

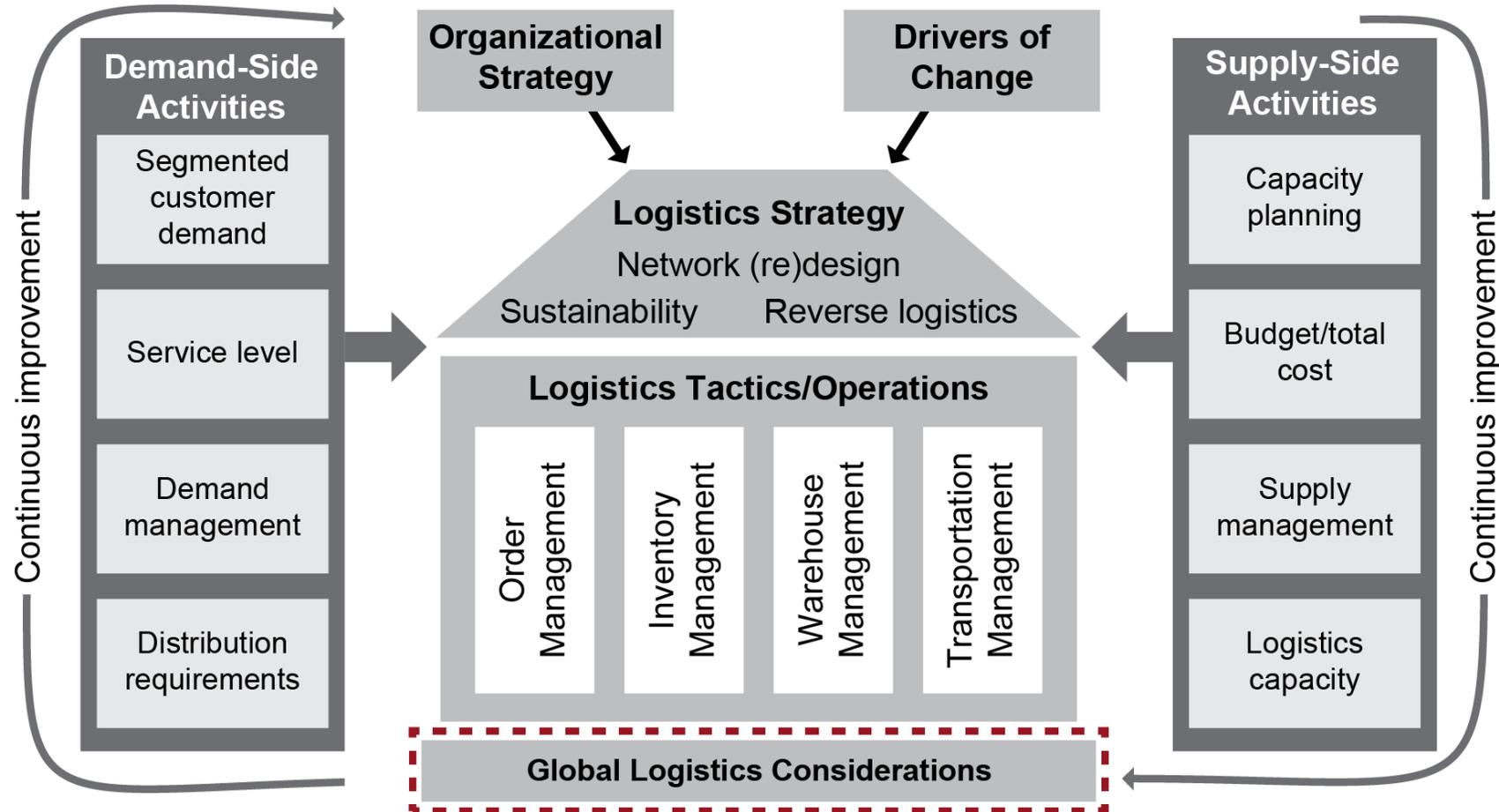
# CLTD

CERTIFIED IN LOGISTICS,  
TRANSPORTATION AND DISTRIBUTION

## MODULE 9: GLOBAL LOGISTICS CONSIDERATIONS

# Module 9: Global Logistics Considerations

## Logistics Planning and Control



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## MODULE 9, SECTION A: INFRASTRUCTURE AND SYSTEMS

## Demand for Transportation

- Aggregate demand for transportation is inelastic.
- Freight rate decreases will not increase demand for transportation noticeably.



$$\text{Elasticity} = \frac{\% \text{ Change in Quantity}}{\% \text{ Change in Price}}$$

## Market Structure Impact on Transportation Pricing

- Regulated
  - U.S. deregulated in 70s
- Cost-of-service pricing
  - Sets floor
- Value-of-service (VOS) pricing
  - Valuable inventory charged premium
  - Service profile affects price
  - Competition reduces price
  - Sets ceiling

## Market Structures



## International Trade Theories

### Absolute advantage

- Advantage if make more of a good with same labor and resource inputs

### Comparative advantage

- Trade focuses resources on efficient item
- Increases satisfaction in both countries

### Heckscher-Ohlin factor endowment

- Labor
- Capital
- Land
- Entrepreneurship

## International Trade Theories

### International product life cycle

- Stage 1: Local country proprietary technology
- Stage 2: Developed countries, substitutes
- Stage 3: Outsource for lower production costs

### Cluster theory

- Proximity to suppliers and competitors
- Logistics cluster theory: Logistics and manufacturing hubs (Memphis, Tennessee, FedEx hub)

# Topic 2: International Infrastructure

## Transportation Infrastructure

### Canals and waterways

- Critical waterways in international shipping:
  - Bosphorus Strait
  - Panama Canal
  - St. Lawrence Seaway
  - Suez Canal
  - Mississippi, Rhine, etc.

