HANDBOOK

Good Practice in Foreign Trade

2013

MasterCard Worldwide

RGX
RED GLOBAL de EXPORTACIÓN

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Introduction

<u>About RGX, Global Network of Exportation</u>

The services of RGX offer strategic and highly qualified information, at a public as well as private level, to those responsible for the development of export and import activity. Being based in more than 35 countries allows RGX to undertake work of commercial intelligence and carry out market studies or sector research which serves as a key tool for export managers of small and medium sized businesses, chambers of commerce and business associations or agencies linked to the development and promotion of exportation. At the request of the interested party, this activity is completed with the design and execution of commercial plans in the destination market.

We invite you to get to know the essence of the Global Network of Exportation, the first multinational qualified network of specialists in international business which allows us to offer you not only a local service, but a GLOBAL one, with the advantages that this offers for businesses which wish to launch their process of internationalization.

<u>Countries with RGX presence</u>

<u>Fundamentals of the manual</u>

Since 2007 RGX has been working permanently on the task of undertaking research into the behavior of PyMe export in South America, with the object of developing good practice in export activity, such as identifying incorrect or absent practice, providing advice for the improvement of the sector and ways of strengthening the capacity of international competitiveness.

A great number of studies are undertaken in this manner at a regional level with the participation of PyMEs from different countries of the region: Good Operating Practice of Exportation (2007), Internet and New Technology (2008), Innovation (2009), Tools for Confronting the International Crisis (2009), Good Commercial Practice (2010), Technology as a Growth Factor of PyME Exporting (2010), Needs, Trends and Opportunities of Foreign Trade with China (2011), PyMEs 3.0 (2012), are just some of the published studies. The results of each study are presented using an average of 12 countries with an approximate total of 10000 PyMEs trained in good export practice.

With the support of MasterCard a Market Study of Good Practice in Foreign Trade was carried out, primarily focusing on the operative practice of international commercialization of the small and medium sized import and export businesses of Jamaica, The Dominican Republic and Trinidad.

As a result of this study the present Manual has been elaborated, in which Good Practice in Foreign Trade is identified and the methodologies to be employed in the successful conduct of international business are presented.

Manual of Good Practice in Foreign Trade

I. The means of payment in international commerce

One of the main matters of concern for exporters and importers, especially in the first operations, is payment for the merchandise. This is due to the fact that on the one hand there is a great distance between importer and exporter and limited knowledge of the other's market, and on the other hand, that there is inexperience in the use of the methods of international payment.

These different methods will now be described, going from the fastest, simplest and least costly, to the most expensive and complex.

<u>The most used methods of payment</u>

The exporter and importer must strategically negotiate the form of payment for the products to be imported in accordance with the terms of the Purchase Sale contract, taking into account the degree of confidence that exists between the parties, the different methods of payment and the cost of each one of those.

The four most frequently used methods of payment are: the credit card, letter of credit or documentary credit, documented collection or remittance and the order of payment or transfer.

These methods have the particularity of being able to be placed in a matrix such as the one below:

	Security	Speed(and burocracy of use)	Cost
Credit Card	Less secure for one of the two parties	The fastest, according to the agreement with the bank: from 24 to 48 hs	A lesser or similar cost to the order of payment and with the possibility of financing the importer until the end of the period and payment of his card t
Payment Order	Less secure for one of the two parties	Very fast	Low
Remittance	Intermediate	Relatively fast	Intermediate
Letter of Credit	The safest for both parties	Not fast	The most expensive

Each one of these methods will be analyzed now.

Credit Cards

Payment by credit card represents the quickest and least costly method for the payment and receiving of payment of international operations. This method is recommended for normal export/import operations because of its speed and that it does not drive the cost of the operations of foreign trade up and as a consequence the final product price remains lower than when using other methods.

Currently in international payments the Credit Card is gaining a greater presence as a tool for closing international operations. This is basically because:

- The option of credit cards is accepted by exporters as being simple, convenient and quick in effecting payment for their clients.

The card offers a simple payment option because it does not require physical displacement to the bank to carry out or receive transfers. With a simple sending of the information of the buyer's card the operation can be completed. The exporter will require a system of collection with the said card. In many cases, exporters offer the possibility of payment via this method to give greater benefits to their clients.

- Importers can finance the payment of the operations, by managing the operation against the end of the period payment of the card, gaining up to 30 days credit.

Payments for importations in the credit card are deducted from the account of the importer at the end of the same month, giving the importer extra time to fund the payment. The exporter will receive the payment in the moment of its appearance in his card, enabling him to advance it through a previous agreement with the bank.

- The general cost of payment and payment collection are low.

Depending on the agreement that each business has with its bank, the cost of the payment and collection with a credit card can be zero. The selection of this method is facilitated in smaller operations when commission is charged or operations without limit when such a fee is not demanded.

The payment by card can be prior to the embarkation of the merchandise or deferred (to a determined amount of days after the embarkation or even until the reception of the merchandise). The level of security for the commercial relationship between the parties is the same as a simple transfer because it is safe for advance payment (exporter) and payment against delivery (importer).

Documentary Credit

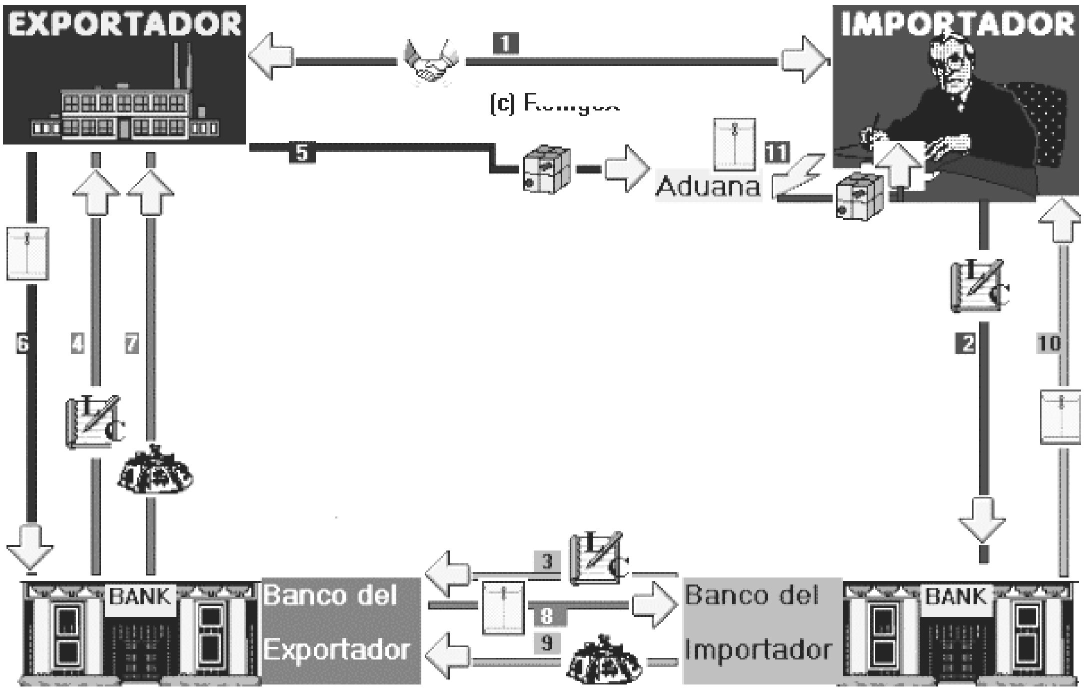
A documentary credit represents a commitment from a bank to pay a seller a certain amount for merchandise or services under the condition that the stipulated documents which confirm the embarkation of the merchandise or the execution of the services within a determined period are presented.

