## Chapter 1 Introduction

**Key to Exercise**

1. **True or False Statements**
2. F
3. F
4. F
5. F
6. F
7. **Open Questions**
8. International merchandise trade is conducted across borders. Due to differences in culture, language, laws and practices, international trade is much complicated and contains more risks than domestic trade. The long distance in some cases makes it difficult for the trader to know about the credibility of the other party and brings greater possibility of good damage during transit. (You may figure out more differences by yourself.)
9. When conducting import and export of goods, Chinese companies should pay close attention to international conventions, international rules, laws of China and trade partner’s country. You may try to list those frequently applied conventions, rules and laws by yourself.
10. Since 1992, the structure of China’s merchandise export has changed dramatically. Agricultural products and low-end labor-intensive products are gradually losing their shares in the total export, with the share of sophisticated products like electronics, machinery and equipment increasing continuously.

Several years ago, our import lagged far behind the export and China accumulated large trade surplus. With the reform of supply front, the upgrading manufacturing sector has been increasing China’s demand for import. Import of advanced equipment and essential parts have increased rapidly. The lowering tariff rates of consumption goods also increase the demand for such imports.

1. Only those who are authorized with the rights by Chinese government can conduct import and export in China.
2. The parties that may be involved in an international sale transaction include seller and buyer, insurer, shipping company, forward agent, bankers, surveyor, Customs, embassy, port services, etc.

## Chapter 2 Business Negotiation

**Key to Exercise**

1. **True or False**
2. T
3. F
4. F
5. T
6. F
7. T
8. F
9. T
10. F
11. F
12. T
13. **Open Questions**
14. An offer must be sufficiently definite, addressed to specific person(s), indicating the intention of the offeror to be bound in case of acceptance. Such an offer becomes effective when it reaches the offeree.

Acceptance is a statement made by or other conduct of the offeree indicating assent that is communicated to the offeror. An acceptance of an offer becomes effective at the moment it reaches the offeror.

1. Please refer to the example in Lead-in of Chapter 2. You may take other examples in your daily life and discuss with your partners.
2. It is not an acceptance, because the additional term, “if 5% commission included”, is a material alteration to price. It is a counter-offer.
3. Material alterations include any additional or different terms relating, among other things, to the price, payment, quality and quantity of the goods, place and time of delivery, extent of one party's liability to the other or the settlement of disputes.
4. By *CISG,* a contract is concluded when an acceptance becomes effective. Therefore, a contract in writing with the signatures of both parties is not requisite in the international sale of goods.
5. **Case Study**
6. There is no contract concluded. If there is any addition or alteration that changes an offer substantially, the reply is a counteroffer that makes the original offer invalid. A counteroffer is a new offer. In this case, Dee Inc. made a counteroffer on February 6 by changing the price, and Lee Co.’s offer on February 2 became invalid. Lee Co. didn’t accept Dee’s counteroffer. Dee’s mail on February 8 is another new offer. If Lee hadn’t accept it, there wouldn’t be any contract concluded.
7. No. The contract between B and us was not established. If an offer is accepted within its validity, a contract can be concluded. In this case, B’s offer was to be accepted before July 22, but we telexed our acceptance until July 24. The acceptance was invalid without B’s indication to confirm the validity of the late acceptance. No contract was concluded, so Company B’s request on August 24 was unreasonable.
8. No, there is no contract concluded. Change to price is material alteration to an offer, and the original offer becomes invalid. In this case, B’s reply on October 10 was a counteroffer, and A’s offer on October 2 was invalid since then. B’s email on October 13 was a new offer. As per *CISG*, silence or inaction does not in itself equal to accept. In this case, A neither made any response or delivery after receiving B’s new offer, so there was no contract concluded.

## Chapter 3 Name and Quality

**Key to Exercise**

1. **Open Questions**
2. Basically there are two potential risks for sale by seller's sample. One is no evidence to support the seller’s saying that the goods delivered are strictly the same as the sample when there is any doubt from the buyer about the quality, if there was only one sample that had been sent to the buyer. This kind of risk can be avoided by having at least two samples, one is sent to the buyer, the original sample, and the other is kept by the seller, that is, a duplicate sample or keep sample. The other risk is quality discrepancy among samples that are stored in different environments. In this situation, a third sample can be used. It is usually sealed by a third party, usually an independent surveyor or notary public.
3. Local demand for specific commodities in the importer’s market can be well catered to.
4. When receiving an order with the buyer's sample, a seller should consider whether he is able to provide the goods of required quality, and whether the sample may infringe any intellectual property rights (IPR) of the third party. To ensure the feasibility of production, the seller can produce counter samples or return samples in compliance with the quality of the sample provided by the buyer, send them to the buyer and ask for confirmation. As for the possibility of IPR infringement, the seller should know that he takes no obligation if the right or claim of a third party based on industrial property or other intellectual property results from the seller's compliance with technical drawings, designs, formulae or other such specifications furnished by the buyer. It is better to include the following terms or other expressions to that effect in sales contracts when the sample is provided by the buyer, which can help clarify respective obligations.
5. When using grade to specify the quality, both parties should make consensus on on the criteria by which the concerned commodities are categorized. If not, the involved parties should apply other ways to define the quality of different grades clearly.
6. There is a serious problem when there is no quality latitude for the oil content. Such being the case, the oil content must be 44%, no more or no less.
7. For the seller’s interests, it is not advisable to specify the quality with both sample and specification, which sets strict restrictions on the seller.
8. If the quality of goods delivered by the seller is not in accordance with that stipulated in the contract, the buyer has the right to ask the seller to remedy by repairing or replacing, or reducing the price. The buyer may also claim for compensation of loss. If the nonconformity amounts to a fundamental breach of the contract, the buyer may even declare the contract avoided in its entirety.
9. Quality difference within the agreed quality latitude or tolerance will not give rise to the increase or decrease in price unless stipulated otherwise. Goods’ quality may alter due to changes in outside environment, or various conditions in which the goods are used. Therefore, this rule applies when there is no different stipulation in the sales contract.
10. **Case Study**
11. In this case, the dispute was due to the different understanding of “hand-made”. Quality refers to not only its outer form or shape, but also its intrinsic attributes. Workmanship (processing method) is an important part of the intrinsic attributes. If the quality of the goods delivered by the seller does not conform to the contract description, the buyer has the right to ask the seller to remedy the lack of conformity by repairing or replacing, or reducing the price. However, it does not deprive the buyer of the rights to claim for compensation of loss. The buyer may even declare the contract avoided in its entirety if the nonconformity amounts to a fundamental breach of the contract.

