japanese businessman. To them, trust is one of the most important aspects of a business transaction.

One meeting is often not enough to close a deal. Subsequent meetings and follow-ups with the Japanese counterparts are vital to develop trust. Once trust is established, the likelihood of a long-term business deal is greater. The Japanese often have a tendency not to hurt people and may often say 'yes' when indirectly they mean 'no'. 3. Government Restriction When goods are moved across national boundaries, they are liable to customs duties, quotas, and exchange control restrictions. Each country's government dictates who can import and what can be exported.

For example, the Arab countries have very strict control over the import of food that are not 'halal' or food that may contain any pork ingredient. Similarly, in most European countries such as France and Germany, farm imports are often greatly restricted. Certain countries have an indirect policy of keeping away imported goods by imposing heavy customs duties. China is one such example where it charges two level of tariff: minimum tax if the shipment's country of origin is one with which China has a trade agreement which extend mutually beneficial tariff status and a general tariff if it is not.

<https://assignbuster.com/international-trade-assignment-essay-samples/>

Official tariff rates on many goods are prohibitively high. It can range from a low of 3 percent on those goods China wishes to import to a high of 250 percent or more for imported goods that are considered threatening to domestic manufacturers. In the mid 1993, sample tariffs included 150 percent on cigarettes and 250 percent on automobiles. Certain products are eligible for exemption from official rates, at the discretion of local customs officers. Thus different duty rates are often assessed on identical products entering at different ports in China. Most imports by joint ventures are also exempted from customs duties.

A separate system of tariffs is levied on goods exclusively imported into Tibet for use there. In a newspaper report (The Straits Times, 2nd April 1997), the USA government accused Japan, European Union and China for setting up the most trade barriers, the accusations by the USA government on trade barriers created are: a) Japan It favours own telecommunications sector for purchase of most equipments. It tends to under-document specifications and uses non-transparent criteria to allocate market share to suppliers. b) European Union It discriminates against USA goods, especially farm products.

This is done through import policies, government procurement practices, and widely differing standards, testing and certification methods. c) China Although China is slowly opening up its market, it is still placing restrictions on foreign corporations and its farm produces. Its growing economic clout and efforts to boost competitiveness in some export oriented industries will require vigilance. 4. Languages There are thousands of languages and dialects worldwide. Due to such diversity in languages, communication <https://assignbuster.com/international-trade-assignment-essay-samples/>

difficulties and problems, whether oral or written, may arise in international trade.

This is because the importer and exporter may speak a totally different language. But as the world progresses, English language seems to be expanding its importance and usage in the commercial world. While the use of the English language may be accepted worldwide, it is still advisable to use the local language as this makes the buyer and seller more at ease and comfortable in dealing with one another. For example, in China, to be able to speak Mandarin is truly an asset as most literatures and business transactions are in Chinese. Do not be surprised if the contract is also written in Chinese language. .

Currencies Most countries use different forms of currencies. International trade can create a big risk in currency exchanges. This risk comes mainly from the currency fluctuation. For instance, a Singaporean exporter sells US\$20, 000 worth of electronic products to an American importer. If there is a decrease in the value of US dollar as against the Singapore dollar, then the Singaporean exporter will be receiving less than the anticipated value as per the contractual agreement. Vice versa, if the US dollar increases against the Singapore currency, the exporter will gain.

Losses and gains in currencies exchanges can sometimes be substantial depending on the amount of value being transacted and the conversion rate at the time of exchange.

6. Weight and Measurement Different countries use different units of measurement for length, weight, volume, capacity and even electrical voltage. Products made for one country may not be suitable for another country due to the different specifications requirement of each

<https://assignbuster.com/international-trade-assignment-essay-samples/>

country. It is therefore important that the exporter must ensure that his product meets the requirements of the importing country, failing which the product may be rejected.

An example of such product requirements is electrical items. While most Asian countries use 220-240 volts power supply, the American and most European countries use 110-120 volts. For garment and fashion wears, the sizes use for Asian and the American are different. An L-size T-shirt is used by mainly the adult in Asia. However, an L-size T-shirt in America is mostly suitable for the teenage. As for the measurement and weight, while most parts of the world are using the metric system, many sectors of the American industries are still using the imperial system.

7. Social Standards, Rules and Regulations

In international trade, the seller is exporting to a country where people have different social standards, expectations, tastes and needs. Similarly, government standards are imposed on certain imported goods to ensure that they are free from health hazards and safe for consumption or for use by its people. Products for human consumption are, in particular, subjected to more stringent control and checking. Most governments have laws to control the import and export of such goods. Products that are not able to meet such requirements will be rejected at the port of entry.

Examples are foods that use certain prohibited additives, colouring or preservatives such as sodium cyclamate. In case where food items are concerned, importing countries place stringent regulations on the hygiene of the seller's factory, its manufacturing process and the mode of

transportation. The relevant authorities of the importing country must also approve certain mode of transportation. Due to the case of the mad cow disease in England in 1996, and the bird flu in Asia in 2004, most countries are becoming more cautious when importing beef and chicken from affected places.