The documentary credit is an essential instrument nowadays in the development of international trade, and as much as it is an instrument of credit it is also a means of ensuring the payment and delivery of the merchandise or services referred to.

This double aspect has made it become the most common form of payment in foreign trade despite it being an expensive and relatively complicated method.

It is important for the parties to fulfill the commitments made in the contract, and to receive payment the conditions of the credit must be adhered to. Correct documentary evidence is required along with everything associated with the commercial contract. Failure to provide everything as requested may lead to non-payment or even to a rupture of the contractual relationship.

This is the basic model of the operation.



The basic sequence is the following:

1- The Purchase Sale contract is signed in accordance with that previously seen.
2- The importer requests his bank (which from the moment of opening the credit is referred to as the issuing Bank) to open a documentary credit in favor of the exporter.
3- The issuing Bank issues the credit and requests an intermediary bank (in the country of the exporter) to notify (and eventually add its commitment to pay) the credit to the exporter.
4- The notifying Bank advises the exporter of the credit and normally sends the Operative Instrument of Credit to the exporter which contains all the details relative to the terms and conditions to fulfill in order to receive the credit.
5- If the exporter agrees with the conditions of the credit, he sends the merchandise to the destination country in accordance with the agreed INCOTERM.
6- The exporter, once he has collected all the documents (which we have previously analyzed) presents them to the appropriate bank in his country.
7- The notifying Bank/ Confirmer checks the documents and if they are accepted, pays or negotiates (this last option being a credit paid in a period)
8- The notifying Bank/ Confirmer remits the documents to the issuing Bank.
9- The issuing Bank checks the documentation and reimburses the amount to the intermediate Bank.
10- The issuing Bank presents the documents to the importer who in turn pays or commits to pay in the future, receiving the documents in exchange in order to collect the merchandise.
11- The importer, with the documents, proceeds to collect the merchandise.

The documentary credits, according to the degree of security they provide, take three basic forms, within which there are other characteristics which are principally concerned with the place and form of payment.

The three forms are:

Revocable credit

A revocable documentary credit is one that can be modified or cancelled at any moment by the issuing bank, without previously advising the beneficiary.
As in most cases such action would be carried out by the bank at the request of the buyer. It can be deduced from this that the seller/ exporter must have absolute confidence in the buyer to accept a revocable credit as a means of payment of exportation.
The main advantage of a revocable credit is the speed and ease with which it permits payments to be made as well as it being cheaper than other forms of credit.
One needs to be aware that these types of credit are useful in those cases where the parties know and trust each other. If that is not the case then it would be advisable to use irrevocable credits or even confirmed ones.

Non-confirmed irrevocable credit

The non-confirmed irrevocable credit by the exporting bank (advising bank), is a commonly used form of credit. In this case the advising bank exclusively assumes the duty of advising or notifying the credit to the previously authorized beneficiary. The commitment to pay is exclusively that of the issuing bank.

Once the commitment has been made the bank cannot decline its responsibility without the consent of the beneficiary. It is therefore not possible to cancel or modify the credit unilaterally as may be the case with the revocable credit.

With this type of credit it is very important for the beneficiary to know in which place the credit is usable and payable. If it were usable in the place of the buyer the beneficiary would assume, faced with the eventuality of loss or theft, an additional risk of mail associated with the delivery of the documents.

The beneficiary must also take into account the period for the delivery of the documents to the foreign bank, a situation that changes completely if the said bank authorizes its correspondent overseas to take and attend the payment of the documents in their counters.

In this case, the bank of the exporter can take the documents and examine them carefully in order to make the payment, or negotiate the same if payment is deferred. It is necessary to point out that there is no obligation to do that, and more so, no responsibility is assumed in the examination of the documents.

The places where the credit is usable for the presentation of documents and payment, can be different.

On occasions, the exporter reacts when faced with these types of credits, requesting from his advising bank the confirmation of the credit. The notifying or advising bank can accept the petition and confirm the credit but in the absence of instructions from the issuing bank. This confirmation is done on its own account and at its own risk, without the issuing bank being obliged by its action in the terms of the Rules and Uniform Uses (RUU-500)

This is the so-called silent confirmation which is an individual commitment that a bank assumes for its client without the involvement of third parties.

Confirmed Irrevocable credit

With this type of credit the beneficiary enjoys two explicit recognitions of independent and abstract responsibility; through a part of the issuing bank (on issuing the credit in irrevocable form) and also on the part of the confirming bank. So that the confirming bank assumes the said commitment there are a series of conditions which must be fulfilled.

- The credit must be issued in an irrevocable form, that is, it must contain the commitment from the bank of the buyer from the moment of its issue.
- The credit must show the instructions or authorization to the correspondent bank so that the form of credit can be confirmed clearly and without mistakes.
- The credit must be usable and payable at the counter of the confirming bank.

- The content of the credit must be concrete and clear and must not contain ambiguous clauses or impede the credit from being used without reserves. The confirmed credit not only offers a high degree of security, but presents other types of advantages for the exporter. It can be used as an instrument of credit in transfer operations or to obtain loans.

In the case of confirmed credits with deferred payment, the Banks always appear disposed to discount or advance its amount.

Classes of credits according to the system of payment

A documentary credit, independent of whether or not it is confirmed by the designated bank, can be issued with diverse formulas of payment which always involve a commitment for the issuing bank of completing payment in the said conditions.

Any of these formulas will locate the action of the presentation of the documents in one of the two points that are mentioned below:

Credits usable at the counter of the issuing bank: the documents must be presented before the expiry date for payment, acceptance or negotiation in the bank that issued the credit, that is, generally speaking in the place of the importer/ buyer.

Credits usable at the counter of the advising bank and/or confirmer: the documents must be presented before the expiry date, in the bank designated by the issuer, that is, in the place of the seller/exporter.

Designating a place for the presentation of documents will be treated in accordance with the following:

Credits on sight

The beneficiary receives the amount after the presentation and examination of the documents. During a reasonable period of time (maximum seven working days) the bank examines each of the documents with a view to making of payment.

Credits of acceptance

With these type of credits the exporter sends an order from the issuing bank, or the confirming bank, or the buyer, which makes no sense in the current context of credits, or even from another bank, depending on what was outlined in the terms of credit.

