

Chapter 6 & 7

Terms of Sale
Terms of Payment
Financial Issues
Documentation
Insurance



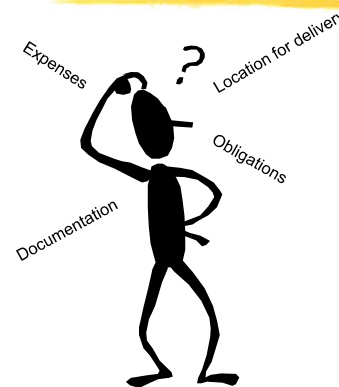
Learning Objective

- ★ Incoterms
 - ⚙️ Understand and Apply
- ★ Payment
 - ⚙️ Four Options – Strengths & Weaknesses
- ★ Insurance and Documentation

Terms of Sale Problem

- ★ When you participate in international transactions, US law is not necessarily enforceable
- ★ Can't force foreign firms to comply
- ★ Need standard rules to play by
- ★ Need to manage risks
- ★ Need to assign responsibilities
- ★ Need to reduce uncertainty

Common questions...



- FOB Charleston ?
- EXW Tokyo ?
- DAF Liverpool ?
- CIF New York ?

... A Single Answer

★ **INCOTERMS: International Commercial TERMS**

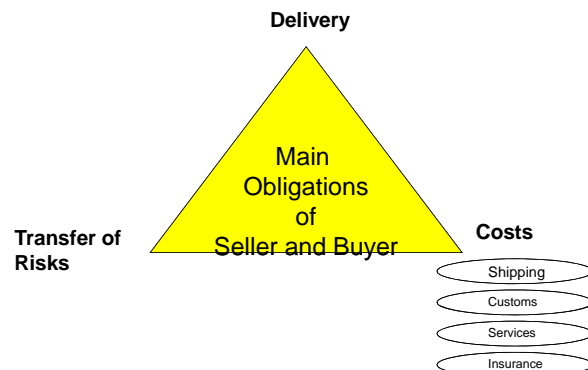
★ "INCOTERMS define the mutual obligations of seller and buyer arising from the movement of goods under an international contract from the standpoint of risks, costs and documents"

UNCTAD, 1990

Incoterms Definition

- ★ Set of international rules for the interpretation of the most commonly used trade terms in foreign trade
- ★ Reduce the uncertainty caused by trade practices in different countries.
- ★ First published by the International Chamber of Commerce (ICC) in 1936, with 5 amendments and presently using the 1990 version.

Incoterms Elements International Transaction Elements



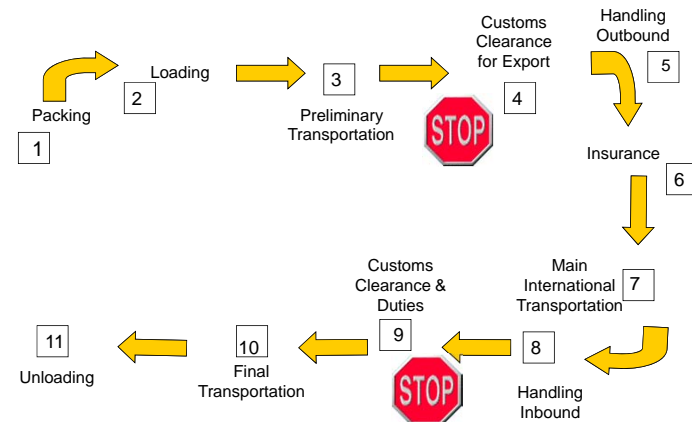
Why New Incoterms

- ★ EDI
- ★ New Transportation Technologies
- ★ New Grouping System
- ★ Port/Region Specific Trade Customs
- ★ Buyer's Options
- ★ Customs Clearance
- ★ Packaging
- ★ Inspection of Goods