Rules and regulations also affect products such as machineries. In the United States of America, imported cars must be fitted with certain safety devices in accordance with the American laws. In other countries, their cars must be able to run on unleaded fuel.

8. Non-Tariff Barrier

These are invisible rules of control to discourage the import of goods into a country. They can operate in a number of ways, such as having lengthy customs inspections and clearance procedures, multiple documentation requirements or even complex safety clearance regulations at the discharging port.

Complex Documentation

When goods are moved across borders, the importing countries will want the exporter to prepare and produce certain sets of shipping documents. The documents range from preparation of consular invoice, certificate of origin to inspection report issued by an official cargo surveyor. Exporter who has not prepared the documents in accordance with the requirements of the importer's country can cause the shipment to be delayed. It may even lead to refusal by the customs or port authorities to discharge the goods at the port of destination.

Exporter must remember that the requirement for the various shipping documents change constantly. Buyer and seller need to check and update themselves frequently before each shipment. The reason for checking is to ensure that the buyer or seller is aware of the latest development. One such

<https://assignbuster.com/international-trade-assignment-essay-samples/>

change is the Certificate of Origin for Asean countries. The current usage of the APTA (Asean Preferential Trading Arrangements) or commonly known as Form C will gradually be replaced by the CEPT (Asean Common Effective Preferential Tariff), which is also known as Form D.

Even so, with many countries becoming developed, the GSP (Generalised Systems of Preferences) or Form A, may not be applicable any more. 10.

International Trade Constraint In order to create a conducive environment for proper trading, one must have a clear understanding of certain international trade constraints that may hinder business transactions. Understanding of such constraints can help a company to be successful in its business dealings. The main area of trade constraints are described as follows: **Political Systems**

Political systems here refer to the stability of the country's government, the level of civil disorder, governmental attitudes toward trading and the international acceptability of the political regime. A stable government encourages trading and investment from foreign investors. On the contrary, a country that has frequent public and civil disorders can affect the trading patterns of that country. Political instability discourages ships from calling at the port. It also dissuades the exporter from selling goods to that country for fear of non-payment.

For a shipper who trades with such countries, he may need to pay an additional cost which may be in the form of higher insurance premium or higher freight charge imposed by the shipping company. Most countries around the world have different types of political systems that are

internationally accepted. However, some countries are prohibited from trading with certain countries. An example is between the Arab countries and Israel. After the 1967 six-day war, the Arab nations had introduced a ‘blacklist’ law that prohibit them from trading with Israel.

Similarly, since the Korean War, the North and South Korea do not trade with each other. Legislation Individual government often has their own way of improving trade or even restricting trade. This is done through implementing legislation such as safety and health regulations. Each country would have different regulations on what items should be shown on the packing, what safety rules or emission standards need to be met in the factories and so on. Nowadays, it is a common requirement for manufacturer to state the expiry date on all edible products.

Other legislation implemented by some countries include price control, ownership of foreign owned companies, control over monopolies, patents, copyright and trade marks. Distributions and Logistics The lack of overseas facilities can sometimes hamper the distribution work of a local company. For example, a supplier of frozen food products will be hindered by the lack of frozen food storage facilities overseas. The alternative is to invest and build a cold storage warehouse at the receiving point. This could involve heavy capital investment that the exporter may not be willing to invest.

Another example concerns the availability of carriers at the port of call. Nowadays, shipping companies are offering express services for ports across oceans. If no such service is available in that country, then the next best alternative is for the cargo to be transshipped at the main port of call. In

some cases, feeder services are provided by the carrier to transfer the cargoes to the main port of calls. Apart from port services, local distribution is equally important for traders. Distribution can be restricted by government control. This may be in the form of controlling the number of outlets available.

For example, in Sweden, alcohol is only available through government owned outlets. In Singapore, all outlets that sell liquor must have a license obtainable from the government. The Supplier In some countries, any manufacturing companies that need to purchase raw materials must buy the raw materials directly from the government controlled companies or its nominated suppliers. These suppliers are mostly appointed or licensed by the government to act on its behalf. 11. Nature of the Market The types of market depend, to a large extent, on the types of government.

For most democratic countries, it is an open market economy. The close market economy usually belongs to socialist or communist countries. A closed market economy does not have much freedom in international trading. It is often tightly controlled by the communist central government. Exporter shipping their cargo to such countries must be aware of such restrictions and risks that come with it. Trading in an open market economy usually means that there are fewer restrictions imposed on the importer or the exporter. Chapter 3 International Trade Terms 1. Introduction

International trading can often lead to conflicts and discords especially when the buyer and seller are unaware of their respective responsibilities and rights. Both the buyer and seller in most instances have different demands

and business requirements. Each will want his needs to be met in accordance to his expectations, thus neglecting the needs of the other party involved in the trading process. To avoid such conflict and to reduce the risk of any misunderstanding, both the buyer and seller must be acquainted with the terms of international trade and how such terms are transacted.

