

# CLTD

CERTIFIED IN LOGISTICS,  
TRANSPORTATION AND DISTRIBUTION

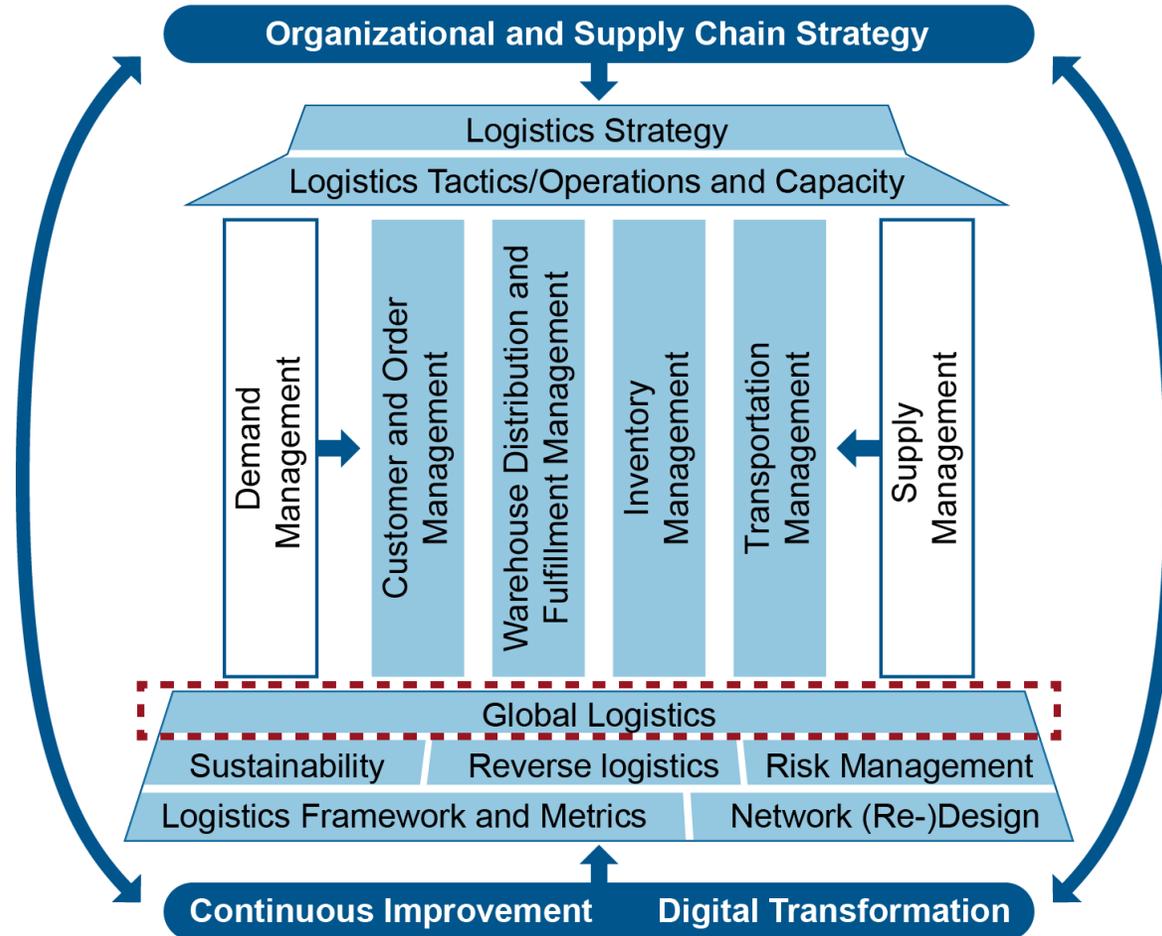
## MODULE 7: GLOBAL LOGISTICS

APICS

ASCM

# Module 7: Global Logistics

## Logistics Planning and Control



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## MODULE 7, SECTION A: CHARACTERIZE THE INTERNATIONAL ENVIRONMENT AND GLOBAL INFRASTRUCTURE

## Macroenvironmental Factors Influencing Logistics

- Trade wars
- International sanctions
- Wars
- Terrorism
- Country stability
  - Law enforcement and courts
  - Economy and infrastructure
- Globalization, population growth, and migration
- Climate change
- Invasive species and supply chains

## Economic Factors

### Absolute advantage

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

### Comparative advantage

- Investing in things with higher marginal cost here is opportunity cost

### Heckscher-Ohlin factor endowment

- Labor
- Capital
- Land
- Entrepreneurship

## Economic Factors

### International product life cycle

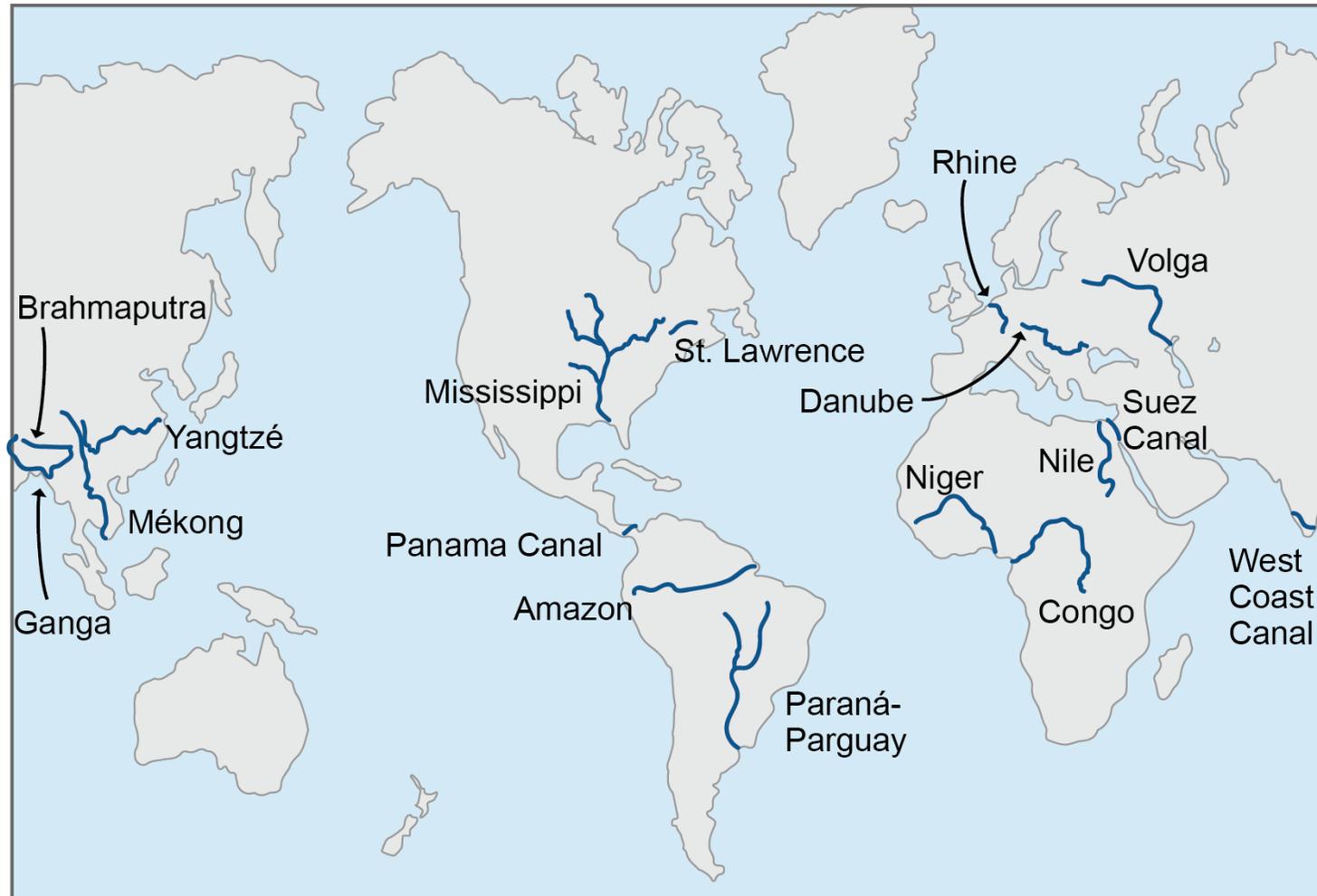
- Stage 1: Local country proprietary technology
- Stage 2: Developed countries, substitutes
- Stage 3: Outsource for lower production costs