Advance payment Credits

One should distinguish between assured advance payments or non-assured advance payments. In the first case, the bank of the beneficiary of the credit must issue a guarantee to the importer, that will be reduced by the amounts of the partial shipments of merchandise that are sent, the total paid out with the completion of the exportation. The non-assured advance payments do not protect the importer from possible abuses committed by the exporter.

Revolving credits

The revolving credit is one which after being used remains automatically renewed in its original terms for one or several times and for the period that the credit itself determines.

Often businessmen make purchases of more merchandise than they need with the goal of obtaining better prices. The delivery of the said merchandise is made in lots and at intervals that are agreed to previously. In these circumstances a revolving credit is particularly effective because it itself guarantees the payment.

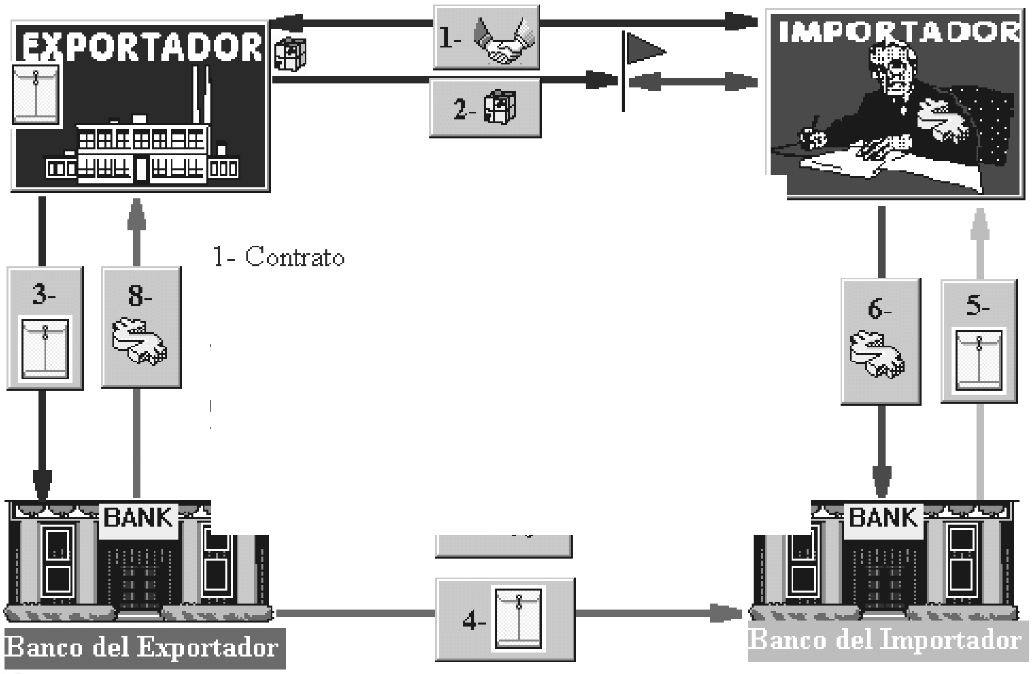
Collection or Documentary Remittance

The documentary remittance is a transaction effected by an entity of credit, society or bank, to obtain from a buyer the payment or acceptance of an order against the delivery of determined documents.

In a general sense, a remittance can be defined as the sending of funds, cheques, documents, etc. with a commercial purpose.

In this method of payment, therefore, the initiative to complete the operation is taken by the seller/ exporter who, once the merchandise has been remitted, collects the documents and gives them to an entity of credit so that its collection can be managed.

The model-graph is seen below:



1- The contract of Purchase Sale is signed
2- The exporter sends the merchandise
3- The documents (commercial and financial) are sent to his bank, so that the bank itself proceeds with the collection. He instructs the bank through a collection instruction.
4- The bank of the exporter uses the services of a correspondent Bank in the country of the importer, and sends the presentation documents to it.
5- The bank of the country of the importer delivers the documents to the importer.
6- The importer pays or commits to a future payment. With the documents the merchandise is distributed locally.
7- The remittance or the titles of credit are sent by the bank of the importer's country to the collecting bank (bank of the exporter)
8- The bank of the exporter finalizes the operation to the exporter

The structure of documentary remittances is determined by the instructions of the collection, that is, a remittance will be for collection or for acceptance according to the instructions forwarded to the remitting bank.

It is advisable to ensure payment through a documentary remittance under the following conditions:

- Seller and buyer know and trust each other well
- There is no doubt about the intentions and possibilities of payment on the part of the buyer.
- The existence of political, legal and economic conditions of stability in the importing country.
- The system of international payments of the importing country are unrestricted.

Some of the advantages of documentary remittance are:

- Simple and economic management
- Fastest form of payment
- Different possibilities of delivery of the documents.

The documentary remittance provides security so that the buyer will not receive the merchandise without it having been previously paid for or having accepted an order to pay, but it does not ensure a successful end to the operation.

Order of Payment or Transfer

Bank transfers constitute the fastest and perhaps best known method for the parties but they are also the least secure, at least for one of the parties.

It is the transfer of funds that is executed electronically from bank to bank, with the instruction to pay or credit the account of the Beneficiary.

Transfers can be prior to the embarkation of the merchandise or deferred (to a determined amount of days after the embarkation or even until the reception of the merchandise). It can be seen therefore that in one case or another there is a certain sense of helplessness for one of the parties.

The great difference with the letters of credit is that the Banks in this case only act as mandatory (as with remittances), that is, that they do not assume commitments to pay, but execute instructions from the parties. For these reasons there is a certain insecurity attached to using this method.

It is clear that this insecurity is reflected at the same time in the cost of the use of this means of payment. It is more economic than a letter of credit.

This method is not recommended in the first operations between parties, but more so when there is a growing trust between them and the quality of this financial system (as well as the political and economic situation) of the countries is reliable. The using of this system is beneficial because it reduces the total cost of the operation.

To summarize the above in relation to the 4 methods of payment mentioned, it is necessary to consider that combinations of these systems can be used, for example, a percentage as a transfer in advance and the rest with a letter of credit with delayed payment.

II. Formalization of the contract

Once the exporter and the importer have initiated the steps needed to undertake an international purchase-sale operation, the exchange of documents which reflect the export offer and lead to the production of a contract are required.

Two variables may occur at this point:

1- The sending of a quote request from the importer

2- The exporter prepares a list of standard prices for a determined quantity of merchandise and sends a QUOTE OFFER

In both cases the documents are informative without any commitment being made by either party. Only product, quantity and price are referred to. In all likelihood, informal interchange of communication is entered into at this stage, accompanied by the sending of a product sample, along with clarifications, technical specifications of the product, notification of regulation demands, etc. It is important to note that a process of NEGOTIATION is being entered into, in which the determination of who the contact person is in the foreign market is of absolute importance. To understand this concept two extremes are mentioned which will allow you to appreciate the multiple variants that there may be between the two:

1- Large export/ import Company: will surely have their sale policy well defined with little left to do. In this case the conditions of price, quality, packaging, payment forms, deliveries, etc will normally include taxes.