To correct the problems of misunderstanding in international trade, the International Chamber of Commerce has published a set of international rules for the interpretation of the trade terms. The rules are known as INCOTERMS (or International Commerce Terms). The first INCOTERMS were published in 1936. However, international trade practices are constantly changing with time. New business practices and developments are also created. To cater to the ever changing needs of international trade, amendments to the trade terms were made in 1953, 1967, 1976, 1980, 1990, and currently, the Incoterms 2000. . Incoterms Divisions The Incoterms 2000 is divided into four groups. They are mainly the E, F, C, and D groups. The details of the groups are as follows: a) Group E: Ex Works (EXW) b) Group F: Free Carrier (FCA) Free Alongside Ship (FAS) Free On Board (FOB) c) Group C: Cost and Freight (CFR) Cost, Insurance & Freight (CIF) Carriage Paid To (CPT) Carriage & Insurance Paid To (CIP) d) Group D: Delivered At Frontier (DAF) Delivered Ex Ship (DES) Delivered Ex Quay (DEQ) Delivered Duty Unpaid (DDU) Delivered Duty Paid (DDP) 3. Group E: Departure Ex-Works (EXW) [...named place]

This term represents the minimum obligation for the seller. Most of the responsibilities rest with the buyer. This involves the taking of goods from the seller's premise to the desired destination. In this term, seller must

<https://assignbuster.com/international-trade-assignment-essay-samples/>

provide the goods in conformity with the contract of sales. He must render the buyer every assistance in obtaining proper shipping documents such as the export license or other official authorization necessary for the exportation of the goods. The goods will have to be placed at the disposal of the buyer at the named place of delivery on a stipulated date.

Seller will bear all risks of loss or damage to the goods till the time when the goods are placed at such disposal. As for the buyer, he must take delivery of the goods from the seller's premise at an agreeable time. Once he has taken delivery of the goods, he will bear all risks of loss or damage to the goods.

He is responsible for obtaining any export or import license or other official authorization. Where necessary, he must carry out all customs formalities for the exportation and the importation of the goods. Finally, the buyer will have to pay for the price of the goods as provided by the contract of sales.

Occasionally, some companies have shortened the trade terms by using such term as Ex-Factory, Ex-Warehouse, or even Ex-Country (name of the seller's country, for example, Ex-USA). Traders who are doubtful about such terms should clarify with their overseas counterparts. 4. Group F: Main Carriage not Paid by Seller Free Carrier (FCA) [...named place] This term means that the seller has fulfilled his obligation to deliver when he has handed over the goods to the charge of the carrier named by the buyer at the named place or at a particular venue.

Seller must ensure the goods are cleared for export. If no precise point is indicated by the buyer, the seller may choose within the place or range stipulated where the carrier shall take delivery of the goods. When,

according to commercial practice, the seller's assistance is required in making the contract with the carrier (such as by rail or air transport) the seller may act at the buyer's risk and expense. This term may be used for any mode of transport, including multimodal transportation.

The circumstances defining the handing over the goods to the carrier differ according to the mode of transport and to certain extend the nature of the goods. Practices also vary from place to place. Since buyer has to arrange for the transport, it is vital that he instructs the seller precisely regarding how the goods should be handed over for the carriage. Free Alongside Ship (FAS) [...named port of shipment] In FAS term the seller has fulfilled his obligation by delivering the goods alongside the vessel on the quay or lighter at the nominated port of shipment.

The buyer will have to clear the goods for export. The responsibilities of the seller include providing the goods that must conform to the contract of sales. The seller must assist the buyer in obtaining any export license or other official authorizations necessary for the exportation of the goods. He must bear all risks of loss or damage to the goods until they have been delivered to the named port of shipment on the fixed date or within the period stipulated. Once the goods have been delivered to the port of shipment on a given date, the buyer takes over the risk.

The buyer is responsible to contract his own carriage for the goods from the named port of shipment and to ensure that any export and import licenses or other official authorizations must be obtained. He will carry out all customs formalities for the exportation and importation of the goods and, where

necessary, for the transit through other countries. Buyer must pay for the price of the goods as per the contract of sales. Should the named vessel fails to arrive on time to take delivery of the goods, buyer will have to pay for any cost that may be incurred. Free On Board (FOB) [...named port of shipment]

Under this term, the seller has fulfilled his obligation once he has delivered the goods and loaded the cargo on board the ship by passing over the ship's rail at the named port of shipment. The buyer will have to bear all costs and risks of loss or damage to the goods from that point. As for the seller, he must provide the goods as per the contract of sales. He must provide shipping documents such as the invoice, packing list, export license or other official authorized documents at his own expense and carry out all customs formalities necessary for the exportation of the goods from his country.

