MT1003 - TRADE PRACTICE AND INCOTERMS SEMESTER 1 AY 2019-2020

1a) In intermodal transport, one carrier organizes the whole transport of goods by several modes of transport from one point or port of origin via one or more interface points to a final port or point. Different types of transport documents are issued, depending on how the responsibility for the entire transport is shared. Segmented transport can occur where the carrier that organizes the transport only takes responsibility for the portion he is performing himself, through an intermodal bill of lading.

On the other hand, multimodal transport is defined as the carriage of goods by at least 2 different modes of transport on the bases of a multimodal transport contract from a place in one country at which the goods are taken in charge by the multimodal transport operator to a place designated for delivery situated in a different country. In multimodal transport, also known as combined transport, goods are transported under a single contract, performed with at least 2 different means of transport. The carrier is liable (in a legal sense) for the entire carriage, even though it is performed by several different modes of transport, such as by rail, sea or road. The carrier does not have to possess all the means of transport, and usually does not. The carriage is often performed by sub-carriers (referred to in legal language as 'actual carriers'). The carrier responsible for the entire carriage is referred to as a multimodal transport operator, or MTO.

1b) Intermodal transportation gives the ability to select own carriers based on price or service for each leg of the shipment, and also allows the shipment to be stopped at any point due to prevailing circumstances, thus allowing control of each leg. It also gives more flexibility on carrier selection especially if there are equipment or space issues with carriers.

1c) The advantages of containerization include:
Standardization: ISO standard (modes and equipment). Unique identification number and size type code.
Flexibility: Commodities, manufactured goods, liquids and refrigerated goods all can be carried.
Reduced transport costs: Low cost of shipping, economies of scale are enjoyed at modes and terminals.
Velocity: Fast transshipment operations, and low terminal turnaround times.
Warehousing: Own warehouse, simpler and less expensive packaging, as well as stacking capabilities.
Security and Safety: Contents unknown to carriers, reduced spoilage and losses.

The disadvantages of containerization include:
Site constraints: Large consumption of terminal space. Draft issues with larger containerships.
Capital Intensiveness: Container handling infrastructures and equipment are important investments.
Stacking: Complexity of arrangement of containers, both on the ground and on modes.
Repositioning: Divergence between production and consumptionL repositioning. 20% of all containers.
Theft and losses: High value goods vulnerable to thefts, particularly between terminal and final destination.

Illicit trade: Illicit trade of goods, drugs and weapons, as well as for illegal immigration.

2a) Marine Insurance includes Hull and Machinery, Cargo Insurance and Third Party Claims such as Protection and Indemnity Clubs.

Hull and Machinery deals with the ship asset (Hull, propulsion machinery and any equipment used for trade activities such as cargo. Ballast handling etc). It is taken up by the owner of the ship to avoid any loss to the vessel. It covers from all major perils such as fire and breakdown (operational damages). In many cases, it can also be extended to cover war risk covers and strike cover.

Marine Cargo Insurance deals with various risks to the cargo being transported. Also known as transit insurance, as it does not matter if the goods are being transported by sea, land or air; it is the insurance to protect goods in transit.

Protection and Indemnity (P&I) Clubs are clubs set up typically for a mutual insurance group. Due to the international nature of the logistics and shipping industry, certains solutions must be taken up by the P&I clubs. They are formed for the specific purpose to cater to the maritime industry by covering the liabilities to third party and open-ended risks which are not covered elsewhere in standard Hull and Machinery or Marine Cargo Insurance. Protection risks are risks connected with the ownership of the vessel, like crew related claims. Indemnity risks are risks related to the hiring and usage of the ship, including cargo-related claims.

2b) The International Navigation Limits (INL) define the geographical limits within which ships are able to operate without incurring additional insurance premium from hull and machinery and other relevant underwriters. Operating outside the INL, in areas which can include significant hazards such as ice, could lead to damage to the ship and delay necessitated by repair. Unless and to the extent otherwise agreed by the underwriters in accordance with, the vessel shall not enter, navigate or remain in the areas specified by the INL.