INCOTERMS & Global Logistics Planning

- ★ Product Pricing based in the INCOTERM
- ★ Risks transfer
- ★ Ownership transfer
- ★ Cost liability
- ★ Geographical precision
- ★ Standard acronyms worldwide understood
- ★ Mode and carrier selection based on the INCOTERM
- ★ Documentation required

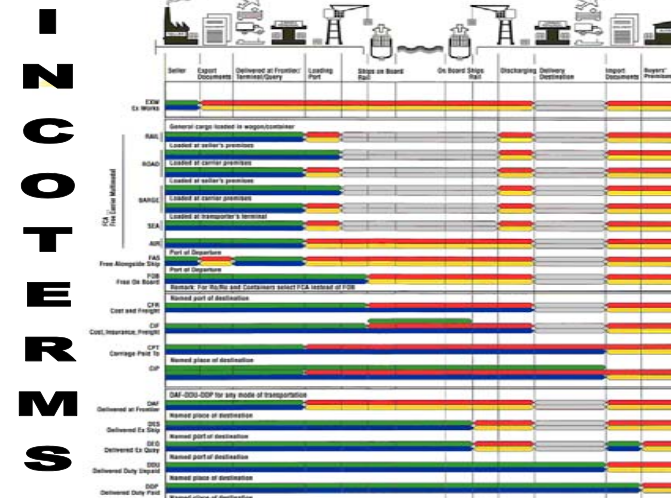
Logistics of International Trade Transactions



INCOTERMS

Incoterms	Code
Ex works	EXW
Free Carrier	FCA
Free alongside ship	FAS
Free on Board	FOB
Cost & freight	CFR
Cost, insurance & freight	CIF
Carriage paid to	CPT
Carriage and insurance paid to	CIP
Delivered at frontier	DAF
Delivered ex ship	DES
Delivered ex quay	DEQ
Delivered duty unpaid	DDU
Delivered duty paid	DDP

Critical Points In International Transport



Obligations Grouping The "Mirror Method"

★ The seller must

- A1 Provision of goods (contract)
- A2 Licenses, authorizations, etc...
- A3 contract of carriage and insurance
- A4 Delivery
- A5 Transfer of risks
- A6 Division of costs
- A7 Notice to buyer
- A8 Proof of delivery
- A9 Checking, packaging, marking
- A10 Other obligations

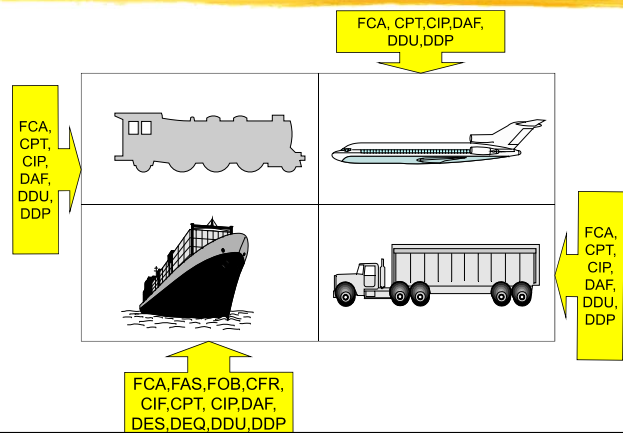
★ The buyer must

- B1 Payment of the price
- B2 Licenses, authorizations, and formalities
- B3 Contract of carriage
- B4 Taking delivery
- B5 Transfer of risks
- B6 Division of costs
- B7 Notice to the seller
- B8 Proof of delivery
- B9 Inspection of goods
- B10 Other obligations

Incoterms & Documents

- ★ Commercial Invoice
- ★ Customs Documents
 - ⊗ Certificate of Origin, Health Certificate, etc...
- ★ Documents of Insurance (C Terms)
- ★ Transport Documents
 - ⊗ Sea Carriage Documents
 - ⊗ Other Transportation Documents
- ★ Documents of Delivery

