



**Professional  
Development  
Courses on  
Customs & FTP by  
TaxguruEdu Edu –  
April'2022  
Batch  
SN Panigrahi**



**Session – 9**

**Export Pricing & Drafting  
International Contracts**

- **Container & Port Operations**
- **INCOTERMS**
- **Export Costing – Pricing**
- **Negotiating & Drafting International Contracts**
- **Risks in International Market; Country – Currency – Customer Risks**
- **Mitigating Risks**
- **Customer Credential Verification – DnB & Bank Verifications;**
- **Insurance & ECGC Cover & Others Means;**

# Handling the Ocean Freight Shipment

## Types of Cargo

### Dry Bulk Cargo

- **Dry Bulk** refers to grain, coal, iron ore, cement, sugar, salt and sand. They are not packaged separately, but transported in large quantities in the hold of a Ship

### Liquid Bulk Cargo

- Crude oil, Petrol, Fuel Oil, Vegetable Oils and even Wine; all liquid products which are often transported on big tankers as **Liquid Bulk Cargo**

### Unit Bulk Cargo (Breakbulk)

- Paper, wood, bags of cocoa, rolls of steel, parts of wind turbines; these are all products that can be transported in pallets, bags, boxes, crates, drums, barrels, Racks or Rolls and simply put on a vessel.. A crane or forklift truck can easily load or discharge the goods.

### Containerized Cargo

- The containers have standardized dimensions. They can be loaded and unloaded, stacked, transported efficiently over long distances, in large quantities and transferred from one mode of transport to another Safely.

### Roll On / Roll Off (RO-RO)

- Ro-ro refers to 'roll on / roll off'. This name explains how the cargo is discharged and loaded. Ro-ro is used for cars, busses, trucks, agricultural vehicles and cranes to transport as many of these vehicles in one go.

# Types of Containers

**Standard  
Container**

**High Cube  
Container**

**Open Top**

**Open side  
storage  
container**

**Flat rack  
Container**

**Double  
Doors  
Container**

**Refrigerated  
Containers**

**Insulated or  
Thermal  
Containers**

**Heated  
Container**

**Half height  
Containers**

**Intermediate  
Bulk Shift  
Containers**

**Tank  
Container**

**Car  
Carriers**

**Air mode  
Container**

**Special  
Purpose  
Containers**

# Types of Containers

## Conventional Dry Cargo Containers

- 20/40 ft. conventional end open containers:
- 20/40 ft High Cube containers:
- 20 ft Side Access Containers:
- 22 ft/High Cube Domestic Containers:

## Specialty Containers

- 20 ft/40 ft/ 40ft High Cube Refrigerated Containers:
- 20 ft/ 40ft/ Collapsible Flat Rack and Platform Containers:
- 20 ft/ 40 ft Open Top Containers:
- 20 ft Tank Containers:

# Role of Logistic Intermediaries

Today many internationally focused logistics service providers, including freight forwarders, customhouse brokers, ocean and air carriers, as well as logistics management companies, characterize themselves as third-party logistics providers capable of offering bundled services for the movement of international freight.

The degree to which such offerings may be employed by major importing and exporting firms depends on several factors influencing the economies and utility of those services.

These firms are referred to as facilitators or intermediaries. Intermediaries exist because they improve the efficiency of marketing channels.

Shipping Line / Shipping Line Agents

Shipping Freight Forwarders / Brokers / Agents

Container Leasing Companies

Customs Brokers / Customs House Agents

3 PL / 4 PL Operators

EXIM Management Companies

Transporters / Container Trailor Operators

Container Leasing Companies

Port Authorities

Public / Private Operators

# 1 PL to 4PL

## Actors

Cargo Owners

Carriers

Logistic Service Providers

Lead Service Providers & Consultants

## Services

Manufacturing,  
Retailing  
Own Transport

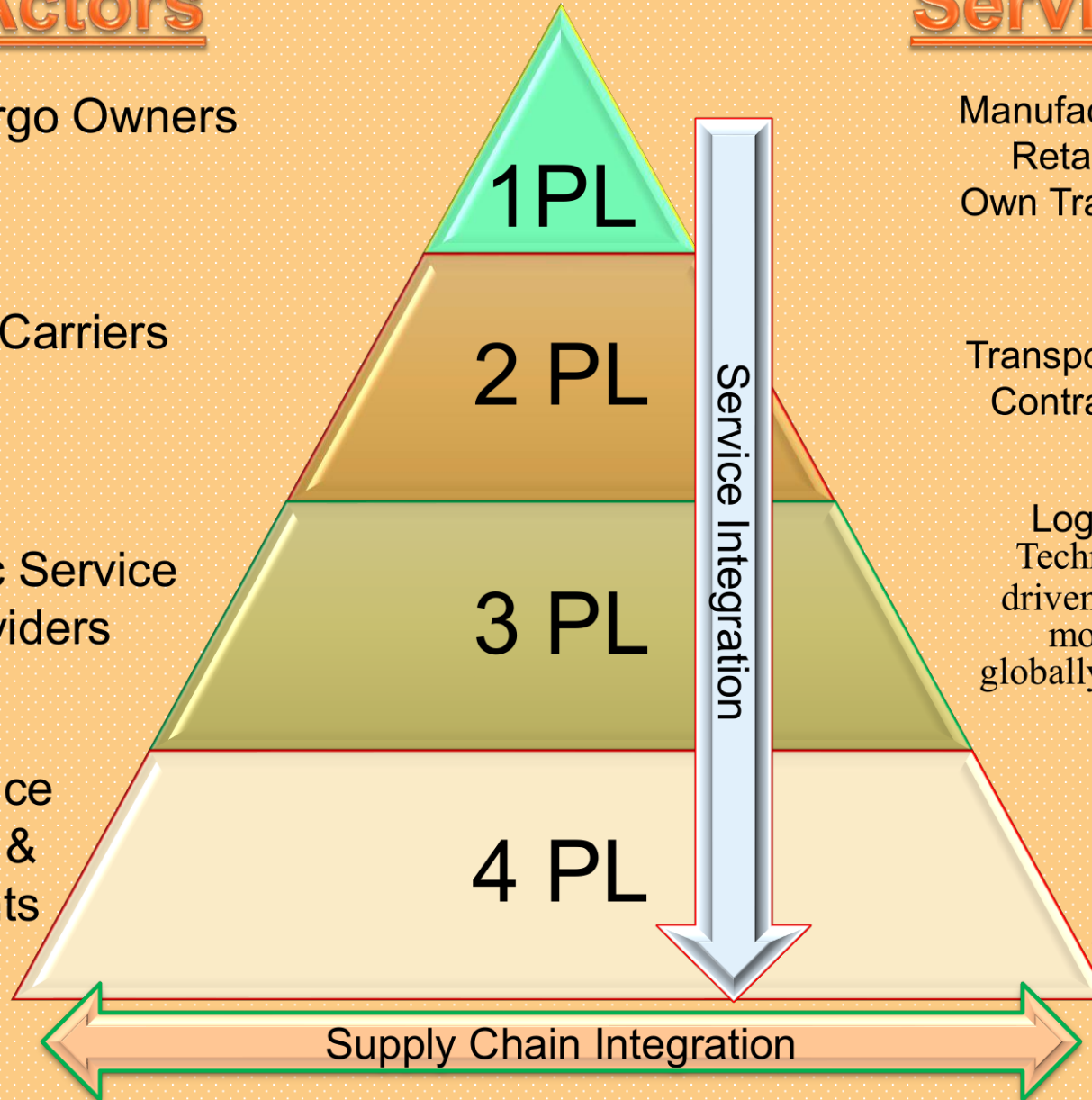
Transportation  
Contracting

Logistics  
Technology  
driven, multi-  
modal,  
globally capable

Supply Chain  
Management

Responsible managing  
3<sup>rd</sup> party & other  
providers

Fully integrated  
strategic supply chain  
issues



# Common Types of Bill of Lading

## Straight Bill of Lading

- A **straight bill of lading** is a document in which a seller agrees to use a specific transport option to ship goods to a certain location, and the bill is then assigned to a specific party (known as the 'named consignee'). Due to its **non-negotiable nature**, it cannot be assigned to anyone but that party.

## To Order Bill of Lading

- The bill of lading is to the consignee or to his order. That is the named consignee will be the owner of the cargo or he can order the shipment to be delivered to another party by endorsing the bill of lading to that party. As the title (ownership) of the **bill of lading can be transferred, Order bill of lading is negotiable document.**

## Clean Bill of Lading

- A Clean Bill of Lading is simply a BOL that the shipping carrier has to sign off on saying that when the **packages were loaded they were in good condition**. If the packages are damaged or the cargo is marred in some way (rusted metal, stained paper, etc.), they will need to issue a "**Soiled Bill of Lading**" or a "**Foul Bill of Lading.**"

## Inland Bill of Lading

- This allows the shipping carrier to ship cargo, **by road or rail**, across domestic land, but not over seas.

