1.

a) What are the macro and micro risks facing participants in an international sale of goods transaction? Give one specific example for macro risks and one specific example for micro risks.

(15 marks)

Systematic Risk	**Unsystematic Risk**
Act of God *e.g., No human intervention, Natural Causes*	Product, Production & Transport *e.g., Seller risk to fulfil contractual commitments, Manufacturing processes (customised products especially), Physical transportation process*
Inherent Vice *e.g., Proven Reserves - run out of natural resources, Fungibility - can be replace/duplicate by other country easily, Economic Sustainability, Environmental Sustainability*	Commercial (Buyer): Financial/Currency *e.g., Buyer prevented from performing their contractual obligation (external & internal risk, Exchange rate fluctuations, Seller liquidity due to COGS (Inventory Turnover)*
Act of Princes *e.g., Tariffs/Quotas/Export Subsidies/Capital Restriction/Trade Creation or Diversion*	Business Practices/Culture/Language *e.g., Business - negative practices – corrupted, Unsolicited Government intervention prohibit the fulfilment of contractual obligation*

b) Why are the durations of the trade cycle and the trade credit vital considerations for an exporter?

(10 marks)

Duration of trade cycles are vital as it shows the financial availability for exporters to carry out a trade from the start till the end. The calculation of trade cycles also determined the funding gap exporters lack in and allow them to do necessary financial arrangement to ensure there is available working capital at hand to carry out trades.

Trade credit is an arrangement to buy goods and services on account without making immediate cash or cheque payments thus financing businesses. Furthermore, it covers the risk of non-payment as a form of guaranteed payment as importers have the legal obligation to repay the financial institutions (banks) when they use trade credit to fund their trade. Therefore, ensuring that importers do not default their payment when exporters deliver their goods.

2. Company A (Seller) and Company B (Buyer) concluded a FOB sales contract with 60 days credit terms. Company B appointed Bank 1 who has a branch in Company A's country to collect and verify all documents before making payment. Company B usually sells its goods from its warehouse, which is 100 kilometres from the port of discharge, directly to its customers.

a) Identify the payment terms and accompany risks that were incorporated into the sales contract and draw a flow chart to describe the payment process.

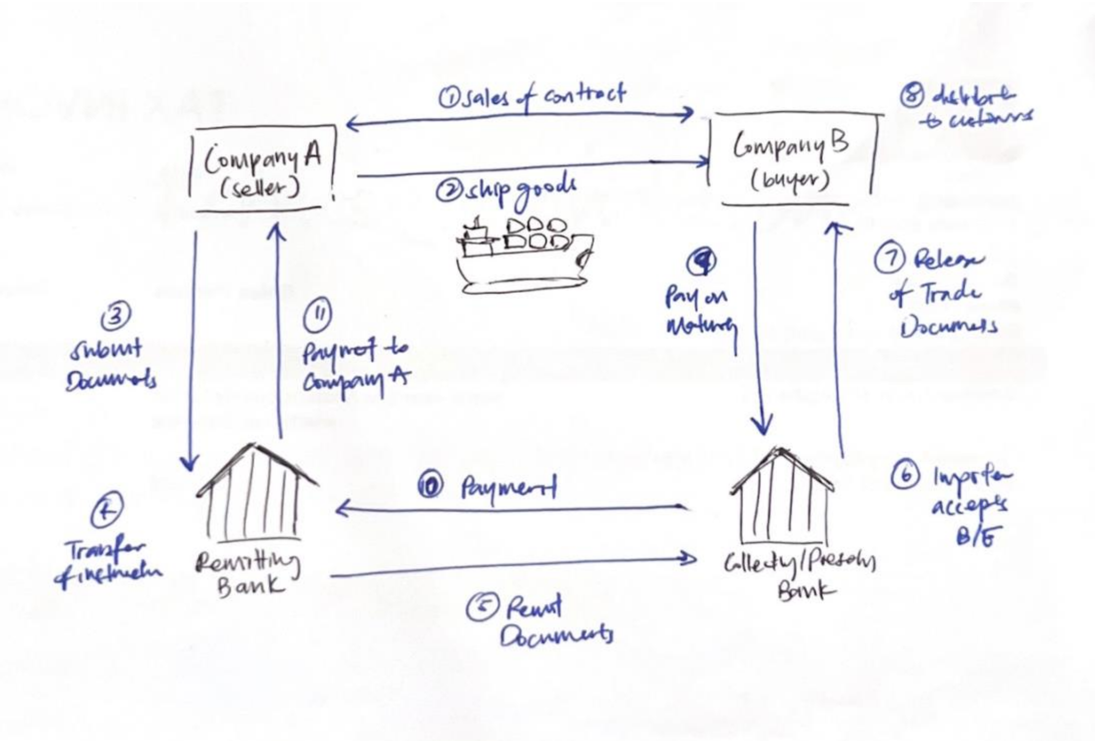
(15 marks)

