

Managing global trade operations

[Economics](#), [Trade](#)



Introduction

This purpose of this document is to discuss the trade between McDaniel's Commodities UK Ltd and Yamaha Koshimoto (YK) Impex Japan. The document specifies the seller's conditions for the completion of the export of dried cassava chips to YK Impex Company. The transportation method, payment terms, required documentation and other important inputs, processes and terms needed to accomplish the trade between both parties would be discussed. Each of the clauses in the following sections contains discussions on the conditions and requirements for the trade between the two parties.

Clause No. 1: Commodity and Country of Origin.

The commodity concerned is processed dried cassava chip pellets used for the production of industrial starch, and the country of origin is the UK. According to Barbrow and Judson (1976) and the international system of units, the best way to measure commodities in international trade is through Metric Tonnes (MT). Metric tonne is equivalent of 1000kg. As a result therefore, all weight measurement concerning the trade shall be measured in metric tonnes.

Clause No. 2: Product Specification

The specifications of the Cassava chips referred to by the seller meets buyer's requirements: the following are the criteria which specify the seller's offer. As noted by WTO (2008) one of the challenges of global trade is meeting product specifications given the technicalities, barriers, standard problems and issues of safety, therefore for trade to be successful, seller's

must ensure that they meet adequate standards even where it is not stated in trade agreements.

The physical test:

(A)- The product is free from smell and other radioactive materials.

(B)- The chips are dried, cut into sizes and free from foreign matters.

(C)- It is free from any insects or Animals.

(D)- It is free from any solvents or chemicals used during extraction and processing.

The Product Specification

StarchMinimum 75%

Moisture: Maximum 11%

FibreMaximum Content 3%

SandMaximum 2%

SkinPeeled and Pelted

Crop year2010-2011

SizesIrregular

Shipment and Packaging

Given that the product would be required in hundreds of metric tonnes and in light of their fragile nature, all shipments are to be arranged in bulk bagging of 100 Kg each. It would be shipped in 40 ft containers provided by the shipping company.

To ensure that the shipment and packaging meets the international standards, the seller would ensure that it is accordance with (INCOTERMS 2000). Incoterms according to Morrissey et al (2000) are a series of pre-defined commercial terms published by the International Chamber of Commerce (ICC) widely used in international commercial transactions.

Clause No. 3: Transportation

Maersk, which is known as the foremost global shipping company will be used as the shipping commodity to handle the cargo and the shipment will be in ther the following order.

The commodity will be shipped via sea from the Felixstowe port of UK to the Port of Hakata in Japan. Further transportation upon clearance at the port shall be arranged from the port by the buyer.

SELLER and BUYER shall mutually appoint internationally recognized first class independent surveyor company SGS/CIQ at both the loading port and unloading port to assess and certify the quality and quantity of the cargo according to the provisions herein started. Costs of the inspection will be shared equally by the seller at loading port and by buyer at unloading port, as per surveyors invoice.

Clause No. 3: Payment Terms.

The payment shall be by irrevocable, transferable, confirmed, documentary letter of credit payable 100% not later than 60 days against presentation of shipping documents. To ensure safety in the payment arrangement it is commonplace as noted by Pierreand Stewart (2010) to comply with incoterms arrangement with regards to payment and as such the following

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must be ensured.

The Buyer shall open a non operative confirmable, irrevocable, transferable; auto revolving Letter of Credit (L/C) within 7 working days after final signing of agreed sales and purchase agreement by both parties. The LC shall be subject to UCP 2007 revision, ICC publication NO. 600 cover 100% of the total contract value in favour of the seller

Buyer's letter of credit shall comply with other terms of uniform customs and practice (UCP 600) issued by (ICC).

The buyer's letter of credit payment value shall be only for the net cassava quantity actually delivered to the discharge port and upon the shipping documents submitted by the seller to the buyer's bank.

The buyer's bank shall issue the operative Letter of credit only in favour of the seller's company which signed the final contract with the buyer's.

All official communications between the seller's bank and the buyer's bank shall be by:

Society for Worldwide Inter-bank Financial Telecommunications (known as S. W. I. F. T.).

Before the shipment of any part of the contract seller shall confirm that all forms of payment are satisfactory and conforms to legal standards.

In case the BUYER's letter of credit is delayed and seller is not able to receive payment as a result of the buyer's bank fault or the buyer or any of its agents. The BUYER will pay a penalty to the SELLER at rate of 0. 1% for each day of delay but not more than 2% of unpaid amount.

Clause No. 4: Required Shipping Documents

All shipping documents shall be original and written in English language only.

The INCOTERMS does not permit that carbon copies of documents should be acceptable by the Seller as it might create dispute, therefore all documents must be original.

The sellers agrees to provide insurance certificate covering all shipment risks issued by the buyer's favour through a known global insurance Company in the value of (110%) one hundred ten percent.

Analysis certificate of the shipment issued by seller: this would include all the technical specifications of the commodities produced by the party or an official party on the seller's behalf.

