



D. A. TSENOV ACADEMY OF ECONOMICS  
CENTRE FOR DISTANCE LEARNING

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Galina Zaharieva

# **EXPORT AND IMPORT MANAGEMENT**

Svishtov

2021

This edition is intended only for students in distance learning in the offered by the “D. A. Tsenov” Academy of Economics master's programs. It is an integrated part of the training process and should be used simultaneously with the Internet-based distance learning system of the “D. A. Tsenov” Academy of Economics

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**EXPORT AND IMPORT  
MANAGEMENT**

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2021

The textbook is intended for students studying the course of Export and Import Management, and covers various topics in the field of foreign trade and foreign trade transactions.

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## INTRODUCTION

Since the Second World War world exports of goods and services have grown from less than USD 100 million to over USD 20 trillion. The global GDP increased to USD 84.5 trillion unless the negative impact of COVID-19 pandemic, supported by paralel growht of the international trade.

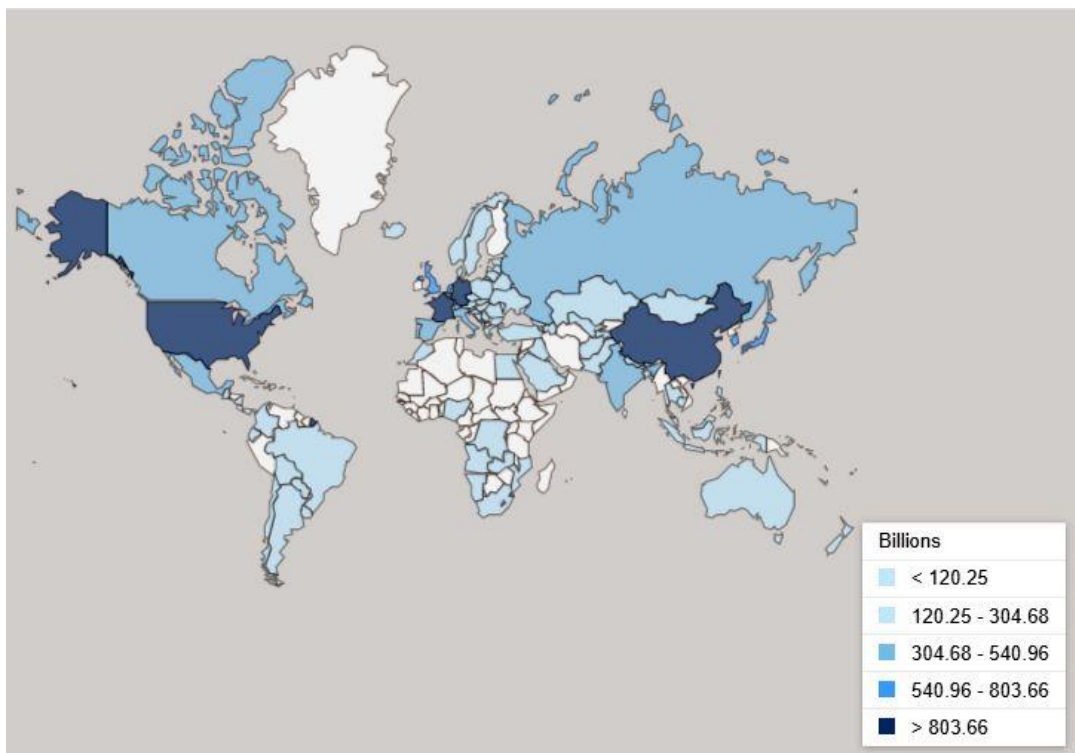


Figure A-1. World map of Export of Goods and Services (BoP, current US\$)

Source: <https://data.worldbank.org/indicator/>

World exports of goods and services amounted to USD 22.6 trillion in 2020, while imports of 21.7 trillion, with long-term prognoses of further growth of the volume of foreign trade. At the same time, a number of countries rely on exports of goods and services to improve their economic performance. This determines the need for specialists who have knowledge about the specifics of foreign trade operations.



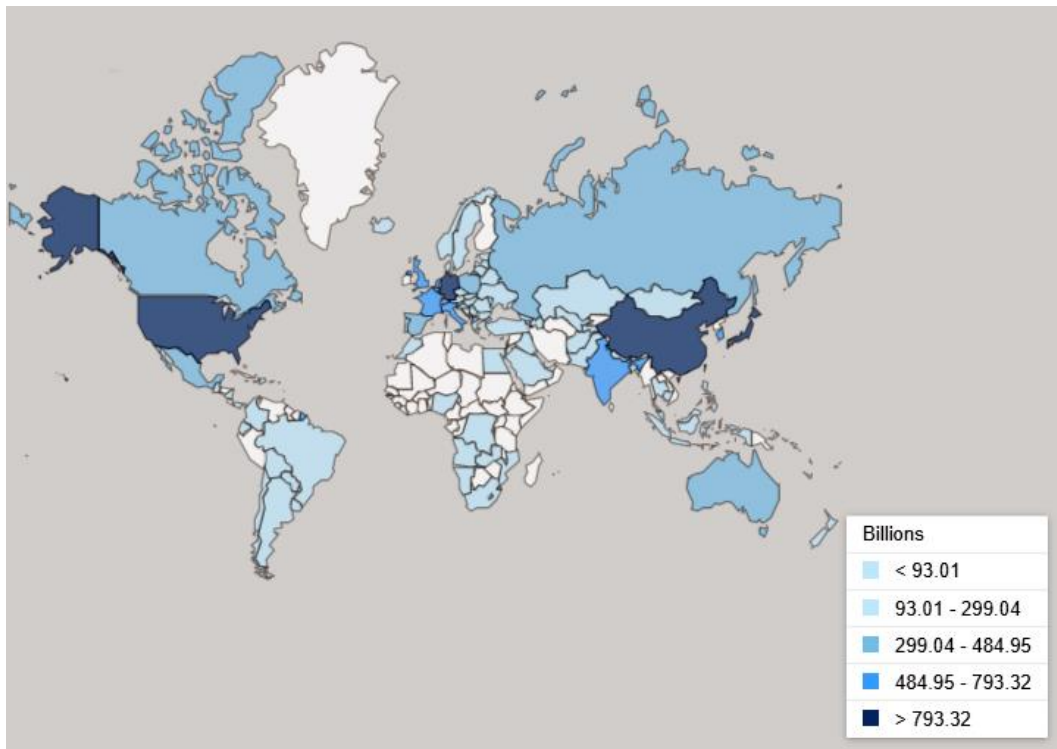


Figure A-2. World map of Import of Goods and Services (BoP, current US\$)

Source: <https://data.worldbank.org/indicator/>

The aim of the course is to provide knowledge and develop skills related to the organization and implementation of export and import operations, taking right decisions regarding the products, markets, counterparties and setting optimal prices in compliance with international commercial terms and international practises and rules.

## **CHAPTER I. ORGANIZATIONAL ASPECTS OF EXPORT AND IMPORT OPERATIONS**

### **Chapter outlines**

#### 1. Export/Import Business

Export and import definitions, export and import advantages and disadvantages, direct and indirect export/import.

#### 2. Organizational Aspects of Export and Import Operations

Export Department, Import Department, Export-Import Department

#### 3. Manuals of procedures and documentation

Content of export and import manuals of procedures and documentation.

### **Learning objectives**

1. To define export and import operations.
2. To analyze the advantages and disadvantages of direct and indirect exporting and importing.
3. To become familiar with the organizational form of export and import operations.
4. To know the purpose and the structure of export and import manuals of procedures and documentation.

### ***1. Export/Import business***

Liberalization of trade and globalization boosted international trade in goods and services and today about one fourth of total global production is exported (Ortiz-Ospina & Beltekian, 2018), respectively imported. Exports<sup>1</sup> are the sale of

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<sup>1</sup> Export (carrying out of a place) originates from Latin exportare "to carry out, bring out; send away, export," from ex "out, away" (see ex-) + portare "to carry," from PIE root \*per- (2) "to lead, pass

goods produced in one country on foreign markets. Export of goods refers to the movement of goods across the physical border of a country or to the change of ownership from local to non-resident. Imports<sup>2</sup> are the opposite of exports and mean the acquisition (purchase) of goods in other countries and their sale on the national market. Exports of services consist of all services provided by residents to non-residents, while imports consist of all services provided by non-residents to residents.

Nowadays there are different ways to establish a presence outside the national boundaries and exporting is one of them (see Figure 1-1). Exporting may take the form of direct and indirect exports. In indirect exporting, the manufacturer/producer delegates the task of selling products in foreign markets to various intermediaries located in the home country<sup>3</sup>.

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over." The sense of "send out (commodities) from one country to another" is first recorded in English in 1660s. (Online Etymology Dictionary, 2021)

<sup>2</sup> Import originates from Latin *importare* "bring in, convey, bring in from abroad," from assimilated form of *in-* "into, in" (from PIE root *\*en* "in") + *portare* "to carry," from PIE root *\*per-* (2) "to lead, pass over." In English, the sense of "bring from another state or land," especially "bring in goods from abroad" is recorded by 1540s. As "be important" from 1580s. (Online Etymology Dictionary, 2021)

<sup>3</sup> The distinction between direct and indirect channels is made based on the location of the second channel. If the second channel is located in the producer's country, channel is considered to be categorized as indirect and if it is located in the buyer's country - a direct channel. This means that the middlemen could be in either category, depending on the location. Channel alternatives are also defined based on the ownership of the distribution channel (Seyoum, 2014, p. 89)

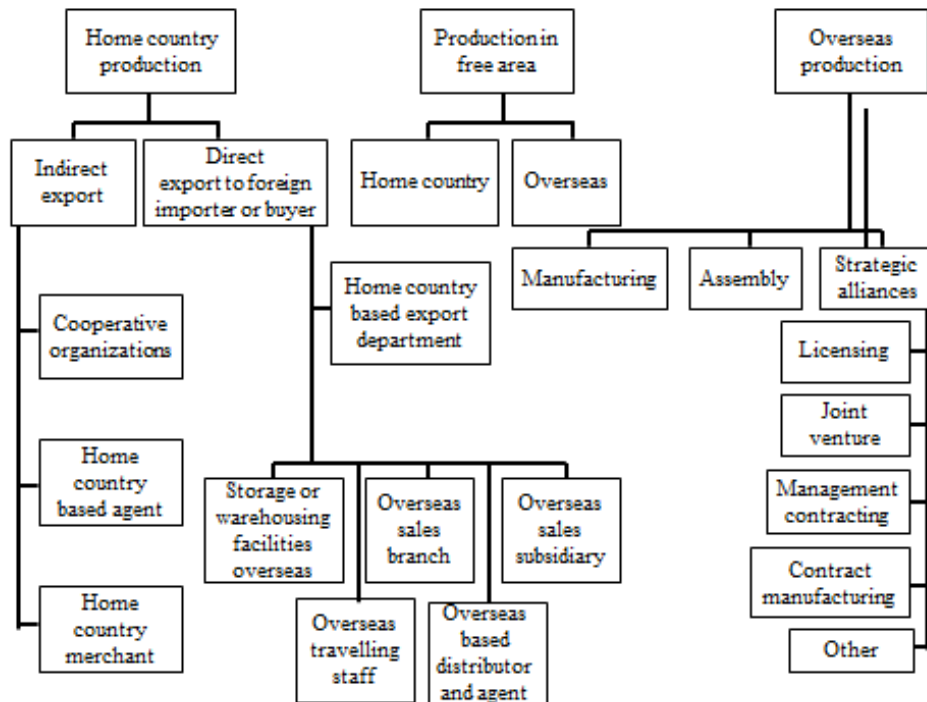


Figure 1-1. Outline of alternative basic international marketing channels

Source: Albaum, Duerr, & Josiassen, 2016, p. 280

Several types of intermediaries are associated with indirect export channels of distributions: exporters that are selling on behalf of the manufacturer (such as manufacturer's export agents, export management companies and international trading companies); exporters that are buying for their overseas customers (export commission agents) and exporters that buy and sell for their own account (for example export merchants, cooperative exporters and export cartels) (Seyoum, 2014).

To export indirectly has some advantages and disadvantages for the producers. Among the advantages are:

- it allows producers to transfer some risks to intermediaries, especially when a title to the goods is obtained;
- it requires little or no investments;
- no need of experienced staff to deal with export of goods or to build an export department;

- provides for market expansion and an increase in sales figures by using the export know-how and the contacts of the intermediaries, etc.

Indirect exporting can also:

- lower producers profit/ producer surplus;
- do damage to the image of the company;
- limit the contacts with end customers and product feedback;
- cause loss of control over product pricing, advertising and selling;
- limit the opportunities to gain international experience, etc.

To diminish or avoid the disadvantages that indirect export has producers can decide to sell directly in the foreign markets. Exporting directly they will have better control over the process, increase the profits and revenues and establish a closer relationship with the end buyers. For that purpose the enterprise may set up a home-based export department (or export-import department) to manage its exports or to establish foreign sales branches or subsidiaries. In some cases, producers can also use overaseas agents or distributors to sell their products in a foreign market. Of course along with its advantages direct export has some disadvantages arising from diversity of taxes, duty and customs clearing regulations, cultural specifics, import regulations in other countries (prohibitions or limitations) and other, which affect the overall efforts of the company and the resources required.

In recent decades, thanks to the development and the spread of the Internet, along with direct and indirect exports, we have witnessed the emergence of the so-called e-exporting. Nowadays more and more producers are turning to the Internet as a channel for exporting to foreign markets, bypassing traditional and expensive routes to export. Internet gives them opportunity to sell their products in international markets via own e-commerce websites or via other commercial platforms (such as Amazon.com, eBay, Alibaba) depending on their capabilities and resources.

While exporting can help producers to increase their sales potential and volume, importing can help firms to reduce costs. Some businesses decide to import to take

advantage of lower manufacturing costs, protect themselves from lower-priced imports sold on the national market and remain competitive with other national operating companies (Capela, 2008). Importing, similarly to exporting, can be indirect or direct. Indirect import is a situation in which a company buys products from someone (producer) in another country using an intermediary, or a product that is bought in this way, while direct import is a situation in which a company buys products directly from someone in another country, without using another person or organization to make arrangements for them (Cambridge Business English Dictionary, 2021).

## ***2. Organizational Aspects of Export and Import Operations***

Nowadays, increasing numbers of companies sell their products in the international markets, as well as buy products from other countries. This process of international exchange of goods is carried out by different specialists and structures. Of course, their specifics and functions depend on the size of the enterprise, the nature of activity, the degree of internationalization and on a number of other factors.

### ***2.1. Export department***

If a company decides to export, it has several options in terms of organizational structure. The easiest and the simplest export organisational form is the built-in export department. It is suitable when the company is small, relatively new to exporting and its international activities are limited due to management philosophy and the lack of resources. Such an organization consists of an export sales manager with some clerical help and is built into the regular domestic system. The function of the special department is usually confined to the actual selling or directing and all other functions connected with export such as advertasing, credit, logistic,etc. are handled by other domestic departments (Citeman, 2007). The built-in export department has some disadvantages, such as:

- many of the international business activities are carried out by domestic departments and therefore export activities are regarded as subsidiary to domestic business;
- the personnel engaged in the domestic departments may not have sufficient knowledge or experience to deal with exports;
- the export manager may not get the required amount of cooperation from the personnel of other departments.

In the course of time, when international sells increase substantially the built-in form of organization will become unsatisfactory. At this stage of development and internationalization of the firm it will be more useful to establish **separate export department** (Figure 1-2). The separate export department is a self-contained and a largely self-sufficient unit in which most of the activities related to exports are handled within the department itself. As a separate department it has various functions such as (Quora, 2018) (Branch, The export and shipping office, 1994):

- studying market trends and customers preferences;
- international marketing and promotion of company products;
- participation in trade shows, trade missions or other events;
- communication with foreign buyers on orders and shipments;
- answering foreign enquires;
- sending price quotes and proforma invoices;
- visiting foreign customers and establishing good business relations;
- registering the company's eCommerce website;
- preparing and sending commercial documents to importers of the goods of the company (i.e. commercial invoice, bill of lading, certificate of origin),
- sales analysis and reports;
- revenue and profitability analysis by country;
- claims, etc.

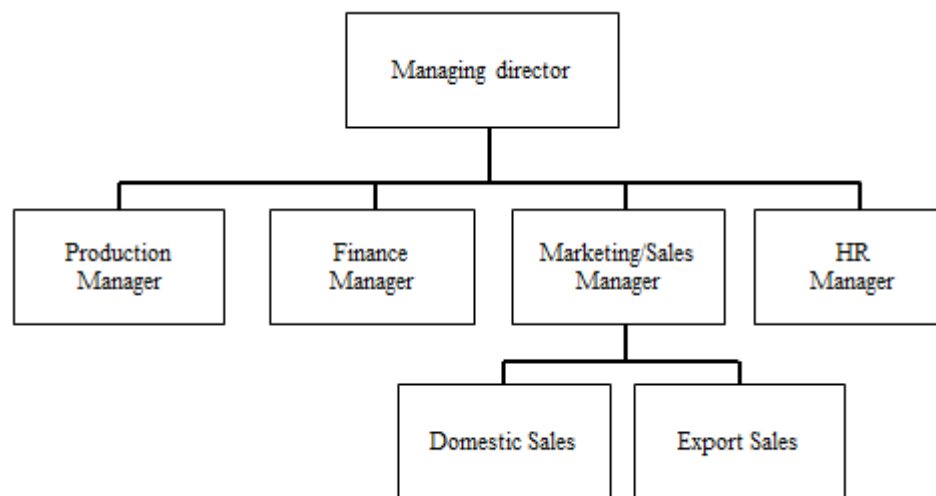


Figure 1-2. Export department

Source: Dowling, Welch, & Schuler, 1999

The organizational structure of the export department may vary between companies. In larger companies the specialization usually is greater and different types of managers (for example export marketing manager, shipping manager and export sales manager) and specialists (assistants) could be appointed, each of them with defined responsibilities. If the firm is small or medium-sized, its export business may be dealt with by only one person - the export manager (Branch, 1994). The internal organizational structure of a separate export department may be based upon product, functions, area, customers or a combination of these, depending largely upon how the export marketing task varies the most (Albaum, Duerr, & Josiassen, 2016).

Setting up a separate marketing department offsets some of the problems of the built-in department. It reduces the chance for conflicts related to the time spent by domestic marketing personnel on overseas business matters. As a separate department with equal ranking with the other functional departments and equipped with qualified in international matters personnel, it can do the job more efficiently. Another advantage of the separate export department is that it may be located at the



most suitable place, which may not be the headquarters of the company (Albaum, Duerr, & Josiassen, 2016) (Czinkota & Ronkainen, 2013).

To separate export marketing activities from domestic operations, companies may establish an export sales subsidiary as a separate corporation. Although it is wholly owned and controlled by the parent company, it is essentially a quasi-independent firm. Export sales subsidiaries differ very little from the separate export departments in terms of internal organization and the performed activities but there are some reasons for its existence. One of them is that it can purchase products from external sources to offer the foreign buyers a more complete line. Other are related to potential tax savings due to differences in tax laws, better export costs and profit control, ease of financing export operations, etc. The manufacturer can also establish a foreign sales branch to have closer supervision over the sales in a particular market. It deals with the sales, distribution and promotion in a specific market area and sells primarily to marketing organizations or industrial users (Albaum, Duerr, & Josiassen, 2016).

## 2.2. Import department

The organizational forms of import operations are similar to those of export operations and depend on the same factors: the size of the company, the volume of imports, different regulations, etc. The firms have the same two general options: to import directly by using its own channels or to import through intermediaries. They establish their own import organizational structures when the company has stable, based on long-term contracts, relationships with foreign suppliers of raw materials and products used in the manufacturing process.

The most common (Варламова, Васильева, Неганова, & др., 2007, стр. 470-471) form of import organization of an industrial company is the **built-in import department**. These departments often split up from the supply or purchasing departments that purchase goods internally from local producers.

Companies with a large volume of import operations may have **separate import departments** (an example is shown on Figure 1-3), which usually comprise

two units: purchasing and administrative. The functions of the purchasing unit includes processing the received samples, preparing trips of representatives abroad to purchase goods, maintaining contacts with purchasing offices abroad, information of foreign suppliers on the demand for specific products in the country of import, issuing orders, business correspondence. The administrative unit clears goods at customs, informs the foreign suppliers about issues related to tariffs, packaging and transportation of goods, controls the processing of financial documents, controls the transfers of money, re-sells imported goods with delivery from the quay or the customs warehouse.

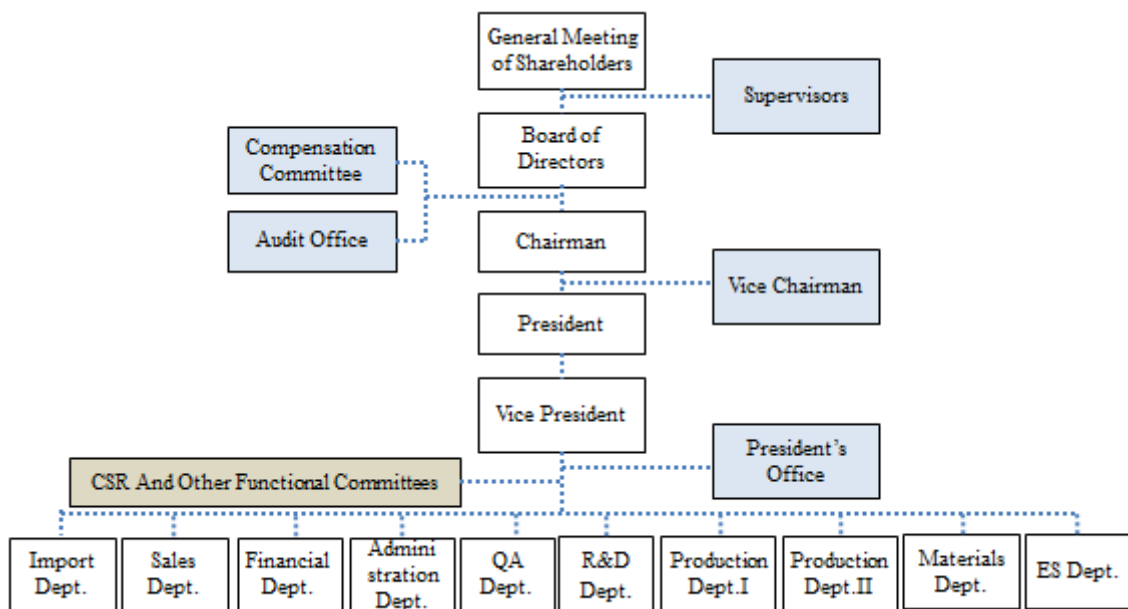


Figure 1-3. Organizational structure of Shiny Chemical Industrial Company Limited<sup>4</sup>

Source: The Web-Site of the company (<http://www.shinychem.com.tw/>)

<sup>4</sup> Founded in 1979 and listed in the Taiwan Stock Exchange, Shiny Chemical Industrial Company Limited manufactures and sells high-purity chemical solvents used in the manufacturing process of semiconductors, flat display panels, photoresist, package and testing, and light emitting diodes. Since 2010, Shiny Chemical Industrial has been recycling and reusing waste organic solvents to address customer needs and environmental issues. In addition, it provides diversified, reliable, and professional services in leasing chemical storage tanks and warehouses, product transport, barrelled groupage, and logistics. **The main responsibilities of its Import Department is to research market conditions and import bulk raw materials.**

A special import department is headed by an import manager, who must know well the products, the trade and political conditions of his country and the specifics of trade. S/he has a wide range of responsibilities related to the organisation of import operations and their effective and efficient execution. The import departments (as export departments) of the company are often located in ports, where it is more convenient for them to carry out transport-forwarding and customs operations.

Apart from setting up separate import departments other options for companies are to establish **purchasing offices (overseas representative)** in the foreign market to purchase local goods directly from the manufacturers or from trading and intermediary firms or to send their employees overseas to purchase the necessary goods (travelling purchasers<sup>5</sup>).

### 2.3. Combined export and import department

Organizational structure of the international trade activities of a company depends on its size, the subject of activity, the industry to which it belongs and on the volume of its exports and/or imports. For some companies it may be suitable to establish separate departments for export and import activities whereas for other - to combine the functions of the export and the import departments in one department (see Figure 1-4). Such type of department may be in charge of the import/export of the company or regarding all international trade activities (especially when they are large international companies).

A company can organize its import-export department based upon functions, products, customers, territory (area, region) or a combination of these (Лебедев, 2016) (Czinkota & Ronkainen, 2013) (Seyoum, 2014). For companies which deliver a small range of goods with small modifications or when countries differ slightly in terms of marketing this is suitable a functional organization. A product organization can be used by companies that work with diversified groups of

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<sup>5</sup> Very often, purchases through travelling are practiced by enterprises purchasing goods that are seasonal in nature (tea, coffee, rubber, wool, spices). Travelling purchasers establish personal contacts with foreign suppliers or intermediaries, inspect the goods and conclude contracts or send proposals to their firms.

products while a regional organization is suitable when companies operate in different interconnected markets and with homogeneous or slightly different goods.

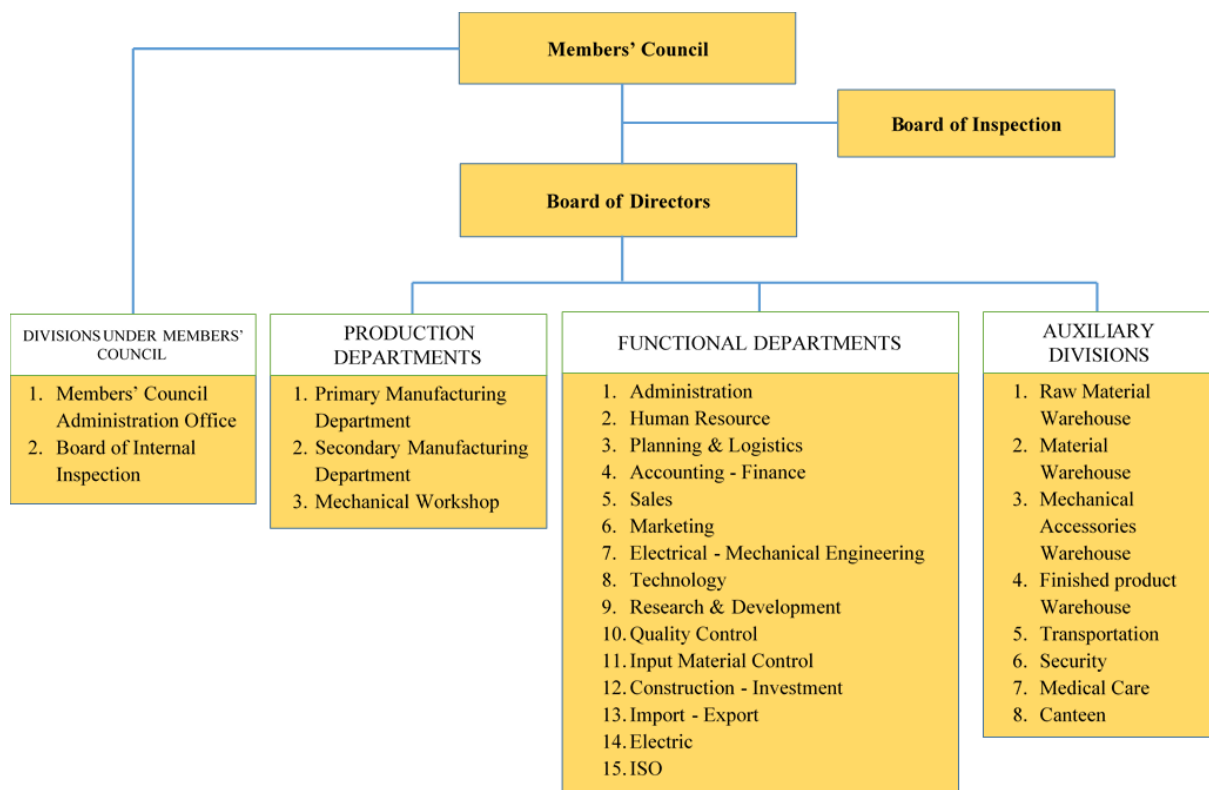


Figure 1-4. Organizational structure of Saigon Tobacco Company Limited<sup>6</sup>

Source: Official web-site: <http://www.cigarettesaigon.com>

Companies may also organize their operations using the customer structure if the customer groups differ significantly. For example the product may be the same, but the buying processes of the various customer groups may differ. A matrix organization is used when a company tries to integrate its operations across more than one dimension (for example the specialization is based on the sales/purchases of a groups of products first and then on different regions or vice versa: first regions are decentralised and after that - products. Some companies may decide to use a mixed structure which combines the other alternatives.

<sup>6</sup> Saigon Tobacco Company Limited consists of Members' Council, Board of Directors, 15 functional departments, 3 manufacturing departments and 8 auxiliary divisions.

An export-import department is usually headed by a director or a manager and may include various number and type of specialists depending on the needs of the firm.

### ***3. Manuals of procedures and documentation***

Good and useful practice for exporting and importing companies is to have a written manual of procedures and documentation for the departments dealing with international trade. The manuals should describe the company's export or/and import processes and contain detailed information of all forwarding or transport organizations, customs agencies, packaging companies, etc. with which the company interacts, as well as for government agencies. They should contain also samples of all the documents that the company has to use in its export and import operations, identify the internal routing of documentation within the company for review and authorization and contain job descriptions for the personnel engaged in export/import operations (Johnson, 2002, p. 8).

According to Johanson the manuals for exporting and importing should include several parts of information (Johnson, 2002, pp. 11-12). The first part describes company policies related to export/import activities. The second part contains information for the export/ the import department. The third part gives information about export/import procedures and the fourth - about export/import documentation<sup>7</sup> (Table 1-1<sup>8</sup>).

Table 1-1. Export/Import manual of procedures and documentation table of content

<b>EXPORT</b>	<b>IMPORT</b>
<b><i>1. Statement of Manual's Purpose</i></b>	
Company policies relating to exporting	Company policies relating to importing
<b><i>2. The Department</i></b>	
the role; functional/operational statement; organizational chart – personnel; compliance manager; job descriptions and responsibilities; training requirements	

<sup>7</sup> The export manual includes also *Export Licenses*.

<sup>8</sup> Based on Johnson, 2002.

and procedures for dissemination of information for current regulatory developments	
<b>3. Procedures</b>	
preliminary considerations; formation of sales agreement; list of agents and distributors; list of freight forwarders, steamship companies, insurance brokers, packing companies, attorneys; collections and banking procedures; record-keeping compliance	preliminary considerations; formation of purchase agreement; list of suppliers; list of foreign freight forwarders, steamship companies, insurance brokers, inland carriers, attorneys; payment and banking procedures; record-keeping compliance
<b>4. Documents</b>	
quotations; purchase order acknowledgements and acceptance; invoices; export declaration; bill of lading; packing list; insurance certificates; certificates of origin; inspection certificates; consular invoice; dock and warehouse receipts; etc.	requests; purchase orders; invoices; packing lists; inspection certificates; certificates of origin; special product entry forms; liquidation notices; customs entries, etc.

Such manuals could be used successfully also for training of people working within the export/import departments.

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### **Key Terms**

- 1) Export
- 2) Import
- 3) Direct Export/Import
- 4) Indirect Export/Import
- 5) Export Department
- 6) Import Department
- 7) Modes of Market Entry
- 8) Built-in Export Department
- 9) Built-in Import Department
- 10) Separate Export Department
- 11) Separate Import Department
- 12) Combined Export-Import Department
- 13) Export sales Subsidiary
- 14) Export sales Branch
- 15) Purchasing Offices
- 16) Overseas Representative
- 17) Manuals of procedures and documentation

### **Review questions and tasks**

1. Define exports and imports of goods and services.
2. What are the advantages and limitations of exporting and importing?
3. What are the main functions of an export department?
4. What are the main functions of an import department?
5. In what circumstances it is suitable to use built-in export/import department?
6. Describe alternative export marketing channels.



7. What information contains the Export/Import manual of procedures and documentation?
8. What type of organization of export-import department would be suitable for companies that sell homogenous goods?
9. Companies which work with diversified groups of products should use:
  - functional organization of export department;
  - product organization of export department;
  - mixed organization of export department;
  - regional organization of export department.

## CHAPTER II. PREPARATION FOR EXPORT AND IMPORT OPERATIONS

### Chapter outlines

#### 1. Differences between international and domestic sales operations

Main differences between international and domestic transactions.

#### 2. Selection of product

Factors and steps in / from the process of selection of products for export.

Factors and considerations when choosing products to import.

#### 3. International market research and assessment

Export market research and assessment. Types of market research. Import market research.

#### 4. Selection of a trade partner

Identification of potential customers and suppliers and indicators for their evaluation and selection.

### Learning objectives

1. To discuss the differences between international and domestic sales operations.

2. To become familiar with the factors and technology of selection of products for export or import.

3. To define the market research, its purpose, types, methods and technology.

4. To know how to identify, assess and select potential customers and suppliers for export/import transactions.

### *1. Differences between international and domestic sales operations*

International trade operations refer to the exchange of tangible and intangible goods between economic entities from different countries on the basis of concluded foreign trade agreements. Participation in this international trade can generate a number of benefits for the actors involved, but it also poses a number of challenges that need to be addressed. These challenges are the result of the specifics of

international transactions that distinguish them from domestic ones. International transactions differ from domestic in the following aspects.

First. International trade involves at least two (and in many cases more than two) counterparties which come from different countries. That means that the object of international transaction will cross different national borders depending on the distance between parties and the type of the transaction. Domestic trade is the trade which takes place between the different regions (or places) of the same country.

Second. Due to its nature, the foreign trade transaction involves a large number of indirect participants such as commission agents, distributors, agents, freight forwarders, insurance companies, banks, specialized organizations for control and quality, etc. which makes them more complex and risky.

Third. There is a wide range of norms, rules, laws and other regulations at national and international level which the counterparties have to comply with. There are specific customs requirements, different tax regimes, quality standards for goods and services, etc. that the counterparties should take into account during the process of preparation, conclusion and execution of foreign trade transactions.

Fourth. Most of the countries have their own currency. That is why in most international transactions the payment is made in foreign currency at least for one of the counterparties. It is even possible payments for one and the same transaction to be made in different currencies. This leads to an increase in risks associated with the execution of the transaction.

Fifth. It is much easier to conduct market research and study the customers when doing business domestically because cultural and language differences can become barriers to market research on an international scale.

All these features show that international markets are associated not only with benefits but also with risks for both the buyer (importer) and the seller (exporter). In order to avoid these risks or to minimize them, a good preparation of the business entities is needed. This preparation is related to conducting marketing research.

## ***2. Selection of a product***

Before a company starts exporting or importing products as a sole business or as part of an existing one, it must select the right products. This decision is based on the customer needs that these products meet and the potential profitability for the company.

### ***2.1. Selecting products for export***

Selection of products for export is a function of company's business activities. If a company is a manufacturer that successfully sells its products in the domestic market, it is considered that there is a great chance to sell them successfully in foreign markets. Even so it is necessary to determine their overseas market potential before starting to export. In this regard trade statistics is a good basis to evaluate the demand for the produced by the company or similar to them products in the domestic market and the foreign markets. The data for the imports and exports of a country allows the company to determine the trends in trade in particular goods by country of destination and to make conclusions for country's comparative advantages and disadvantages<sup>9</sup>. Companies can use detailed trade data provided by international sources (such as UN Comtrade, WTO, Eurostat, etc.) or by the national statistical institutes or offices and the national banks. An useful methodology for assessment of the export potential (Decreux & Spies, 2016) has been developed by the International Trade Centre, which also provides a free tool (ITC, 2017) (Export Potential Map) that identifies products, markets and suppliers with untapped export potential and also allows identification of opportunities for export diversification.

Another way to assess company's export potential is by examining the unique or important features of the product. If those features are hard to duplicate abroad, then it is likely that the product will be successful in foreign markets. If the product is new and unique there will be little competition and the demand for it will be quite high (International Trade Administration , 2021).

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<sup>9</sup> There are different national and international sources of detailed trade data. International sources are UN Comtrade, WTO, Eurostat, etc. Companies can also use data from the national statistic institutes or from the national banks (Balances of Payment).

The level of interest for the company's product and its readiness to export may be evaluated also through participation in international trade shows. They "have been touted as a valuable way to contact current and potential customers that may cost less than alternative actions, such as international sales calls or adaptations of advertising campaigns. They have also been identified as a useful means to quickly test the international marketability of products and services, seek out channels of distribution, and evaluate international (Molina-Murillo & Smith, 2004)".

Another important factor for making a decision to export is the existence of export limitations and procedures. Sometimes the export of specific goods or exports of a product to a certain country of destination may be prohibited or restricted<sup>10</sup> and the company may need a licence or authorisation. The company needs also to check if the country it wants to export to applies any prohibitions or restrictions on its products that prohibit them from entering the country or being put on its market (European Commission, 2021). In addition to the restrictions the company should be informed if there is a Preferential Trade Agreement (PTA) between its country and the country of destination. Such an agreement allows trading partners to grant preferential terms in the context of their trade with each other (EUROPEAN COURT OF AUDITORS, 2014) and may result in reduction or completely elimination of tariffs applicable for company's products.

Another important factor is the expected profit margin. Selling in the international market is related to different additional costs for adaptation and modification of the product, transportation, custom formalities, etc. These costs

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<sup>10</sup> The main types of products that are restricted or prohibited in the EU are (European Commission, 2021):

- some live animals, meat and plants.
- endangered species
- certain food products
- dangerous chemicals
- drugs and medicines
- weapons
- dual-use goods
- waste
- cultural goods (valuable antiques and works of art)
- counterfeit or pirated goods
- indecent articles, publications and video recordings.

affect the final selling price in the foreign market and hence the company's potential profit.

If a company acts as an intermediary between a manufacturer and an importer, it can pick any product or service by following a systematic or reactive approach (Seyoum, 2009). The first involves selection of a product/service based on overall market demand and growth trends and the second involves selection based on an immediate market need. In case the company is in the initial phase of planning to start an export activity, it should make a decision whether to specialize in trade in particular goods or to sell a wider list of products. Whatever the decision is, there are steps that the company should make in the process of selection a product/s for the export business and namely (Trademo, 2021):

- ⇒ to analyse the export data of its country and an idea of what kinds of products the country is exporting at high volumes;
- ⇒ to create a list of products it is interested in;
- ⇒ to check, after identifying the potential products for export business, if the raw material for such products can be sourced in the desired quantities in a timely manner;
- ⇒ choose products that are financially rewarding;
- ⇒ to leverage FTAs to be more competitive;
- ⇒ to identify the incentives offered for exports (if any) while deciding the product for exports;
- ⇒ to check if there are any trade restrictions related to the export of the product in the target country.

### 2.2. Selecting products for import

Preliminary considerations and the approaches to selection of products for import are similar to those of export. The company could be a manufacturer who buys from abroad raw materials or parts for its production, which is known in the literature as global sourcing, import sourcing, international purchasing or offshore sourcing (Quintens, Pauwels, & Matthyssens, 2006). It could be also an import company that acts as a middlemen between producers (suppliers) and consumers

with or without experience. Whatever the case is, today more and more companies turn to international markets to buy products and services to resell them or to use them in the production process. One of the main reasons for that is to boost company's competitiveness by lowering its direct and indirect costs and increasing its efficiencies (Overby & Servais, 2005). Of course the costs are not the only factor that matters for international purchases but also other factors (Quintens, Pauwels, & Matthyssens, 2006). If the company follows reactive approach to selecting import products, it makes its decision on the base of product uniqueness, quality, prices, shortages and popularity in home market. This decision relies on information collected through conducted market research (domestically and abroad), reading trade publications, participation in trade fairs or foreign travels. If the company follows proactive approach, it selects the product largely on the basis of one's education, experience, and enthusiasm. This approach starts with identification of problems faced by the customers and seeks to develop a product which solves them (Seyoum, 2014).

Regardless of the chosen approach, the import company, before actually beginning to import products, should check if the product of interest is an object of import restrictions or special requirements in the country. It is possible that imports of some sensitive goods<sup>11</sup> or imports of certain goods coming from specific countries may be prohibited or restricted or the company may need permits, a licence or present an officially approved import notification (European Commission, 2021). It is useful for the company also to know which import tariffs

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<sup>11</sup> The main types of products that face import restrictions in the EU are (European Commission, 2021):

- agricultural products,
- medicinal products,
- chemicals,
- iron and steel products,
- cultural assets,
- textile products and clothing,
- weapons,
- counterfeit or pirated goods,
- indecent articles/publications/video recordings,
- endangered species,
- waste,
- some live animals and products containing animal substances,
- plants and product containing vegetable substances.

apply to the product and if there is a trade agreement with the country it wants to import from which gives preferential tariff rates. After checking the import restrictions and custom requirements it is recommended to test-market the product and after receiving feedback to select the suppliers (Seyoum, 2014, p. 387).

### ***3. International market research and assessment***

Some firms start their export/import activities without making enough preparation. The first step in that direction is to make research of international markets and to analyse collected information. This is an important prerequisite for taking better decisions and for a better use of firm's opportunities and resources. The preliminary analytical studies made by the company help them not only to select products or services to export or import but also to find answer to the following questions:

- Do the selected products need modification and adaptation?
- In which countries will the export take place (in which markets)? From which countries to import?
- Which market channels will be used?
- What resources will be needed to carry out the export/ the import activities?
- How will the price be determined?
- What will the organization of the operation be (which organizational structure will deal with it)?

The scope of international market research is a function of many factors. Among them are:

- The type of international transaction – is it export or import;
- The business activity of the company –is it a producer, who wants to sell or buy or is it a trader (agent, distributor, etc.);
- The size of the company – small, medium- or large;
- The phase of internationalization;
- Company's financial condition;
- Organizational structure of the company;



- Strategies, plans and programs documents developed by the company;
- Other.