Though there was different understanding of “hand-made”, the seller had ever sent samples that had been confirmed by the buyer. As per *CISG*, except where the parties have agreed otherwise, the goods do not conform with the contract unless they possess the qualities of goods which the seller has held out to the buyer as a sample. As long as the seller can support his saying that the goods delivered were exactly the same as the sample, the dispute can be settled.

1. There might be dispute for the nonconformity of delivered goods. The seller must deliver goods which are of the quality and description required by the contract. Though the quality of actual delivery is better than the contracted quality, the goods do not conform with the contract. Company F may ask for remedy, price reduction or even claim for compensation.

## Chapter 4 Quantity

**Key to Exercise**

1. **Open Questions**
2. Imperial System, US customary system and International System of Units. Look for some examples of the frequently used units.
3. Net weight is the most commonly adopted way of stipulating weight in international trade.
4. Cargoes like grain are of similar value to gunny bags. There is no use separating the goods from the packages.
5. Suppose the seller delivered goods in quantity greater than that stipulated in the contract, the buyer may take delivery or refuse to take delivery of the excess quantity. If the buyer takes delivery of all or part of the excess quantity, he must pay for it at the contract rate.
6. If the seller has delivered goods before the date for delivery, he may, up to that date, deliver any missing part or make up any deficiency in the quantity of the goods delivered, provided that the exercise of this right does not cause the buyer unreasonable inconvenience or unreasonable expense. However, the buyer retains any right to claim damages.
7. If the contract requires the quantity be “about 1,000 sets”, it does not mean the seller can ship 10% more or less than 1,000 sets (900 sets to 1,100 sets). There is no consensus on how much the tolerance is when expressions like “about”, “approximately” are used in sales contract.
8. **Case Study**
9. F’s request seems not reasonable. Though the two parties agreed to use metric ton, but it was not included into the contract. The contracted quantity is 2,000 Ton, without clear indication of applicable unit system. Such disputes usually result in price reduction. The best way to avoid such disputes is to clearly define the unit system in international sales contract.
10. Yes, we should refund Italian customer. As per CISG, if the price is fixed according to the weight of the goods, in case of doubt it is to be determined by the net weight. In this case, there is no indication of gross for net, so the weight should be determined by net weight. Italian customer’s request to refund for short-delivered goods was reasonable.
11. According to UCP 600, a tolerance not to exceed 5% more or 5% less than the quantity of the goods is allowed, provided the credit does not state the quantity in terms of a stipulated number of packing units or individual items and the total amount of the drawings does not exceed the amount of the credit. So if the goods were not packed in units, we can load 50 M/T more or less, but the total amount of the drawings must not exceed the amount of the credit.

## Chapter 5 Packaging

**Key to Exercise**

1. **Open Questions**
2. When cargoes are stable and not easily damaged, and are difficult to be packed or not worth packing, they will be in bulk or be simply fastened during transit. Otherwise, cargoes are packed to reduce the risks of losses and/or damage during transit, to facilitate transportation and to aid marketing.
3. Characteristics of goods, transport distance, transport mode, target market preference, etc. are all factors that may influence the packaging of export cargoes. You may add to the above list.
4. Freight containers have several advantages, which makes them increasingly popular for cargo transport: high efficiency, great flexibility, low cost and little loss or damage.
5. Shanghai, Singapore, Shenzhen, Ningbo-Zhoushan, Busan, Hong Kong, Guangzhou Harbor, Qingdao, Jebel Ali, and Tianjin (in 2016).
6. Marks on a container include four parts: identification, size and type code, operational marks and CSC Safety Approval Plate. To observe a container and name the above four types of marks on it.
7. Marking on shipping packages include shipping marks, indicative marks, warning marks, weight and measurement, and name of origin. They are necessary information for transport and delivery. Marking on selling packages include description of goods, manufacturer’s information, date of production, trade marks, and decorative pictures. They provide the consumers with necessary information about the product and attract consumers’ eyes.
8. It is not necessary to stipulate who will bear the cost of packaging in the sales contract. If it is not contracted, the exporter will bear this cost.
9. **Case Study**
10. Yes, F had the right. C.K.D means “complete knock down.” When it was integrated into the contract and agreed by the involved parties, it was binding. The seller ignores C.K.D, causing the actual packing not in consistency with the contract. The goods might be charged with much higher tariff or detained by the Customs of the importing country. Therefore, Company F has the right to refuse to take delivery and to claim compensation for losses.
11. Yes, Company H should bear the claimed cost. Goods should be packed as contracted. As contracted in this case, goods should be packed in plastic bags with all labels marked in both English and French. However, Company H didn’t deliver the goods in packages as contracted, so F had the right to claim against H for compensation of repackaging cost.

## Chapter 6 Trade Terms

**Key to Exercise**

1. **Open Questions**
2. There are 11 trade terms in *INCOTERMS 2010.* FAS, FOB, CFR, and CIF are the trade terms that can be used only for ocean and inland waterway transport.
3. The 2010 revision emphasize the need to choose a trade term appropriate to the goods. Rules of *INCOTERMS 2010* can be used for both international and domestic sale contracts. *INCOTERMS 2010* introduce two new terms, DAP and DAT, to replace four old terms, DAF, DES, DEQ and DDU, which decreases the number of trade terms from 13 to 11. *INCOTERMS 2010* take a more user-friendly structure. A new concept of “string sale” is introduced. Electronic means of communication is given the same effect as paper communication, as long as the parties so agree or where customary. *INCOTERMS 2010* seek to avoid the buyer from potential double exposure to terminal handling charges.
4. In international trade, goods are often sold several times during transit through a string of sale contracts. More than one seller is involved in such string sale, but only the first seller is responsible for shipping the goods. The subsequent seller to perform its obligations towards its buyer not by shipping the goods, but by “procuring” goods that have been shipped.
5. Under DDP, the seller has to clear the goods for import. Under EXW, the buyer has to clear the goods for export.
6. Similarities: risks under FOB, CFR and CIF are all transferred when goods are shipped on board the vessel at the named port of shipment. All of them can be used only for sea and inland waterway transport.