Incoterms & Transportation Modes



Commercial Documents

- ★ Commercial Invoice (Article A1)
 - ⊗ Most Interested Party = Buyer
 - ⊗ Indispensable to Clear Customs
 - ⊗ Required for Documentary Credit
- ★ Evidence of Conformity
 - ⊗ Relates to Seller's Obligations (Article A9)
- ★ Proof of Delivery (Articles A8 and B8)
- ★ "Contract of Sale" (Articles B1 and others)

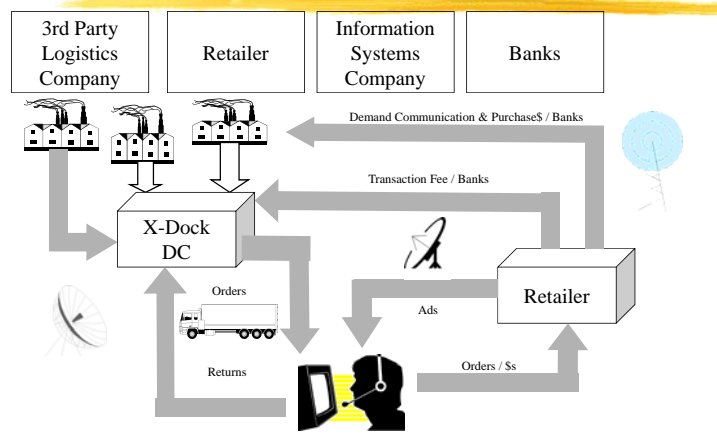
Transport Documents

- ★ Contract of Carriage (Articles A3 and B3)
- ★ Transport Document
 - ⊗ Sea Transport Documents (Ocean B/L)
 - Receipt of Goods
 - Terms of the Contract of Carriage
 - Document of Title (Except in the Sea B/L)
 - Issuer of the B/L (Except in the Sea B/L)

Incoterms & EDI

- ★ Change from “documents” to “equivalent electronic message”
- ★ EDIFACT
- ★ EDI/ Bills of Lading

Integrated Global Logistics Sophisticated Payment Logistics



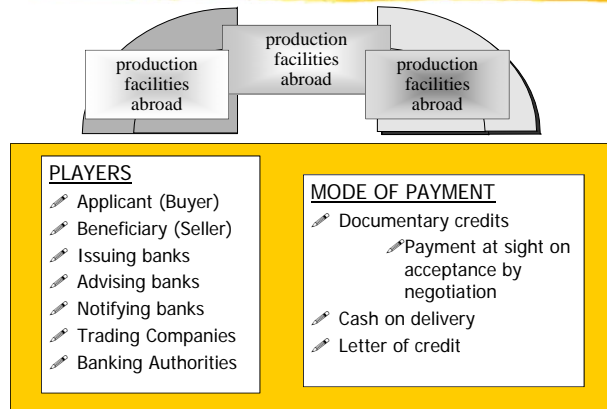
Global Payments & Global Logistics Strategy

Fiscal Flow Improvements

- ★ Timing & Method of Payments
 - ⊗ Letters of Credit vs. COD vs. Notes, etc.
- ★ International Currency Exchange & Warranties
- ★ Customs Regimes
 - ⊗ Duty Drawbacks
 - ⊗ Taxes & Duties
 - ⊗ Free Trade Zones & Agreements



Flow of Money & Players



Global Payment Flow

- ★ *Global Sourcing & International Customer Service and Order Processing*
- ★ Collection is the last phase of Order Processing
- ★ Payment is the last phase of the Global Supply Chain
- ★ Payment Flow depends on the international transportation and distribution strategy

Flow of Money

- ★ INCOTERMS
- ★ Sales Contracts
- ★ Players & Roles
- ★ Cash against documents
- ★ Letter of Credit
- ★ Documentary Credit

International Payments Risks

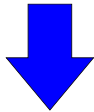


- ★ Credit Information Availability
- ★ Lack of Personal Contact
- ★ No Easy Legal Recourse
- ★ Higher Litigation Costs
- ★ Distrust