All these factors provide for many options to conduct international business. We may have a situation with a small manufacturer that uses intermediaries to sell its products in one or more markets, or a trading company that buys products from one or more manufacturers at its own expense and then sells them on international markets, or a large company that builds its own production facilities in another country in order to import the products produced there or to sell them on other foreign markets, etc. In every situation international market research will have some specifics.

### 3.1. Export Market Research and Assessment

When someone wants to export, regardless of the above described situations, there are at least two questions that concern international market research - what to sell and where to sell it. For a manufacturer who already produces goods and sells them in the domestic market it would be much easier to sell the same products in the international markets. This implies research on markets and their potential in different countries. The ultimate goal is to choose the market (or markets) that is (are) most attractive to the manufacturer.

Because market research is a resource-intensive process, it is recommended an initial screening of potential export markets to be pursued based on certain criteria (such as the need for the product or product demand)<sup>12</sup>. Such screening will allow the producer to narrow the list to the most promising markets. After identifying this markets they have to be evaluated (Capela, 2008). The assessment of the markets at this stage is based on analysis of different environmental factors. Some researchers/publications (Capela, 2008) (Seyoum, 2009) propose to start with the financial and economic conditions such as inflation rates, exchange rates, interest rates, availability of credit and financing and balance of payments. The

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<sup>12</sup> There are different methods of selection of international market/s to enter – qualitative and quantitative; market grouping methods and market estimation methods; country-level or firm-level which represent different approaches to and technologies of market selection process. For more information on the methods see: (Rossouw, Steenkamp, Viviers, & Guyvers, 2009) (Steenkamp, Viviers, & Cuyvers, 2012)

economic data allows tracking different tendencies and measuring different indicators such as market size, market's growth and market intensity<sup>13</sup>.

The next step is the screening of political and legal forces. Important factors for export decisions are the political stability, diplomatic relations between the home and foreign governments and internal policies (Wood & Robertson, 2000). The legal factors that should be given consideration to include the entry barriers such as product restrictions, import tariffs, taxes and price controls, patent, copyright and trademark protection. The imposed tariff and nontariff barriers can make the export price too high or restrict the firm's ability to sell.

After screening the political and legal forces, attention should be paid to socio-cultural forces such as beliefs, values, religion, language, lifestyle of customs etc. "Culture and the socio-cultural environment influence the behaviour of customers who comprise markets, the managers who plan and implement international/export management programs, negotiations, and the marketing intermediaries (e.g., advertising agencies and media) that participate in the international marketing process. Culture influences the political/ legal environment of a country, the way in which its economic system works, and the attitudes toward competition." (Albaum, Duerr, & Josiassen, 2016, p. 128).

The next step in market assessment is the screening of competitive forces such as competitors on potential markets (number and size), their strategies related to promotion, pricing and distribution, advantages and disadvantages, types and number of their products, competitors' market shares. The final stage of market assessment is related to making personal trips to the most promising markets. The purpose of such visits is to check on place the already gathered facts and to collect additional information by doing research, including face-to-face interviews with potential consumers, intermediaries or government officials (Seyoum, 2009).

There are different groupings/types of market research which take place into practice. According by the type of respondents involved it can be classified as consumer research and business-to-business research. Consumer research or also

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<sup>13</sup> More on the export market selection process see in: (Miečinskienė, Stasytytė, & Kazlauskaitė, 2014) (Sakarya, Eckman, & Hyllegard, 2007).

called Business to Consumer (B2C) Market Research is conducted among consumers, while Business-to Business market research among business professionals. Based on the source of data we divide the research on primary and secondary. The purpose of primary research is to collect data to highlight the current problem which means the problem is recognized before any collection of information<sup>14</sup>. It is often referred to as field research because the data did not exist prior to it. On the other hand the secondary research is referred to as desk research. Its purpose is to identify suitable sources of information to be used for further decisions. There are internal or external sources of secondary information. Internal data may be general or more specific, for example, related to sales and turnovers or to the customers. External data may be official data from different institutions or from information databases.

Based on the type of data there is distinctions between quantitative and qualitative research. Quantitative research involves collecting data from relatively large samples which are usually presented as numbers, in tables, on graphs and on charts. Comparing to quantitative, qualitative research involves relatively small sample sizes and the information is collected via interviewing, group discussions (or focus groups), in-depth interviews and workshops, and observation. Further we distinguish exploratory, descriptive and explanatory or causal research according to the nature of the research enquiry, continuous and ad hoc research depending on the mode of data collection, etc. (McGivern, 2013).

### 3.2. Researching Import Markets

Importing similarly to exporting allows different approaches to the whole process, depending on the company's role<sup>15</sup>. In case of a manufacturing company, which buys raw materials or components, the focus will be on the possible suppliers in domestic and foreign markets. In this situation the company may contact different intermediaries, or may use own organizational structures to deal with imports such as International purchasing offices (IPOs) in order to control the international

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<sup>14</sup>The primary data does not exist prior to data collection.

<sup>15</sup> It could be the role of a producer, of an import/export merchant or a company, a SME or a large company.

sourcing more effectively (Nassimbeni & Sartor, 2006). The information collected through research (*ceteris paribus*) is concerning more the suppliers and the products themselves. In case of a company intending to start importing products, the focus will be on the characteristics of the buyers and the competition in domestic market which requires researching in order to understand better the customers and identify the level of competition (Capela, 2008). The market research will help the company to identify its target market comprised of individuals (consumer market) or/and organisations (business-to-business market). It provides information about the needs of the customers, their willingness to buy and ability to pay particular goods and their decision-making power. Another important part of the market research is examining the competitors on the basis of variety of elements such as:

- Number and size of competitors;
- Competitors' market share;
- Competitors' marketing strategies;
- Effectiveness of the Competitors' promotional programs;
- Quality of competitors' products;
- Competitors' pricing policies;
- Competitors' distribution policies;
- The extent to which the competitors cover the market.

The information collected through market research will help company to identify its direct and indirect competitors<sup>16</sup>, to evaluate their strengths and weaknesses and the strengths and the weaknesses of their products and services and to identify its opportunities and weaknesses.

. The competitors' analysis can be done using various approaches to gather information. The firm may use the services of a specialized research company which can conduct the research and provide the necessary information or to use its own marketing specialists to do the research. Information about competitors can be

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<sup>16</sup> Direct competitors are targeting the same customer base you're targeting. They are solving the same problem that you are trying to solve and sell a similar product or service. Indirect competitors may sell something similar to your product or service but target a different audience, or they may target your same customer base but have a slightly different product or service. (Johnson J. , 2019)

found through online surveys (visiting competitors' websites; reading research reports or other publications; browsing databases, etc.), visiting trade fairs and exhibitions or obtained from customers, trade or professional associations, the local Chamber of Commerce or by building an efficient and automated tool that gathers competitor information (Fong, 2012) (Capela, 2008).

#### ***4. Selection of trade partner***

Another important decision which exporting/importing company has to take as a result of conducted market research is to choose a trade partner. In case of export of products this means to identify reliable customers - end users, distributors or sales agents - which are able to pay, able to perform or it is easy to work with and in case of import - to identify reliable suppliers. Once the potential customers or suppliers have been identified and the company seeks to establish a long-term relationship, it is recommended to visit the potential partners to evaluate them. An efficient way for that would be to arrange a schedule of interviews at its foreign offices where to meet with numerous of potential customers or suppliers. These meetings will allow the company to understand better the customer needs and to select an appropriate number of sales agents, distributors or suppliers (Johnson T. E., 2002).

Evaluation of partners must be based on various factors such as financial state, reputation, past experience and the role in the market (Дегтярева, Полянова, & Саркисов, 2002, стр. 37-38). The financial condition and stability of a company can be assessed on the basis of its solvency and creditworthiness, as well as the degree of confidence of banks in it. Information on company's financial resources, on the accuracy of payments and litigations led by banks or other financial institutions against it is important for determining creditworthiness.<sup>17</sup>

Parallel to that company can also use other indicators for evaluation of potential partners such as: number of staff; size of production areas; number of

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<sup>17</sup> Relevant information about the financial state of the company could be also obtained from its credit report. It “shows the credit history of a specific person or entity, paid and unpaid debts, and their payment patterns. It also provides a list of all debts previously taken, the amount of debt, the history of repayment, and any defaults that exist” (CFI, 2021).

enterprises; degree of diversification of production; the share of a particular product in the total volume of production of the company or the industry.

No less important when choosing a partner is the business reputation of the company. It is determined by the conscientious performance of company's obligations, the experience in a given field, the level of consideration of wishes and suggestions of counterparties, etc. Nowadays, the business reputation of companies largely depends on their online presence. "Everybody 'Googles' everything now, and they see websites, social networks, blogs, review sites, press, and media, that tell them about your business" (Igniyte, 2021). A research shows that the existing reputation measurement tools are based on the following categories (Schwaiger, 2004, p. 58):

- Quality of employees;
- Quality of management;
- Financial performance;
- Quality of products and services;
- Market leadership;
- Customer orientation;
- Attractiveness;
- Social responsibility;
- Ethical Behaviour;
- Reliability.

The past experience in previous transactions with particular companies and their role on the given market (intermediary, independent producer, respectively consumer of the production) are also factors which determine the choice of trade partners.

Information about potential partners could be found through various sources of information. One of the important sources of information are catalogues for companies issued by chambers of commerce, agencies or associations (Дегтярева, Полянова, & Саркисов, 2002). The positive side of the catalogues is that they cover a large number of companies, the information is systematized and published on a regular basis. Another important source is the annual reports of companies,

which contain information about their activities, investments, market performance and financial state. Part of the annual report are financial statements, including the balance sheet, the income statement, and the cash flow statement. Other sources of information about firms are general or specialized newspapers and magazines, as well as various databases created by information companies. The collected information about the companies from different sources can be systematized in files.

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### **Key Terms**

- 1) Export markets research
- 2) Import markets research
- 3) Business to Consumer (B2C) Market Research
- 4) Business-to Business market research
- 5) Primary market research

- 6) Secondary market research
- 7) Quantitative research
- 8) Qualitative research
- 9) Preferential Trade Agreement
- 10) Export market potential
- 11) Competitors' analysis
- 12) Selection of product
- 13) Selection of partner
- 14) Selection of market
- 15) Business reputation

### **Review questions and tasks**

1. What are the main differences between an international and an domestic transaction?
2. Describe the steps of the process of selection of products for export.
3. Which are the factors for selection of products for import?
4. Describe the technology of conducting export market research and assessment.
5. Discuss different types of market research which take place into practice.
6. What are the differences between Business to Consumer Market Research and Business-to Business market research?
7. Define the primary and secondary market research.
8. Which are the main criteria for selection of trade partner?
9. On the basis of which the elements is conducted competitors' analysis?

## CHAPTER III. EXPORTER AND IMPORTER RISKS

### Chapter outlines

#### 1. Types of risks in international trade

Credit risk, price risk, manufacturing risk, transport risk, political risk, transfer risk, currency risk.

#### 2. Foreign trade risk avoidance techniques

Risk avoidance techniques, risk transfer techniques, risk reduction techniques and risk acceptance.

#### 3. Export credit insurance

Export credit agencies, Export credit insurance.

### Learning objectives

#### 1. To understand the main risks for exporters and importers.

2. To acquire knowledge of the techniques for risk avoidance, risk transfer, risk reduction and risk acceptance.

#### 3. To understand the role of Export credit agencies.

#### 4. To distinguish between the different types of export credit insurance.

### *1. Types of risks in international trade*

The export-import business creates / hides different types of risks for both the exporters (sellers) and the importers (buyers). These risks are to a large extent related to their obligations as parties to the international transaction. The separate clauses in the sales contracts specify issues such as transport, terms and place of delivery, price and quantity of the goods, terms and currency of payment, place and time of transfer of risks and costs, etc. and define the allocation of responsibilities between the exporter and the importer. The possible variations in the terms of the contract and the obligations and responsibilities of the parties to the transaction also affect the risks for each party.

There are different approaches to defining and clarifying risks in foreign trade. One of the approaches is based on the risk bearer. The wide range of risks

allows identifying risks that are borne by exporters, risks that are borne by importers and risks that may arise for each of the parties to the transaction. Among the risks borne only by exporters are such as not to receive the payment after dispatch of the goods (after the goods have been sent), to receive them later than the agreed time or to receive them in part (partially), interruption of production and non-acceptance of the ordered goods. The importers, on the other side, bear the risks not to receive the goods after payment, to receive goods other than those agreed or in different quantity or quality. Of course there are types of risks that may occur for both exporters and importers such as loss of or damage of the goods during transportation; currency risks, price risks or force major risks.

Other approach is based on the stages of the export-import operation. According to this approach there are risks which arise during:

- the offering phase of the international transaction - the time between placing the offer and signing the contract;
- the production phase of the international transaction - the time between the signing of the contract and the shipment of the goods;
- the delivery phase of the international transaction - the time between the shipment of the goods and their acceptance;
- the payment phase (credit phase) of the international transaction - the time between the acceptance of the goods and the unconditional receipt of the payment (Häberle, 2002).

Based on their specifics, risks in international trade are grouped into economic, political and general risks<sup>18</sup>. For example credit risk, risk of non-acceptance, price risk and transportation risk can be classified as economic risks; events such as war, civil unrest, acts of terrorism and embargoes as political risks and cultural and legal risks as general risks.

Another approach is focused on the sources of the risks. In this regard risks may arise due to reasons related to the counterparties, the countries (of export, of import or transit) or the international markets. It should be noted that the

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<sup>18</sup> There are some variations in the groupings according this criteria.

classification of risks in foreign trade is ambiguous and sometimes the same risks are assigned to different groups, so we will focus on the main ones (see Table 3-1).

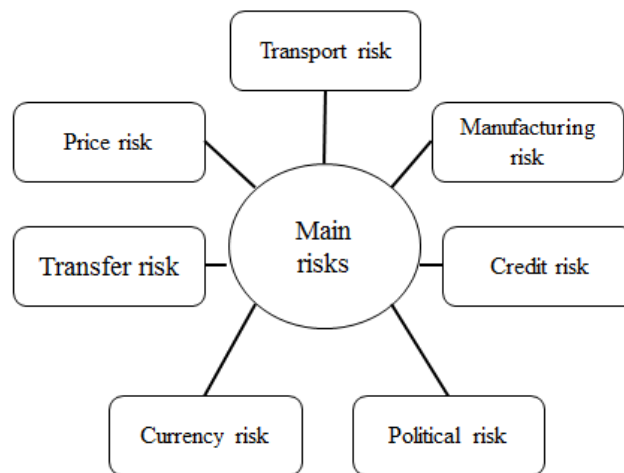


Figure 3-1. Main risks in international trade

One of the main risks in international sales/ purchase deal is the **credit risk (del credere risk)**. This risk refers to the threat that the importer will not pay or will not pay in time the amount specified in the contract. In addition to the main claim, this risk also applies to additional claims for damages and other derivative claims, which may cover interest for late payment, penalties, etc. It arises upon acceptance by the importer of the goods and ends with the unconditional payment by the importer to the exporter. This risk arises through (Häberle, 2002):

- **insolvency of importer** - the inability to fulfil the financial obligations as debts become due. The consequences for the exporter can be significant in case the guarantees or assets provided to the importer cannot cover the losses.
- **late payment** - the delay in payment after the agreed term or maturity date. It may be due to temporary lack of liquidity, a result of the negligence of the importer or it can be an importer's strategy for obtaining additional benefits. The delay in payment may lead to additional costs for exporter in case s/he has taken a loan to finance the deal and is in arrears.

- **unwillingness of the importer to pay** - when a solvent importer fails to pay on the agreed date or within the agreed period for no apparent reason. Often, in practice, the importer makes a quality claim without any serious grounds.

There is also a credit risk from the point of view of importers. It would be unfavorable for them if they have made advance payments which were lost due to unexpected exporters' insolvency or their unwillingness to pay for special reasons (Trafima, 2021). Delcredere risk could be related also to the guarantors of the deal and their ability or unwillingness to pay in case the importer does not. This risk concerns also the delays in payment by the guarantors.

Another risk in foreign trade is the **manufacturing (production) risk** (Häberle, 2002) (Grath, 2008). For the exporter, this risk is the threat of interruption of production, refusal to ship the goods or non-acceptance of the ordered goods by the importer. This may be due to factors such as withdrawal from the contract by the importer, cancelation of the order, significant breaches of contractual obligations, which makes the performance of the contract impossible; insolvency (bankruptcy) of the importer, refusal to pay, the emergence of opportunities for importer to purchase the same goods at lower prices, etc. The production risks create difficulties and additional costs for the exporter in order to find a new buyer for the goods that have already been partially or fully produced. They may generate significant losses when the products are specially manufactured or modified according to the needs of the buyer. These losses are result of additional transport costs, of lowering the sales prices or even of inability to resell the goods. From the importer's point of view manufacturing risk arises when the exporter is unable to fulfill the delivery in time for some reasons and the importer has lost a valuable time or has to look for a new supplier (Trafima, 2021).

International sales transactions often involve transportation of goods over longer or shorter distances, depending on the location of sellers and buyers. This physical movement of products creates certain risks for the exporters and the importers such as the risk of a loss of or damage to goods defined in the literature as **transport risks**. These risks may be due to various transport accidents, vandalism

or seizures. Transport risks are borne by exporters or importers in various extents depending on the contract and international trade terms agreed between the parties.

**Political risk** is “the risk of a separate commercial transaction not being realized in a contractual way due to measures emanating from the government or authority of the buyer’s own or any other foreign country” (Grath, 2008, p. 22). Practically, it refers to those extraordinary state measures or political events occurring overseas which lead to inability to pay on the part of the importer as well as to loss, seizure or deterioration of goods (SME Portal, 2020). Political risk affects both exporters and importers. Due to political circumstances in the exporter's country, the contract cannot be conducted, the goods could be confiscated or cannot be longer exported. In some cases, it means that the importer will lose payments, which s/he has already made in advance; in other, this means a waste of time because a new supplier must be found. Such risks could arise from (Department of International Trade, 2020)‘:

- war, civil unrest, and acts of terrorism which interfere with the ability to do business;
- expropriation of assets without compensation;
- trade embargoes and sanctions which could immediately stop exports to, or imports from a country;
- other ‘non-tariff’ measures such as changes to requirements to clear customs, product and packaging regulations and government procurement restrictions.

**Transfer risk** is the threat that the importer will not be able to make the agreed payment due to imposed restrictions on international payment transactions by government or institutions. This is the case when measures taken by state authorities or legislative changes restrict or prohibit the export of foreign currency and thus prevent the amount from being transferred abroad or using the agreed currency. There are three forms of manifestation of this risk (Trafima, 2021):

- payment prohibition (ban);
- payment moratorium and
- conversion ban.

*The payment prohibition* is a prohibition imposed by a law or a state act in importing country to make payments towards specific country/ies as a form of sanction. *The payment moratorium* is a temporary suspension of payments from importing country of its foreign liabilities or postponing them for a certain period of time. In contrast to the payment ban, this is a temporary non-payment that can be imposed during negotiations of a debt agreement. *Conversion ban* (temporary or not) is a restriction for conversion of the national currency into the currency of the exporter. In this way, the importer would not be able to pay if the currency of payment is exporter's currency, despite having sufficient funds<sup>19</sup>. The exporter will not receive any payment despite s/he has fulfilled the contract and despite the fundamental solvency of the importer. The importer can also be affected by these risks in the exporter's country, for example if payment under guarantees becomes impossible or advance payments cannot be repaid (returned).

The payments in export/import deal often have to be made in foreign currency at least for one of the parties, which creates **currency risk**. "Currency risk, commonly referred to as exchange-rate risk, arises from the change in price of one currency in relation to another" (Chen, 2020). From exporter's point of view, this risk arises when the currency in which s/he/it has to receive the payment depreciates against his own/national currency, and from importer's point of view when the currency in which he has to pay increases its value against his national currency (Häberle, 2002).

*Example: If the contract price is in the currency of the exporter*

Exporter A based in Germany agrees with B from USA to deliver a machine for the price of 1 000 000 Euro. The importer calculates the following purchase price based on the current exchange rate of 1 euro = 1, 18 USD:

$$1\ 000\ 000\ \text{Euro} = 1\ 180\ 000\ \text{USD}$$

At the time of payment, which is a few weeks later, the importer's currency has depreciated and is quoted at the exchange rate of 1 euro = 1, 20 USD. In this situation B pays

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<sup>19</sup> The transfer risk is considered by some authors as a form of political risk.



1 000 000 Euro = 1 200 000 USD,  
which is 20 000 USD more. The exporter who fully receives the agreed price does not bear currency risk.

*Example: If the contract price is in the currency of the importer*

Exporter A based in Germany agrees with B from USA to deliver a machine for the price of 1 180 000 USD. The exporter calculates the price based on the current exchange rate of 1 euro = 1, 18 USD:

$$1\ 180\ 000\ \text{USD} = 1\ 000\ 000\ \text{Euro}$$

At the time of payment, a few weeks later, the importer's currency has depreciated and the exchange rate changed to 1 euro = 1, 20 USD. In this situation A receives the agreed price 1 180 000 USD = 983 333, 33 Euro. This is 16666, 67 Euro less comparing to calculated price. In this case the importer pays only the agreed price and does not bear currency risk.

The adverse changes in exchange rate may force “the exporter to raise his future prices if he does not want to suffer a drop in revenue every time. So it becomes more expensive, worsens its position vis-à-vis the competition and has to reckon with a decline in its sales. (BMDW, 2021)”

Another risk in international trade is the **price risk**. This risk is a result of changes in the prices in both foreign and domestic markets. On the one hand the exporter is exposed to the risk of price reductions in case of intensified price competition on foreign markets and, on the other, to the risk of price increases due to cost increases on the domestic market (higher prices of raw materials, higher wages, etc.) This risk is particularly important in the case of transactions that take place over several years, as it is difficult to assess price developments. The importer bears the risk of price increases (with regard to the products purchased on foreign markets) and the risk of price reductions (with regard to competing products offered on the domestic market and the associated falling price level) (Wirtschaftslexikon24, 2020).

Of course, international markets are very diverse and international operations are different. That is why there is a need of careful analysis of all the risks

associated with them in order adequate measures and decisions to be taken for their avoidance or reduction.

## ***2. Foreign trade risks response techniques***

According to Lehmann, Hauser and Baldegger, the way a company handles risks is related to its attitude to risk and the degree of competitiveness. Companies producing products with very high demand in foreign markets and facing less pressure from competitors will be in a better position to avoid risky business ventures than those the products of which are poorly differentiated from other and are facing strong competition. Companies with high growth targets and owners willing to take risks face greater risks than those who are satisfied with their market position and unwilling to incur significant losses (Lehmann, Hauser, & Baldegger, 2013).

The exporters and importers may use different techniques to respond to the variety of risks generally subdivided into risk avoidance techniques, risk transfer techniques, risk reduction techniques and risk acceptance (risk retention). *Risk avoidance* refers to eliminating the specific threats by eliminating the causes. For example, the company may stop activities which are risky. *Risk transfer* means to shift the responsibility to another party. This could be done by outsourcing part or all of the activity, by purchasing insurance or by using appropriate form of contract and contract conditions. *Risk reduction* refers to reducing the likelihood that a risk will occur or decreasing the severity of the consequences of the risk (Hamilton, 2008) (Gibson & Igonor, 2020). It could be achieved through diversification of operations, suppliers, customers, etc. *Risk retention* is an organization's decision to take responsibility for a particular risk it faces, which means it has chosen to pay for any losses out of pocket rather than purchasing insurance as a means of transferring the financial burden of a loss to another party. Companies retain risks<sup>20</sup> when they believe that the cost of doing so does not exceed the cost of fully or partially insuring against it or when it is not insurable (Insuranceopedia, 2020).

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<sup>20</sup> Risk retention is appropriate primarily for high-frequency, low-severity risks where potential losses are relatively small.

A sales contract specifies which risks are assigned to the exporter and the importer. A sales/purchase contract defines the transfer of costs and risks in accordance with Incoterms, the quality, quantity and price clauses, the currency (currency of the exporter, the importer or a third country) and the payment terms. Therefore, it can be said that the contract also determines a large part of the measures for protection against risks of the parties to the transaction. As already mentioned a major risk for the exporter is not to be paid for delivered goods and for importer not to receive the goods which are already paid. In this relation an important step for both the exporter and the importer is to evaluate the creditworthiness and reputation of the partner. Sometimes it is difficult to verify the creditworthiness and reputation of the business partner, which increases the above-mentioned risks. In such a situation, they may seek the help of commercial firms that can provide assistance in credit-checking of foreign companies. The risk can be minimized or eliminated by using specific methods of payment and guarantees.

To reduce the risk of non-payment, late payment or even straightforward fraud the exporter, for example, can seek full payment in advance, use documentary credits, standby credits<sup>21</sup>, bank guarantees<sup>22</sup> or export credit insurance. To avoid the risk of fraud, the exporter must enter into transactions only with reputable partners with experience in trading with certain products, including participating third parties. S/he has to be careful with offers that seem to be too good, because they often are not. Close relationship and the good communication with bank officers are also beneficial, as banks have faced many attempts for fraud.

On the other side<sup>23</sup>, the importer will reduce or eliminate the risks of *non-delivery, short delivery and delivery of substandard goods* (Bishop, 2004) if s/he

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<sup>21</sup> A standby letter of credit is used to guarantee creditworthiness of the Buyer and is not intended to be cashed but taken as guarantee of payment under the contract (Bank Reed, 2020).

<sup>22</sup> There are several guarantees that an importer could provide via his home bank for the benefit of the exporter but the most important of all is the Payment Guarantee. It guarantees that the beneficiary (exporter) will pay the (remaining) purchase price if the party obliged to pay (importer) does not do so. In addition to the payment of the main amount, the payment of interest is usually stipulated. It can also be a substitute for a letter of credit or a bank guarantee on a bill of exchange. (Kessler, 1996, p. 88).

<sup>23</sup> “An advance payment guarantee acts as collateral for reimbursing advance payment from the buyer if the seller does not supply the specified goods per the contract. A performance bond serves as collateral for the buyer’s costs incurred if services or goods are not provided as agreed in the contract. A warranty bond serves as collateral ensuring ordered goods are delivered as agreed” (Grant, 2021).

pays through an open account or a documentary collection and uses guarantees, for example, an advance payment guarantee, performance bond or warranty bond.

To overcome commercial risk companies may use **factoring** and **forfeiting**. Factoring in international trade is the discounting of receivables from a foreign importer (excluding checks). The exporter transfers to the “factor” (bank or specialized company) the right of receivables on bills of exchange, promissory notes, open accounts, etc. against an advance payment or a loan of a value lower than the face value of the instruments (ХИНКЪЛМАН, 1997, стр. 128). Factoring is based on a special contract - "factoring contract" - concluded between the supplier and the factor. According the contract “the factor is to perform at least two of the following functions (UNIDROIT, 1988):

- finance for the supplier, including loans and advance payments;
- maintenance of accounts (ledgering) relating to the receivables;
- collection of receivables;
- protection against default in payment by debtors.”

The cross border factoring (export factoring or international factoring) usually involves four parties: exporter (client), export factor, importer (customer) and import factor (Rani, 2015). This system of factoring referred to as the two-factor system allows splitting the functions and the risks between the export factor and the import factor. The technology of the two-system export factoring includes several steps.

1) The exporter requests an export factor domiciled in his country for a credit limit approval on the importer.

2) The export factor forwards the information to the import factor in importer’s country, who checks the financial reputation of the importer and if it finds it satisfying, approves the credit limit.

3) The export factor sends information to the exporter about the approved credit limit and signs a factoring arrangement with him.

4) The exporter ships the goods to the importer, submits invoice bearing the assignment clause to the buyer and sends a duplicates of the invoice to the export factor.

5) The export factor provides payment in advance for receivables within the credit line, which is usually up to 80% of the approved invoice amount and sends the documents to the importer and the import factor.

6) The import factor collects the payment<sup>24</sup> from the buyer of the accounts receivable and sends it to the export factor<sup>25</sup>.

7) The export factor remits the remaining % (20% in case of 80% pre-payment) of the payment to the exporter after deduction of all charges.

Besides the two-factor system there are also a single factoring system, a direct export factoring system, a direct import factoring system and a “back to back” factoring system.

Under the single factoring system the export factor and the import factoring companies sign a special agreement which stipulates that only one factoring agency will perform all the functions. The import factor provides the credit cover and the export factor is responsible for prepayment, book keeping and collection of debts. If the export factor is not in a position to realise the debts within 60 days from the due date then s/he requests the import factor to undertake the collection responsibility and simultaneously informs the debtor about that. From that moment the import factor is responsible for collection of debts and has power to initiate legal proceedings if necessary. In case the dues still remain outstanding, the import factor has to remit the amount to the export factor.

Under direct export factoring system only the export factor is involved and provides all functions<sup>26</sup>. This type of factoring is less expensive and quicker. Under direct import factoring system, the exporter will work with import factor who will be responsible for all services. The back to back factoring system is usually used by large exporting companies in respect of sales to its subsidiary, distributors or selling agents abroad.

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<sup>24</sup> Several days before or on the due date of the invoices.

<sup>25</sup> If the buyer makes payments to the import factor on the due date of the invoice, the import factor will transfer the fund to the export factor; if the buyer fails to pay an undisputed invoice in full within 90 days of its due date, the import factor will make payment under guarantee to the export factor.

<sup>26</sup> Among the services are: finance to exporters, maintenance of sales ledger and collection of debts from the importers, credit protection in case of financial inability on part of any importer.

Forfeiting is the purchase of receivables with future maturity arising from the supply of goods and/or services. The receivables are “denominated in freely convertible currency, and secured with a bank aval bill, letter of credit with deferred payment or a bank guarantee” (Sedliačiková, Volčko, & Jelačić, 2014, p. 52). “The exporter agrees to surrender the rights to claim for payment of goods or services delivered to an importer under a contract of sale, in return for a cash payment from *a forfeiter (usually a bank or financial institution)*. The *forfeiter* takes over the exporter’s debt instruments and thereafter assumes the full risk of payment by the importer” (Bishop, 2004, p. 144). Forfeiting is related with the purchase of medium- and long-term receivables and requires minimum amount of receivables and minimum maturity period. Trough forfeiting the exporter transfers the credit risk as well as the additional risks (such as political risk, currency risk, etc.) associated with the claim to the forfeiter (Sedliačiková, Volčko, & Jelačić, 2014) (Попов, 1994).

The manufacturing risks can be reduces by formulating precisely the terms of payment, the sanctions (penalties) in case of non-performance of the contractual obligations, the terms for cancellation, etc. or by using various guarantees (such as performance guarantees, payment guarantees, advance payment guarantees, delivery guarantees) to cover the risks of exporters and importers at different stages of the operation.

Any physical movement of goods over long distances and through many countries carries the risk of damage or loss of the goods. This risk can be covered by the use of adequate insurance depending on the type of goods and the means of transport. The obligation to insure against transport risks in international trade lies with either the buyer or the seller, depending on the agreed terms of delivery and the applicable international commercial terms (Incoterms2020). In case the goods are sold on CIF (cost insurance freight) or CIP (carriage and insurance paid) the exporter is responsible for effecting insurance on them. He must arrange cover against the risks according to the stipulated in the rules<sup>27</sup>. Cargo insurance is unified

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<sup>27</sup> Under CIF term the seller must obtain, at his own cost cargo insurance complying at least with the minimum cover as provided by Clauses (C) of the Institute Cargo Clauses (LMA/IUA) or similar clauses.

under the Institute cargo clauses (ICC)<sup>28</sup>, which are internationally accepted. The ICC introduces three types of clauses “A”, “B” and “C”. Clause “A” offers full coverage, Clause “B” – limited coverage, and Clause “C” – minimally covered (see Table 3-2). Regardless of the wide range of risks that the ICC cover, there are also risks which are excluded such as losses and damages caused by war, terrorism and strikes. This type of risks are covered by Institute Strikes Clause and Institute War Clause.

Table 3-2. Institute Cargo Clauses Comparison

PROXIMATE CAUSE	A CLAUSES	B CLAUSES	C CLAUSES
STRANDING, GROUNDING, SINKING OR CAPSIZING	YES	YES *	YES*
OVERTURNING OR DERAILMENT OF LAND CONVEYANCE	YES	YES*	YES*
COLLISION OF SHIP OR CRAFT WITH ANOTHER SHIP OR CRAFT	YES	YES*	YES*
CONTACT OF SHIP, CRAFT OR CONVEYANCE WITH ANYTHING OTHER THAN SHIP OR CRAFT (excludes water but not ice)	YES	YES*	YES*
DISCHARGE OF CARGO AT PORT OF DISTRESS	YES	YES*	YES*
FIRE OR EXPLOSION	YES	YES*	YES*
EARTHQUAKE, VOLCANIC ERUPTION OR LIGHTENING	YES	YES*	NO
MALICIOUS DAMAGE	YES	NO**	NO**
THEFT/ PILFERAGE	YES	NO	NO
GENERAL AVERAGE SACRIFICE	YES	YES	YES
JETTISON	YES	YES	YES
WASHING OVERBOARD (deck cargo)	YES	YES	NO
WAR RISKS (except piracy)	NO	NO	NO
TAKINGS AT SEA (except war risks)	YES	NO	NO
SEAWATER ENTERING SHIP, CRAFT, HOLD, CONVEYANCE, CONTAINER LIFT VAN OR PLACE OF STORAGE	YES	YES	NO
RIVER OR LAKE WATER ENTERING SAME	YES	YES	NO
LOSS OVERBOARD DURING LOADING/ UNLOADING (total loss only)	N/A	YES	NO
ANY RISKS OF PHYSICAL LOSS OR DAMAGE NOT SPECIFIED	YES	NO	NO

\* Common Clause 1.1 of the B and C Clauses requires the loss or damage to be reasonably attributable to the cause of damage.

\*\* Can be bought back

Source: <https://aciscargo.com/library.html>

Under CIP term, the seller must obtain, at his own cost cargo insurance complying with the cover as provided by Clauses (A) of the Institute Cargo Clauses (LMA/IUA) or similar clauses.

<sup>28</sup> The Institute Cargo Clauses were introduced in 1982 by a joint working party from the Institute of London Underwriters and the Lloyds Underwriters Association.

Political risks can be avoided, to a certain extent, through a preliminary and in-depth study of the country of destination. This will allow companies to identify the potential political risks related to capital controls and taxation, to wars and terrorism or to strikes and protests and to estimate their impact on companies operations. Once risks have been identified and measured the exporter has to take a decision about the actions and measures to avoid, to transfer or to take advantages of them. One possible solution for companies is to buy insurance against the potential effects of political risk. Some insurance policies protect them from government restrictions on currency convertibility, other from losses caused by violent events. Political risks could be avoided or reduced by using export forfeiting, confirmed documentary credit as a method of payment, consultations with lawyers, a force major clause in the sales contract and when it is possible by geographical diversification of export operations.

One of the ways to avoid the risks associated with exchange rate fluctuations is to choose an appropriate and freely convertible currency for payment. “Exporters and importers can reduce and sometimes eliminate exchange risks by using certain techniques available with their banks” (Bishop, 2004, p. 107). They may use instruments and techniques such as fixed forward exchange contracts, option forward contracts, borrowing in foreign currency, buying currency and holding on deposit or foreign currency options<sup>29</sup>.

Fluctuations in the exchange rate are important in foreign currency transactions because their rise or fall affects the price agreed between the seller and the buyer. The price in international trade is influenced not only by currency fluctuations but also by many other factors such as transport, customs requirements, warehousing, etc. They determine the changes in price by adding additional costs. To avoid unfavorable changes the counterparties can set the price in the contract as firm or sliding.

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<sup>29</sup> For more details about these instruments see: (Bishop, 2004, pp. 107-112).



### 3. *Export credit insurance*

The increasing competition in international markets forces exporters to sell their products more and more often on credit terms or on deferred payment which is associated with greater credit risks for them. One of the methods to protect themselves from the risk of nonpayment by importer (the buyer) is to buy/use export credit insurance policy. The insurance usually covers commercial risks such as buyer insolvency, bankruptcy, or default as well as some political risks including changes in export or import regulations, war, riots, terrorism, currency inconvertibility and expropriation (Head, 2012). Export credit insurance is offered by private insurance or by government agencies referred to as export credit agencies (ECAs)<sup>30</sup>.

The practices of organizing export insurance in different countries, including the EU-members depend on the traditions and policy of the state towards exports. For example, in Greece, Belgium, the Czech Republic, and Bulgaria export insurance is provided by state institutions and agencies, similar to the ones in the United States (Ex-Import Bank of the United States). In Germany and France this activity is outsourced to private insurers (Euler Hermes and COFACE), and in Spain and Romania ECAs in the established companies the state capital prevails, but there is also private capital. (Николова, 2016).

ECAs provide of *short-term* and of *medium- to long-term cover*. “The short-term export credit insurance might offer 90–95% coverage against a buyer's payment default and would generally cover sales of such items as consumer goods, materials, and services up to 180 days and small capital goods, consumer durables, and bulk commodities up to 360 days. By contrast, medium-term export credit insurance would typically provide somewhat less protection but for a longer period of time – for instance, 85% coverage of the net contract value on sales of large capital equipment, for up to 5 years” (Head, 2012, p. 591).

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<sup>30</sup> There are now over 100 national export credit agencies, delivering approximately \$215 billion in official export support to domestic firms' exports of goods, services, and investments.

The short-term export credit insurance differs from the medium- to long-term export credit insurance in several aspects. *First*, the procedure of applications for issuing the short-term cover is less sophisticated and comprehensive and ECAs may issue a framework cover (whole turnover cover). For medium- to long-term credit risks ECAs issue a single ECA policy. *Second*, they distinguish by the way the premiums are calculated. The premium rates for providing short-term ECA cover are not regulated internationally and a relatively low compared to the contract value of a loan or commercial contract. *Third* difference is the way they deal with the foreign content (value added) in exported goods. ECAs have more flexibility when provide short-term cover. *Fourth*, the majority of users of short-term ECA cover are exporters (also referred to as supplier credit cover). In medium- to long-term transactions banks play an important role by providing a loan to a foreign buyer to purchase goods from an exporter (Salcic, 2014, pp. 35-41).

ECAs have a long history related to the expansion of economies and government policies to promote national exports. “The first official ECA, the English Credit Guarantee Department, was established in the United Kingdom in 1919. The predecessor to the present German ECA was established in 1917, *the Eksport Kredit Fonden (EKF) in Denmark and the third in the world in 1922*<sup>31</sup> and US Ex-Im Bank was established in 1934. Many ECAs were established in the post-war period, such as in Austria in 1946 and Japan in 1951, *in Sweden 1962*, and other in the period from 1970 to 2000, including in Iran in 1973, in Korea in 1976, in India in 1983, in *Greece in 1988*, in Egypt in 1992, in *Hungary* and China in 1994. More recently, new or smaller countries have established their ECAs, such as Serbia and Sudan in 2005, Estonia in 2009 and Armenia in 2013” (Brown, 2020).

In Bulgaria. an ECA named Bulgarian Export Insurance Agency (BAEZ) was established in 1998. Its sole shareholder is the Republic of Bulgaria, represented by the minister of economy and energy. BAEZ operates under two different laws: the Insurance Code (the activity on its own account) and under the

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<sup>31</sup> The text in italic is added by the author.

Export Insurance Act (on the account of the State). BAEZ offers cover against short-term<sup>32</sup> and medium- to long-term<sup>33</sup> commercial and political risks.

Among the products provided by BAEZ are also (BAEZ, 2021):

- Insurance of a Bank credit - The credits, subject of the insurance, can be for pre-shipment financing or a credit, provided to small and medium-sized enterprises (SMEs). The insurance covers the principal and the interest of the credit against commercial risks (non-payment and bankruptcy) of the Debtor. The insured party is the bank, which provides the credit.
- Insurance of a Bank guarantee – The subject of the insurance is the contract for issuing bank guarantees. The insured is the bank that issues the guarantee, and the borrower is the guarantor under the guarantee and a borrower under the credit agreement. The types of guarantees that can be insured are performance guarantees, payment guarantees, advance payment guarantees and other.
- Insurance of national investments abroad – covers the risk of the country of investment<sup>34</sup>;
- Insurance of a Letter of credit – covers the risk of failure or refusal of the issuing Bank to honour its obligations under the Letter of credit.

Regardless of the differences between them, all the established ECAs aim to support national companies wishing to export goods and services to foreign markets and compete successfully on the international scene as well as those investing abroad. Their role is growing nowadays especially in periods of crises.

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<sup>32</sup> Short-term risk is the risk of contracts for the sale of goods and services with a deferred payment period of up to 2 years.

<sup>33</sup> Mid-term risk is the risk of contracts with a 2 to 5-year deferral period, and long-term risk arises when there is a deferred payment period of over 5 years.

<sup>34</sup> Investment risks include: Inability to convert the investment income denominated in the national currency of the host country into a freely convertible currency and the impossibility of transferring payments to the Republic of Bulgaria. These risks must arise from new restrictions prohibiting the conversion and transfer of payments arising from the insured investment both from the host State and / or from third countries; Nationalization, confiscation or expropriation of a foreign company, including expropriation by a government act that deprives the investor of his fundamental rights in relation to the investment for an uninterrupted period of at least six months; Politically motivated acts of violence.

