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INTERNATIONAL TRADE

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I/ INTRODUCTION

Most Organizations around the world always operate in countries or areas where at a given of time, they will need to export or import goods for assistance. Not everything can be found locally. In Africa, most of the drugs and some specialized foods are imported. Even when some goods are to be bought locally, one still need to have some knowledge on international trade because some element are required when drafting the contract. So, in this course, we will be talking about international payment, incoterms and the risk faced in international trade.

II/ RISK MANAGEMENT

Risk cannot be avoided when it comes to exchange goods and services. In procurement, we consider them and try to avoid them. There are specific risks that apply to international trade (import and export). Some of the risks are occurred during international exchange are:

- Goods can be stolen, got lost or damaged during transit.
- A party in commercial transaction can act fraudulently.
- A change in government regulations can prevent or restrict the import and export of certain merchandise
- The exporter does not comply with the contract by not delivering the goods, by delivering wrong goods, or late.
- The transport company is failing its commitments and shipping remains abandoned or delivered to wrong place.
- The goods are not loaded or offloaded within the prescribe time and led to demurrage.
- The importer refuses either to pay or to accept the goods.
- The fluctuation of exchange rates and the conversion into local currency can differ from initial amount provided for in the contract.
- Misunderstanding can arise due to cultural differences and business as well as language issues.

III/ OBLIGATIONS AND GUARANTEES IN THE INTERNTIONAL TRADE

The purpose of obligations and guarantees is to reduce risk in international transactions and provide security to importers and exporters. They assure the importer against non-performance, delay or poor performance by the exporter. The exporter may be required to provide a guarantee or surety to guarantee the importer of a possible financial loss caused by the non-performance and non-compliance with the obligations subscribed by the exporter. This

takes the form written commitment by a guarantor, usually a bank, to indemnify the importer when presenting the warranty and the supporting documents provided for the commitment. The guarantor recovers the guarantee amount from the exporter.

IV/ TWO WAYS TO ISSUE A GUARANTEE

IV 1/ DIRECT GUARANTEE

A direct guarantee is provided to by the exporter's bank to the importer. The exporter guarantees his bank with enough money or insurance to cover claims that may made against him. With this types of guarantee, three different types of contracts are involved:

- The main contract between the exporter and the importer
- The warranty between the exporter's bank and the importer
- The contract between the exporter and his bank to reimburse any executed warranty.

IV 2/ INDIRECET GUARANTEE

An indirect warranty is provided by the importer's bank. This guarantee requires that the exporter's bank should produce a counter-guarantee to the importer's bank and the exporter should supply his bank with enough money or an insurance to cover any claims that could be made against him. With this type of guarantee, we have four types of contracts: the three contracts mentioned in the direct warranty, plus the counter-guarantee between the bank of the exporter and the importer.

A/ TYPES OF OBLIGATIONS OR GUARANTEE.

1/ PURCHASE

It provides a guarantee against an exporter who took part to a tender and wins a contract but fails to execute it and decide not to complete the business transaction.

2/ SERVICES

It is a guarantee that can be executed if the exporter is not able to respect the terms of the contract and his duties.

3/ HOLDBACK

It is the agreed part of the total amount that can be held for a period of time after the contract has ended.

4/ ADVANCE PAYMENT

It is a warranty for the importer to make an advance payment before the contract is completed. If at the end the exporter fails to execute the contract, the importer can claim reimbursement of the advance.

5/ CONSTRUCTION

This is a type of warranty used for major construction contracts for insure against the inability to complete the construction work according to services agreed and stipulated in the contract.

V/ METHODS OF INTERNATIONAL PAYMENT

We have some options to use when we want to pay for goods that have been imported or exported. The different methods of payment have different levels of risk in international trade. The decision on the method of payment to use depends on the risk that the organization is ready to take and on organization specific financial policies when importing and exporting merchandise. The following are some options:

a/ CASH OR ADVANCE PAYMENT

This method implies that the payment should be done before the goods are shipped. In some cases, payment ought to be done before the goods are produced. This method is very safe for the exporter, but buyers are not encouraged to do so because there is not guarantee. The exporter uses this method, if there is a small doubt that the company purchasing is not able to pay for the goods. These advance payments can be carried out through:

- Mandate
- Company check
- Electronic transaction or bank transfer
- Bank draft

b/ CREDIT LETTER

Also known as documentaries credit, this method gives the assurance to the exporter that the goods will be paid but provides also reasonable assurance for the buyer that goods are shipped before payment is carried out. The banks involved perceived commissions based on the amount of the transaction. This method is quite complex. The credit letter is opened in favor of the exporter. When the exporter decides to guarantee a payment by a credit letter, the following points must be taking into consideration:

- Who is responsible for the bank charges?
- The documents requested for credit letter
- The payment modalities

- The validity of the credit date and the deadline allowed for the presentation of documents (usually 21 days after shipment)

c/ BANK DRAFT

This payment method is less complex than a letter of credit and is used mostly for operations not requiring warranty, protection letter. For the importer, the advantage is that, he retains the ownership of the goods until the payment. They are two types of documentaries draft:

- Document against payment
- Document against acceptance

DOCUMENTS AGAINST PAYMENT

This is used when the payment is expected immediately.