### Port constraints

- Panamax containerships
- Indented berths: 300 containers per hour
- Unions, strikes
- Delays (operating hours, rail or road congestion)
- Risk of flooding, refrigeration failure in container yards

# Topic 2: International Infrastructure

## Transportation Infrastructure

### Rail



- U.S.: Private ownership
- Land bridges 
- Russia, Brazil, Europe: Rail gauges
- Europe: Passenger top priority
- China: Investing in high-speed passenger lines

### Roads



- Road metric: Usability + traffic congestion
- Even/odd license plates
- Motorcycle/moped
- City entry tax
- Limited access highways
- High-speed tollways

# Topic 2: International Infrastructure

## Transportation Infrastructure

### Warehouses



- Shipment layover point
- Warehouse space and conditions require research
  - Locations
  - Environment exposure

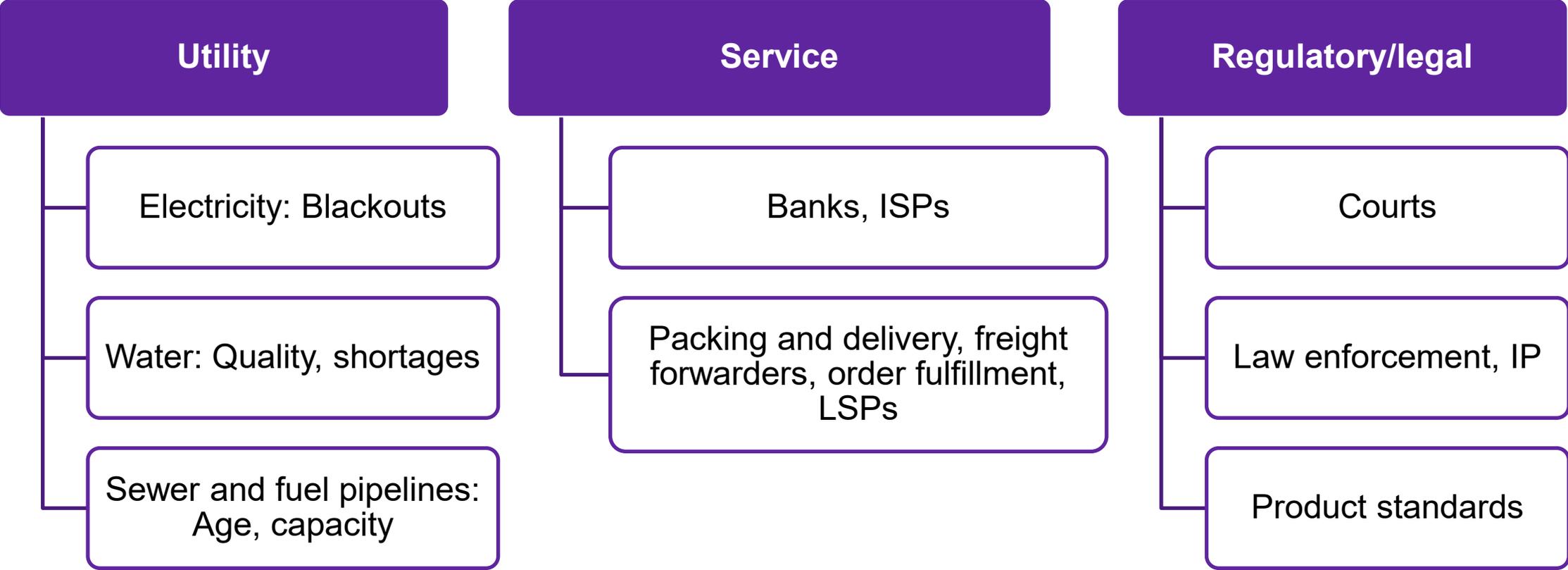
### Airports



- Runways are big constraint
- Airport noise
- Cargo air hubs
  - Hong Kong, Chek Lap Kok
  - Memphis, Tennessee
  - Shanghai, Pudong International