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### **Key Terms**

- 1) Credit risk
- 2) Price risk
- 3) Manufacturing risk
- 4) Transport risk
- 5) Political risk
- 6) Transfer risk
- 7) Currency risk
- 8) Short-term export credit insurance (cover)
- 9) Medium- to long-term export credit insurance (cover)
- 10) Export credit agency
- 11) Institute Cargo Clauses
- 12) Factoring
- 13) Forfeiting

### **Review questions and tasks**

1. What are the main risks in export-import operations for the seller and the buyer?
2. What are the differences between factoring and forfeiting, their advantages and disadvantages?
3. Find and summarize information about the activities of ECAs in the EU and services provided by them.
4. What are the differences between short-term and medium- to long-term export credit insurance?
5. What risks do the Institute Cargo Clauses, the Institute Strikes Clause and Institute War Clause cover?

6. Payment prohibition (ban), payment moratorium and conversion ban are forms of:

- Credit risk;
- Political risk;
- Currency risk;
- Transfer risk;
- Price risk.

7. What techniques and means could be used by exporter against political risks?

8. What are the differences between a single-buyer export insurance policy and a multi-buyer export insurance policy?

## CHAPTER IV. ESTABLISHING CONTACTS AND OFFERING

### Chapter outlines

#### 1. Sources of business partners.

Conventional and internet sources of business partners.

#### 2. Commercial offer

Definition and structure of commercial offer.

#### 3. Types of commercial offers

Binding and non-binding offer, pro-forma invoice.

#### 4. When to use the different types of commercial offers

#### 5. Enquiry

Definition and types of enquiry.

### Learning objectives

1. To acquire an overview of sources of business partners.

2. To understand the aims of different types of commercial offers their structure and when to use them.

3. To understand the differences between different types of enquiry and to know their structure.

4. To be able to compose offers and enquiries.

### *1. Sources of business partners*

To find the right partner in international trade is a key factor to successfully sell or purchase goods and services. Thankfully the liberalization and globalization processes and technologies development provide for various options to find information about potential trade partners and make a contact nowadays. The initiator of this process can be the exporter (the seller) or the importer (the buyer) by sending offers, pro-forma invoices, enquiries, orders, advertising materials, etc.



Today traders can rely on many sources of potential business partners such as various events, organizations, internet platforms or virtual marketplaces.

Among the conventional sources we can mention trade shows, the trade missions, the special missions, the seminar missions, catalog shows and video/catalog exhibitions, chambers of commerce, professional associations, etc.

To attend trade shows (fairs) could be beneficial not only to make contacts with potential exporters and importers but also to identify products for import or export and to evaluate the competition.

A Trade Mission is an international trip where representatives of business accompanied by government officials travel together as a delegation abroad on occasion. Its aim is to meet potential buyers or agents, participate in site visits and any networking receptions. Potential partners (buyers, agents, distributors and joint venture) are often sourced prior to each Mission. The trade missions could be organized by state or local governments or by chambers of commerce, trade associations, or other industry groups.

Catalog Shows and Video/Catalog Exhibitions allow exporters to present their products at exhibitions organized by governments and consultants with less expenses

by simply sending along product catalogues, brochures, and other sales aids to be displayed. Video/catalog exhibitions are ideal for promoting large equipment and machinery which are costly to ship (Nelson, 2009).

Along with conventional sources of business partners there are many possibilities to find potential exporters and importers provided by the Internet platforms and virtual marketplaces. Among them are (O'Brien, 2017):

➤ **GlobalTrade.net.**

Globaltrade.net is one of the preeminent international trade directories on the web, with almost 174,000 import and export service providers worldwide listed on its site. It gives the opportunity to search for contacts but also to list the company and find useful information related to international trade, market analysis, tips on how to export/import, etc. The services provided fall in the following categories:

- Banking and Finance

- Expat Services
- Marketing and Sales
- Trade Promotion Organizations
- Business Management
- Foreign Investment Services
- Sourcing, Quality Control
- Trading Companies and Agents
- Business Travel
- Language Services
- Taxes, Accounting, Audit
- Transportation and Logistics
- Education, Human Resources
- Lawyers
- Trade Compliance and Customs

➤ **FITA.org**

FITA provides resources, benefits and services to the international trade community and useful tools to assist doing business globally. The 450,000+ organizations that are linked to FITA through their membership in a FITA member association represent a broad cross-section of the international trade and business community: manufacturers, trading companies, contractors, freight forwarders, custom house brokers, airlines, shipping companies, port authorities, banks, insurance brokers and underwriters, associations and a wide range of service providers including telecommunications companies, law firms and consultants (FITA, 2020). Organizations which are members of FITA include, but are not limited to:

Organizations that trade in goods and/or services as producers, wholesalers, retailers, agents, etc: i.e. - exporters, importers, those that make foreign investments or have foreign parents, those that license technology or intellectual property to or from foreign partners, etc.

Organizations that support trade as service providers, agents, etc: i.e. - logistics firms, financial and insurance institutions, consultants, publishers, communication firms, hospitality and travel industry firms, etc (FITA, 2020).

➤ **Globality.com**

Globality.com is a trade directory that uses AI-powered Smart Sourcing technology. It helps the global companies independent from their size to connect with the best suppliers across every service category. To use the directory, users must first create a project brief, then Globality will use artificial intelligence, trade experts, and algorithms to connect the company with service providers who have already been vetted (O'Brien, 2017).

➤ **Tradecouncil.org**

Since 1956 the International Trade Council has been engaging business leaders across 179 countries. It offers access to industry specific trade data, business introductions, networking opportunities, education, insights and government advocacy (International Trade Council, 2021). The Council's direct reach includes more than 79 government trade and investment agencies, 418 chambers of commerce, 29000 businesses, 13000 investors and 2.4 million newsletter subscribers in 176 countries. The International Trade Council member directory is a comprehensive list of all of the organization's members. This list can be useful to anyone who is looking for contacts in the international trade business (O'Brien, 2017). The International Trade Council tracks freight movements around the world, enabling its members to see exactly what's happening in international trade. It maintains live bill-of-lading data from 30 countries. Members of the Council may request bulk exports of Bills of Lading based on:

- HS Code (6 digit)
- Key Word(s) – as found in the description entered on the Bill of Lading
- Date Range
- Country of Import. (International Trade Council, 2021)

➤ **Hoovers.com**

Controlled by the company Dun and Bradstreet (D & B), Hoovers.com claims to have a large business database covering hundreds of millions of business records, which allow discovering insights about companies of interest. The search could be done by industry, by name, or by location. While the database offers a free trial, further options are available through paid access only (O'Brien, 2017).

➤ **TradeKey.com**

It is the world's leading and fastest growing online business-to-business (B2B) marketplace that connects small and medium businesses across the globe for international trade. It provides opportunity to find buyers and sellers, to post information about companies and their products, receive inquiries, send quotations and other services depending on the type of membership.

➤ **Europages.com**

Europages is a B2B trade platform, with a list of over 2.6 million companies, mainly from Europe. Europages has a translation network and a multilingual search engine, which makes it a user-friendly trade directory. It is also a web B2B marketing solutions provider. Europages give the opportunity to create a catalog and advertise products online.

➤ **ExportCanada.com**

ExportCanada.com has been designed to support and assist companies participating in international trade and help them to find new trading partners, penetrate new markets and gain meaningful visibility on the Internet. ExportCanada.com is part of the worldwide network of 191 country-specific B2B marketplaces called ExportTradingNetwork.com.

➤ **Foreign-trade.com**

Foreign Trade Online labels itself the “World’s largest international B2B trade and supply chain community”. It gives the opportunity to search for products,

suppliers, importers or other business entities participating in international trade as Export Credit Insurance Brokers and Companies, Export Trade Finance Companies, Customs Brokers, transport companies, etc.

Of course these are not the only sources of information for potential trade partners because every country has institutions, agencies and organizations that support exports and provide useful information.

## ***2. Commercial offer***

From exporter's point of view the most often used way to establish a contact with an importer is to send an offer. An offer is a written proposal made to a potential foreign buyer to enter into a sales/purchase contract under the conditions specified therein. Offers can also be made orally or by phone and later confirmed in writing. The individual or the legal entity that sends the offer is called offeror. Although any proposal made by the seller or the buyer may be treated as an offer, in international trade praxis it is accepted that an offer is a proposal made by an exporter.

Offers should be clear and informative and not to cause ambiguity. An export offer should include the following essential components (Dudenredaktion, 2006):

- Information about the offeror

Usually the companies submit offers on an official company letterhead, indicating the industry sector the company belongs to, P.O. box and street address, direct contact details for phone/fax/e-mail, banking details, and VAT registration number. (Hamburg Chamber of Commerce, 2021).

- Correct address of recipient
- Date and number of the offer in the subject line
- For requested offers: thanks for the interest

For blind (non-binding) offers: an interesting introductory sentence to attract the attention of the buyers.

- Precise information on type, quality, quantity and price (including / excluding VAT) of the goods or services.

- Time limit for the offer (Validity).

Depending on the form of the offer (letter, fax, e-mail), offerors expect an answer within the usual time limits. The offer can also be limited in time (to this offer

we feel bound until ...).

- Restriction of the offer

Lamjassa Mohammed ed Fils  
Att. Mr Kihal Sherif  
17 Rue Mekki Ali  
30592 Alger, Algeria

Singapore, 24 March 2016

Our ref. S20984

Dear Mr Sherif

Referring to your letter of 10 March, we are pleased to make you the following offer.

Goods description: 350 units of Soundstrong 1400 as per Enclosure 1, equipment as per Enclosure 2 and Quality guarantee as per Enclosure 3.

Price: USD 175 per unit, incl. equipment

Terms of payment: Letter of credit, details to follow.

Terms of delivery: CIF Alger, Incoterms 2010.

Delivery: From Singapore within one month from acceptance of L/C.

Packing: Two units per carton and 50 cartons per wooden case.

General conditions: Orgalime S 2012, UK law and jurisdiction applicable.

Validity: Until 10 May 2016.

We hope this quotation will be of interest to you, and will be in contact with you in the near future.

Yours faithfully  
Sundale Alarms Ltd

Roger B Staines  
Deputy General Manager

Stephen Sayers  
Export Manager

Encl.

Source: (Grath, 2016, p. 214)

An offer without restriction fully binds the offeror. He can restrict it with the words non-binding, subject to change or without commitment. Another possibility is to express restriction on individual parts of the offer.

- Place of performance (e.g. ex works) and transport costs (e.g. free domicile, excl. shipping costs)

- Conditions of sale and delivery.  
Reference to the conditions overleaf / enclosed
- If applicable, reference to particularly important parts of the addendum  
(e.g. on a specific page in an enclosed brochure)

### ***3. Types of commercial offers***

Based on specific criteria different types of offers can be distinguished.

Depending on the degree of commitment to the conditions described in an offer there are firm (binding) and non-binding (indicating) offers. A firm offer binds the offeror with the conditions formulated in the offer for a certain period of time called period of its validity and is irrevocable during that time<sup>35</sup>. Usually a firm offer will be valid or stay open for no longer than three months. This period of validity could be expressed by pointing out a specific date until the offer is valid (for example: *This offer is valid until 31.01.2021*) or a period<sup>36</sup> (for example: *Validity: 30 days, "The seller agrees to offer 500 widgets for \$10 per widget; this offer is firm and remains open for 60 days."* ( Mestaz, 2019). An offer could also be firm when there is no specified period of validity but it is indicated that it is firm. In that case it is accepted that a reasonable time for preparation of an answer is the period of validity. If the offer is accepted without any changes during its validity, there is a binding contractual commitment.<sup>37</sup> Any change in the conditions formulated in the offer made by the recipient turns it into a counter-offer.

A non-binding offer (indicative offer) is used in a sales process to establish the terms of a deal between the seller and the buyer. The acceptance of such offer does not constitute a binding contractual commitment to pursue the transaction to the end even there are no changes in its conditions. Acceptance of all conditions of a non-binding offer is considered as a firm counter-offer. A non-binding offer could be sent to more than one buyer because it doesn't bind the offeror with its conditions.

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<sup>35</sup> According the legal regulations in some countries the firm offer may be revoke during the period of its validity but before she was accepted.

<sup>36</sup> The period starts from the date when the offer was sent.

<sup>37</sup> Usually it is sent to one potential buyer.

<b>EXPORT QUOTATION</b>	
Date:	Valid through:
Shipper/Exporter:	Buyer/Importer: Telephone: Fax: Email:
Buyer/Importer:	Point of Origin: Final Destination: Approximate Gross Weight: Dimensions: Approximate Cubic Size:
Incoterm: EXW__ FCA__ FAS__ FOB__ CFR__ CIF__ CPT__ CIP__ DAF__ DES__ DEQ__ DDU__ DDP__ Named Place:	
Description of Merchandise: <i>include the number of units, description of how the merchandise will be packaged (number of boxes), and the appropriate Harmonized Commodity Number</i>	
Ex Works value:	
Special Export Packing	
Inland Freight:	
Export Documentation/Handling	
Air Freight	
Ocean Freight	
Terms of Payment:	
Cash In Advance- Wire Transfer _____ Documentary Collection: Sight _____ Time(specify) _____ Letter of Credit: Advised _____ Confirmed _____ Open Account: (specify terms- i.e. Net 30) _____ Special Arrangements: (specify) _____	
At Destination:	
Clearance & Handling: Duties/VAT Final Delivery:	
TOTAL	
Insured for _____ @ _____ per \$100 valuation <i>Shipments are frequently valued at 110% of total from above to cover other expenses</i>	
Reference #:	Remarks:
Prepared by:	
Verified by:	

Source: <https://www.examples.com>

Some expressions used in non-binding offers are:

1. We have pleasure in offering you without engagement (or without obligations), 1,000 tons of....

2. This offer is made without (any) engagement (or without (any) obligation) on our part.



3. This offer is subject to the goods being unsold on receipt for your reply.

An offer can be sent unsolicited to a potential customer but it can also be created on request. On that base we distinguish unsolicited (so-called blind offers) and requested offers (quotation).

If the offer is sent on request the offeror should respond precisely to the questions of the customer<sup>38</sup>. If the offeror is not able to satisfy the buyer's requirements he/she should send a polite proposal rejection letter and offer a clear and valid reason for rejecting the proposal. The unsolicited offer is a proposal that is received without request. It must be so accurate and comprehensive that the customer does not need to look for more information (Dudenredaktion, 2006).

In some cases, a pro-forma invoice is used as an offer. It serves as a formal statement of promise by exporter that he/she will provide certain goods or services at specified prices and within an identified period of time. A pro-forma invoice is a preliminary document that is sent by the seller in case that the amount of payment or certain characteristics of the goods are not yet fully agreed or the contract provides for the transfer of the advance from the buyer. A pro forma invoice and a commercial invoice are two almost identical documents<sup>39</sup>. The difference is that the pro-forma invoice contains preliminary data and is for informational purposes only. This document allows the buyer to know how much will have to be transferred for the goods. A pro- forma invoice shall be issued also in cases where it is not possible to determine the exact weight of the goods before loading. For example, when loading a bulk container, the exact weight can only be found after loading. According to Noha an international pro-forma invoice should include (Noha, 2019):

- *Seller's and buyer's names and addresses.*
- *Buyer's reference number and date of inquiry.*
- *List of requested products and a brief description.*
- *Price of each item and delivery point.*

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<sup>38</sup> If the offer is prepared for attending an international tender it is called tender offer or tender. In that case the offer is made according to the requirements of the tender organizer or the client.

<sup>39</sup> it is considered more binding than a quotation – although not legally binding like a completed invoice.

- Terms of sale and terms of payment.
- Insurance and shipping costs.
- Validity period for quotation.
- Total charges to be paid by customer.
- Estimated shipping date from the port or airport and currency of sale.

### Proforma Invoice

<b>Shipper</b> Shipping Solutions 1400 Corporate Center Curve Suite 110 Eagan MN 55121 US Tax Identification Number: 41-1111111	<b>Date</b> 01/01/2015 <b>Order Number</b> 6541 <b>Commercial Invoice Number</b> 9871654 <b>Ultimate Consignee Phone</b> +81-797-22-1111 <b>Exporting Carrier</b> AMERICAN TANK AND VESSEL INC	<b>PO Number</b> 987987 <b>Terms</b> Net 30 <b>Proforma Invoice Number</b> 654654 <b>Customer Account Number</b> DYN00 <b>1 Loading Pier/Terminal</b> 12345 <b>Country of Destination</b> Japan <b>Exporter Contact Name</b> David Noah <b>Exporter Contact Phone</b> 651-905-1727
<b>Ship To</b> Dynamite Fish Company 5-2 Kawanishicho Ashiya City Hyogo DY 659-0072 JP Tony Sakamoto Tax Identification Number: 12/121213	<b>Origination State</b> Minnesota	
<b>Sold To</b> Dynaox 5-2 Kawanishicho Ashiya City Hyogo 659-0072 JP Fujio Sakamoto +81-797-22-1111	<b>Exporting Carrier</b> AMERICAN TANK AND VESSEL INC	

Quantity	Product ID	Description	Schedule B Code	Unit Price	Total Price
10 Each	SSPRO909	Shipping Solutions Professional version 9 export documentation and compliance software - network version with 4 user licenses, Country of Origin: UNITED STATES	8524.91	2,499.00	\$ 24,990.00

ALL PAYMENTS MUST BE MADE IN U.S. FUNDS DRAWN ON A U.S. BANK

These commodities, technology or software were exported from the United States in accordance with the Export Administration Regulations. Diversion contrary to U.S. law prohibited.

Inland Freight Fees	\$ 0.00
Handling Fees	\$ 0.00
Consular Fees	\$ 0.00
Ocean/Air Fees	\$ 0.00
Insurance Fees	\$ 0.00
Other Charges	\$ 0.00

Title President

Total:	FCA Duluth, MN	\$ 24,990.00
	Based on INCOTERMS® Revised 2010	USD

Authorized Signature

Page 1 of 1

Source: <https://www.shippingsolutions.com/>

#### ***4. When to use the different types of commercial offers***

Often the offeror has to decide what type of offer to use when entering a market especially in cases when acting at his own initiative. The decision depends on factors such as: the conjuncture and its change on the respective commodity market; the export potential of the offeror; the market segment the offeror has gained; the phase in the life cycle of the given product, etc.

Regarding the type of offer some general recommendations could be made. Usually in a situation favourable for the offeror, i.e. in cases when demand of a product on the international market exceeds its supply, it is considered more advantageous to enter the market by using non-binding offer. That type of offer provides some freedom to exporters in circumstances of constantly changing market conditions. In such periods, non-binding (free) offers usually attract the attention of buyers to the same extent as the firm ones. Controversially - in an unfavourable situation for the offeror - when supply exceeds demand - a firm offer is preferable to use. In such cases the non-binding (free) offers do not hold/keep the buyers attention because of the greater choices they have.

The market situation influences also the initiative of the two groups of participants - exporters and importers. When situation is in favour of exporters, usually the importers are more initiative by sending inquiries in order to receive offers and in those cases it is better for the sellers to make and send firm offers in response. The opposite is valid in unfavourable conditions for exporters.

When the offeror has a monopolistic position in a given market, the non-binding offer play the same role as the firm and it is preferable because it guarantees to a greater extent the exporters interests.

Regardless of what type of offer will be preferred in a specific situation, it is very important to take into account the sellers' export potential. Evaluation of company's export potential is the first step in its "export plan". "In this regard, businessmen must analyze the company's innovation and technological standing and the characteristics of the products. They must also consider the company's trading and financial capacity as well as the available human resources." (ConnectAmericas, 2021) The permanent presence on a specific market is of utmost

importance for the export efficiency of a company. Offers which are made occasionally do not hold/keep the attention of the buyers and damage their reputation. Even more negative consequences for an exporter may cause a potential exit from the market for a certain period. This will certainly change the perception of the counterparties in the business qualities of the exporting company, will cause distrust between them and deterioration of relations.

### **5. Enquiry**

Enquiry is a written request from the buyer (importer) sent to the sellers (exporters) for supply of information about the price, quantity, quality of certain goods or services they are interested in, the terms and conditions of sale, etc. In general, the enquiry has similar to the offer content but from the buyer's point of view. Depending on the type and the goal of enquiry the requested information will differ. There are the following types of enquiry: preliminary, general and specific.

- The purpose of a preliminary enquiry is to determine which of the potential offerors are able to make an offer. It is usually used when to make an offer for the supplier requires a lot of work. This type of enquiry is suitable in cases when the object of the transaction is of a high degree of complexity. Except the introductory and concluding formalities, this inquiry must include (Dudenredaktion, 2006, p. 246):
- An explanation of how the person found out about the supplier;
- Presentation of the own company;
- Type and scope of the forthcoming/future order;
- Type of goods or services;
- Schedule: submission of offers, delivery date;
- The question of whether the supplier is ready to submit an offer;
- The date by which the answer must be available.

The goal of the general enquiry is to receive a general information of the products or commodities, by asking the exporter to send a catalogue, a brochure, a price list or samples. If the importer intends to purchase a certain goods or services,

he may ask the exporter to make an offer on this product. This type of enquiry is called specific enquiry.

### Sample of a general enquiry

United Textiles Limited
22 Lawton Street
Liverpool
England
8 May 2021
Chinatex Corporation
19 Jianguomen High Street
Beijing
China
Dear Sirs
We have received your name and address from Messrs. Anderson & Co. and are delighted to learn that you export hand-made gloves in a variety of colours and designs.
We are a large dealer in gloves in the UK and believe there is a large and steady demand here for gloves of high quality.
Would you please send us your catalogue and price list for gloves, with details of your prices and terms of payment? It would be greatly appreciated if you could also send samples of your products by airmail.
We look forward to your early reply.
Yours faithfully
For1 United Textiles Ltd
(signature)

Source:

<http://course.sdu.edu.cn/G2S/eWebEditor/uploadfile/20131201180129005.pdf>

Such enquiry includes the date and the addresses of the sender and receiver; salutation; information on how to become aware of this provider, request for an offer, exact description of the desired goods (e.g. quantity, quality, colour) or service (e.g. scope, deadline, quality); date by which you would like to have the offer; the terms of sale and delivery; indication by when you need the goods or services<sup>40</sup>. It could include also questions related to the prices of consumables and spare parts; the type and cost of packaging, the maintenance and ask for references and further information about the seller. (Dudenredaktion, 2006, pp. 252-253)

### **Sample of a specific enquiry**

2 July 2021

VBH Australia Pty Ltd1

4/42 - 44 Hartnett Drive

Seaford VIC 3198

Australia

Dear Sirs

Stainless Steel Hinges2

We are a state-owned trading company in Guangzhou, China. We are now in the market for3 a large quantity of stainless steel hinges.

We used to buy elsewhere and now are looking to buy from your company, because we understand that you are supplying goods of the same quality in large quantities at more attractive prices.

Our detailed requirements are:

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<sup>40</sup> It could also include a reference to long-term cooperation

Quantity required 5 000 sets

Packing in cartons

Shipment September/October 2021

Terms of payment confirmed L/C payable by draft at sight

Please quote us the best price CIF Sydney as per Incoterms 2020.

Provided your price is reasonable and the quality is found to be satisfactory,  
we would

be willing to place regular orders with you.

We look forward to your early reply.

Yours faithfully

For Guangzhou Metals & Minerals Imp & Exp Co Ltd

(signature)

Wang Jun (Mr)

Chief Buyer

Source:

<http://course.sdu.edu.cn/G2S/eWebEditor/uploadfile/20131201180129005.pdf>

An enquiry, like an offer could be sent by mail, fax, e-mail, etc.

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## Key Terms

- 1) Sources of business partners
- 2) Offer
- 3) Binding offer
- 4) Non-binding offer
- 5) Preliminary enquiry



- 6) Special enquiry
- 7) General enquiry

**Review questions and tasks**

1. What is the difference between the binding and non-binding offer?
2. In what cases you would use a firm or a free offer?
3. What are the main elements of an enquiry?
4. What differs an enquiry from an offer?
5. Which are the types of enquiry?
6. If you are an exporter how could you find foreign costumers?

## **CHAPTER V. FOREIGN TRADE NEGOTIATIONS AND CONCLUSION OF A FOREIGN TRADE DEAL**

### **Chapter outlines**

1. International negotiations – definition and specifics, technology and strategies

Definitions of international business negotiation, stages in IB negotiations, negotiation strategies.

2. Face to face business negotiations

Specifics of face-to face negotiations, advantages and disadvantages.

3. Trade negotiations by written correspondence

Mail and e-mail negotiations, advantages and disadvantages.

4. Business negotiations over the phone

Specifics of IB negotiations over the phone: advantages, disadvantages and recommendations.

5. Options for conclusion of a foreign trade deal

Based on foreign trade contracts; Firm offer acceptance without change; Free offer acceptance without change; Order acceptance without change

### **Learning objectives**

1. To define the international business negotiations.

2. To know the technology of conducting negotiations.

3. To be aware with cultural aspects of international business negotiations

3. To analyze the advantages and disadvantages of different forms of negotiations.

4. To know the options for conclusion of a foreign trade deal.

### ***1. International negotiations – a definition and specifics, technology and strategies***

Integral part of international business operations, including exports and imports are negotiations. Through negotiations the counterparties (in our case exporters and importers) try to achieve the conditions of a deal that they would benefit from most. Successful negotiations lead to conclusion of a commercial contract or an agreement.

According to Casse (Casse, 1981) negotiation is a process in which at least one individual tries to persuade another individual to change his/her ideas or behavior and it often involves one person who attempts to get another to sign a particular contract or make a particular decision. Logically it could be said that it is a process in which at least two partners with different needs and viewpoints need to reach an agreement on matters of mutual interest (Sae, 2008). At the international level negotiation is considered as “deliberate interaction of two or more parties (at least one of them a business entity), originating from different nations, who are attempting to define or redefine the terms of their interdependence in a business matter” or “involvement of at least two national contexts, whether that occurs via the parties’ affiliations or the business matter” (Weiss, 2006). International business (IB) negotiations are typically more complicated and difficult compared to negotiations between entities from the same country and culture. Negotiating international deals is a challenge because the negotiators must be “familiar with the complexities of the immediate negotiation context, such as the bargaining power of the parties and the relevant stakeholders, as well as the broader context, which may include currency fluctuations and government control” (Benoliel & Hua, 2015). The complexity of IB negotiations is determined by many factors such as culture, political and legal system, political risks, bureaucracy, international finance, etc. Depending on the issues, negotiations may take place between different players (Khan & Ebner, 2019):

1. Suppliers and producers
2. Producers and customers
3. Business to business to consumer

4. Business to government
5. Government to government
6. Interfirm co-operations

On the other hand, with internationalization and globalization some issues concerning international business (directly or indirectly) are negotiated at the international or global level with participation of many governments representing different countries (international multilateral negotiations). At that level the negotiations have more to do with the policies of different countries and building international (global) business regulations<sup>41</sup>. Usually they take long time and are highly dependent on the power and the willingness of the governments. In international commercial negotiation there is no room neither for aggressiveness, domination, nor for emotion. It is primarily concerned with determining the terms and conditions on the basis of which a particular commercial deal will be acted upon (Chatterjee, 2000).

In the literature, sometimes instead of “negotiation” the term “bargaining” is used. Although very often these two terms are used interchangeably, some authors make a difference between them. According to Ghauri “bargaining” is like haggling in a competitive bargaining or distributive bargaining where the objective of the parties is to maximize their own benefit, often at the expense of the other party. It refers to a typical win-lose negotiation. “Negotiation” (also called “integrative bargaining”) on the other hand refers to win-win negotiation/situation where all involved parties can end up with equally beneficial outcomes. Negotiation is more related to a problem-solving approach and it is possible for participating parties to achieve their objectives (Ghauri & al, 2003).

Regardless of the specifics of IB negotiation, as a process it has the same main phases as the negotiations between parties coming from the same country or having the same culture. These include the following<sup>42</sup>: pre-negotiation phase, the

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<sup>41</sup> Such as the agreements under World Trade Organization or International Monetary Fund.

<sup>42</sup> Some authors define more phases. For example according Krebs and Jung (Krebs & Jung, 2019) negotiations include the following phases :

- the preparation of negotiations,
- the start of negotiations,
- the core phase of negotiations,

negotiation phase and the post-negotiation phase. The pre-negotiation phase of international business negotiations involves the preparation and planning. At this stage of negotiation process the parties have to define their object and objectives/aims of negotiations, to do preliminary research about the negotiating partner/s (who will negotiate and what their personality and history of negotiation is; their approaches, negotiating style, life history, hobbies, and interests, if they are authorized to make binding decisions), to make decisions about the negotiating team and its preparation (who will participate and what the role and tasks of every team member will be), to define the strategies that will be used, to set rules, agenda and a schedule for action.

The negotiation phase can take short or longer time depending on the specific circumstances. It could be decomposed at least into the following stages (sub-phases): start; core negotiations and closing. The start of negotiations is strongly influenced by the chosen way of negotiation (face-to-face, e-mail, telephone etc.), the contract's importance and other factors such as the type of the business relationship. The core stage of negotiations extends from the point of the first offer to the final offer and its acceptance or rejection. During the core negotiations the both (or all) sides apply different strategies, tactics and techniques (Krebs & Jung, 2019). "At this stage negotiators explore the differences in preferences and expectations related to developing an agreement." (Numprasertchai & Swierczek, 2006). At the end of negotiating phase the parties decide to conclude or not an agreement (contract). "A written agreement usually marks the closure of a negotiation." (Benoliel & Hua, 2015, pp. 66-67) Before the parties sign the agreement they have to discuss the implementation of the deal with the other party to be sure that the agreements can be carried out smoothly. They also have to be sure that both parties have accomplished the goals to avoid future problems. (Benoliel & Hua, 2015)

The post-negotiation stage is related to implementation of the agreement, evaluation of the agreement, and following-up. Parties must honour the

- 
- the agreement,
  - the implementation of the agreement and
  - the ex-post-phase.

commitments they have made, and allocate all the necessary resources for carrying out the implementation process successfully and on time. They also have the option to look back at the overall negotiation process and its outcome, and according their performance to find areas to improve for the future (Khan & Ebner, 2019).

During the negotiation process parties can follow different strategies to achieve their goals. Broadly strategies can be categorized as competitive (win-lose) and cooperative (win-win). Competitive strategies are based on the negotiators' understanding that a party in negotiations can win at the expense of the other party. These strategies are common in situations when the resources, over which negotiations will be conducted, are finite and the parties seek the larger share of them or in situations of a one-time deal when the future relationship is not important. The negotiators using these strategies are assertive, demanding and threatening (Khan & Ebner, 2019, pp. 28-29) and are not willing to make concessions.

Table 5-1. Negotiation strategies

<b>win-win strategy</b>	<b>win-lose strategy</b>
Define conflict as a mutual problem.	Define conflict as a win-lose situation.
Pursue joint outcomes.	Pursue own group's outcomes.
Find creative agreements that satisfy both groups.	Force the other group into submission.
Use open, honest and accurate communication of group's needs, goals and proposals.	Use deceitful, inaccurate and misleading communication of group's needs, goals and proposals.
Avoid threats (to reduce the other's defensiveness).	Use threats (to force submission).
Communicate flexibility of position.	Communicate high commitment (rigidity) regarding one's position.

Source: (Ulijn, Lincke , & Wynstra, 2002, p. 4)

Cooperative (or collaborative) strategies are oriented to mutual understanding, longtime partnership and benefits for both parties. The parties invest all the efforts in exploring options with the counterparty, seeking common ground and shared interests (see Table 5-1). The aim is to achieve win-win results (Cellich & Jain, 2004, p. 68).

The choice of a strategy, techniques and tactics, which will be used in international business negotiations, depends on factors such as the importance of the relationship between the two parties and the importance of the outcome. The cultural differences between the negotiating parties are no less important for a successful result. They affect negotiations in many aspects as negotiation strategy and style, communication, selection of negotiators, rituals of negotiation, time, willingness to take on risks, etc. Underestimation of cultural differences may lead to essential adverse consequences when trying to find international partners or to negotiate an international deal.

## ***2. Face-to-face business negotiations***

Nowadays negotiations are taking place through different channels such as face-to-face meetings, telephone, email, VOIP (Voice over Internet Protocol), video conferencing, conference calls, etc. Each of these channels has its importance and place in the process of negotiations and its advantages and disadvantages. (Although currently the new communication technologies are increasingly used in business negotiations, face-to-face negotiations are still considered as the most effective. This form of negotiations allows receiving information directly from the counterparts about their interests, the level of interest to the object of negotiation, the propensity for a lucrative outcome, etc. At the same time it is the most difficult way to conduct international business negotiations because of the influence of the cultural specifics. Many cultural variables are influencing the behaviour of participants of in negotiation process, their attitude and negotiation style. Such things as clothing, bearing, gesture, expression and others are transmitting signals about the attitude and behavior. The language (verbal and nonverbal) used in communication between parties is also important for the negotiations outcome (Danciu, 2010).

There are no strict rules to conduct face-to-face negotiations especially on the international level but some general guidelines can be useful for the negotiating parties. First of all, the success of face-to-face negotiations is a function of the prior preparation and planning, starting with choosing the people who will represent the

firm<sup>43</sup>, their status<sup>44</sup>, experience, qualities and preparation, scheduling and making arrangements for meetings. All these things are an object of pre-negotiation phase when the goals and tasks of negotiations and the strategies and tactics that will be used during negotiations must be defined.

Secondly, face-to-face negotiations start differently depending on the specifics of the culture of the parties. This is due to differences in understanding of trust and relationships and the way they are built/established. In some countries trust and connections are essential and in other - they are not so important. For example in the USA<sup>45</sup> “the people tend to trust until given reason not to” (Graham & Requejo, 2009) and the non-task sounding<sup>46</sup> (or small talks) takes relatively short time before starting to talk about business. In the relationship-oriented cultures the duration of this stage takes much longer time and may include informal meetings, sometimes including intermediaries<sup>47</sup>, dinners in restaurants and other entertainment.

The non-task sounding is followed by task-related exchange of information. It is a two-way communication process during which “each party sets forth its position on the critical issues. At this point parties will try to find out what the other party wants to attain and what it is ready to give up.” (Saeed, 2008) In this part of negotiations the language used in verbal communication and written materials is important because it can cause misunderstandings or difficulties and create need for more explanations or more meetings. Non-verbal behavior is also important in cross-cultural communication and should be taken into account during negotiations. It is estimated that about 70-80% of information is transmitted non-verbally through looks, facial expressions, gestures, etc. At the same time, it should be kept in mind that some types of behavior and gestures could have different meaning in different cultures. For example to look too long a Japanese in the eyes is impolite but not to

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<sup>43</sup> Number and functions, gender, age and rank.

<sup>44</sup> In high-context cultures the words used by negotiators are not as important as their status.

<sup>45</sup> Americans always discuss topics at the negotiations table such as the weather, family, sports, politics, business conditions in general for about 5 - 10 minutes before talking for business.

<sup>46</sup> Non-task sounding, includes all those activities which might be described as establishing a rapport or getting to know one another, but it does not include information related to the “business” of the meeting. (Ghauri & al, 2003)

<sup>47</sup> Typical for Japan.



look an American in the eyes during the conversation gives the impression that something is wrong.

The most important step in negotiations is the persuasion. During this phase the parties use various strategies and tactics to change the counterpart's mind, expectations or its behavior and attitude. Among them are promises, commitments, recommendations, asking questions, treats, warnings, etc. The success of the persuasion according Saeed depends on (Saeed, 2008, p. 313).

- How well the parties understand each other's position;
- The ability of the parties to identify the areas of differences and similarity;
- The ability of the parties to create new options;
- The willingness of parties to work towards a solution.

The final phase is concessions making and agreement. At this point the parties usually give up something to get even more (Graham & Requejo, 2009). The negotiators have to understand how cultural differences affect the process. Typical for the American style is to negotiate an issue at a time and when it is resolved, to move on the other. On the other hand the Asians have holistic style and discuss all the issues simultaneously

not agreeing on any single issue until the end (Ghauri & al, 2003). The final agreement of the negotiation process may take different form. For high-context cultures common is the gentleman's agreement and in low-context cultures more prevalent are the formal contracts (Danciu, 2010, p. 96).

Face to face negotiation has its advantages and disadvantages compared with other forms of negotiation. Among the advantages are:

- It is much easier to build trust between the counterparts by personal contact and the possibility to know each other better in non-formal and formal environment;
- The communication is more interactive and allows immediate feedback and discussion with nonverbal context;
- The possibility to ask for more information during the discussions or to break the meeting if it is necessary;
- The increased likelihood for a mutually beneficial resolution;

- The lack of risk or less risk of information leakage on sensitive issues.

At the same time face-to-face negotiation have some disadvantages. In the first place, due to cultural differences, confusions and misunderstandings are possible during the meetings. Secondly, it is possible to disclose more information than it would be desirable through non-verbal communication when the negotiating team is not experienced enough. It could also be time and effort-consuming, more expensive, etc.

### ***3. Trade negotiations by written correspondence***

Another means of international business negotiation is the written correspondence in the form of business letters (enquires, offers, etc.). The written correspondence has a long story in international trade praxis. Business letters have a specific structure depending on the subject and should to comply with certain formalities. One of the rules in business correspondence is to reply promptly whether the answer is positive or negative. Also it has to be clear and informative enough and, if necessary, be accompanied by price lists, catalogs, prospectuses, etc.

The advance in technologies in last decades has not changed significantly the form and the content of business letters. However, it has changed the preferred way of exchanging them. Gradually the traditional exchange of letters by mail has been replaced by e-mail. This type of negotiations has many merits. It is relatively inexpensive, time and money saving and user-friendly. Negotiating from the office saves time and money on travel. It allows to send messages, business letters and other information quickly and to receive back answers relatively fast and to as many recipients as needed. The negotiators also have access to necessary files, staff and any other expertise they may require to carry out the discussions to full satisfaction. It is useful “to make arrangements for forthcoming face-to-face negotiations, such as travel bookings, fixing the agenda, selecting a location, agreeing on the number of people participating in the discussions and so on.” (Cellich, 2001). Written statements can be viewed as legal and binding and used as a proof if any disputes between parties arise.

Among the benefits of e-negotiation are also the following (Cellich, 2001) (Cellich & Jain, 2004):

- it allows to overcome time zones, location and distances;
- it reduces the cultural, organizational and gender barriers;
- it gives more time to think about the discussed issues in comparison to face-to-face or telephone communication;
- it reduces the need to deal through intermediaries and agents;
- it allows to negotiate simultaneously with several parties;
- it increases personal negotiation power of executives who have difficulty interacting effectively in face-to face meeting;
- it is easier to say “No”, etc.

Although e-mail communication is time saving, negotiators should take enough time to make decisions and prepare the answer. Depending on the issue, which is discussed, a reply may be made immediately<sup>48</sup> or within hours or days<sup>49</sup> if it is necessary. “It is important to give each incoming and outgoing message full consideration, including assessing how your message will affect your position vis-à-vis your competition (Cellich, 2001).” It is known that more than 70% of human communication is non-verbal and negotiating by email means to miss that non-verbal communication. This could lead to mistakes or misunderstandings because the information exchanged by emails is less nuanced than this exchanged face-to face due to elimination of important back-channels of information. Due to the lack of personal contact and relationship, it is considered easier to lie or bluff during the negotiations, which makes it much more difficult to build trust between the parties. It is also more difficult to reach an agreement and is more likely one of the parties to switch to another competitor for a better offer (Cellich & Jain, 2004). Sometimes

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<sup>48</sup> According Noam Ebner “Email is typically asynchronous: negotiators can read and respond to others’ messages whenever they desire – and not necessarily sequentially. Minutes, hours or even weeks can pass between the time a negotiators sends a message and the time their counterpart reads it, and reading messages out of order is a common cause of misunderstandings.” (Hazeldine, 2015)

<sup>49</sup> Numerous e-commerce manuals recommend replying within 48 hours. For some business transactions, replying within 48 hours may be too long while for others it could be too short (Cellich, 2001).

the parties could be focused mainly on an issue (for example the price) putting aside the ones concerning the deal. Negotiating on the Internet, similar to face-to-face negotiation, requires careful planning, preparing, patience, understanding other's party needs, relying on win-win strategy and oriented to problem-solving (Cellich & Jain, 2004). In general it should be combined with other forms of negotiation.

#### ***4. Business negotiations over the phone***

Telephone negotiations also have a place in international business practice. This media has some similarities with email communication in terms of advantages and disadvantages, but also some differences. In the first place, this is also a form of negotiation from the office and as such non-verbal communication does not play any role in the negotiation process. At the same time, even if the negotiators cannot see the reaction of the counterparty's representatives, they can hear their voice and receive important information from their intonation. Things like timbre, pitch, rhythm, tempo, breath, pauses are very important for forming an opinion about the interlocutor. On the second, similar to negotiations by email it is also much easier to say "No". On third, it allows to overcome distances and save time and money on traveling of managers and experts. On fourth, it opens an opportunity to eliminate some barriers, to limit the amount of information and keep the discussion short, to talk more and listen less.

Among the disadvantages of telephone negotiations are:

- the possibility to be surprised and unprepared (in such situation it is better to ask for time and to call later back);
- disorganization;
- distraction during the conversation and the possibility of missing important things;
- the lack of opportunity to see the interlocutor's reactions;
- limited time for discussions, thinking and making decisions (in a phone call you usually have to respond swiftly), etc.

The success in negotiation needs a good preparation. That is why it is recommended to make a checklist to avoid omissions and even to send the agenda by mail in advance, which will give some time for preparation of the other side and will put a frame around the negotiations. This will save the parties time to call back, to find the necessary information or a person.

Before the call, it is also useful to get acquainted with the rules and customs inherent for the country where the business partner is located, e.g. when to call, what to discuss, the potential to conclude the deal, etc.<sup>50</sup>

To increase the effectiveness of negotiations over the phone and to keep information received from the partner, it is recommended to take notes during the conversation or to transcribe the notes promptly after each call. For that purpose you can make a special form for taking notes (See Table 5-2) (Игнатъева, 2009). After the conversation a summary of what have been agreed should be sent by email to the other party for confirmation<sup>51</sup>.