Differences: Other things being the same, FOB price is the lowest among these three terms. CFR price is higher than FOB price, including the freight from the port of shipment to the port of destination. CIF price is the highest, including the freight and the insurance premium for the ocean transport internationally. The above price differences are due to different divisions of obligations between the seller and the buyer. Compared with FOB, the seller takes one more obligation under CFR - contracting for shipment, and takes two more obligations under CIF, contracting for both shipment and insurance.

1. To buy on FOB term, the buyer takes the responsibilities of arranging shipment and insurance and to sell on CIF term, the seller takes the above responsibilities. Shipping companies and insurance companies will provide discounts or premium refunds for their regular customers. From this viewpoint, the statement is true. However, for some transactions covering highly sophisticated equipment or for those new traders, this rule may not always be workable.
2. The similarities and differences among FCA, CPT and CIP are similar to those among FOB, CFR and CIF. The division of risks among FCA, CPT and CIP are the same and they are all applicable for any mode of transport. They are different in the division of obligations between the seller and the buyer, therefore, prices are different. Other things being the same, CIP price is the highest among the three terms, and FCA price is the lowest.
3. When the goods are handed over to the carrier nominated by the buyer at the named place, both risk and costs will be passed onto the buyer.
4. **Case Study**
5. A has to agree with US Company's requirements. The problem with A is that it did not carefully consider which rule is applied when entering into the contract. Considering the price increase, A had to agree with B for the special goods were urgently needed.
6. A's delivery was not late. Indian company should pay. Goods are delivered when they are handed over to the carrier under FCA. In this case, the delivery time was August 31, within the contracted delivery time. The seller did not guarantee the time of goods’ arrival.
7. Xi'an is an inland city of China, far from the eastern coastal line. When the contract was on FOB Xingang term, the seller took all risks before the goods were shipped on board at Xingang, Tianjin. This loss can be avoided if the seller uses FCA trade terms. The risk can be transferred earlier to the buyer.
8. If the parties intend to deliver the goods at the seller’s premises (or facility), the seller delivers the goods when they have been loaded on the means of transport provided buyer. In this case, the named place was at C's warehouse, so C, as the seller, should load the goods. When the request for loading was refused by C, A didn’t insist on its right. So A had to bear the cost of loading, and losses of goods damage and contaminated bags.

When finding the goods were not perfect, A’s carrier should not issue clean B/L. A’s Letter of Guarantee cannot excuse A’s carrier from potential disputes because the L/G was not a legal document.

When B found the damage, B should have the right to claim compensation with A or A’s carrier if B hadn’t distributed the goods. In this case, B lost the right to claim for compensation or remedy for B still distributed the goods when B found contaminated bags. It meant B accepted the goods.

## Chapter 7 Export Pricing and Quotation

**Key to Exercise**

1. **Open Questions**
2. Pricing objectives should comply with a company’s overall operational objectives, including both the short-term profit and long-term strategic goals. Pricing objectives are usually defined in terms of profit margin or sales volume. The profit margin is usually set up as a short-term objective with the sales volume as long-term objective.
3. Company’s perspective is the most important factor that may influence the adoption of pricing strategies. A company that takes a short-term perspective usually adopts cost-oriented strategy, and it may not consider other factors than the cost. In a long-term perspective, exporters have to consider more about market conditions, including competition and demand in the target market. They are likely to exchange the short-term profit for the long-term market share or sustainable growth in sales.
4. The value added tax (VAT) or consumption tax of export goods is exempted or refunded so as to enhance the competitiveness of export goods by avoiding double taxation on them. Adjustments were made when the macroeconomic conditions, export strategies, and international trade environment changed. You may refer to the website of State Administration of Taxation, [www.chinatax.gov.cn,](http://www.chinatax.gov.cn,) for more information.
5. Since the Open Reform, China’s foreign exchange regime has experienced two vital reforms. One is in 1994 and the other is in 2005. Students are encouraged to look for more information about these two great reforms.
6. An exporter is exposed to the FX risk if he has accounts receivable in foreign currency. When there was depreciation in the foreign currency, the value of his accounts receivable would shrink in terms of the exporter’s home currency. The FX risks increase with the **volatility** of the exchange rates. Exporters may also have FX risk for **exchange controls**. The exporter may consult a qualified banker for advice. The following options are available for the exporter to reduce FX risks: to quote in home currency, to enter into forward contract, to buy an FX option, or to enter into an FX swap.
7. **Export Quotation**

**Question 1:**



Expenses:



W: 14kg=0.014 M/T M: 47×36.5×84.5cm3=0.1450m3

All-service Charge: CNY5.50 per set for LCL

Export expense: 170×4%=CNY6.8/set

Bank Charges: FOBC5\*3‰

CFRC5\*3‰

CIFC5\*3‰

Freight: 75×0.1450=USD10.875/set

Premium: CIFC5×(1+10%)×0.65%

Commission: FOBC5×5%

CFRC5×5%

CIFC5×5%

Expected Profit: 







USD 30.00 per set FOBC5 Shanghai, China

USD 41.49 per set CFRC5 Rotterdam, Holland

USD 41.80 per set CIFC5 Rotterdam, Holland

**Question 2:**

25/0.1450=172 sets 17.5/0.014=1250 sets

A 20’ container can load 172 sets.