He will have to deliver the goods on board the vessel nominated by the buyer at the named port of shipment on a stipulated date. The cost to be borne by the buyer includes those arising from customs formalities, duties, taxes and costs from the time the cargo has passed over the ship's rail at the named port of shipment. He will arrange for his own carrier to carry his cargo. If the vessel fails to arrive on time at the seller's port, he will bear all risks of loss from the agreed date stipulated for the delivery.

The buyer is responsible to pay for any expenses in obtaining any import license or other official authorization and to carry out all customs formalities for the importation of goods. He must pay for the price of the goods as provided in the contract of sales. 5. Group C: Main Carriage Paid by Seller Cost & Freight (CFR) [...named port of destination] As with the F-terms, this

term means that the seller takes the additional role of paying for the cost of freight to bring the goods to the port of destination.

However, the risk of loss or damage to the cargo is transferred to the buyer when the cargo passes over the ship's rail at the port of shipment. The role of the seller includes providing the cargo as per the sales agreement. He must make arrangement for the vessel and pay for the carriage of the goods from the loading port to the discharging port. He provides the commercial invoice, packing list, export license or other official authorizations and carries out all customs formalities necessary for the goods to be exported. The point to note here is that the seller is not obliged to contract for the insurance.

It is important for the seller to give the buyer sufficient notice that the goods have been delivered on board the vessel. This is to allow the buyer to make preparations to take delivery of the goods. The buyer, apart from paying for the price as promised in the contract of sales, must also accept the delivery of the goods when they have been delivered at the named port of destination. He is responsible for all duties, taxes and other official charges, and costs of carrying out customs formalities upon importation of the goods. This term is only applicable for sea shipment.

Cost, Insurance & Freight (CIF) [...named port of destination] Under this term, the seller has the same obligations as he has under the Cost & Freight term. The difference is that the seller now has the additional responsibility to procure cargo insurance against the cargo's risk of loss or damage during the carriage. The seller contracts for the insurance and pays for the insurance premium. As a general note on cargo insurance, the cargo must

have at least a minimum coverage under the Institute Cargo Clause or the buyer's request and expenses.

As a rule, the amount of the insurance should correspond to the price provided in the contract plus 10 per cent. The insurance should be provided in the same currency as stipulated in the contract for the price of the goods. The buyer will bear all risks from the time the cargo passes over the ship's rail at the port of shipment. This term is only used for sea shipment. Carriage Paid To (CPT) [...named place of destination] This term means that the seller pays the freight for the carriage of the goods to the named destination.

The risk of loss or damage to the goods is transferred from the seller to the buyer when the goods have been delivered into the custody of the carrier. This also includes any additional costs due to events occurring after the time the goods have been delivered to the carrier. 'Carrier' means any person who, in a contract of carriage, undertakes to perform or to procure the performance of carriage either by rail, road, sea, air, and inland waterway or by a combination of such modes. This term requires the seller to clear the goods for export.

This term may be used for any mode of transport including multimodal transportation. Carriage and Insurance Paid To (CIP) [...named place of destination] This term means that the seller has the same obligations as under the CPT term. However, in the CIP term, seller has the additional responsibility to procure cargo insurance against the buyer's risk of loss or damage to the goods during the carriage. The seller contracts for the

insurance and pays for the premium. The buyer should note that under this term, the seller is only required to obtain minimum insurance coverage.

The CIP term requires the seller to obtain at his own risk and expense any export license or other official authorization and carry out all customs formalities necessary for the export of the goods. This term may be used for any mode of transport. 6. Group D: Arrival Delivered At Frontier (DAF) [... named place] DAF means that the seller fulfils his obligation to deliver when the goods have been made available and cleared for export at the named point and place at the frontier, but before the customs border of the adjoining country.

The term ‘ frontier’ may be used for any frontier including that of the country of export. Therefore, it is of vital importance that the frontier in question be defined precisely by always naming the point and place in the term. This term is primarily intended to be used when goods are carried by rail or road. Delivered Ex Ship (DES) [...named port of destination] Under this term, the seller has fulfilled his obligations to deliver when the goods have been made available to the buyer on board the ship but not cleared for import at the named port of destination.

The seller has to bear all the costs and risks involved in bringing the goods to the named port of destination. The buyer is responsible to clear the cargo for import and transport it to his destination. This term can only be used for sea or inland waterway. Delivered Ex Quay (DEQ) [...named port of destination] This term means that the seller has fulfilled his obligation to deliver when he

has made the goods available to the buyer on the quay or wharf at the named port of destination, ready to be cleared for importation.

The seller has to bear all risks and costs including duties, taxes and any other charges for delivering the goods thereto. The buyer must bear all risks of loss or damage to the goods from the time they have been placed at the disposal of the buyer on the quay or wharf. The buyer must obtain at his own risk and expense any import license or official authorization and carry out all customs formalities necessary for the importation of the goods. This term can only be used when the goods are to be delivered by sea or inland waterway on discharging from a vessel onto the quay or wharf at the port of destination.

