

# **International Trade Transaction Exercise**

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## ***Overview:***

This exercise will give you the opportunity to participate in an international trade transaction as the parties to a trade transaction. The roles that will be assigned to your small groups for discussion are:

- Importer
- Seller
- Seller's Bank
- Importer's Bank

You may not know all of the answers to the questions below, and your team may devise your answers based on its current knowledge of international trade transactions.

## ***Instructions:***

1. Review the information provided by the instructor.
2. Discuss your role as importer, seller, seller's bank or importer's bank in the trade transaction. Use the questions below as a guide.
  - \* What is your goal in the trade transaction?
  - \* What actions do you need to take to ensure a smooth trade transaction?
  - \* What are the consequences to the transaction if you do not fulfill your role effectively?
  - \* What documents do you need to provide to other parties in the transaction?
  - \* What information do you need to know about the other parties to the transaction?
3. Prepare a brief report to give to the class. A form for your report is included in the information provided by the instructor.

## **Case: Superchip, Inc.**

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### *Key Facts*

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Superchip, Inc. is a manufacturer of computer chips that are used in computer aided manufacturing equipment. Superchip, Inc.'s products are the best available and in many cases, the only product that meets certain specifications. Therefore, the demand for Superchip, Inc.'s components is high. Superchip, Inc. has been in business for more than ten years and has established an excellent reputation for on-time delivery.

### *Instructions:*

1. Read the key facts provided for this case.
2. Answer the questions below.

### *Questions*

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What method of payment would you expect is most often used by buyers of Superchip, Inc.'s products?

Why?

## **Case: Star Fruit and Vegetable Company**

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### *Key Facts*

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Star Fruit and Vegetable Company is in the process of negotiating a contract to sell a large volume of fruits and vegetables to an overseas buyer. The buyer is not well known to Star Company. Reference checks do not indicate any negative information and indicate that the buyer has been in business for three years. The buyer has already refused Star's request to pay in advance. Star does not want to lose this opportunity since the order is for a large quantity and could be the beginning of a long-term arrangement.

### *Instructions:*

1. Read the key facts provided for this case.
2. Answer the questions below.

### *Questions*

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What method of payment should Star Fruit and Vegetable Company request?

Why?

## *Exercise: Incoterms*

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### ***Instructions:***

Complete the questions below.

### ***Questions***

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1. What costs does an FOB price quote include?

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- 
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2. What costs does an CIF price quote include?

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- 
- 
- 
- 

3. Goods are to be shipped from New York to Istanbul on the vessel named United States Clipper. Complete the following FOB price quotation:

\$100,000,

4. A television is made in Beijing, China. It is sent to Hong Kong for shipment to New York. What is the point of origin, port of exportation, port of importation?
- point of origin:
  - port of exportation:
  - port of importation:
5. For each of the following incoterms, specify the last point to which the goods will be transported for the quoted price:
- CFR:
  - FAS:
  - DEQ:
  - EXW:
  - FOB:
  - CIF:

## *Exercise: Commercial Invoice*

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### ***Instructions:***

Review the information provided and determine if the commercial invoice is acceptable.

### **Price Quote 1:**

The seller provides buyer with the following price quotation for television sets:

\$52,800, FOB United States Clipper, New York

Commercial invoice is received with the following data:

50 television sets	\$50,000.
Freight to dock	\$ 2,000
Loading charges	<u>\$ 800.</u>
Total	\$52,800.

Is this commercial invoice acceptable?

**Price Quote 2:**

Seller provides buyer with the following price quotation for refrigerators:

\$110,900 CFR, Vladivostok

Commercial invoice is received with the following data:

50 refrigerators	\$100,000.
freight to dock	\$ 2,000.
loading charges	\$ 900.
ocean freight	\$ 8,000.
insurance	<u>\$ 500.</u>
Total	\$111,400.

Is this commercial invoice acceptable?

## *Exercise: Draft*

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### ***Instructions:***

Refer to the draft below and complete the fill-in-blank answers that follow.