All-service Charge: 800/172=CNY4.6512 per set

Freight: 1200/172=USD 6.9767/set

 

Profit Margin on Cost 8.93×100%/170=5.25%

Profit Margin on Sales 8.93×100%/37×6.2=3.89%

**Question 3:**



162.317989=1.0039×PC

PC=CNY 161.69/set

## Chapter 8 Marine Cargo Transport

**Key to Exercise**

1. **True or False**

(1) T (2) F (3) F (4) F (5) F (6) F

1. **Open Questions**
2. The advantages of marine transport include i) It is the most economical way for moving goods between countries and continents; ii) Suitable for shipping products with long lead times and across long distance; iii) Large capacity of cargo ships makes it an ideal tool for transporting heavy and bulky goods; iv) Ocean containers are convenient and reliable, and containers are compatible with other modes of transport.

The limitations of marine transport include i) Speed of cargo ships is lower than that of trains, trucks and airplane; ii) Modern cargo ships must move between ports, which are costly to build and maintain; iii) Ships are vulnerable to adverse weather conditions and political turmoil.

1. Because container shipping has several advantages, including standard and international uniform design and specifications, flexibility in terms of goods can be stored in a container, cost-efficiency, increased speed of cargo handling, improved protection and safety, which make container shipping a standard practice and choice for many shippers. Containerships now carry over 50 per cent of the value of goods shipped via sea.
2. Intermodal transport originated in marine transportation, with the development of the container in the late 1960’s. The using of containers is the driving force of intermodal transport because containers provide fast-paced cargo shipping with lesser operational costs, which allow cargos to be moved seamlessly between different modes of transport. The development of intermodal transport and containerization are mutually inclusive and self-strengthening.
3. A bill of lading serves three functions: 1) As a receipt issued by the carrier; 2) As an evidence of the contract of carriage and 3) As a document of title to the goods.
4. A sea waybill does not have the function of a document of title to the goods, but a bill of lading has such function. A sea waybill is consigned to a named consignee, which makes it not negotiable, while a bill of lading can be made negotiable or non-negotiable.
5. An ante-dated bill of lading is a B/L indicating a fake date of shipment that meets the requirement of the letter of credit, but the actual date of shipment is later than the date of shipment required by the credit. Issuing an ante-dated B/L is considered a fraud and it imposes very high risks on the seller and the carrier because if the buyer finds out the fake date in the B/L, he may refuse to accept the goods and claim damages from the carrier and the seller for misrepresentation. Also, insurance underwriters may reject to any claim, costs or damages arising out of this fraudulent activity.
6. **Case Study**

(1) Calculate liner freight

Step 1

Total weight for the 1,000 cases of canned peach is 1000×14=14 tons

Total volume for the 1,000 cases of canned peach is 1000×0.3×0.25×0.2=15 m3

The basis is W/M, since weight ton < measurement ton, we should use measurement, i.e. volume to calculate the total freight.

Step 2

Total freight is

Total Freight = Total Weight × (Basic Rate + Surcharge)

= 15×(100+100×20%)

= US$1,800

(2) The bank’s refusal is not appropriate. According the UCP 600 Article 3, “Unless required to be used in a document, words such as “prompt”, “immediately” or “as soon as possible” will be disregarded.” Therefore, the requirement of “SHIPMENT SHOULD BE EFFECTED IMMEDIATELY” in the credit can be disregarded by the seller and the bank.

The buyer’s request for immediate shipment is also not appropriate because in the sale contract, the time of shipment was stipulated as “not later than May 28”. When the American importer opened the L/C in early April, if he wanted the seller to ship the goods immediately, he should have contacted the seller first, instead of specifying a clause of “SHIPMENT SHOULD BE EFFECTED IMMEDIATELY” in the L/C.

## Chapter 9 Other Modes of Cargo Transport

**Key to Exercise**

1. **True or False**

(1) T (2) F (3) F (4) T (5) F (6) T

1. **Open Questions**
2. Major advantages of rail transport are i) It is the most dependable and safest mode of transport; ii) Rail transport service is more certain, uniform and regular; iii) Its speed over long distances is higher than any other mode of transport, except airways; iv) The carrying capacity of the railways is extremely large; v) It is one of the most economical way of transporting large amount of goods over vast land area.

Some limitations of rail transport include i) The railway requires large investment of capital; ii) Rail transport is lack of flexibility and it cannot provide door to door service.

1. Landbridge transport means transportation of goods by railway between sea ports on either side of a land mass, such as continent instead of by ocean ship. Two Eurasian Landbridges have been finished.
2. Truck companies usually consider the following factors when calculating their fright rates: competition from other truck companies and other transport modes; volumes and value of the goods; express way charges; handling features (on palettes or bulk); handling equipment required; delivery requirements; possibility of return loads (back hauls).
3. Air transport has several advantages including i) It is one of the fastest ways to deliver goods; ii) High level of security in airports reduces the risks of theft and damage to goods; iii) Shippers using air transport do not need to pay high insurance premium or use costly packaging for their goods; iv) The arrival and departure times of flights are highly reliable; v) Many airlines give you the opportunity to track your goods using a web application; vi) Needs for warehousing are minimized; vii) Major airports worldwide tend to be situated in the center of commercial/industrial areas compared with the major seaports.

Air transport has some limitations, including i) Limited capacity of air freighter; ii) Very high operating expenses and initial costs of aircraft; iii) Service is vulnerable to disruption when fog prevails.

1. An air waybill has the functions of a receipt for goods and an evidence of the contract of carriage. Also, an air waybill may be used as a bill or invoice of transport service, a certificate of insurance, a document for Customs declaration.
2. Pipeline transport is the most cost-efficient way to transport large quantity of crude and refined petroleum and fuels for a long distance. Approximately 71 per cent of crude oil and petroleum products are shipped by pipeline on a ton-mile basis.