Delivered Duty Unpaid (DDU) [...named place of destination] Under this term, the seller's responsibilities include the delivery of goods to the named place in the country of importation. Seller is not responsible for clearance of goods for import neither is he responsible for unloading the cargo from any arriving means of transport at the named place of destination. Buyer is responsible for carrying out the customs formalities, payment of formalities, customs duties, taxes and other charges at the country of destination.

However, if the parties wish the seller to carry out customs formalities and bear the costs and risks resulting there from as well as some of the costs payable upon import of the goods, this should be made clear by adding explicit wording to this effect in the contract of sale. This term may be used for any mode of transportation. But when delivery is to take place in the port of destination on board the vessel or on the quay, then DES or DEQ terms

should be used. Delivered Duty Paid (DDP) [...named place of destination]

This term is almost identical to Delivered Duty Unpaid (DDU).

In this case, the seller fulfils his obligations to deliver when the goods have been made available at the named place in the country of importation of the buyer. Unlike the DDU term, the seller for DDP term has to bear the risks and costs, including duties, taxes, other charges for delivering the goods and clearance of goods for importation. Whilst the EXW term represents the minimum obligation for the seller, DDP term represents the maximum obligation. This term should not be used if the seller is unable directly or indirectly to obtain the import license in the buyer's country.

If the seller wishes the buyer to clear the goods for importation and to pay for the duty, the term DDU should be used instead. If the parties wish to exclude from the seller's obligations for some of the costs payable upon importation of the goods (such as value added tax or VAT), this should be made clear by adding the words to this effect: ' Delivered Duty Paid, VAT unpaid (...named place of destination)' to the sale contract. This term may be used irrespective of the mode of transport. 7. Purpose of the Incoterms

Having examined the various trading terms, it is now clear that the terms set forth the responsibilities of the seller and buyer. Parties using Incoterms should know what they must do to effect the international trade transaction.

It is important for the seller and buyer to adhere to their responsibilities.

Once there is an understanding of the individual responsibilities, trade frictions and conflicts will be lessened to a certain extent although not completely. This will result in the saving of cost and time. The purpose of the

Incoterms can be listed as follows: a) To provide a uniform set of international rules.) To lessen international trade friction. c) To minimize misunderstanding and disputes. d) To overcome the uncertainties and diversities of interpretation. 8. General Comments It is necessary to note that in using the trade terms in different regions, it is impossible to dictate the obligations of the parties precisely. Some references are therefore necessary to the customs of that particular trade practices which the parties themselves may have established. It would be advisable that both seller and buyer keep themselves informed of such customs of trade when negotiating the contract.

In most cases, the seller's responsibilities include packing the goods for export. The types of packing can vary with the length of duration of the journey and the types of modes of transport. Under such circumstances, the seller is obliged to pack the goods in such a manner as required for the transportation, but only to the extent that the circumstances relating to the transport is made known to the seller before the contract of sales is concluded. As for the inspection of the goods, the buyer should advise seller to arrange for the inspection before or after the shipment.

Unless the contents of the contract stipulate otherwise, the buyer will have to pay for the cost of inspection of the cargo. 9. Provisions of Goods It is mentioned that goods supplied by the seller to the buyer must conform to the terms of the contract of sales. Conformity of the goods to the contract can be in the form of quality, fitness and description. In the Sales of Goods Act, quality and fitness can refer to: a) An implied condition of satisfactory quality. b) An implied condition of fitness. c) Conditions and warranties
<https://assignbuster.com/international-trade-assignment-essay-samples/>

implied by usage. d) A condition of freedom from latent defects on a sale by sample.) When the Act refers to satisfactory quality, it means goods that: ' are fit for the purpose of purposes for which goods of that kind are commonly bought as it is reasonable to expect having regard to any description applied to them, the price and all other circumstances; and any reference... shall be construed accordingly. ' The phrase ' purpose or purposes' mentioned in the Act recognized that certain goods might have several purposes. The question is: does it mean that a multi-purpose goods must be fit for all normal purpose or is it sufficient that it is fit for a certain purpose only?

In international trade transaction, it is wise for the buyer of the multi-purpose goods to make known his purpose to the seller. This will enable the buyer to use the Act in his favor in case the goods turn out otherwise or unfit for that purpose. As for goods that are sold by description, the Sales of Goods Act has it that ' there is an implied condition that the goods shall correspond with the description; and if the sales by sample, as well as by description, it is not sufficient that the bulk of the goods correspond with the sample if the goods do not also correspond with the description'. 0. Payment The buyer is responsible to pay the seller in full on acceptance of the cargo. It is important to note that under the Sales of Goods Act, acceptance is provided as: ' Where goods are delivered to the buyer which he has not previously examined, he is not deemed to have accepted them unless and until he has had a reasonable opportunity of examining them for the purpose of ascertaining whether they are in conformity with the contract

The buyer is deemed to have accepted the goods when he intimates to the seller that he has accepted them, or when the goods have been delivered to him and he does any act in relation to them which is inconsistent with the ownership of the seller or when, after the lapse of a reasonable time, he retains the goods without intimating to the seller that he rejects them. ‘

Payment under the Incoterms does not mean the passing of risk or title of transfer. Passing of risk is independent of the whether the payment is being made or not. Payment, as mentioned in the Sales of Goods Act, means the transferring of ownership from the seller to the buyer.