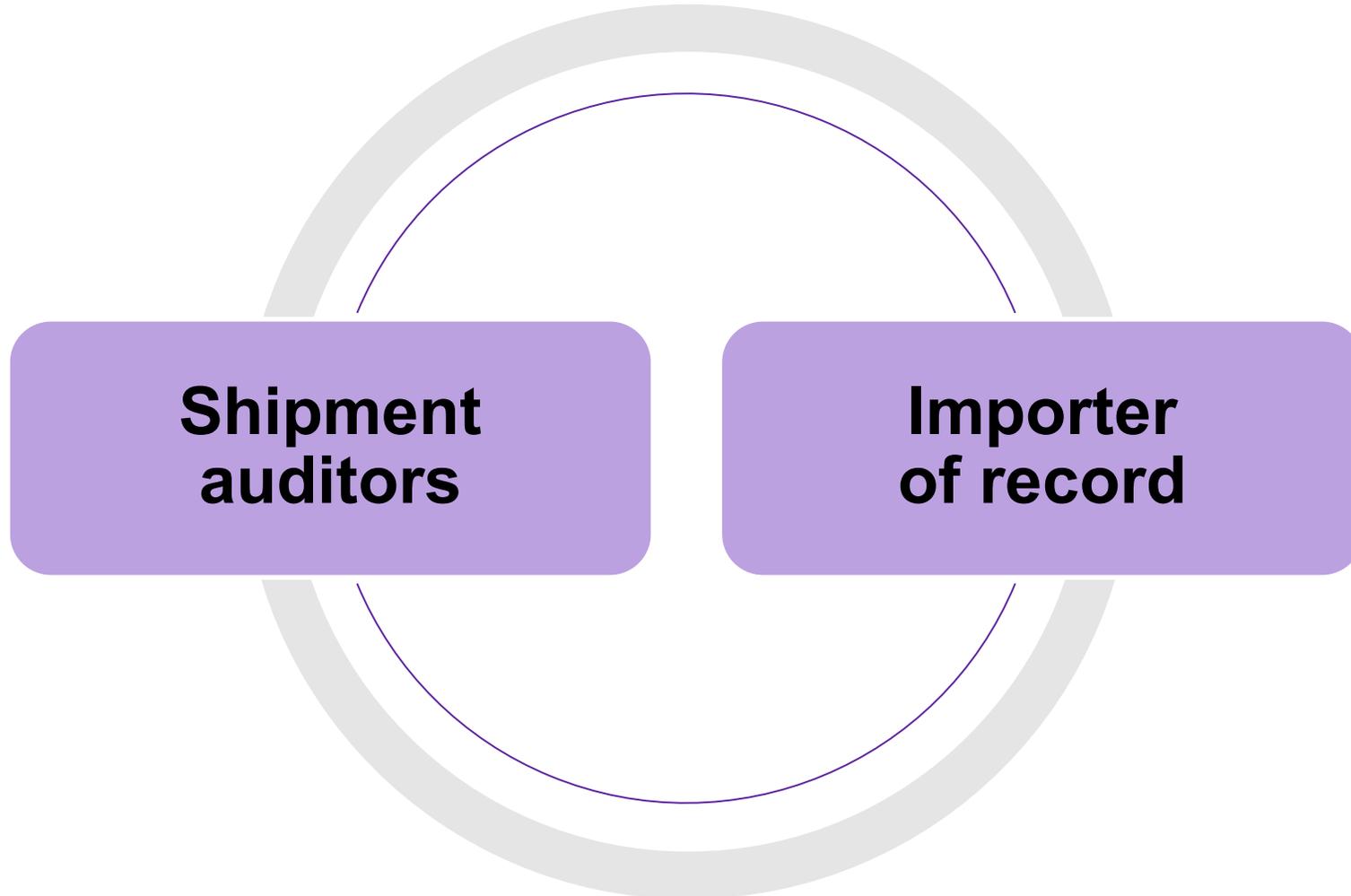
# Topic 2: International Infrastructure

## Other Infrastructures



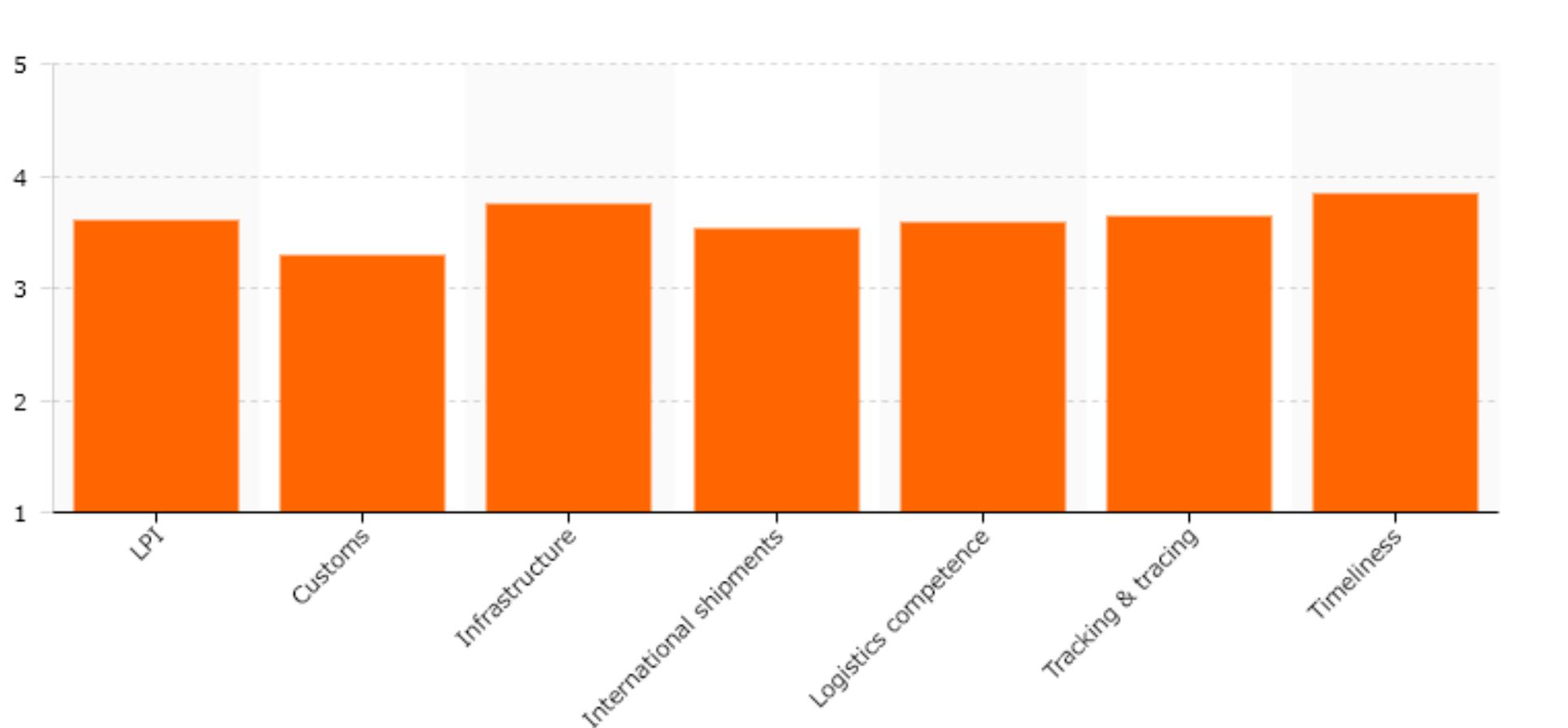
# Topic 2: International Infrastructure

## International Trade Specialists



# Topic 3: Global Logistics Performance Management

## Logistics Performance Index (LPI): China, 2018



# Topic 3: Global Logistics Performance Management

## Lead Time Considerations

- International order preparation time
- Document processing time
- Approval time per transaction
- Number of ASNs filed
- Containers/loads inspected
- Customs appeals, time
- Inland transportation time
- Vessel time in port/turnaround
- Days of port shutdowns
- Days of delays at ports