2- Small import/export Company: here negotiation is possible to such an extent that the buyer may even be able to impose his own conditions of price, forms of payment, etc.

Whatever the case is, as negotiations advance, the relation must be formalized by the signing of a contract. It is important to point out here that a sale/purchase contract is formalized in written form, listing all clauses concerning the operation in detail, validating legally through affidavits and the organisms that internationally validate the same. But this modality will only be employed in the first instance or when it involves an important supply contract where the dates and quantities to be delivered are established in a determined period of time.

The frequency and speed required in the operations, has resulted in the need for other documents in international commerce which replace the written contract and other types of agreements undertaken by the parties with which we are familiar.

These documents and sequences may be:

1- The importer sends a purchase order: a document which reflects the intention on the part of the importer to buy the merchandise in the quantities solicited, with delivery times stipulated and the shipment paid for under determined conditions.

2- The exporter sends a pro-forma invoice with all the details of the operation.

The pro-forma invoice is the document which reflects all the information regarding the foreign quote offer. It is important to note that this document usually follows the format of a domestic commercial invoice with some additional details of the operation, without reference to tax. The most significant information it contains is:

- Exporter information : name address, telephone, mail, pro-forma numeration
- Consignee of the pro-forma (importer and his details)
- Detailed description of the merchandise
- Quantity, brief description, unitary value and total of the merchandise and currency quoted
- Date of issue and date of validity of the offer
- Conditions of delivery, delivery period and form of payment
- SALE CLAUSE: INCOTERM
- Law applicable to the operation (normally the clause of arbitrage of International Chamber of Commerce of Paris is used)
- Signature of the person responsible in the exporting business.

Bear in mind that the acceptance on the part of the seller (exporter) of a purchase order sent by a buyer or the acceptance by the importer, of a pro-forma invoice sent by the selling company, formally constitutes the CONTRACT OF INTERNATIONAL PURCHASE SALE OF MERCHANDISE, in accordance with that established at the Convention of Vienna with regard to International Sale Purchase of Merchandise in 1980, which has been received and converted into law by the effective totality of countries who engage in foreign trade. For this reason these documents need to be prepared in a rigorous and detailed manner.

Before going any further the Law Applicable to a purchase sale contract needs to be determined. The parties can choose any juridical regulation under which the contract can be prepared, that is, the law of the selling country, the law of the buying country or a third different regulation. It is normal that the parties are not familiar with other legal regimens and therefore they usually opt for the clause of arbitrage of the International Chamber of Commerce of Paris:

a- Determine the negotiation upon the Law that applies.

b- It constitutes an alternative mechanism to the procedures of ordinary justice, which in some cases usually implies less time and costs.

In practice 99% of the cases of litigation will be resolved by way of agreement between the parties, although, it is always important to mention the Applicable Law. A clause from the charter of The International Chamber of Commerce states:

"Every difference derived from the present contract or in relation to it will be resolved definitely according to the Regulation of Arbitrage of The International Chamber of Commerce through one or several arbitrators designated in accordance with the regulation"

Finally in the following links from RGX's site, the models of contract can be downloaded, which can be used in international Purchase Sale operations:

Pro-forma Invoice: http://www.rgxonline.com/web/?p=1926

International Purchase-Sale contract: http://www.rgxonline.com/web/?p=1928

Representation Contract: http://www.rgxonline.com/web/?p=1929

III. INCOTERMS

From this contract the essential element, INCOTERM, which will define the principal obligations of the operation is expressed in the sales clause. INCOTERMS are international rules for the interpretation of the commercial terms established by the International Chamber of Commerce (www.icc.org)

In total there are 11 INCOTERMS, after the last revision realized in 2010. Each one of those clearly defines the obligations of the importer and exporter, the delivery of the material, the responsibility of the risk of the merchandise during transportation, the sharing of costs related to the exportation and the necessary documentation:

DELIVERY	COSTS	RISKS	DOCUMENTS
Moment of the obligation of delivery of the merchandise	Who covers the costs, principally transport and insurance	Who accepts the risks: robbery, loss, deterioration, etc.	Who is responsible for the documents, steps to be taken, customs formalities, etc.

As well, they define the point up to which the exporter is responsible for the merchandise, what the loading costs are and their inclusion in the price offered by the seller.

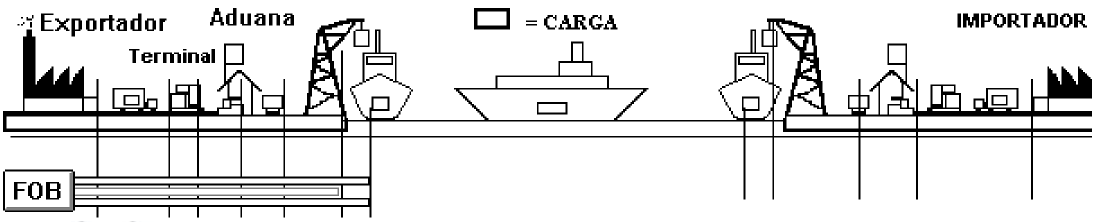
DEPARTURE GROUP	E	EXW	Ex fabrica	Ex Work
GROUP Without principal transport payment	F	FCA FAS FOB	Franco transportista Franco junto al buque Franco a bordo del buque	Free Carrier Free Alongside Ship Free On Board
GROUP With principal transport payment	C	CFR CIF CPT	Coste y flete (*) Coste, seguro y flete Transporte pagado hasta	Cost And Freight Cost Insurance Freight Carriage Paid To Carriage And

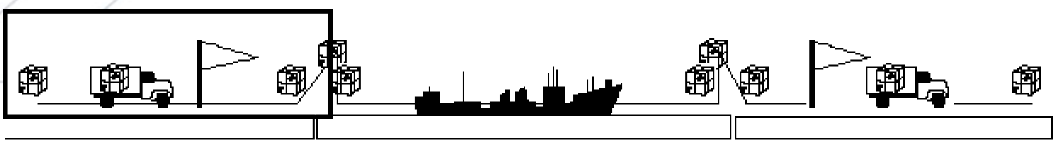
		CIP	Transporte y seguro pagado hasta	Insurance Paid
ARRIVAL GROUP	D	DAT	Entregada en Terminal	Delivered At Terminal
		DAP	Entregada en lugar convenido	Delivered At Place
		DDP	Entregada derechos pagados	Delivered Duty Paid

As is usual in first operations the parties normally use sales clauses in which the responsibilities to be fulfilled in the country of origin or departure of the merchandise are assumed by the seller and those in the destination country by the buyer.

Two of the terms that are commonly used are detailed underneath along with a brief explanation of all the terms.