### Cluster theory

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

# Understand Local Infrastructure Considerations

## Transportation Infrastructure: Waterways and Ports



# Understand Local Infrastructure Considerations

## Transportation Infrastructure: Port Constraints



- Panamax containerships
- Large-capacity cranes to reach other side of larger ships
- Delays (operating hours, rail or road congestion)
- Unions, strikes
- Risk of flooding, refrigeration failure in container yards

# Understand Local Infrastructure Considerations

## Transportation Infrastructure

### Rail



- U.S.: Private ownership
- Land bridges 
- Russia, Brazil, Europe: Rail gauges
- Europe: Passenger and freight
- 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

# Understand Local Infrastructure Considerations

## Transportation Infrastructure: Warehouses

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

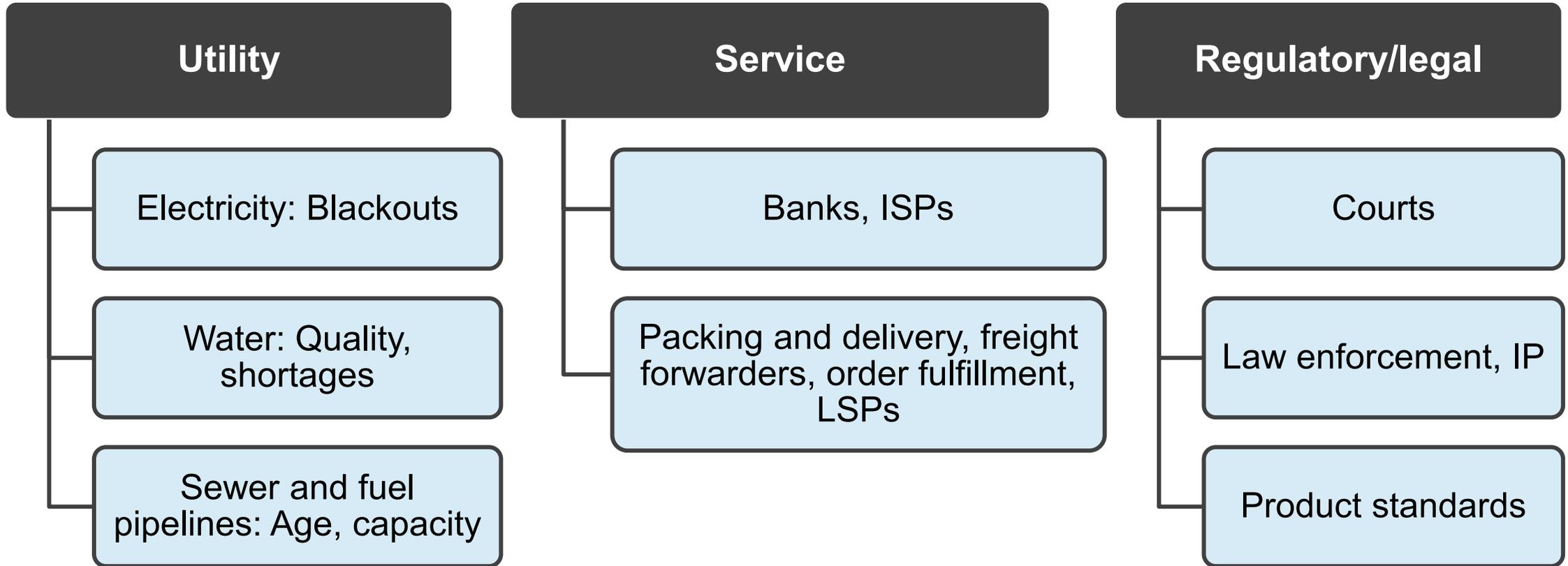


## Transportation Infrastructure: Airports

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

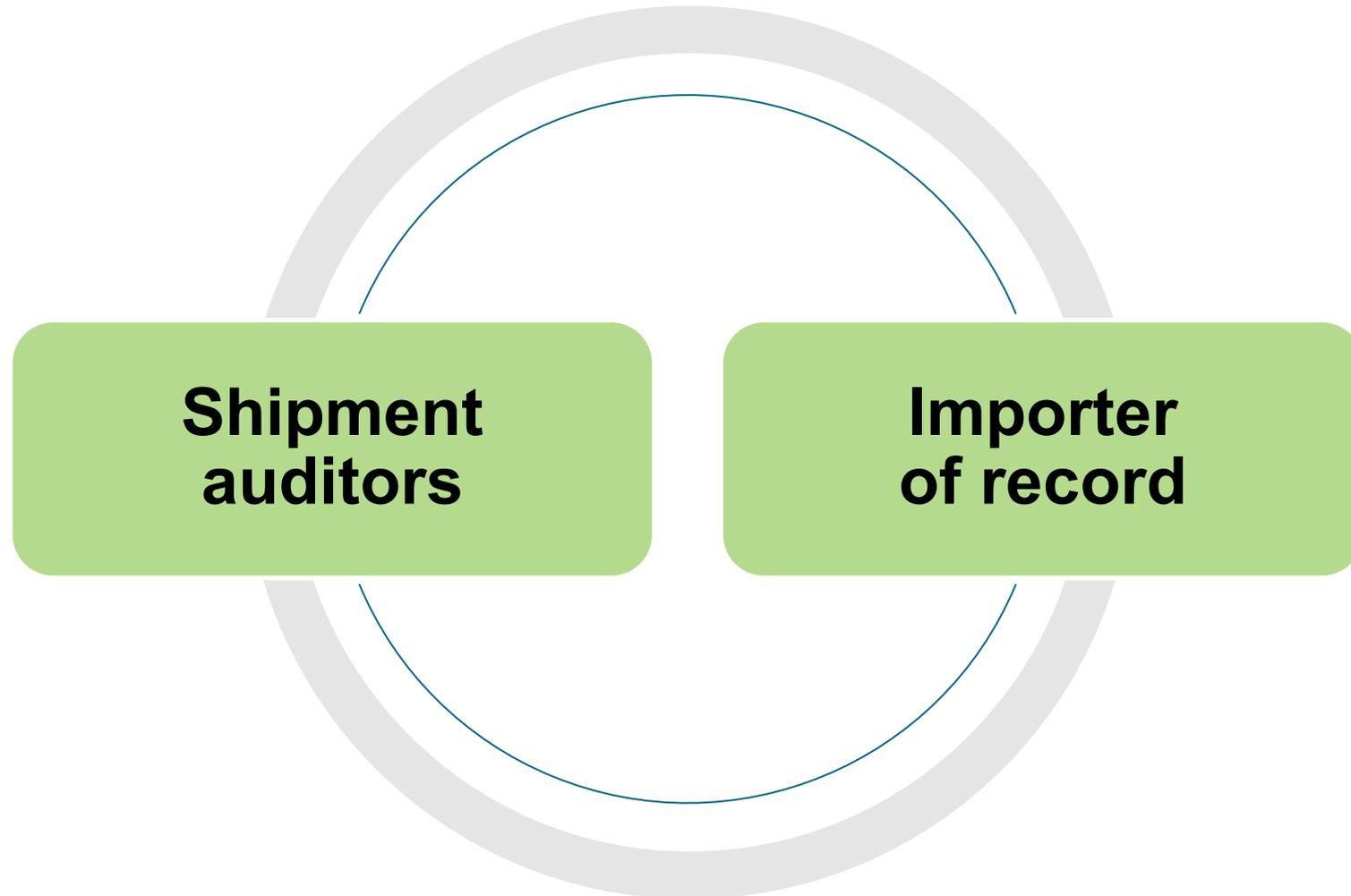
# Understand Local Infrastructure Considerations

## Other Infrastructures



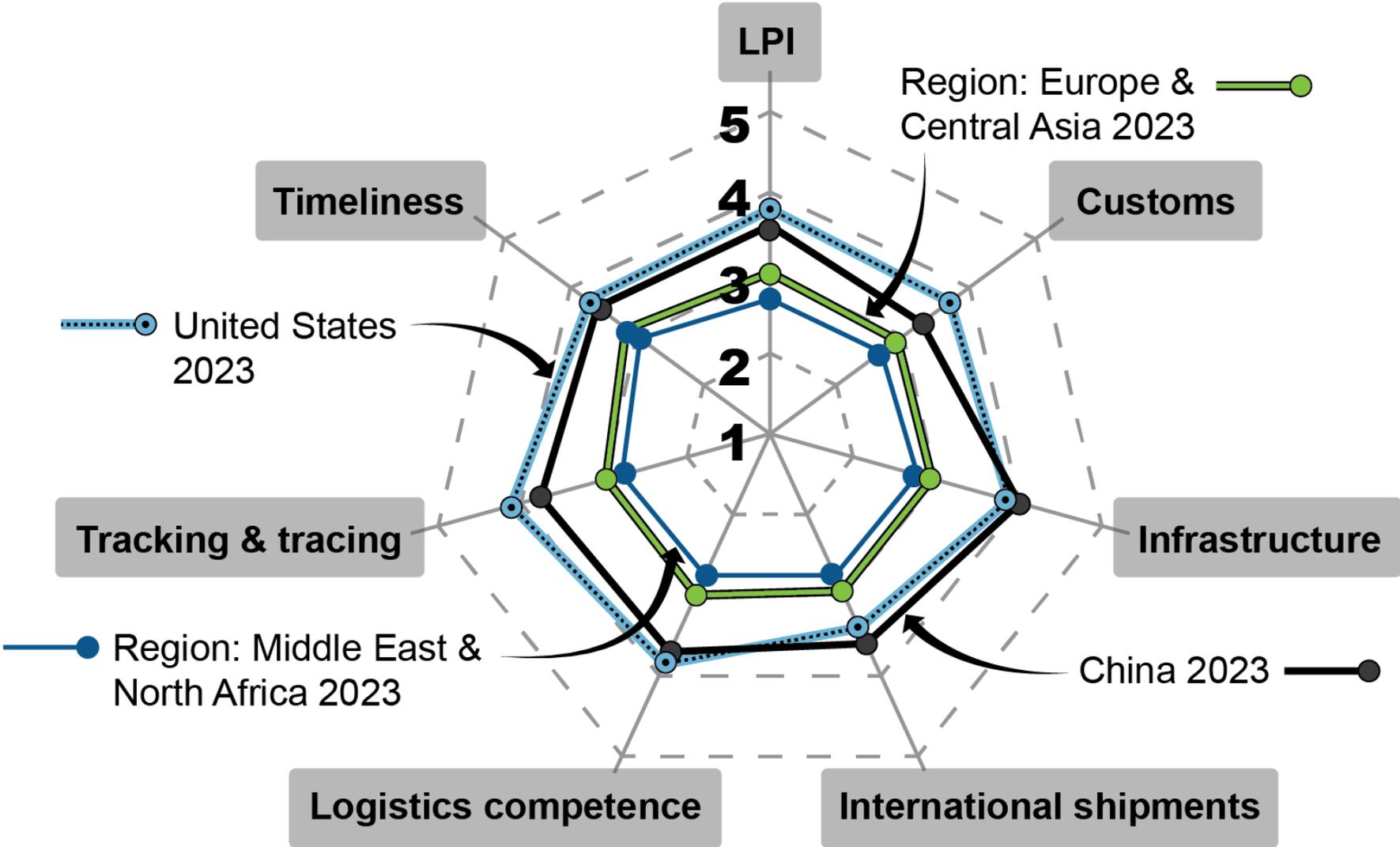
# Understand Local Infrastructure Considerations

## Global Trade Specialists



# Consider Global Logistics Performance Management Factors

## Logistics Performance Index (LPI): China, 2023



Source: The World Bank: Logistics Performance Index, 2023 ([www.worldbank.org](http://www.worldbank.org)).