Drawn under Japan Bank Ltd., Tokyo, Japan - Letter of Credit No. JB1001

USD\$ 100,000.00

New York, November 1, 19 94

At sight

Pay to the order of

American Trading Company

One hundred thousand and 00/100

US Dollars

**TO:** American Bank  
New York, USA

John Doe  
American Trading Company

- The drawee of the draft is:
- The payee of the draft is:
- The drawer of the draft is:
- This draft was drawn under a letter of credit issued by:
- The beneficiary of this letter of credit is:

## *Exercise: Draft*

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### ***Instructions:***

Refer to the draft below and complete the fill-in-blank answers that follow.

Drawn under Japan Bank Ltd., Tokyo, Japan - Letter of Credit No. JB1001	
<u>USD\$ 100,000.00</u>	<u>New York, November 1, 19 94</u>
<u>At sight</u>	<u>Pay to the order of</u>
<u>American Trading Company</u>	
<u>One hundred thousand and 00/100</u>	<u>US Dollars</u>
<b>TO:</b> American Bank New York, USA	<u>John Doe</u> American Trading Company

- The drawee of the draft is:
- The payee of the draft is:
- The drawer of the draft is:
- This draft was drawn under a letter of credit issued by:
- The beneficiary of this letter of credit is:

## *Exercise: Letter of Credit*

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### ***Instructions:***

Read the information below and determine if the bank will pay the seller.

A seller presents documents to a bank under a letter of credit. The documents comply with the terms of the letter of credit. However, the buyer claims that the goods sent by the seller are of inferior quality.

Will the bank pay the seller?

## *Exercise: Letter of Credit*

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### ***Instructions:***

Review the information below and determine if the beneficiary will be paid.

A bank receives documents from a beneficiary of a revocable letter of credit. While the bank is examining the documents a notice that the letter of credit has been canceled is received from the issuing bank.

Will the beneficiary be paid?

## *Exercise: Contractual Relationships*

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### ***Instructions:***

Review the information below and determine if each of the issuing banks has to make payment under the letter of credit.

### **Scenario 1:**

A seller presents documents to a bank under a letter of credit. The documents comply with the terms of the letter of credit. However, the buyer has gone bankrupt and, therefore, will not be able to reimburse the issuing bank.

Does the issuing bank still have to make payment under the letter of credit?

### **Scenario 2:**

A seller presents documents to a bank under a letter of credit. The documents comply with the terms of the letter of credit. However, the buyer claims that the seller has violated the terms of the sales contract and the buyer instructs the issuing bank not to make payment under the letter of credit.

Does the issuing bank still have to pay the seller?

## *Exercise: Letter of Credit Format*

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### ***Instructions:***

Referring to the letter of credit on the next page, identify the following:

- Applicant:
- Beneficiary:
- Issuing Bank:
- Advising Bank:
- Nominated Bank:
- Drawee Bank:
- Drawer of draft:
- Documents to be presented by the Beneficiary:
  - 
  - 
  -

## Letter of Credit

**Name of Issuing Bank:**

American Bank, New York, USA

**Place and Date of Issue:**

New York, September 1, 1993

**Irrevocable**      **Number:** AB1001  
**Documentary Credit**

**Expiry Date and Place for Presentation of Documents**

**Expiry Date:** September 30, 1993  
**Place for Presentation:** Tokyo, Japan

**Applicant:**

American Trading Company  
200 Main Street  
New York, USA

**Beneficiary:**

Japan Trading Company  
200 Palace Street  
Tokyo, Japan

**Advising Bank:**

Japan Bank Ltd., Tokyo, Japan

**Amount:**

US\$ 100,000

**Partial Shipments**     allowed  not allowed  
**Transshipment**         allowed  not allowed

**Insurance covered by buyers**

**Shipment as defined in UCP 500 Article 46**

**From:** Tokyo, Japan  
**For transportation to:** New York, USA  
**Not later than:** September 15, 1994

**Credit available with Nominated Bank:**

Japan Bank Ltd., Tokyo, Japan

**by payment at sight**  
 **by deferred payment at:**  
 **by acceptance of drafts at:**  
 **by negotiation**

**Against the documents detailed herein:**  
 **and Beneficiary's draft(s) drawn on:**  
Japan Bank Ltd., Tokyo, Japan

**Documents to be presented within 10 days after date of shipment but within the validity of the Credit.**

We hereby issue the Irrevocable Documentary Credit in your favor. It is subject to the Uniform Customs and Pr. Documentary Credits