FOB CLAUSE (FREE ON BOARD TO THE SHIP IN THE EMBARKATION HARBOR)





The term FOB is only used for maritime or internal water transport

The most important characteristics of the FOB clause are summarized below:

The seller must supply the merchandise according to the agreement reached in the Purchase Sale Contract and the buyer must pay the amount according to that outlined in the cited contract.

The seller must deliver the merchandise as free exportation, that is, that whatever export license or other official authorization must be obtained at his own risk and cost and this must fulfill all the necessary customs formalities for the exportation of the merchandise.

On the other hand, the buyer must obtain, at his own risk and cost, all the documents relating to the process of importation and/or transport of the merchandise. The contract of transport and the corresponding insurance is the buyer’s responsibility.

The seller must deliver the merchandise within the agreed period at the agreed port of embarkation and in the accustomed form of the port, on board the ship designated by the buyer. The buyer must receive the delivered merchandise within the contractual terms.

It is the responsibility of the seller to assume the risks of loss or damage of the merchandise until the moment it is on board the ship in the agreed embarkation port. If using containers the condition FCA should be used, for the delivery is made not onto the ship but to the reception of the transporter.

The buyer must support all the risks of loss of and damage to the merchandise from the moment in which it has passed on board the ship in the agreed embarkation port.

The seller must pay:

a) All the costs related to the merchandise until the moment it is on board the ship in the agreed embarkation port; and

b) When it is pertinent, the cost of the necessary customs formalities of exportation, such as all the rights, taxes and other charges paid for exportation.

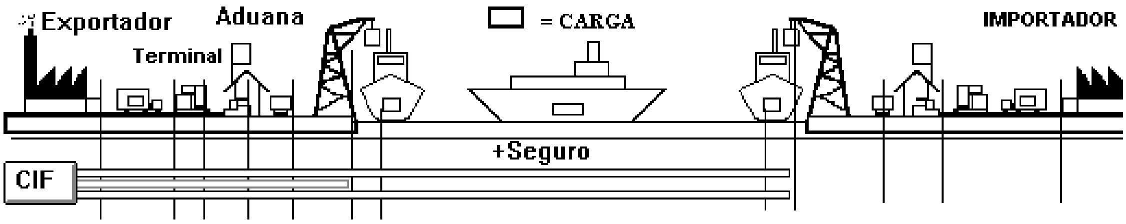
Costs posterior to these moments indicated belong to the buyer.

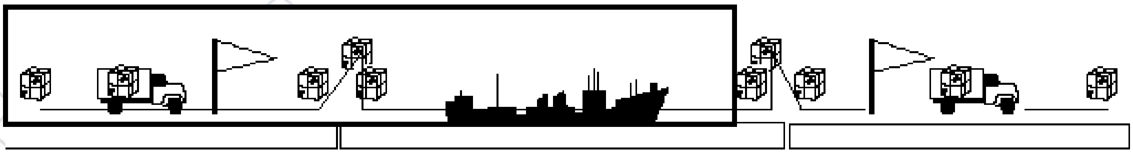
The seller must give the buyer sufficient notice that the merchandise has been delivered in accordance with the contractual terms. On the other hand, the buyer must state at his convenience the name of the ship, the point of loading and the date of required delivery.

The seller must provide the buyer, at the seller's expenses, the usual proof of the delivery of the merchandise in accordance with the Purchase Sale contract and the buyer must accept the proof of delivery.

The seller must pay the costs of the operations of the verification (quality checking, measurement, weight, recount) necessary for the delivery of the merchandise in accordance with the contract of Purchase Sale.

CLAUSE CIF (COST, INSURANCE AND FREIGHT, TO THE DESTINATION PORT)





The INCOTERM CIF is only used for maritime transport. CIF = CFR + Insurance = FOB + Transport + Insurance

The responsibilities of the parties relating to the chosen INCOTERMS are described briefly below.

EXW (Ex Works) – The seller is obliged to put at the disposition of the buyer in his establishment or convened location (factory, workshop, warehouse, etc), without dispatching it for exportation or effecting loading in the receiver vehicle, concluding his obligations.

FAS (Free Alongside Ship)- The delivery of the merchandise is realized when it is placed by the seller beside the ship in the arranged embarkation port. All costs and risks of loss or damage to the merchandise from that moment are the responsibility of the buyer. This INCOTERM demands the seller to dispatch the merchandise through customs for exportation.

FOB (Free on Board) – The seller has the obligation of loading the merchandise on board the ship in the embarkation port specified in the sale contract. The buyer selects the ship and pays the maritime freight. The transfer of risks and costs is produced when the merchandise exceeds the ship's rail. The seller is in charge of the formalities of exportation.

FCA (Free Carrier) – The seller delivers the merchandise and dispatches it for exportation to the transporter named by the buyer in the agreed place. The chosen delivery place determines the obligations of loading and unloading of the merchandise: if the delivery occurs in any other place, the seller is not responsible for the unloading.

CFR (Cost and Freight) – The seller pays the costs of transport and anything else necessary for the merchandise to arrive at the agreed port, the risk of loss or damage to the merchandise is transferred from the seller to the buyer once it has been delivered on board the ship in the embarkation port. The seller is also required to dispatch the export merchandise. The insurance is at the cost of the buyer.

CPT (Carriage Paid to) – The seller contracts and pays the freight of the merchandise to the agreed destination. The risk of loss or damage is transferred from the seller to the buyer when the merchandise has been delivered to the custody of the first transporter designated by the seller, in the case that several exist. The dispatching through export customs is done by the seller.

CIF (Cost, Insurance and Freight) – The seller has the same obligation that exists under CFR , which requires him to contract and pay the premium of the maritime insurance cover for the loss or damage of the merchandise during transport, concerning himself also with the dispatching of the merchandise through customs for exportation.

CIP (Carriage and Insurance Paid to) – This term obliges the seller in the same way as CPT as well as requiring him to contract the insurance and pay the appropriate to cover loss or damage during transport although only obliging him to contract insurance with the minimum cover.

DAT (Delivered at Terminal) – The seller fulfils his obligation when after having dispatched the exportation the merchandise is delivered to the port terminal of the destination country.

DAP (Delivered at Place) – The seller fulfils his obligation when after having dispatched the merchandise in customs for exportation the delivery is made at a point specifically agreed to with the importer, generally in the destination country.

DDP (Delivered Duty Paid) – In this term the seller completes the delivery of the merchandise to the buyer, dispatched for importation and not unloaded from the mediums of transport at its arrival at the agreed place in the country of importation. The seller assumes all the costs and risks, including rights, taxes, and other charges to send the merchandise to that place, once dispatched in customs for importation.

IV. International Documents

Once the contract has been perfected it is necessary to process the operation. The exporter should begin to process the documents and undertake the necessary actions to be able to ship the merchandise. With respect to the documents, the usual procedure for a FOB operation is:

- COMERCIAL INVOICE: will contain most of the information of the pro-forma invoice. Letterhead, consignee, quantity, unitary Price, total Price, INCOTERM

- TRANSPORT DOCUMENT: is obtained once the merchandise, the object of international transport, is delivered to the transporter. In the table below the name of the document is detailed in relation to the type of transport.