## Ocean Bill of Lading

- Ocean Bills of Lading allows the shipper to transport the cargo over seas, nationally or internationally.

## Through Bill of Lading

- Through Bills of Lading are a little more complex than most BOLs. It allows for the shipping carrier to **pass the cargo through several different modes of transportation and/or several different distribution centers**. This Bill of Lading needs to include an Inland Bill of Lading and/or an Ocean Bill of Lading depending on its final destination.



# Common Types of Bill of Lading

## Multimodal /Combined Transport Bill of Lading

- This is a type of Through Bill of Lading that involves a minimum of two different modes of transport, land or ocean. The modes of transportation can be anything from freight boat to air.

## Direct Bill of Lading

- Use a Direct Bill of Lading when you know the same vessel that picked up the cargo will deliver it to its final destination.

## Stale Bill of Lading

- A **bill of lading** that is not presented within 21 days after shipment is called a **Stale Bill of Lading**. In other words, **stale bill of lading** is a type of **bill of lading** which is presented to the nominated bank after the presentation period.

## Shipped On Board Bill of Lading

- A Shipped On Board Bill of Lading is issued when the cargo arrives at the port in good, expected condition from the shipping carrier and is then loaded onto the cargo ship for transport over seas.

## Received Bill of Lading

- It is simply a Bill of Lading stating that the cargo has arrived at the port and is cleared to be loaded on the ship, but does not necessary mean it has been loaded. Used as a temporary BOL when a ship is late and will be replaced by a Shipped On Board Bill of Lading when the ship arrives and the cargo is loaded

## Claused Bill of Lading

- If the cargo is damaged or there are missing quantities, a Claused Bill of Lading is issued

# INCOTERMS® - 2020

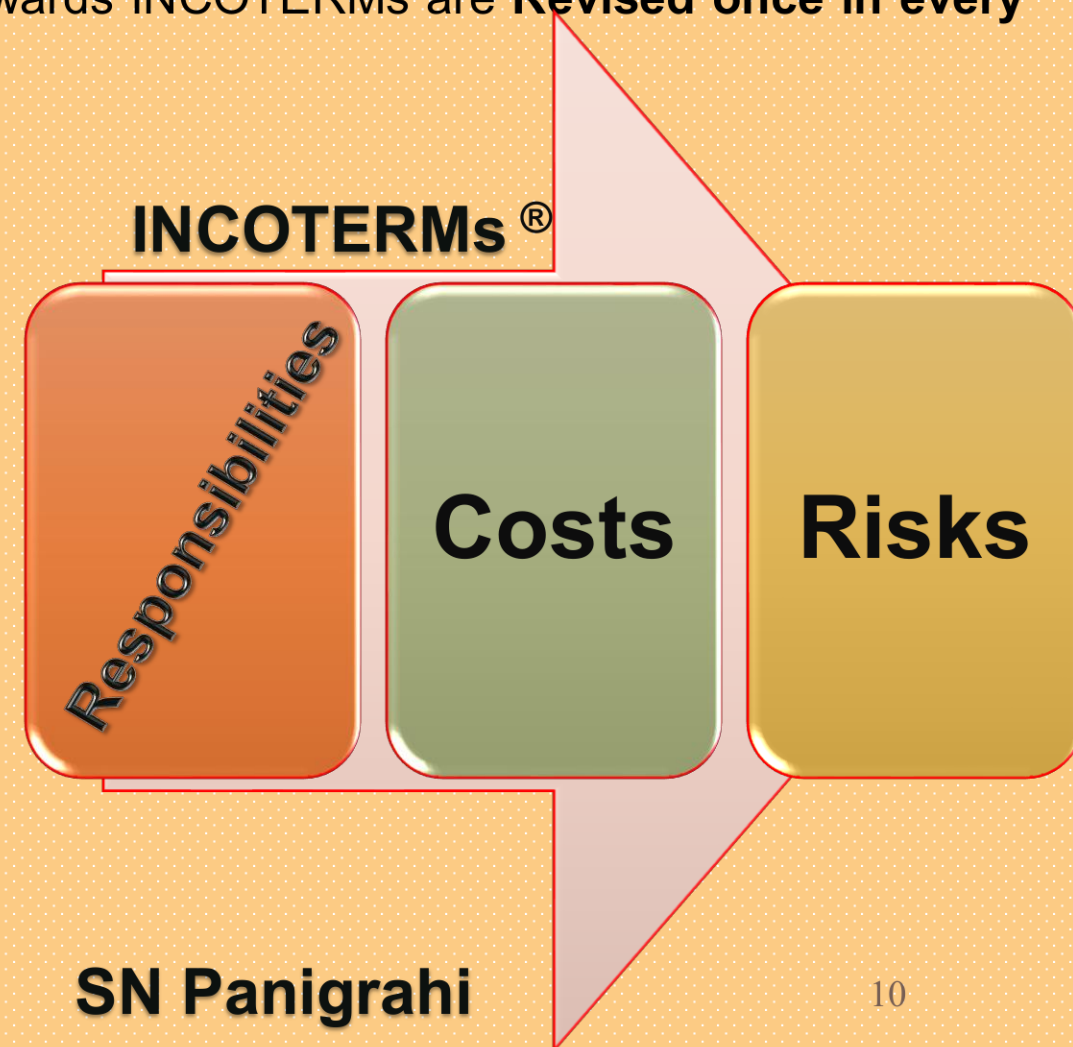
The Incoterm Rules or **International Commercial Terms** are a series of pre-defined commercial terms published by the **International Chamber of Commerce (ICC)** (@iccwbo) widely used in international commercial transactions. With the Intension to institutionalize best Practice of using Uniform Set of Rules in the International Transactions, **International Chamber of Commerce, First published in 1936** a set of **Three (3) Letter Acronyms** to describe **Delivery Terms**. From 1980 onwards INCOTERMS are **Revised once in every 10 Years**.

The **Incoterms® 2020** Rules, the 9th revision are comes into effective from **1<sup>st</sup> January, 2020**.

**Incoterms®** are Adopted by **over 120 countries**.

A series of **Three-letter Trade Terms** of Incoterms Rules are intended primarily as a uniform set of rules to clearly clarify & communicate the **Obligations : Responsibilities, Costs and Risks** associated with the Transportation and Delivery of Goods. .

Because they address issues relating to import and export by buyers and sellers in international commercial transactions, **Incoterms®** rules are most appropriate for **use in Sales Contracts & International Shipping**.



# INCOTERMS® - 2020

Right use of **INCOTERMS®** ensure smooth Sales Transaction Across Borders and avoid Potentially Costly mistakes. Incoterms define the **Responsibilities, Costs and Risks** to be borne by buyers and sellers for the sale of goods in International Transactions. The terms are structured to increase incrementally the obligations (control, risk and cost) on one party while decreasing the obligations of the other, depending on the specific term chosen.

## ◆ **INCOTERMS® Used**

- ◆ **To Estimate Costs, Quote the Prices, Negotiate & Finalize Contracts, To Select & Finalize Forwarders & Shipping Lines, For Preparing Documents like Invoice, B/L etc., Working out Cash Out-Flows, Finalize Payment Terms, Export Shipping Credits & Bank Transactions, Understand the Risks etc**

**Seller  
Exporter**

**International Sales Transactions**  
**INCOTERMS® Used**  
**To Estimate Costs, Quote the Prices, Negotiate & Finalize Contracts, To Select & Finalize Forwarders & Shipping Lines, For Preparing Documents like Invoice, B/L etc., Working out Cash Out-Flows, Finalize Payment Terms, Export Shipping Credits & Bank Transactions, Understand the Risks**