## Global Supply Chain Cost

- TCO, NPV, exchange rates
- Cost of lead time, e.g.:
  - Number of ASNs filed
  - Containers/loads inspected
  - Days of port shutdowns
  - Days of delays at ports
- Cost of lost sales
- Cost of flexibility (or inflexibility)
- Cost of quality
- Cost of added risk

## Risk and Exception Management

### Metrics

- Number/cost of documents/approvals per international transaction
- Percentage of containers inspected, intensity level
- Percentage of shipments damaged/stolen
- Number of borders crossed/time waiting at borders

### Factors

- Number of government agencies with inspection rights
- Ease of crossing borders

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## MODULE 7, SECTION B: INCORPORATE REGULATIONS INTO GLOBAL LOGISTICS PROCESSES

## Free Trade Agreements (FTAs)

Treaties to eliminate tariffs, quotas, preferences on many goods or services

- Faster/more transactions
- Opens trade/international freight demand
- Removes trade barriers and transport permit restrictions
- Frees capital and reduces or eliminates duties
- Testing/documentation standards

## Trade Blocs

“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)*

- EU was first trade bloc, but now a federation moving toward an economic and political union.

## Foreign/Free Trade Zones (FTZ)

- In U.S., called “foreign”; internationally, called “free.”
- Ship to zone re-export no duties, quotas until sold in country.
- Reassemble, transform, repackage, store, clean, test, grade, repair, or combine
- Inverted tariff structure (parts tariffs > than finished good).
- Hold indefinitely (e.g., for quota).
- Less risk of inspection rejection.
- FTZs virtual in Europe

## Government Policies and Regulations

- Tariffs and duties
- Import quotas
- Prohibited imports
- Nontariff trade barriers
  - Quotas
  - Cabotage laws
- Embargos
- Closures for national holidays (e.g., Chinese New Year)

## Trade Compliance

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

## Trade Compliance: Terms of Sale

- Incoterms<sup>®</sup> used to indicate responsibilities, costs, risks
- 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, export license
- Restrictions
  - Denied persons, specially designated nationals, unverified and entity lists
- Deemed exports
  - Controlled technology, biochemical, agriculture



## International Air Transport Association (IATA)

- 330 airlines (80% of traffic)
- e-Air Waybill (e-AWB) default contract of carriage
- IATA priorities
  - Net zero carbon emissions, sustainable aviation fuel
  - Digital transformation
  - Cybersecurity
  - Diversity, equity, and inclusion

## International Maritime Organization (IMO)

- Regulates sea shipments of dangerous goods (hazmat)
- UN agency
- Mission: “promote safe, secure, environmentally sound, efficient and sustainable shipping through cooperation”
- Publishes IMO Dangerous Goods (IMDG) Code
- *De facto* standard for sea shipments
  - Widely adopted by government regulations
  - Must also meet domestic requirements

## 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

## Security: Regulatory Initiatives

**AEO**

**CTPAT**

**AMR**

**CSI**

**FAST**

**U.S. Trade  
Act of  
2002**

**AES**

## Vehicle Security

- Alarms
- Explosives detectors in RFID tags
- Immobilization equipment
- Visible registration number
- Key security, driver in-yard moves
- Prearranged secure trailer areas
- Multi-vehicle convoys
- In-transit tracking and visibility

## Border Security Partnerships

### Authorized Economic Operator (AEO) program

- Business audit, good customs record
- AEOC: Customs
- AEOS: Security
- AEOF: Both of above
- Mutual recognition agreements

EU

### Customs Trade Partnership Against Terrorism (CTPAT)

- Questionnaire
- Continually improve security
- Fewer inspections, less border time (no guarantee)

U.S.

## Labor Safety

- Driver fatigue
- Speeding
- Maximum driving time

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

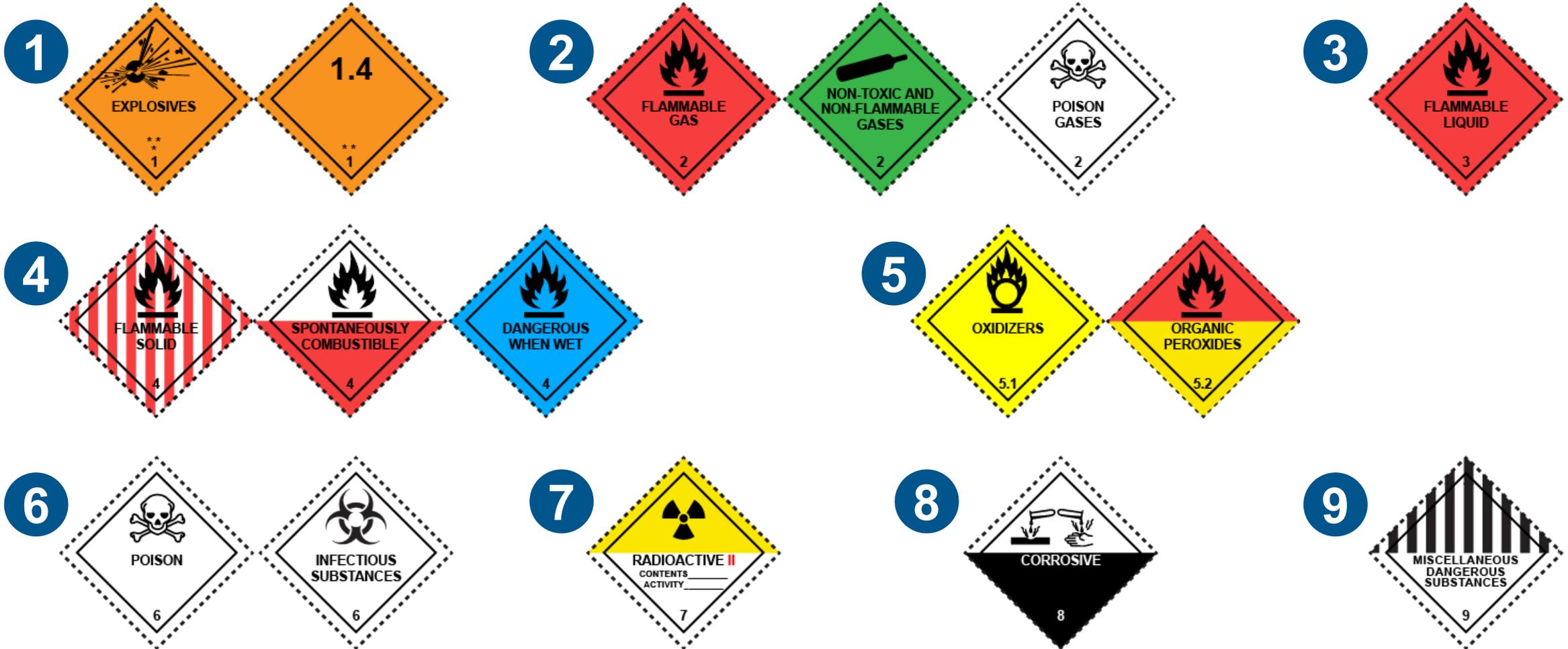
- Unsafe driving
- Crash history
- Hours of service
- Fitness
- Alcohol and substances
- Maintenance
- Cargo

## Dangerous Goods (Hazmat)

- Risk to human, animal, environmental health, property
  - On its own or due to interaction
  - Permits and safety precautions
- 
- UN Model Regulations
    - Prevent accidents
    - Keep transport feasible
    - Dangerous goods forbidden from commercial transport
  - Road: ADR, U.S. 49CFR
  - Rail: RID, U.S. FRA
  - Sea: IMDG Code
  - Inland waterways: ADN
  - Air: IATA Dangerous Goods Regulations

# Understand and Adhere to Transportation Safety Regulations

## Dangerous Goods (Hazmat) Classes



# Understand and Adhere to Transportation Safety Regulations

## Dangerous Goods (Hazmat), Continued

- Degree of hazard and packing groups I, II, III
- Dangerous goods documentation
  - 4-digit UN Code and Proper Shipping Name
- Safety data sheet (SDS)

**n-Propyl Alcohol**

UN No. 1254  
CAS No. 84-26-2

**WARNING**

Flammable liquid and vapor. May cause eye damage.  
May cause drowsiness and dizziness.