FOB is known as Free on Board, which is the Buyer's Contract of Carriage.
This means that Buyer must pay for the price of goods as provided in the Contract of Sales.
Sellers are obliged to ensure checking, packing and labelling of goods are cleared before delivery.
Seller obligation is up till Port of Loading and the risk (and delivery) will be transferred to Buyers at Port of Loading after the goods are on board the vessel.
Buyers are then obliged to import clearance.

Time draft (documents against acceptance) is the payment terms incorporated. Exporter carries a higher risk than importer.

1) Company A (seller) and Company B (buyer) has entered in a Usance Sales Contract with 60 days credit terms, which is expressed as 60 days after sight where method of payment will be by documents against acceptance.
2) Once contract is signed Company A will ship out the goods to the importer (via shipping agent).
3) Company A will then prepare the necessary documents (B/L, B/E and collection instruction) and submit it to Remitting Bank in Company A's country. It is to inform the Remitting Bank that that goods have been shipped and to send all trade documents over to Company B. Meanwhile to collect payment 60 days after sight on his behalf.
   [After sight means Buyer/Importer must pay 60 days after acceptance of B/E]
4) Company A collection instruction will be transferred onto Remitting Bank Cover Letter which will contain all trade documents.
5) Remitting bank will then forward all documents to Bank 1 (Collecting/Presenting Bank).
6) Bank 1 will then inform Company B to release documents against acceptance, means that Company B will have to go to the bank to accept B/E.
7) Bank 1 will then release documents over to the Company B, meanwhile goods have arrived at port, and they can clear goods from port.
8) Company B can then distribute to warehouse then directly to customers to collect payments.
9) Company B will make payment to Bank 1 on maturity on B/E.
10) Bank 1 will subsequence remit payment to Remitting Bank.
11) When Remitting Bank receives payment, they will credit payment to Company A account.

This entire transaction is government by the Uniform Rules of Collections (UCR522).



b) **What are the particular risks that Company B will face by entering into the sales contract on FOB terms after the goods has reached the port of discharge and how should Company B mitigate those particular risk?**

(10 marks)

Company B (Buyer) Risk
Discharge port

Cost elements:
- -unload goods
- -import tax and formalities
- -shift cargo to port
- -when can importer start selling goods

Risk elements:
- -goods shortage
- -goods delay in quarantine + custom
- -fraud
- -end-buyer run away

Company B can mitigate risk by buying insurance.

3. Company C (Seller) and Company D (Buyer) concluded a CFR contract for a parcel of palm oil with 90 days credit terms and with documentary credit used as the payment terms. Company D will then sell the palm oil directly to its Buyers on EXW terms based on the quantity that was loaded onto and discharged from the ship.

Company D's Buyers will then take delivery of the palm oil from a government owned storage tank which is 100 kilometres from the berth at the port of discharge. The palm oil is transported by government-owned pipelines to a common storage tank where all sellers of palm oil will lease part of the tank for their stock.

Over the years, due to corruption and a lack of regulatory oversight, local villagers had installed small valves along the pipeline where they will siphon off and pilfer the oil for their own profits. When Company D's Buyers collect the oil from the storage tank, they discovered that there was a storage of oil and as a result lodged a claim against Company D.

a) Identify who is responsible for the contract of carriage under these sales contracts.
(5 marks)

Company C (Seller) is responsible for contract of carriage under CFR term between Company C and Company D.
Company D's Buyer (Buyer) is responsible for contract of carriage under EXW term between Company D and Company D's Buyer.

b) Are there any legal recourse that Company D against Company C (under the sales contract) or the Carrier (under the contract of carriage)?
(5 marks)

Company D has no legal recourse against Company C, as quantity and risk are transferred to Company D when palm oil is discharged from the ship. Unless the quantity differs from the original orders, Company D has no legal recourse against Company C.