•1993 Revision, International Chamber of Commerce, Paris, France, Publication No. 500) and engages us in acc terms thereof. The number and date of the Credit and the name of our bank must be quoted on all drafts requirec available by negotiation, each presentation must be noted on the reverse side of this advice by the bank where the credit is available.

**This document consists of 1 signed page(s).**

John Doe  
**American Bank**

## *Exercise: Time Limits*

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### **Instructions:**

For each of the following situations, indicate whether the bank will pay the beneficiary:

#### **Situation 1:**

Expiry date of letter of credit: June 18  
Presentation period: within 10 days after shipment date  
Shipment date: June 10  
Date beneficiary presents documents: June 19  
Documents in order: Yes

Will the bank pay the beneficiary?

#### **Situation 2:**

Expiry date of letter of credit: May 28  
Presentation period: None specified  
Shipment date: May 12  
Date beneficiary presents documents: May 26  
Documents in order: Commercial invoice missing

Will the bank pay the beneficiary?

#### **Situation 3:**

Expiry date of letter of credit: October 30  
Presentation period: within 15 days after shipment date  
Shipment date: October 10  
Date beneficiary presents documents: October 25  
Documents in order: Yes

Will the bank pay the beneficiary?

#### **Situation 4:**

Expiry date of letter of credit: July 12  
Presentation period: within 10 days after shipment date  
Shipment date: June 27  
Date beneficiary presents documents: July 9  
Documents in order: Yes

Will the bank pay the beneficiary?

## *Exercise: Letter of Credit Application*

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### ***Instructions:***

Review the completed letter of credit application on the next page. Identify any problems or discrepancies with the application and record them in the space provided below.

### **Discrepancies or Problems:**

- 1.
- 2.
- 3.
- 4.
- 5.

## Letter of Credit Application

**Applicant:**

American Trading Company

**Issuing Bank:**

American Bank  
100 Main Street  
New York, USA

**Date of Application:** June 1, 1994

**Expiry Date and Place for Presentation of Documents**

**Expiry Date:** June 5, 1994

**Place for Presentation:** Tokyo, Japan

Issue by (air) mail \_\_\_ with brief advice  
by teletransmission

**Beneficiary:**

Japan Trading Company  
200 Palace Street  
Tokyo, Japan

\_\_\_ Issue by teletransmission

\_\_\_ Transferable Credit

**Confirmation of the Credit:**

not requested \_\_\_ requested

\_\_\_ authorized if requested by

**Beneficiary**

Partial Shipments \_\_\_ allowed  not allowed

Transshipment \_\_\_ allowed  not allowed

**Amount in figures and words:**

US \$100,000 One hundred thousand US dollars

\_\_\_ Insurance will be covered by us

**Credit available with Nominated Bank:**

Japan Bank Ltd.

\_\_\_ by payment at sight

\_\_\_ Insurance will be covered by us

\_\_\_ by deferred payment at:

\_\_\_ by acceptance of drafts at:

by negotiation

**Shipment as defined in UCP 500****Article 46**

**From:** Tokyo

**For transportation:** New York

**Not later than:** June 5, 1994

Against the documents detailed herein:

X and Beneficiary's draft (s) on:

American Bank

**Goods (Brief description without excessive details):**

1000 good quality women s dresses in beautiful colors.

**Terms:**

\_\_\_ FAS \_\_\_ CIF

\_\_\_ FOB \_\_\_ Other terms:

\_\_\_ CFR \_\_\_ as per INCOTERMS

Commercial invoice in triplicate .