## Chapter 10 Shipping Terms

**Key to Exercise**

1. **True or False**

(1) T (2) F (3) F (4) T (5) F (6) T

1. **Open Questions**
2. The time of shipment and the time of delivery means the same thing under the INCOTERMS 2010 trade terms FOB, CFR, CIF, FCA, CPT and CIP, because once the goods are loaded onto the ship or in the custody of the carrier, the shipper fulfils his obligation of delivering the goods. But, under the trade terms DAP, DAT, and DDP, the time of shipment is not equal to the time of delivery because the time of shipment refers to the time when the goods are loaded onto the ship and the time of delivery means the time when the goods are delivered to the buyer at the destination.
3. The following factors should be considered: i) The port shall be close to the place of production/warehouse; ii) The loading and unloading and specific transportation conditions of the port and iii) Under the FOB term, the depth of the port of shipment shall be suitable to the ship chartered by the buyer.
4. 1 Shanghai, China

3 Shenzhen, China

4 Ningbo-Zhoushan, China

5 Hong Kong, China

7 Qingdao, China

8 Guangzhou, China

10 Tianjin, China

1. The buyer or the seller may require the goods in one sales contract to be shipped in several lots because i) Large quantity of goods preventing the goods being shipped in single shipment; ii) Limited shipping space available is envisaged when the sales contract is drawn; iii) Poor unloading facilities at the port of destination; iv) Limited supply/manufacturing capability of the seller and v) Poor market season for the goods.
2. The reasons for using transshipment include: i) Ships going directly to the port of destination are not available; ii) Port of destination does not lie along the sailing route of the liner and iii) The interval between two consecutive scheduled liners is too long.
3. To allow the buyer to have enough time to prepare for unloading at the port of destination and plan import clearance procedures.
4. **Case Study**

Shipping 400 containers by two ships with each ship carrying 200 containers constitutes partial shipment, even the two ships depart on the same day and to the same destination. Since partial shipment is not allowed according to the contract, the way the seller handing shipment is not appropriate.

## Chapter 11 Marine Cargo Insurance

**Key to Exercise**

1. **True or False**

(1) F (2) T (3) F (4) T (5) T (6) F

1. **Open Questions**
2. International trade is a risky business, compared to domestic trading business. One aspect of international trade is particularly vulnerable to risks, that is international cargo transport. Cargoes may suffer from loss or damage in loading and unloading operations at the port, theft and piracy, weather damage, adverse events during the voyage, as well as risks from wars and political turmoil. Marine cargo insurance can protect shipper’s or buyer’s interests in the goods transported by sea, land or air.
3. Marine risks fall into two major categories - perils of the sea and extraneous risks. Perils of the sea refers to extraordinary forces of nature that marine ventures might encounter in the course of a voyage. It includes natural calamities and fortuitous accidents. Extraneous risks are incidental risks other than perils of the sea. They include general extraneous risks and special extraneous risks.
4. Particular average and general average are different in the following three aspects: i) Particular average affects a particular interest only, while general average refers to a loss that directly affects two or more interest in a common marine adventure; ii) The causes of the two types of partial loss are different and iii) The ways to compensate, or indemnify the two types of loss are also different.
5. AR extends the scope of cover of WPA by covering all risks of loss of or damage to the insured goods whether partial or total, arising from external causes in the cause of transit.
6. The insured does not need to take additional coverage for general additional risks if he already took AR because AR contains the coverage for general additional risks.
7. Institute War Clauses (Cargo) and Institute Strikes Clauses (Cargo) can be procured by the insured independently.
8. **Case Study**
9. The loss of burnt fertilizer is particular average and it is a type of partial loss. The cargo owner should bear the loss.
10. The loss is general average and it is a type of partial loss. The carrier and the shipper Company A and other cargo owners should bear the loss in proportion to their value of property (ship) and cargoes.
11. Company B can claim damages from the carrier and Company A for the loss due to falling price of fertilizer caused by delayed delivery. This is because the carrier issued an ante-dated bill of lading in the first place. An ante-dated bill of lading is a false statement and it constitutes a willful misrepresentation. The insurance company will not entertain any claim, costs or damages arising out of this fraudulent activity, so the carrier or Company A should be responsible for the loss.

## Chapter 12 Cargo Insurance Practice

**Key to Exercise**

1. **True or False**

(1) T (2) F (3) F (4) F (5) F (6) F

1. **Open Questions**
2. Under the CIF trade term, the seller is responsible for purchasing cargo insurance. Under the trade term FOB, the buyer is responsible for purchasing cargo insurance.
3. It is advisable that you can have your own cargo insurance in an international transaction, no matter you are a seller or a buyer because: i) You are free to choose your own insurance company, so the rate will be competitive and in case of loss the claim settlement procedures will be taken care by your insurer or broker; ii) Your shipment or goods ordered will be protected by the “Warehouse to Warehouse” clause of the insurance policy for the whole course of transportation.
4. The 10 percent margin is anticipated profit for the buyer or compensation for trouble and time of the insured party.
5. A floating policy is issued for a fixed sum of insured amount, while an open policy is issued for a fixed time period.
6. The steps to make a claim are: 1) Take reasonable measures immediately in salvaging the goods or preventing or minimizing a loss or damage thereto; 2) Immediately inform the insurer of the damage and loss and apply for survey; 3) If the insured goods are found short in entire package or packages or to show apparent traces of damage, the insured shall obtain from the carrier, bailee, or other relevant authorities (Customs and Port Authorities etc.) the certificate of loss or damage and/or short-landed memo. Should the carrier, bailee or the other relevant authorities be responsible for such shortage, the insured shall lodge a claim with them in writing and, if necessary, obtain their confirmation of an extension of the time limit of validity of such claim; 4) Prepare documents for the claims; 5) Immediate notice should be given to the insurer when the cargo owner’s actual responsibility under the Contract of Affreightment and Both to Blame Collision Clause becomes known.
7. According to the Ocean Marine Cargo Clauses, the time of validity of a claim shall not exceed a period of two (2) years counting from the time of completion of discharge of the insured goods from the seagoing vessel at the final port of discharge.
8. **Case Study**
9. (a) WPA (b) AR (c) FPA (d) AR
10. Insured Amount

= CIF Price×(1+ Margin)

= US$20,000×110%

= US$22,000

Insurance Premium

= Insured Amount×Premium Rate

= US$22,000×(0.3%+0.15%+0.1%)