**Buyer  
Importer**

# 11 Incoterms®

## 2020 Rules

**EXW** - Ex Works (insert place of delivery)

**FCA** - Free Carrier (Insert named place of delivery)

**FAS** - Free Alongside Ship (insert name of port of loading)

**FOB** - Free on Board (insert named port of loading)

**CFR** - Cost and Freight (insert named port of destination)

**CIF** - Cost Insurance and Freight (insert named port of destination)

**CPT** - Carriage Paid to (insert place of destination)

**CIP** - Carriage and Insurance Paid To (insert place of destination)

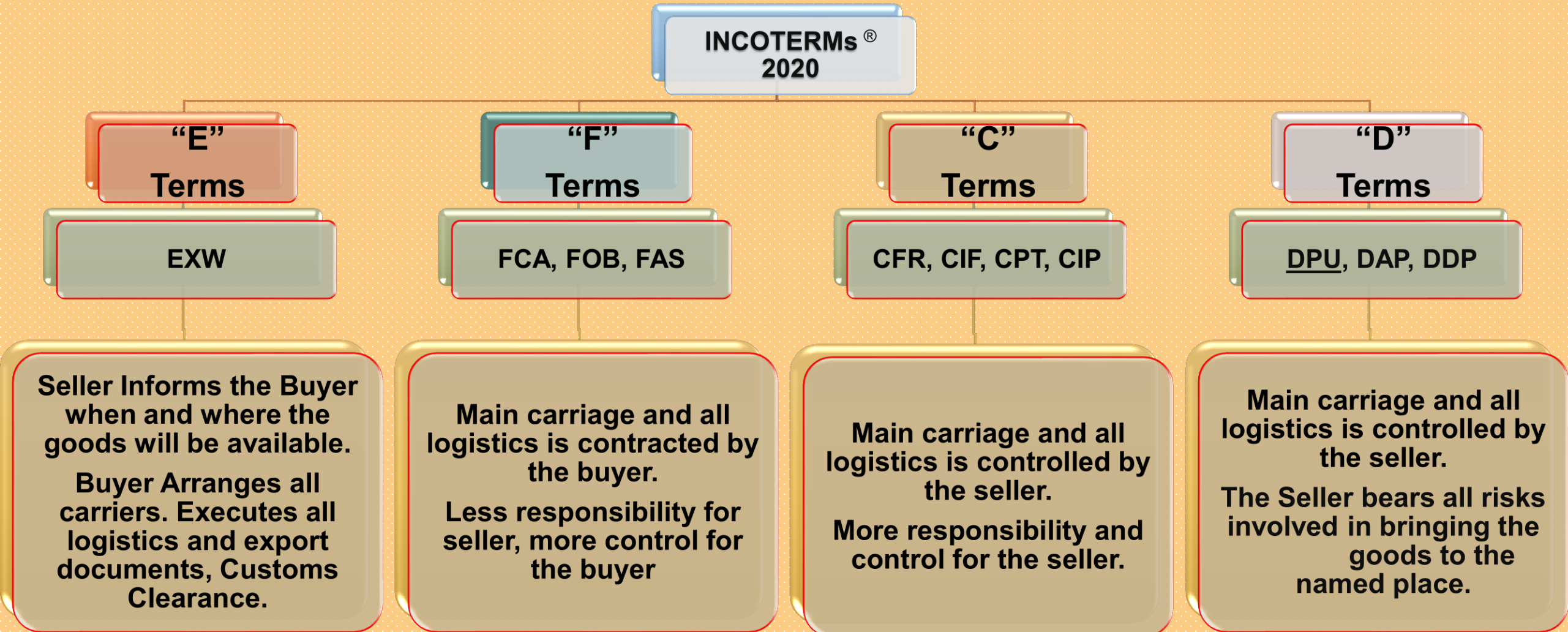
**DAP** - Delivered at Place (insert named place of destination)