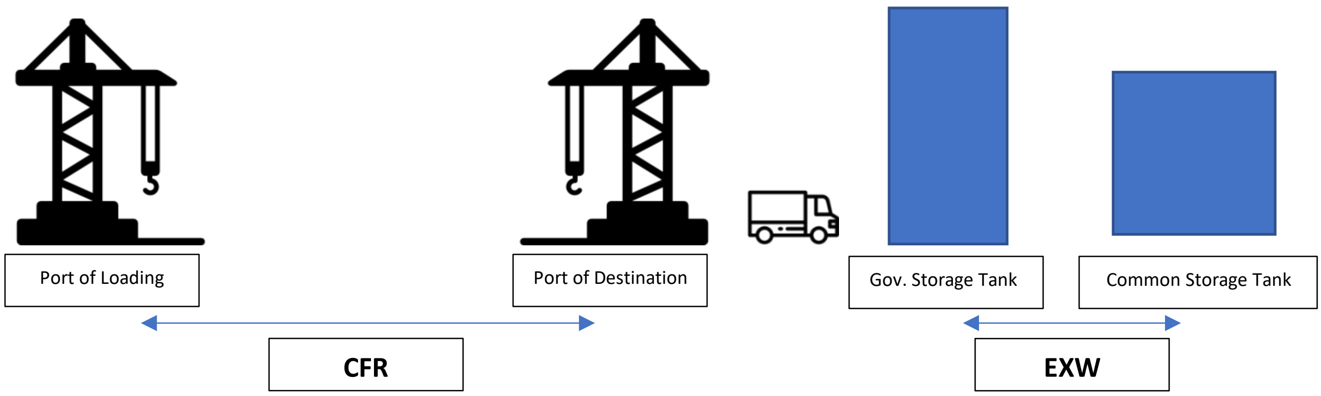
Company D has legal recourse against Carrier if the quantity differs from when palm oil was discharged from the ship until it arrived at the government storage tanks (which is 100 kilometres from the berth).

c) What Incoterms should Company D incorporate into future sales contracts with Company C and Company D's Buyers if it intends to protect itself from future claims?
(15 marks)

Company D should incorporate DAP or DDP with Company C to protect itself as buyer obligation is at minimum, where transfer of risk to Company D only when goods arrived at destination place instead of destination port. This is because mishaps or risk could take place when transporting palm oil from destination port to government storage tanks (which is 100 kilometres from the berth).

Company D should continue to incorporate EXW with Company D's Buyers as they are protected by this incoterm with seller obligation being at its minimum, where risk is transferred to Company D's Buyers immediately when palm oil leaves the government owned storage tank through the pipe into the common storage tank.

With both terms in place, Company D would protect itself from future claims as any obligation, risk or delivery will be placed upon either Company C or Company D's Buyer.



4.

a) "Vessel was down to her marks" on arrival Rotterdam.
Explain what it meant by above, and explain the terms "marks"

The marks referred to the Plimsoll line which is located on a ship's hull that indicates the maximum depth to which the vessel may be safely immersed when loaded with cargo.
This depth varies with a ship's dimensions, type of cargo, time of year, and the water densities encountered in port and at sea.

It does not imply that all cargo space has been filled. If both deadweight and cargo space have been fully utilised the ship is "full and down, it depends on the stowage factor of the cargo whether the vessel will be full and down.

Upon checking the weight of the cargo loaded by a vessel when down to her marks, there may be a considerable difference with the deadweight capacity for cargo based upon the ship's capacity plan, after allowance for bunkers, water, stores, etc. This difference may be explained by incorrect estimate of bunkers, water, stores, dunnage, etc., or incorrect reading of the ship's draught in choppy water.

Sufficient allowance should be made for the difference in specific gravity of salt and fresh water, the load lines being based upon loading in seawater.

Once these factors have been accounted for, a ship's captain can determine the appropriate Plimsoll line needed for the voyage:
TF = Tropical Fresh Water
T = Tropical
F = Fresh Water
S = Summer
W = Winter
WNA = Winter North Atlantic
AB = Letters indicating the registration authority (American Bureau of Shipping in the image shown; the circle with the line through it indicates whether the cargo is loaded evenly)

b) Differentiate between a Time and Voyage Charter Party.

Voyage	Time
- Contract of Carriage - Named Vessel - Specified cargo quantity - Named ports/place - Shipowner control - Revenue: Freight (per ton cargo, lump sum)	- Contract of Hire of asset - Named Vessel - Specified time - Delivery On/Off hire surveys - Fitness of vessel - At disposal of Charterer - Revenue: Hired Charter

c) Provide full form for the following acronyms in ship chartering:

i. **AAAA:** Always Accessible and Always Afloat
ii. **OSB:** One Safe Berth
iii. **TEU:** Twenty Equivalent Unit
iv. **WWRCD:** When Where Ready on Completion of Discharge
v. **WCCON:** Whether Customs Cleared or Not