Table 5-2

Data	Time of ringing
Telephone number	
The organization name	Names of the person
Questions for phone negotiations	Answers
1.....	1.....
2.....	2.....
3.....	3.....
Results from the negotiations	
Executant	

Source: Игнатъева, Е. С. *Международный бизнес-этикет*. Москва, „Вече“, 2009, с. 36.

<sup>50</sup> Some specifics of international etiquette for doing business over the phone can be found on <https://tollfreeforwarding.com/blog/international-phone-etiquette-business/>.

<sup>51</sup> There are also other recommendations such as: •to confirm agreements by repeating them back in own words; to have an excuse to break off the conversation if it does not meet your expectations; to talk less to get the other party to talk more, etc.

Nowadays, it is impossible to use only one type of negotiation, as the intensity and dynamics of business and technology developments provide new opportunities for business communications. Business negotiations should combine the set of communication media that would facilitate the negotiation process in the best way and ensure the highest efficiency.

### ***5. Options for conclusion of a foreign trade deal***

When the trade negotiations are successfully conducted, they lead to a conclusion of a foreign trade operation. There are several options known in practice which are considered as legally binding the seller and the buyer with a certain sale/purchase deal. These options are (Спиридонов, Захариева, Нейков, 2012):

**First**, on the basis of a FOREIGN TRADE AGREEMENT/CONTRACT prepared and signed by both parties to the transaction. According to the sale/purchase contract the seller (the exporter) is obliged to transfer the title of the goods (services) to the buyer (the importer), and the buyer has to accept the goods (services) and pay the agreed amount. After reaching an agreement on the all different terms of the international transaction one of the parties prepares a draft contract, signs it and submits it to the other party to sign. The signing of the contract can be done in the presence of the both parties or by their authorized representatives, or by exchanging a specified number of signed copies of the contract over the email. Before the final signing of the contract, it is recommended every party to check carefully the text of the clauses to avoid the risks of purposeful or unintentional modifications of the content due to the language used, which is foreign for at least one of the parties to the transaction.

### **Second, CONFIRMATION WITHOUT CHANGES OF A BINDING OFFER**

Acceptance (confirmation) of a firm offer with a written notice (letter, telex, fax) without modification means that the international transaction is concluded in case the confirmation is made within the offer validity period. In this case, the set of documents which includes the firm offer and its written confirmation by the counterparty is the evidence for the formation of a foreign trade contract. .

**Third, CONFIRMATION WITHOUT AMENDMENT OF A NON-BINDING OFFER** made in writing by the buyer, and within a certain (reasonable from the standpoint of practice) period and subsequent acceptance without modification by the offeror. The foreign trade contract is also considered as concluded when the offeror confirms without change the counter-offer received by the buyer (offering some changes), in response to a firm or free offer sent by him.

In these cases the international transaction is concluded on the basis of three arguments:

- free offer, written confirmation of the offer without changes;
- written confirmation by the offeror of the acceptance received from the buyer;
- firm offer, written confirmation of the firm offer, with a request for change of condition (conditions) in the offer, written acceptance of the counter-offer with the requested change by the offeror.

**Fourth, AN ORDER CONFIRMED WITHOUT CHANGES**, received from the buyer, also means a concluded foreign trade transaction under the conditions contained therein. Confirmation of the order can be made through letter, telex or fax, which by themselves can confirm a prior acceptance made in a phone conversation.

Offers can be accepted orally in a phone conversation but in all cases are confirmed in writing through letters, telexes or faxes.

Because of number of understandable reasons the last two options are increasingly applied in practice: the dynamic development of international trade and hence the objective tendency to seek methods and means to accelerate the processing of foreign trade transactions; the technical progress in the field of communications and information; the growing relative share of complex foreign economic operations, assuming long-lasting business contacts, resp. faster exchange of information, etc.

The choice of one of the mentioned options for concluding a foreign trade contract is determined by the specific conditions at a certain moment: degree of familiarity with the counterparty; duration of the relations period with the respective

company; established traditions, methods and forms of negotiation with various contractors; complexity and value of delivery; type of the foreign trade operation, etc.

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- <https://immi.se/intercultural/nr11/numprasertchai.htm>
- <https://tollfreeforwarding.com/blog/international-phone-etiquette-business/>

**Key Terms**

- 1) International business negotiations
- 2) Integrative bargaining
- 3) Pre-negotiation phase
- 4) Negotiation phase
- 5) Post-negotiation phase
- 6) Competitive strategies
- 7) Cooperative strategies
- 8) Win-win strategy

- 9) Win-lose strategy
- 10) Face-to-face negotiations
- 11) E-mail negotiations
- 12) Telephone negotiations

### **Review questions and tasks**

1. Define the International business negotiations.
2. What are the advantages and disadvantages of the different type of negotiations?
3. Find and summarize information about the international phone etiquette for business for countries belonging to different culture.
4. If you are a negotiator would you use VOIP (Voice over Internet Protocol) for negotiations? Why?
5. Compare competitive strategies with cooperative strategies.
6. Which of the following are not advantages of face-to-face negotiations?
  - opportunity to obtain more information about the partner;
  - the possibility to exercise control over the other party;
  - low costs;
  - take less time for preparation;
  - possibility to build trust;
  - possibility of interruption;
  - Possibility to see the reactions of the other party.

## **CHAPTER VI. INTERNATIONAL SALES/PURCHASE CONTRACT**

### **Chapter outlines**

1. Subject of the contract
2. Quantity of goods
3. Quality of goods
4. Price and total amount of the contract
5. Packaging, labeling and marking
6. Delivery of the goods
7. Payment conditions
8. Acceptance of the goods
9. Warranties
10. Claims
11. Sanctions (Penalties)
12. Retention of title
13. Force majeure clause
14. Applicable law and disputes resolution clauses
15. Other conditions

### **Learning objectives**

1. To gain insight into the international sales/purchase contract.
2. To discuss the main provisions of the international sales/purchase contract.
4. To get familiar with the variations of the international sales/purchase contract conditions.
5. To draw up a draft of an international sales/purchase contract.

By definition the contract for sale/purchase in international trade is a legal document where the parties, which belong to different countries, undertake mutually to transfer the title to good against the payment of a price (Berlingher, 2017). In many cases it is a necessary condition for conclusion of other contracts (as

insurance contracts, transport contracts and other) related to the execution of the transaction.

International sales/purchase contracts include various conditions such as subject of the contract, price of the goods, time of delivery, packaging, terms of payment, the procedure for accepting goods in terms of quality and quantity, rights and obligations of the parties, sanctions for non-fulfillment or improper fulfillment of obligations under the contract, conditions for release from liability, procedure for resolving disputes, applicable law, procedure for the entry into force of the contract, etc. Some of them are considered as essential<sup>52</sup> and other as nonessential. Essential for example are names of the parties; the subject of the contract; quantity and quality; basic terms of delivery; legal addresses and signatures of the parties and non-essential are documents; warranty; packaging and labeling; arbitration clause; other terms. There are also specific and general conditions. The specific conditions are related to a particular transaction<sup>53</sup> and a contract, while the general conditions set out standard terms common to all contracts.

The international sales/purchase contract has to comply with different formalities imposed by the law and the praxis. Each international sales/purchase contract must have an individual number, as well as give information about the date and place of its conclusion. The absence of any of these elements could make the contract invalid. The date when the contract is signed is usually also the date as of which it becomes effective and is particularly important if payment or delivery times will be fixed in reference to it (Shippey, 2003, p. 30). That is followed by identification of the parties, which sign it. The information usually includes names, corporate form, the tax identification code, the addresses, their role in the transaction – buyer or seller and who represents them.

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<sup>52</sup> Essential conditions of a contract are those without which it has no legal force. Essential are, firstly, the conditions on the subject of the contract; secondly, the conditions that are named in the law or other legal acts as essential or necessary for contracts of this type; thirdly, conditions which, if one of the partners does not fulfil them, the other party may refuse to accept the goods, terminate the transaction and request reimbursement of the losses.

<sup>53</sup> According to the ICC Model International Sale Contract (Manufactured Goods), rev. 2013 specific conditions are: Goods sold; Contract price; Delivery terms; Time of delivery; Inspection of the goods; Retention of title; Payment conditions; Documents; Cancellation date; Liability for delay; Limitation of liability for delay; Place of examination at arrival; Maximum delay for notification of non-conformity; Limitation of liability for non-conformity; Applicable law; Resolution of disputes; Other.

Contract #

Moscow « \_\_\_\_\_ » \_\_\_\_\_ 200 \_

Company « \_\_\_\_\_ » registered \_\_\_\_\_  
 (hereinafter referred to as the “SELLER”), represented by \_\_\_\_\_,  
 \_\_\_\_\_, due to the power of  
 the statement on the one hand, and  
 OOO “ \_\_\_\_\_ ” (hereinafter referred  
 to as the “BUYER”), represented by  
 \_\_\_\_\_, General Director,  
 due to the statement on the other  
 hand, have concluded the Present  
 Contract on the following:

Source: Лихачева, 2019, p. 179

### ***1. Subject of the contract***

This introductory part is followed by a description of the subject of the contract which is the first major condition of every transaction. The subject of a contract<sup>54</sup> may be the sale and delivery of a product, the provision of services, as well as the transfer of technology. Therefore, in this part of the contract, the type of the foreign trade transaction (purchase, sale) is briefly specified and the object of the operation itself is indicated. This provision<sup>55</sup> usually contains a precise description of the goods, quantities and sometimes the price<sup>56</sup>. The goods can be described by a model number, given in plans or drawings or in other specifications (Shippey, 2003, p. 12). In case the contract covers more types of goods, the quantity

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<sup>54</sup> The subject of a foreign economic contract are actions that shall be performed by the parties.  
 Object – products that shall be delivered.

<sup>55</sup> It could be labelled object, goods sold, sale and purchase of goods, products or in another way.

<sup>56</sup> In some contracts the price is set up as a separate clause.

of the goods by type should be given. The name of the goods should be in accordance with the customs requirements.

### I. Object of the Contract

The Seller has sold and the Buyer has bought \_\_\_\_\_  
on \_\_\_\_\_  
terms, in the quantity, assortment, at prices and according to  
technical data stated in Supplements Nos. \_\_\_\_\_, which  
are an integral part of the present Contract.

**Source: Спиридонов, Ив., Захариева, Г. Външнотърговски  
операции, Свищов 2003, с. 125**

## 2. *Quantity of goods*

The quantity clause in international sales/purchase contract establishes the measurement unit and the exact quantity in that unit, the system of measurement and the methods of determining the quantity. Depending on the specifics of the goods, quantity may be presented as weight<sup>57</sup>, number, length, area, volume or capacity. Confusions and misunderstandings may occur because of the different systems of measurement: The Metric System, British System, U.S. System and the International System of Units. Alongside the differences between them, there are measurement units with the same name but not the same weight or the opposite.

The quantity could be stated clearly in the contract as fixed/exact number or described by phrases such as "about", "cirka", which means that quantities can vary in certain limits. Practice shows that there is often a "More or Less" clause, especially in trading with bulk goods. This is used because quite often the quantity of the goods delivered exceeds or is less than the stipulated in the contract.

The "More or Less" clause can be used when (For Your Dream Caree, 2020):

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<sup>57</sup> Special attention should be paid when using standard/uniform packages with equal weight such as bags, crates etc.

- *The seller has the option of shipping 4% more or less on contracted quantity.*
- *Goods are packed in new gunny bags containing 100 kgs and each bag weights 1.15 kgs with allowance of 0.1 kg more or less.*
- *1,000 metric tons, 5% more or less at seller's option (or 1000 metric tons +/- 5%).*
- *The seller is allowed to deliver 5% more or less, the price will be calculated as per the unit price stipulated in the sales contract.*

The formulation “about” or a more and less clause is often applied when goods are transported by sea. It saves the seller the payment of the so-called dead freight<sup>58</sup>. The deviation in quantity is called tolerance and is usually related to the price of the goods.

### **Quantity Definition - Units of Measures and Weights**

- **Weight**

Metric System: 1 metric ton=1,000 kilograms=1,000,000 grams

British System: 1 long ton=2,240 pounds=2,240x16=35,840 ounces

American System: 1 short ton=2,000 pounds=2,000x16=32,000 ounces

Conversion:

1 metric ton=0.9842 long ton=1.1023 short ton

1 long=1.0161 metric ton=1.12 short ton

1 short ton=0.9072 metric ton=0.8929 long ton

1 pound=0.4536 kilogram

- **Length**

For length, China use kilometer, meter, centimeter, etc. in metric system, while

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<sup>58</sup> „Dead freight is an amount a shipper needs to pay, when the shipper does not utilize the space he or she has reserved on a truck or a vessel. Late amendments or cancellations may result in dead freight fees, or late cancellation fees. Each carrier or transport company reserves the right to determine what amount they charge. For road transport, this is usually a certain percentage of the quoted rate, in ocean freight the charge is usually several hundred Dollars” (Logistics Glossary, 2020).

in British and American system, mile, yard, foot, and inch are used.

$$1 \text{ mile} = 1,760 \text{ yards} = 1,760 \times 3 = 5,280 \text{ feet}$$

$$1 \text{ meter} = 1.0936 \text{ yards} = 3.2808 \text{ feet} = 39.3696 \text{ inches}$$

- **Area**

Area units are used in the calculation of plank, board, or leather, etc.

$$1 \text{ square meter} = 1.1956 \text{ square yards} = 10.7639 \text{ square feet}$$

- **Volume**

The units of volume are most often applied in the trade of wood, and the like.

$$1 \text{ cubic meter} = 1.308 \text{ cubic yards} = 35.315 \text{ cubic feet}$$

- **Capacity**

Units of capacity are usually used in the trade of liquid goods and agricultural products.

$$1 \text{ liter} = 0.22 \text{ British gallon} = 0.264 \text{ American gallon}$$

$$1 \text{ British gallon} = 4.546 \text{ liters} = 1.201 \text{ American gallons}$$

$$1 \text{ American gallon} = 3.785 \text{ liters} = 0.833 \text{ British gallon}$$

$$1 \text{ American barrel} = 31.5 \text{ American gallons} = 31.5 \times 3.785 = 99.03 \text{ liters}$$

$$1 \text{ British barrel} = 36 \text{ gallons} = 36 \times 4.546 = 163.656 \text{ liters}$$

$$1 \text{ hogshead} = 63 \text{ American gallons} = 52.5 \text{ British gallons}$$

$$1 \text{ bushel} = 36 \text{ liters}$$

Source: <http://www.for-your-dream-career.com/Define-Quantity.html>

### III. QUANTITY OF GOODS

3.1 The unit of measurement in this contract is metric tons of weight (MTW). Months are calendar months according to the Gregorian calendar.

3.2 Quantity of each shipment is in MTW (+/- 5%) as per Delivery Schedule in Appendix 3.



3.3 The total quantity to be delivered is shown in the Delivery Schedule in Appendix 3 (+/- 5%).

3.4 The goods will be delivered over 12 calendar months in accordance with Delivery Schedule in Appendix No.3 hereto.

3.5 The quantity of goods will be confirmed on a certificate issued by an independent international survey company, SGS, CIQ or CCIC at seller's expense. Other quantity inspections at the port of unloading shall be at the buyer's expense.

3.6 Weight for invoicing purposes shall be established by the actual net weight. Weight franchise of 0.5% shall be allowed against Bill of Lading weight. In case short/over weight exceeds +/- 5% the Seller/Buyer shall compensate Buyer/Seller for

the amount excluding the franchise on the basis of contracted price.

Source: [http://networkscrapmetal.com/broker/pdf\\_files/NHI-1280343391.pdf](http://networkscrapmetal.com/broker/pdf_files/NHI-1280343391.pdf)

#### Article 1 - Quantity

The quantity shipped or loaded shall be that stated in the contract.

A tolerance of 3% in weight, more or less, shall be permitted only if the difference is due to circumstances beyond the control of the sellers.

Source: <https://drwakefield.com/wp-content/uploads/2018/10/EUROPEAN-STANDARD-CONTRACT-FOR-COFFEE.-FINAL-VERSION-2018.pdf>

Sales/purchase contracts also specify whether the quantity of goods delivered includes the weight of the tare. Depending on this, different variants are possible such as gross weight, net weight or other. The gross weight is the total weight of the goods plus the weight of the packaging (sub packaging and tare). The net weight is the total weight of the goods less the weight of the packaging (sub packaging and tare).

### ***3. Quality of goods***

The quality clause of international sales contracts refers to the quality of the goods and the ways of determining that quality. This clause is very important for the buyer and it is in their interest it to be clear and well-formulated. In general the quality refers to the technical characteristics of the goods, functionality of the goods, the degree of the goods correspondence with the requirements for which it has been manufactured (Berlingher, 2017, p. 102). There are different ways to describe quality of the goods in international sales contract depending on their nature and specifics and the international trade praxis with those goods.

The quality could be specified in the contract as:

- **“as is”, “as seen and approved”, “inspected/approved”(vu at approuve, wie besichtigt, wie gesehen)**

It is applicable when the goods are with specific characteristics or in stock and are subject to the prior inspection of the buyer (for example, auction sales or consignment sales). The buyer (importer) has the right to inspect the goods during a certain period so that s/he has a chance to find any obvious deficiency and the exporter has to guarantee that quality of the goods s/he delivers is the same as the approved by the buyer. The buyer is not entitled to a claim unless hidden defects have been identified.

- **“up to standard”**

The standard is a documented ‘technical specification “which lays down the characteristics required of a product such as levels of quality, performance, safety or dimensions, including the requirements applicable to the product as regards the name under which the product is sold, terminology, symbols, testing and test methods, packaging, marking or labelling and conformity assessment procedures... as well as production methods and processes relating to the products, where these have an effect on their characteristics” (European Commission, 2010, p. 9). There are different standards used in the praxis (Бонева, 2013): national, international and

European. National standards<sup>59</sup> are adopted by a national standardisation body, international standards adopted by an international standardization organisation and European standards adopted by a European standardisation body.<sup>60</sup>

- **„technical conditions/specification”**

This method of quality specification in the contract is used when there is no standard adopted for the goods or there are other reasons related to their production or maintenance. Usually technical conditions include detailed technical characteristics of the goods, description of material used in production, rules and methods of inspection and testing. It is applied in trade with unique equipment, complex machinery, ships, etc. The technical conditions are included as part of the text of the contract or as annex to the contract. They could be developed either by the producer and accepted by the buyer or by the buyer and presented to the producer (Спирidonов, Захариева, & Нейков, 2012, стр. 46). Very similar variation of quality formulation to technical conditions is to use specification attached to the sales contract. It lays down the technical characteristics of the product. Specifications could be developed by exporters, importers, different associations, unions and other so it is necessary to write the name of issuing organization and sometimes to duplicate the main information from the specification in the quality clause of the contract (Каракашева & Боева, 1994, p. 107).

- **“fair average quality (f.a.q.)”**

This quality specification is commonly used in trade in agricultural goods on commodity exchanges. “Fair average quality” means that the seller is obligated to deliver goods in quality which is not lower than the average for those goods, shipped from a certain place during a certain period. Usually the quality of the goods is determined by a single reference sample<sup>61</sup> which represent F.A.Q. It is not highly

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<sup>59</sup> The standards could be developed not only by government organizations but also by national scientific or technical associations, industrial unions and private companies.

<sup>61</sup> Samples from different parts of the available stock of produce offered for sale are submitted to independent assessors for appraisal. After examining the samples using different methods and from different dimensions the assessors will select those samples which they consider representative of the bulk of the samples, mix them together and reduce the lot to a single reference sample which represents the Fair Average Quality of the seller's stock. (FAO, 2020)

recommended for use because of its subjectivity and the risks it hides for the buyer. Quality could be an issue in trade with commodities and that is why it takes special place in commodity contracts. The quality is often related to the price payable by the buyer.

### **FAIR AVERAGE QUALITIES FOR MAIZE**

The maize shall be the dried and matured grains of Zea mays. It shall have uniform shape and colour. It shall be in sound merchantable condition and also conforming to PFA standards. Maize shall be sweet, hard, clean, wholesome and free from Argemone mexicana and Lathyrus sativus (Khesari) in any form, colouring matter, moulds, weevils, obnoxious smell, admixture of deleterious substances and all other impurities except to the extent indicated in the schedule below:

#### **SCHEDULE OF SPECIFICATION**

. No	Refractions	Maximum Limits (%)
	Foreign matter*	1.0
	Other foodgrains	2.0
	Damaged grains	1.5
	Slightly damaged, discoloured and touched grains.	4.5
	Shrivelled & Immature grains.	3.0
	Weevilled grains	1.0
	Moisture content	14.0

\* Not more than 0.25% by weight shall be mineral matter and not more than 0.10

% by weight shall be impurities of animal origin.

1. The definition of the above refractions and method of analysis are to be followed as given in Bureau of Indian Standard “Method of Analysis for Foodgrains’ Nos IS: 4333 (Part-I): 1996 and IS: 4333 (Part-II): 2002 and “Terminology for food grains” IS: 2813 – 1995 as amended from time to time. The method of sampling is to be followed as given in Bureau of Indian Standard “Method of sampling of cereals and pulses’ No: IS 14818-2000 as amended from time to time.
2. Within the overall limit of 1.0% for foreign matter, the poisonous seeds shall not exceed 0.5% of which Dhatura and Akra Seeds (Vicia species) not to exceed 0.025% and 0.2% respectively.
3. The small sized maize grains, if the same are otherwise fully developed, should not be treated as shrivelled and immature grains.

**Source: GOI, Ministry Agriculture and cooperation, 2009-2010**

**Source:**

**<https://www.krishimaratavahini.kar.nic.in/HTML/Kannada/faq.htm#TOP>**

- **“tel quel”, “tale quale”**

“Tel quell” clause of quality means that the buyer has to accept the goods if they correspond to the name and main purpose. It is assumed that the seller will deliver goods with fair average quality but it is not guaranteed. This formulation is used usually in so called “root sales“ or when the deal is made before the harvest is collected.

- **“tout venant”**

This formulation is very similar to formulation “tel quell” and means that the goods have to be delivered and accepted such as they are obtained without any processing or improvement. Applicable with trade with ore, coal, rock salt, etc.

- **“description”**

“The establishment of the quality based on description is made by detailed specifying the technical characteristics of the goods. The origin of the goods, the manufacturing method, the physical or chemical properties may be specified.” (Berlingher, 2017, p. 103) It is used in trade in goods with specific individual characteristics, machines and equipment where there are no technical conditions and the information in specification is not enough (Каракашева & Боева , 1994, p. 108).

- **“samples, models”**

Quality by sample is used in trade with consumer goods, agricultural goods and some types of machines and equipment. “The sample is a representative part, of small sizes, without usual usage or a complete item of the goods which is subject to the agreement. (Berlingher, 2017, p. 103)”. Usually the exporter provides the importer with a couple of samples of the goods to be sold and if the quality is satisfying for the importer agreement could be concluded. The sample could also be produces by the exporter according to the buyer’s specification or the buyer may send a sample to the seller, who has to reproduce it. The referential sample is usually produced in 3 pieces (samples): one for the seller (exporter), one for the (buyer (importer) and one for third party. If goods are sold by sample they must correspond to the sample, the buyer must have the opportunity to compare them with the sample and they shall be free from any defect not apparent from the sample (Oxford Reference, 2020).

- **“concentration of useful/harmful substances”**

Quality based on the concentration of substances used in trade in metals, ores, etc. In a sales contract it is described by the minimum content of useful substances and the maximum content of harmful substances.

***LME zinc physical specifications***

**Quality:** Special high-grade zinc of minimum 99.995% purity that must conform to the chemical composition of one of the registered LME standards

**Shape:** Ingots Lot size: 25 tonnes

**Brands:** All zinc deliverable against LME contracts must be of an LME-approved brand

**Source:**

<https://en.swissquote.eu/project-resources/pdf/en/Zinc.pdf>

- “yield”

Sometimes in the quality clause stipulates the amount of finished product that may be produced from an unit weight of the delivered goods, for example, butter from milk, refined sugar from raw sugar, etc.

The quality of goods in sales/purchase agreement is often described by using more than one of mentioned above methods.

#### IV. QUALITY OF GOODS

4.1. The goods shall conform to the Specifications in Appendix No.2 hereto.

4.2 The quality of the goods will be confirmed by a certificate issued by the independent international survey company which shall be binding on both parties in all respects, including but not limited to the replacement of faulty goods paid for by the seller. Other quality inspections at the port of unloading shall be at the buyers expense.

**Source:**

[http://networkscrapmetal.com/broker/pdf\\_files/NHI-1280343391.pdf](http://networkscrapmetal.com/broker/pdf_files/NHI-1280343391.pdf)

#### ***4. Price and total amount of the contract***

In a sales/purchase contract, the price is usually set per unit of quantity of goods and the total amount of the contract is indicated. The price of goods is the amount of money in a certain currency that the buyer must pay to the seller for the total amount of goods or per unit of goods delivered by the seller at the point specified in the contract. “The price is in the currency of one of the countries or in a third currency and the payment is in the reference currency or eventually in another one, stipulated by the parties (Berlingher, 2017, p. 107)”. The price should indicate which costs related to the deal are included (the packaging costs, the shipment costs depending on the delivery term; insurance costs and other expenses). According to

the INCOTERMS Rules the seller is the one who has to package the goods at its own expense in the manner appropriate for their transport unless the buyer has specific packaging requirements and informs the seller before the contract is concluded.

The price for packaging is set according to whether the contract includes a netto clause, a netto clause plus packaging or a brutto per netto clause. According to a netto clause the packaging cost is included in the goods. The netto clause plus packaging means that the value of the packaging is calculated separately and the brutto per netto clause - that the packaging is calculated to the unit price of the goods. The price depends also on whether the ownership over the packaging will be transferred to the buyer or the seller will rent it and it shall to be returned back (Berlingher, 2017, p. 107).

The shipment, insurance and other costs (such as taxes, custom duties) also depend on the delivery terms.

#### V. PRICE AND TOTAL AMOUNT OF CONTRACT

5.1 The Buyer shall pay the Seller in United States Dollars "USD"

5.2 The price of goods is as follows:

5.2.1 ISRI Iron Ore-Mexico 64.5 is \$ 130.00 USD/MTW billed at \$ 119.17 USD/MTW prior to unloading at 150,000 MTW per month for 12 months.

5.3 The monthly value of deliveries is \$ 17,875,500.00 USD (+/- 5%)(Five Percent) American Dollars.

5.4 The total amount of the contract is about \$ 234,000,000 USD (+/- 5%)(Five Percent) American Dollars.

5.5 The price of goods includes all costs incurred by Seller up to and including delivery basis DES at the destination port except where the contract specifically provides for a cost to be borne by the Buyer, port demurrage charges, tariffs, and export/import fees. The unit price is fixed and firm for any quantity not exceeding the maximum permitted under the contract either delivered or stored (if vessels are delayed by the buyers failure to unload in a timely manner) on or before expiry of the period stated in sub-clause 6.1, or such extended period as expressly provided in this contract or agreed by mutual written understanding.

5.6 The price includes up to 30 days storage and insurance of any consignment in the port of loading.

Source: [http://networkscrapmetal.com/broker/pdf\\_files/NHI-1280343391.pdf](http://networkscrapmetal.com/broker/pdf_files/NHI-1280343391.pdf)



9. Price. Buyer shall purchase the Goods from Seller at the prices set forth in Exhibit A, as it may be modified from time to time by agreement of the Parties (the "Price"). The Price includes all [packaging,] [transportation costs to the Delivery Location,] [insurance,] [customs duties,] [and] [fees and applicable taxes][, including, but not limited to, all sales, use, or excise taxes]. No increase in the Price is effective, whether due to increased material, labor, or transportation costs or otherwise, without the prior written consent of Buyer.

Source: [https://www.grayreed.com/portalresource/lookup/wosid/cp-base-4-117620/media.name=/Sale%20of%20Goods%20Agreement%20\(Pro-Buyer%20Short%20Form\)%20\(W-015-5511\).pdf](https://www.grayreed.com/portalresource/lookup/wosid/cp-base-4-117620/media.name=/Sale%20of%20Goods%20Agreement%20(Pro-Buyer%20Short%20Form)%20(W-015-5511).pdf)

#### 4. PRICES

4.1 The price stated in quotations, offers and invoices of the Company shall consist of the purchase price of the goods, exclusive of VAT, and other government levies.

4.2 The packaging expenses shall be excluded in the price referred to in Clause 4.1 (unless agreed otherwise in writing). The Company shall not take back the packaging.

4.3 The prices shall be based on cost factors, such as materials prices, salaries, social charges, transport costs, taxes, etc., applicable at the time of the order confirmation of the Company. Increases thereof may give rise to increases in the price of parts of the agreement between the parties that have not been carried out yet. The Company shall as then have the right to charge that increase in costs through to the Other Party.

Source: <https://novio.eu/terms-conditions/>

The price of goods in the contract could be determined or determinable. A determined price is defined by the parties upon the conclusion of the agreement, while a "determinable" price does not need to be expressly specified in the contract but there are sufficient objective elements in the contract that allow its determination.

### 3. PRICES

3.1 The selling price is exclusive of value added tax.

...

3.6. Unless otherwise agreed, *the goods supplied to the buyer shall be calculated at the prices current on the date of delivery.*

Source: <https://thegratracomex.com/wp-content/uploads/2015/08/KVK-ENG.pdf>

The price in the sales-purchase contract can be defined as firm or flexible. There are different variations in trade praxis based on the method of price fixation. The **firm price** is set at the time of signing the contract. It cannot be changed during the period of its validity and does not depend on the timing and procedure for the delivery of goods.

The price of the goods sold under this contract is USD 300 per tonne net CIF Hamburg, including the value of the package.

The price of the goods sold under this contract is 200 £ per tonne net CIF London, including the value of the package, but without taking into account the freight. The amount of freight will be determined upon delivery of the goods depending on the freight rates operating on the market during the period of shipment of goods.

**A flexible price** is a price fixed at the time of signing the contract revisable in the future if the market price of the product changes by the time of its delivery.

**The sliding price** is used in trade with goods the production of which takes a long time (equipment, ships, construction). This price is determined during the execution of the contract. The contract sets an initial price of a certain structure and elements (labour costs, materials, energy, etc.) and the final price changes with the changes in the price of these elements. Limits of the price fluctuations are also set (for example +5%).

When establishing the price the discounts which will be granted to the buyer should also be considered. The international praxis is rich in types of price discounts. The most common are:

**Quantity Discounts:**

Such a discount is granted for volume purchases. There are two variations of this discount: *simple* (non-cumulative) granted in a single purchase and *cumulative* granted over a specified period of time.

**Trade (Functional) Discounts:**

They are usually provided to middlemen for the functions they perform in the distribution of commodities. Because the distributors perform different functions within the distribution channel they should be compensated accordingly.

**Cash Discounts:**

A cash discount is the opportunity the buyer to pay less if the payments under the contract are made earlier than the deadline specified within, especially if they are paid in cash. For instance, a seller might offer a 2% discount for a customer who pays for a product within 30 days of the invoice date instead of some other time during the 90-day window the seller has specified (Fuchs, 2020).

**Promotional Discounts:**

Such discounts are given to distributors for the efforts to promote the manufacturer's product and to achieve special goals. Usually they are short-term.

**Seasonal Discounts:**

These are used to increase sales at the beginning of peak seasons or to stimulate purchases during dormant times (for example for warm clothes in summer or icecream in winter).

**Loyalty discounts:**

These are granted to the longtime and regular customers and have different variations as bonus rebate, special discount, dealer discount, hidden discount. (Каракашева & Боева , 1994, p. 121)

### ***5. Packaging, labeling and marking***

The importance of the issue of packaging, labeling and marking of the goods as a clause in international sales/purchase contract varies depending on the nature of the products, the customer's requirements, the mode/s of transport, the cost for packaging, low (customer) requirements and the international praxis.

The primary role of packaging is the physical protection and preservation of quality of the goods during their transportation from the seller (producer) to the buyer. It can play an important role in reducing the security risks of shipment, adding convenience in distribution, handling, display, sale, opening, use or reuse and increasing efficiency and reducing costs by allowing agglomeration of small objects into one package. Packaging is also an important factor for increasing sales through encouraging potential buyers.

Usually the seller must package the goods, at his own expense except in the case when the goods are sold unpackaged or the buyer has specific packaging requirements. In this case the buyer has to inform the seller before the sale contract is concluded.

#### **Packing Variety:**

**Box/Cases:** wooden in structure and of various sizes, and some are airtight, providing strong protection for cargoes like equipment and car accessories;

**Glass container:** used for dangerous liquid cargoes such as acids.

**Barrel/Drum:** made of wood, plastic or metal used for liquid or greasy cargoes;

**Bags:** made of cotton, plastic, paper or jute, ideal for cement, fertilizer, flour, chemicals, etc.;

**Crates/Skeleton case:** wooden structure between a bale and a case used for light weight goods of large cubic capacity like machinery.

**Can/Tin:** It is a small metal container in which small quantities of paint, oil or certain foodstuffs are packed.

**Container:** It is a very large container facilitate loading and unloading by mechanical handling.

**Bale:** a heap of material pressed together and tied with rope or metal wire, suitable for paper, wool, cotton, and carpets.

Source:

<http://www.for-your-dream-career.com/Pack-Definition.html>

This clause may provide also an opportunity for the buyer to return the tare (packaging) in a specific period when it is at high price and/or can be used multiple times. In some cases the buyer can send its own packaging to the seller.

7. Packaging. Seller shall properly pack, mark, and ship Goods as instructed by Buyer and otherwise in accordance with applicable law and industry standards, and shall provide Buyer with shipment documentation showing the Contract Reference Number, the quantity of pieces in shipment, the number of cartons or containers in shipment, Seller's name, the [air waybill/bill of lading] number, and the country of origin.

Source: [https://www.grayreed.com/portalresource/lookup/wosid/cp-base-4-117620/media.name=/Sale%20of%20Goods%20Agreement%20\(Pro-Buyer%20Short%20Form\)%20\(W-015-5511\).pdf](https://www.grayreed.com/portalresource/lookup/wosid/cp-base-4-117620/media.name=/Sale%20of%20Goods%20Agreement%20(Pro-Buyer%20Short%20Form)%20(W-015-5511).pdf)

Marking and labeling are important steps when preparing goods for transportation. Labels play a dual role: as an advertising tool and as a tool for information. The goal of labeling is to inform the consumers about the quality, quantity and content of the products; how to use them or to protect themselves from dangerous products. There is a vast variety of national and international rules for labeling the products. Usually labels contain the following information:

- name and address of the exporter (producer);
- weight or volume of contents;
- ingredients;
- material contents;
- specific instructions.

It is recommended information to be given in the language<sup>62</sup> and measurement system of the importing country and to be complied with the

<sup>62</sup> Sometimes multi-language labeling is allowed.

importing countries' regulations concerning the marking and labeling, especially of dangerous substances.

Some countries have requirements for coding the products which facilitates their movement from the producer to the consumer and also enhances the customs authorities in determining the duties, taxes and regulations that apply to the shipment. Most countries' tariffs are based on The Harmonized System, which is an international commodity-description and coding system.<sup>63</sup> In Canada, HS codes are based on an international six-digit root with an additional two digits added for Canadian domestic purposes. There is also a 10-digit version designed to give statistical information about exports<sup>64</sup>.

Marking is a set of symbols, images and words placed on the packaging, indicating the origin of the goods, certain requirements for handling with them that should be kept during transport (Каракашева & Боева , 1994, p. 132). The marking of goods shall be legible, sufficiently permanent, and capable of being easily seen during normal handling of the goods or their container. There are different marks such as mark of origin and shipping mark.

Most countries require mark of origin to be placed/affixed on the package of imported goods by complying with specific rules. There some differences between the countries' requirements regarding methods of determining country of origin and method and manner of marking. Sometimes it is sufficient to place only the name of the country (spelled in full or abbreviated), in other cases it may be required that the name of the country of origin is preceded by: "made in," "produced in," "printed in," or some similar expression.

The shipping mark is the principal identification for the international movement of goods. It usually contains three important types of information:

1. Essential information
  - Name and address of exporter
  - Name and address of customer

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<sup>63</sup> [https://www.tradecommissioner.gc.ca/guides/us-export\\_eu/141457.aspx?lang=eng](https://www.tradecommissioner.gc.ca/guides/us-export_eu/141457.aspx?lang=eng)

<sup>64</sup> More about these codes can be found out in the World Customs Organization (WCO) website at [www.wcoomd.org/home\\_hsnomenclature\\_2012.htm](http://www.wcoomd.org/home_hsnomenclature_2012.htm), under the "HS Codes and Tariffs" link.

- Case/crate/package number
- 2. Other information
- Weight of the package
- Order number
- Port of shipment
- Destination
- Origin of goods
- 3. Handling instructions

Handling instructions or marks give information (Transport Information Service, 2021):

- whether the package is sensitive to heat or moisture;
- whether it is at risk of breakage;
- where the top and bottom are and where the center of gravity is located;
- where loading tackle may be slung.














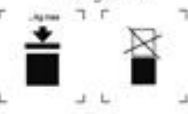
Inappropriate marking could cause negative consequences such as loss of the product or sending it to a wrong address, risk of damage on the goods, additional costs, delays of delivery, etc.

The EU legislation pertaining to the marking, labeling and packaging of products is very broad, with neither an “umbrella” law covering all goods nor any central directory containing information on marking, labeling and packaging requirements. Some of the requirements are mandatory, others are voluntary. Voluntary marks and/or labels are used as marketing tools in some EU Member States<sup>65</sup>.

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<sup>65</sup> For more see: <https://www.stopfakes.gov>

## HAZARDOUS MATERIALS MARKINGS

<p>Package Orientation (Red or Black)</p>  <p>§172.312(c)</p>	<p>Keep Away from Heat</p>  <p>§172.317</p>	<p>Fumigant Marking</p>  <p>§172.302(g) and §173.9</p>	 <p>§173.25(a)(4)</p>	 <p>§172.313(c)</p>
 <p>§172.325</p>	 <p>§172.332(d)</p>	<p>Biological Substances, Category B</p>  <p>§173.199 (a)(5)</p>	<p style="color: red;">NEW Lithium battery handling marking, Transition December 31, 2018</p>  <p>§173.185</p>	<p>Marine Pollutant</p>  <p>§172.322</p>
<p>Limited Quantity</p>  <p>§172.315</p>	<p style="color: red;">ORM-D, Transition December 31, 2020</p>  <p>§172.316</p>	<p>Excepted Quantity</p>  <p>§173.4a(g)</p>	<p>Marking of BCLs</p>  <p>§178.703(b)(7)(M)</p>	

### Hazardous Materials Warning Labels

Actual label size: at least 100 mm (3.9 inches) on all sides

<p><b>CLASS 1 Explosives:</b> Divisions 1.1, 1.2, 1.3, 1.4, 1.5, 1.6</p>  <p>§172.411</p>	<p><b>CLASS 2 Gases:</b> Divisions 2.1, 2.2, 2.3</p>  <p>§172.408(a), §172.415, §172.416, §172.417</p>	<p><b>CLASS 3 Flammable Liquid</b></p>  <p>§172.419</p>	<p><b>CLASS 4 Flammable Solid, Spontaneously Combustible, and Dangerous When Wet:</b> Divisions 4.1, 4.2, 4.3</p>  <p>§172.420, §172.423, §172.425</p>	<p><b>CLASS 5 Oxidizer, Organic Peroxide:</b> Divisions 5.1 and 5.2</p>  <p>§172.426, §172.427</p>
<p><b>CLASS 6 Poison (Toxic), Poison Inhalation Hazard, Infectious Substance:</b> Divisions 6.1 and 6.2</p>  <p>§172.323, §172.408(a), §172.429, §172.430, §172.432</p> <p style="font-size: x-small;">For Regulated Medical Waste (RMW), an Infectious Substance label is not required on an outer packaging if the OSHA Biohazard marking is used as prescribed in 29 CFR 1910.1033(g). A full package of RMW that displays a BCPHACD marking.</p>	<p><b>CLASS 7 Radioactive</b></p>  <p>§172.436, §172.438, §172.440, §172.441</p>	<p><b>CLASS 8 Corrosive</b></p>  <p>§172.442</p>	<p><b>CLASS 9 Miscellaneous Hazardous Material</b></p>  <p>§172.446, §172.447</p> <p style="font-size: x-small; color: red;">Effective January 2018, the NEW Class 9 lithium battery handling marking must be used for those battery shipments.</p>	<p><b>Cargo Aircraft Only</b></p>  <p>§172.448</p> <p><b>Empty Label</b></p>  <p>§172.450</p>



## ***6. Delivery of the goods***

One of the main obligations of the seller is to deliver the goods to the buyer. In fact, until the goods are delivered to the buyer, the sale cannot be considered as finished (Abadi & Kalkoshki, 2017). From the perspective of either partner, delivery has its own special place because it is related to the transfer of property of the goods and transfer of risk, compensation before and after the delivery, exchange of documents and payment. In general, the most important issues related to a delivery are: the time (date) of delivery, the place of delivery and the documents.

According to the United Nations Convention on Contracts for the International Sale of Goods, “The seller must deliver the goods:

- (a) if a date is fixed by or determinable from the contract, on that date;
- (b) if a period of time is fixed by or determinable from the contract, at any time within that period unless circumstances indicate that the buyer is to choose a date; or
- (c) in any other case, within a reasonable time after the conclusion of the contract.” (UNITED NATIONS, 2010)

In the course of the long international trade praxis different variations of time of delivery have been developed depending on the nature of the product, its readiness for expedition, buyer’s requirements or other factors. According to the deadline type we can distinguish between deals with immediate, spot or prompt delivery<sup>66</sup> or with delivery on specific date or period after conclusion of the contract, which usually is longer than a month (Каракашева & Боева , 1994).