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

**DDP** - Delivered Duty Paid (Insert place of destination).

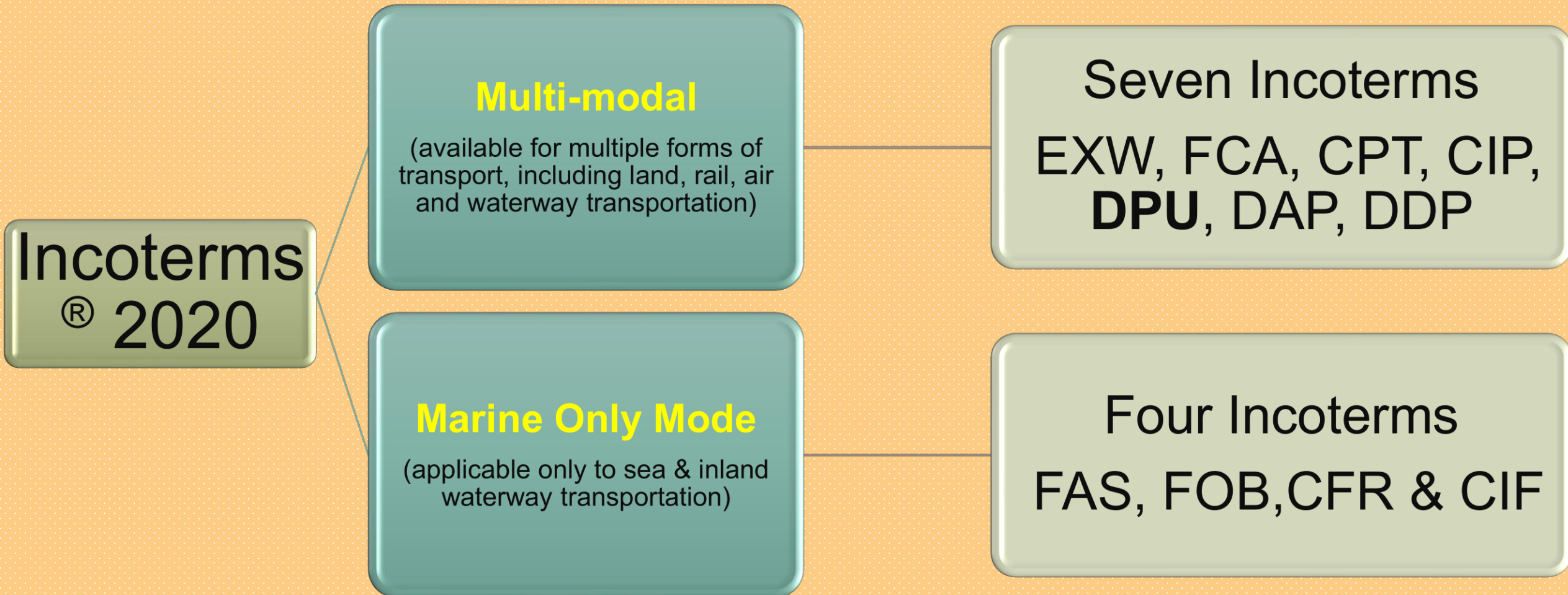
# INCOTERMS@ 2020 Rules

## Classification Based on Starting Letter



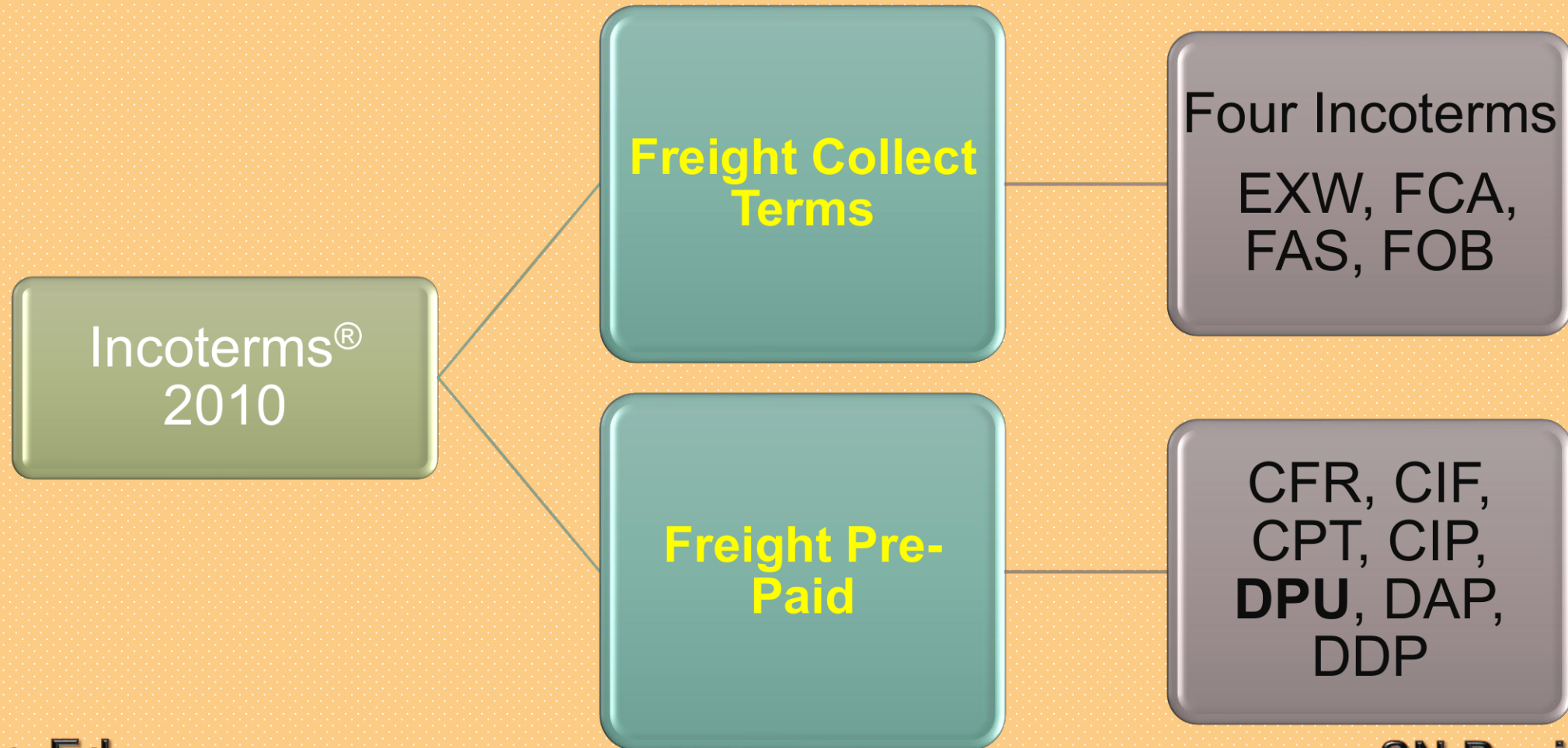
# INCOTERMS® - 2020 Rules

## Classification Based on Mode of Transport



# INCOTERMS® - 2020 Rules

## Classification Based on Who Pays Freight



# INCOTERMS ® 2020

<b>By SN Panigrahi</b>	Any Mode of Transport	Marine (Water Ways) Only				Any Mode of Transport					
	EXW	FCA	FAS	FOB	CFR	CIF	CPT	CIP	DAP	DPU	DDP
	Ex Works	Free Carrier	Free Alongside Ship	Free on Board	Cost & Freight	Cost, Insurance Freight	Carriage Paid To	Carriage, Insurance Paid To	Delivery At Place	Delivery At Place Unloaded	Delivery Duty Paid
<b>Transfer of Risks</b> 	When Seller Places the Goods at the Buyer's Disposal at Named Place	When Seller Loads Goods to Buyers Carrier	When Goods are Alongside the Vessel Nominated by the Buyer at the Named Port	When the Goods are on Board the Vessel Nominated by the Buyer at Nominated Port	When the Goods are on Board the Vessel Nominated by the Seller at Origin	When the Goods are on Board the Vessel Nominated by the Seller at Origin	When the Goods are Handed Over to the Seller's Nominated Carrier at the Named Place	When the Goods are Handed Over to the Seller's Nominated Carrier at the Named Place	When Goods are Piced at the Buyer's Disposal at the Named Place or Agreed Point within that Place	When Goods are Delivered & Unloaded at a Named Place or Agreed Point Within that Place	When Goods are Piced at the Buyer's Disposal at the Named Place or Agreed Point within that Place
<b>Responsibility &amp; Cost</b> 											
Packaging, Markings & Labelling, Quality Checks	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
WareHouse Loading at Origin	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Inland Delivery Upto Port / Place	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Origin Customs Clearance, Export Duty & Taxes	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Origin Port Terminal Charges DTCH	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Loading on Export Carrier	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Insurance Charges Upto Originating Customs Place	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
International Freight / Carriage Charges	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Insurance Charges Beyond Originating Customs Place	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Buyer	Seller	Seller	Seller	Seller
Freight Forwarder Fee at Destination	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller
Destination Terminal Handling Charges (THC)	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller
Distination Customs Formalities / Clearances	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller
Import Customs Duty, Taxes, Fees	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller
Delivery to Destination Unloading at Delivery Point	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Buyer



# What INCOTERMS® - 2020 Do Not Define?

Incoterms <u>DO NOT</u> define	
<b>All Conditions of Sales Contract</b> Address all the conditions of a sale	<b>Goods &amp; Price</b> Identify the goods being sold nor list the contract price;
<b>Transfer of Ownership / Title of Goods</b> when title, or ownership of the goods, passes from the seller to the buyer;	<b>Specify Documents Required for Customs Clearance / Financing</b> specify which documents must be provided by the seller to the buyer to facilitate the customs clearance process at the buyer's country; and
<b>Terms of Payment &amp; Credit Terms - Financing</b> Reference the Method nor Timing of Payment Negotiated between the Seller or Buyer; Determine Financing (You Want How Many Days to Pay?)	<b>Breach of Contract or Remedies</b> address liability for the failure to provide the goods in conformity with the contract of sale, delayed delivery, dispute resolution mechanisms.
<b>Liability and Warranty</b> Replacement Delivery	<b>Court of Jurisdiction and Applicable Law;</b> Copyrights etc
<b>Date of Delivery</b>	<b>Contract of Insurance</b>

Incoterms : Do not protect parties from their own risk of loss; Do not cover goods before or after delivery

Incoterms Do not Apply for Services & for Intangible Goods

# How to use INCOTERMS® - 2020

- 4 Tips on How to use Incoterms Correctly:
  - Choose the Right Rule
  - Mention Place of Delivery Immediately After the Term
  - Refer to the Appropriate Version of the Incoterms  
e.g. **FOB Navasheva, India, Incoterms 2020.**
  - Incorporate them into the Contract as well as the LC, Invoice, B/L, Customs Documents

It is possible to add clauses or change the wording of Incoterms.

Examples:

CFR Charleston port USA incl. THC, CUC, ISPS in Charleston  
FCA Vienna Airport loaded on aircraft  
DDP Hanoi Vietnam VAT unpaid

Choose the Right Rule

Specify the Place / Port Precisely

Refer to the Appropriate Version of the Incoterms

Incorporate them into the Contract as well as the LC, Invoice, B/L, Customs Documents

**SN Panigrahi**

**Bear in mind that a change in the transfer of costs can result in a changed transfer of risks.**

Terminal Handling Charges Now specifically allocated so that buyer is not charged twice (seller and terminal)

# Multi-Model INCOTERMs®

Used for any Mode of Transport

## EXW – EX WORKS

(... named place of delivery)

- The **Seller's only responsibility is to make the goods available at the Seller's premises.** The Buyer bears full costs and risks of loading and moving the goods from there to destination. Seller does not need to load the goods on any collecting vehicle, nor does it need to clear the goods for export

## FCA – FREE CARRIER

(... named place of delivery)

- The **Seller delivers the goods, cleared for export, to the carrier selected by the Buyer. Seller, has an obligation to deliver goods to a named place for transfer to a carrier.** The destination is typically an airport, shipping terminal, warehouse, or other location where the carrier operates. It might even be the seller's business location. **Seller does clear goods for export;** import formalities are buyer's responsibility. Seller may contract for carriage at buyer's expense and risk

## CPT – CARRIAGE PAID TO (... named place of destination)

- The **Seller pays for moving the goods to destination.** From the time the goods are transferred to the first carrier, the Buyer bears the risks of loss or damage.

# Multi-Model INCOTERMs®

Used for any Mode of Transport

## CIP – CARRIAGE AND INSURANCE PAID TO

(... named place of destination)

- The Seller pays for moving the goods to destination. From the time the goods are transferred to the first carrier, the Buyer bears the risks of loss or damage.
- The Seller, however, purchases the cargo insurance.

## DPU - Delivery At Place Unloaded

(... named place of destination)

- Replaced previous Term DAT (**DAT – DELIVERED AT TERMINAL**)
- The Seller to bear All charges upto delivery to a named point, mutually agreed between the buyer and seller, **unloaded and placed at the disposal of the buyer.**
- **Import Customs Duty to be Born by Buyer**

## DAP – DELIVERED AT PLACE (... named place of destination)

- The Seller delivers when the goods are placed at the Buyer's disposal on the arriving means of transport ready for unloading at the named place of destination. The Seller bears all risks involved in bringing the goods to the named place.

# Multi-Model INCOTERMs®

Used for any Mode of Transport

**DDP –  
DELIVERED  
DUTY PAID**  
(... named place)

- The Seller delivers the goods -cleared for import – to the Buyer at destination. The Seller bears all costs and risks of moving the goods to destination, including the payment of Customs duties and taxes.

# Marine Only INCOTERMS®

These terms do not apply to any other means of transport except Marine.

**FAS – FREE  
 ALONGSIDE SHIP** (...  
 named port of shipment)

- The Seller delivers the goods to the origin port. From that point, the Buyer bears all costs and risks of loss or damage.

**FOB – FREE ON  
 BOARD** (... named port  
 of shipment)

- The Seller delivers the goods on board the ship and clears the goods for export.
- From that point, the Buyer bears all costs and risks of loss or damage.

**CFR – COST AND  
 FREIGHT** (... named  
 port of destination)

- The Seller clears the goods for export and pays the costs of moving the goods to destination.
- The Buyer bears all risks of loss or damage.

# Marine Only INCOTERMs®

These terms do not apply to any other means of transport except Marine.

**CIF – COST  
INSURANCE AND  
FREIGHT** (... named  
port of destination)

- The Seller clears the goods for export and pays the costs of moving the goods to the port of destination.
- The Buyer bears all risks of loss or damage. The Seller, however, purchases the cargo insurance.