= US$66+US$33+US$22

= US$121

## Chapter 13 Negotiable Instruments

**Key to Exercise**

1. **Open Questions**
2. Negotiable instruments are transferable by delivery either by custom or by legislation. Different from cash, negotiable instruments may have the same requisite form that is accepted by different countries. Legislation guarantees the rights and obligations of the involved parties. Moreover, negotiable instruments help to provide finance and investment.
3. A bill of exchange is an unconditional order in writing, addressed by one person to another, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to or to the order of a specified person, or to holder. Drawer, drawee/payer, and payee are the primary parties. Required contents include: the term of “Bill”, “Bill of Exchange”, or “Draft”; unconditional order; a certain amount to be paid; the name of the payer; the name of the payee (either to a specific person or to his order or to the bearer/holder); date; the name of the drawer with signature and/or stamp.
4. A bill of exchange becomes valid when it is handed over to the payee after the drawer has filled in all necessary information on the bill together with its signature. If it is a sight bill, the payee will present the draft directly for payment that makes the bill void. If it is a time bill, the payee first presents for acceptance and then holds the acceptance bill until its maturity. On its maturity, the payee presents again for payment this time. That is the end of a time bill's life.
5. If the holder of a bill is in need of cash and does not want to wait until the maturity (due date), he may sell his bill to a financial institution (usually a bank) at a certain discount rate (discounting) or transfer his rights lying with the bill to another business entity (endorsement).
6. Refusal to accept and refusal to pay are both dishonor. Dishonor entitles the holder to the right of recourse, which means the holder can demand payment from the drawer or any endorser of the dishonored bill.
7. A promissory note, or simply a note, is a written promise, made by one party (the maker/payer), to pay a specific sum of money to the other (the payee), either at a fixed or determinable future time or on demand of the payee. Payer and payee are the primary parties. Required contents include the term of “Promissory Note”, unconditional promise, a certain amount to be paid, the name of the payee, date, the name of the maker with signature and/or stamp.
8. A promissory note becomes valid when it is delivered to the payee. The payee presents the note on due date and gets payment from the payer who is also the drawer.
9. A check (or cheque) is an instrument signed and issued by the drawer who entrusts a bank or other financial institution to unconditionally pay the holder or payee at sight. Drawer, a bank or a financial institution, and payee or holder are primary parties. Required contents include the term of “check”, order for unconditional payment, a fixed amount, payee’s name, date and the drawer’s signature.
10. The drawer must apply to open a checking account with a certain amount deposited before he draws a check. A check becomes valid when it is delivered. The holder presents for payment within validity, and the drawer must ensure the account contains sufficient funds.
11. The difference between a promissory note and a bill of exchange is that the maker of a note promises to personally pay the payee rather than ordering a third party to do so. A check differs from a draft in that: a check is always drawn on a bank, while a draft is an order for payment drawn on anyone, including a bank, a person, or a trading account with a company; a check is always drawn payable at sight whereas a bill of exchange may be drawn payable at sight or on some future date.
12. **Please read the following bill of exchange and answer the questions.**
13. This draft is used for D/P after 60 days’ sight (or collection).
14. January 27, \*\*\*\*; Tokyo, Japan

Payee: Fuji Bank, Tokyo, Japan; Payer: Vodan Imports Ltd.; Drawer: Katar Industries Ltd.

## Chapter 14 Remittance and Collection

**Key to Exercise**

1. **Question for Discussion:**
2. The buyer, the payer, gives his bank, the remitting bank, an order to transfer money to the seller located in a foreign country. With money received from the buyer, the remitting bank gives a payment instruction to the paying bank located in the seller’s place, and credits the paying bank’s account with the sum of money that should be paid. The paying bank pays over the money to the seller, the payee, as required by the instruction. Risks differ when payment is made by T/T at different stages of the transaction. The seller takes the most risks if payment is made by T/T after the arrival of goods, because the sell may receive no payment and lose the control over goods.
3. D/P sight: The Seller effects shipment and gets Bill of Lading;the Seller entrusts a sight draft, shipping documents and collection order to its bank (the remitting bank); the Remitting Bank hands over documents and instructs the Collecting Bank (its correspondent bank or a buyer's bank) to collect funds on behalf of the Seller; the Collecting Bank presents documents as instructed to the Buyer; the Buyer makes payment at sight; the Collecting Bank releases shipping documents to the Buyer; inter-bank settlement between the Collecting Bank and the Remitting Bank is made; the Remitting Bank transfers funds into the Seller's account; the Buyer takes delivery of goods with the shipping documents.

D/P after sight: other things being the same as those in D/P sight, when the Collecting Bank presents documents as instructed, the Buyer makes acceptance on the draft and the Collecting Bank keeps the accepted draft until its maturity as well as the shipping documents; on maturity, the Collecting Bank presents the accepted draft and shipping documents again, the Buyer makes payment and the Collecting Bank releases shipping documents to the Buyer.

D/A: other things being the same as those in D/P after sight, when the Collecting Bank presents documents as instructed, the Buyer makes acceptance on the draft and obtains the shipping documents; the Collecting Bank keeps only the accepted draft until its maturity.

1. Seller takes increasing risks when payment is made by D/P sight, D/P after sight and D/A in order.
2. Compared with T/T, documentary collection may involve more charges and not so flexible as T/T. However, documentary collection may reduce the seller’s risk by releasing documents after payment or acceptance (a promise of payment from the buyer).
3. Generally, banks take no undertaking of payment in remittance and documentary collection. An exception is when the collecting bank releases documents to the buyer in advance without instruction from the seller, the collecting bank should make payment if the buyer fails to pay on due date.
4. It depends. If the instruction is made by the seller, the seller should take the responsibility; if the bank lends the documents without the seller’s instruction, the bank should take the responsibility.
5. **Case Study**
6. Company H should ask payment from the collecting bank if H didn’t give any such instruction. The collecting bank lends documents without the instruction from the seller, and should take any risk or losses associated with it.
7. The seller proposed to make payment by T/T in advance, that is, the buyer should pay all the money before the goods are shipped. It ties up the funds of the buyer and increases the buyer’s risks of non-delivery, nonconformity or deficiency of goods, etc.