Some options to define the time of delivery in a contract are (MMTA, 2016):

- “to”, “until”, “from” and words of similar import include the date mentioned;
- “after” excludes the date mentioned;
- “first half” of a month runs from the 1st to the 15th day of the month inclusive;

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<sup>66</sup> Immediate delivery means that the goods must be delivered within 14 calendar days counted from the date of signing the contract and it is typical for spot or prompt deals.

- “second half” of a month runs from the 16th to the last day of the month inclusive;
- “beginning” of a month or “early” in a month runs from the 1st to the 10th of the month inclusive;
- “middle” of a month runs from the 11th to the 20th of the month inclusive;
- ”end” of a month or “late” in a month runs from the 21st day to the last day of the month inclusive;
- “on or about” allows delivery to be made within a period from five days after the date mentioned, both end days included;
- “on” shall be on the day stipulated in the contract;
- “immediate” or “spot” shall be within two working days from the date of concluding the contract;
- “prompt” shall be within ten calendar days from the date of concluding the contract.

Regarding the place of delivery Article 31 of the Convention states (UNITED NATIONS, 2010):

“If the seller is not bound to deliver the goods at any other particular place, his obligation to deliver consists:

(a) in handing the goods over to the first carrier for transmission to the buyer<sup>67</sup>;

(b) in placing the goods at the buyer’s disposal at that place<sup>68</sup>;

(c) in placing the goods at the buyer’s disposal at the place where the seller had his place of business at the time of the - conclusion of the contract<sup>69</sup>.

The seller has also to hand over documents relating to the goods at the time and the place and in the form required by the contract. The clause related to delivery

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<sup>67</sup> If the contract of sale involves carriage of the goods.

<sup>68</sup> If, in cases not within the preceding subparagraph, the contract relates to specific goods, or unidentified goods to be drawn from a specific stock or to be manufactured or produced, and at the time of the conclusion of the contract the parties knew that the goods were at, or were to be - manufactured or produced at, a particular place.

<sup>69</sup> In other cases.

of the goods has different formulation in a sales contract and is related to the other clauses.

<b>A-3</b>	<b>DELIVERY TERMS (ART. 8)</b>
<i>Recommended terms (according to the Incoterms® 2010 rules): see Introduction, §5</i>	
<input type="checkbox"/> <b>FCA</b> Free Carrier	Named place: _____ Shipped by (when different from buyer) _____
<input type="checkbox"/> <b>CPT</b> Carriage Paid To	Named place of destination: _____ Shipped from: _____
<input type="checkbox"/> <b>CIP</b> Carriage and Insurance	Paid To _____ Named place of destination: _____ Shipped from: _____ Insurance cover: <input type="checkbox"/> max. cover <input type="checkbox"/> War Risk /SRCC <sup>8</sup>
<input type="checkbox"/> <b>DAT</b> Delivered at Terminal	Named terminal or quay of destination: _____
<input type="checkbox"/> <b>DAP</b> Delivered at Place	Named place of destination: _____

<b>A-4</b>	<b>TIME OF DELIVERY</b>
<i>Indicate here the date or period (e.g. week or month) at which or within which the Seller must perform its delivery obligations of the respective Incoterms® rule according to Box A-3 ('Delivery Terms') (see Introduction, § 6) and, when applicable, a date of shipment (see Introduction, §7)</i>	

Source: <https://iccwbo.org>

2. Delivery

2.1 Applicable International Chamber of Commerce (hereinafter: ICC) Incoterms (by reference to most recent version of the Incoterms at date of conclusion of the contract).

2.2 \_\_\_\_\_ Place \_\_\_\_\_ of \_\_\_\_\_ delivery

.....

2.3 Date or period of delivery .....

2.4 Carrier (name and address, where applicable) .....

2.5 Other delivery terms (if any) .....

Source:

[https://www.intracen.org/uploadedFiles/intracenorg/Content/Exporters/Exporting\\_Better/Templates\\_of\\_contracts/3%20International%20Commercial%20Sale%20of%20Goods.pdf](https://www.intracen.org/uploadedFiles/intracenorg/Content/Exporters/Exporting_Better/Templates_of_contracts/3%20International%20Commercial%20Sale%20of%20Goods.pdf)

5.5. Shipping Terms. [Delivery shall be made [[DDP/CPT/OTHER INCOTERMS® RULE] Delivery Location, Incoterms® [YEAR OF APPLICABLE INCOTERMS® RULE]/[OTHER SHIPPING TERMS]/ in accordance with the terms set forth in Exhibit A.] Seller shall give written notice of shipment to Buyer when the Goods are delivered to a carrier for transportation. Seller shall provide Buyer all shipping documents, including the commercial invoice, packing list, [air waybill/bill of lading], and any other documents necessary to release the Goods to Buyer within [NUMBER] business day[s] after Seller delivers the Goods to the transportation carrier. The Contract Reference Number must appear on all shipping documents, shipping labels, [air waybill/bill of lading], invoices, correspondence, and any other documents pertaining to this Agreement.

Source:

[https://www.grayreed.com/portalresource/lookup/wosid/cp-base-4-117620/media.name=/Sale%20of%20Goods%20Agreement%20\(Pro-Buyer%20Short%20Form\)%20\(W-015-5511\).pdf](https://www.grayreed.com/portalresource/lookup/wosid/cp-base-4-117620/media.name=/Sale%20of%20Goods%20Agreement%20(Pro-Buyer%20Short%20Form)%20(W-015-5511).pdf)

## 7. Payment conditions

Very important part of the contract are the terms and conditions of payment. This clause sets out the currency of payment, the time of payment, the place of payment and the means and method of payment and clauses aimed to reduce or eliminate the risks related to the payment. The currency of payment is the currency in which the transaction should be made and it could be different from the currency of the price given in the contract. Time of payment is related to the question when

the payment should take place: before the delivery, at the delivery or after the delivery of the goods. It is preferable for the seller to receive the payment on delivery or with a shorter deferred payment covering the shipping period only whereas for the buyer it is preferable to finance the purchase through short- or longer-term commercial (supplier) credit. In case of larger contracts or longer contract periods, part-payments could be agreed, which can take place before, at delivery and after delivery (Grath, 2016). In case the buyer is not bound to pay the price to the seller at any other particular place he must pay it either at the seller's place of business or if the payment is to be made against the handing over of the goods or of the documents, at the place where the handing over takes place (Article 57 of Convention) (UNITED NATIONS, 2010). The place of payment is related to the fulfilment of the obligation of the buyer and depends on the form of payment used by the parties.

The most common methods of payment in foreign commercial transactions (see also Appendix 6-1) for both export and import sales are the following:

- Open account – the goods are shipped and delivered before the payment is due, usually 30 to 90 days in advance;
- Documentary collections - a transaction whereby the exporter entrusts the collection of a payment to the remitting bank (exporter's bank), which sends documents to a collecting bank (importer's bank), along with instructions for payment;
- Letter of credit (LC) - a commitment by a bank on behalf of the importer that payment will be made to the exporter provided that the terms and conditions stated in the LC have been met, as evidenced by the presentation of specified documents;
- Payment (Cash) in advance – the payment is received before the ownership over the goods is transferred.

**10) Payment conditions**

- Payment in advance (= before controlling documents are sent to buyer)  
 Date .....  Total price .....  ..... % of total price  
 Account ..... Holder ..... Bank .....
- Payment on open account (= payment after controlling documents are sent to buyer)  
 Time for payment ..... days from date of invoice ..... Other .....
- Open account backed by demand guarantee or standby letter of credit  
 Account ..... Holder ..... Bank .....
- Documentary collection  
 D/P documents against payment  D/A documents against acceptance  
 Details .....
- Irrevocable documentary credit  confirmed  unconfirmed  
 Bank & Place of issue .....  
 Bank & Place of confirmation (if applicable) .....  
 Credit available  
 by payment at sight  
 by deferred payment, ..... days  
 by acceptance of drafts, ..... days  
 by negotiation  
 Partial shipments  allowed  not allowed  
 Transshipment  allowed  not allowed  
 Date on which the documentary credit must be notified to seller .....  
 [unless otherwise specified, 30 days before the beginning of the delivery period]
- In case of delayed payment by buyer, interest shall be payable at a rate of ..... %  
 above the average bank short-term lending rate for prime borrowers prevailing for the  
 currency of payment at the place of payment.
- Other .....

Source:

[https://www.researchgate.net/publication/282875657\\_Model\\_Contract\\_for\\_International\\_Sales\\_Transactions\\_Manufactured\\_Goods](https://www.researchgate.net/publication/282875657_Model_Contract_for_International_Sales_Transactions_Manufactured_Goods)

Payment for the goods delivered is effected in \_\_\_\_\_ by presentation of the Invoice for collection to the Bank \_\_\_\_\_. Payment to be effected within 20 days counting from the date of receipt of the documents from the Bank \_\_\_\_\_.

Payment is to be effected against presentation of the following documents:

1. Full set of Clean on Board Bills of Lading (Duplicate of Railway Bill, Autoway Bill), drawn up as per Specification enclosed - 3 copies.
2. Invoice in triplicate.
3. Specification in triplicate stating packages Nos.

4. Recapitulation stating number of the items as to style and size.

5. Quality Certificate drawn up by the Seller in duplicate.

Seller should submit the above said documents to the Bank for payment not later than 10 days after shipment of the goods.

From the first Invoice 3 per cent of the total value of the goods sold under the present Contract to be deducted to cover the losses caused by shortage when packing being intact or by delivery of faulty goods, if any.

The Seller deducts this amount from the amount invoiced which is included as a separate line in the Invoice. The said 3 per cent remain blocked and are returned in full or in part 180 days after the crossing of the border by the last consignment.

Source: Спиридонов, Ив., Захариева, Г. Външнотърговски операции, Свищов, 2003, с.127.

Each of them has its advantages and risks for the seller (exporter) and the buyer (importer). The most secure method of trading for exporters is the payment in advance and the less secure is the open account (Czinkota & Ronkainen, 2013). Consequently, the least attractive method for importers is the payment in advance and the most secure is the open account (see Fig. 1). Sometimes consignment is considered as a method of payment. In that case it would be at the top of the list, because the risk is borne entirely by the exporter. (Weiss, 2008)

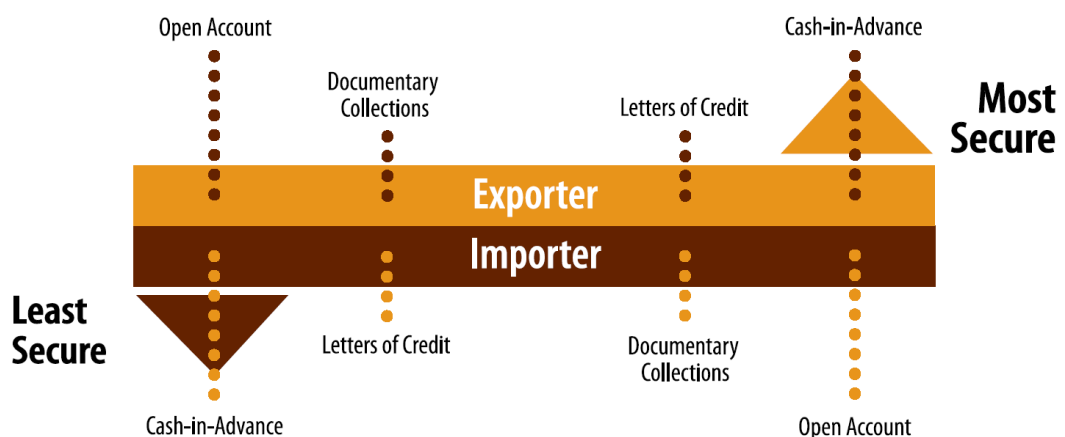


Figure 6-1.

Source:[http://trade.gov/media/publications/abstract/trade\\_finance\\_guide2008\\_desc.html](http://trade.gov/media/publications/abstract/trade_finance_guide2008_desc.html)

### **8. Acceptance of the goods**

Part of the contract are the terms and conditions of the order of acceptance of the goods. They are related to the type, term and place of the actual delivery, methods of verification and methods for determining the quantity and quality of the goods actually delivered; which party hands over the delivery. There are different variations known in the praxis depending on the quantity, quality and the type of the goods.

#### 6. Acceptance of the GOODS

6.1. The GOODS are considered as delivered by the SELLER and accepted by the BUYER:

as to number of packages – according to shipment documents;

as to quality – according to the Quality Certificate issued by the SELLER.

6.2. Final acceptance is to be made in the territory of the BUYER.

The GOODS are being accepted:

as to number of packages - on receipt of the GOODS from a Forwarder (Carrier);

per quality of items - not later than two weeks after receiving the GOODS and the moment of opening the package;

as to quality- not later than one month after opening the package.

6.3. Acceptance of the GOODS shall be made by the official representative of the BUYER in the presence of, if necessary, the official representative of the Chamber of Commerce (at BUYER's discretion) with the execution of the report of acceptance.

Source: (Лихачева, 2019)

The delivered goods must be handed over and accepted according to the quantity and quality at that moment and at the place and where the transfer of



ownership on the goods and the risks of damages or loss of goods from the seller to the buyer takes place.

There are several types of acceptance (Стровский, и др., 1999, стр. 151-154):

***preliminary acceptance*** - the goods are inspected at the seller's premises in order to determine the quantity, quality, correctness of packaging and labeling of the goods, compliance with technical specifications. As a result of the preliminary acceptance of the goods the buyer can reject the goods in case of deficiencies in quality and quantity, or require the elimination of defects within a certain period.

***final acceptance*** - the actual performance of the delivery is fixed in the established place and in the proper time. Based on the results of the final acceptance, settlements are made for a trade transaction. The place of acceptance is specified in the contract accurately (an enterprise, a warehouse, a port, a station, etc.). The terms of quantity and quality acceptance may be different. As a general rule, the quantity is checked upon receipt of the goods while the quality examination can take a longer time.

***quantity acceptance*** – it could be based on the weight specified in the presented transport documents (bill of lading, railway bill of lading) (this is shipped weight) or on basis of unloaded weight established by weighing the goods at the point of arrival. Weighing can be done for all packages of goods or selectively at the place of acceptance and the results are fixed in weight certificates<sup>70</sup>.

***quality acceptance*** - it is carried out on the basis of a document confirming the conformity of the quality of the goods to the terms of the contract or by checking the quality of actually delivered goods at the place of acceptance (inspection of the goods, comparing them with samples, conducting analysis, etc.).

The contract stipulates by whom the acceptance of the goods is carried out: by the parties or their representatives jointly, by the competent organization in the exporter's (seller's) country that issues the quality certificate or by a non-interested controlling entity appointed by agreement of the parties, specified in the contract.

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<sup>70</sup> There are some specifics in trade with a mass or bulk goods where some deviations in the delivered weight and price discounts are agreed between parties.

## **9. Warranties**

In many foreign trade deals there is clear and detailed formulation of the warranty clause. Warranties are often offered in trade with different manufactured goods (especially with complex goods such as machinery and equipment) or services. A warranty is a guarantee on the goods. It binds the selling party to undertake a certain action if it is needed during the completion of the deal. The warranty assures the buyer that the goods or services are free from defects, and it is a legally binding commitment (Valbrune, et al., 2019, pp. 91-93). In the event that the product or service fails to meet the standards set out in the warranty, then the contract provides a specific remedy, such as a replacement or repair. This clause typically stipulates the warranty period, the time of commencement of the warranty and the actions that have to be undertaken in certain circumstances by the parties.

Warranties can be express (written, verbal), implied, or both. An express warranty is one in which the seller explicitly guarantees the quality of the goods or services. Typically, the seller provides a statement, or other binding document, as part of the sales contract. This means that the buyer has engaged in the contract on the assumption that the quality, nature, character, purpose, performance, state, use, or capacity of the goods or services are the same as those stated by the seller. Implied warranties are imposed by law, not by agreement of the parties. In this regard, the law distinguishes between casual sellers and merchant sellers<sup>71</sup>. In general the express warranties should be consistent with implied warranties and can be treated as cumulative.

Because warranties become an issue when a buyer is dissatisfied, the seller tries to limit the scope of the warranties s/he makes before a problem arises. The U.C.C. specifically allows the seller to disclaim both express and implied warranties

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<sup>71</sup> For example goods sold by merchants carry an implied warranty against claims by any third party by way of trademark infringement, patent infringement, or any other intellectual property law infringement. This type of warranty is known as the warranty against infringement. Another implied warranty provided by merchant sellers is the warranty of fitness for normal use, which means that the goods must be fit for the ordinary purposes for which they are sold. (Valbrune, et al., 2019)

on goods they sell, within certain limits. “An express warranty must be expressly disclaimed. A disclaimer that disclaims the implied warranty of merchantability must specifically mention “merchantability” in the disclaimer. A seller may disclaim all implied warranties by stating that the good is being sold “as is,” “with all faults” or by stating some other phrase that makes it plain to the buyer there are no implied warranties.” (FindLaw, 2020).

By definition a warranty is a contractual term that is secondary to the main purpose of the contract and therefore a breach of warranty would not normally entitle the buyer to terminate the contract. However, s/he may be entitled to claim damages for breach of contract.

## ***10. Claims***

Claims are related to the obligations and liabilities of the seller to deliver goods in quantity, quality and packed in the manner stated in the contract. According the UN Convention on International Sales of goods (CISG) the seller is liable for any lack of conformity of the goods which exists at the time when the risk passes to the buyer.

To have the right to raise a claim, the buyer must examine the goods, or cause them to be examined, within as short a period as it is practicable in the circumstances (Article 38 of the Convention<sup>72</sup>) and must communicate to the seller any non-conformity of the goods within a reasonable time, from the moment in which such non-conformity was discovered or ought to have been discovered (Article 39 of the Convention)<sup>73</sup>. The Convention recommends that parties expressly include specific time periods for raising potential claims in their contracts and also the moment they begin to toll during the course of the transaction.

A contract shall also specify the documents proving that the obligations are fulfilled, who is to issue these documents, to whom this documents have to be sent

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<sup>72</sup> United Nations Convention on the International Sale of Goods (CISG).

<sup>73</sup> A buyer has a maximum limit of two years from when the goods are in its possession to declare the goods are non-conforming.

and within what time/period the faulty party has to revise the claim and to repair the goods or compensate for the damages.

### ***11. Sanctions (Penalties)***

Commonly, in commercial contracts, parties will seek to agree terms setting out the financial extent of liability on either party in the event of default<sup>74</sup> (for example late delivery or late payment). In other words “it identifies possible financial obligations of the exporter and, in some cases, the buyer in the event of exporter non-compliance with certain contract performance obligations” (EDC, 2010, p. 6). Penalties<sup>75</sup> could be stated as a part of other clauses of a commercial contract or as a separate clause. Penalties are often used in oil and gas, manufacturing and construction contracts, when the failure of parties to perform their obligations can have consequences on the ongoing contract. This clause usually states: under what conditions a penalty is due; the method of payment; the rate of penalty; the payment term<sup>76</sup>.

### ***12. Retention of the title***

The retention of title (ROT) clause is commonly used in International sales contracts<sup>77</sup>. It is considered a suspensory condition attached to the contract, having the effect of postponing the transfer of the ownership until the full purchase price is paid. It provides also that the seller may reclaim the goods if the price is not paid. The ROT actually affects one aspect of the sale of goods, i.e. the “transfer of title”,

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<sup>74</sup> Many international contracts have the so-called liquidated damages clauses.

<sup>75</sup> Payment of the penalty is regarded as compensating the aggrieved party for those disadvantages which cannot be taken into account under the ordinary rules for the recovery of damages. (Lex Mercatoria, 1994)

<sup>76</sup> The parties may provide for in its terms sanctions for non-fulfillment or improper fulfillment of other obligations under the contract: fines for the unjustified refusal of the buyer to accept goods that meet the established quality standards, for failure to notify about the shipment of goods, etc.

<sup>77</sup> Very often as a part of the General conditions.

by ruling it independently from the transfer of possession and from the passing of risks. Beside the simple ROT<sup>78</sup> others known forms are (Paulon, 2016, p. 1):

- the extended ROT, which follows the goods once they are sold by the buyer or grants the seller a right on the reselling price (in this case the buyer normally undertakes to inform the seller accordingly and to keep records of the sub-sales);
- the enlarged ROT, which survives in case of transformation or incorporation of the goods;
- the all monies ROT; which remains in force as long as the seller has pending credits towards the buyer.

#### 7. RETENTION OF TITLE

VITALO shall retain the full and exclusive ownership of all processed and yet to be delivered goods, until the sales prices, including any interest, costs and compensation for damages, has been fully settled for all of those goods. If the customer resells the goods, it shall transfer to VITALO the claims it has on its purchaser. Through this transfer, VITALO shall have the right to collect those claims if the purchaser fails to pay or if there is a risk that the purchaser will not be able to fulfil its obligations.

VITALO undertakes to return to its customer that portion of the claim collected in excess of 125% of the value of the initially sold goods.

If the customer does not resell the goods, it shall be held to maintain the goods in good condition and to insure them against loss and/or damage, for as long as the retention of title exists. In the event of loss or damage, the customer undertakes to transfer the insurance claim to VITALO.

Source: [https://www.vitalo.net/wp-content/uploads/2018/01/General-terms-and-conditions-of-Sale\\_revision2014\\_ENG.pdf](https://www.vitalo.net/wp-content/uploads/2018/01/General-terms-and-conditions-of-Sale_revision2014_ENG.pdf)

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<sup>78</sup> Under simple ROT the seller retains the ownership of the concerned goods as long as they are in possession of the buyer and they are separated from other goods.

### ***13. Force majeure clause***

Force majeure clauses are common clauses in commercial contracts<sup>79</sup>. Their purpose is to relieve the parties which have concluded an international sells/purchase contract of performance of their contractual obligations in case of occurrence of an event outside their control. Force majeure means any event such as fire, explosions, hurricanes, floods, earthquakes and similar natural calamities, wars, epidemics, military operations, terrorism, riots, revolts, strikes, industrial unrest, government embargoes, or other unforeseeable actions occurring after the conclusion of the contract and outside the sides control and which cannot be avoided that could delay or prevent the performance of either sides' obligations in this contract. There are two approaches in defining force majeure events. The first one involves having an exhaustive definition which lists all possible events that are intended to be covered under the contract by the parties and the second is to have a generic and wide definition of a force majeure event as any event or circumstances that are beyond the reasonable control of the party seeking to rely on the clause (Trade Finance Global , 2020).

Usually the party which is not able to perform its contract obligations because of force majeure event is obligated immediately or in a very short time (for example within 7 (seven) days of the effective date of occurrence) to notify the other party. This notice could be confirmed by a certificate issued by the local Chamber of Commerce and Industry, including particulars of the event and expected duration.

The consequences of invoking a force majeure clause may be different. Generally, the effect is that one or more of the parties will be excused from performing its obligations under the contract. Another effect is mutually suspension of performance of the obligations or the extension of time required in the performance of the obligations in the event of continued delay or non-performance

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<sup>79</sup> The term force majeure emanates from French civil law and it means “superior force”. However, under common law or English law, the doctrine of force majeure does not exist.

of obligations. (Trade Finance Global , 2020) This clause may also terminate the contract if it is beneficial to the parties.

**Comprehensive Force Majeure Clause – Example:**

“The parties do not bear any responsibility for complete or partial failure in the performance of the obligations under the contract if it is due to “unpredictable force” (force majeure).

“Unpredictable force” (force majeure) shall be interpreted as a circumstance (event) of extraordinary nature which has occurred after the conclusion of the contract, could not have been foreseen and is beyond the will and control of the parties such as: fire, industrial accidents, war, natural disasters – storms, downpour, flooding, hail, earthquakes, freezing, drought, landslide and other natural calamities, embargo, governmental restrictions, strikes, riots and turmoil.

The party who allowed the failure in performing its obligations due to the force majeure circumstance should give written notice thereof to the other Party within 10 days of its occurrence as well as the presumed duration and the elimination of the force majeure circumstance.

The certification of the “force majeure” circumstance is accomplished by BCCI issuing a Force Majeure certificate.”

**Concise Force Majeure Clause – Example:**

“The parties do not bear any responsibility for complete or partial failure in the performance of the obligations under the contract if it is due to “unpredictable force” (force majeure) for which they have duly notified the other Party and submit a Force Majeure Certificate issued by the Bulgarian Chamber of Commerce and Industry”

Source: <https://www.bcci.bg/tradereg-FMsertif-prep-en.html>

#### ***14. Applicable law and disputes resolution clauses ("Governing law" and "jurisdiction" clauses)***

“The initial concern when drafting a transnational agreement is to determine first, the forum for resolving disputes related to the agreement, and secondly, the law governing its validity, interpretation and performance. (Zaphiriou, 1978)” The applicable law is a fundamental component of an international contract and somewhere in the contract, it should be clearly stated the law of a jurisdiction that will apply to and govern the terms of the contract. This is a particularly important issue because an international commercial contract may be connected with several places. For example, the parties may be in different countries and the place for performance may be a third country. In such cases there are several legal systems with potential relevance to the contract and if governing law is not set in the contract that could cause serious problems for the parties (Henderson & Srangsomwong, 2008). Here it should be mentioned that the parties have different options to choose (Tuygun, 2020) when they formulate the governing law clause:

- National law
- Public international law
- Concurrent laws
- Combined laws (or the *tronc commun* doctrine)
- The Sharia (Islamic Law)
- Transnational law (including the general principle of law; international development law: the *lex mercatoria*; codified terms and practices: and trade usages)

A dispute resolution clause clearly defines the methods and procedures for the resolution of disputes between the parties, whether it is through arbitration, litigation, or any number of other available options. When the parties choose to resolve their disputes by arbitration they include an arbitration clause in the contract (see Appendix 6-2). In other situations, parties choose to rely on the courts to handle



any disputes. In this case, it is necessary the parties to state in the jurisdiction clause the courts of a named country taking jurisdiction over any disputes that may arise.

#### 17) Applicable law

This sales contract shall be governed by the CISG. Any questions not covered by the CISG shall be governed by the domestic law of .....

This sales contract shall be governed by the domestic law of ..... without CISG

This sales contract shall be governed by .....

Any questions not covered by this international set of rules shall be governed by the domestic law of .....

#### 18) Resolution of disputes

Any disputes related to this contract shall be subject to arbitration

ICC at ..... (place)

other arbitral tribunal (ad hoc or institutional).....

The number of arbitrators shall be .....

The language of the arbitration shall be .....

The parties shall not resort to arbitration unless good faith attempts to resolve the dispute with the help of a mediator have not produced a satisfactory result within ..... weeks.

Any disputes related to this contract shall be subject to litigation in the ordinary courts of .....

Source: (Emmert, 2015, p. 4)

### **15. Other conditions**

The parties may include also other clauses in the contract depending on the specifics of the product traded and their obligations such as notification,

documentation, insurance, intellectual and industrial property rights, re-exportation prohibition, cancellation<sup>80</sup> and termination<sup>81</sup>, etc.

Usually the international sales/purchase contract ends with general terms concerning the enforcement of the contract, the language in which it shall be written, the number of original copies, the rules for modification of the contract, the transfer of parties' rights and obligations, confidentiality, etc. At the end, the contract must be signed and stamped by the parties.

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<sup>80</sup> Cancellation: Cancellation alludes to an ending contract due to voiding its effectiveness, force, or validity.

Usually, one of the parties is being released from its duties mentioned in the contract, even though they remain unperformed due to the fact that the other party has breached the contract.

According to the UCC, cancellation occurs when one party is ending the contract because the other party has breached it, but the difference from termination is that the party who decides to cancel the contract due to the other party's breach receives reimbursement from it for all outstanding obligations as originally stated in the contract. (Source: <https://www.upcounsel.com/end-of-contract>)

<sup>81</sup> Termination: This term means that a contract between parties is being ended before the actual agreed-upon date stated in the contract.

Sometimes, taking the Uniform Commercial Code (UCC) into account, termination can also refer to the legal ending of a contract without it being considered a breach. The term termination is generally used when a contract is being ended by either party, without breaching it. (Source: <https://www.upcounsel.com/end-of-contract>).

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### **Key Terms**

- 1) Subject of the contract
- 2) Quantity of goods
- 3) Gross weight
- 4) Net weight
- 5) Quality of goods
- 6) Price
- 7) Firm price
- 8) Flexible price
- 9) Sliding price
- 10) Brutto per neto
- 11) Packaging
- 12) Labeling
- 13) Marking
- 14) Delivery terms
- 15) Payment conditions
- 16) Acceptance of the goods
- 17) Warranty
- 18) Express warranty
- 19) Implied warranty
- 20) Claims
- 21) Sanctions (Penalties)
- 22) Retention of title

- 23) Force majeure
- 24) Applicable law
- 25) Disputes resolution

### **Review questions and tasks**

1. What are the essential revisions/clauses of an international sales/purchase contract?
2. What are the differences between mark of origin and shipping mark?
3. What is the purpose of labels and what information they contain?
4. What methods of setting a price in commercial contracts are used in praxis in international transactions?
5. Discuss the types of price discounts.
6. Suppose a contract is concluded between an exporter and an importer. According to the agreement the exporter must deliver 20,100 tons + - 3% corn but the importer has received 19,500 tons. Is the importer entitled to compensation if it proves that this difference in quantity of goods has caused damage for him?
7. Define the Force majeure.
8. When do the exporter and importer have the right to raise a claim?
9. What quality formulation is commonly used in trade with:
  - machinery and equipment;
  - agricultural goods;
  - ores.
10. What are the most common methods of payment in foreign commercial transactions for both export and import sales?
11. Define the methods for resolution of disputes between the parties.

## **CHAPTER VII. INTERNATIONAL COMMERCIAL TERMS (INCOTERMS 2020)**

### **Chapter outlines**

#### 1. History and general characteristics of Incoterms

History/General characteristics of Incoterms 2020

#### 2. Description of the International commercial terms and the main obligations of sellers and buyers

Rules for any mode or modes of transport (ExW, FCA, CPT, CIP, DAP, DPU, DDP)

Rules for sea and inland waterway of transport (FAS, FOB, CFR, CIF)

### **Learning objectives**

#### 1. Define the International commercial terms and its role in international trade praxis

#### 2. Describe the main characteristics of Incoterms 2020

#### 3. Discuss the main obligations of seller and buyer in every Incoterm

#### 4. Define the costs and risks for sellers and buyers when using a specific term

### ***1. History and general characteristics of Incoterms***

International commercial terms have a long story in the international trade practice. In the early 1920's, soon after establishment of International Chamber of Commerce (ICC), a study of most commonly used trade terms in 13 countries was conducted. The findings, published in 1923, highlighted disparities in the interpretation (ICC, 2020). To examine the discrepancies identified in the initial survey, a second study was carried out in more than 30 countries in 1928. Based on the findings of the studies, the first version of the Incoterms® rules was published in 1936 featuring six terms related to carriage by sea (FAS, FOB, C&F, CIF, Ex

Ship and Ex Quay). After that the rules have several revisions resulting from the developments in transport (road, rail, air, container) and technologies. The main reasons for the revision of Incoterms of 1990 was the desire to adapt terms to the increasing use of electronic data interchange (EDI) and the changes in transportation techniques (utilization of cargo in containers, multimodal transport and roll on-roll off traffic with road vehicles and wagons in “short-sea” maritime transport. (Bredow & Seiffer, 1990). The 13 terms were grouped in four categories (E; F; C and D) with the following main characteristics:

- The “E” term (ExW) – the seller makes the goods available to the buyer at the seller’s own premises;
- The “F” terms (FCA, FAS, FOB) – the seller is called upon to deliver the goods to a carrier appointed by the buyer;
- The “C” terms (CFR, CIF, CPT, CIP) – the seller has to contract for carriage but without carrying the risk and costs after shipment and dispatch;
- The “D” terms (DAF, DES, DEQ, DDU, DDP) – the seller has to bear all risks and costs until bringing the goods to the country of destination.

In 2000, the ICC made a simplification in the allocation of loading and unloading costs and improved the distribution of the responsibilities during customs clearance. The main differences comparing to Incoterms 1990 were related to FCA, FAS, DEQ, DDU and DDP terms.

“Incoterms 2010” updated and consolidated the ‘delivered’ rules and reduced the number of rules from 13 to 11 (ICC Bulgaria, 2011). Four terms were eliminated (Delivered at Frontier, Delivered Ex Quay, Delivered Ex Ship, Delivered Duty Unpaid) and two were added: Delivered at Place (DAP) and Delivered at Terminal (DAT). The rules describing the tasks, costs and risks related to the delivery of goods from the sellers to the buyers were grouped according the means of transport into rules that can be used irrelevant of the mode of transport (ExW, FCA, CPT, CIP, DAT, DAP, DDP) and rules that can be used only for sea and inland waterway transport (FAS, FOB, CFR, CIF). The last revision of Incoterms was made in 2019 and published by the ICC as Incoterms® 2020. Incoterms 2020 is are a set of internationally recognized rules which define the responsibilities of



sellers and buyers and specifies who is responsible for managing and arranging the shipment, insurance, documentation, customs clearance, and other logistical activities and who pays the costs related to that. Similarly to Incoterms 2010 the rules are grouped in two classes: rules for any mode or modes of transport and rules for sea and inland waterway transport (See Table 7-1 and Table 7-2).

There are not many differences between Incoterms 2010 and Incoterms 2020. The main changes made by ICC are (ICC, Incoterms 2020, 2019, p. 13):

- The option for issuing Bill of lading with on-board notation in FCA;
- The costs are more precisely listed;
- The different requirements for the level of insurance cover in CIP and CIF;
- Delivered at Terminal was replaced by Delivered at Place Unloaded;
- The option for the seller and the buyer to arrange the carriage by using own means of transport;
- Inclusion of security-related requirements within carriage obligations and costs;
- Explanatory Notes for Users.

As it is stated in Incoterms 2020 the rules describe (ICC, 2020, p. 2):

Obligations: who does what between the seller and buyer;

Risks: where and when the seller delivers the goods;

Costs: which party is responsible for which costs.

These areas are presented in a set of ten articles representing the seller's (A) and Buyer's (B) obligations, numbered from A1/B1 to A10/B10.

Table 7-1. Classification of Incoterms 2020<sup>82</sup>

Acronyms	Incoterm	Mode of transport	Payment of main transport	Transfer of risks in transport
EXW	Ex Works (insert named	Any mode	Buyer	Origin

<sup>82</sup> Modified.

	place of delivery)	or modes		
FCA	Free Carrier (insert named place of delivery)	Any mode or modes	Buyer	Origin
CPT	Carriage Paid To (insert place of destination)	Any mode or modes	Seller	Origin
CIP	Carriage and Insurance Paid To (insert place of destination)	Any mode or modes	Seller	Origin
DAP	Delivered at Place (insert place of destination)	Any mode or modes	Seller	Destination
DPU	Delivered at Place Unloaded (insert place of destination)	Any mode or modes	Seller	Destination
DDP	Delivered Duty Paid (insert place of destination)	Any mode or modes	Seller	Destination
FAS	Free Alongside Ship (insert name of port of shipment)	Sea and Inland Waterway	Buyer	Origin
FOB	Free On Board (insert name of port of shipment)	Sea and Inland Waterway	Buyer	Origin
CFR	Cost and Freight (insert named port of destination)	Sea and Inland Waterway	Seller	Origin
CIF	Cost, Insurance and	Sea and	Seller	Origin

	Freight (insert named port of destination)	Inland Waterway		
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Source: Global Marketing Strategies S.L., 2019, p.9

Table 7-2. Customs liability in the export country, import and transit countries

Incoterm	Seller (Exporter)	Buyer (Importer)
EXW	-	Export country Transit countries Import country
FCA,FAS,FOB,CPT,CFR,CIP,CIF	Export country	Transit countries Import country
DAP, DPU	Export country Transit countries	Import country
DDP	Export country Transit countries Import country	-

Source: Global Marketing Strategies S.L., 2019, p.13

## ***2. Description of the International commercial terms and the main obligations of sellers and buyers***

As Table 7-1 shows seven of the Incoterms can be used irrelevant of the mode/s of transport and four can be applied only for sea and inland waterway transport. They can be presented in more detail using short descriptions of their meaning and the main responsibilities of the seller and the buyer.

## **RULES FOR ANY MODE OR MODES OF TRANSPORT**

### **Ex Works (insert named place of delivery)**

This rule means that the seller delivers the goods when it places them at the disposal of the buyer at the named place, that may or may not be the seller's premises. The seller does not need to load the goods on any collecting vehicle, nor to clear the goods for export. The rule may be used irrelevant of the mode or modes of transport. The parties need to name the place of delivery as well as to specify as clearly as possible the point within this place. Once the goods are delivered at the named place, not loaded, the risks of loss or damage and the costs are transferred to the buyer. Although the seller has no obligation to clear the goods for export they have to provide assistance to the buyer to obtain the necessary documents or information for the purpose of exporting.

#### ***The main seller's obligations are:***

- To provide the goods and the commercial invoice and any other evidence of conformity that may be required by the contract in paper or electronic form as agreed;
- To deliver the goods at the agreed point;
- To assist the buyer in obtaining documents and information related to export/transit/import clearance formalities;
- To pay the costs for checking related to delivery, packaging and marking and all costs related to the goods until delivery;
- To give the buyer any notice needed to enable the buyer to take delivery of the goods.

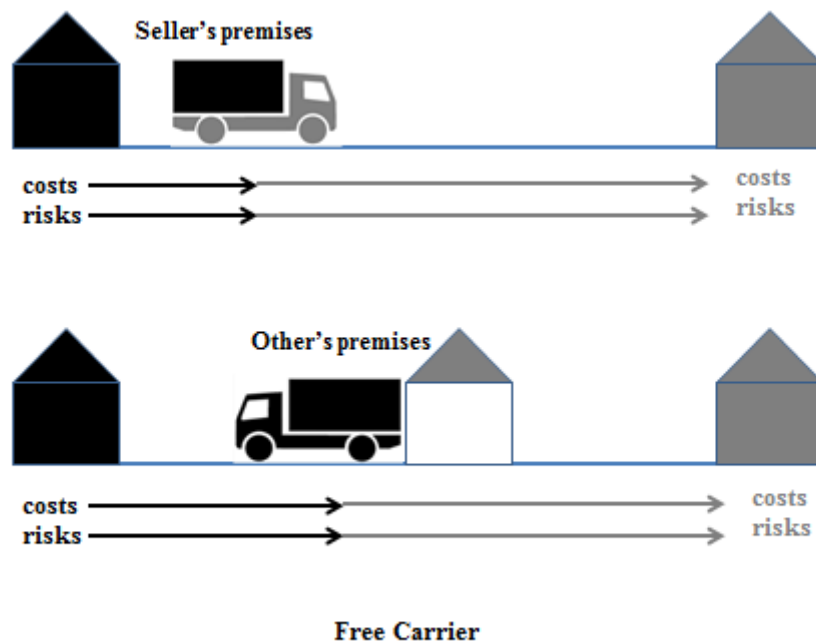
#### ***The main buyer's obligations are:***

- To pay the price of the goods and to take delivery;
- To arrange or contract the carriage of the goods at its own costs;
- To provide the seller with evidence for taking delivery;
- To clear formalities required for export, transit and import;

- To pay all costs after delivery of the goods at the named point related to transport, insurance, custom clearing of the goods, etc.

### Free Carrier (insert named place of delivery)

This rule means that the seller delivers the goods to the buyer when they are loaded on the means of transport arranged by the buyer in case the named place is the seller's premises or when the goods are at the disposal of carrier or another person nominated by the buyer, loaded on the seller's means of transport, ready for unloading in case the named point of delivery is not the seller's premises. With the delivery of goods in these two cases, the risks and costs are transferred to the buyer.



The rule may be used irrelevant of the mode or modes of transport. The parties are well advised not only to name the place of delivery but also to specify as clearly as possible the point of delivery within this place. Once the goods are delivered at the named place or procured goods so delivered, the risks of loss or damage and the costs are transferred to the buyer. FCA Incoterms\*2020 allows the buyer to request the carrier (if it is agreed in the contract of sale between the buyer and the seller and the carrier agrees) to issue to the seller at buyer's risk and cost a Bill of lading with an on-board notation.

***The main seller's obligations are:***

- To provide the goods and the commercial invoice and any other evidence of conformity that may be required by the contract in paper or electronic form as agreed;
- To deliver the goods at the agreed point on the agreed date or time within the agreed period to the carrier or another person nominated by the buyer, or procure goods so delivered;
- To carry out the export clearance of the goods (where is applicable) and to pay all duties, taxes and other costs related to export clearance;
- To assist the buyer in obtaining documents and information related to transit and import clearance formalities and information for insurance purposes;
- To pay the costs for checking related to delivery, for packaging and marking and all costs related to the goods until delivery;
- To give the buyer any notice needed to enable the buyer to take delivery of the goods.

***The main buyer's obligations are:***

- To pay the price of the goods and to take delivery;
- To arrange or contract the carriage of the goods at its own costs unless it is agreed that the seller will contract the carriage;
- To accept the proof that goods have been delivered;
- To assist with export clearance the seller if it is requested and to clear formalities required for transit and import;
- To pay all costs after delivery of the goods at the named point related to transport, insurance, custom clearing of the goods, etc.
- To notify the seller of the mode of transport, the name of the carrier, the time or period of delivery and the point of delivery.

**Carriage Paid To (insert place of destination)**

This rule means that the seller has delivered the goods and transferred the risk to the buyer at handing them over to the carrier contracted by the seller or

procuring the goods so delivered. The rule may be used irrelevant of the mode or modes of transport. The parties are well advised not only to name the place of delivery but also to specify as clearly as possible the point of delivery within this place and also the place of destination.