# Topic 3: Global Logistics Performance Management

## Global Supply Chain Cost

- TCO, NPV, exchange rates
- Cost of lead time
- Cost of lost sales
- Cost of flexibility (or inflexibility)
- Cost of quality
- Cost of added risk

# Topic 3: Global Logistics Performance Management

## Risk and Exception Management

- Number/cost of documents/approvals
- Number of government agencies with inspection rights
- Percentage of containers inspected, intensity level
- Percentage of shipments damaged/stolen
- Number of borders crossed/time waiting at borders
- Ease of crossing borders

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## MODULE 9, SECTION B: REGULATIONS

# Topic 1: International Trade

## Free Trade Agreements (FTAs)

- FTAs are “treaties between nations that agree to eliminate tariffs, quotas, and preferences on many goods and services traded between them.”
  - Novack et al. in *Transportation—A Global Supply Chain Perspective*
- Faster/more transactions
- Opens trade/international freight demand
- Removes trade barriers and transport permit restrictions
- Frees capital and reduces or eliminates duties
- Has testing/documentation standards

# Topic 1: International Trade

## Trade Blocs and Trade Compliance

### Trade bloc (or trading bloc)

“An agreement between or among countries intended to reduce or remove barriers to trade within member countries. Frequently, but not always, those countries are geographically close.”

- *(ASCM Supply Chain Dictionary)*

### Trade compliance

- How organizations manage their fulfillment of government regulations
- Regulations affect:
  - Product classifications
  - Documentation requirements
  - Valuation
  - Record-keeping practices

# Topic 2: International Transportation Regulations

## International Transportation Regulations

### Policies and regulations

- Tariffs
- Import quotas
- Prohibited imports
- Embargos
- National holidays (e.g., Chinese New Year)

### International Air Transport Association (IATA)

- 260 airlines (85% of traffic)
- e-Air Waybill (e-AWB) default contract of carriage
- IATA cargo strategy: safety, security, efficiency
- Global Air Cargo Advisory Group

# Topic 2: International Transportation Regulations

## Anti-Bribery and Anti-Corruption Practices

- Bribery violates United Nations Global Compact.
- OECD Anti-Bribery Convention:
  - Countries must develop regulations.
  - Organizations can't deduct bribery as a business expense.
- Bribery Act, 2011 (U.K.):
  - Passive bribery
  - Active bribery
  - Failing to prevent
  - Bribe official to obtain or retain business

## International Complexities

- Multiple modes of transport
- Longer transit times
- Less visibility/knowledge of location; theft risk
- Much more paperwork
- Noncompliance fines
- Taxes, fees, tariffs
- Market exchange rates
- Rail gauge, railcar/truck transfer
- Driver side shift
- Foreign street signs, GPS
- Some borders close
- Speed limits (less for truck)
- Poor road conditions
- Truck size, weight limits

## Security: Regulatory Initiatives

**C-TPAT**

**AMR**

**CSI**

**FAST**

**Trade Act of  
2002**

**AES**

## Security

- Alarms: breaking glass
- Explosives detectors in RFID tags
- Immobilization equipment
- Less breakable glass, visible registration number
- Key security, driver in-yard moves
- Prearranged secure trailer areas
- Multi-vehicle convoys
- In-transit tracking and visibility
- Warehouse location, gate, fence, guards

## Labor Safety

- Driver fatigue
- Speeding
- Maximum driving time for trucks in the EU

U.S. 2010 Compliance, Safety, and Accountability Act (CSA) ratings

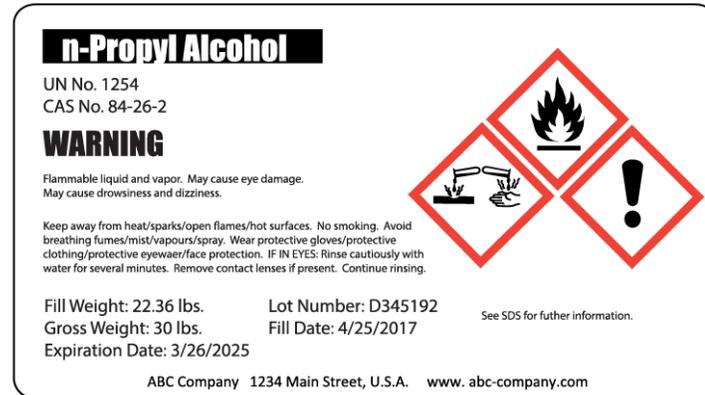
- Unsafe driving
- Crash history
- Hours of service

- Fitness
- Alcohol and substances
- Maintenance
- Cargo

# Topic 3: Transportation Safety and Import/Export Regulations

## Hazards and the Environment

- Loading and unloading
- Packaging
- Routing
- Identification and labeling
- Documentation



- Mode affects jurisdiction.
  - U.S. examples: road—49CFR; rail—FRA
  - International: air—ICAO, ocean—IMDG
- UN GHS labels
  - Pictogram, signal word
  - Hazard statement
- U.S. EPA
  - Noise
  - Air pollution

## Import/Export Regulations

- Incoterms used to indicate responsibilities
- Harmonized system codes identify cargo
- Preferential fees, duties, and taxes
  - Import tariffs and preferential duties based on country agreements
  - Anti-dumping duties
  - Other fees (value-added tax, general services tax, harbor fees, control taxes, excise taxes, trade promotion fees)

## Export Regulations

- Export quotas and taxes
- U.S. CCL
  - ECCN, EAR99 classification, export license
- Restrictions
  - Denied persons, specially designated nationals, unverified and entity lists
- Deemed exports
  - Controlled technology, biochemical, agriculture
- U.S. OFAC and ITAR
  - Military, defense-related, space technologies
- Importing country and end-use certificates



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## MODULE 9, SECTION C: CUSTOMS CLEARING AND DOCUMENTATION

# Topic 1: Import/Export Process and Invoices

## Import/Export Process

1. Book ocean 2 weeks in advance, truck or air 5 days, rail 2 hours.
2. Prepare shipment for cargo ready date.
3. Create commercial invoice, packing list, other required documentation.
  - Dray picks up empty container; shipper loads.
4. Dray/trucker delivers to port.
  - Carriers not certified in both countries terminate load in staging yard. Cross-border driver brings to other staging yard. Handoff to line-haul driver.
5. Customs broker files and obtains export clearance.
6. Shipment is loaded on vessel and status changed to COB.
7. Customs broker collects documents and files import clearance entry.
  - Most clear at wheels up or on water.
  - Some flagged for customs inspection at bonded destination port or port of unloading. Consignee arranges shipping to inspection facility.