Keep away from heat/sparks/open flames/hot surfaces. No smoking. Avoid breathing fumes/mist/vapours/spray. Wear protective gloves/protective clothing/protective eyewear/face protection. IF IN EYES: Rinse cautiously with water for several minutes. Remove contact lenses if present. Continue rinsing.

Fill Weight: 22.36 lbs.      Lot Number: D345192  
Gross Weight: 30 lbs.      Fill Date: 4/25/2017  
Expiration Date: 3/26/2025

See SDS for further information.

ABC Company 1234 Main Street, U.S.A.    www.abc-company.com



## Dangerous Goods (Hazmat): Air and Sea

### IATA Dangerous Goods Regulations (DGR) for Air

- Can it be transported between specific airports?
- Requirements for specific 4-digit UN Code, aircraft type, carrier, and airport
- Limited quantities (LQ)
- Cargo aircraft only (CAO)
- Updated annually

### IMDG Code for Sea

- Dangerous and hazardous cargo shipping
- Emergency responses
- Updated every two years

## Dangerous Goods (Hazmat): Segregation Rules

- Segregation charts
- Same class together usually unless risk
- 1.1, 1.2, 6.2, 7, 9 segregated from all other DG

	Kept Segregated From		
Acids	←	→	Alkali
4.3 Spontaneously flammable when wet	←	→	Water
5.2 Organic peroxides	←	→	4.2 Highly pyrophoric materials
6.1 Toxic substances	←	→	Food, feed

## Dangerous Goods (Hazmat): Training Requirements

- International agencies
  - IATA requires all employees in transport of DG to renew every 2 years
- Nations
  - Mandate training

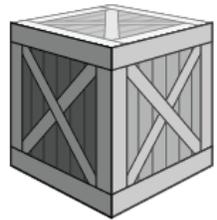
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## MODULE 7, SECTION C: FACILITATE EXPORT/IMPORT, CUSTOMS CLEARING, AND DOCUMENTATION

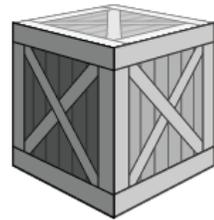
# Consider Methods for Entering Global Markets

## Exporting and Other Common Methods

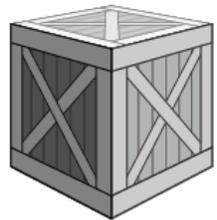


### Exporting

- Agent
- Distributor
- Marketing subsidiary

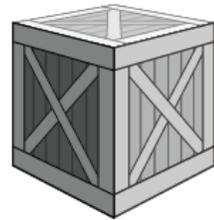


### Licensing

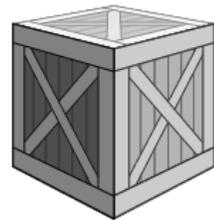


### Indirect exporting

- Export trading company
- Export management company
- Piggybacking



### Direct ownership and production abroad

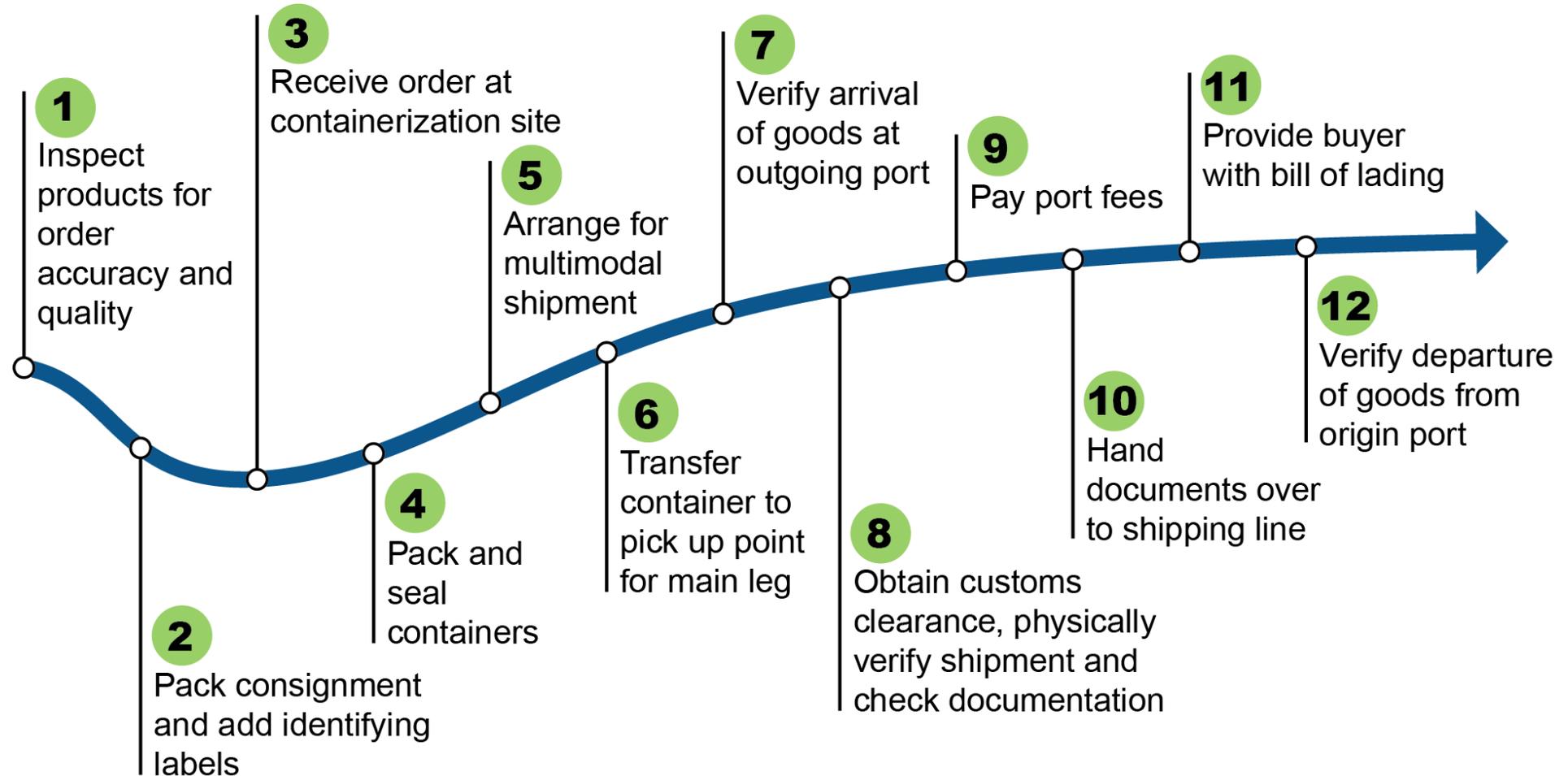


### Joint ventures



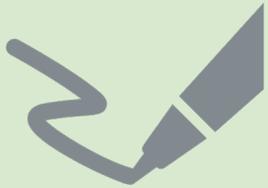
# Understand the Import/Export Process and Invoice Types