***The main seller's obligations are:***

- To provide the goods and the commercial invoice and any other evidence of conformity that may be required by the contract in paper or electronic form as agreed;
- To hand over the goods to the carrier or procure the goods so delivered on the agreed date or within agreed period;
- To contract or procure a contract for the carriage of the goods from the point of delivery to the place of destination and pay the costs related to that, including the costs for loading the goods, transport-related security costs and charges for unloading at the place of destination if those were at the expense of the seller according to the carriage contract;
- To provide the buyer at seller's cost with the usual transport document if its required;
- To carry out the export clearance of the goods (where applicable) and to pay all duties, taxes and other costs related to export clearance;
- To assist the buyer in obtaining documents and information related to transit and import clearance formalities and information for insurance purposes;
- To pay the costs for checking related to delivery, for packaging and marking and all costs related to the goods until delivery;
- To give the buyer notice that the goods have been delivered and also any notice needed to enable the buyer to receive the goods.

***The main buyer's obligations are:***

- To pay the price and to take delivery of the goods according to the contract;
- To bear all risks of loss of the goods or damage to them from the time of delivery;

- To assist the seller with export clearance if it is requested and to clear formalities required for transit and import;
- To pay all costs after delivery of the goods at the named point related to insurance, to import custom clearing and transit, including all applicable duties and taxes;
- To pay unloading of the goods unless this is at the expense of the seller;
- To notify the seller about the time of dispatching the goods or the place/point of receiving the goods.

### **Carriage Insurance Paid To (insert place of destination)**

This rule means that the seller has delivered the goods at handing them over to the carrier contracted by the seller or at procuring the goods so delivered. Once the goods have been delivered the risk of losing of or damaging the goods is transferred to the buyer. The rule may be used irrelevant of the mode or modes of transport. The parties are well advised to specify as clearly as possible the name of the place of delivery and the place of destination and the points of delivery within these places.

#### ***The main seller's obligations are:***

The seller has the same responsibilities as CPT plus the obligation to contract for insurance cover against the buyer's risk of loss of or damage to the goods during the transport from the point of delivery to the point of destination. Under CIP the seller is required to obtain insurance cover complying with Institute Cargo Clauses (A). The seller must pay the costs of insurance.

#### ***The main buyer's obligations are:***

The buyer has the same responsibilities as when CPT is applied.

### **Delivered at Place (insert place of destination)**

This rule means that the seller delivers the goods when it places them at the disposal of the buyer at the named place of destination or the agreed point within that place on the arriving means of transport ready for unloading or procuring the goods so delivered. From the moment of delivery the risk of losing of or damaging



the goods is transferred to the buyer. The rule may be used irrespective of the mode or modes of transport. The parties are well advised to specify as clearly as possible the name of the place of delivery/destination or point within this place.

***The main seller's obligations are:***

- To provide the goods and the commercial invoice and any other evidence of conformity that may be required by the contract in paper or electronic form as agreed;
- To deliver the goods at the agreed point and time/date;
- To contract or procure a contract for the carriage of the goods to the place of destination or agreed point and pay the costs related to that, including the costs for loading the goods, transport-related security costs and charges for unloading at the place of destination if those are at the expense of the seller according to the carriage contract;
- To provide the buyer at seller's cost with any document if its required to enable the buyer to take over the goods;
- To carry out the export and transit clearance of the goods (where applicable) and to pay all duties, taxes and other costs related to that;
- To assist the buyer in obtaining documents and information related to import clearance formalities;
- To pay the costs for checking related to delivery, for packaging and marking and all costs related to the goods until delivery;
- To pay the buyer all costs and charges related to providing assistance for insurance purposes;
- To give the buyer any notice needed to enable the buyer to receive the goods.

***The main buyer's obligations are:***

- To pay the price and to take delivery of the goods according to the contract;
- To bear all risks of loss of the goods or damage to them from the time of delivery;

- To assist the seller with export and transit clearance if it is requested and to clear formalities for import;
- To pay all costs after delivery of the goods at the named point related to import custom clearing, including all applicable duties and taxes;
- To pay unloading of the goods this is at the expense of the seller.

**Delivered at Place Unloaded (insert place of destination)**

This rule means that the seller delivers the goods and transfers the risk to the buyer when it places the goods at the named place of destination or the agreed point within that place unloaded from the arriving means of transport or procuring the goods so delivered. The rule may be used irrespective of the mode or modes of transport. The parties are well advised to specify as clearly as possible the name of the place of delivery/destination or point within this place.

***The main seller's obligations are:***

- To provide the goods and the commercial invoice and any other evidence of conformity that may be required by the contract in paper or electronic form as agreed;
- To deliver the goods at the agreed point and time/date;
- To unload the goods from the arriving means of transport at the agreed place or point of delivery;
- To contract or arrange the carriage of the goods to the place of destination or agreed point and pay the costs related to that, including the costs for loading the goods, transport-related security costs and charges for unloading at the place of destination;
- To provide the buyer at seller's cost with any document required to enable the buyer to take over the goods;
- To carry out the export and transit clearance of the goods (where applicable) and to pay all duties, taxes and other costs related to that;
- To assist the buyer in obtaining documents and information related to import clearance formalities;

- To pay the costs for checking related to delivery, for packaging and marking and all costs related to the goods until delivery;
- To pay the buyer all costs and charges related to providing assistance for insurance purposes;
- To give the buyer any notice needed to enable the buyer to receive the goods.

***The main buyer's obligations are:***

- To pay the price and to take delivery of the goods according to the contract;
- To bear all risks of loss of the goods or damage to them from the time of delivery;
- To assist the seller with export and transit clearance if it is requested and to clear formalities for import;
- To pay all costs after delivery of the goods at the named point related to import custom clearing, including all applicable duties and taxes.

**Delivered Duty Paid (insert place of destination)**

This rule means that the seller delivers the goods when it places them at the disposal of the buyer cleared for import at the named place of destination or the agreed point within that place on the arriving means of transport ready for unloading or procuring the goods so delivered. From the moment of delivery the risk of losing of or damaging the goods is transferred to the buyer. The rule may be used irrespective of the mode or modes of transport. The parties are well advised to specify as clearly as possible to the name of the place of delivery/destination or point within this place. DDP imposes the maximum responsibility on the seller.

**The main seller's obligations are:**

The seller has the same responsibilities as DAP plus the obligation to carry out and pay for import clearance formalities.

**The main buyer's obligations are:**

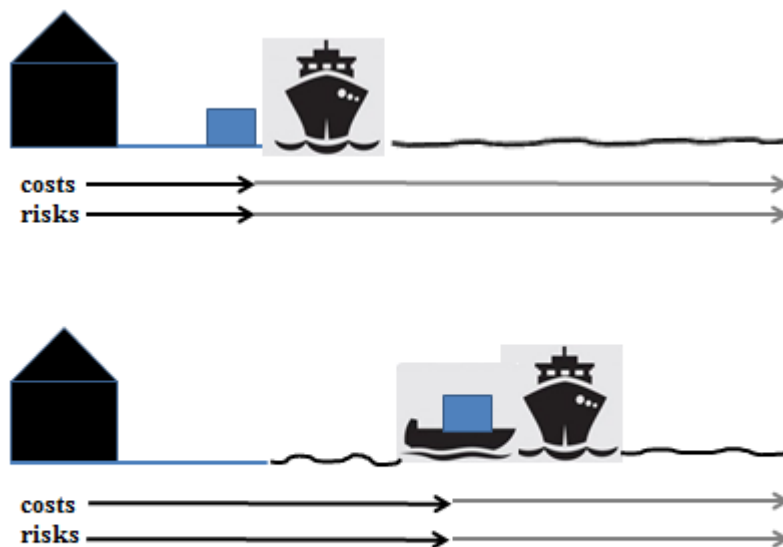
- To pay the price and to take delivery of the goods according to the contract;

- To bear all risks of loss of the goods or damage to them from the time of delivery;
- To assist the seller with export, import and transit clearance if requested;
- To pay unloading of the goods unless this is at the expense of the seller;

## **RULES FOR SEA AND INLAND WATERWAY TRANSPORT**

### **Free Alongside Ship (insert name of port of shipment)**

This rule means that the seller delivers the goods when it places them alongside the ship (on a quay or a barge) nominated by the buyer at the named port of shipment or procures goods so delivered. The risk and the costs are transferred to the buyer when the goods are alongside the ship. FAS is to be used only for inland waterway and sea transport. The parties are well advised to specify as clearly as possible the loading point at the named port of shipment.



**Free Alongside Ship**

### **The main seller's obligations are:**

- To provide the goods and the commercial invoice and any other evidence of conformity that may be required by the contract in paper or electronic form as agreed;

- To deliver the goods at the agreed point on the agreed date or time within the agreed period by placing them alongside the vessel nominated by the buyer or procure goods so delivered;
- To carry out the export clearance of the good (where applicable) and to pay all duties, taxes and other costs related to export clearance;
- To assist the buyer in obtaining documents and information related to transit and import clearance formalities and information for insurance purposes;
- To pay the costs for checking related to delivery, for packaging and marking and all costs related to the goods until delivery;
- To pay the buyer all costs related to providing assistance for the needs of export clearing;
- To give the buyer any notice needed to enable the buyer to take delivery of the goods.

***The main buyer's obligations are:***

- To pay the price of the goods and to take delivery;
- To arrange or contract the carriage of the goods from the named port of shipment at its own costs unless it is agreed that the seller will contract the carriage;
- To accept the proof that goods have been delivered;
- To assist with export clearance the seller if it is requested and to clear formalities required for transit and import;
- To carry out the transit and import clearance;
- To pay all costs after delivery of the goods at the named point related to transport, insurance, custom clearing of the goods (incl. duties and taxes), etc.
- To pay the seller the costs for providing assistance in obtaining documents and information for transit and import clearance, insurance and carriage;

- To notify the seller of the name of vessel, the point of loading, the date of loading and any transport-related security requirements.

**Free On Board (insert name of port of shipment)**

This rule means that the seller delivers the goods on the vessel's board nominated by the buyer at the named port of shipment or procures goods so delivered. The risk of loss of or damage to the goods passes when the goods are on board the vessel. From that moment on all the costs are at the expense of the buyer. FOB is to be used only for inland waterway and sea transport and requires the seller to clear the goods for export.

***The main seller's obligations are:***

- To provide the goods and the commercial invoice and any other evidence of conformity that may be required by the contract in paper or electronic form as agreed;
- To deliver the goods at the agreed point on the agreed date or time within the agreed period by placing them on board the vessel nominated by the buyer or procure goods so delivered;
- To carry out the export clearance of the good (where is applicable) and to pay all duties, taxes and other costs related to export clearance;
- To assist the buyer in obtaining documents and information related to transit and import clearance formalities and with information for insurance purposes;
- To pay the costs for checking related to delivery, for packaging and marking and all costs related to the goods until delivery;
- To pay the buyer all costs related to providing assistance for the needs of export clearing;
- To give the buyer any notice needed that the goods have been delivered or that vessel has failed to take goods within the time agreed.

***The main buyer's obligations are:***

- To pay the price of the goods and to take delivery;

- To arrange or contract the carriage of the goods from the named port of shipment at its own costs unless it is agreed that the seller will contract the carriage;
- To accept the proof that goods have been delivered;
- To assist with export clearance the seller if it is requested and to clear formalities required for transit and import;
- To carry out the transit and import clearance;
- To pay all costs after delivery of the goods at the named point related to transport, insurance, custom clearing of the goods (incl. duties and taxes), etc.
- To pay the seller the costs for providing assistance in obtaining documents and information for transit and import clearance, insurance and carriage;
- To pay all additional costs incurred because the vessel has not arrived on time or because the buyer has failed to give notice to the seller on time;
- To notify the seller of the name of vessel, the point of loading, the date of loading and any transport-related security requirements.

### **Cost and Freight (insert named port of destination)**

This rule means that the seller delivers the goods on the vessel's board or procures goods so delivered. The risk of loss of or damage to the goods passes when the goods are on board the vessel at the shipment port. CFR is to be used only for sea and inland waterway transport. The seller does not have the obligation to the buyer to purchase insurance cover but has the obligation to contract the carriage of the goods from delivery to the agreed destination. The seller and the buyer are well advised to identify as precisely as possible the point at the agreed port of destination because the costs from this point onward are at the expense of the buyer. When the goods have to be transported by several carriers the risk transfers when the goods are delivered to the first carrier if nothing else is specified in the contract of sale. The seller has to clear goods for export but not for import or transit.

### ***The main seller's obligations are:***

- To provide the goods and the commercial invoice and any other evidence of conformity that may be required by the contract in paper or electronic form as agreed;
- To deliver the goods at the agreed point on the agreed date or time within the agreed period by placing them on board the vessel or procure goods so delivered;
- To carry out the export clearance of the goods (where applicable) and to pay all duties, taxes and other costs related to export clearance;
- To contract the carriage and pay all costs related to transporting the goods to the agreed point at the port of destination (freight, costs for loading the goods on the board the vessel);
- To pay the costs of transit and the charges for unloading that were for seller's account according the contract of carriage;
- To provide the buyer with the usual transport document for the agreed port of destination;
- To assist the buyer in obtaining documents and information related to transit and import clearance formalities and with information for insurance purposes;
- To pay the costs for checking related to delivery, for packaging and marking and all costs related to the goods until delivery;
- To pay the buyer all costs related to providing assistance for the needs of export clearing;
- To give the buyer any notice needed that the goods have been delivered or any notice required to enable the buyer to receive the goods.

***The main buyer's obligations are:***

- To pay the price of the goods and to take delivery and receive the goods from the carrier at the named port of destination;
- To accept the transport document;
- To assist with export clearance the seller if it is requested;



- To clear formalities required for transit and import of the goods and pay the costs for that incl. duties and taxes;
- To pay unloading costs including lighterage and wharfage charges unless they at the expense of the seller under the contract of carriage.
- To pay the seller the costs for providing assistance in obtaining documents and information for transit and import clearance, insurance and carriage;
- To pay all additional costs incurred because the vessel has not arrived on time or because the buyer has failed to give notice to the seller on time;
- To notify the seller of the time of shipping and the point of receiving the goods within the port of destination.

### **Cost Insurance and Freight (insert named port of destination)**

This rule means that the seller delivers the goods on the vessel's board or procures goods so delivered. The risk of loss of or damage to the goods passes when the goods are on board the vessel at the shipment port. CIF is to be used only for sea and inland waterway transport. The seller and the buyer are well advised to identify as precisely as possible the point at the agreed port of destination because the costs from this point onward are at the expense of the buyer. The seller does have the obligation to the buyer to purchase insurance cover against the buyer's risk of loss or damage to the goods from the port of shipment to the port of destination with limited insurance cover complying with Institute Cargo Clauses (C). The seller has to contract the carriage of the goods from delivery to the agreed destination and clear the goods for export. When the goods have to be transported by several carriers the risk transfers when the goods are delivered to the first carrier if nothing else is specified in the contract of sale.

#### ***The main seller's obligations are:***

The seller has the same responsibilities as under the CFR term plus the obligation to obtain at its cost cargo insurance from the point of delivery at least to the named port of destination which covers the price stipulated in the contract plus 10% (ie) and must be in the currency of the contract. The seller must also provide

the buyer if the buyer requests and at his risk and costs with information for any additional insurance. The seller must provide the buyer with the insurance policy or certificate.

***The main buyer's obligations are:***

The buyer has the same responsibilities as under the CFR term. He must pay unloading costs including lighterage and wharfage charges unless they are at the expense of the buyer under the contract of carriage.

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**Key Terms**

- 1) International commercial terms
- 2) Ex Works
- 3) Free Carrier
- 4) Carriage Paid To
- 5) Carriage and Insurance Paid To
- 6) Delivered at Place
- 7) Delivered at Place Unloaded
- 8) Delivered Duty Paid
- 9) Free Alongside Ship
- 10) Free On Board

11) Cost and Freight

12) Cost, Insurance and Freight

**Review questions and tasks**

1. What are the main differences between Incoterms 2010 and Incoterms 2020?
2. Explain the main characteristics of Incoterms 2020 by grouping the terms.
3. Outlay the differences between FCA, FAS and FOB.
4. Outlay the differences between CFR, CIF, CPT and CIP.
5. Outlay the differences between DAP, DPU and DDP.

## CHAPTER VIII. EXPORT AND IMPORT DOCUMENTATION

### Chapter outlines

#### 1. Export and import customs clearance

The steps in export customs clearing and the import customs clearing.

#### 2. Export documentation

Customs documents, transport documents, insurance documents, types of invoices, types of certificates and other documents.

#### 3. Import documentation

Import customs declaration, Certificate of inspection, Certificate of analysis, Customs Value Declaration.

### Learning objectives

1. To know the steps in the process of export and import customs clearance.

2. To know the basic documents required for export of goods.

3. To know the basic documents required for import of goods.

### *1. Export and import customs clearance*

Customs clearance is the act of passing goods through customs, enabling them to be placed on the market. In international sales usually the seller has the responsibility for export customs clearance of goods and the buyer for import customs clearance. There are two exceptions when the parties use the Incoterms rules Ex Works (ExW) and Delivery Duty Paid (DDP). Under ExW term, the buyer is responsible for both the export and import customs clearance and under DDP - the seller.

**The process of export and import customs clearance depends upon several factors such as:**

- the export/ import country regulations;

- the type of goods or materials that will be exported/imported;
- the agreements that exist between the countries of export and import;
- the technology available to the customs agencies.

Although these factors determine the specifics of the export/import clearance procedures, some general principles could be outlined that all customs authorities follow (Shipa Freight , 2019) .

There are several steps in export customs clearance:

- 1) Registration on the customs authority's system and obtaining an export business number. For example, the EU exporters need to apply at the competent customs administration for an Economic Operators Registration and Identification (EORI) number. This is an identification number that is valid throughout the EU, which you need for all customs export declarations (DG Trade, 2021).
- 2) Obtaining certificates of origin for the products which will be exported. The origin of the goods can affect permit requirements. It also matters from the point of view of special Trade agreements concluded with other countries.
- 3) Checking for prohibitions in export and import countries in relation with the goods object of export. Useful information about the tariffs, taxes, formalities and restrictions can be obtained from My Trade Assistant. It gives information for all EU countries and for more than 120 export markets around the world (DG Trade, 2021).
- 4) Determining the export classification codes for the products that will be exported. More than 200 countries and economies use The Harmonized Commodity Description and Coding System<sup>83</sup> generally referred to as "Harmonized System" ("HS") as a basis for their Customs tariffs and for the collection of international trade statistics. The tool for classifying goods used in the European Union is the Combined Nomenclature. It is set up to meet the requirements both of the Common Customs Tariff and

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<sup>83</sup> HS is a multipurpose international product nomenclature developed by the World Customs Organization (WCO).

of the EU's external trade statistics. The CN of the the EU's is eight-digit coding system, comprising the HS codes with further EU subdivisions and legal notes specifically created to address the needs of the EU.

- 5) Obtaining export licenses or permits for the goods, if required. An export license usually is required in trade with dual-use items and technologies (exportcontrol.bg).
- 6) Filing an export declaration for each shipment, either electronically or manually. The exporters can do that by themselves or use the services of freight forwarders or customs brokers.

The process of import customs clearance in a way is similar to export customs clearance. However, it also differs because of the need for tax and duty assessments and payment.

The steps of import customs clearance are the following (Shipa Freight , 2019):

1. Obtain an import business number (EORI).
2. Obtain certificates of origin for the items, which will be imported.
3. Check whether there are any import restrictions in the destination country.
4. Determine the import classification code for the imported goods.
5. Obtain import licenses or permits for the goods, if required.
6. File an import declaration, either electronically or manually (The importer may use the services of a forwarder or a customs broker.).
7. Await notification that customs officials have approved your declaration.
8. Pay the assessed taxes and duties (your forwarder or broker will typically do this, and will invoice you)
9. Await release of your goods.

## ***2. Export documentation***

The implementation of the export transaction is associated with a large number and type of documents concerning the goods, their transportation, insurance, customs clearance and the resulting payments. The document involved in

each transaction may differ depending on the export destination and the legal and customs requirements and other circumstances in the exporting, transit and importing countries.

Parallel with the foreign sales contracts, offers, bills of exchange and promissory notes, discussed in the previous chapters, other basic documents used in export deals are:

- ❖ Commercial invoice;
- ❖ Pro-forma invoice;
- ❖ Consular invoice;
- ❖ Certificates/Proofs of origin;
- ❖ Quality certificate;
- ❖ Phytosanitary certificate;
- ❖ Veterinary and health certificate;
- ❖ Packing List (P/ L);
- ❖ A transport document (Bill of Lading; Sea Waybill; Air Waybill; CIM/SMGS rail transport contract);
- ❖ Insurance documents;
- ❖ Export license;
- ❖ Export declaration/Electronic Export Information (EEI);
- ❖ Delivery order;
- ❖ Dock/Warehouse receipt.

### **Commercial invoice**

A Commercial invoice is issued by the exporter (see Appendix 8-1) and contains details of the goods. It is a legal document between the exporter and the importer that states the goods being sold and the amount the buyer is to pay (ITA, 2021). The invoice should include minimum the following information:

- Names and addresses of the exporter and the importer;
- Date of issue and number;
- Complete description of the goods (name, quality, etc.);

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- Unit of measure;
- Quantity of goods;
- Unit value and total item value;
- Total invoice value and currency of payment;
- The terms of payment (method and date of payment, discounts, etc.);
- The terms of delivery according to the appropriate Incoterm;
- Means of transport;
- Origin of goods.

### Pro-forma invoice

A Pro-formainvoice is the same as a Commercial Invoice except for the words "Pro forma Invoice" which appear on it (see Table 8 -1 and Appendix 8-2). It could be used as an offer sent from the seller to the buyer, to obtain an import licence, to accompany samples or for other purposes.

Table 8-1. Comparison between a Proforma invoice and an Invoice

	<b>PROFORMA INVOICE</b>	<b>INVOICE</b>
Meaning	Proforma invoice is similar to a normal invoice, provides information to the agent/buyer regarding the particulars of the goods yet to be delivered.	A commercial instrument delivered to the buyer containing the details of products or services provided by the seller is known as an invoice.
Kind of	Quotation	Bill
Time of issue	Before to the placement of order.	Before payment is made.
Acceptance	Creation of sale	Confirmation of sale
Objective	To help the buyer in taking decisions, regarding whether to	To inform the buyer, the actual



	<b>PROFORMA INVOICE</b>	<b>INVOICE</b>
	place an order or not.	amount due for payment.
Posting in account book	No entry is made, as the invoice is not a true invoice.	An entry is made in the books of accounts.

Source: (Surbhi, 2017)

### **Consular invoice**

Some countries (for example Kenya, Latin America, Uganda, Tanzania, New Zealand, Iraq, Fiji, Nigeria, etc.) require a consular invoice. A consular invoice must be submitted to the embassy of the importing country. After submission, the invoice is then authorized by the consul or a representative. Consular invoice contains information such as the consignor (the exporter), consignee (the importer), and value of the shipment and is used by the country's customs officials to verify the value, quantity, and nature of the shipment (Gordon, 2020).

### **Certificates/Proof of origin**

The certificate of origin is a document, which certifies that the exported goods have been obtained or produced in a particular country (see Appendix 8-3). It is required by certain countries to enable them to determine whether the product is eligible for preferential duty treatment and usually is obtained from local chambers of commerce (Seyoum, 2014). Some countries and free trade-zones require a special form of certificate of origin. Such an example is a NAFTA Certificate of Origin required for products traded among the signatory countries of the North American Free Trade Agreement (Canada, Mexico, and the United States) (U.S. Department of Commerce, 2015). The originating status of the goods in European Union may be proved by: *certificates of non-preferential origin*, issued by the chambers of commerce, which certify that the country of origin of the goods does not qualify for any preferential treatment or *certificates of preferential origin*, which allow goods to benefit from reduced or nil duties when they are imported from countries with

which a preferential agreement has been signed (DG Trade, 2021). The certificates of preferential origin must be issued by the customs authorities of the exporting country and shall be presented at the time of customs clearance. The type of certificate, which is required, is related to the preferential agreement. Certificate of origin Form A allows imports from the countries included in the General System of Preferences (GSP) (developing countries) to qualify for reduction or elimination of tariffs (see Appendix 8-4). EUR-MED movement certificate is a certificate of origin applicable in preferential trade within the pan-Euro-Mediterranean cumulation area (see Appendix 8-5) and EUR.1 movement<sup>84</sup> is a certificate of origin applicable in some EU preferential trade arrangements (see Appendix 8-6). Origin can also be proved with an invoice declaration<sup>85</sup> (origin declaration) issued by the exporter in the beneficiary or partner country.

### **Quality certificate**

A quality certificate is issued by the exporter and confirms that the quality of the goods is in accord with the sales contract at the time of shipment. It is issued by competent authorities.

### **Phytosanitary certificate**

Phytosanitary certificates are issued to confirm that consignments of plants, plant products or other regulated articles meet specified phytosanitary import requirements. Phytosanitary certificates are required for regulated articles such as plants, bulbs and tubers, or seeds for propagation, fruits and vegetables, cut flowers and branches, grain, and growing medium or for certain plant products that have been processed but have a potential for introducing regulated pests (e.g. wood, cotton) (yolocounty.org, 2021).

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<sup>84</sup> Because of the customs union, Turkey and Bulgaria apply the same customs tariffs to non-EU third countries. The EUR-1 free movement certificate was replaced by the ATR certificate.

<sup>85</sup> The origin declaration can be given by exporters on an invoice or other suitable commercial document. An origin declaration can only be used if the value of the originating products in the consignment does not exceed a specific value. In EU, invoice declaration may be issued by any exporter in the beneficiary country/partner country for consignments up to €6,000. For consignments beyond €6,000, invoice declarations shall be issued only by an approved exporter.

### **Veterinary and health certificate**

Export health certificates are documents used in export transactions, issued by the governmental organizations at the countries of origin, to certify that a food shipment<sup>86</sup> is fit for human consumption, and meets safety standards or other required legislation for exporting (KIREETI Consultants, 2021). The veterinary certificates ensure the authorities in the import country that the product fulfils the requirements and does not spread animal diseases (FINNISH FOOD AUTHORITY, 2020).

### **Weight certificate (Weight note)**

It confirms that the weight of the goods corresponds with the weight specified on the bill of lading, invoice, certificates of insurance or other specified documents (Branch, 2000, p. 332).

### **Packing list**

The packing list (P/L) is a commercial document (DG Trade, 2021) accompanying the commercial invoice and the transport documents. It provides information on the imported items and the packaging details of each shipment (weight, dimensions, handling issues, etc.) (see Appendix 8-8)

The generally included data are:

- Information on the exporter, the importer and the transport company;
- Date of issue;
- Number of the freight invoice;

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<sup>86</sup> Export health certificates are issued for products such as:

- Meat (lamb, pork, beef, poultry, venison – including prime cuts, and processed meat products etc.);
- Dairy (milk, yoghurt, cheese, butter & ice cream);
- Hides, skins, wool, feathers & lanolin;
- Collagen, Gelatine & animal casings;
- Egg;
- Fish and fishery products;
- Laboratory;
- Pet food and animal feeds;
- Others.

- Type of packaging (drum, crate, carton, box, barrel, bag, etc.);
- Number of packages;
- Content of each package (description of the goods and number of items per package);
- Marks and numbers;
- Net weight, gross weight and measurement of the packages.

## **Transport documents**

### **Bill of Lading**

The Bill of Lading (B/L) is a transport document issued by a carrier to a shipper (consignor), that confirms the receipt of the goods in an acceptable condition by the carrier obliging him to deliver the goods to the consignee. It is a legally binding document, and often serves as proof of ownership over the goods being carried. It contains the following information (ICE, 2019):

- Details of the transportation company (i.e. the carrier), the shipper and/or consignee;
- The place where the goods were loaded;
- Destination;
- Transportation mode (i.e. road, rail, air, sea, etc.);
- The terms of the shipment (incoterms); and
- A description of the goods (including their weight, dimensions, classification, etc).

There are different types of B/L such as (Llamazares, 2015) (ICE, 2019) (DDP FPO, 2021):

*B/L on board* – confirms the shipment of the goods in the ship.

*B/L received for shipment*, usually used in the multimodal transport deliveries. Confirms that the goods have been received for transportation by a specific date, but have not been shipped.

*House B/L.* It is created by a freight forwarder or non-vessel operating company (NVOCC) and is issued to the supplier once the cargo has been received.

*Negotiable/ non-negotiable B/L.* The Bill of Lading may be a negotiable or non-negotiable. An original B/L is a negotiable and legal document as it represents the title of the goods. Non-negotiable Bs/L are in effect copies of the originals and do not have/give power over the title of the goods.

*Clean B/L* is a B/L where the carrier has noted that the goods have been received in good conditions and proper packing on board of the vessel.

*Dirty B/L* is a B/L with a notation that the goods are received by the shipper in a damaged condition.

*To Order B/L.* It is used for shipments when payment is not made in advance. This can be shipping to one of your distributors or a customer on terms.

*Ocean B/L* is generated by the Shipping Lines as the Carrier in this instance for containers transiting by sea and is generally used when the shipper would like to retain control of payment by a consignee (buyer) for the goods. It allows the shipper to transport the cargo over seas, nationally or internationally. When the Shipper has no need to control the release of a cargo, a *Sea WayBill of Lading* can be issued.

*Stale B/L* is a Bill of lading, which is presented late.

*FIATA B/L.* It is a document designed to be used as a multimodal or combined transport document with negotiable status, which has been developed by the International Federation of Freight Forwarders Associations (FIATA) (DG Trade, 2021).

### **Air Waybill (AWB)**

The air waybill is a transport document, which is used in air shipments (see Table 8-2). AWB is issued and signed by an airline cargo carrier or its agent and falls under the provisions of the Warsaw Convention (Convention for the Unification of Certain Rules relating to International Carriage by Air, 12 October 1929). It contains three originals and several extra copies. One part of the air waybill is to be signed by the carrier, which shall hand it to the consignor after the cargo has been accepted. The second part signed by the consignor is marked for the

carrier, and the third one signed by consignee and carrier is marked for the consignee. The copies may be required at the airport of departure/destination, for the delivery and in some cases, for further freight carriers (Seyoum, 2014).

A specific type of Air Waybill is the IATA Standard Air Waybil used by all carriers belonging to the International Air Transport Association (IATA) (DG Trade, 2021).

Table 8-2. Differences Between Air Waybill and Bill of Lading

AIR WAYBILL (AWB)	BILL OF LADING (B/L)
Non negotiable	Negotiable (if issued to order of....)
Air Waybill is issued after a completed shipment is received	Bill of lading is issues after consignment is shipped on board a vessel
This document is issued in at least 9 copies	This document is issued in full set (3 original/3copies)
This document is used for Air shipments	This document is used for Sea shipments
Not used with FAS, FOB, CFR and CIF incoterms	Can be used with all incoterms defined in incoterms rules 2010
AWB is subject to Warsaw convention, Hague amendment < Montreal convention.	B/L Is subject to Hague rules, The Hague-Visby rules and US COGSA (US Carriage of Goods by Sea Act 1936)

Source: [www.bowagateglobal.com](http://www.bowagateglobal.com)

### Road Waybill (CMR)

The road waybill is non-negotiable document containing the details of the international transportation of goods by road, set out by the Convention for the Contract of the International Carriage of Goods by Road 1956 (the CMR Convention) (DG Trade, 2021). It enables the consignor to have the goods at his disposal during transportation. The CMR confirms that the carrier has received the goods and that a contract of carriage exists between the trader and the carrier. The Road Waybill is not a document of title nor a declaration. Generally, there will be

four copies of a CMR note<sup>87</sup>: one kept by the trader; one kept by the carrier; one travelling with the goods all the way to their final destination and an administration copy (nibusinessinfo.co.uk, 2021).

### **Rail Waybill (CIM)**

The rail waybill is a document required for the transportation of goods by rail. It is regulated by the Convention concerning International Carriage by Rail 1980 (COTIF-CIM). Transport documents according to the COTIF convention include:

*Part 1* - Original of the consignment note – accompanies the load and hands over to the consignee;

*Part 2* - Waybill - accompanies the load and remains for the receiving railway carrier;

*Part 3* – Arrival note/ Customs - accompanies the load and remains for the receiving railway carrier or hands over to the Customs;

*Part 4* - Duplicate of the consignment note – hands over to the consignor after the conclusion of the contract of carriage;

*Part 5* - Counterfoil of the expedition - remains for the contractual railway carrier (BDZ, 2021).

The CIM is considered the rail transport contract.

### **ATA Carnet**

A Carnet or ATA<sup>88</sup> carnet is an international customs and temporary export-import document. It is used for customs clearing of goods as commercial samples,

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<sup>87</sup> A CMR note must include:

- the date and place at which the CMR note has been completed
- the name and address of sender, carrier(s) and consignee (the person to whom the goods are going)
- a description of the goods and their method of packing - this should be acceptable to both consignor and consignee (however, for security reasons, you do not always want the carrier to be able to identify valuable goods)
- the weight of the goods
- any charges related to the goods, such as customs duties or carriage charges
- instructions for customs and any other formalities such as dangerous goods information. (nibusinessinfo.co.uk, 2021)

professional equipment and goods for presentation or use at trade fairs, shows, exhibitions and the like in 87 countries and territories without paying duties and import taxes on merchandise that will be re-exported within 12 months (Boomerang carnets, 2021). An ATA Carnet is valid for 1 year. It allows for movement of the goods shown on the Carnet as many times as required during that period to any of the destinations applied for (LCCI, 2121).

### **TIR Carnet**

TIR carnets are customs transit documents used for the international transport of goods, a part of which has to be made by road<sup>89</sup>. They allow the transport of goods under a procedure called the TIR procedure, laid down in the 1975 TIR Convention, signed under the auspices of the United Nations Economic Commission for Europe (UNECE) (DG Trade, 2021). Each TIR carnet has a unique reference number and may have 4, 6, 14, or 20 vouchers. One pair of vouchers is used per country. The number of vouchers indicates the number of countries that can be transited, including the countries of departure and countries of destination, under cover of this type of carnet. Each individual TIR Carnet can be used for only one TIR transport (OFAE, 2021). As a customs transit procedure the TIR procedure enables goods to move under customs control across international borders without the payment of the duties and taxes that would normally be due at importation (or exportation) (EC, 2021).

### **Insurance documents**

**Insurance Policy** is a legally binding written document, which is issued by an insurance company or an underwriter to a policy holder or insured/assured. It defines the terms and conditions of the insurance contract and serves as a legal

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<sup>88</sup> The initials “ATA” are an acronym of the French and English words “Admission Temporaire/Temporary Admission”.

<sup>89</sup> With over 50 countries using the procedure, the TIR system is the international customs transit system with the widest geographical coverage.



evidence of the insurance agreement. The insurance policy sets out all the terms and conditions of the contract between the insurer and insured.

**A certificate of insurance (COI)** is an official document issued by an insurance agent or an insurance company proving insurance coverage is in effect. It shows the dates of coverage, the maximum amount the insurance company will pay for a covered loss (the coverage limit) and the type of losses that are covered. A certificate of insurance is not an insurance policy and does not provide coverage. It is simply proof that coverage exists on the day that the certificate was issued (Plazony , 2018).

**Letter of insurance** is normally issued by a broker to provide notice that an insurance has been placed pending the production of a policy or a certificate. Sometimes this takes the form of a cover note.

### **Export license**

An export license is a government document that authorizes the export of specific goods in specific quantities to a particular destination for a particular end-use. This document may be required for most or all exports to some countries or for other countries only under special circumstances (ITA, 2021).

There are different types of licences. For example in China a general license and a special license are issued, in the USA – a general license and an individually validated license and in the UK - Open General Export Licences (OGELs), Standard Individual Export Licences (SIELs), Open Individual Export Licences (OIELs) and other types of licences<sup>90</sup>.

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<sup>90</sup> Open General Export Licences are available for less restricted exports to less restricted destinations and are issued for export of military goods, for dual-use goods or both. If the goods, technology, software, destination or situation is not covered by an OGEL then a Standard Individual Export Licence (SIEL) can be used. SIELs are company and consignee specific, for a set quantity and/or value of goods. An Open Individual Export Licence is designed to cover long-term contracts, projects and repeat business. This is a concessionary form of licence which is company specific, but not necessarily consignee specific. There is no set quantity or value of goods, although conditions covering this may be set on the licence. Other types of licences are those covering transshipment and trade control (trafficking and brokering) activities, as well as a global project licence (GOV.UK, 2019).

According to the EU legislation, items with dual-use may not leave the EU customs territory without an export authorisation issued by the relevant authority in the Member State in which the exporter is established<sup>91</sup>.

EU Member States may issue export licences which are either (EIFEC, 2018):

- Individual export licenses - granted to one exporter and licenses exports to one destination and end user;
- Global licenses - granted to one exporter and cover one or more items to one or more countries/end users.
- National general export authorisations;
- General Export Authorisations.

### **Export declaration**

An Export Declaration is a statement made by the exporter, the owner of the goods, or their agent, which provides the customs with information about the goods and the export transaction.

In the EU the exporter or declarant must lodge an export declaration at the customs office before taking the goods out of the customs territory of the Union electronically through the Automated Export System (AES). In case the export declaration contains the details of the pre-departure declarations (EXS), the pre-departure declaration does not need to be submitted separately. The customs office of export validates the export declaration and issues a Master Reference Number (MRN) (Taxation and Customs Union). As a declaration for exports<sup>92</sup> (imports and transit) to a non-EU country the Single Administrative Document (SAD) is used (see Appendix 8-7). The single administrative document is a form used for customs

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<sup>91</sup> More you can see at: [https://ec.europa.eu/environment/cites/info\\_permits\\_en.htm#\\_Toc223858307](https://ec.europa.eu/environment/cites/info_permits_en.htm#_Toc223858307).

<sup>92</sup> After an exporter submits an export declaration form and the exporting goods have been examined, an Export Accompanying Document is issued. The EAD serves as a proof from a competent customs office that an export is admissible. It must accompany the goods to the last customs office (customs office of exit) at the EU external border. The customs office of exit will then confirm the exit of the goods from the customs territory of the Community. With this confirmation, the export procedure is completed.

declarations in the EU, Switzerland, Norway, Iceland, Turkey, the Republic of North Macedonia and Serbia (DG Trade, 2021).

In the USA an export declaration is required for all U.S. exports with commodities valued over US\$2,500. A U.S. Shipper's Export Declaration (SED) (U.S. Department of Commerce, 2015) was a standard United States government form required for all U.S. exports which has been replaced with the Electronic Export Information<sup>93</sup> form (EEI)<sup>94</sup>. The declarants receive an ITN which is a number assigned to a shipment confirming that the ACE accepted the Electronic Export Information (EEI) and has it on file.

### **Delivery order**

This is a document ordering a terminal operator, carrier or warehouseman to deliver goods to the bearer or a party named in the order. Delivery order is not a negotiable document (Llamazares, 2015). This document differs from the delivery instructions. *Delivery Instructions* provide specific details to carriers regarding the arrangement made by the forwarder to deliver the merchandise to a particular destination.

### **Dock/Warehouse receipt**

The dock receipt is confirms receipt of a cargo on the quay or warehouse pending shipment. The warehouse receipt containing the list of goods stored in the warehouse. It certifies the placing of the goods in the warehouse. The warehouse receipt can be negotiable or non-negotiable.

## ***3. Import documentation***

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<sup>93</sup> Electronic Export Information Filing (EEI) is the electronic export data as filed in the Automated Export System (AES).

<sup>94</sup> „A shipment from the United States to Canada that exceeds in value does not require an export declaration unless it requires an export license or permit. Shipments from the US to Puerto Rico require an export declaration to be filed, On the other hand, cargoes headed from the US to American Samoa, Guam, Northern Mariana Islands, and most of the other U.S. territories are treated as domestic shipments and do not need an export declaration. The U.S. Virgin Islands is a special case: shipments from that territory to either the U.S. mainland or Puerto Rico do not need an export declaration, but a cargo headed from the US in the other direction requires an export declaration. An export declaration filing is included in your door to door or door to port rate. However, you will need to submit an SLI or fill out the export declaration information at the time of booking so we can file with customs.” (ExFreight, 2021).

Most of the documentation requirements for import customs clearance are the same as for export clearance. Although the procedures may vary from country to country, there are some documents that are basic for import custom clearing. These are commercial invoice, packing list, bill of lading (or other transport documents depending on the type of transport), certificate of origin, insurance policy/certificate, import licence<sup>95</sup> or permits and import declaration. “Most products have to comply with certain technical and/or health and hygiene requirements. These may require different types of testing and certification. This is often the case for technical requirements for industrial products, and for health and hygiene requirements for food and agricultural products” (DG Trade, 2021). Differences in required import documentation and procedure come out due to the types of customs clearance<sup>96</sup> and the need for tax and duty assessments and payment.

One of the most important documents for importing goods is the **Customs declaration**. As for the customs declaration document, requirements vary from country to country.

All goods imported into the European Union must be declared to the customs authorities of the respective Member State using the **Single Administrative Document (SAD)**.

The main information that shall be declared is:

- Identifying data of the parties involved in the operation;
- Customs approved treatment;
- Identifying data of the goods, location and packaging;

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<sup>95</sup> An import licence is an official document issued by a nation’s government which authorizes the import of particular goods into its territory. Import licences usually are required for: technology; military weapons; textiles; artworks; plants; animals; medicines; chemicals and others.

<sup>96</sup> For example, in the EU there are the following types of customs clearance:

Free circulation – the goods obtain the status of Union goods and can be placed on the EU market

Temporary admission – the goods are brought temporarily to the EU with total or partial relief from import duty. It includes goods intended for exhibitions, trade fairs, contests, etc. The maximum period is two years

Inward processing – for manufacturing or repair. Those goods are not subject to import duty and other taxes

Storage – while in storage, goods are not subject to import duties and other charges

- Information referred to the means of transport;
- Data about country of origin, country of export and destination;
- Commercial and financial information;
- List of documents associated to the SAD<sup>97</sup>;
- Declaration and method of payment of import taxes (tariff duties, VAT, excises, etc) (DG Trade, 2021).