Maritime Transport	Bill of Lading
Air Transport	Air Waybill
Road or Rail Transport	Carrier’s letter
Multi-mode Transporte	Document of Multi-mode Transport

- CERTIFICATE OF ORIGIN: On demand of the importing country or through the existence of a commercial agreement that wishes to preserve (framework of zones of free trade, arranged with preferential tariffs) the need to process and establish the certificate of origin which protects the merchandise and that later will be needed by the importer. An original and 2 copies is issued and cannot be amended or erased. Its validity period is 180 days from its issue and it cannot have a date anterior to that of the issue of the commercial invoice that covers the embarkation. Dependent upon the destination market requiring different formats.

- Packing list: This is the document that describes the contents, net and gross weight, conditioning and wrapping of the merchandise which is to be exported. It is issued by the exporter and contains the following information: place and date of issue, exporter's details, consignee's details(normally the importer), marking and numeration of the packaging, medium of transport to be utilized, quantity of boxes/bags and product description, net and gross weight of the boxes/bags, description of wrapping, signature of the exporter.

- Other documents that could be demanded by the country of exportation or by the importer: depending on the commercial relationship between the parties, on the countries involved and their regulations of foreign trade, there may be different documents to process. Some are mentioned here by their title: health certificate, certificate of weight, consular visa, quality certificate, etc.

- Documents demanded of the importer which must be realized in the country of importation. There are several types of goods which must be analyzed before being imported. Generally a certified organism will issue a study result of samples so that permission to import can be issued.

Once all the documents that correspond to the agreed clause of sale, plus any additional permission such as the one listed above, are collected, then the exporter can start to process the payment of the operation, which will depend on the medium of payment chosen. After the analysis of the FOB value, the different variables that are available to bill the operation will be analyzed.

V. Integration of the price of exportation and the "landed" price

Determination of the FOB Price

From the exporter's point of view it is necessary to take care in establishing a calculated and reasonable price for the product. For this purpose the formula for obtaining the FOB price will be analyzed so that this can be later modified and provide the exporter with a base for making accurate quotes with other sales clauses or INCOTERMS included.

It needs to be pointed out that the INCOTERM FOB is used for maritime transport, when the price has to be established for other mediums of transport which are similar to FOB in their obligations, the INCOTERM used is FCA.

The following products are excluded from our analysis:

i) Commodities, because the prices are established by the market and are very well known
ii) Merchandise covered by prestige brands or invention patent. These products present characteristics of monopolistic or near monopolistic prices.
iii) Products manufactured on request
iv) The sales of Complete turnkey plants and similar, because the quote exceeds that of an individual product

The FOB Price corresponds to the correct quantification of the diverse systems involved in an export operation. In particular, the systems referred to are:

a) Customs Agents
b) Fiscals
c) Finance
d) Ordinary and extraordinary risk insurance
e) Export rights
f) Promotions
g) Other costs and/or rules: Commission, Packaging and wrapping, etc.
h) Utility

Calculation of FOB price

In the process of calculation of the FOB Price, the exporter will find different costs expressed in percentages which depend upon the end result: customs agent, export tariffs, intermediaries, etc. For this reason the calculation of the FOB must be produced by means of a formula where the FOB is the unknown factor.

The Formula for the FOB Price is based upon the following premises:

a) All the benefits that the State grants relevant to the exportation reduce the final sale Price.
b) The exporter will have as his only payment the margin of utility established.

In this respect we can start with the following parity

(I) FOB = Total Costs in Monetary Units (GUM)

GUM corresponds to those costs that present themselves as amounts, whose determination is not in accordance with the final FOB Price. For example the Costs of Production, packaging and wrapping, loading costs, etc, which are known by the businessman prior to the establishment of the FOB. However, these costs form part of the FOB price but the determination of their amount is independent of the FOB. GUM integrates them into the final FOB price.

(II) FOB + (Refunds x FOB) = GUM

Every monetary refund or quantifiable benefit in money that is granted by the Government with regard to exportation will facilitate a reduction of the final FOB Price to the exporter.

(III) FOB + (R.FOB) = GUM + (Costs x FOB)

The costs that originated the operation are added but their calculation is related to the final FOB Price. In (I) the costs are treated in monetary units and on this occasion those expenditures such as the Custom's agent or dispatcher's fee, the diverse commissions for intermediaries, etc, are established in terms of a percentage of the final FOB Price of sale to the exterior. In the supposed case that a determined concept like, for example, the fee of the Customs Agent is agreed to as a fixed sum, 2000 UM for example, this amount is included in point (I). This is relevant because the costs are presented in UM and not as a percentage of the OB. This is valid for every concept indicated in the FOB Price formula.

(IV) FOB + (R. FOB) = GUM + (Gs. FOB) + (Utility x FOB).

The parity is completed incorporating the Utility, on this occasion calculated as a percentage on the final FOB Price. In the supposed case of choosing a fixed sum, for example 5500 UM, it will be treated in singular form to the concepts that integrate GUN, not as a cost, but as a Utility.

Below the FOB is clarified further from the equation indicated in (lV). It is therefore appropriate to notate (Gs. FOB) and (U.FOB) with a negative sign.

(V) FOB + (R.FOB) - (Gs...FOB) - (U.FOB) = GUM

The Common factor FOB is obtained below

(VI) FOB + FOB (R - Gs. - U) = GUM

The FOB is obtained again as a common factor

(VII) FOB (1 + R – Gs. – U) = GUM

The formula for the FOB price is obtained

(VIII) FOB = GUM / 1 + R - Gs. - U

The formula expresses the following: in the Numerator all the concepts that originate costs are included (or costs that for this analysis are treated as synonyms), or Utility, if the same is established as a fixed sum, expressed in Monetary Units (pesos, dollars, pesetas etc.) In the Denominator the value "1" represents the FOB Price, "R" the tax benefits to be calculated on the FOB, the "Gs", the sum of the percentages of costs that impact on the product and the "U", the expected utility, both in relation to the FOB Price.

Example

The business EXPORTAPYME S.A. is a PyME which has devoted itself for more than ten years to the production and sale in the domestic market of the product "X285". The business is a viable concern. Nevertheless, despite its indicated merits it is experiencing a strong downturn in its sales as a consequence of the reduction of the purchasing power of the population as well as facing increased competition from imported products.

The business has grown and developed in the internal market, without any contact with another market. The supplies that are used in the productive process are acquired in the local market and the personnel of 45 people has an average of seven years of employment. This personnel is made up in the following way: 30 workers, 10 employees in administration, and 5 directors. The business invoices u$s 1.800.000 annually.

Recently a certain party has presented himself with the intention of purchasing a certain quantity of product "X285" and having it sent to a bordering country. The sales manager diligently seeks commercial information from the said person and the result of this is favorable in both a commercial and personal sense. Among the conditions of the operation, the buyer has requested the company EXPORTPYME P/L, the exporter of the product, for a FOB quote.