# Topic 1: Import/Export Process and Invoices

## Import/Export Process (continued)

8. Delivery order or tender issued.
9. Cargo offloaded to driver pickup area.
  - Pay terminal charges including demurrage and get original bill of lading documents; dray dispatch gets terminal appointment if needed.
10. Dray tractor picks up empty chassis, then container.
11. Dray or trucker picks up freight and delivers to “door” for live unload or drop in yard.
  - Gate guards match seal number to paperwork; dray gets an empty, if available, for return to terminal.
12. Consignee unloads cargo and tells dray of empty. Receive and distribute further as needed.
13. Dray picks up empty and returns it and perhaps chassis to terminal.
14. Billing and accounting of landed cost.

# Topic 1: Import/Export Process and Invoices

## Types of Invoices

### Commercial

- Widely used
- Provided by seller with shipment, unless payment terms specify to importer or bank
- Customs uses for valuation

### Pro forma

- “A quote provided by the seller/exporter prior to delivery of products or services, informing the buyer/importer of the price. This document is submitted to customs for valuation purposes.” – *Dictionary*

### Consular

- Special invoice for goods sent to importer’s country in language of importer’s country
- Importer’s consulate provides stationary
- May require government signature

# Topic 2: Import Documentation

## Import Documentation

- Certificates of:
  - Origin
  - Manufacture
  - Inspection
  - Free sale
  - Insurance
- Import license
- Carnet

**CERTIFICATE OF ORIGIN**  
FOR GENERAL USE

The undersigned \_\_\_\_\_  
(OWNER OR AGENT, & TITLE)

for \_\_\_\_\_  
(Name and Address of Shipper)

declares that the following mentioned goods are shipped via \_\_\_\_\_

on the date of \_\_\_\_\_ consigned to \_\_\_\_\_  
(Name and address of Consignee)

\_\_\_\_\_  
(ADDRESS)

\_\_\_\_\_  
(CITY, POSTAL CODE, COUNTRY)

Marks and Numbers AS ADDRESSED	No. of Pkgs Boxes or Crates	Weight in Kilos		Complete and accurate Description of Goods
		Gross	Net	

Sworn to before me this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_  
Notary Signature

The undersigned hereby declares that the above details and statements are correct and that all the goods were produced in \_\_\_\_\_  
Signature of Owner or Agent .....

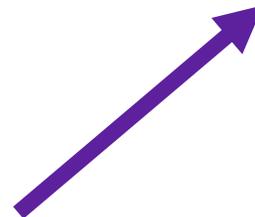
The \_\_\_\_\_ Chamber of Commerce certifies, in reliance on the exporter's representation and not on the basis of independent verification, that to the best of its knowledge and belief, the products named in this document originated in \_\_\_\_\_  
Acting as Assistant Secretary on behalf of the Chamber of Commerce.  
Certified this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.  
Executing Agent .....  
SIGNATURE



# Topic 3: Export Documentation

## Export Documentation

- Electronic export information (EEI)/shipper's export declaration (SED)
  - AESDirect
  - Owner/Importer/Consignee/Agent Declaration
- Returned products
- Export licenses
- Export taxes and quotas
- Declaration for Free Entry of Returned Products



DEPARTMENT OF HOMELAND SECURITY U.S. Customs and Border Protection DECLARATION FOR FREE ENTRY OF RETURNED AMERICAN PRODUCTS			Form Approved OMB No. 1651-0011 Exp. 03-31-2016
<i>Any text that scrolls will not print</i>			19 CFR 7.8, 10.1, 10.5, 10.66, 10.67, 12.41, 123.4, 143.23, 145.35
1. PORT	2. DATE	3. ENTRY NO. & DATE	
4. NAME OF MANUFACTURER		5. CITY AND STATE OF MANUFACTURE	
6. REASON FOR RETURN		7. U.S. DRAWBACK PREVIOUSLY <input type="checkbox"/> CLAIMED <input type="checkbox"/> UNCLAIMED	
		8. PREVIOUSLY IMPORTED UNDER HTSUS 9813.00.05? <input type="checkbox"/> YES <input type="checkbox"/> NO	
9. MARKS, NUMBERS, AND DESCRIPTION OF ARTICLES RETURNED			10. VALUE*
<small>* If the value of the article is \$10,000 or more and the articles are not clearly marked with the name and address of U.S. manufacturer, please attach copies of any documentation or other evidence that you have that will support or substantiate your claim for duty free status as American Goods Returned.</small>			
11. I declare that the information given above is true and correct to the best of my knowledge and belief; that the articles described above are the growth, production, and manufacture of the United States and are returned without having been advanced in value or improved in condition by any process of manufacture or other means; that no drawback bounty, or allowance have been paid or admitted thereon, or on any part thereof; and that if any notice(s) of exportation of articles with benefit of drawback <input type="checkbox"/> was <input type="checkbox"/> were filed upon exportation of the merchandise from the United States, such notice(s) <input type="checkbox"/> has <input type="checkbox"/> have been abandoned.			
12. NAME OF DECLARANT		13. TITLE OF DECLARANT	
14. NAME OF CORPORATION OR PARTNERSHIP (If any)		15. SIGNATURE (See note)	
16. SIGNATURE OF AUTHORIZING CBP OFFICER			
NOTE: If the owner or ultimate consignee is a corporation, this form must be signed by the president, vice president, secretary, or treasurer of the corporation, or by any employee or agent of the corporation who holds a power of attorney and a certificate by the corporation that such employee or agent has or will have knowledge of the pertinent facts.			
PAPERWORK REDUCTION ACT STATEMENT: An agency may not conduct or sponsor an information collection and a person is not required to respond to this information unless it displays a current valid OMB control number and an expiration date. The control number for this collection is 1651-0011. The estimated average time to complete this application is 6 minutes. If you have any comments regarding the burden estimate you can write to U.S. Customs and Border Protection, Office of Regulations and Rulings, 799 9 <sup>th</sup> Street, NW., Washington DC 20229.			
Previous Editions are Obsolete			CBP Form 3311 (08/11)