# 7 common errors when using INCOTERMS®



- The use of Incoterms® that do not exist
- The use of Incoterms® for national sales contracts
- The incomplete use of the selected Incoterm®
- Not referring to the version of the Incoterms®
- Including clauses that are incompatible with those defined by the Incoterms® selected in the sales contract
- The use of Incoterms® that are not envisaged for the selected mode of transport
- Not evaluating the risks for the company for each of the Incoterms®



# Export Costing & Pricing

**Price**

**Product  
Specifications  
& Packing &  
Volume**

**Delivery  
Terms  
INCOTERMS**

**Payment  
Terms &  
Currency**

**Country &  
Risk  
Perception**

**Price  
Validity &  
Variance**

**Taxes &  
Other  
Levies**

# Export : Cost & Price

Export pricing is the most important factor in for promoting export and facing international trade competition. It is important for the exporter to keep the prices down keeping in mind all export benefits and expenses.



However, there is no fixed formula for successful export pricing and is differ from exporter to exporter depending upon whether the exporter is a merchant exporter or a manufacturer exporter or exporting through a canalising agency.

# Factors Determining Export Pricing

The pricing of goods to be exported depends on several factors. The demand for exported goods in the international market, competitive environment, Promotions & Regulations of the Government etc should also be evaluated by the exporters besides manufacturing / purchase costs.

**Cost**

**Demand**

**Competition – Target Pricing**

**Product Differentiation and Brand Image**

**Country / Region Specific**

**Nature & Volume / Frequency of Purchases**

**Quality and Price Relationship**

**Special Offers / Unique Deliverables or Value to Customers – After Sales Service**

**Innovative / Technological Advanced / Unique / New Product - Patented**

**Early Delivery Schedule**

**Company Policies and Marketing Mix**

**Export Strategy - Differential Pricing Strategy**

**Exchange and Inflation Rate**

**Objectives of the Firm – Profit Maximization / Market Share**

**International Business Risk Factors**

**Government Policies – Incentives & Restrictions – Taxes & Duties**

# Export Cost Factors

- 1) **Product Modification / Differentiation Cost**
- 2) **Export Marketing & Promotional Cost**
- 3) **Export Special Packaging Cost**
- 4) **Export Transaction Costs**
  - **Transport & Logistic Costs**
  - **Mode of Transport**
  - **Distance & Geographical Location**
  - **Delivery Terms**
  - **Documentation Cost**
  - **Port Handling, Shipping & Customs Clearance Costs**
  - **Inspection Costs**
  - **Regulatory & Compliance Costs**
- 5) **Cost of Credit**
- 6) **Export Compliance Cost**
- 7) **Hidden Costs**
- 8) **After-Sales Service cost**

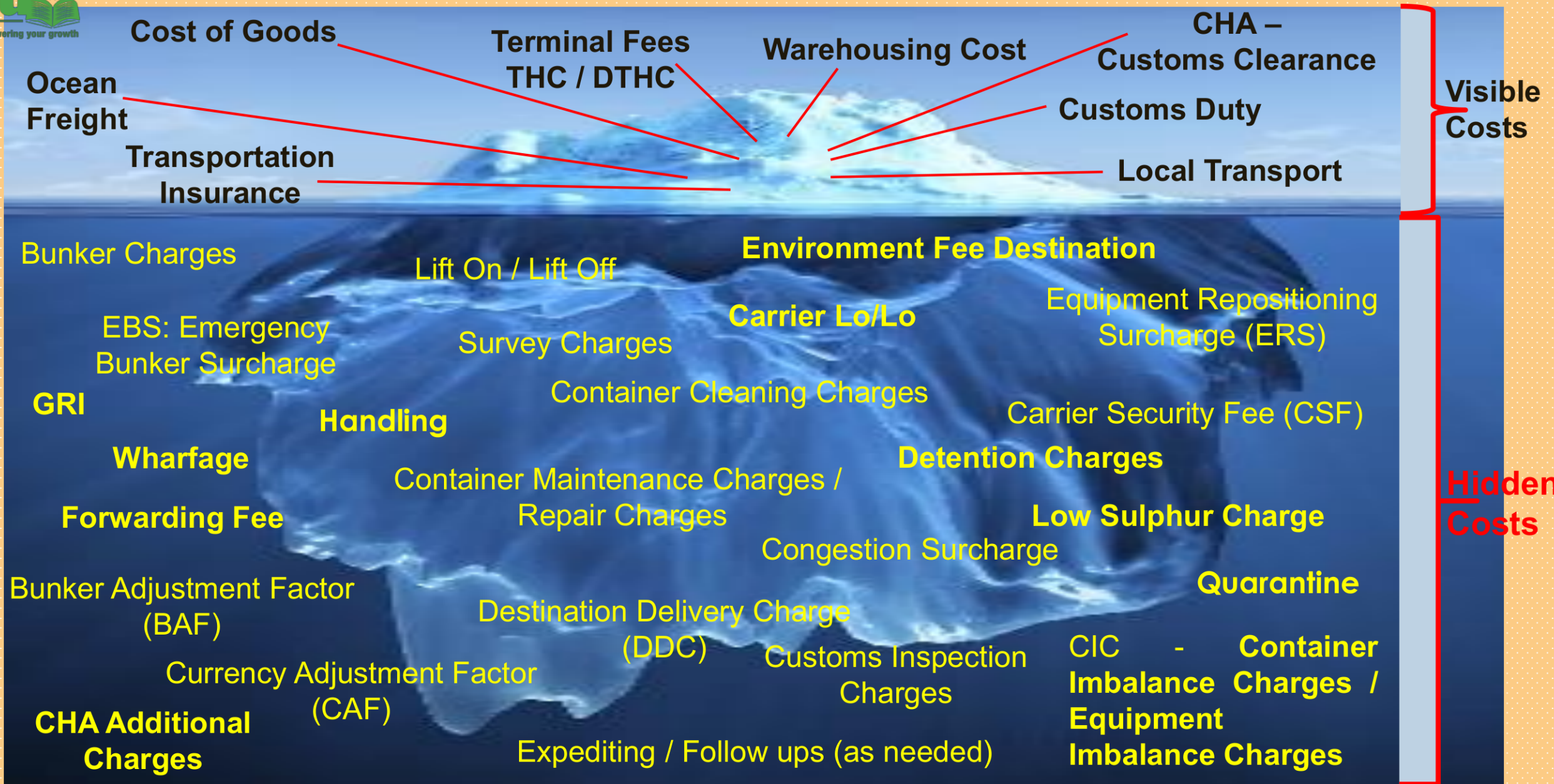
# Export Transaction Costs

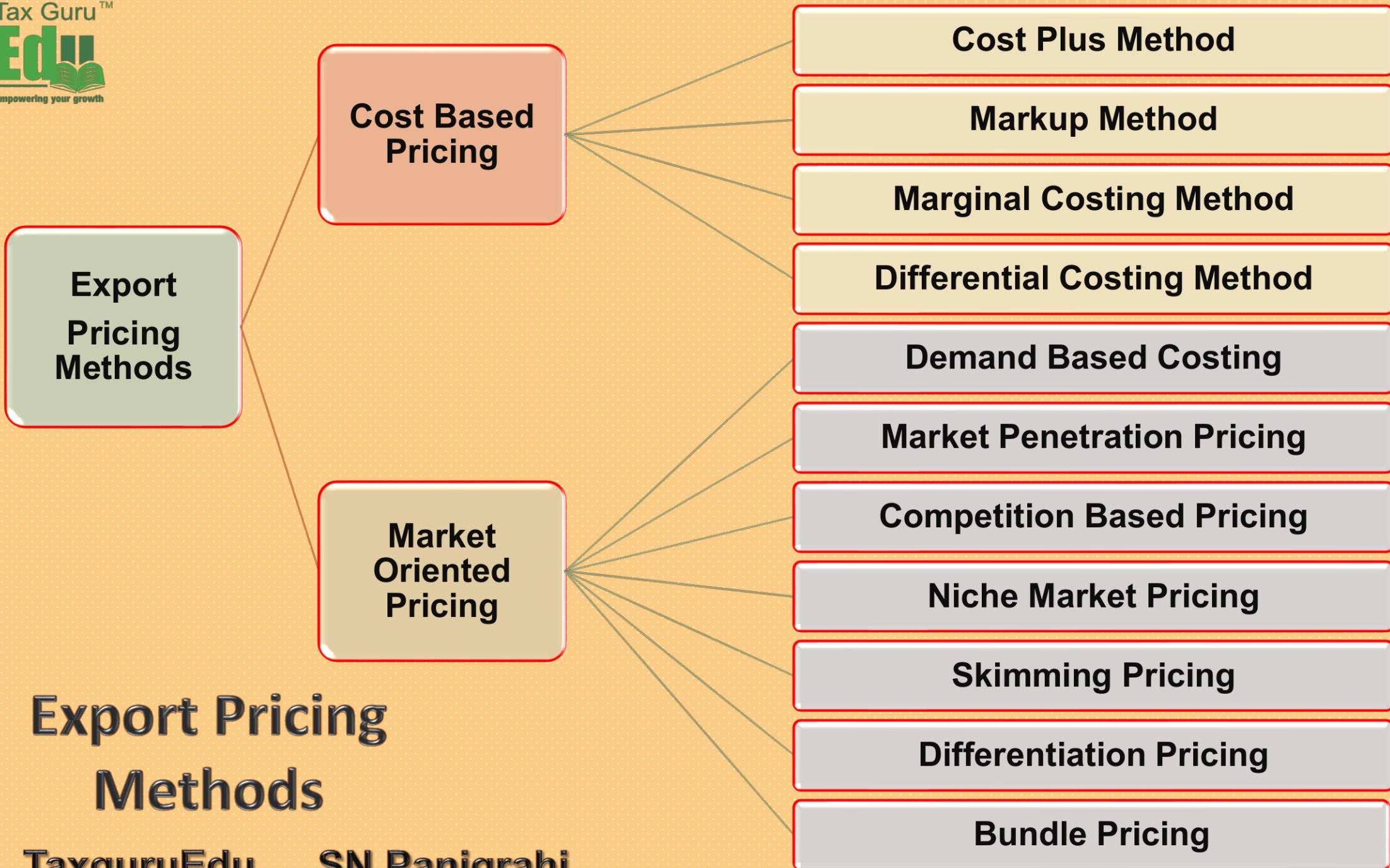
Exports have played a pivotal role in the growth of the Indian economy. It contributes 16 per cent to GDP, therefore, it has become imperative that there should be a focus on not only increasing exports base but also improving their export competitiveness in the world market.