Paying the Suppliers: Basic Trade-offs

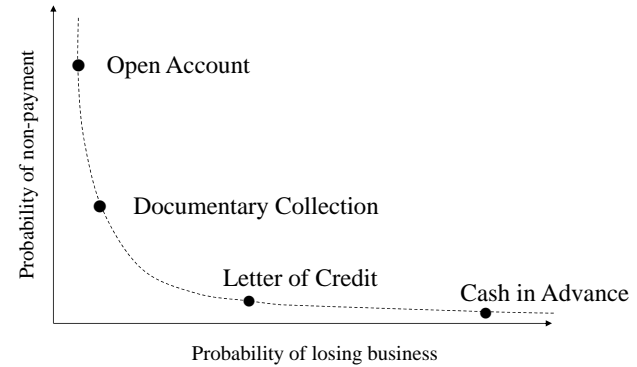


- ✎ The supplier does not want to ship the goods unless he is certain about payment.
- ✎ The buyer does not want to pay for the goods unless he is certain about receiving the goods



Neutral Party: A Bank

Payment Terms vs. Risks

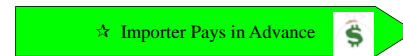


Payment Method Selection Decision Criteria

- ★ Country Risk
 - ⊗ Political Stability
 - ⊗ Economic Health
 - ⊗ Social System
- ★ Commercial Risk
 - ⊗ Customer's Credit Worthiness
- ★ Exposure

Cash in Advance

Risk-Free Alternative for Exporters



- SWIFT Fund Transfer
- No Collection Worries
- No Foreign Exchange Exposure
- Risk Transference to Importer

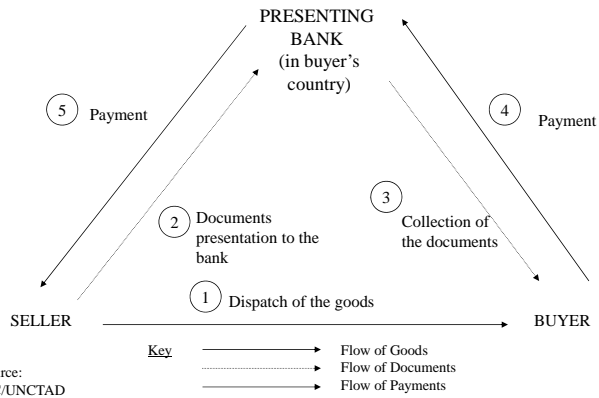


- Lack of Trust in the Importer
- All Risk is on the Importer
- High Expectations on the Exporter's Performance



Flow of Payments

Cash Against Documents



Open Account

Exporter's Risk Like Domestic Transactions



Letter of Credit

Document-Based Payment



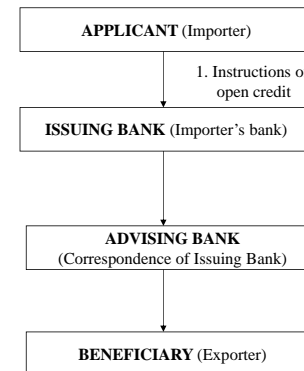
Importer's Credit Worthiness



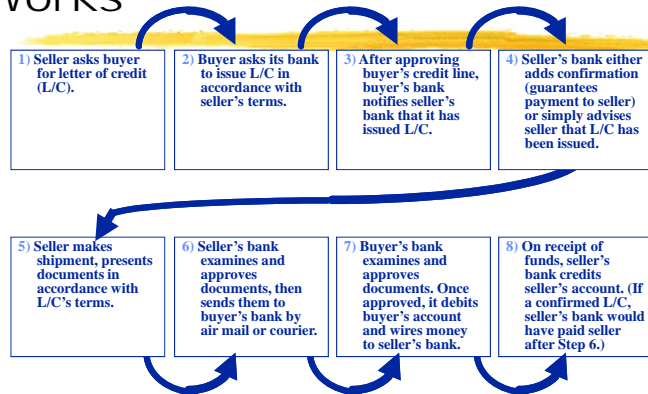
Bank's Credit Worthiness

The Letter of Credit

Players



How a Letter of Credit Works



Source: Adapted from James Aaron Cooke, "What You Should Know about Letters of Credit," *Traffic Management* 29, no. 9 (Sept. 1990), pp. 44-45.