The import declaration has to be submitted after the arrival of the goods electronically by using your Economic Operator Registration and Identification (EORI) number.

Other documents that shall be submitted are the Entry Summary Declaration (ENS), Summary Declarations and Customs Value Declaration. The **Entry Summary Declaration (ENS)** has to be submitted electronically in advance to the import operation for goods from countries outside the Union. It must include all goods in the mode of transport. The ENS has to be submitted within the prescribed time limit before the goods enter the customs territory of the EU. The deadline for lodging the declaration varies for different means of transport. It is mainly intended to enable customs to conduct a risk analysis for security and safety purposes. The ENS must be distinguished from the **summary declaration** for temporary storage which is a notification of presentation to customs and serves the purpose of registration of the goods (Zoll, 2021).

In case that the value of the imported goods exceeds EUR 20 000, a **Customs Value Declaration** must be presented to the customs authorities. It is

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<sup>97</sup> Additional documents shall be declared presented together with the SAD. The most important documents are:

- Documentary proof of origin, normally used to apply a tariff preferential treatment;
- Certificate confirming the special nature of the product;
- Transport Document;
- Commercial Invoice;
- Customs Value Declaration;
- Inspections Certificates (Health, Veterinary, Plant Health certificates);
- Import Licenses;
- Community Surveillance Document;
- Cites Certificate;
- Documents to support a claim of a tariff quota;
- Documents required for excise purposes;
- Evidence to support a claim to VAT relief. (DG Trade, 2021)

used for assessing the value of the transaction in order to fix the customs value<sup>98</sup> to apply the tariff duties.

Customs clearance in the USA is overseen by the United States Customs and Border Protection<sup>99</sup> (CBP). It is required the importer to present the CBP with multiple documents and to pay due duties. The entry process<sup>100</sup> is a two-part process consisting of (FDA, 2021):

- filing the documents necessary to determine whether merchandise may be released from CBP custody and;
- filing the documents that contain information for duty assessment and statistical purposes.

Both of these processes can be accomplished electronically via the Automated Broker Interface (ABI) program of the Automated Commercial Environment (ACE).

The Entry documents that have to be filed are (Shipa Freight , 2019) (US Customs and Borders Protection, 2014):

- Entry Manifest (CBP Form 7533) or application and special permit for immediate delivery (CPB Form 3461);
- Commercial invoice;
- Packing lists;
- Bill of Lading (B/L, BOL) or AWB;
- Other needed documents to determine if the goods can be admitted to the U.S., like a Certificate of Origin.
- Importer Security Filing (ISF) for shipments arriving by ocean vessels.

If the goods are to be released at the time of entry, an entry summary for consumption must be filed and the estimated duties deposited at the port of entry.

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<sup>98</sup> The customs value corresponds to the value of the goods including all the costs incurred (e.g.: commercial price, transport, insurance) until the first point of entry in the European Union. The usual method to establish the Customs value is using the transaction value. In certain cases the transaction value of the imported goods may be subject to an adjustment, which involves additions or deductions. For instance: commissions or royalties may need to be added to the price; the internal transport (from the entry point to the final destination in the Community Customs Territory) must be deducted (DG Trade, 2021).

<sup>99</sup> Its primary border control organization.

<sup>100</sup> To make a customs entry, you need an Importer ID Number.

Immediate release of shipment can be obtained through CPP Form 3461 prior to arrival of the goods (Seyoum, 2014).

If the value of imported goods is over \$2,500 then a Customs Bond (known also as surety bonds) is needed to ensure the payment of the duties and taxes for them. A customs bond is an insurance policy for the benefit of the U.S. Government.

Other documents that may be required when importing goods are the Certificate of inspection and the Certificate of analysis.

**The Certificate of inspection** is a document certifying goods were in good condition at the time of inspection, usually prior to shipment. It is required for importation in many countries. For example, all consignments of organic products imported from countries outside the EU, with some exclusion, must be accompanied by a certificate of inspection. It can be initiated by the importer, the exporter or the control body/authority of the exporter. It needs to be issued by the control body of the exporter<sup>101</sup>. The original certificate of inspection must be presented together with the imported goods to the relevant Member State's authority (TRACES, 2021).

**The Certificate of analysis** is a document confirming that the goods have undergone specified testing with specified results. It “is mostly used for food products, wines and spirits, chemicals and pharmaceuticals. Sometimes, as in the case of exports of wine, there are countries that require it at the import customs. This certificate can be issued by a certification authority (appointed by the exporter or importer) or at the exporter’s own laboratories, when a relationship of trust has already been established between the parties” (Llamazares, 2015).

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<sup>101</sup> For more information see Commission Regulation (EU) No 2016/1842, Annex IV and Commission Regulation (EU) No 2016/1842, Annex III.

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### **Key Terms**

- 1) Custom clearance;
- 2) Commercial invoice;
- 3) Pro-forma invoice;
- 4) Consular invoice;
- 5) Certificates/Proofs of origin;
- 6) Quality certificate;
- 7) Phytosanitary certificate;
- 8) Veterinary and health certificate;
- 9) Packing List (P/ L);
- 10) Bill of Lading;
- 11) Sea Waybill;
- 12) Air Waybill;
- 13) CIM/SMGS rail transport contract;
- 14) Insurance documents;
- 15) Export license;
- 16) Export declaration;
- 17) Electronic Export Information (EEI);
- 18) Delivery order;
- 19) Dock/Warehouse receipt;

- 20) Single Administrative Document (SAD);
- 21) Entry Summary Declaration;
- 22) Customs Value Declaration;
- 23) Certificate of inspection;
- 24) Certificate of analysis.

**Review questions and tasks**

1. What are the main steps in export customs clearing?
2. What are the main steps in import customs clearing?
3. What are the differences between the commercial invoice and the pro-forma invoice?
4. What is the difference between ATA Carnet and TIR Carnet?
5. What are the main types of Bill of lading?
6. When is a customs value declaration required?
7. Do research and specify the documents required for customs clearing for imports in Canada. Are there specifics related to exporting country?
8. What is the main information that shall be included in the Single Administrative Document?

## CHAPTER IX. MEANS AND METHODS OF PAYMENT

### Chapter outlines

#### 1. Methods of payment

Open Account, Letter of Credit, Documentary Collections (D/C), *Cash-in-Advance – Definitions, types, advantages and disadvantages*

#### 2. Means of payment

Promissory notes, bill of exchange, international transfers, cheques, credit cards

### Learning objectives

#### 1. Define the different methods of payment

2. Discuss the specifics, advantages and disadvantages of different methods of payment

#### 3. Become familiar with the means of payment and their use in the paxis

### 1. *Methods of payment*

With the increase of the volume and the complexity of international trade and involvement of more and more players, to guarantee the fulfilment of the obligations of exporters and importers, including related to payment and delivery of goods is an important issue. In this context the method of payment chosen by the parties in the international sales/purchase contract is of high importance. There are several methods of payment<sup>102</sup> developed over time and related to different range of risks and benefits for exporters and importers. The most common are the open account, the documentary credit, the documentary collection and the cash-in advance.

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<sup>102</sup> In the literature there is no strict distinction between forms, methods and means of payment and the terms as forms, methods and means are often used for one and the same thing.

### 1.1. Open Accounts

In case of an open account the exporter first delivers the goods to the importer who commits to make the payment at some specific date in the future typically in 30, 60, or 90 days, after goods are shipped and delivered. Since this is the most risky method of payment for the exporter and the most advantageous for the importer, it is seldom used in international trade praxis. An open account is employed when the importer has a strong credit history and only between exporters and importers who have a long-term relationship with a great level of mutual trust.

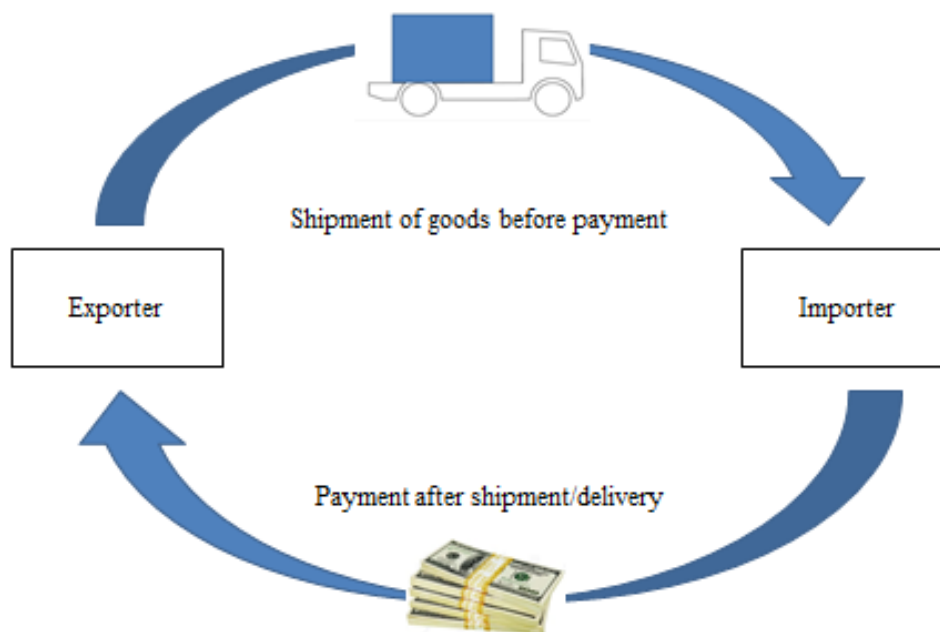


Figure. 9-1.

Because the title to the goods usually passes from the seller to the buyer prior to payment there is high risk for exporters of non-payment or delays in payment by importers. The buyer may also reject the shipment due to lack of funds or other reasons in which case the exporter will have to find a different buyer and pay for stocking the goods or take the return shipment, which will cause additional costs. It is possible to mitigate in a high degree the risk of non-payment associated with

open account trade by using trade finance techniques such as export credit insurance and factoring. The use of an open account payment method allows exporters to win customers in high-competitive markets because this payment term involves the fewest restrictions and the lowest cost for the buyer.

### 1.2. Documentary Credit ( Letter of Credit)

According<sup>103</sup> to the Uniform Custom and Practice for Documentary Credit (UCPDC) issued by the International Chamber of Commerce (ICC) the Letter of Credit is “An arrangement, however named or described, that is irrevocable and thereby constitutes a definite undertaking of the Issuing bank) to honour<sup>104</sup> a complying presentation.” From the international point of view, it means that L/C is a contractual agreement whereby the issuing bank, acting on behalf of its customer (the importer), promises to make payment to the beneficiary (the exporter) against the receipt of stipulated documents. Documentary credit usually has four parties: the importer (the buyer, the applicant), the exporter (the seller, the beneficiary), the importer’s bank (the issuing bank) and the exporter’s bank (the advising bank, the negotiating bank) (see Figure 9-2).

Prerequisite for use of a documentary letter of credit is the payment clause in the international sales/purchase contracts between the exporter and the importer, which stipulates the terms and method of payment. After the contract is concluded the importer applies to his bank for issue of a documentary credit (D/C). The opening bank (importer’s bank) issues a D/C and sends it to the exporter’s (advising) bank. The exporter’s bank advises the exporter that it has been received. The exporter sends goods and gives the documents to his bank. The advising bank forwards the documents to the issuing bank, which checks them against the L/C and authorizes payment if no discrepancies are found. After that the importer’s account

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<sup>103</sup> Both terms are in common usage and are synonymous. There is no distinction between the two but, as ICC rules commonly refer to ‘documentary credits’.

<sup>104</sup> Honour means: to pay at sight if the credit is available by sight payment; to incur a deferred payment undertaking and pay at maturity if credit is available by deferred payment or to accept a bill of exchange (draft) drawn by the beneficiary and pay at maturity if credit is available by acceptance.

is debited and the issuing bank gives the importer the documents, with which he or she can claim the merchandise.

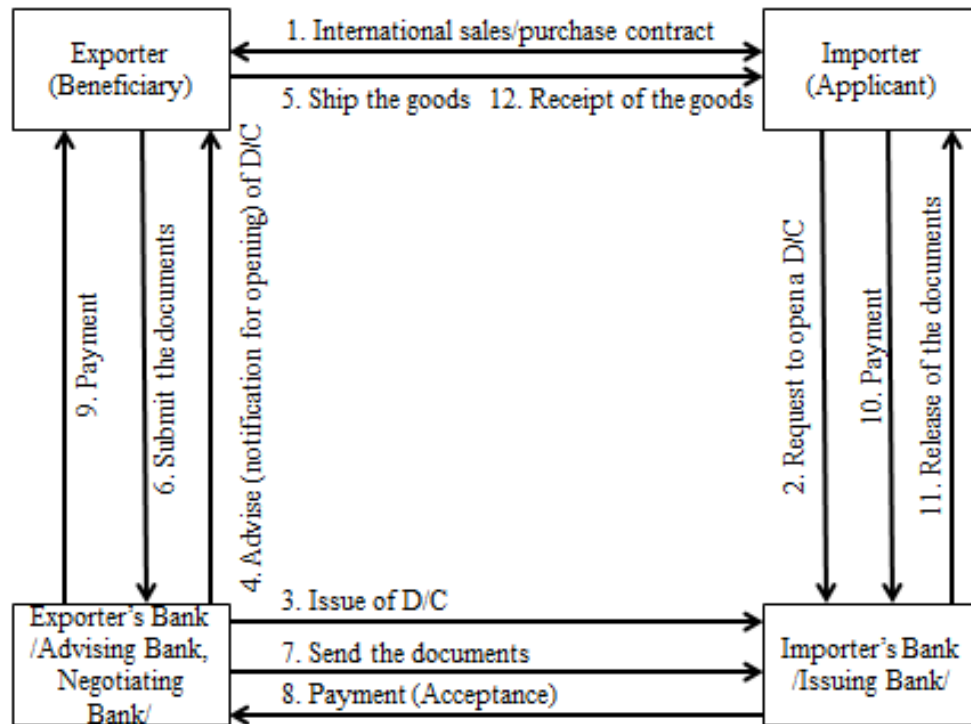


Figure. 9-2.

Over time different types of Documentary Credit have been developed. Every type has its specifics and purpose.

**The Irrevocable Documentary Credit** is a credit the terms and conditions of which cannot be changed (amended or cancelled) unless the issuing bank, the confirming bank and the beneficiary agree to the changes. This type of D/C protects the interests of the exporter. He considers the irrevocable documentary credit as an order confirmation and can start manufacturing the goods because he is assured of being paid by the importer's banker if he meets all his commitments (Paiementor, 2019).

**The Revocable Documentary Credit** may be revoked or amended by the importer without the approval of the exporter/beneficiary. It is not very popular in international trade because of the risks it bears for the seller.

**Confirmed Documentary Credit** involves a bank other than the issuing bank guaranteeing the credit. Usually this is the exporter's bank (the advising bank). By adding its confirmation to the documentary credit, the bank assumes an irrevocable obligation to make payment against presentation of the required documents. This type of documentary credit protects the exporter against any political and financial risks arising from conditions in the importer's home country.

**Unconfirmed documentary credit** is that which has been guaranteed only by the bank that opened it. The exporter's bank (advising bank) only informs the beneficiary of the the letter of credit terms and conditions and controls the documents required, but has no obligation to make payment until it receives the payment from the issuing bank (Danske Bank, 2010).

**Standby Documentary Credit (Standby Letter of Credit)** – A standby documentary credit acts as a bank guarantee<sup>105</sup> and it is subject to international documentary credit rules and standby rules. It is an undertaking which is activated only if something goes wrong between the importer and the exporter and the expected payment does not take place. It therefore allows the seller to enforce a claim.

**Back-to-Back Letter of Credit** is also called Countervailing Credit. Practically it consists of two Letters of Credit and is usually used in an international transactions involving an intermediary between the buyer and seller. The one L/C is issued by the buyer's bank to the intermediary and the other by the intermediary's bank to the seller. With the original L/C from the buyer's bank in place, the broker goes to his own bank and has a second L/C issued, with the seller as the beneficiary (Kagan, 2020).

Example of a Back-to-Back Letter of Credit Transaction

Assume that Company A based in the Canada sells heavy machinery. A trading firm based in London - Broker B- has learned that Company C, located in China, wants to purchase heavy machinery. The trading company has managed to

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<sup>105</sup> International guarantees are not subject to a common set of rules to the same extent.



broker a deal between the two companies. Company A wants to sell but does not want to take on the risk of default of payment by Company C and the broker B wants to ensure that the trade is made and that it receives its commission.

In that case Company C will go to a well-known financial institution in China and get it to issue an L/C with Broker B as beneficiary and the Broker B will use that L/C to go to its own well-known financial institution in Britain and have it issue an L/C to Company A. Company A can now ship its heavy machinery knowing that once the transaction is complete, it will be paid by the Britain bank. The broker is also assured of being paid. The credit risk has been removed from the transaction.

**Transferable Documentary Credit** is a credit that allows the seller (“first beneficiary”) to transfer the credit, fully or partially, to one or more third parties (“second beneficiary”). In order for this practice to be effective, the credit must clearly state that it is transferable. The transferred credit (ICC, 2007, стр. 93) must accurately reflect the terms and conditions of the credit, including confirmation, if any, with the exception of:

- the amount of the credit,
- any unit price stated therein,
- the expiry date,
- the period for presentation, or
- the latest shipment date or given period for shipment, any or all of which may be reduced or curtailed.

**Deferred Payment Letter of Credit** is a credit that allows the beneficiary to be paid, not at the time when he makes a complying presentation, but at a later, specified, maturity date. The maturity date may be a specified number of days after the beneficiary's presentation or a specified number of days after a particular event (often the date of the bill of lading) (Practical Law, 2020)

**Payment at Sight Letter of Credit** is payable once the exporter meets all of the requirements of the letter of credit. This type of LC provides the fastest mode of payment to the exporter, when selling to their overseas importers.

<input type="checkbox"/> Irrevocable documentary credit	<input type="checkbox"/> confirmed	<input type="checkbox"/> unconfirmed
Bank & Place of issue .....		
Bank & Place of confirmation (if applicable) .....		
Credit available		
<input type="checkbox"/> by payment at sight		
<input type="checkbox"/> by deferred payment, ..... days		
<input type="checkbox"/> by acceptance of drafts, ..... days		
<input type="checkbox"/> by negotiation		
Partial shipments	<input type="checkbox"/> allowed	<input type="checkbox"/> not allowed
Transshipment	<input type="checkbox"/> allowed	<input type="checkbox"/> not allowed
Date on which the documentary credit must be notified to seller .....		
[unless otherwise specified, 30 days before the beginning of the delivery period]		

**Acceptance Letter of Credit** is similar to a deferred payment L/C. Under this credit, Bill of Exchange must be drawn on the specified bank for specified tenor, and the designated bank will accept and honour the same, by making payment on the due dates.

**Negotiation Letter of Credit** gives the opportunity to the beneficiary to receive the payment from the negotiating bank after presentation of the required documents and draft. This L/C can be a sight credit or a usance credit. A Bill of Exchange is usually drawn in negotiation credit. The draft can be drawn as per credit terms. The negotiation can be restricted to a specific bank or not. Under a negotiation credit, if the bank nominated (negotiating bank) refuses to negotiate, then the responsibility of issuing bank would be to pay as per terms of that credit. (Union Bank of India, 2020).<sup>106</sup>

**Red & Green Clause Documentary Credit** contain a special clause that allows the exporter to draw on the credit prior to shipment of goods and presentation of documents. This clause is written in red or green ink (ICC Academy, 2019). There are the following variants possible: *Clean Red Clause*, *Documentary Red Clause* and *Green Clause*. In the first case, the required

<sup>106</sup> Negotiation means purchase by the nominated bank of drafts and/or documents under a complying presentation, by advancing or agreeing to advance funds to beneficiary on or before the banking day on which reimbursement is due to the nominated bank. (ICC, 2007)

documents do not include evidence of goods. In the second case, advances are made against presentation of warehouse receipts, or similar documents, together with seller's undertaking to deliver the bill of lading and/or other required documents upon shipment. The credits with *Green Clause* allow for advance payment but provide for storage of the goods in the name of the bank as security.

**Revolving Documentary Credit** is a single letter of credit that can be used for multiple shipments over a period of time. It is used for regular shipments of the same commodity to the same buyer. A revolving documentary credit can revolve either in terms of time or amount.

Documentary credit is one of the most commonly used payment methods in international trade because of its advantages. D/C minimizes risk for both the exporter and the importer. It protects the exporter since the bank is guaranteeing the payment as well as conducting a verification process to ensure the legitimacy of the importer. D/C also protects the importer since payment is only required after the goods have been shipped or delivered to the importer. Of course D/C has some disadvantages as the high expenses and the risks it hides related to the reputation of the buyer's bank.

### 1.3. Documentary Collections

A documentary collection is a transaction whereby the exporter (the seller) sends the documents to the remitting bank (its bank) and requires this bank to collect the payment from the buyer. The exporter's bank sends the documents to the importer's bank (collecting bank), along with instructions for payment. Funds are received from the importer and remitted to the exporter through the banks in exchange for those documents (Privacy Shield, 2020). In general, documentary collections should be used in established trade relationships in politically and economically stable markets and are recommended for ocean shipment.

Documentary collection will be used when it is stated as a payment condition in the international sales/purchase contracts between the exporter and the importer

(See Figure 9-3). The simplified technology of documentary collection includes the following steps:

- The exporter ships the goods to the importer and receives the documents in exchange.
- The exporter presents the documents with instructions for obtaining payment to his bank.
- The remitting bank sends the documents to the collecting bank.
- The collecting bank releases the documents to the importer after receiving the payment or acceptance of the draft.
- The importer uses the documents to receive the goods.
- After the collecting bank receives payment, it forwards the proceeds to the exporter's bank.
- The exporter's bank then credits the exporter's account. (Noah, 2019)

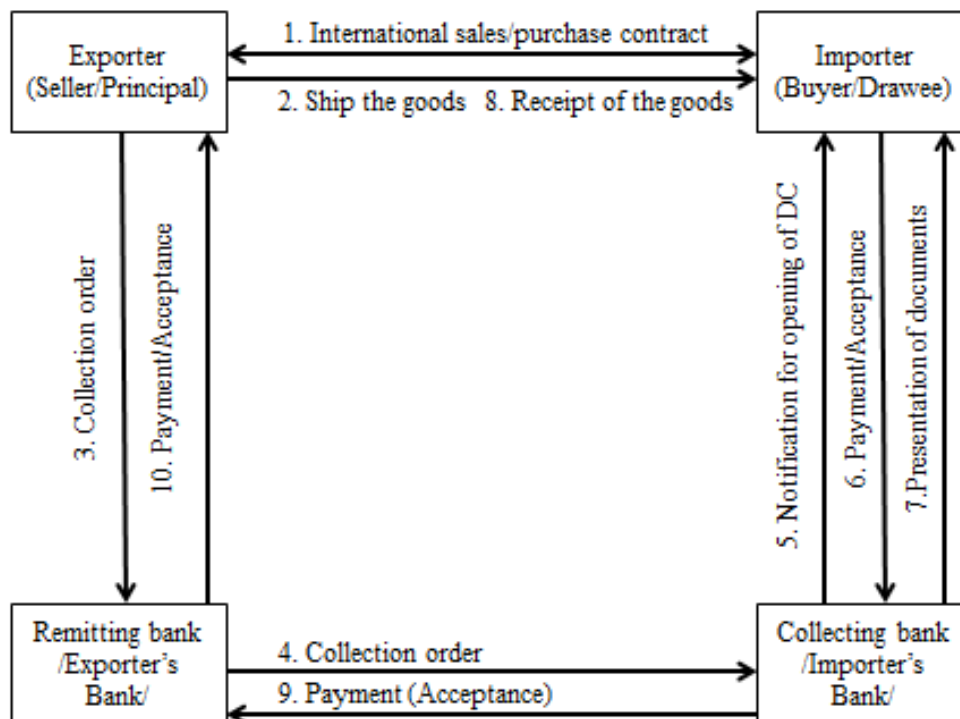


Figure.9-3.

There are two types of documentary collection used in international trade practice: Documents against payment collection or cash against documents (D/P)

and Documents against acceptance collection (D/A) or cash against acceptance. The collection cover letter gives instructions that specify the documents required for the delivery of the goods to the importer.

Under D/P, the collecting bank has to hand over the shipping documents including the document of title (bill of lading) only when the importer (drawee) has made the payment. The drawee is usually expected to pay within 3 business days of presentation.

Table 9-1. Overview of a D/P collection

<b>Time of Payment</b>	After shipment, but before documents are released
<b>Transfer of Goods</b>	After payment is made at sight
<b>Exporter Risk</b>	If draft is unpaid, goods may need to be disposed of or may be delivered without payment if documents do not control possession

Source: Privacy Shield, 2020

Under D/A, the exporter extends credit to the importer and the credit period is known as ‘Usance’. The drawee accepts the bill by signing it, and thus making a promise to pay the bill on a specified date. After signing the bill the importer can take the documents to clear its goods. The payment date in the case of D/A is calculated pursuant to the term of the bill, which starts either from sight or from the date of shipment, as stated on the bill of exchange and usually is a multiple of 30 days (Gupta, 2018, p. 155).

Table 9-2. Overview of a D/A collection

<b>Time of Payment</b>	On maturity of draft at a specified future date
<b>Transfer of Goods</b>	Before payment, but upon acceptance of draft
<b>Exporter Risk</b>	Has no control over goods after acceptance and may not get paid at due date

Source: Privacy Shield, 2020

The Documentary collection payment method is more favourable to the buyer because the importer is not obligated to pay for goods before shipment. It is also less complicated and cheaper in comparison with the letter of credit. At the

same time Documentary collection allows the exporter to retain control over the goods until the importer either pays the draft amount at sight or accepts the draft and with that the obligation to pay on a future date. Regardless of its positive aspects it should be mentioned that documentary collection is riskier for the seller because the bank does not guarantee the payment and it is not recommended to use for air and overland shipments<sup>107</sup>.

#### 1.4. Cash in advance

Cash in advance is the most secure and least risky method of international trade for exporters because the importer pays the exporter before the ownership over the goods is transferred to him/her. Payment is usually received by exporter via a credit card, bank or wire transfer or escrow service. Payment in advance is the least attractive option for the importer since it can cause cash-flow problems. The exporters who do not offer other methods of payment may lose customers (see Figure 9-4).

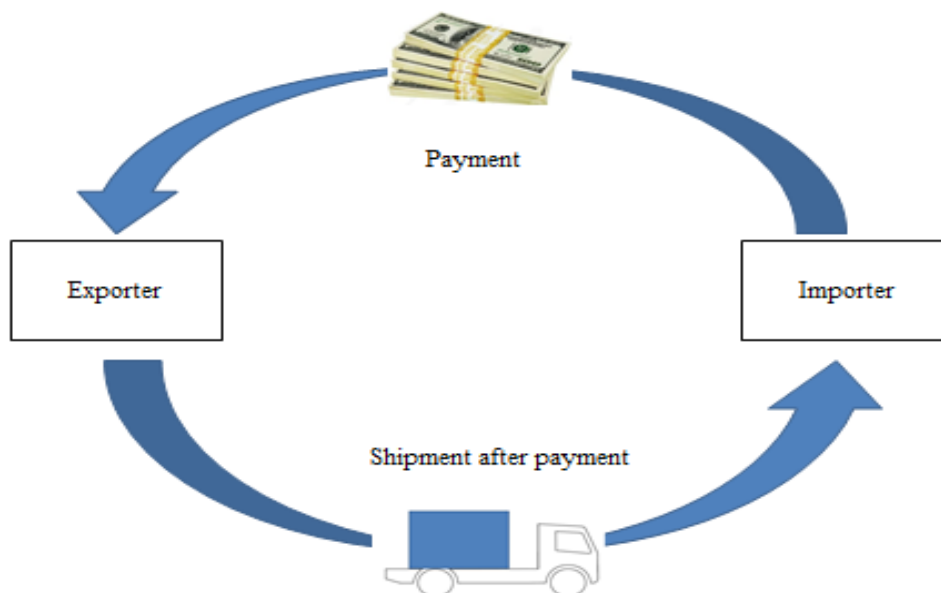


Figure 9-4.

<sup>107</sup> Although the goods can be controlled under ocean shipments, they are more difficult to control under air and overland shipments, which allow the foreign buyer to receive the goods with or without payment unless the exporter employs agents in the importing country to take delivery until goods are paid for.

## *2. Means of payment*

Liberalization of international trade, the process of internationalization and development of technologies are factors that influence the use of different means of payment in foreign trade praxis. Each of them has its advantages and disadvantages which are important for exporter's and importer's decisions how to be paid or to pay. Among these means are promissory notes, bills of exchange, international transfers and other.

A promissory note is an unconditional written promise from the issuer to pay a second party – the payee<sup>108</sup> – a specific sum of money, either on a specific future date or whenever the payee demands payment (depending on the terms of the note). The promissory note should include (Lex Mercatoria, 2020, p. 20):

- The term 'promissory note' inserted in the body of the instrument and expressed in the language employed in drawing up the instrument;
- An unconditional promise to pay a determinate sum of money;
- A statement of the time of payment;
- A statement of the place where payment is to be made;
- The name of the person to whom or to whose order payment is to be made;
- A statement of the date and of the place where the promissory note is issued;
- The signature of the person who issues the instrument (maker).

Promissory notes are often used to provide short-term credits. For example, a company from country X exports goods for 50 000 Euro. The importing company does not pay immediately and issues a promissory note with the condition that will pay the amount in 30 days. Based on that note in 30 days the importer pays 50 000 Euro to the exporter.

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<sup>108</sup> "Payee" means a person in whose favour the drawer directs payment to be made or to whom the maker promises to pay.

Promissory notes<sup>109</sup> can vary depending on how the loan is to be repaid (WEINTRAUB, 2020):

- *Lump-sum*: The entire loan amount is to be repaid in one payment.
- *Due on demand*: The borrower must repay the loan when the lender asks for repayment.
- *Installment*: A specified schedule of payments determines how the loan is to be paid back.
- *With (or without) interest*: The agreement should spell out the rate of interest, if any.

Similar to the Promissory note is the Bill of Exchange (also known as draft). The bill of exchange is a written instrument which contains an unconditional order whereby the drawer instructs the drawee to pay a definite sum of money to the payee or to his order on demand or at a definite time (Lex Mercatoria, 2020). Compared to notes, Bills of exchange involve 3 parties – drawer, drawee, payee (beneficiary).

A bill of exchange should include:

- The term 'bill of exchange' inserted in the body of the instrument and expressed in the language employed in drawing up the instrument;
- An unconditional order to pay a given amount of money;
- The name of the person who is to pay (drawee);
- A statement of the time of payment;
- A statement of the place where payment is to be made;
- The name of the person to whom or to whose order payment is to be made;
- A statement of the date and of the place where the bill is issued;
- The signature of the person who issues the bill (drawer).

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<sup>109</sup> Corporate promissory notes usually have to be registered both in the country they are issued in and with the Securities and Exchange Commission (SEC). Regulators then examine the note and the issuing company to determine if the company can really fulfil the promises outlined in the note.



We have to underline that not all the elements are obligatory. “A bill is not invalid by reason that it is not dated; that it does not specify the value given, or that any value has been given therefor; that it does not specify where it is drawn or where it is payable” (Justice Laws Website, 2021). To illustrate how the bill of exchange works let us suppose a buyer (importer) wants to buy goods from a seller (exporter) but to pay in 3 months. The buyer and the seller will conclude a purchase agreement with option for payment through a bill of exchange, which can be guaranteed by a bank. In this case, the seller arranges the delivery of the goods to the buyer, and the buyer draws a bill on its bank to accept. The bank will incur primary liability of that exchange, which is in favor of the seller (See Fig. 5). The bank can also provide the buyer with a line of credit (Trade Finance Global, 2020).

With bills of exchange, the exporter (seller) assumes all risk until the actual money is received. Similar to promissory notes the bills of exchange could be transferred or negotiable but in comparison with it the bill of exchange is an order to pay, not a promise to pay. The drawer directs its bank to pay the payee instead of paying the amount owed themselves.

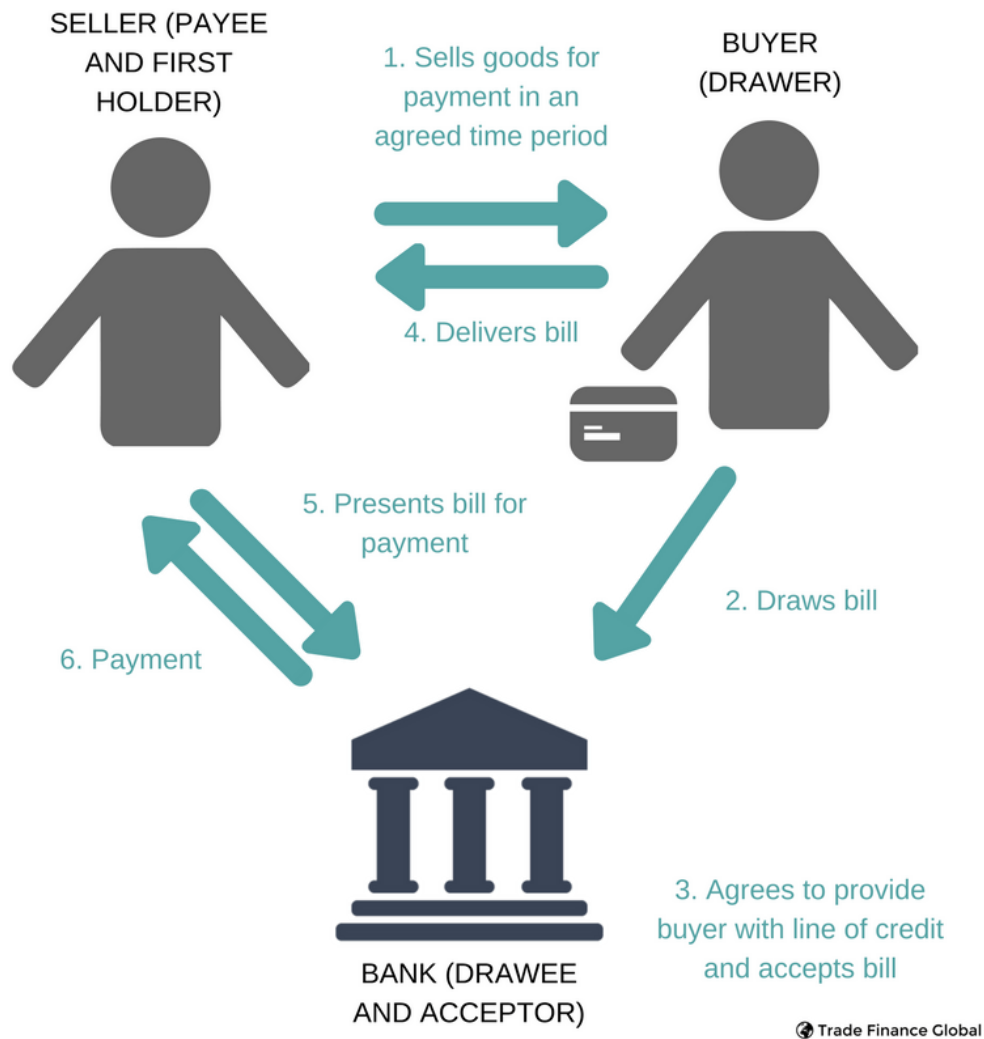


Figure 9-5.

## Cheque

Another means of payment used in domestic and international trade is the **Cheque**. It is a negotiable instrument that contains an unconditional order to the bank to pay a certain amount mentioned in the instrument, from the drawer's account, to the person to whom it is issued, or to the order of the specified person or the bearer. There are also three parties to a cheque: drawer<sup>110</sup>; drawee<sup>111</sup> and beneficiary (payee)<sup>112</sup>.

<sup>110</sup> The person who draws the cheque, i.e. signs and orders the bank to pay the amount.

<sup>111</sup> The bank on which the cheque is drawn or who is instructed to pay the specified amount written on the cheque.

<sup>112</sup> The person to whom the amount is to be paid.

This method of payment is defined as the least attractive cash-in-advance method. This is due to the fact that the beneficiary does not know if the drawer has enough money in its account and it is possible that the exporter bears the risk of nonsufficient funds and at the same time credits the importer. There are different types of cheques such as open cheques<sup>113</sup>, crossed cheques<sup>114</sup>, order cheques<sup>115</sup> and other<sup>116</sup> (See Appendix 9-1).

In international trade, cheques are only used to pay small orders. If the check is in a foreign currency or is drawn on a foreign bank, the collection process can become even more complicated and can significantly delay the availability of funds.

For example if the check is in U.S. dollars and drawn on a U.S. bank, the collection process is the same as it would be for any U.S. check. However, funds deposited by non local checks, especially those totaling more than \$5,000 on any one day, may not become available for withdrawal up to 10 business days due to federal regulations.

Source: <https://www.shippingsolutions.com/blog/methods-of-payment-in-international-trade-cash-in-advance>

In special cases the bank could pay the cheque even if there are not enough funds in the drawer's account but the drawer has to pay an interest rate higher than the average for the service.

### **International wire transfers**

The most secure, commonly used and preferred method for exporters to receive payment in advance is the international bank<sup>117</sup> wire<sup>118</sup> transfer. A bank

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<sup>113</sup> They can be cashed by anyone claiming that they are the payee; they only have to endorse the cheque.

<sup>114</sup> With two lines drawn across the middle meaning that they can only be paid into a bank account.

<sup>115</sup> The word "or order" written on their face. They are payable to the person specified therein as the payee,

or to any one else to whom it is endorsed (transferred).

<sup>116</sup> For more see: <https://businessjargons.com/cheque.html>.

<sup>117</sup> A bank transfer could be made via one of the following methods: online banking; phone banking (also known as tele-banking); mailing a payment form to the bank; visiting the bank and completing payment form in person.

transfer is a way to send money from one bank account to another anywhere in the world. Exporters should provide clear routing instructions to the importer when using this method including the receiving bank's name and address, SWIFT code, IBAN<sup>119</sup>, ABA number<sup>120</sup> or other, as well as the seller's name and address, bank account title, and account number (See Appendix 9-2). The fee for an international wire transfer can be paid by the importer or it can be deducted from the exporter's account (Noah, 2019).

### **Credit Card**

Exporters who sell directly to foreign buyers may select credit cards as a viable cash-in-advance option, especially for small consumer goods transactions. They should check with their credit card companies for specific rules on international use of credit cards.

### **Escrow Service**

Escrow service<sup>121</sup> is also an option for small transactions with importers who demand assurance that the goods will be sent in exchange for advance payment. Escrow protects both exporters and importers by placing funds in the hands of a trusted third party until a specific set of conditions are met. A typically escrow transaction follows these steps:

The importer sends the agreed amount of money to the escrow service.

After payment is verified, the exporter is instructed to ship the goods.

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<sup>118</sup> A wire transfer is a transfer of funds done electronically across a network of banks or transfer agencies around the world. Senders pay for the transaction at the remitting bank and provide the recipient's name, bank account number, and the amount transferred. Most wire transfers can take as long as two business days to process.

<sup>119</sup> An IBAN, or international bank account number, is a standard international numbering system developed to identify an overseas bank account. The number starts with a two-digit country code, then two numbers, followed by up to third-five alphanumeric characters. However, an IBAN does not replace a bank's own account number, as it's only meant to provide additional information that helps in identifying overseas payments.

<sup>120</sup> An ABA number, also known as a bank routing number, is a nine-digit code that identifies banks in the U.S. That number makes it possible for banks to transfer money to and from your accounts for transactions like wire transfers, direct deposit, and automatic bill payments.

<sup>121</sup> Cross-border escrow services are offered by international banks and firms that specialize in escrow and other deposit and custody services.

Upon delivery, the importer has a predetermined amount of time to inspect the goods.

Once accepted, the funds are released by the escrow service to the exporter.

Cheques, wire transfers, credit cards and escrow services are considered as the most popular methods of payment under cash in advance option (Gupta, 2018, p. 146).

There are some other means (such as banknotes and coins) of payment which nowadays step away in front of the new solutions in international transaction or are seldom used (e.g. bonds).