Signed commercial invoices issued by the seller in the Buyer's name with reference to commodity description, contract type buyer's name (Letter of credit number & Issuance date as well as unit, price quantity, value and date.

2/2 of Bills of Lading (B/L) originals and copies) signed and stamped by the vessel's captain and marked " clean on board", indicating the vessel's name and address of the vessel's owner, vessel's master name, loading port and date, contract number, buyer's (letter of credit) Number and issuance date.

Certificate of Commodity Inspection and Quarantine issued by Defra UK

Two original and copies of certificate of origin issued and authenticated by the (Department for food, forestry and Agriculture: UK) or its representative.

Two original and 2 copies each of the inspection certificates issued at the loading port Confirming product specifications, quality, packing and that the

shipment in line with the contracted specs in clause 2.

Insurance certificate covering all shipment risks issued in favour of EXW by prime insurance Company in the value of (110%) one hundred ten percent of the (letter of credit value issued in US dollars.

Two original and two copies each of certificate of origin issued and authenticated by the UK Defra at the port of origin

Two originals and two copies each of official shipping advice issued by the seller's shipping company showing in-depth details about the shipment such as: vessel's sailing date, vessel's name / registration date & number / age/ nationality/ flag, name of Loading and Delivery port, name of shipped goods, (SGS) tests report at the loading port, name and address of the buyer's company, name of the vessel's captain, invoice date and value, oil country of origin, bill of lading date and number, contract number, net quantity loaded, voyage itinerary and vessel's estimated time of arrival (ETA) to the delivery port.

Beneficiary's certificate confirming that all original shipping documents were sent to the buyer's bank by international courier services (as Fedex or any express courier).

Any other payment documents stated in the buyer's letter of credit letter of credit

The original shipping documents shall be sent at seller's account to the buyer and to the buyer's bank via approved courier services (as DHL or equivalent) as soon as possible to match the vessel's Final arrival date to the delivery port.

The original shipping documents for all shipments shall be presented to the

buyer's bank within the Validity period of the buyer's operative (letter of credit).

The Seller shall notify the Buyer of the expected date of arrival at discharge port within 120 hours after the completion of the loading. The Seller shall require the tankers Master to advise the Buyer and ship Owners Agent at the port of discharge, the ships estimate time of arrival (ETA), its name, tonnage, flag, draughts, loaded quantity in every hold, etc. at least 144 hours before her arrival of the destination port.

Clause No. 5: Raising Finance

With respect to finance for accomplishing the trade, both parties will be under financial obligations to ensure that the trade is accomplished. This would require that each party must have available finance obtainable. On the Seller's side, the payment required would be that to pay shippers, insurance, inspectors, local transportation, shipping documents, administration and shipment given that the arranged INCOTERMS is C. I. F. Similarly, the buyer will be under obligation to pay for transportation and the C. I. F cost. For the seller in particular the most feasible and preferable option would be through short term trade finance. According to Humphrey (2009) short term trade finance are always available to exporters when they have sufficient evidence to demonstrate that they can fulfil a particular order and has the capacity. Humphrey points out that although banks usually assess risks of the trade and the fitness of the exporter to fulfil the terms before granting short term finance. However, since such terms can be fulfilled by the Seller given the product availability, it is likely that such finance would be accessible from the bank. Usually, short trade finance must be paid within 6 months therefore,

since the payment arrange with the buyer would be within 60 days L/C maturity, no problem with regard to raising such finance is anticipated. Failing this however, the UK trade and investment short term finance program would be tapped into for financing the trade while other Angel investors would be explored. For the buyer, the most feasible payment option is to finance the trade by lodging cash in the bank in order to be entitled to a sound and reliable letter of credit. Or otherwise, the buyer can set up a payment plan with its banks by giving proof of through its previous financial records that payment would be returned to the bank upon receiving and selling the product.

Clause No. 6: Business Procedure.

The buyer signs, seals and sends the final contract to the seller as e-mail attachment.

The seller signs, seals the final contract and sends it back to the buyer within (3) three days by fax or email attachment.

The paper copy signed and sealed by both parties and sent by DHL or equivalent expedited courier shall be deemed the original contract.

Within (3-7) Three to seven banking days from the signing of the final contract, the buyer's bank shall send SWIFT a pre advice to the seller's bank confirming the presence of a non-operative letter of credit covering the value of the quantity.

The buyer and the seller are fully committed to execute the signed contract upon established terms.

Clause No. 7: Delivery Terms.

The date of the bill of lading (B/L) shall be considered the date of shipment and shall be within fifty to sixty days.

Discharge rate and demurrage charges shall be the buyer's responsibility.

The delivery port is Port of Hakata, Japan.

The seller's shipping agent shall notify the buyer and the buyer's shipping agent at the delivery Port by e-mail attachment the information about the vessel's position (7) seven days, (72) seventy two hours and (24) twenty four hours of the vessel's final berthing.

References

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