Air waybill consigned to the order of American Trading Company, marked freight prepaid.

Documents to be presented within 10 days after date of shipment but within the validity of the Credit.

Additional instructions:

We request you to issue on our behalf and for our account your Irrevocable Credit in accordance with the above instructions (marked (X) where appropriate). This Credit will be subject to the Uniform Customs and Practice for Documentary Credits (1993 Revision, Publication No. 500 of the International Chamber of Commerce, Paris, France), insofar as they are applicable.

**John Doe**

John Doe, President, American Trading Co.

**Name and Signature of Applicant**

## *Exercise: Japan Trading Company*

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### ***Instructions:***

Read the scenario description below and identify the parties to the transaction.

Japan Trading Company in Tokyo places an order for computers with United States Computer Corporation in New York. United States Computer Corporation delivers the computers to World Freight Company for shipment to Tokyo.

Identify the following parties:

- shipper:
- carrier:
- importer:
- seller:
- consignee:
- buyer:
- exporter:

Which party issues the commercial invoice?

Which party issues the transport document?



## *Exercise: Transferring Ownership*

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### ***Instructions:***

Complete the question below.

The consignee can transfer ownership of the goods if the bill of lading is:

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- 
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## *Exercise: Amendments*

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### ***Instructions:***

Refer to the letter of credit on the following page and answer the questions below.

### ***Questions***

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Who must apply for any amendments to the letter credit?

Who must approve any amendments to the letter of credit:

- 1.
- 2.
- 3.

**Applicant:**  
American Trading Company

**Issuing Bank:**  
American Bank  
100 Main Street  
New York, USA

**Date of Application:** June 1, 1994

**Expiry Date and Place for Presentation of Documents**

**Expiry Date:** June 5, 1994

**Place for Presentation:** Tokyo, Japan

Issue by (air) mail \_\_\_ with brief advice  
by teletransmission

**Beneficiary:**  
Japan Trading Company  
200 Palace Street  
Tokyo, Japan

\_\_\_ Issue by teletransmission

\_\_\_ Transferable Credit

**Confirmation of the Credit:**

not requested \_\_\_ requested

\_\_\_ authorized if requested by

**Beneficiary**

Partial Shipments \_\_\_ allowed  not allowed

Transshipment \_\_\_ allowed  not allowed

\_\_\_ **Insurance will be covered by us**

**Amount in figures and words:**

US \$100,000 One hundred thousand US dollars

**Credit available with Nominated Bank:**

Japan Bank Ltd.

\_\_\_ by payment at sight

\_\_\_ Insurance will be covered by us

\_\_\_ by deferred payment at:

\_\_\_ by acceptance of drafts at:

by negotiation

**Shipment as defined in UCP 500**  
**Article 46**

**From:** Tokyo

**For transportation:** New York

**Not later than:** June 5, 1994

Against the documents detailed herein:

X and Beneficiary's draft (s) on:

American Bank

**Goods (Brief description without excessive details):**

1000 good quality women s dresses in beautiful colors.

Terms:

\_\_\_ FAS \_\_\_ CIF

\_\_\_ FOB \_\_\_ Other terms:

\_\_\_ CFR \_\_\_ as per INCOTERMS

Commercial invoice in triplicate .

Air waybill consigned to the order of American Trading Company, marked freight prepaid.

Documents to be presented within 10 days after date of shipment but within the validity of the Credit.

Additional instructions:

We request you to issue on our behalf and for our account your Irrevocable Credit in accordance with the above instructions (marked (X) where appropriate). This Credit will be subject to the Uniform Customs and Practice for Documentary Credits (1993 Revision, Publication No. 500 of the International Chamber of Commerce, Paris, France), insofar as they are applicable.

**John Doe**

John Doe, President, American Trading Co.