## Import/Export Process



# Understand the Import/Export Process and Invoice Types

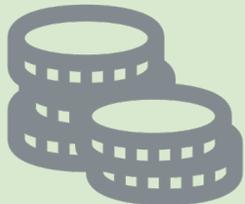
## Types of Invoices: Commercial



Widely used



Provided by seller with shipment, unless payment terms specify to importer or bank



Customs uses for valuation

## Types of Invoices: Pro Forma

“A quote provided by the seller/exporter prior to delivery of products or services, informing the buyer/importer of the price.” –*ASCM Supply Chain Dictionary*

## Types of Invoices: Consular

Special invoice for goods sent to importer's country in language of importer's country

Importer's consulate provides stationery

May require government signature

# Differentiate between Various Import Documents

## Import Documentation

- Import license
- Import quotas
- Import declarations
- Certificates of:
  - Analysis
  - Manufacture
  - Origin
  - Inspection
  - Insurance
- Phyto-sanitary certificate
- Certificate of free sale
- 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

# Differentiate between Various Export Documents

## Export Documentation

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

19 CFR 7.8, 10.1, 10.5, 10.66, 10.67, 12.41, 123.4, 143.23, 145.35

*Any text that scrolls will not print*

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*

\* 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.

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  was  were filed upon exportation of the merchandise from the United States, such notice(s)  has  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)



## 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
  - Uniform bill of lading
  - Ocean bill of lading
  - Through bill of lading (multimodal)
- Condition
  - Clean
  - Claused (soiled or foul)
  - Negotiable

# Differentiate between Various International Transportation Documents

## Manifests, Waybills, Packing Lists, and DG Declaration

- Manifest
- Air waybill (AWB)
- Road waybill
- Rail waybill
- Packing list
- Dangerous goods declaration

Shipper's Name and Address		Shipper's Account Number	Not Negotiable		001-12345678				
			<b>Air Waybill</b>						
			Issued by						
			Copies 1, 2 and 3 of this Air Waybill are originals and have the same validity.						
Consignee's Name and Address			Consignee's Account Number			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 HEREBY 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.			
Issuing Carrier's Agent Name and City			Accounting Information						
Agent's IATA Code		Account No.							
Airport of Departure (Addr. of First Carrier) and Requested Routing			Reference Number		Optional Shipping Information				
To	By First Carrier	Routing and Destination	to	by	to	by	Currency	Declared Value for Carriage	Declared Value for Customs
Airport of Destination			Requested Flight/Date		Amount of Insurance		INSURANCE - If carrier offers insurance, and such insurance is requested in accordance with the conditions thereof, indicate amount to be insured in figures in box marked "Amount of Insurance".		
Handling Information			These commodities, technology or software were exported from the United States in accordance with the Export Administration Regulations. Ultimate Destination				Diversion contrary to U.S. law prohibited.		
No. of Pieces/RCP	Gross Weight	Rate Class	Commodity	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						Shipper certifies that the particulars on the face hereof are correct and that insofar as any part of the consignment contains dangerous goods, such part is properly described by name and is in proper condition for carriage by air according to the applicable Dangerous Goods Regulations.			
Total Other Charges Due Carrier						Signature of Shipper or his Agent			
Total Prepaid		Total Collect							
Currency Conversion Rates		CC Charges in Dest. Currency				Executed on (date) at (place) Signature of Issuing Carrier or its Agent			
For Carrier's Use only at Destination		Charges at Destination		Total Collect Charges		ORIGINAL 1 (FOR ISSUING CARRIER) 001-12345678			

## 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).

## 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



## 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)

## Valuation

- Begins with value identified on exporter's invoice
- Can be different by country
  - Landed value
    - Packaging
    - Transportation in importing country
    - International transportation to destination
    - International insurance
  - More complex methods

## Transfer Pricing

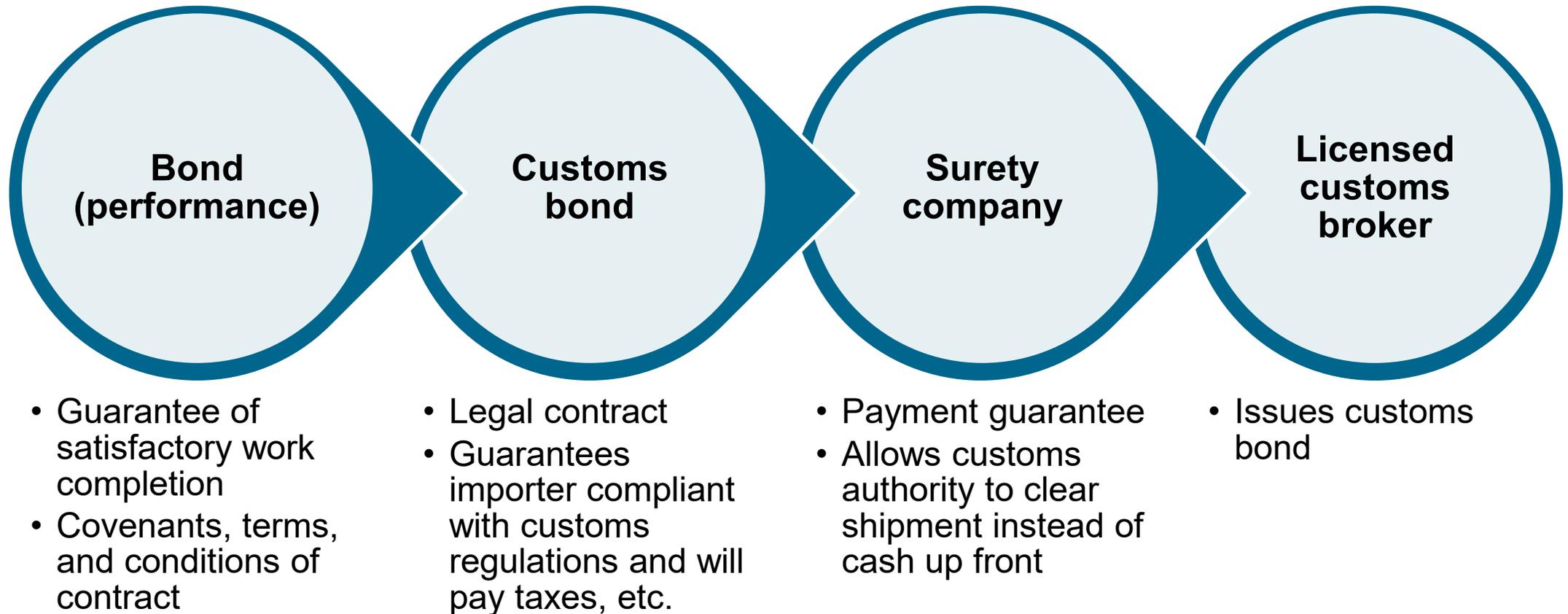
### Arm's-length transfer pricing

- 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.