## Chapter 15 Documentary Credit

**Key to Exercise**

1. **Open Questions**
2. When using a documentary credit to settle payment, the seller enjoys a bank’s credit. That is, the issuing bank takes the primary liability of payment. However, when payment is made by remittance or collection, it is the buyer that promises to pay.
3. An L/C is drawn under an S/C that stipulates payment is to be made by an L/C. Stipulations of L/C should comply with the terms and conditions of the S/C so as to avoid subsequent amendments.
4. The primary parties involved in an L/C settlement include the beneficiary, the applicant, the issuing bank, the advising bank. The applicant should apply to the issuing bank for the establishment of an L/C required by the S/C. The issuing bank issues an L/C and takes the primary liability of payment. The advising bank transfers the L/C to the beneficiary as instructed by the issuing bank.
5. Every credit has its paying bank, but not every credit has its reimbursing bank. A paying bank is responsible of checking the documents against credit. A reimbursing bank is not responsible for checking documents.
6. This statement is not correct. The confirming bank takes the same liability of payment as the issuing bank, which makes a confirmed letter of credit have double guarantee of payment from both the issuing bank and the confirming bank.
7. A beneficiary prefers negotiable credits. By using a negotiable credit, the beneficiary may get payment before the banking day on which it is due to get reimbursement.
8. A draft is not requisite for payment by L/C. For example, if payment is made by an L/C available by deferred payment, the beneficiary has not to draw a draft, but only to present required documents.
9. An exporter takes effort to urge establishment of L/C when the goods are ready for shipment, or when the deadline of shipment is approaching or the contracted deadline of L/C’s arrival has passed but the exporter has not received the relevant L/C. In the first situation, the buyer does a favor to the seller by expediting an L/C so that the seller may effect shipment as soon as the goods are ready for shipment. In the second situation, it is the buyer’s obligation to establish the relevant L/C. It is a request from the seller to urge the establishment when the buyer doesn’t do so within reasonable or contracted period.
10. The beneficiary takes the primary liability to proofread an L/C. The beneficiary should first compare the stipulations in L/C with terms in contract to make sure they are consistent, and then check if there is any special restriction on the validity of L/C. You may refer to the text for details.
11. A beneficiary should be able to collect all of the stipulated documents without the help of the applicant. This is how a normal L/C works. However, sometimes a letter of credit may require a document which cannot be presented without the help of the applicant. We call this kind of clause "Joker Clause".
12. If an L/C observes *UCP 600*, it be irrevocable. As ruled by UCP 600, a credit is irrevocable even if there is no indication to that effect.
13. The beneficiary initiates the amendment by collecting all the points that need amendment and sending the request to the applicant. If the applicant agrees to all the listed points for amendment, he will give instruction to the issuing bank. The issuing bank will issue an Amendment if it accepts the instruction from the applicant and then give the Amendment to the advising bank. The advising bank will help deliver the Amendment to the beneficiary. If the beneficiary has no disagreement, the L/C will become effective with those points amended.
14. An L/C is amended when the applicant, the issuing bank and the beneficiary agree.
15. **Case Study**
16. The bank shouldn’t make payment. According to UCP600, if a shipment by installments (partial shipments) within given periods is stipulated in the credit and any installment is not shipped within the period allowed for that installment, the credit ceases to be available for that and any subsequent installments. In this case, the L/C is not valid for the second and third lots for the delayed shipment of the second lot. Banks deal with documents and not with goods, services or performance to which the documents may relate. Force majeure cannot be the excuse of the beneficiary for delayed shipment.
17. Company H has to suffer losses for its ignorance. First, H didn’t include in the contract a deadline for establishment of L/C. Second, a notice of establishment from the applicant is never an L/C.
18. **Problem Solving**
19. Date and place of expiry should be amended as “2016/12/15 China”. It is usual practice to have 7 to 15 days for preparation and presentation of documents.
20. Amount should be “USD 27,600.00 (SAY UNITED STATES DOLLARS TWENTY SEVEN THOUSAND SIX HUNDRED ONLY)”
21. As contracted, transshipment should be allowed.
22. The transaction is on CFR term, therefore, the Insurance certificate or policy should not be required as one of the documents presented by the seller.
23. The Contract No. in the credit is wrong, and it should be “As per Contract No. 28KG603”

## Chapter 16 Documentation

**Key to Exercise**

1. **True or False**
2. T (2) T (3) F (4) F
3. **Open Questions**
4. Document-Document Conformity, Document-Credit Conformity, Document-Goods Conformity, and Credit-Contract Conformity
5. The quality for documents should meet the following general requirements: accuracy, completeness, promptness, conciseness, and cleanness.
6. A packing list works as the buyer’s reference regarding packing and quantity of the goods. It serves as a “map” of the shipment, enabling the buyer to easily unpack and stock the shipped goods. It is used for custom clearance and inspection at the destination.
7. To determine whether the goods may be legally imported at all, to apply tariff and duty, to impose quota or other trade restrictions, and for statistical purposes.
8. **Case Study**
9. The deadline for negotiation is October 24, 2017. The beneficiary should present the documents not later than 21 calendar days after the date of shipment and not later than the expiry date of the credit.
10. The maximum quantity and the minimum quantity are 1,000 M/T and 950 M/T respectively. If the quantity of goods is not stated in terms of a stipulated number of packing units or individual items, a tolerance not to exceed 5% more or 5% less than the quantity of the goods is allowed provided the total amount of the drawings does not exceed the amount of the credit.
11. **Problem Solving**
12. Drawn Under Hua Chiao Commercial Bank Ltd.
13. Irrevocable L/C No. F-07567
14. Dated 2016/09/28
15. Payable with interest \*\*\* % Per annum
16. No. 16928KG603 (Note: this number is usually the same as that of the invoice No. used for the same transaction.)
17. EXCHANGE for USD 27,600.00
18. at 90 days Sight of this FIRST of Exchange (Second of Exchange being unpaid)
19. Pay to the order of Bank of China, JiangXi Branch, Nanchang
20. the sum of United States Dollars Twenty-Seven Thousand Six Hundred Only
21. To: Hua Chiao Commercial Bank Ltd.
22. Comfort Imp. & Exp. Co., Ltd. Nanchang, China

\*\*\* (Signature of authoritative person)