**Name and Signature of Applicant**

## *Exercise: Draft Tenor*

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Drawn under Japan Bank Ltd., Tokyo, Japan - Letter of Credit No. JB1002

US \$ 100,000.00

New York, November 1, 19 94

At 19 days date Pay to the order of  
American Trading Company

One hundred thousand and 00/100 US Dollars

**TO:** American Bank  
New York, USA

John Doe  
American Trading Company

### ***Instructions:***

1. Review the facts below and the draft shown above.
2. Answer the questions.

The beneficiary presented the draft shown above and conforming documents to the nominated bank. The draft was honored by the bank on November 5.

### ***Questions***

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What type of draft is this?

What is the tenor of the draft?

When is the payment due?

Who is the beneficiary of the letter of credit?

Who is the drawee bank?

## *Exercise: Payment by Banker's Acceptance*

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Drawn under Japan Bank Ltd., Tokyo, Japan - Letter of Credit No. JB1003

US \$ 100,000.00

New York, November 25, 19 94

At 30 days date

Pay to the order of

American Trading Company

One hundred thousand and 00/100

US Dollars

**TO:** American Bank  
New York, USA

John Doe  
American Trading Company

### ***Instructions:***

1. Review the facts below and the draft shown above.
2. Answer the questions.

The beneficiary presented the draft shown above and conforming documents to the nominated bank. The draft was honored by the bank on December 1.

### ***Questions***

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What type of draft is this?

What is the tenor of the draft?

When is the payment due?

How will the bank honor the draft?

How can the beneficiary receive payment before payment is due?

How much would the beneficiary receive if the discount rate were 12% per annum?

## *Exercise: Letter of Credit Application Review*

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1. Review the application provided by the instructor.
2. With your group, list of any discrepancies or problems.
3. Record the results of your group discussion on the following page.

# **Letter of Credit Application Discrepancies**

## *Case Study: Composing a Letter of Credit*

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### ***Instructions:***

1. Assume the role of the issuing bank for this case study.
2. With your group, develop a scenario for a typical letter of credit transaction.
3. Using the form provided by the instructor, complete the letter of credit.

## *Exercise: Discrepancies*

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### ***Instructions:***

Determine the type of each of the following discrepancies, check the appropriate box and explain why the discrepancy fits in that category.

- Documents presented after expiry date:
  - o Correctable by the beneficiary
  - o Not correctable by the beneficiaryWhy?
  
- A draft not properly endorsed:
  - o Correctable by the beneficiary
  - o Not correctable by the beneficiaryWhy?
  
- A Transport document that indicates the wrong merchandise shipped:
  - o Correctable by the beneficiary
  - o Not correctable by the beneficiaryWhy?

## *Case Study: Document Examination*

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### ***Instructions:***

1. Assume the role of the bank that is responsible for examining the documents.
2. Two sets of documents will be provided by your instructor. Review the letter of credit against the documents presented with it.
3. Make a list of all the discrepancies that you discover.

## *Exercise: Application of UCP 500*

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### ***Instructions:***

Read the scenario descriptions below and answer the questions that follow each scenario.

#### **Scenario 1**

A buyer and seller sign a sales contract for the sale of furniture. Your bank issues a letter of credit for the account of the buyer. Documents are presented that comply with the terms of the letter of credit. Your bank makes payment, however the buyer claims that the furniture is not the quality he expected, and therefore, the seller should not have been paid.

How should your bank respond?

What is the applicable section of the UCP 500?

#### **Scenario 2**

A buyer and seller sign a sales contract for the sale of office furniture. Your bank issues a letter of credit for the account of the buyer. Documents are presented that comply with the terms of the letter of credit. Your bank makes payment, however the applicant claims that the seller has violated the terms of the sales contract, and therefore, should not have been paid. Specifically, the sales contract stated that the furniture should be shipped pre-assembled. However, the furniture was shipped unassembled.

How should your bank respond?

What is the applicable section of the UCP 500?

## *Case Study: Fraud*

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### ***Instructions:***

1. Review the newspaper articles provided by your instructor.
2. Prepare to participate in a discussion with the class about the articles.