The order is for 3000 units. The buyer offers payment in advance.

As a consequence of this request the FOB Price must be determined and the accountant has proceeded to:

a) Ensure registration in the appropriate Register of Exporters and Importers of the country.
b) to request information and contract a professional customs agent,

At the same time, on the basis of the accountable information available and in accordance with the consultations that have been completed, the Company Accountant, has concluded that the operation is affected by the following concepts:

a) Cost of Production (labor, materials and manufacturing costs): 35000.-
b) Costs of preparation of the order (wrapping, packaging, internal conditioning, etc.): 2500.-
c) Other costs (transport and internal insurance, loading costs, etc.): 1350.-
d) Sales and Administration costs (estimated calculation):500.-
e) Formalities, verifications and necessary controls for the exportation of the merchandise: 250.-
f) Customs agent's fees: 2% of FOB
a) Budgeted utility: 10% of FOB

A. Determination of the FOB Price

1. FOB (numerator) = 35.000 + 2.500 + 1.350 + 500 + 250 = 39.600.-
2. FOB (denominator) = 1 - 0,02 - 0,10 = 0,88
3. FOB Price = 39.600 / 0,88 = 45.000.-

FOB Price per unit:

FOB Price 45.000 / 3.000 units = 15 per unit

Quote in other INCOTERMS and DDP or "Landed" Price

To calculate the final price of the products exactly it is important to know the different instances of costs that appear in the process of importation of the merchandise.

Within these costs the largest items are freight, insurance and the logistical costs (warehousing, port, airport, customs agents). The total of these costs, as can be seen in the next table, lead to quotes under most INCOTERMS. Nevertheless, to calculate the price of the INCOTERM DDP or landed price, it is necessary to analyze the additional tax of the imported merchandise in the destination country and to include it in the cost. This added tax is expressed in taxes or import tariffs.

There are two types of import tariffs:

1- Tariff Ad-valorem: is that which is applied indirectly to the CIF amount, that is, a percentage is applied to the CIF amount. For example: 15% of CIF

2- Specific tariff: is that which applies a monetary unit for a unit of measurement. For example: USD 3 per kilogram

Once the tariff treatment of the products is obtained the landed Price can be calculated and the tributary amount to pay. The following needs to be taken into account at this point:

1- The import tariff is calculated on the base of the CIF amount
2- Once the tariffs have been calculated they can be added to the taxable base for tariffs to form the IVA Base: TARIFF TAXABLE BASE + TARIFF = IVA TAXABLE BASE
3- To the IVA taxable base the IVA relevant to the country of importation must be applied.

Table of calculation of the Price of the DDP or "Landed"

Items	Values	
1. INVOICED AMMOUNT OVERSEAS	Estimated	Real
1.1. F.O.B. (FREE ON BOARD) 1.2. Commissions of purchase		
2. INSURANCE AND INTERNATIONAL TRANSPORT		

2.1. International transport (unloading included at the port) CPT or CFR 2.2. International insurance CIF or CIP or DAT or DAP Total CIF		
3. IMPORT TARIFF AND INTERNAL TAXES Base taxable tariffs (CIF – COMMISIONS PAID OVERSEAS THAT HAVE BEEN INVOICED AND RECONCILED) 3.1. Import tariff Ad-valorem Base taxable IVA (CIF + TARIFF) 3.2. IVA		
4. Customs agent 4.1. Customs Agents fees 4.2. Costs of import office 4.3. Cost of certifications DDP OR LANDED PRICE		
5. TRANSPORT AND INTERNAL INSURANCE 5.1. Internal transport 5.2. Internal insurance		
TOTAL PRICE IN WAREHOUSE		

VI. Transport and international insurance

Transport

In foreign trade, transport is an element of vital importance. There are 3 distinct phases in the transport of the merchandise.

- Local transport to the departure point of leaving the country
- International Transport
- Local transport at the destination country to the warehouse of the buyer.

Logistics play a part in all of this and different services need to be studied.

- Packaging, labelling, etc.
- Unitarización (placement in containers, pallets, etc.)
- Management in fiscal stores accessible to local customs.
- Processing of the permission for embarkation (customs permission for the departure of the merchandise overseas)

- Management, reservation and contracting of international transport, etc.

One of the alternatives that the business must choose is to assume these tasks on their own account or engage a third party. If opting for the last option there are also alternatives relating to specialized businesses working in the field (loading agents, freight forwarders, etc.) which the businessman needs to be familiar with, especially in regard to doing the equations of cost-benefit in each case, depending on the cost factors, times, type of merchandise, etc.

Within this spectrum of decisions, one of the most complex is the appropriate selection of the specialized business, whether that be on land, sea or air. An incorrect choice of this intermediary can result in the business failing.

The aspect of the information of the fate of loading is today an indisputable detail within the modality “just in time” which many businesses use in their efforts to avoid producing extra costs through excessive loading of stock. For this reason, if it is decided to contract a multimodal service or one of the so-called “door to door” services, it needs to be ensured that the service fulfills the promises made by the transport company salesman.

On deciding to use a loading or logistical service of a business, an analysis of the seriousness, capacity and effectiveness of the said service must be made. In these cases it is not always a low cost-benefit-service relationship which is paramount but one that provides security and reliability in accordance with that promised.

If you work with products that require special treatment it is advisable to use logistical businesses that specialize in determined fields of transport, such as perishable loading, bulk loading, refrigerated, liquid, heavy loading, etc.

In respect to international transport the analysis about the adequacy of the method obeys 3 basic factors.

a- Nature of the merchandise: all merchandise has what is referred to as affinity value, that is, for each different product a certain medium of transport is recommended. Examples: bulk and great volume merchandise by maritime transport, small volume and high value merchandise by air transport, etc. Likewise, there are products that need fast transport because of their perishable nature.

b- Geographic location of the buyer: Undoubtedly, this imposes the necessity of recurring to mediums of transport that permit deliveries in a manner agreed to. For example, merchandise can not be sent to Bolivia by ship.

c- Commercial situation: it is very important especially in reference to the necessity or not of immediate and fast availability of the merchandise on the part of the buyer.

In this context, aspects connected to transport are commonly linked to a clause of utilized sale. For example, if a quote is made with the clause EXW follow up is not necessary. If the quote is made with the clauses from the group “F”, we must procure the adequate transport to ensure the delivery of the merchandise in the correct period of time and condition, but we are not under any obligation to pay for the corresponding amount to international transport. And finally if the clauses are from the groups “C” and “D” not only must we procure the international transport but it also must be paid for until arrival at its destination.

Maritime Transport

Maritime transport moves the greatest volume of merchandise in foreign trade. It is practically the only economic method for transporting great volumes of merchandise between locations geographically distant from each other. The flexibility of this medium of transport should be pointed out because it permits small loads from 100 Ton Dead Weight up to 300000 tons to be transported. As well there are ships adapted to every type of merchandise.