# Topic 4: International Transportation Documents

## International Bills of Lading

- Legally binding carrier/shipper contract
  - Exporters paid
  - Importers get goods
- Carrier signature: Proof that carrier received goods
- Consignee signature: Receipt for goods
- Basis for freight claims
- Mode
  - Ocean bill of lading
  - Through bill of lading (multimodal)
  - Uniform bill of lading
- Condition
  - Clean
  - Claused (soiled or foul)

# Topic 4: International Transportation Documents

## Waybills, Packing Lists

- Air waybill (AWB)
- Road waybill
- Rail waybill
- Packing list

Shipper's Name and Address		Shipper's Account Number		Not Negotiable <b>Air Waybill</b>		001-12345678	
Consignee's Name and Address		Consignee's Account Number		Issued by		Copies 1, 2 and 3 of this Air Waybill are originals and have the same validity.	
Issuing Carrier's Agent Name and City		Agent's IATA Code		Accounting Information		It is agreed that the goods described herein are accepted in apparent good order and condition (except as noted) for carriage SUBJECT TO THE CONDITIONS OF CONTRACT ON THE REVERSE HEREOF. ALL GOODS MAY BE CARRIED BY ANY OTHER MEANS INCLUDING ROAD OR ANY OTHER CARRIER UNLESS SPECIFIC CONTRARY INSTRUCTIONS ARE GIVEN HEREOF BY THE SHIPPER, AND SHIPPER AGREES THAT THE SHIPMENT MAY BE CARRIED VIA INTERMEDIATE STOPPING PLACES WHICH THE CARRIER DEEMS APPROPRIATE. THE SHIPPER'S ATTENTION IS DRAWN TO THE NOTICE CONCERNING CARRIER'S LIMITATION OF LIABILITY. Shipper may increase such limitation of liability by declaring a higher value for carriage and paying a supplemental charge if required.	
Airport of Departure (Addr. of First Carrier) and Requested Routing		Reference Number		Optional Shipping Information		Amount of Insurance	
To	By First Carrier	Routing and Destination	to	by	to	by	Currency
Airport of Destination		Requested Flight/Date		Declared Value for Carriage		Declared Value for Customs	
Handling Information		These commodities, technology or software were exported from the United States in accordance with the Export Administration Regulations. Ultimate Destination		Dimension contrary to U.S. law prohibited		SCI	
No. of Pieces RCP	Gross Weight	Rate Class	Chargeable Weight	Rate	Charge	Total	Nature and Quantity of Goods (incl. Dimensions or Volume)
Prepaid		Weight Charge		Collect		Other Charges	
Valuation Charge		Tax		Total Other Charges Due Agent		Total Other Charges Due Carrier	
Total Prepaid		Total Collect		Total Other Charges Due Agent		Total Other Charges Due Carrier	
Currency Conversion Rates		CC Charges in Dest. Currency		Charges at Destination		Total Collect Charges	
For Carrier's Use only at Destination		Charges at Destination		Total Collect Charges		Total Collect Charges	
						ORIGINAL 1 (FOR ISSUING CARRIER) 001-12345678	

# Topic 5: Customs Clearance

## Customs Clearance, U.S. Example

1. Importer files entry 7 to 10 days before arrival.
  - CBP entry summary, commercial/pro forma invoice, shipping forms, packing list, bond posting evidence.
2. Customs notified of arrival; carriers apply for release.
3. Customs can examine and verify value, duty status, labeling, origin, prohibited items, and match.
  - If issues: hold, export, or destroy.
4. Customs determines duty based on Harmonized Tariff Schedule (HTS).
5. Customs releases goods to importer, customs bonded warehouse, or foreign trade zone (FTZ).

# Topic 5: Customs Clearance

## Harmonized System of Classification and Tariffs

- Partial basis for duties
  - Harmonized code
  - Invoice value
  - Import country or countries
- Six-digit root plus four digits for country subcategories
- Customs may issue binding ruling on classification
- Can sometimes appeal



# Topic 5: Customs Clearance

## Harmonized System of Classification and Tariffs

- Harmonized Tariff Schedule
- “Rates of Duty” columns: One column per class, up to four. U.S. has several columns:
- Column 1: Normal trade relations (NTR)

# Topic 5: Customs Clearance

## Valuation

- Begins with value identified on exporter's invoice
- Can be different by country
  - Landed value
  - U.S.: Free carrier (FCA)/Free Alongside Ship (FAS)
  - Cost, Insurance and Freight (CIF) method
  - Comparative method
  - Deductive method
  - Computed or reconstructed method
  - Method of last resort

# Topic 5: Customs Clearance

## Other Taxes

- Value-added tax (VAT)
- Goods and services tax (GST)
- Consumption taxes
- Exemptions for some member countries in free trade agreements

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## MODULE 9, SECTION D: FINANCE AND PAYMENT OPTIONS/CURRENCY AND TAX CONSIDERATIONS

## Obligations and Risks of International Trade

### Obligations

- Importer-exporter contracts
  - Sales
  - Insurance
  - Carriage (also with carrier)
  - CISG
- Contract between
  - Exporter/importer and bank
  - Exporter and distributor/agent