A key factor hindering export competitiveness has been the high transaction cost involved in exports.

Transaction cost related to trade involves a host of Explicit and Implicit costs associated with **Enforcement of Legislation, Regulatory Requirements, Procedures and Compliance Measures** and administration of trade policies involving several agencies such as customs, airport and port authorities, banks, trade ministry etc; besides infrastructure-related cost - including **Transport Cost** to bring product to the border, **Time and Money Spent in Ports** on border procedures, **International Transportation Costs and Communication Costs**. Along with this, **Documentation** has become an additional burden.

# Export – Hidden Costs





# Export Pricing Methods



**EXW  
(Ex-Works) Price**

**Product Costs**  
Manufacturing / Purchase Cost + Modification Costs + Export Packing & Labeling + Marking Cases + Strapping + Administration Cost + Domestic Financing (-) Taxes Refunded



**Cost of Sales and Promotion**  
Travel Expenses + Participation in Exhibitions / Trade Fairs + Promotional Activities + Communications + Legal & Negotiation Expenses + Export Sales Commissions (if any)



**Documentation & Other Misc. Expenses**  
Documentation + Pre-Shipment Inspection & Third Party Certifications (if any) + Licences / Authorizations / Permissions



**Banking & Financial : Cost of Credit**



**Profit**

- Engage with all the Stakeholders Prior to Shipment & Ensure Proper Costing, Documentation & Avoid Mistakes

**EXW**  
**(Ex-Works Price)**

**+**

Loading on to Carrier +  
Inland Transport & Insurance  
(From Your Location to Delivery @  
Port of Loading; Insurance if  
Required) +  
Un-Loading @ Port +  
Cost of Documentation &  
Certificates if any +  
Port (Loading Port) Charges  
(Including Demurrage & Storage) +  
THC & Wharfage & Charges of Loading  
into Vessel+  
Other Shipping & Forwarding & CHA  
Charges +  
Customs Clearing Charges (@  
Loading Port)

**=**

**FOB Price**



# Export Contract

## International Contract

**Seller  
Exporter**

**Agreement  
Contract**

**Buyer  
Importer**

**Contractual Terms**

**Pre-amble : Parties to a Contract  
Effective Date**

**Payment Terms**

**Description / Scope of Work / Goods Sold  
– Specifications / Standards / Qty - UoM**

**Required Documents**

**Contract Price : Validity & Price Variance  
Clause; Taxes & Various other Levies**

**Quality Standards / Performance  
Parameters / Criteria for Acceptance**

**Delivery Schedules / Shipment Terms -  
Incoterms**

**Pre-Shipment Inspection - Third Party  
Certifications**

**Packing – Labeling - Markings**

**Non-Performance / Non-Confirmity of  
Goods – Claims / Return of Goods**

**International Contract**

**Seller  
Exporter**

**Agreement  
Contract**

**Buyer  
Importer**

**Contractual Terms**

**Insurance & Risk Coverage**

**Transfer / Retention of Title**

**Warranty**

**Defaults & Liquidated Damages / Late  
Delivery / Non-Delivery / Penalty Clauses**

**Indemnities**

**Survival**

**Cooperation between the Parties**

**Assignments**

**Termination**

**Force majeure**

**International Contract**

**Seller  
Exporter**

**Agreement  
Contract**

**Buyer  
Importer**

**Contractual Terms**

**Notices & Amendments**

Applicable law and Competent Jurisdiction;  
**Attorney Fees**

**Non-Exclusive Engagement**

**Language**

**Confidentiality**

**Entire Contract**

**Waiver**

**Change Mechanism / Modifications**

**Dispute Resolution - Arbitration**

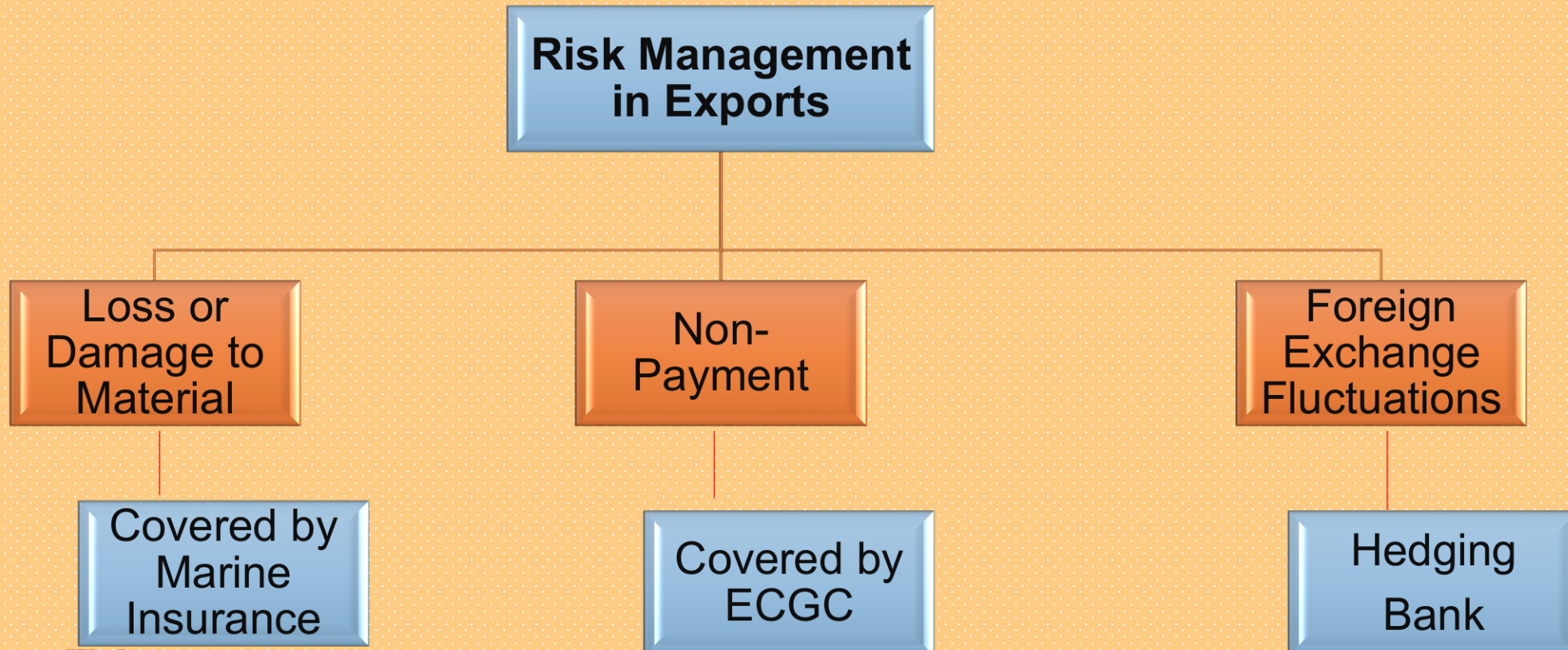
**Contract Signatures**

# Risks in International Transactions



# WHAT IS RISK?

Risk is Future Uncertain Event, and if it occurs it has Positive or Negative Impact on Objectives.