DOCUMENTS AGAINST ACCEPTANCE

It is used when a credit period has been accepted by the exporter and the importer. The importer is able to receive the documents and the goods are made available after accepting the bill of exchange.

d/ OPEN ACCOUNT

This is the less safe method for an exporter but the safest for an importer. This method implies that the goods are shipped to the importer whose makes payment later over a period of 30 or 60 days. This method is used when there is a relationship of total trust between the exporter and the importer.

VI/ ADMINISTRATION OF ODERS AND CONTRACTS

Goods are always imported or exported whenever there is crisis around the world. And the import and export of goods are governed by directives and regulations that are often complex and it is important that these are understood. Company and humanitarian organization are concerned with these. Not understanding and not following these guidelines and regulations may have consequences in terms costs increased, penalty, fine and delay in the provision of goods for the distributions to the beneficiaries. The image of the organization can also be affected.

VII/ USE OF INCOTERMS

Anyone involved in the import and export of goods in any organizations must understand the responsibilities played by each actor. These are some questions that need to be answered:

- Who is responsible for carrying out the transport?
- Where should the goods be supplied?
- Who takes care of the customs formalities?
- Who provides transport and on what conditions?
- Who pays the duties or taxes? What are the provisions their exoneration?

There is not any other way to understand the incoterms than to definite them, studying their origins by having a glance on the current ones.

VIII/ INCOTERMS DEFINITIONS

According to this definition gotten from internet, “the INCOTERMS are set of commercial rules established by the international chamber of commerce that are used in international sale contracts.” (ACERIS LAW LLC, 2020). Equally, we can define INCOTERMS as international sale conditions accepted defining the respective roles of the buyer and the salesman in the organization of transport as well as in the payment of freight and other inherent costs. They also define other responsibilities such as documentation and specify when transfers of ownership and risks occur. Incoterms are used together with sales contracts and their aim is to specify the obligations of the seller and the buyer as well as the outline of the responsibility of each party. INCOTERMS are valid if they are included in a separate formal contract agreement between the buyer and the seller. The INCOTERMS used must correspond to the provisions agreed between the buyer and the seller including those relating to the mode of transportation that will be used and those in relation to the responsibilities in case of any problem. Each of the INCOTERMS can be identified by a three-letter acronym. The acronyms remain unchanged regardless of either the language used in the voucher order or contract.

IX /THE ORIGIN OF INCOTERMS

INCOTERMS is an abbreviation from English “International Commercial Terms”. These international conditions of sale were published for the first time in 1936 by the international chamber of commerce and are review every ten years. Before INCOTERMS, Trade practices was different from one country to another. The same terms could take a different meaning from one business or organization to another. Misunderstanding were frequent and led to disagreements or even disputes.

X/ THE CURENT INCOTERMS

The new INCOTERMS enter into function since the 1st of January 2020. These new INCOTERMS just like the later, determines how costs and risk can be allocated to the parties.

XI/ THE INCOTERMS IN 2020, ANY MODE OF TRANSPORT

- EXW: EX WORKS. The seller's responsibilities are to arrange the goods at his premises and the buyer takes full responsibilities from there to the final destination.
- FCA: Free Carrier. The seller's responsibilities ended when delivery is made at the named place. He only pays for the loading. Risks and costs are transferred to the buyer and he is responsible for the offloading.
- CPT: Carriage Paid To. The seller is responsible for the transportation and the costs till the named destination. The responsibilities are transferred to the buyer once the goods are delivered at the first carrier.
- CIP: Carriage and Insurance Paid To. In this situation the seller arranges the transportation, costs even the insurance on behalf of the buyer till the agreed destination. Risks are transferred to the buyer when the delivery is made at the first carrier. The seller is called to have an insurance extension in the buyer's name.
- DAP: Delivery At Place. Apart of the fees required for unloading, the seller is responsible of the loading, transportation and the risk during transportation.
- DPU: Delivery At Place Unloaded. Here the seller oversees all the costs and risks until the goods are offloaded at the destination. The buyer is only responsible of the customs duties.

XII/ THE INCOTERMS IN 2020, SEA AND INLAND WATERWAY TRANSPORT

- FAS: FREE ALONGSIDE SHIP. The seller takes the responsibility to deliver the goods at the port alongside the vessel. It is at this point that the buyer takes the responsibilities.
- FOB: FREE ON BORAD. When the seller has finished loaded the goods, the responsibilities are transferred to the buyer.
- CFR: COST and FREIGHT. The seller covers the freight cost till the port of destination. Risks are transferred to the buyer when the goods are loaded on board of the vessel.
- CIF: Cost, Insurance, and Freight. The seller covers the freight costs, insurance till the port of destination.

XIII/ SOURCES OF INFORMATION FOR THE INTERNATIONAL TRADE

International trade can be complex and requires people loaded with knowledge and experience to carry out this duty according to the law. These people must recognize that each country has its own requirements and rules when it comes to import or export goods in or out of the country. There are different references who can provide information on the international trade law. This can be collected from:

- The Humanitarian organizations
- The promotional organization, governmental or United Nations such logistics Cluster

- The World Organization of Trade of the World Customs of Trade
- Professional associations and Chamber of commerce
- Publications, including on the internet
- National customs services and indirect taxes.
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XI/ CONCLUSION

Through out this work, we have seen the risks that can arise in international and how to avoid or handle them. But the best way is to avoid them. Incoterms are very in drafting contract with supplier both at the national or international level. The special department at the headquarter of any organization or the ministries in every country can be consulted at any moment when need arises.

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