Payment may be made partially or in full before the shipment. For partial shipment, once the buyer accepts the good, the balance of the payment must be made. Chapter 4 Trade Finance & Payment 1. Introduction Most international trade requires the payment of money by the buyer to the seller for the purpose of the goods. Payment can be made in a variety of ways depending on the risk factors, reliability of the parties involved and the circumstances of the case. It also depends on the mutually agreed terms set forth by the buyer and seller. In this instance, the relationship between the buyer and seller is crucial.

Each party is keen on safeguarding himself against any financial loss. There are various method of payment that can be arranged between the buyer and seller. They are by cheque, banker’s draft, telegraphic transfer, international money order, and the documentary collection. Another type of payment, which is more widely used and more secure, is the payment by Letter of Credit. In this chapter, I shall discuss the various types of payment and

especially the Letter of Credit provided by the bank. 2. Methods of Payment
International Cheque This method is the slowest.

Basically, the buyer issues an international cheque to the seller who would then present it to his local bank for clearance. The seller's bank would send the cheque to the buyer's bank for clearance before paying the seller.

Although it is cheap and easy way of payment, but the risk is that the cheque may be lost in the mail. The cheque may 'bounce' (or rejected) upon presentation due to buyer having insufficient fund. Banker's Draft A banker's draft is a cheque drawn by one's bank on its correspondent bank abroad. It is payable upon presentation to the named beneficiary.

In this case, the buyer authorizes his bank to debit his account for the equivalent of the foreign currency plus commission for the issuance of a banker's draft. The buyer sends the draft to his seller who would then present the draft to his bank for payment. This method of payment is simple, but the risk is that the draft may be lost in transit. Telegraphic Transfer (TT)
This method of payment is quite similar to the banker's draft except that the buyer need not send the draft directly to the seller. The fund is transferred through inter-bank by SWIFT (Society for Worldwide Interbank Financial Telecommunication). For telegraphic transfer, the buyer applies through a signed written instruction to his bank to effect a telegraphic transfer of a certain amount of money to the seller's bank. The seller's bank receives the authenticated instruction, verifies and satisfies that the remitting bank has sufficient funds will then pay the seller. International Money Order An international money order is normally used to transfer comparatively small amount of money from one country to another. This is usually done through <https://assignbuster.com/international-trade-assignment-essay-samples/>

the agency of the post office. Sometimes, this function is carried out by a bank.

Since international money order is only for payment of small sum of money, it would not financially be justified to allow credit to the buyer. The reason is that this form of payment requires a minimum bank charges associated with the collection. Documentary Collection???? For this method of payment, the shipper submits the shipping documents directly to his bank instead of sending it to the buyer. This method of payment can be divided into two categories: a) Documents Against Payment (D/P) This method of payment requires the seller to draw a sight bill of exchange on the overseas buyer.

The seller ships the goods and submits the shipping documents to his bank instructing that the documents be delivered to the buyer after payment has been made. If the buyer does not produce the payment in full, the bank will withhold the documents until he is able to do so. b) Documents Against Collection (D/A) This type of payment arrangement requires the seller to draw a term or usance bill of exchange on the overseas buyer. This means that the seller, upon shipping the goods and delivering the documents to the bank, allows the buyer to collect the documents from his bank to clear the cargo before payment.

The buyer will be given a period in which he must pay to the bank. Seller should be aware that this form of payment is risky. This is because the buyer has obtained the title to the goods before the payment is made. If a default in payment occurs, the only remedy is for the seller to take legal action. 3. Letter of Credit ??? Historically, traders, shippers, importers, exporters, and

businessmen have used Letter of Credit for many centuries. It is by far the most popular and widely used method of payment in the international trade arena. It gives adequate protection to the buyer and seller against any financial loss.

Most important of all, it has the back-up-facilities of the bank to oversee the trading transaction. In international trade, shipment by Letter of Credit has increased over the years. One of the reasons is due to its versatility for financing the physical movement of goods to most parts of the world. Letter of Credit is flexible to use. It can be adapted to suit most business dealings and transactions worldwide. There are many types of Letter of Credit for the importer to choose from. He can even opt for different types of payment. 4.