### Risks

- Often no firsthand knowledge of counterparty
- Commercial risk
  - Non-, partial, or late payment
  - Failure to deliver or unacceptable goods
- Country risk
- Limited recourse

# Topic 1: Terms of Sale and Methods of Payment

## Contract Terms and Conditions

- Language
- Product specifications
- Pricing
- Order requirements
- Conditions for incentives and application of penalties
- Security requirements
- Status update requirements
- Quality checks
- Problem resolution steps
- Legal entity that will govern agreement
- Contract termination process
- Payment terms
- Transfer of ownership

# Topic 1: Terms of Sale and Methods of Payment

## Incoterms® Trade Terms

### Example:

- FOB Med Shipping Terminal, Port of Baltimore, Incoterms® 2020

- Exporter tasks and payments
- Importer tasks and payments
- Point of delivery
- Categories
  - Any mode
  - Sea and inland waterway
- Not legally binding unless written into contract, standard terms in contracts of sale (not transfer of title)

# Topic 1: Terms of Sale and Methods of Payment

## Incoterms 2020<sup>®</sup> Definitions

Terms for Any Mode or Modes of Transport	
<b>EXW</b>	Ex Works (buyer takes over goods at seller's location; loads vehicle)
<b>FCA</b>	Free Carrier (seller delivers to main carrier; buyer loads)
<b>CPT</b>	Carriage Paid To (seller selects and pays for main carriage)
<b>CIP</b>	Carriage and Insurance Paid To (seller pays main carriage and insurance)
<b>DPU</b>	Delivered at Place Unloaded (seller delivers goods to a location and unloads)
<b>DAP</b>	Delivered at Place (seller delivers goods and buyer receives and unloads)
<b>DDP</b>	Delivered Duty Paid (seller incurs all costs, including import duty)
Terms for Sea and Inland Waterway Transport	
<b>FOB</b>	Free on Board (seller puts goods on ocean vessel)
<b>FAS</b>	Free Alongside Ship (buyer lifts cargo onboard)
<b>CFR</b>	Cost and Freight (seller selects/pays for main carriage)
<b>CIF</b>	Cost, Insurance, and Freight (seller pays main carriage and insurance)

# Topic 1: Terms of Sale and Methods of Payment

## Incoterms® 2020: Buyer/Seller Responsibilities

	Terms for any Mode or Modes of Transport							Terms for Sea and Inland Waterway Transport			
	EXW	FCA	CPT	CIP	DPU	DAP	DDP	FAS	FOB	CFR	CIF
Export packing	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>
Export clearance	<i>B</i>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>
Inland transport (domestic)	<i>B</i>	<i>B/S</i>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>
Forwarder's fees	<i>B</i>	<i>B</i>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>	<i>B</i>	<i>B</i>	<b>S</b>	<b>S</b>
Loading on vessel	<i>B</i>	<i>B</i>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>	<i>B</i>	<b>S</b>	<b>S</b>	<b>S</b>
Ocean/air freight	<i>B</i>	<i>B</i>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>	<i>B</i>	<i>B</i>	<b>S</b>	<b>S</b>
Cargo insurance	*	*	*	<b>S</b>	*	*	*	*	*	*	<b>S</b>
Duties, taxes, customs clearance	<i>B</i>	<i>B</i>	<i>B</i>	<i>B</i>	<i>B</i>	<i>B</i>	<b>S</b>	<i>B</i>	<i>B</i>	<i>B</i>	<i>B</i>
Delivery to destination	<i>B</i>	<i>B</i>	<i>B</i>	<i>B</i>	<i>B</i>	<i>B</i>	<b>S</b>	<i>B</i>	<i>B</i>	<i>B</i>	<i>B</i>

\*Incoterms® 2020 recommend explicitly stating who will pay for the insurance in a contract or quote.

(*B* = Buyer, **S** = Seller)

Source: International Chamber of Commerce, [www.iccwbo.org](http://www.iccwbo.org).

# Topic 1: Terms of Sale and Methods of Payment

## Terms and Conditions

- Incoterms<sup>®</sup> 2020 recommend explicitly stating who will pay for the insurance in a contract or quote.
- Incoterms<sup>®</sup> trade terms indicate where risk/liability is transferred but obligate buyer or seller to carry insurance only when explicitly noted in the term.
- Most firms maintain cargo insurance as backup.

# Topic 1: Terms of Sale and Methods of Payment

## Avoiding Acronym Confusion: Free on Board (FOB)

- **Incoterms® 2020 Free on Board (FOB):**

ICC trade term used only for international shipments to be delivered to an ocean shipping line at a port of departure. Seller puts goods on main transport vessel.

- **U.S. Domestic FOB Origin, FOB Destination:**

Uniform Commercial Code (UCC) terms used to indicate the physical point where title passes from seller to buyer and risk and responsibility for loss and damage. Used in United States domestic shipping.