2c) The principle of "mutual sharing or pooling of related risks" works in the form of mutual insurance groups in marine insurance, such as Protection and Indemnity (P&I) Clubs. Players in the marine industry pool their funds together within this mutual insurance group to cover for each other's losses related to third party and other open-ended risks not covered elsewhere in standard Hull and Machinery or Marine Cargo Insurance. Protection risks are risks connected with the ownership of the vessel, like crew related

claims. Indemnity risks are risks related to the hiring and usage of the ship, including cargo-related claims. Three examples of related risks that can be covered by this type of insurance include:

1) Personal injury, illness and death claims from the crew or passengers;
2) Stowaways and their repatriation
3) Removal of wreck

3a) Globalisation of production is allocating production facilities around the globe in different regions to meet the specific needs of that region. For example, factories can be built in a foreign country if a firm wishes to sell its products overseas so that the products can be made and delivered to the consumers in a quicker and more efficient manner, while at the same time reducing costs of transportation of goods. Globalisation of production helps to lower costs and increase the logistics efficiency of global companies.

Globalisation of markets is to expand a company's market for its products beyond its own region, to the entire world. The firm does not wish to just sell its products or services to the locals, but to people from all backgrounds and countries around the world, in order to maximise the size of its market and its sales and profits. Companies may have to tailor its products or services to the specific cultural preferences or political systems of each foreign country if it wishes to enter the market of that country successfully.

3b) The company should have the capability to mass produce. This will be conducive for the company if it wishes to set up factories overseas as its capabilities to mass produce its products do not change and can be simply copied and transferred to the factory in the overseas markets.

The country that the company wishes to allocate its production factors to should ideally have an open and capitalistic economy. The laws and political systems of such a country are likely to be conducive for foreign investment and will offer favourable policies to overseas countries that build its facilities on its land.

Lastly, the country that the company wishes to set up production facilities in should ideally have the factors of production required by the company to produce its products within its proximity. This will be conducive for the company as it allows its production facilities to source for factors of production such as raw materials from proximate sources rather than imports or via transport from its home base, greatly increasing its efficiency of production and lowering the cost of production and transport.

3c) The company should ideally have a standardised product or service that can be replicated easily. This will ensure that the products and service offered by the company will follow consistently quality regardless whether it will be produced and sold in overseas markets.

The company should ideally also have employees that are the locals of the specific market it wishes to expand to. These employees can bring insight to the taste, preferences of the target country which allows the company to tailor its product and services to fit the niches of that specific country so that its products or services can be best received there.

Lastly, the target market overseas should ideally have a free market economy where the government does not charge extra tariffs on imported goods to protect its domestic industries. This will be conducive for the company who wishes to expand there since its product will not face unfairly harsh competition by having its prices be marked up by tariffs.

4a) International company structure is one of the major challenges an international business faces that a domestic business does not deal with. This involves the structure of an organization and the location of its teams. For instance, the company could be run from one central headquarters, or it could have offices and representatives "on the ground" in key markets abroad. The way these teams will be organized, the level of autonomy they will have, and how they will coordinate working across time zones are some of the concerns.

The political economy of overseas countries is also a major challenge. The international business must consider if the country has an open, free market economy that follows the political system of democracy and capitalism, or one of totalitarianism or even communism, where a command economy exists that is often not open to foreign investments. Laws and regulations also differ from country to country, such as the banning of collecting interest in muslim countries by theocractic law. These differences in political economies will greatly affect the survival of an international business.

The fluctuations of the global economy also affect an international business much more than a domestic business. For example, if an international company ships its products from the United States to sell to China, and China's economy takes a downturn, it can have a crippling effect on its overall sales whereas a domestic business selling within the United States will not be affected nearly as much by a downturn in China's economy.

The laws regarding employment and business also differ significantly among different countries, and it can impact an international business heavily unlike a domestic business. While a domestic business just has to set up its business to deal with the employment rules of a single country, for example, with low minimum wage and highly capitalistic economy where employee turnover can be high, an international

business must tailor its policies to suit a country with high minimum wages and high levels of protection for workers where there are regulations to stop the company from firing them for poor performance. Furthermore, corporate tax rates and interest rates will differ amongst the countries, requiring an international business to constantly adjust its business model in order to stay profitable in multiple countries' markets.