Parties in Letter of Credit Transaction

In the Letter of Credit transaction, various names are given to describe the parties involved. They are as follows: The buyer can be called: Importer Opener Applicant Consignee Principal The seller can be called: Exporter Shipper Beneficiary Consignor Vendor The buyer's bank is known as: Opening Bank Issuing Bank Remitting Bank The seller's bank is known as: Confirming Bank Negotiating Bank Advising Bank 5. Step-by-Step Operation for Letter of Credit For an easy understanding of the Letter of Credit operation, I have described it in twelve simple steps as follow:

Step 1 Buyer and seller must first have an agreement with regards to the purchase of the goods to be shipped. This can be in the form of a Purchase Order or Sales Order. All the agreed terms must be written in a contract.

Step 2 The buyer goes first to his Opening Bank to apply for a Letter of Credit

for the contracted shipment. He will have to specify the terms of the shipment such as the price, cargo quantity and quality, date of delivery, insurance contract, trading terms, etc. Step 3 Once the Letter of Credit is approved, buyer will inform the seller by means of fax.

Meanwhile, the original approved Letter of Credit will be sent by the Issuing Bank to the Advising Bank. Step 4 Once the Advising Bank receive the Letter of Credit, it will be released to the seller for shipment. It is important that the seller checks and agrees to all the terms stated in the Letter of Credit. If there is any disagreement to the terms, he must notify the buyer immediately. In the event if the terms of the Letter of Credit is not agreeable with the seller, he can request for amendment to the terms or he may reject it entirely. Step 5 If the seller accepts the terms of the Letter of Credit, he must fully comply with the terms.

Any deviation from the terms without the knowledge of the buyer or bank will be treated as discrepancy. Seller will proceed with the shipment before the expiry date. Step 6 Once shipment has been made, seller will obtain or prepare the required shipping documents to be submitted to the Negotiating Bank for payment. Step 7 The Negotiating Bank will check the shipping documents to ensure that it is completed and does not has any discrepancy before any payment is made. Step 8 After the Negotiating Bank has accepted the documents, it will be forwarded to the Issuing Bank for reimbursement.

Step 9 Issuing Bank will check the shipping documents. If everything is in order, Issuing Bank will remit money to the Negotiating Bank. Step 10 The

buyer will have to collect the shipping documents from the Issuing Bank. Depending on the types of collection, buyer may have to pay first before the bank releases the documents or the buyer may collect the documents first and pay the bank at a later date as agreed. Step 11 Issuing Bank releases the documents to the buyer once the payment arrangement is settled. Step 12 Once the buyer obtains the shipping documents from the Issuing Bank, he can proceed to clear the cargo from the port. 6. UCP 500 UCP, or commonly known as the 'Uniform Customs And Practice For Documentary Credit', is currently being used by most financial institutions around the world with regards to the rules and practices concerning the Letter of Credit. In the past, before the UCP came into use, most commercial banks who were engaged in international trade finance and payment had its own forms of rules and regulations. The variation of words contained in the forms used often caused misunderstanding and conflicts between the parties involved.

This was because the words and phrases used tend to be interpreted differently by different parties. Thus it was very difficult to conduct business properly under such chaotic conditions. In 1920, a conference was held for all interested parties such as the banks, shipping companies, marine insurance companies, traders, importers and exporters to streamline and to set certain standard forms. Appropriate phraseology was also used in different forms of Letter of Credit. It also incorporated suitable regulations governing the instruments for the international trade financing.

The Seventh Congress of the International Chamber of Commerce in 1933 decided to take charge of the matter relating to Letter of Credit. As a result and after much deliberation, the 'Uniformed Customs and Practice for <https://assignbuster.com/international-trade-assignment-essay-samples/>

Documentary Credits' was produced. These rules were adopted and accepted by the banking communities. Over the years, banking practices have been changed. To keep up with the ever-changing business practices and development, the UCP was revised several times. The latest being the UCP 500. It was approved by the Banking Commission on March 10, 1993, and became effective on January 1, 1994.

It is also called as ' Uniform Customs and Practice for Documentary Credit ??? 1993 Revision'. Today, the UCP is widely used. It often constitutes the basis for the interpretation of the rules of the Letter of Credit. 7. Types of Letter of Credit Revocable Letter of Credit A revocable Letter of Credit is one in which amendments or cancellations can be made at any time by the applicant or buyer. Such decisions can be made without any advance notice to the beneficiary or exporter. From the exporter or seller's point of view, such Letter of Credit does not offer him much protection or security due to uncertainty of payment.

Since such Letter of Credit serves no meaningful purpose to the seller, it is thus seldom requested. Irrevocable Letter of Credit Contradictory to the Revocable Letter of Credit, the terms and conditions in an Irrevocable Letter of Credit cannot be revoked, cancelled or withdrawn without the consent of all the parties. It constitutes an undertaking on the part of the Issuing Bank to honour its obligation to pay the beneficiary upon presentation of the shipping documents. Payment will only be made provided the beneficiary strictly complies with all the terms and conditions specified in the Letter of Credit.

