

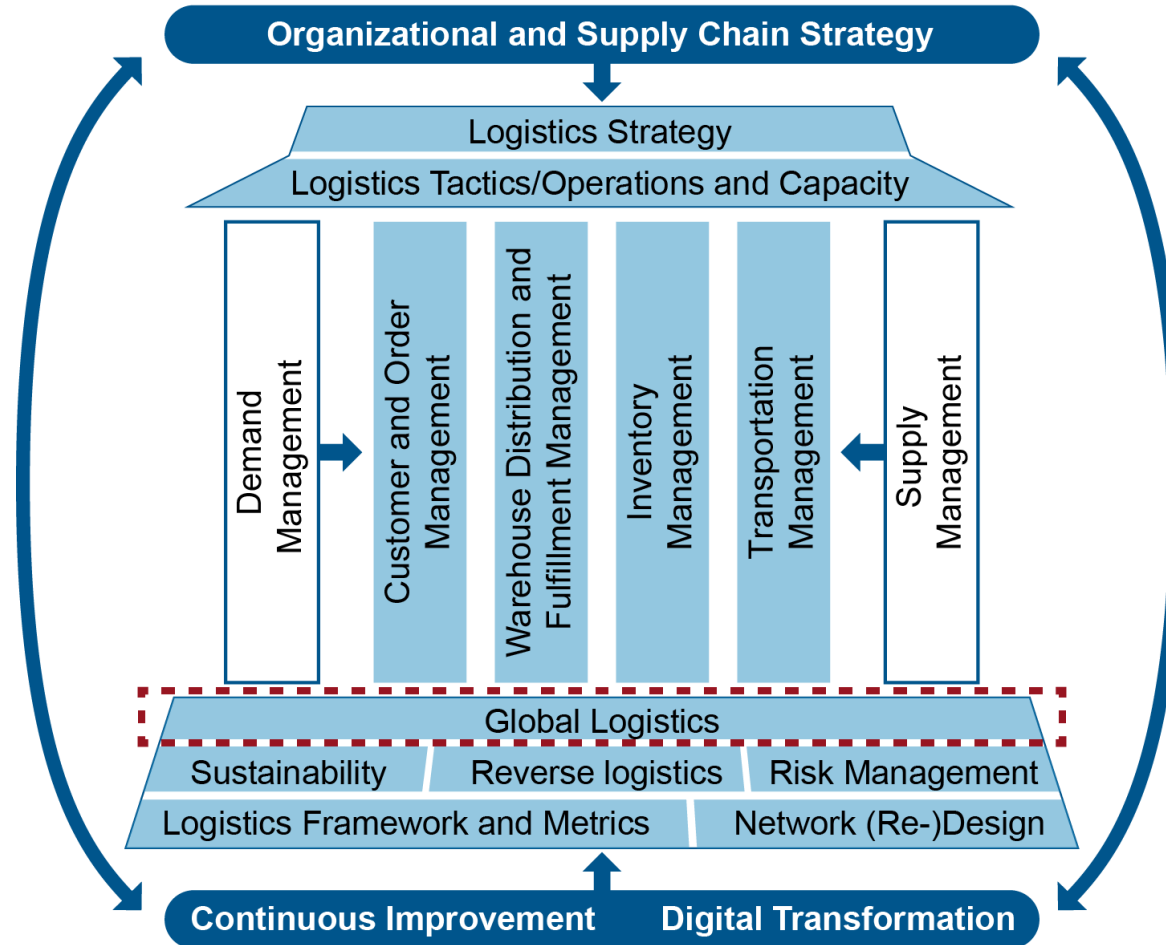
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CERTIFIED IN LOGISTICS,
TRANSPORTATION AND DISTRIBUTION

MODULE 7: GLOBAL LOGISTICS

Module 7: Global Logistics

Logistics Planning and Control



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MODULE 7, SECTION A: CHARACTERIZE THE INTERNATIONAL ENVIRONMENT AND GLOBAL INFRASTRUCTURE

Macroenvironmental Factors Influencing Logistics

- Trade wars
- International sanctions
- Wars
- Terrorism
- Country stability
 - Law enforcement and courts
 - Economy and infrastructure
- Globalization, population growth, and migration
- Climate change
- Invasive species and supply chains