One disadvantage of maritime transport is the time taken to deliver the cargo to its destination port. This may involve the tying up of the company’s financial resources while the ship is on the high seas.

INCOTERMS utilizable: all
INCOTERMS recommended: FAS, FOB, CIF, CFR, DAT.

Air Transport

Air transport of freight has grown considerably in recent years. Nowadays there are companies which specialize exclusively in this form of transport. I.A.T.A(Association for International Air Transport) has simplified the use of documentation for transport via air, unifying tariffs and conditions of transport. The price of the transport can be paid for in advance or at the destination and even against reimbursement. The most important characteristic of this type of transport is the speed, which makes it the irreplaceable medium of transport for perishable products (fish, flowers, etc.) and for merchandise of high value.

Other advantages of this type of transport are:

- It allows markets of difficult accessibility to be reached. (for example Central African countries)
- It reduces the cost of packaging (handling is more careful)
- It reduces the costs of documentation when using the Charter of the Air Carriage.
- The insurance premiums for air transport are lower than they are for other forms of transport.
- According to the form of payment agreed to, it can reduce the financial cost of having financial resources tied up.

The document of air transport is the AWB. Although this document will be analyzed in the next didactic unit, the principal characteristics are presented below. They are issued by the air companies in sets of three originals with a minimum of six copies.

INCOTERMS utilizable: EXW, FCA, CPT, CIP, DAP, DDP.
INCOTERM most utilized: FCA

Road Transport

Road transport is the only medium of transport capable of completing by itself a "door to door" service, that is, the merchandise can be collected from the factory of the exporter and be delivered directly to the importer. The principal advantages of road transport are:

- Accessibility: the truck can get to many places that the other mediums of transport cannot.
- Speed: the route can be varied depending on road conditions (traffic jams, climatic conditions, etc.)
- Versatility: it allows the transport of small packets to large volume items. It also allows the transport of solids, liquids and gases.

It is also a medium of transport which facilitates the maneuvers of loading and unloading.

Given its versatility it is an indispensable medium for factories that work with "just in time" and it serves also to attend to upturns of demand in a rapid manner.

The two main disadvantages are:

1) Transport by truck can be affected by traffic congestion.

2) High accident rate

INCOTERMS utilizable: EXW, FCA, CPT, CIP, DAP, DDP.
INCOTERMS most utilized: FCA

Multimodal Transport

This is the transport which embraces different methods of transport (maritime, land, etc.), under a single document and formalized in a single transport contract. The definition according to the Convention of the United Nations on Multimodal International Transport:

"it is the carriage of merchandise by at least two different mediums of transport, in virtue of a multimodal transport contract from a place situated in a country in which the multimodal transport operator takes the merchandise under his custody to another place designated by the delivery, situated in a different country."

Insurance

A common error that importers and exporters commit is to contract insurance on the merchandise when it is not required. Many times both businesses insure the merchandise in the same international trajectory, producing a double insurance which makes the international operation more expensive.

It is important to point out that the insurance contract should be attended to by whichever party is responsible according to the INCOTERM which was agreed to in the first place. In this manner if the operation is carried out under the INCOTERM FOB, the exporter must insure the merchandise until it is loaded on board the ship, which is the moment in which the responsibility is transferred in accordance with the terms of the FOB contract. On the other hand the importer must insure it from the moment it is loaded on board until its arrival in his warehouse.

The INCOTERMS should be checked carefully to verify the sharing of the contract in regard to insurance for both parties.

Once the part of the international trajectory for each business is known, the appropriate insurance listed below can be contracted

Maritme Transport Insurance

The most used forms are those of the INSURANCE CLAUSES INSTITUTE OF LONDON, which run from small to large cover:

* ICC ´C´ (Institute Cargo Clauses C)

Cover: Damage to the merchandise in the case of fire or explosion, grounding, shipwreck, overturn, collision, unloading in the port of refuge, breakdown and spillage of cargo. It does not cover: bad insured conduct, spills, packaging defects, delay, insolvency of the carrier, navigability of the ship, political and social risk (war, strikes, etc.)

* ICC ´B´ (Institute Cargo Clauses B)

It covers the same as the above as well as all accidental risk at sea that may damage the merchandise.

* ICC ´A´ (Institute Cargo Clauses A)

It is the major cover because it covers all risks of damage to the insured object, except the previous exclusions.

Land Transport Insurance

Contrary to maritime insurance this one follows the criteria of “what is not taxably excluded remains protected”

It is based on the maritime policies, the policy most used being fire, flooding, landslides, lightning, collapsing of bridges and roads, collision, the fall of water, robbery. The risks not covered are earthquakes, volcanic or seismic phenomena, war and strike, transport in uncovered trucks, breakage of fragile merchandise, spills and impairment, tearing of bags, original defect of the merchandise, loss of merchandise, delay, packaging defects, transport of live animals, remittance claim, theft, damage loading and unloading. There are some "special risks", such as transport in uncovered vehicles, live animals, loading and unloading by the remittent, that can involve complementary cover with a corresponding premium.

Air Transport Insurance

In this case the conditions of ICC "Air" (Institute Cargo Clauses "Air") are used. This is practically identical to the ICC "A" of Maritime transport because it covers all risk with the exception of the exclusions, from the warehouse of origin until 30 days after its unloading at the arrival airport.

VII. Departaments of foreign trade

In general the importing and exporting businesses with a PyME profile, trust the management of foreign trade to their owners or general directors. At a later date a person in the business is designated this responsibility or it is ceded directly to a custom's agent to handle the operation and documentation of the exportation.

The described situation generally provokes the PyME into practices that are not recommended or into ones that are incorrect in its treatment of matters concerning foreign trade. For example, from businesses that do not know the precise management that the custom's agent carries out in the name of the company (a worrying situation given that customs legislation considers the exporting or importing business or the custom's agents to be thoroughly responsible people in every respect relating to customs declarations.)

We suggest that it is desirable that the minimum staff of human resources in the department of export of the PyME is 2 people and that at least one of these is versed in the subject. In this manner a human resource could be better used in its treatment of international commerce (study of markets, attention to clients or international suppliers, participation in promotional events) and the other to purely operative work.

Another option, which is also valid, is separating the department of foreign trade from the company. This could be done in two ways:

a) Directly contracting it to a third party with a remuneration and commission package as a form of incentive for sales and purchases, innovation and research.

b) Sharing the said operation between the department of foreign trade and an outside party. If businesses are very small (a uni-sector or multi-sector group) they could combine to form a joint foreign trade office gaining benefits for all.

It is clear that the above mentioned involves a major fixed salary and social welfare investment in the combined option or more costs in farming the work out. However, it is also clear that when foreign sales reach 20% of all that sold in the case of exportations or with importations operating and management costs are reduced and it becomes fundamental to the professionalism of the area of foreign trade of the PyME to reduce risks and guarantee growth in the management of foreign trade.