This type of Letter of Credit gives the seller a more secure mode of payment and thus it is much more favoured by the seller. In international trade and financing, this type of Letter of Credit is more commonly used because of its benefit in securing payment for the seller. Irrevocable Unconfirmed Letter of Credit Irrevocable Unconfirmed Letter of Credit is one that is issued by the buyer's bank without any liability on the part of the Advising Bank to pay the seller. When an Irrevocable Unconfirmed Letter of Credit is issued, it is forwarded to the seller's bank (also known as the Advising Bank).

The Advising Bank merely acts on behalf of the Issuing Bank. It does not guarantee or commit itself to the payment. In such transaction, the Issuing Bank is playing an important role in the security of payment as it has committed itself to honour its obligation. Generally, a Letter of Credit that is issued by a reputable bank is seldom confirmed. Irrevocable Confirmed Letter of Credit When the Advising Bank confirms its irrevocable undertaking based on the instructions of the Issuing Bank, the Letter of Credit is deemed as 'confirmed'.

To verify that the Letter of Credit is confirmed, it usually contain such phrases as ' we confirm the credit and hereby undertake...' or ' we add our confirmation to this credit and hereby undertake...' Once the Letter of Credit is confirmed, the Advising Bank endorses a firm and independent obligation to made payment to the seller. The advising Bank in this case takes the role of a Confirming Bank. The liabilities of the Confirming Bank and the Issuing Bank towards the beneficiary are similar. Article 9 (b) of UCP 500 states: A confirmation of an Irrevocable Credit by another bank (the ' Confirming Bank') upon authorization or request of the Issuing Bank, constitutes a <https://assignbuster.com/international-trade-assignment-essay-samples/>

definite undertaking of the Confirming Bank, in addition to that of the Issuing Bank, provided that the stipulated documents are presented to the Confirming Bank or to any other Nominated Bank and that the terms and conditions of the Credit are complied with. ” The Confirming Bank is liable to make payment to the seller even if the Issuing Bank is not able to remit the required payment.

This type of Letter of Credit is able to offer the seller a greater degree of security as payment for the seller’s goods is guaranteed by both the Issuing Bank and the Confirming Bank. The cost for such security means additional bank charges and commissions. These charges are normally imposed by the Confirming Bank on the account of the seller or the beneficiary. An Unconfirmed Irrevocable Letter of Credit that is confirmed by the seller’s bank without the knowledge of the Issuing Bank is known as a ‘ Silent Confirmation’. Red Clause Letter of Credit

A red Clause Letter of Credit is a documentary credit that has a special clause authorizing the Advising or Negotiating Bank to make an advance payment to the beneficiary prior to the shipment of the goods. The payment can be in part or in full depending on the agreement between the buyer and seller. The objective of this Letter of Credit is to enable the beneficiary to obtain financial assistance before the goods are being shipped to the buyer. If an advance payment is made to the beneficiary before the shipment, he will receive the balance of the full Letter of

Credit amount when he finally presents the required shipping documents to the Negotiating Bank for negotiation. Red Clause Letter of Credit carries a

host of risks to the importer or buyer. In the event if the seller fails to ship the goods after receiving the advance payment, buyer will have to bear the full responsibility of repaying the funds plus interest to the bank. Generally, most banks are not very keen to approve this type of Letter of Credit unless the exporter is considered to be trustworthy and shows a certain amount of reliability. Revolving Letter of Credit?????

Revolving Letter of Credit is useful for frequent and regular shipments of goods. Thus, instead of applying for a Letter of Credit each time a shipment is made, buyer can use a Revolving Letter of Credit. Such credit is used for multiple shipments over a period of time as specified and agreed between the buyer and seller. The Revolving Letter of Credit can be revolved either around time (accumulative) or value (non-accumulative). If the credit revolves around time, it means that a fixed sum is made available to the beneficiary for a definite period until the sum becomes exhausted.

For example, if the credit amount of US\$10, 000 is made available for one month, then the beneficiary will be entitled to use the amount during that month. If the credit is not utilized during that time, the value can be extended until the credit becomes exhausted. If the credit revolves around value, it means that a sum of money is made available constantly during a definite period of time. For example, if the credit amount of US\$10, 000 is made available for six months, the beneficiary can present the shipping documents as often as desire for a credit of up to US\$10, 000 within the six-month period. Transferable Letter of Credit

A Transferable Letter of Credit is one that allows the beneficiary to be transferred to a third party. Beneficiary can instruct the paying bank to make the credit available in full or in part. Such Letter of Credit can only be transferred when there is an indication of the word ' Transferable' by the Issuing Bank. The Article 48 of UCP 500 states: "(f): Transferring Bank charges in respect of transfers including commissions, fees, costs or expenses are payable by the First Beneficiary, unless otherwise agreed. "

"(g): Unless otherwise stated in the Credit, a transferable Credit can be transferred once only. The conditions of the transfer must be the same as that of the original credit with the exception of: a) The amount of credit b) Any unit price stated there