Culture of doing business can also be a bigger challenge for international businesses than for domestic businesses. For instance, establishing a close relationship with key government officials might be extremely important for successful development of a business in the culture of Indonesia, but not so for a country like Singapore. While a domestic business just has to adjust its business development strategy to its domestic business culture, an international business must navigate the business customs and cultures of many countries should it wish to be successful internationally.

Lastly, the tastes and preferences of consumers also differ greatly from country to country, becoming a challenge for international businesses. In order to successfully penetrate multiple overseas markets, international businesses must tailor its products or services to fit the tastes and preferences of the consumers different nationalities while domestic companies only have to fit the needs of its local market. This increases the difficulty of business operations as well as product design.

4b) The first way is to engage in currency swaps. A currency swap is a contract to exchange a specified sum of local currency and foreign currency based on the spot rate of the day of exchange. At maturity, both parties will repay each other with their respective local currency. This helps to manage forex fluctuation and reduce borrowing costs.

The second way is to enter into a forward rate contract with a bank, a form of hedging. This contract stipulates that one can buy a foreign currency 30 days later at an agreed rate made today. The bank can either offer the currency at a discount or at a premium, and by taking up the contract under both scenarios, one is engaged in hedging to mitigate forex risk.

The third way is to employ lead or lag payment strategies. Lead strategies involve collecting foreign currency receivables early when this currency is expected to depreciate, and paying foreign currency payables early when this currency is expected to appreciate. Lag strategies involve delaying collection of foreign currency receivables if this currency is expected to appreciate, and delaying payment of if this currency is expected to depreciate.

5a) The first issue that impedes international trade is geographical barriers. International trade requires goods to be transported over long distances to other countries that are often blocked by mountains, deserts, and oceans. Not only is it difficult to transport the goods, communication over such long distances can be a challenge as well due to differing time zones.

The second issue that impedes international trade is language barriers. International trade involves doing business with people from all nationalities that speak all kinds of languages. Communicating the terms of a trade contract for instance, might be difficult when both parties are unfamiliar with each other's language nuances and cannot settle on an ideal language to be used for the contract.

Finally, there is a lack of trust. Doing business internationally involves dealing with customers or suppliers whom one has never met before and there is often no track record to provide a sense of security. Many businessmen choose to not carry out international trade for fear of being cheated by fraudulent behaviour. It is also difficult to track down an overseas party if he breaches a contract on fraudulent grounds.

5b) The buyer first gets a bank's promise to pay on his behalf by applying for a letter of credit (L/C). The bank then promises the seller to pay on behalf of the buyer by issuing the L/C. The seller then ships out the goods where he obtains the bill of lading which serves as proof of shipment. The bank then pays the seller cash in exchange for the bill of lading. The bank then gives the rights to the goods to the buyer by transfering to the buyer the bill of lading. Finally, the buyer pays the bank for the goods.

5c) There is a lack of trust as the seller wants to be paid before he ships out the goods, for fear of the buyer defaulting the payment if he ships the goods first. The buyer on the other hand, wants to receive the goods before he pays, for fear of the seller not shipping the goods and running with the cash. Each party has a different stance. Without establishing trust between the parties, the transaction may never happen.

The letter of credit can facilitate trade through reducing distrust between the buyer and the seller because it comes from the bank, which is a third party that is typically recognised as a financially powerful institution worthy of trust by both the seller and buyer. The bank can promise to pay the seller after he ships out the goods with its own reserves, so that the seller will feel safe shipping out the goods and the buyer can pay upon receiving the goods. The letter of credit thus serves as this promise in the form of a written document that is enforceable by law, in other words it is the guarantee of the bank. This way, both parties are able to conduct the business in their own preferences relying on the reputation and financial strength of the bank. They are hence able to trust each other more through the shared use of the letter of credit and trade can thus be facilitated.

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