# MARINE INSURANCE

- **Marine Insurance is Risk Coverage of :**

- A. Cargo i.e. Material

- B. Carrier i.e. Ship / Rail / Truck /Air craft

## **WHO IS RESPONSIBLE TO TAKE INSURANCE ie BUYER OR SELLER**

- It Depends on the Terms of the Sale Contract & **Incoterms.**

### **Note :**

- Insurance must be obtained prior to date of shipment or endorsed it's effective date.
- Premium must be pre paid; otherwise the policy is not valid.

To avoid insurance claims, ensure the following:

- Packing of goods should be done keeping in mind their safety during loading and unloading
- Packing should be good enough to withstand natural hazards to the best extent possible
- Keep in mind the possibility of clumsy handling or theft when packing goods.

# Marine Insurance : Coverage under Various Policies

The coverage provided by marine insurance can be understood by going through the risks handled by the insurance policies loaded with various insurance clauses: There are Three Institute Cargo Clauses

## Clause C

Institute Cargo Clause C provides basic coverage and includes a restricted list of risk covers. It covers the shipment against events such as fire, discharge of cargo in case of distress, explosion, accidents like sinking, capsizing, derailment, collision of vessel, etc.

**Clause C provides basic risk coverage.**

## Clause B

Institute Cargo clause B offers an additional layer of protection. Not only does it include all the risk covers provided under Clause C, but it also covers the shipment against events such as earthquake, volcanic eruption, and damage due to rainwater, seawater, river water, etc., and loss to package overboard or during loading and unloading.

## Clause A

Institute Cargo Clause A provides maximum coverage as it covers all risk of loss or damage to the goods. Apart from the risks covered under Clauses B and C, it also covers losses due to breakage, chipping, denting, bruising, theft, non-delivery, all water damage, etc. **Clause A provides maximum coverage,**

Risks such as wars, strikes, riots, and civil commotions are not covered under the institute cargo clauses. However, the insurer may provide this cover on payment of additional marine insurance premium.

# PREMIUM DECISION

- Premium is decided looking in to following Parameters
  - A. Types of Goods
  - B. Weight of Goods
  - C. Type of Packaging
  - D. Place from >> To
  - E. Cover Required i.e. Clause 'A', 'B' 'C'
  - F. Age of Steamer

# Marine Insurance

## OPEN POLICY

An open policy is also known as 'floating policy'. It is issued for a **substantial amount** to cover shipments during a particular period of time. Declarations are made under the open policy and these go to reduce the sum insured.

On receipt of each declaration, a separate certificate of insurance is issued.

An open cover is particularly **useful for large export and import** firms making numerous regular shipments who would otherwise find it very inconvenient to obtain insurance cover separately for each and every shipment.

**An open cover describes the cargo, voyage and covers in general terms and automatically takes care of all shipments which fall within its scope.** It is usually issued for a **period of 12 months** and is renewable annually.

**Specific policies or certificates of insurance are issued against declaration**

## SPECIFIC CARGO POLICIES

When a company approaches an insurance company or broker for insuring a particular consignment, then it can fall under the category of specific cargo policies

## VERY IMPORTANT NOTE

Cover 110% of CIF value

Insurance policy must show amount in invoice FCY currency

Insurance policy must show name of agent at port of destination

# HOW TO CLAIM

- Take immediate steps to minimize loss
- Inform nearest insurance office or agent
- In case of damage to goods at ship or port, arrange for joint ship survey or port

## CLAIM DOCUMENTS

- ❖ Original Policy
- ❖ Bills of Lading
- ❖ Invoice
- ❖ Survey Report
- ❖ Debit note raised on insurance company
- ❖ Certificate of LOB : Lost over Board i.e. Lost During Loading, Unloading on/from Vessel

# ECGC - Export Credit Guarantee Corporation of India



## RISKS COVERED BY ECGC

### Commercial Risks (Buyer / LC Bank)

Insolvency

Protracted  
Default

Contract  
Repudiation

### Political Risks Covered (Country Risks)

Delay / Block in  
Payment Due to Govt.

War, Civil  
Disturbances.