## Chapter 17 International Sales Contract Implementation

**Key to Exercise**

1. **True or False**

(1) T (2) F (3) F (4) T (5) F (6) F

1. **Open Questions**
2. If the letter of credit is not in compliance with the sale contract, or the seller finds some of the terms in the letter of credit are not acceptable or achievable, or the wording of the letter of credit does not reflect the requirements of both parties, the letter of credit can be adjusted by means of an amendment.
3. A freight forwarder is a shipping specialist, he acts as an agent between the shipper (usually, the seller) and the carrier. The forwarder advises and assists clients on how to move goods most efficiently from one destination to another. A forwarder’s extensive knowledge of documentation requirements, regulations, and transportation costs can ease the exporting process for many companies.
4. There are four principles about document conformity for International Trade Documentation under the letter of credit. 1. Document-Document Conformity. 2. Document-Credit Conformity. 3. Document-Goods Conformity and 4. Credit-Contract Conformity.
5. Accuracy, completeness, promptness, conciseness and cleanness.
6. The purposes of providing a packing list with a commercial invoice are: i) It works as the buyer’s reference regarding packing and quantity of the goods. It serves as a “map” of the shipment, enabling the buyer to easily unpack and stock the shipped goods and ii) It is used for custom clearance and inspection at the destination.
7. Determining the origin of a product is important because the origin is a key information for the importing country’s customs to determine whether the goods may be legally imported at all, to apply tariff and duty, to impose quota or other trade restrictions and for statistical purposes.
8. **Case Study**
9. The last date for the Chinese trading company to send all documents is the 25th of October, 2017.
10. The maximum quantity and the minimum quantity (MT) of peanuts could be loaded onto the cargo ship for this transaction are 950MT and 1,050MT respectively. Because the UCP 600 Article 30 stipulates that “A tolerance not to exceed 5 per cent more or 5 per cent less than the quantity of the goods is allowed, provided the credit does not state the quantity in terms of a stipulated number of packing units or individual items and the total amount of the drawings does not exceed the amount of the credit.”

## Chapter 18 Inspection, Claim and Force Majeure

**Key to Exercise**

1. **True or False**

(1) T (2) F (3) F (4) F (5) F (6) T

1. **Open Questions**
2. They are i) Statutory inspection on imports and exports; ii) Supervision and administration and iii) Survey of import and export commodities.
3. Inspection certificates serve as the evidence certifying that the goods delivered by the seller comply with the sales contract. They may be required by Customs of some countries during the import procedures to determine the goods are free from risks to human and animal health and national security, or to be used as the basis for calculating tariff. They may function as a documentary evidence under letter of credit transactions. They evidence the quality of the goods by a third party. In case disputes arise due to quality issue, the certificate can be used by the buyer to claim compensation from the seller as supporting evidence. They are also used for the calculation of transportation costs and warehouse charges.
4. In English law, there are two types of breach of contract - Breach of Condition and Breach of Warranty. Under the American law, there are two types of breach of contract - a material breach and a minor breach. In the UN CISG, breach of contract is classified into a fundamental one and a non-fundamental one.
5. Penalty is different from damages in Discrepancy and Claim Clauses in a number of ways: i) Penalty is intended to force the other party to perform a contract, while damages are to compensate for loss; ii) Breaching a contract may lead to paying penalty, but actual loss is not required. Claiming for damages requires both breach of contract and actual loss and iii) The amount of penalty is not necessarily linked to the amount of actual loss, but damage is closely related to the amount of actual loss.
6. An event must meet following three conditions in order to qualify as a force majeure event: i) The event or circumstance must be unforeseeable at the time of concluding of the contract; ii) The occurrence of the event is beyond the control of affected party and iii) The event is not caused by any default or negligence of affected party.
7. Suspension of the contract is the force majeure event is temporary or transitory, and termination of the contract if the basis of the contract was damaged or destroyed by the force majeure event.
8. **Case Study**
9. The fire, caused by lighting, is a Force Majeure event, because i) The fire was unforeseeable at the time of concluding of the contract; ii) The fire and lighting were beyond the control of the Chinese manufacturer and iii) The incident was not caused by any default or negligence of the Chinese manufacturer.
10. The Chinese manufacturer could terminate the contract because the heavy fire destroyed the production facility of the manufacturer and the production capability is considered as the basis of the contract. Since the basis of the contract is gone, the contract can be cancelled.
11. In order to invoke the Force Majeure clauses of the sales contract, the Chinses manufacturer must i) Promptly notify the French buyer about “the occurrence and effect of Force Majeure event on his ability of performing the contract”; ii) The fire incident should be verified with a certificate issued by a reputable institute, for example, the China Council for the Promotion of International Trade.

## Chapter 19 Arbitration

**Key to Exercise**

1. **True or False**

(1) T (2) T (3) F (4) F

1. **Open Questions**
2. Some key features of arbitration are: i) Arbitration award is binding and final; ii) Party autonomy; iii) Arbitrators with the appropriate experience; iv) International enforceability and v) Procedural flexibility.
3. Advantages of Arbitration over Litigation are: i) Arbitration is faster than litigation in court; ii) Arbitration is more flexible than litigation; iii) Confidentiality and iv) Low cost.
4. An arbitration agreement is a written contract in which two or more parties agree to submit their disputes (future or existing) to arbitration and settle a dispute outside of court. There are two forms of arbitration agreement: i) the arbitration agreement can be stipulated before a dispute arises, in the sales contract as a clause and ii) or after a dispute arises, the arbitration agreement is created between concerned parties and submitted for arbitration to an arbitration institution.
5. The New York Convention requires courts of contracting states to recognize and enforce arbitration awards made in other contracting states, subject only to limited grounds for objection. The Convention makes an arbitration award issued in any other state be freely enforced in any other contracting state.
6. **Case Study**
7. Since usual arbitration clauses were stipulated in the contract, the Chinese buyer cannot bring the case to a Chinese court first before arbitration. This is because the arbitration agreement eliminates the rights to bring a suit to the court of law. Instead, the Chinese buyer should bring the case to the agreed arbitration institution first to resolve the dispute.
8. After the arbitration award was made, if the Japanese manufacturer refused to honour the award, the Chinese buyer can bring the case to the court of law to enforce the arbitral award.