# Topic 1: Terms of Sale and Methods of Payment

## Methods of Payment



### Cash in advance

- All risk on buyer

### Letter of credit (L/C)

- Revocable
- Irrevocable
- Confirmed irrevocable

### Bills of exchange

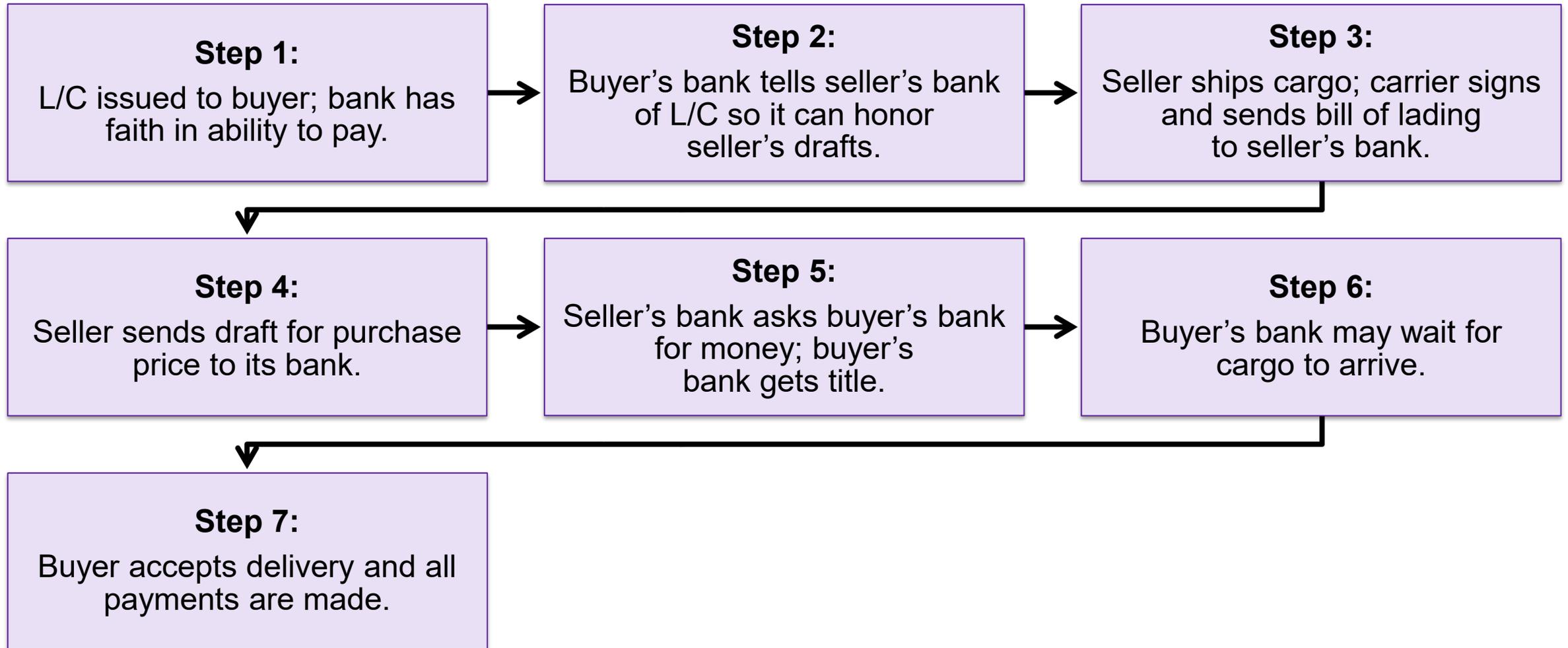
- Date draft
- Time draft
- Sight draft

### Open account

- All risk on seller

# Topic 1: Terms of Sale and Methods of Payment

## Letter of Credit (L/C) Process



# Topic 2: Currency and Tax Considerations

## Selecting a Currency and Hedging

- Convertibility and risk of fluctuation
- Hard vs. soft currencies
- Time of sale vs. time of payment
- If one party's currency used, other assumes risk
  - Exporter: Offer importer currency as sales tool
- Third country currency: Both assume risk
- International Monetary Fund's Special Drawing Rights
- Hedging transaction exposure
  - Forward
  - Money market

# Topic 2: Currency and Tax Considerations

## Transfer Pricing

### Arm's-length transfer pricing

- When companies set prices based on the market (as if to a customer that has no relational ties to them).

### Other methods of transfer pricing

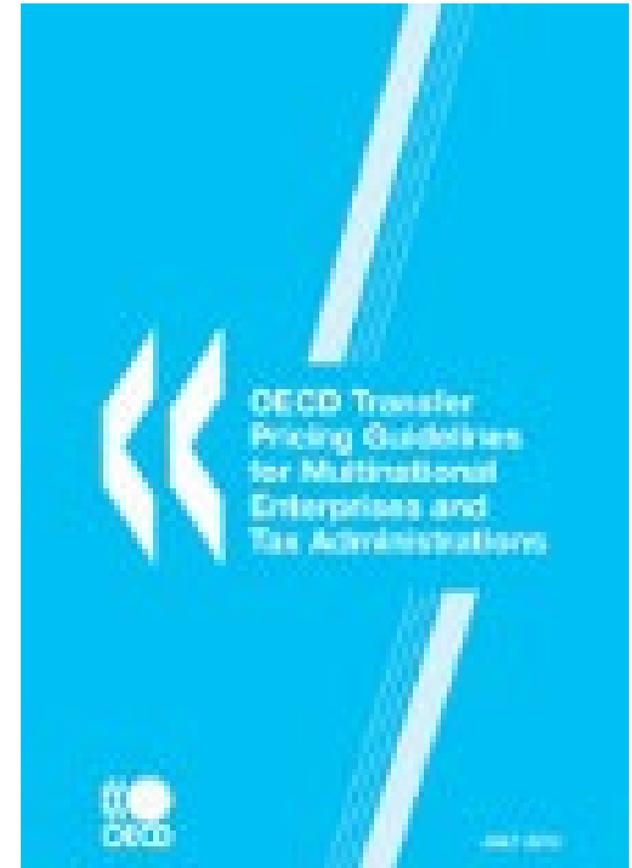
- May allow a subsidiary or division of a company to sell a product to another division or subsidiary that is located in a lower-tax country at a lesser price.

# Topic 2: Currency and Tax Considerations

## Transfer Pricing

Organisation for Economic Co-operation and Development (OECD) publication:

“Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrators”



# Topic 2: Currency and Tax Considerations

## Foreign/Free Trade Zones (FTZ)

- In U.S., called “foreign”; internationally, called “free.”
- Ship to zone re-export with no duties or quotas.
- Duties, quotas, local taxes deferred until sold in country.
- Can reassemble, transform, repackage, store, clean, test, grade, repair, or combine.
- Inverted tariff structure where parts tariffs higher than finished good.
- Hold indefinitely (e.g., wait for quota).
- Reduce risk of inspection rejection.