## Customs Bonds



## Other Taxes

- Taxes based on value of goods: *Ad-valorem* taxes
- Value-added tax (VAT)
- Consumption taxes
- Exemptions for some member countries in free trade agreements

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## MODULE 7, SECTION D: UNDERSTAND FINANCE, PAYMENT, CURRENCY, AND TAX OPTIONS/IMPLICATIONS

## Obligations of International Trade

### **Importer-exporter contracts**

- Sales
- Insurance
- Carriage (also with carrier)
- CISG

### **Contract between**

- Exporter/importer and bank
- Exporter and distributor/agent

## Risks of International Trade

- Often no firsthand knowledge of counterparty
- Commercial risk
  - Non-, partial, or late payment
- Country risk
- Limited recourse

## 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

## Incoterms® 2020 Trade Terms

### Example:

- CIF Los Angeles, U.S.A., Incoterms® 2020

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

# Understand and Apply Terms of Sale and Methods of Payment

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

### Terms for Any Mode or Modes of Transport

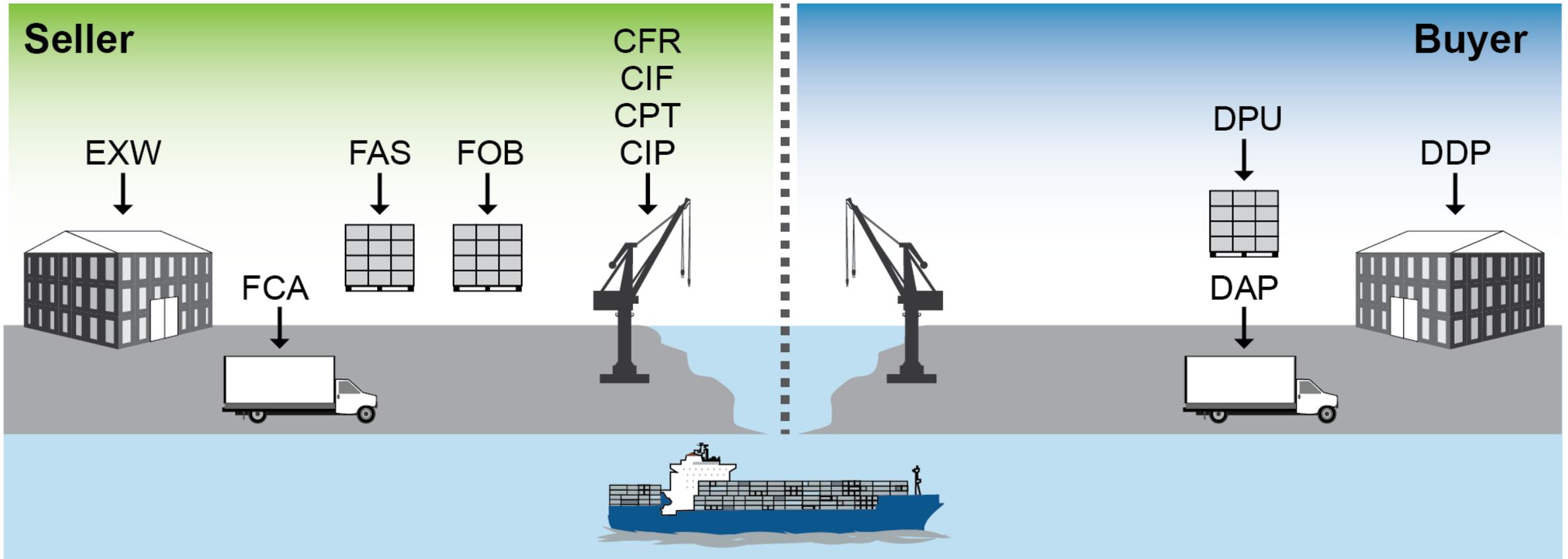
<b>EXW</b>	Ex Works ( <i>Buyer loads goods and takes control at seller's location.</i> )
<b>FCA</b>	Free Carrier ( <i>If named place is seller's premises, seller loads on transport arranged by buyer (e.g., truck)</i> )
<b>CPT</b>	Carriage Paid To ( <i>Seller selects and pays for main carriage.</i> )
<b>CIP</b>	Carriage and Insurance Paid To ( <i>Seller pays main carriage and insurance.</i> )
<b>DAP</b>	Delivered at Place ( <i>Seller delivers goods and buyer unloads them.</i> )
<b>DPU</b>	Delivered at Place Unloaded ( <i>Seller delivers goods to a location and unloads them.</i> )
<b>DDP</b>	Delivered Duty Paid ( <i>Seller incurs all costs, including import duty.</i> )

### Terms for Sea and Inland Waterway Transport

<b>FOB</b>	Free on Board ( <i>Seller puts goods on main transport vessel.</i> )
<b>FAS</b>	Free Alongside Ship ( <i>Buyer lifts cargo on board.</i> )
<b>CFR</b>	Cost and Freight ( <i>Seller selects/pays main carriage.</i> )
<b>CIF</b>	Cost, Insurance, and Freight ( <i>Seller pays main carriage and insurance.</i> )

# Understand and Apply Terms of Sale and Methods of Payment

## Incoterms® 2020: Buyer/Seller Responsibilities



## Coverage Under Institute Cargo Clauses (ICC)

Type of Risk	A	B	C
Fire or explosion; stranded/grounded/sunk/capsized; overturning/derailment; collision or contact of vessel, craft, or conveyance with any other external object other than water; discharge at port of distress; general average sacrifice; jettison	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
Earthquake, volcanic eruption, or lightning; washing overboard; water penetration into the ship, place of storage, container, etc.; loss at loading/unloading (full)	<b>Yes</b>	<b>Yes</b>	No
Loss at loading/unloading (partial); malicious damage; thefts/pilferage/non-delivery; piracy; any other risk not explicitly excluded	<b>Yes</b>	No	No
Risks of war, terrorism, riots, and strikes; loss, damage, or expense of delay	No	No	No

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

- **Incoterms<sup>®</sup> 2020 Free on Board (FOB):**

Incoterm<sup>®</sup> trade term FOB applies only to sea and inland waterway transport.