New Import Restriction /  
Cancellation

Shipment Diversion /  
interruption

## RISKS Not COVERED BY ECGC

Commercial disputes –  
Quality / Quantity

Causes inherent in the  
nature of goods

Exchange rate  
fluctuation

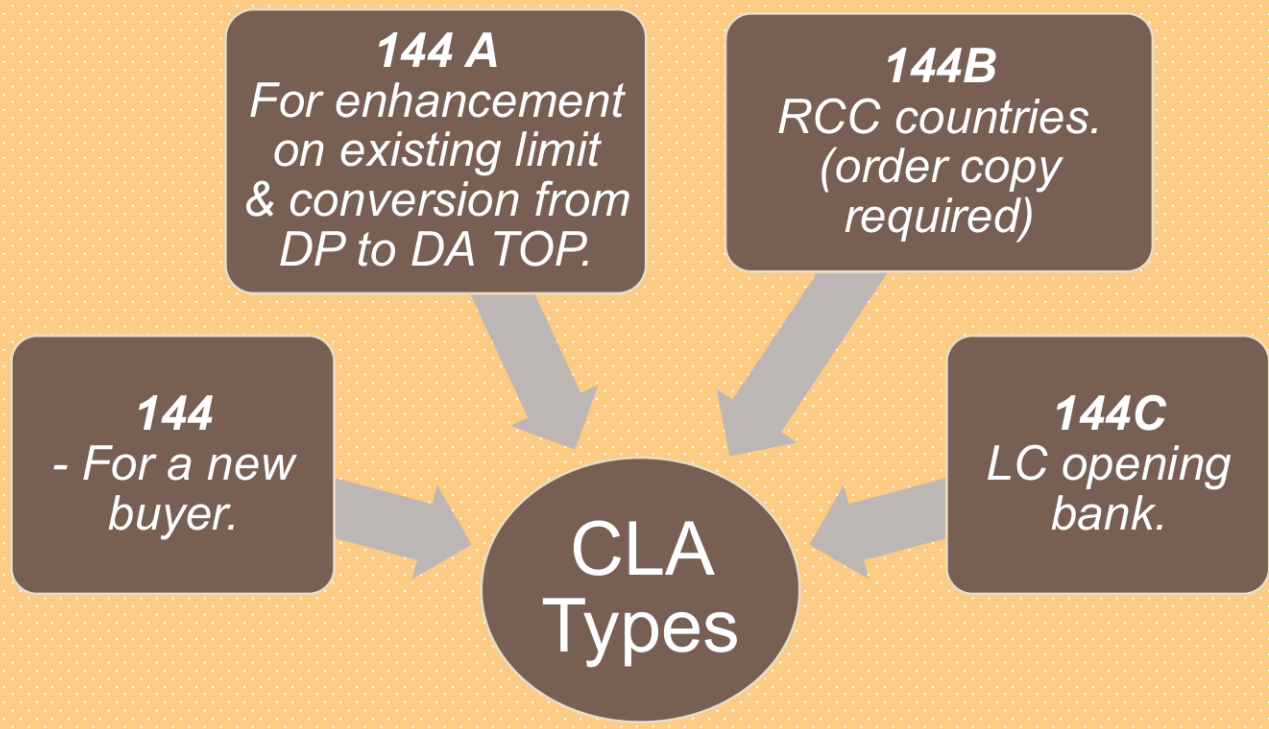
Agency Failure

Loss / Damage –  
General Insurance

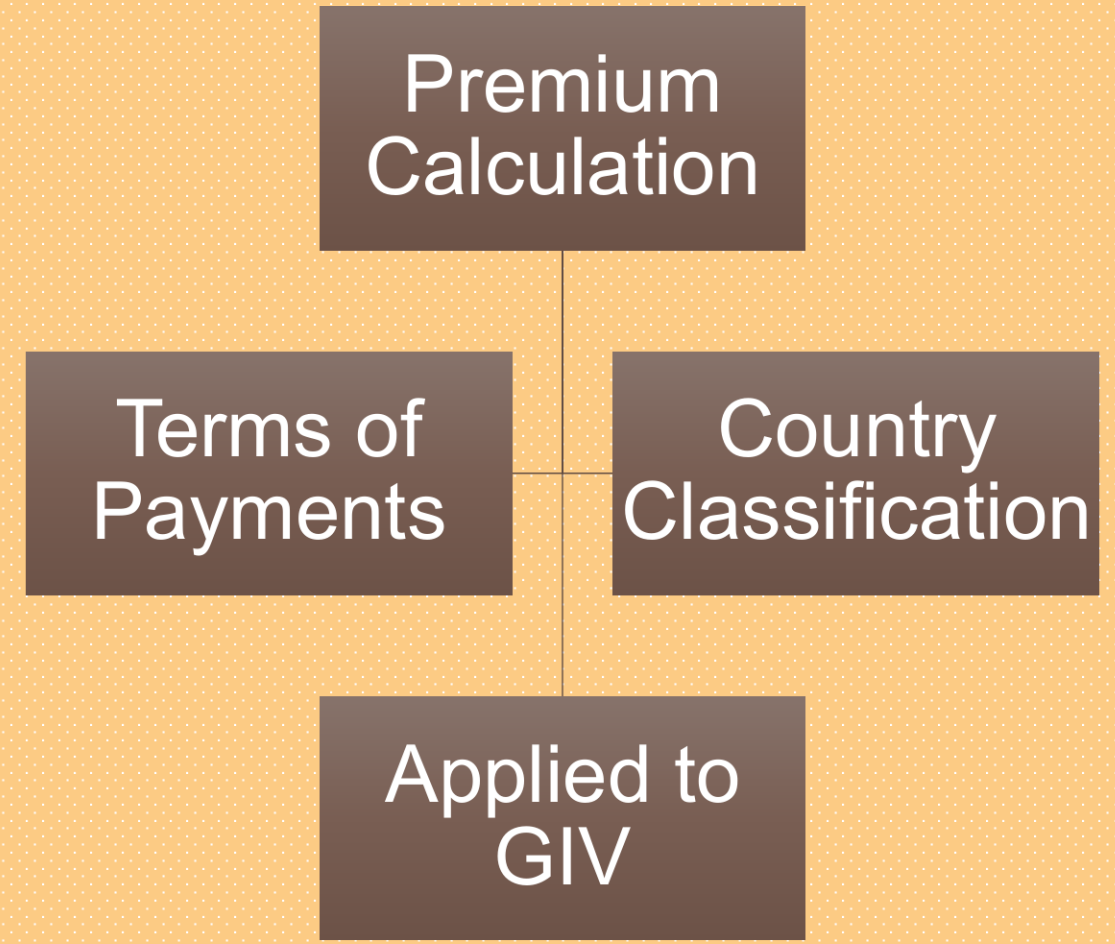
Failure to fulfill terms of  
contract

## LC Credit Limit and its Types

**Credit limit:** It is the limit up to which the Corporation may consider claim in the event of loss arising on account on commercial risk.



## Premium Charged



## Major Policy Products

### Declaration Based Policies

- Shipments Comprehensive Risk Policy
- Small Exporters Policy
- Specific Shipment Policy
- Buyer Wise Policy
- Export Turnover Policy

### Exposure Based Policies

- ❖ Single Buyer Exposure Policy
- ❖ Multi Buyer Exposure Policy
- ❖ Micro Exporters Policy
- ❖ Customer Specific Cover

### PREMIUM STRUCTURE BASIS

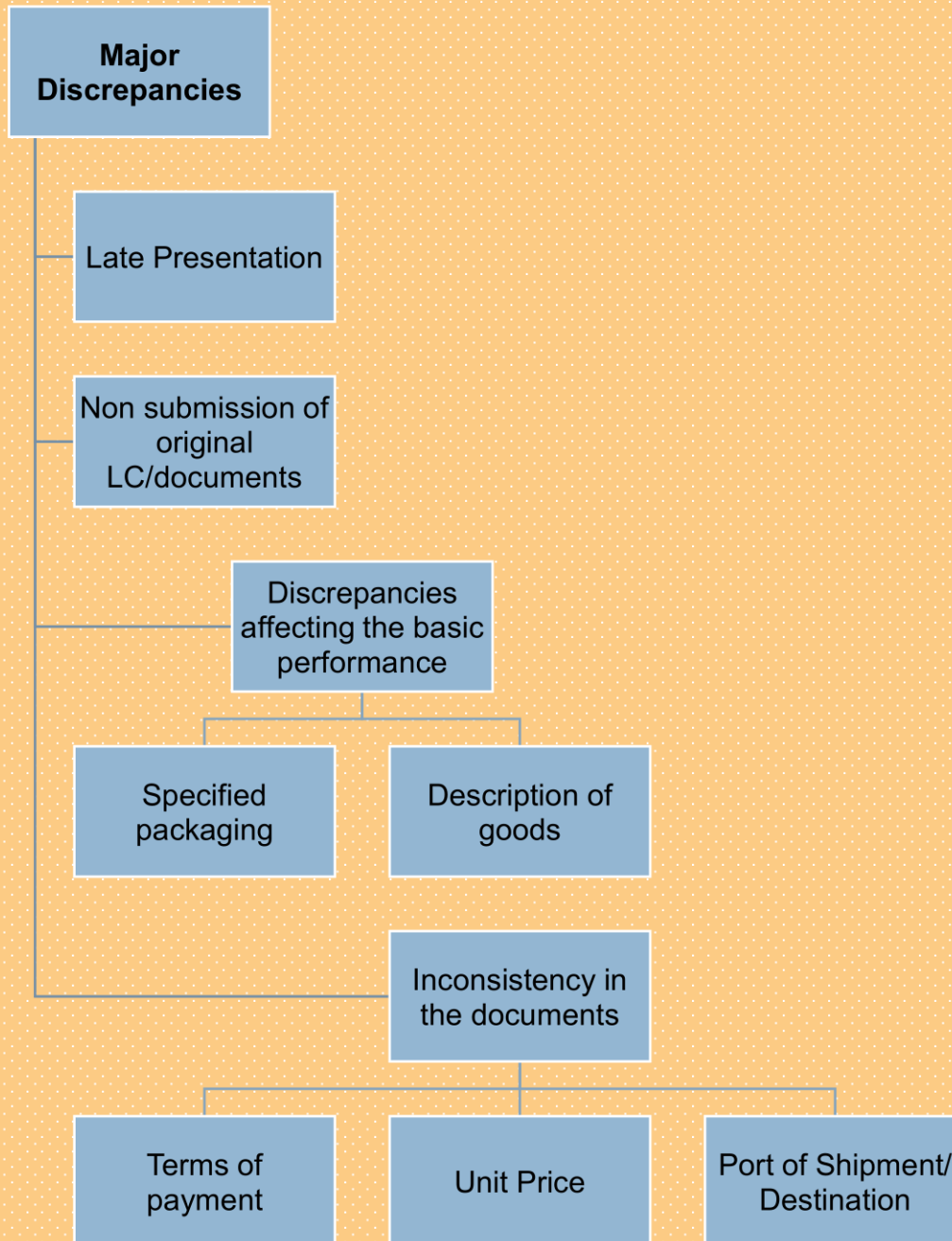
- Country Grouping - There are 244 Countries Divided into 7 fold  
Higher the Country Group, Lower the Premium Rates
- Group - Risk Category
- A1 - Insignificant
- A2 - Low Risk
- B1 - Moderately Low Risk
- B2 - Moderate Risk
- C1 - Moderately High Risk
- C2 - High Risk
- D (Restricted Cover) - Very High Risk

# Important Documents

- Contract/Order
- Invoice
- Bill of Lading/Airway Bill
- Non-payment advice from the foreign bank
- Original unpaid bill/accepted(s) of exchange
- Protest note
- Correspondence with original buyer
- Statement of exports for last two years
- Bank to certify the claim form & all other documents

# Claims

- Normal waiting period for payment of claim is 4 months after due date
- One month for insolvency cases
- Time period for lodgment: Within 360 days from the due date or 540 days from Policy expiring date
- % of cover – from 80% to 95% depends on type of policy



# DO'S

- Check Validity
- Advance Premium is Pre-paid
- Sufficient Credit Limit on Buyer / Bank is Taken

# FOREIGN EXCHANGE RISK MANAGEMENT

# FOREIGN EXCHANGE RATE FLUCTUATION RISK

- ❖ Rate Fluctuation means : Rate going up or down.
  - ❖ Exporter may occur loss if exchange rate goes down
  - ❖ Similarly importer may occur loss if exchange rate goes up.

## FOREIGN EXCHANGE CURRENCY RISK : Mitigation

### Booking Forward Contract with Bank (Hedging)

It is a **contract** between the **bank** and its customers in which the exchange/conversion of currencies would take place at future date at a rate of exchange in advance under the **contract**. ... **Forward contract** is used for hedging the foreign exchange risk for future settlement.

### Putting inward remittances in EEFC A/C

#### Eligible Credits

1. Advance inward remittance other than FCY loan raised or investment received from abroad
2. Export proceeds

#### Features

Non interest bearing  
Benefit: to save exchange cost  
Make payment for import



# International Maritime Dangerous Goods (IMDG) Code

The IMDG Code does however assign responsibilities to named persons or entities in certain cases, such as;

**1.Shipper:** for classification, assigning proper shipping name, packaging, marking, labelling, placarding, dangerous goods declaration

**2.Packer:** for packing of CTU and related responsibilities.

**3.Master:** of the vessel- responsibilities under (International Convention for the Safety of Life at Sea) SOLAS Chapter VII Part A & MARPOL Annex III

**4.Competent Authorities:** for granting exemptions and approvals





**TaxguruEdu**

**SN Panigrahi**  
**9652571117**