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### **Key Terms**

- 1) Open Account
- 2) Documentary credit (D/C) /Letter of Credit (L/C)
- 3) The Irrevocable Documentary Credit
- 4) The Revocable Documentary Credit
- 5) Confirmed Documentary Credit
- 6) Unconfirmed Documentary credit
- 7) Standby Documentary Credit (Standby Letter of Credit)
- 8) Back-to-Back Letter of Credit
- 9) Transferable Documentary Credit
- 10) Deferred Payment Letter of Credit
- 11) Payment at Sight Letter of Credit

- 12) Acceptance Letter of Credit
- 13) Negotiation Letter of Credit
- 14) Red & Green Clause Documentary Credit
- 15) Revolving Documentary Credit
- 16) Documentary Collections
- 17) Documents against payment collection / Cash against documents (D/P)
- 18) Documents against acceptance collection (D/A) / Cash against acceptance.
- 19) Cash-in-Advance
- 20) Promissory notes
- 21) Bill of exchange
- 22) International wire transfers
- 23) Cheques
- 24) Credit cards
- 25) Escrow Service

### **Review questions and tasks**

1. Discuss applicability of the different methods of payment.
2. Describe the differences between the Letter of Credit and the Documentary Collection as methods of payment.
3. If you were an exporter which method of payment you would prefer and why?
4. If you were an importer which method of payment you would prefer and why?
5. What are the differences between the promissory note and the bill of exchange?
6. Which method of payment is the most risky for the exporter?
  - Cash-in-Advance*
  - Open Account
  - Letter of Credit
  - Documentary Collections
7. Which method of payment is the most risky for the importer?
  - Cash-in-Advance*
  - Open Account

- Confirmed Documentary Credit
- The Revocable Documentary Credit
- Documentary Collections



**Appendix 6-1****Common Invoice Payment Terms**

- PIA - Payment in advance
- Net 7 - Payment seven days after invoice date
- Net 10 - Payment ten days after invoice date
- Net 30 - Payment 30 days after invoice date
- Net 60 - Payment 60 days after invoice date
- Net 90 - Payment 90 days after invoice date
- EOM - End of month
- 21 MFI - 21st of the month following invoice date
- 1% 10 Net 30 - 1% discount if payment received within ten days otherwise payment 30 days after invoice date
- COD - Cash on delivery
- Cash account - Account conducted on a cash basis, no credit
- Letter of credit - A documentary credit confirmed by a bank, often used for export
- Bill of exchange - A promise to pay at a later date, usually supported by a bank
- CND - Cash next delivery
- CBS - Cash before shipment
- CIA - Cash in advance
- CWO - Cash with order
- 1MD - Monthly credit payment of a full month's supply
- 2MD - Monthly credit payment of a full month's supply plus an extra calendar month
- Contra - Payment from the customer offset against the value of supplies purchased from the customer
- Stage payment - Payment of agreed amounts at stage

Source: <https://examples.yourdictionary.com/payment-terms-examples.html>

## **Appendix 6-2**

### **International arbitration**

#### **MODEL ARBITRATION CLAUSES**

#### **American Arbitration Association (AAA) / International Centre for Dispute Resolution (ICDR)**

The ICDR is the subdivision of the AAA that administers international disputes. For ICDR arbitration, the model clause reads:

*“Any controversy or claim arising out of or relating to this contract, or the breach thereof, shall be determined by arbitration administered by the International Centre for Dispute Resolution in accordance with its International Arbitration Rules.”*

#### **Arbitration Institute of the Stockholm Chamber of Commerce (SCC)**

*“Any dispute, controversy or claim arising out of or in connection with this contract, or the breach, termination or invalidity thereof, shall be finally settled by arbitration in accordance with the Arbitration Rules of the Arbitration Institute of the Stockholm Chamber of Commerce.”*

#### **Association Française d’Arbitrage (AFA)**

*“Any dispute or disagreement arising out of or in connection with this contract shall be submitted to arbitration in accordance with the Rules of the Association Française d’Arbitrage which the parties declare to have accepted.”*

#### **Australian Centre for International Commercial Arbitration (ACICA)**

*“Any dispute, controversy or claim arising out of, relating to or in connection with this contract, including any question regarding its existence, validity or termination, shall be resolved by arbitration in accordance with the ACICA Arbitration Rules.”*

#### **Beijing Arbitration Commission (BAC)**

*“All disputes arising from or in connection with this contract shall be submitted to Beijing Arbitration Commission / Beijing International Arbitration Center for arbitration in accordance with its rules of arbitration. The arbitral award is final and binding upon both parties.”*

**Cairo Regional Centre for International Commercial Arbitration (CRCICA)**

**Model Arbitration Clause:**

*“Any dispute, controversy or claim arising out of or relating to this contract, its interpretation, execution, the termination or invalidity thereof, shall be settled by arbitration in accordance with the Rules of Arbitration of the Cairo Regional Centre for International Commercial Arbitration.”*

**Centro de Arbitraje de México (CAM)**

*“All disputes arising in connection with the present contract shall be finally settled under the Rules of Arbitration of the Arbitration Center of Mexico (CAM) by one or more arbitrators appointed in accordance with the said Rules.”*

**Chamber of National and International Arbitration Milan – “CAMERA ARBITRALE MILANO” (CAM)**

*“All disputes – included those of not contractual nature – arising out of, related or connected to this agreement shall be settled by arbitration under the Rules of the Milan Chamber of Arbitration (the Rules), by a sole arbitrator / three arbitrators, appointed in accordance with the Rules, which are deemed to be incorporated by reference into this clause.”*

**China International Economic and Trade Arbitration Commission (CIETAC)**

*“Any dispute arising from or in connection with this Contract shall be submitted to China International Economic and Trade Arbitration Commission (CIETAC) for arbitration which shall be conducted in accordance with the CIETAC’s arbitration*

*rules in effect at the time of applying for arbitration. The arbitral award is final and binding upon both parties.”*

**Court of Arbitration of the Polish Chamber of Commerce – “Sąd Arbitrażowy przy Krajowej Izbie Gospodarczej” (SAKIG)**

*“Any disputes arising out of or related to this agreement shall be finally settled under the Arbitration Rules of the Court of Arbitration at the Polish Chamber of Commerce in force on the date of commencement of the proceeding by an arbitrator or arbitrators appointed in accordance with the said Rules.”*

**Court of International Commercial Arbitration Attached to the Chamber of Commerce and Industry of Romania (CICA)**

*“Any dispute arising out of or in connection with the present contract, including with respect to its conclusion, nullity, interpretation, performance or termination thereof shall be resolved by final arbitration organized by the Court of International Commercial Arbitration of the Chamber of Commerce and Industry of Romania, in accordance with its Arbitration Rules. The award shall be final, binding and enforceable.”*

**Court Commune de Justice et d’Arbitrage (CCJA/Ohada)**

*“Tous différends découlant du présent contrat ou en relation avec celui-ci seront tranchés définitivement suivant les dispositions titre IV du Traité relatif à l’harmonisation du droit des affaires en Afrique et le Règlement d’arbitrage de la Cour Commune de Justice et d’Arbitrage de l’OHADA par un ou plusieurs arbitres nommés conformément à ces textes.”*

**Dubai International Arbitration Centre (DIAC)**

*“Any dispute arising out of the formation, performance, interpretation, nullification, termination or invalidation of this contract or arising therefrom or related thereto in any manner whatsoever, shall be settled by arbitration in*

*accordance with the provisions set forth under the DIAC Arbitration Rules (“the Rules”), by one or more arbitrators appointed in compliance with the Rules.”*

### **German Institution of Arbitration (DIS)**

*“(1) All disputes arising out of or in connection with this contract or its validity shall be finally settled in accordance with the Arbitration Rules of the German Arbitration Institute (DIS) without recourse to the ordinary courts of law. (2) The arbitral tribunal shall be comprised of [please enter “a sole arbitrator” or “three members”]. (3) The seat of the arbitration is [please enter city and country]. (4) The language of the arbitration shall be [please enter language of the arbitration]. (5) The rules of law applicable to the merits shall be [please enter law or rules of law].”*

### **Hong Kong International Arbitration Centre (HKIAC)**

*“Any dispute, controversy, difference or claim arising out of or relating to this contract, including the existence, validity, interpretation, performance, breach or termination thereof or any dispute regarding non-contractual obligations arising out of or relating to it shall be referred to and finally resolved by arbitration administered by the Hong Kong International Arbitration Centre (HKIAC) under the HKIAC Administered Arbitration Rules in force when the Notice of Arbitration is submitted. The law of this arbitration clause shall be [law]. The seat of arbitration shall be [City]. The number of arbitrators shall be [one/three]. The arbitration proceedings shall be conducted in [language].”*

### **International Centre for Settlement of Investment Disputes (ICSID)**

*“The [Government]/[name of constituent subdivision or agency] of name of Contracting State (hereinafter the “Host State”) and name of investor (hereinafter the “Investor”) hereby consent to submit to the International Centre for Settlement of Investment Disputes (hereinafter the “Centre”) any<sup>6</sup> dispute arising out of or relating to this agreement for settlement by [conciliation]/[arbitration]/[conciliation followed, if the dispute remains*

*unresolved within time limit of the communication of the report of the Conciliation Commission to the parties, by arbitration] pursuant to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (hereinafter the “Convention”).”*

### **International Chamber of Commerce (ICC)**

*“All disputes arising out of or in connection with the present contract shall be finally settled under the Rules of Arbitration of the International Chamber of Commerce by one or more arbitrators appointed in accordance with the said Rules.”*

### **London Court of International Arbitration (LCIA)**

*“Any dispute arising out of or in connection with this contract, including any question regarding its existence, validity or termination, shall be referred to and finally resolved by arbitration under the LCIA Rules, which Rules are deemed to be incorporated by reference into this clause. The number of arbitrators shall be [one/three]. The seat, or legal place, of arbitration shall be [City and/or Country]. The language to be used in the arbitral proceedings shall be [ ]. The governing law of the contract shall be the substantive law of [ ].”*

### **Permanent Court of Arbitration (PCA)**

*“Any dispute, controversy or claim arising out of or relating to this contract, or the breach, termination or invalidity thereof, shall be settled by arbitration in accordance with the PCA Arbitration Rules 2012.”*

### **Singapore International Arbitration Centre (SIAC)**

*“Any dispute arising out of or in connection with this contract, including any question regarding its existence, validity or termination, shall be referred to and finally resolved by arbitration administered by the Singapore International Arbitration Centre (“SIAC”) in accordance with the Arbitration Rules of the Singapore International Arbitration Centre (“SIAC Rules”) for the time being in force, which rules are deemed to be incorporated by reference in this clause.”*

**Swiss Chambers Arbitration Institution (SCAI)**

*“Any dispute, controversy or claim arising out of, or in relation to, this contract, including the validity, invalidity, breach, or termination thereof, shall be resolved by arbitration in accordance with the Swiss Rules of International Arbitration of the Swiss Chambers’ Arbitration Institution in force on the date on which the Notice of Arbitration is submitted in accordance with these Rules. The number of arbitrators shall be ... [“one”, “three”, “one or three”]. The seat of the arbitration shall be ... [name of city in Switzerland, unless the parties agree on a city in another country]. The arbitral proceedings shall be conducted in ... [insert desired language].”*

**United Nations Commission on International Trade Law (UNCITRAL)**

*“Any dispute, controversy or claim arising out of or relating to this contract, or the breach, termination or invalidity thereof, shall be settled by arbitration in accordance with the UNCITRAL Arbitration Rules.”*

**Vienna International Arbitral Centre (VIAC)**

*“All disputes or claims arising out of or in connection with this contract, including disputes relating to its validity, breach, termination or nullity, shall be finally settled under the Rules of Arbitration (Vienna Rules) of the Vienna International Arbitral Centre (VIAC) of the Austrian Federal Economic Chamber by one or three arbitrators appointed in accordance with the said Rules.”*

**World Intellectual Property Organisation (WIPO) Arbitration and Mediation Centre**

*“Any dispute, controversy or claim arising under, out of or relating to this contract and any subsequent amendments of this contract, including, without limitation, its formation, validity, binding effect, interpretation, performance, breach or termination, as well as non-contractual claims, shall be referred to and finally determined by arbitration in accordance with the WIPO Arbitration Rules.*

*The arbitral tribunal shall consist of [a sole arbitrator][three arbitrators]. The place of arbitration shall be [specify place]. The language to be used in the arbitral proceedings shall be [specify language]. The dispute, controversy or claim shall be decided in accordance with the law of [specify jurisdiction].”*

**Source: <https://www.international-arbitration-attorney.com/fast-track-model-arbitration-clauses>**



**Appendix 8-1**

**COMMERCIAL INVOICE**

SELLER: <div style="border: 1px solid black; padding: 5px; text-align: center; width: 50px; margin: 5px auto;">1</div>	INVOICE No. <div style="border: 1px solid black; border-radius: 50%; padding: 2px 5px; display: inline-block;">4</div> DATE <hr/> CUSTOMER REFERENCE No. <div style="border: 1px solid black; border-radius: 50%; padding: 2px 5px; display: inline-block;">5</div> DATE <hr/> TERMS OF SALE <div style="border: 1px solid black; border-radius: 50%; padding: 2px 5px; display: inline-block;">6</div> <hr/> TERMS OF PAYMENT <div style="border: 1px solid black; border-radius: 50%; padding: 2px 5px; display: inline-block;">7</div> <hr/> CURRENCY OF SETTLEMENT <div style="border: 1px solid black; border-radius: 50%; padding: 2px 5px; display: inline-block;">8</div> <hr/> MODE OF SHIPMENT <div style="border: 1px solid black; border-radius: 50%; padding: 2px 5px; display: inline-block;">9</div> BILL OF LADING / AWB
SOLD TO: <div style="border: 1px solid black; padding: 5px; text-align: center; width: 50px; margin: 5px auto;">2</div>	
SHIP TO (if different than Sold To): <div style="border: 1px solid black; padding: 5px; text-align: center; width: 50px; margin: 5px auto;">3</div>	

QTY	DESCRIPTION	UNIT OF MEASURE	UNIT PRICE	TOTAL PRICE
<div style="border: 1px solid black; border-radius: 50%; padding: 2px 5px; display: inline-block;">10</div>	<div style="border: 1px solid black; border-radius: 50%; padding: 2px 5px; display: inline-block;">11</div>	<div style="border: 1px solid black; border-radius: 50%; padding: 2px 5px; display: inline-block;">12</div>	<div style="border: 1px solid black; border-radius: 50%; padding: 2px 5px; display: inline-block;">13</div>	
PACKAGE MARKS: <div style="border: 1px solid black; padding: 5px; text-align: center; width: 50px; margin: 5px auto;">15</div>			TOTAL COMMERCIAL VALUE: <div style="border: 1px solid black; border-radius: 50%; padding: 2px 5px; display: inline-block;">14</div>	
			MISC. CHARGES: (packing, insurance, etc.) <div style="border: 1px solid black; border-radius: 50%; padding: 2px 5px; display: inline-block;">16</div>	
			TOTAL INVOICE VALUE:	

CERTIFICATIONS: <div style="border: 1px solid black; padding: 5px; text-align: center; width: 50px; margin: 5px auto;">17</div>	I certify that the stated export prices and description of goods are true and correct:  _____ (SIGNED)  TITLE: _____
--	---

Source: (U.S. Department of Commerce, 2015)

**Appendix 8-2**

PRO FORMA INVOICE/EXPORT ORDER

SHIPPER: Tech International 1000 J Street, N.W. Washington, DC 20005  CUSTOMER: Gomez Y. Cartagena Aptdo. Postal 77 Bogota, Colombia  SHIP TO (if different than Customer):  NOTIFY (Intermediate Consignee):	PRO FORMA INVOICE NO. Col.91-14      DATE July 12 COMMERCIAL INVOICE NO.      DATE CUSTOMER REFERENCE LTR      DATE July 9 TERMS OF SALE CIP Buenaventura, Colombia (INCOTERMS 2000) SHIP VIA AIR      EST. SHIP DATE 60 DAYS FROM RECEIPT OF ORDER AND LETTER OF CREDIT
---	---

PART NUMBER	UNIT OF MEASURE	QUANTITY	DESCRIPTION	UNIT PRICE	TOTAL PRICE
2-50	EA	3	Separators in accordance with attached specifications	\$14,750.00	\$44,250.00
14-40	EA	3	First-stage Filter Assemblies per attached specifications	\$ 1,200.00	\$ 3,600.00
custom	EA	3	Drive units - 30 hp each (for operation on 3-phase 440 v., 50 cy. current) complete with remote controls	\$ 4,235.00	\$12,705.00
					\$60,555.00
TOTAL EX WORKS Washington, D.C. domestic paked...					\$ 3,115.00
Export processing, packaging, prepaid inland freight to Dulles international Airport & forwarder's handling charges					\$60,555.00
TOTAL FCA WASHINGTON DULLES AIRPORT					\$ 2,960.00
Estimated air freight and insurance					\$66,630.00
TOTAL Est. CIP Bueanventura, Colombia					
Estimated gross weight 9,360 lbs. • Estimated cube 520 cu. meters					
Export packed 4.212 kg. • Export packed 15.6 cu. meters					

1. All prices quoted herein are US dollars.
2. Prices quoted herein for merchandise only are valid for 60 days from July 12.
3. Any changes in shipping costs or insurance rates are for account of the buyer.

ADDITIONAL CHARGES FREIGHT <input type="checkbox"/> Ocean <input checked="" type="checkbox"/> Air      INCLUDED CONSULAR/LEGALIZATION _____ INSPECTION/CERTIFICATION _____ SPECIAL PACKING _____ INSURANCE _____ INCLUDED	<input checked="" type="checkbox"/> LETTER OF CREDIT      Bank _____ <input type="checkbox"/> DRAFT      Terms _____ <input type="checkbox"/> OPEN ACCOUNT      Terms _____ <input type="checkbox"/> OTHER _____ CURRENCY OF PAYMENT      US DOLLARS
--	--

Source: (U.S. Department of Commerce, 2015)

**Appendix 8-3**

**Certificate of Origin**

1. Goods consigned from (Exporter's business name, address, country)		Reference No			
2. Goods consigned to (Consignee's name, address, country)		<p style="text-align: center;">GENERALISED SYSTEM OF PREFERENCES CERTIFICATE OF ORIGIN (Combined declaration and certificate)</p> <p style="text-align: center;">FORM A</p> <p>Issued in _____ (country)</p> <p style="text-align: right;">See Notes overleaf</p>			
3. Means of transport and route (as far as known)		4. For official use			
5. Item number	6. Marks and number of packages	7. Number and kind of packages, description of goods	8. Origin criterion (see Notes overleaf)	9. Gross weight or other quantity	10. Number and date of invoices
<p>11. Certification</p> <p>It is hereby certified, on the basis of control carried out, that the declaration by the exporter is correct.</p>  <p>_____</p> <p>Place and date, signature and stamp of certifying authority</p>		<p>12. Declaration by the exporter</p> <p>The undersigned hereby declares that the above details and statements are correct; that all the goods were produced in _____ (country)</p> <p>and that they comply with the origin requirements specified for those goods in the Generalised System of Preferences for goods exported to</p> <p>_____</p> <p>(importing country)</p> <p>_____</p> <p>Place and date, signature of authorized signatory</p>			

## NOTES (2004)

**Countries which accept Form A for the purposes of the generalized system of preferences (GSP):**

Australia*	Republic of Belarus	European Union:	Italy	Austria
Canada	Republic of Bulgaria	Belgium	Cyprus	Poland
Japan	Russian Federation	Czech Republic	Latvia	Portugal
New Zealand**		Denmark	Lithuania	Slovenia
Norway		Germany	Luxembourg	Slovakia
Switzerland		Estonia	Hungary	Sweden
USA***		Greece	Malta	United Kingdom
		Spain	Netherlands	
		France		
		Ireland		

**I. General conditions**

To qualify for preferences, products must:

- (a) fall within a description of products eligible for preferences in the country of destination. The description entered on the form must be sufficiently detailed to enable the products to be identified by the customs officer examining them;
- (b) comply with the rules of origin of the country of destination. Each article in a consignment must qualify separately in its own right; and
- (c) comply with the consignment conditions specified by the country of destination. In general, products must be consigned direct from the country of exportation to the country of destination but most preference-giving countries accept passage through intermediate countries subject to certain conditions. (For Australia, direct consignment is not necessary.)

**II. Entries to be made in Box 8**

Preference products must either be wholly obtained in accordance with the rules of country of destination or sufficiently worked or processed to fulfil the requirements of that country's origin rules.

- (a) Products wholly obtained: for export to all countries listed in Section I, enter the letter "P" in box 8 (for Australia and New Zealand Box 8 may be left blank)
- (b) Products sufficiently worked or processed: for export to the countries specified below, the entry in Box 8 should be as follows:
  1. United States of America: for single country shipments, enter the letter "Y" in Box 8, for shipments from recognized associations of countries, enter the letter "Z", followed by the sum of the cost or value of the domestic materials and the direct cost of processing expressed as a percentage of the ex-factory price of the exported products; (example "Y" 35% or "Z" 35%).
  2. Canada: for products which meet origin criteria from working or processing in more than one eligible least developed country, enter letter "G" in Box 8; otherwise "F"
  3. Japan, Norway, Switzerland and the European Union: enter the letter "W" in Box 8 followed by the Harmonized Commodity Description and Coding System (Harmonized System) heading at the 4 digit level of the exported product (example "W" 96.18).
  4. Bulgaria and the Russian Federation: for products which include value added in the exporting preference-receiving country, enter the letter "Y" in Box 8 followed by the value of imported materials and components expressed as a percentage of the f.o.b. price of the exported products (example "Y" 45%); for products obtained in a preference-receiving country and worked or processed in one or more other such countries, enter "Pk".
  5. Australia and New Zealand: completion of Box 8 is not required. It is sufficient that a declaration be properly made in Box 12.

\* For Australia, the main requirement is the exporter's declaration on the normal commercial invoice. Form A, accompanied by the normal commercial invoice, is an acceptable alternative, but official certification is not required.

\*\* Official certification is not required.

\*\*\*The United States does not require GSP Form A. A declaration setting forth all pertinent detailed information concerning the production or manufacture of the merchandise is considered sufficient only if requested by the district collector of Customs.

**Appendix 8-4**

**Certificate of Origin Form A**

1. Goods consigned from (Exporter's business name, address, country)		Reference No <b>GENERALIZED SYSTEM OF PREFERENCES                  CERTIFICATE OF ORIGIN                  (Combined declaration and certificate)                  FORM A</b> Issued in ..... (country) See notes overleaf			
2. Goods consigned to (Consignee's name, address, country)					
3. Means of transport and route (as far as known)		4. For official use			
5. Item number	6. Marks and numbers of packages	7. Number and kind of packages, description of goods	8. Origin criterion (see Notes overleaf)	9. Gross weight or other quantity	10. Number and date of invoices
<b>11. Certification</b> It is hereby certified, on the basis of control carried out, that the declaration by the exporter is correct.  ..... Place and date, signature and stamp of certifying authority			<b>12. Declaration by the exporter</b> The undersigned hereby declares that the above details and statements are correct; that all the goods were produced in ..... (country) and that they comply with the origin requirements specified for those goods in the Generalized System of Preferences for goods exported to ..... (importing country) ..... Place and date, signature of authorized signatory		

## Appendix 8-5

MOVEMENT CERTIFICATE			
1. Exporter (name, full address, country)		<b>EUR-MED No A</b>	
		See notes overleaf before completing this form.	
3. Consignee (name, full address, country) (optional)		2. Certificate used in preferential trade between	
		and	
		(Insert appropriate countries or groups of countries or territories)	
		4. Country, group of countries or territory in which the products are considered as originating	5. Country, group of countries or territory of destination
6. Transport details (optional)		7. Remarks	
		<input type="checkbox"/> Cumulation applied with (name of the country/countries)	
		<input type="checkbox"/> No Cumulation applied (Put 'X' in the appropriate box)	
(1) If goods are not packed indicate number of articles or state 'in bulk', as appropriate	8. Item number: marks and numbers	Number and kind of packages (1): description of goods	9. Gross weight (kg) or other measure (litres, cu. m.)
			10. Invoices (optional)
(2) Complete only where the regulations of the exporting country or territory require	11. Customs Endorsement		12. Declaration by the exporter
	Declaration certified Export document (2): Form                      Number Customs office Issuing country or territory: <b>UNITED KINGDOM</b> Date Signature		Stamp  I, the undersigned, declare that the goods described above meet the conditions required for the issue of this certificate.  Place and date  Signature

C1300

1

HMRC 03/21

<p><b>13. Request for verification</b></p> <p>To:                  HM Revenue and Customs                  Leeds Regional Centre                  7-8 Wellington Place                  Wellington Street                  Leeds                  LS1 4AP                  ENGLAND</p> <p>Verification of the authenticity and accuracy of this certificate is requested.</p> <p>Place and date</p> <p>Signature</p> <p>Stamp</p>	<p><b>14. Result of verification</b></p> <p>Verification carried out shows that this certificate:                  put 'X' in the appropriate box</p> <p><input type="checkbox"/> was issued by the Customs Office indicated and that the information contained therein is accurate</p> <p><input type="checkbox"/> does not meet the requirements as to authenticity and accuracy (see remarks appended)</p> <p>Place and date</p> <p>Signature</p> <p>Stamp</p>
---	---

**Notes**

1. Certificate must not contain erasures or words written over one another. Any alterations must be made by deleting the incorrect particulars and adding any necessary corrections. Any such alteration must be initialled by the person who completed the certificate and endorsed by the Customs authorities of the issuing country or territory.
2. No spaces must be left between the items entered on the certificate and each item must be preceded by an item number. A horizontal line must be drawn immediately below the last item. Any unused space must be struck through in such a manner as to make any later additions impossible.
3. Goods must be described in accordance with commercial practice and with sufficient detail to allow them to be identified.

Source: <https://www.gov.uk/government/publications/eur1-and-eur-med-movement-certificate>

**Appendix 8-6**

**Movement Certificate EUR 1**

<b>MOVEMENT CERTIFICATE</b>			
1. Exporter (name, full address, country)	<b>EUR1 No.</b>		
See notes overleaf before completing this form.			
3. Consignee (name, full address, country) (optional)	2. Certificate used in preferential trade between <b>United Kingdom</b> and _____ (Insert appropriate countries or groups of countries or territories)		
6. Transport details (optional)		4. Country, group of countries or territory in which the products are considered as originating <b>UK</b>	5. Country, group of countries or territory of destination
7. Remarks		7. Remarks	
8. Item number: marks and numbers	Number and kind of packages (1): description of goods	9. Gross weight (kg) or other measure (litres, cu. m.)	10. Invoices (optional)
(1) If goods are not packed indicate number of articles or state 'in bulk', as appropriate	(2) Complete only where the regulations of the exporting country or territory require		
11. Customs Endorsement Declaration certified Export document (2):  Form                      Number Customs office Issuing country or territory: <b>UNITED KINGDOM</b> Date  Signature		12. Declaration by the exporter  I, the undersigned, declare that the goods described above meet the conditions required for the issue of this certificate.  Place and date  Signature	
Stamp			
C1299	1	HMRC 03/21	



<p><b>13. Request for verification</b></p> <p>To:          HM Revenue and Customs          Leeds Regional Centre          7-8 Wellington Place          Wellington Street          Leeds          LS1 4AP          ENGLAND</p> <p>Verification of the authenticity and accuracy of this certificate is requested.</p> <p>Place and date</p> <p>Signature</p> <p>Stamp</p>	<p><b>14. Result of verification</b></p> <p>Verification carried out shows that this certificate:          put 'X' in the appropriate box</p> <p><input type="checkbox"/> was issued by the Customs Office indicated and that the information contained therein is accurate</p> <p><input type="checkbox"/> does not meet the requirements as to authenticity and accuracy (see remarks appended)</p> <p>Place and date</p> <p>Signature</p> <p>Stamp</p>
---	---

**Notes**

1. Certificate must not contain erasures or words written over one another. Any alterations must be made by deleting the incorrect particulars and adding any necessary corrections. Any such alteration must be initialled by the person who completed the certificate and endorsed by the Customs authorities of the issuing country or territory.
2. No spaces must be left between the items entered on the certificate and each item must be preceded by an item number. A horizontal line must be drawn immediately below the last item. Any unused space must be struck through in such a manner as to make any later additions impossible.
3. Goods must be described in accordance with commercial practice and with sufficient detail to allow them to be identified.

MOVEMENT CERTIFICATE			
1. Exporter (name, full address, country)	<b>EUR1 No.</b>		
	See notes overleaf before completing this form.		
3. Consignee (name, full address, country) (optional)	2. Certificate used in preferential trade between <b>United Kingdom</b> and _____ (Insert appropriate countries or groups of countries or territories)		
	4. Country, group of countries or territory in which the products are considered as originating <b>UK</b>	5. Country, group of countries or territory of destination	
6. Transport details (optional)	7. Remarks		
(1) If goods are not packed indicate number of articles or state 'in bulk', as appropriate	8. Item number: marks and numbers	Number and kind of packages (1): description of goods	9. Gross weight (kg) or other measure (litres, cu. m.)
	10. Invoices (optional)		
(2) Complete only where the regulations of the exporting country or territory require	11. Customs Endorsement Declaration certified Export document (2): Form _____ Number _____ Customs office _____ Issuing country or territory: <b>UNITED KINGDOM</b> Date _____ Signature _____		Stamp
	12. Declaration by the exporter  I, the undersigned, declare that the goods described above meet the conditions required for the issue of this certificate.  Place and date _____  Signature _____		

C1299

3

The conditions under which a movement certificate EUR1 may be issued are specified in the relevant Protocol concerning the definition of originating products annexed to the preferential trade agreements between the UK and the country/countries or groups of countries or territories named in box 2 overleaf.

**Penalties for providing untrue information**

It is an offence under the Customs and Excise Management Act 1979, Section 167, to provide, or cause to be provided, untrue information or evidence to an officer of HM Revenue and Customs. Accordingly, any person who does so in support of an application for the issue of a movement certificate, or in the course of any subsequent verification, may be liable to penalties.

**Complaints**

The Adjudicator reviews complaints not settled to your satisfaction by HM Revenue and Customs. The recommendations of the Adjudicator are independent and the service is free. The Adjudicator only looks at complaints, not general enquiries. Phone the Adjudicator on 0300 057 1111 or go to their website [www.adjudicatorsoffice.gov.uk](http://www.adjudicatorsoffice.gov.uk)

**Declaration by the exporter only**

I, the undersigned, exporter of the goods described overleaf, have read the relevant guidance and:

1. Declare that these goods meet the conditions required for the issue of the attached certificate
2. Specify as follows the circumstances which have allowed these goods to meet the above conditions

3. Submit the following supporting documents

4. Undertake to submit, at the request of an officer of HM Revenue and Customs, any supporting evidence which the officer may require for the purpose of issuing the attached certificate, and undertake, if required, to agree to any inspection of my accounts, and any check on the processes of manufacture of the above goods, carried out by the said officer of HM Revenue and Customs.

5. 

C1444 issued      date stamp

Place ..... Date .....

Signature .....

Name (in capital letters) .....

Status of signatory .....

Company name .....

Source: <https://www.gov.uk/government/publications/eur1-and-eur-med-movement-certificate>

**Appendix 8-7**

The single administrative document – first copy

EUROPEAN COMMUNITY					A OFFICE OF DISPATCH/EXPORT				
Copy for the country of dispatch/export	1 2 Consignor/Exporter No				1 DECLARATION				
	3 Forms				4 Loading lists				
	5 Items				6 Total packages		7 Reference number		
	8 Consignee No				9 Person responsible for financial settlement No				
	10 Country first				11 Trading		13 C.A.P.		
	14 Declarant/Representative No				15 Country of dispatch/export		15 C. disp./exp. Code		17 Country destin. Code
	16 Country of origin				17 Country of destination				
	18 Identity and nationality of means of transport at departure				19 Ctr.	20 Delivery terms			
	21 Identity and nationality of active means of transport crossing the border				22 Currency and total amount invoiced		23 Exchange rate	24 Nature of transaction	
	25 Mode of transport at the border		26 Inland mode of transport		27 Place of loading		28 Financial and banking data		
1	29 Office of exit			30 Location of goods					
31 Packages and description of goods	Marks and numbers - Container No(s) - Number and kind				32 Item No	33 Commodity Code			
44 Additional information Documents produced Certificates and authorizations					34 Country origin Code		35 Gross mass (kg)		39 Quota
47 Calculation of taxes	Type	Tax base	Rate	Amount	MP	37 PROCEDURE		38 Net mass (kg)	40 Summary declaration/Previous document
	Total:				41 Supplementary units				
					A.I. Code				
					46 Statistical value				
					48 Deferred payment		49 Identification of warehouse		
					B ACCOUNTING DETAILS				
51 Intended offices of transit (and country)	50 Principal No				Signature:				
	represented by				C OFFICE OF DEPARTURE				
	Place and date:								
52 Guarantee not valid for					Code		53 Office of destination (and country)		
D CONTROL BY OFFICE OF DEPARTURE					Stamp:				
	Result:				54 Place and date:				
	Seals affixed: Number:				Signature and name of declarant/representative:				
	identity:								
	Time limit (date):								
	Signature:								

**Appendix 8-8**

# PACKING LIST

© Copyright 2001 Unz & Co.

\_\_\_\_\_ 20 \_\_\_\_\_  
Place and Date of Shipment

To

Gentlemen:

Under your Order No. \_\_\_\_\_ the material listed below  
was shipped \_\_\_\_\_ via \_\_\_\_\_  
To \_\_\_\_\_

Shipment consists of:				Marks			
_____ Cases	_____ Packages	_____ Crates	_____ Cartons				
_____ Bbls.	_____ Drums	_____ Reels	_____ _____				

\* LEGAL WEIGHT IS WEIGHT OF ARTICLE PLUS PAPER, BOX, BOTTLE, ETC., CONTAINING THE ARTICLE AS USUALLY CARRIED IN STOCK.

PACKAGE NUMBER	WEIGHTS IN LBS. or KILOS			DIMENSIONS			QUANTITY	CLEARLY STATE CONTENTS OF EACH PACKAGE
	GROSS WEIGHT EACH	*LEGAL WEIGHT EACH	NET WEIGHT EACH	HEIGHT	WIDTH	LENGTH		

Form No. 30-036 Printed and Sold by UNZCO 201 Circle Drive N, Suite 104, Piscataway, NJ 08854 (800) 631-3098 www.unzco.com

Source: (U.S. Department of Commerce, 2015)

## ***Appendix 9-1***

### **Types of Cheque**

**Open Cheque:** Otherwise called as uncrossed cheque, it is one on which cash is payable at the counter of the bank, or it is transferred to the bank account of the person whose name is written on the cheque. It is negotiable, i.e. it is transferable in nature.

**Bearer Cheque:** Bearer cheque refers to the cheque which can be encashed by the person whose name is written on the cheque or anyone who presents the cheque before the bank for payment. It is negotiable in nature, which can be transferred by simply delivering it and so endorsement is not needed. No identification of the presenter or holder is required in case of a bearer cheque.

**Order Cheque:** As the name suggests, it is the cheque which becomes payable to the person or organization whose name is specified on the cheque or to his order. To convert a bearer cheque into an order cheque, the word 'or bearer' is stricken off from the cheque. Endorsement of the cheque to the third party is done by simply signing on the cheque.

**Crossed Cheque:** You might have observed, two transverse parallel lines at the top left corner of some cheques, which may or may not have the words – & Co., A/c payee or Non-Negotiable. Such cheques are regarded as crossed cheques. The amount on such cheques is credited to the account of the payee.

**Self Cheque:** When a person wants to withdraw money from his own account, by writing 'self' at the name of the payee, is called self-cheque. Do not cross the cheque or cancel the words 'or bearer' from the cheque. These cheques should not be crossed, as well as the words 'or bearer' should not be stricken off from the cheque, so that any person as your representative can receive the amount on your behalf.

**Blank Cheque:** A cheque which is only signed, but the name of the payee and date is not indicated, is called a blank cheque. Such cheques can be made account payee, and the maximum limit of withdrawal can be mentioned.

**Stale Cheque:** A cheque bears a date and is valid up to three months of the stated date. If a cheque is presented before the bank, after the expiry of the reasonable period, i.e. three months after the date, then it is called stale cheque.

**Post-Dated Cheque:** When a cheque is drawn containing a future date, it is called post-dated cheque. In such cases, money will not be payable by the bank before that date.

**Ante-dated Cheque:** A cheque containing a prior date, is called an ante-dated cheque. Bank honours cheques until three months to the date mentioned.

**Banker's Cheque:** Otherwise called a pay order, it is a non-negotiable instrument, which is issued by the bank on behalf of the customer, which is payable in the same city.

**Cancelled Cheque:** Due to any kind of mistakes while writing the cheque, it is cancelled, and so it is called cancelled cheque.

**Mutilated Cheque:** A cheque which is torn, damaged, crushed or washed, is called a mutilated cheque. Such cheques are honoured only when certain details are visible, after confirming with the drawer.

**Traveler's Cheque:** A cheque issued by a bank for a fee, containing a fixed amount. These cheques are encashed or used to make payment in a foreign country, after endorsement by the signature of the holder.

**Gift Cheque:** Cheques that are used for the purpose of gifts and prizes, usually very large in size, are called Gift Cheques. Banks charge a fee for issuing such cheques.

Cheque includes both electronic image of a truncated cheque and a cheque in electronic mode.

<https://businessjargons.com/cheque.html>

## Appendix 9-2

### THE PAYMENT CODE FOR COUNTRIES

#### 1. BIC (also known as SWIFT) for international payments

BIC stands for Bank Identifier Code. It is a code assigned by SWIFT – the organization – when the bank joins the SWIFT network.

What is the difference between a **BIC and SWIFT code**?

Technically, this is what is happening. In reality, you will also hear SWIFT code, BIC/SWIFT code, SWIFT/BIC code, or SWIFT identifier. They all refer to the same code and are required when you're making an international payment.

**What does a SWIFT/BIC code look like?**

It's a series of 8 or 11 characters (letters and numbers) that identify a specific bank you are sending money to. The code includes details of the country in which the bank is based, its location, and the branch number.

**This is what a SWIFT/BIC code looks like:**



#### 2. IBAN code for SEPA payments

Unlike BIC/SWIFT code, IBAN codes aren't assigned by a central organization. They are directly issued by the banks according to a format described in the **IBAN Register**.

**What does an IBAN code look like?**

It's a series of up to 34 characters (letters and numbers) that identify the country, bank, and account details you're sending money to.



The IBAN number consists of:

- Two-letter country identification code
- Two check digits
- Up to 30 characters for the basic bank account number (BBAN)



*\* The format of BBAN (up to 34 characters) is decided by each country to cater for their national standard. BBAN provides a bank identifier code and bank account number.*

Mainly European banks use IBAN. The U.S. and Canada are two major countries that do not use the IBAN system (but they recognize the system and process payments).

### 3. BSB for Australian payments

BSB is the acronym that stands for Bank State Branch. You must have this 6-digit code in addition to the SWIFT code when you make a payment to Australia.



### 4. ABA for US payments

ABA stands for a lot of things in the US, but when it comes to payment ABA is the acronym that stands for the American Bankers Association. You'd probably have guessed that the ABA number (also known as bank routing number or routing transit number – RTN) identifies the location of where a bank account was opened.

**What does an ABA code look like?**



## 5. CNAPS for RMB payments to China

The banking world is a big fan of acronyms. Here's another one: CNAPS standing for China National Advanced Payments System.

You will need this code in addition to SWIFT code only if you are making a payment in RMB (or CNH for purists) to the People's Republic of China. If you're making a payment in other currencies (e.g. USD), you'll only need the SWIFT code.

### What does a CNAPS code look like?

CNAPS is a 12-digit code that may start with the code word CN to indicate the account is in China.



## 6. Bank code for Hong Kong payments

Sadly (or fortunately?) there is no mysterious acronyms for Hong Kong bank code. Unlike other jurisdictions, Hong Kong doesn't set a format.

What you'll need in addition to the SWIFT code is a 3-digit bank code, 3-digit branch code and 6 to 9-digit account number.

### What does a Hong Kong code look like?

If it's an HSBC account, it should look like this:

**812-852456-888**

Branch code      Account number

The bank code is always given separately, HSBC bank code is 004.

It's also common to see HSBC 812-852456-888.

## 7. Sort code for UK payments

Sort is not an acronym for anything. The name of this code dates back from last century when the 5-digit national codes (for manual processing) were replaced by the 6-digit sorting codes (for automated processing).

### What does a sort code look like?

Sort code is a 6-digit code that is always written as three pairs of numbers. The first two digits identify the bank, the following four identify the branch.

**AA-BB-CC**

Bank code      Branch code

## FEES

**Sending fees** – This is the fee that the payer's bank would charge for making an international payment

**Correspondent banking fees** – This is the fee that any intermediary bank would charge when banks do not have a direct relationship (remember the example at the beginning of this article?)

**Receiving fees** – This is the fee that the recipient's bank would charge for receiving an international payment

**FX fees / mark-up** – This is the exchange fee when an international payment is made in different currencies

### **How much does it cost to make a SWIFT payment?**

It's virtually impossible to estimate how much an international transfer will cost, it varies with the banks involved in the transaction, the currencies involved, the amount, whether there are intermediary banks' fees, etc.

*There are three ways to pay the international transfer fees:*

**OUR** = you (as the sender) pay all the banking charges. Your beneficiary will receive the full amount of the payment. Normally, you are billed separately for those charges.

**BEN** (BENeficiary) = you pay nothing, and your beneficiary pays everything. The charges will be deducted from the amount they receive.

**SHA** (SHARed)= you pay your own bank's outgoing transfer fee, and your beneficiary pays its bank's receiving fee AND the correspondent banking fees.

### **How much does it cost to make a SEPA payment?**

When you're making a SEPA payment, it will cost you a domestic transfer fee (which usually means it's free).

### **PROCESSING TIME**

Usually, bank transfers are only processed on the same business day if they are requested before the bank's cut-off time. In some cases, they are processed the next business day because of the time difference.

In Hong Kong, those cut-off times will vary +/- 30 minutes from one bank to another. You can see below the international transfer cut-off times for major currencies.

Currency	Cut-off time (HKT)	Payment date
HKD – Hong Kong Dollar	17:30	Same business day
USD – United States Dollar	17:30	Same business day
AUD – Australian Dollar	17:00	Next business day
CAD – Canadian Dollar	17:00	Same business day
CHF – Swiss Franc	17:00	Next business day
RMB – Chinese Yuan	17:30	Same business day
EUR – Euro	17:30	Same business day
GBP – British Pound	17:30	Same business day
JPY – Japanese Yen	17:00	Next business day
NZD – New Zealand Dollar	17:00	Next business day
SGD – Singapore Dollar	16:00	Same business day

Normally, international transfers take 1 to 5 business days to arrive at their final destination. In the case of a SEPA payment, it usually takes 1 to 2 business days for the money to arrive. This is faster mainly because there's only one currency involved.

**Source:** <https://www.statrys.com/blog/bank-transfer-how-to-make-international-payments>

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