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

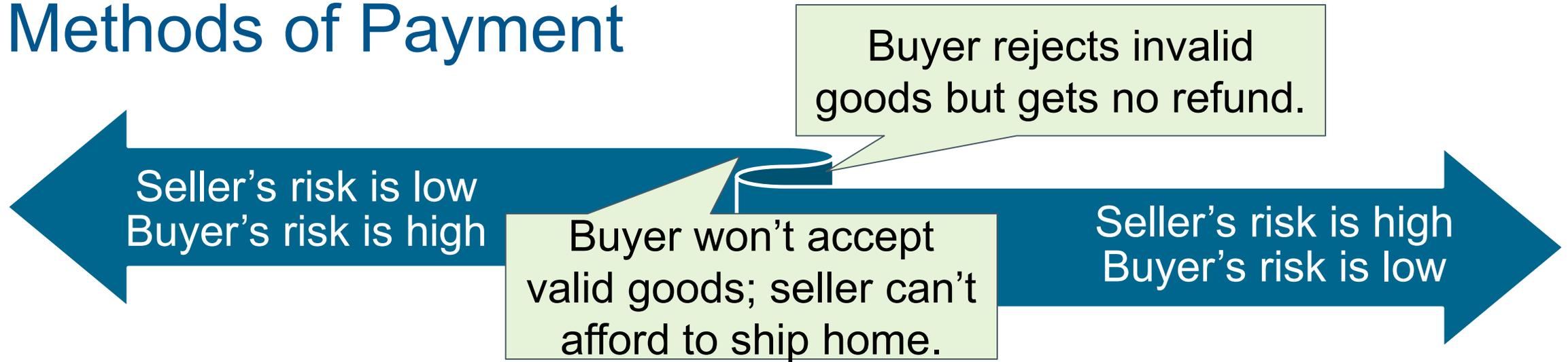
The U.S. terms FOB Origin (sometimes FOB Factory) and FOB Destination are to be used only for domestic U.S. shipments by various transportation modes.

## Cash Budgets and Payment Terms Policy

- Actual cash inflows/outflows adequate per period?
- Payment terms: How long until paid/how long to pay.
  - Cash in advance (early), on delivery (late).
  - Open account: window (early pay discount or full).
- Prioritize payment terms in negotiations.
  - Strategy should drive choices, can be segment-specific.
  - Will early cash be utilized, or will late cash require financing?
  - International: Slow transport intensifies impact.

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## Methods of Payment



### Cash in advance

- All risk on buyer

### Letter of credit (L/C)

- Irrevocable
- Confirmed irrevocable

### Bills of exchange

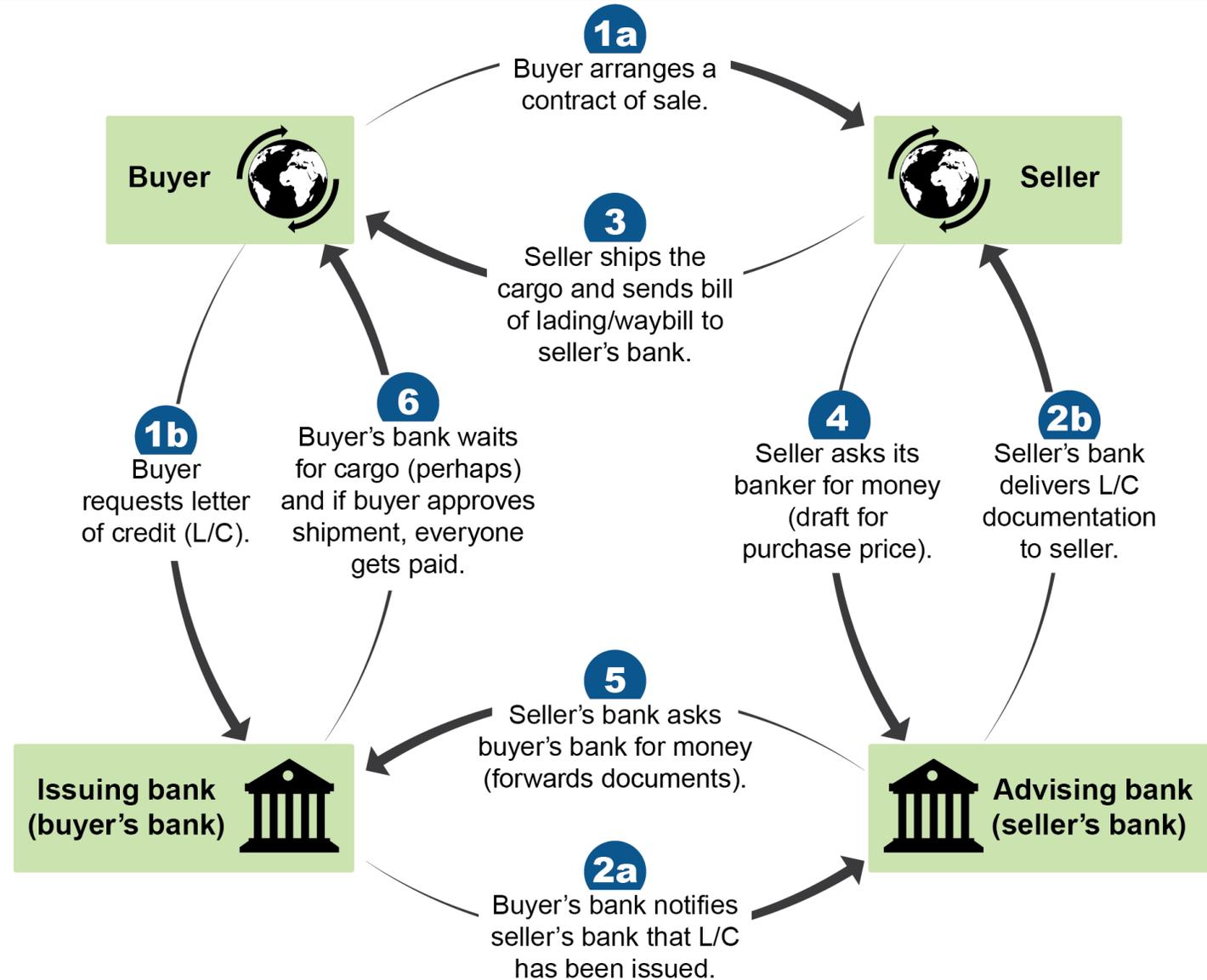
- Date draft
- Time draft
- Sight draft

### Open account

- All risk on seller

# Understand and Apply Terms of Sale and Methods of Payment

## Letter of Credit (L/C) Process



# Consider Currency Implications

## 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
  - Seller: Offer buyer currency as sales tool
- Third country currency: Both assume risk
- International Monetary Fund's Special Drawing Rights
- Hedging transaction exposure
  - Forward contract
  - Money market