Documentation

★ Why worry about it?

- ⚙️ major cost item
 - 7.5% of the cost of world trade = \$375 billion
- ⚙️ time consuming
 - 5-10 separate documents must be completed
 - multiple parties involved and provide info
- ⚙️ accuracy is critical
 - errors can delay freight movement
 - errors can result in fines, excess payments

Documentation

★ Why worry about it?

- ⚙️ can be used as a trade barrier
 - require licenses
- ⚙️ specific timing requirements
 - some must be available at time of export
 - balance must be available at point of import
- ⚙️ unique requirements
 - multiple languages
 - conflicting government regulations

Key Documents

★ Commercial Invoice

- ⚙️ divulges information relevant to transaction
 - terms of sale & payment, qty, prices, etc.
- ⚙️ basis for duties and quota calculation

★ Export Declaration

- ⚙️ divulges information relevant to U.S. exports
 - exporter, value of shipment, overseas consignee
- ⚙️ U.S. Customs in midst of major crackdown
 - focus on errors, incomplete forms and underreporting

Key Documents

★ Ocean Bill of Lading

- ⚙ provides contract of carriage
 - specifies legal liabilities of carrier
 - terms vary from carrier to carrier
- ⚙ documentary evidence of title
 - identifies owner of the goods (consignee)
 - if no identification, b/l is negotiable
- ⚙ receipt for goods
 - issued by the ocean carrier

Key Documents

★ Shipper's Letter of Instructions

- ⚙ provides forwarder with critical information regarding how shipment is to be handled
 - insurance needs, document prep & distribution, etc.

★ Insurance Certificate

- ⚙ proof of shipment protection
- ⚙ describes type and extent of coverage

★ See book/handout for other key documents

Documentation Relief

★ Use 3rd Parties

- ⚙ provide experience and expertise

★ Use Information Technology

- ⚙ electronically transmit documents and data
 - accurate, difficult to forge, save time and money
- ⚙ U.S. Customs has launched AES
- ⚙ Bolero electronic system

★ Develop Standard Documents

Pop Quiz (just for fun)

★ If an air carrier destroys your shipment, what is their level of liability?

- ⚙ A. total value of the shipment
- ⚙ B. 50% of the cargo value
- ⚙ C. \$9 per pound
- ⚙ D. they have no liability

Pop Quiz (just for fun)

★ If an ocean carrier jettisons your shipment, what is their level of liability?

- ⊗ A. total value of the shipment
- ⊗ B. \$500 per customer shipping unit
- ⊗ C. 50% of the cargo value
- ⊗ D. they have no liability

Pop Quiz (just for fun)

★ Where are you most likely to have your goods stolen?

- ⊗ A. on the open seas by pirates
- ⊗ B. on US highways
- ⊗ C. at seaports and airports
- ⊗ D. on US railways

Pop Quiz (just for fun)

★ If a ship runs aground off the coast of California, who is responsible for the costs of salvage, ship repair, and freight claims

- ⊗ A. the ship owner
- ⊗ B. the ship operator
- ⊗ C. U.S. government
- ⊗ D. the freight shippers

Cargo Insurance

★ Reasons for Insurance

- ⊗ handling and stowage problems
 - breakage, contamination, crushing, leaking
- ⊗ theft
 - pilferage and non-delivery
- ⊗ water damage
 - sea water, condensation, fresh water
- ⊗ fortuitous losses
 - sinking, stranding, fire, collision, heavy weather

Learning Objective

- ★ Incoterms

- ⚙ Understand and Apply

- ★ Payment

- ⚙ Four Options – Strengths & Weaknesses

- ★ Insurance and Documentation