Economic Factors

Absolute advantage

- Advantage if make more of a good with same labor and resource inputs

Comparative advantage

- Investing in things with higher marginal cost here is opportunity cost

Heckscher-Ohlin factor endowment

- Labor
- Capital
- Land
- Entrepreneurship

Economic Factors

International product life cycle

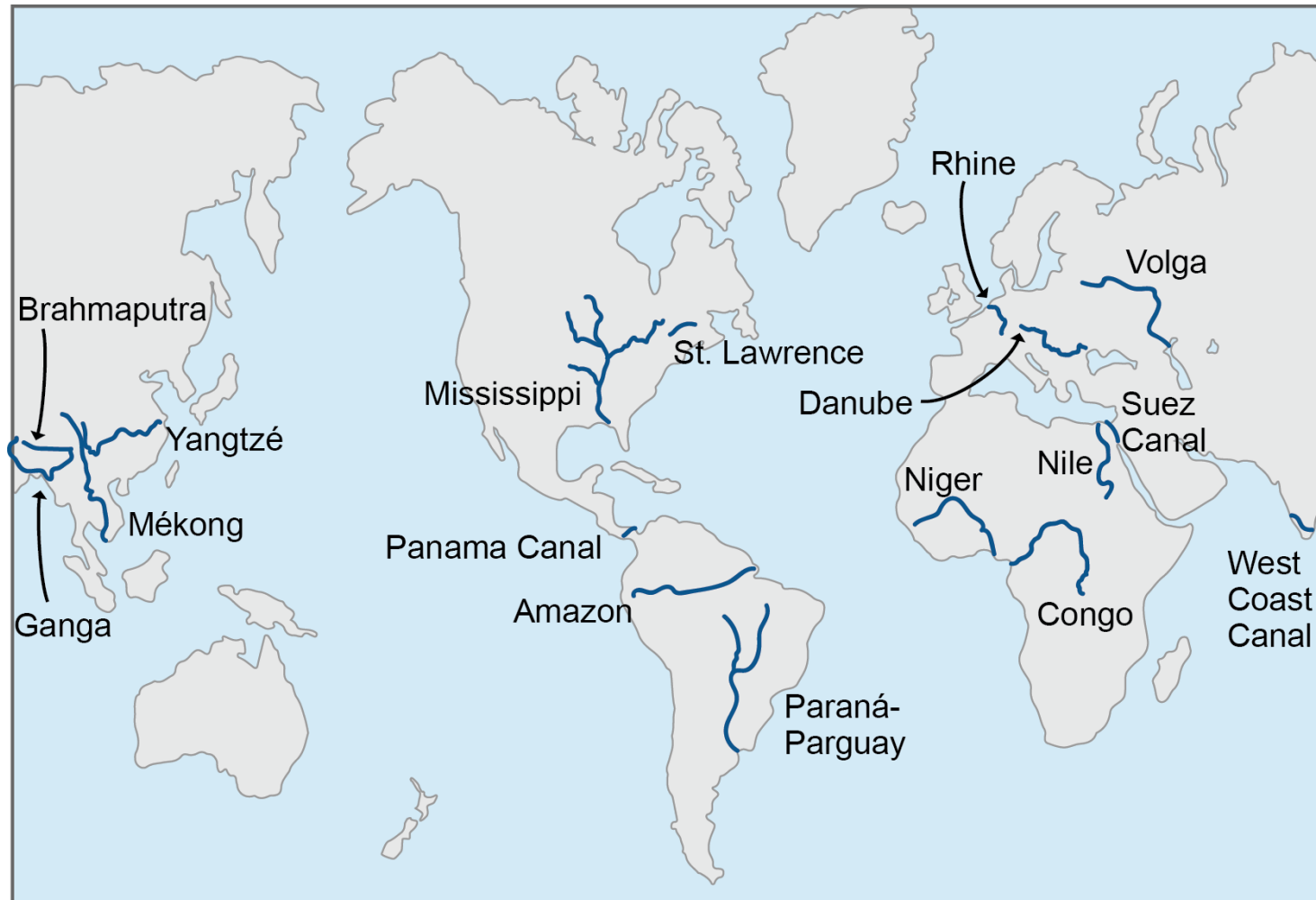
- Stage 1: Local country proprietary technology
- Stage 2: Developed countries, substitutes
- Stage 3: Outsource for lower production costs

Cluster theory

- Proximity to suppliers and competitors
- Logistics cluster theory: Logistics and manufacturing hubs (Memphis, Tennessee, FedEx hub)

Understand Local Infrastructure Considerations

Transportation Infrastructure: Waterways and Ports



Understand Local Infrastructure Considerations

Transportation Infrastructure: Port Constraints



- Panamax containerships
- Large-capacity cranes to reach other side of larger ships
- Delays (operating hours, rail or road congestion)
- Unions, strikes
- Risk of flooding, refrigeration failure in container yards

Understand Local Infrastructure Considerations

Transportation Infrastructure

Rail



- U.S.: Private ownership
- Land bridges
- Russia, Brazil, Europe: Rail gauges
- Europe: Passenger and freight
- China: Investing in high-speed passenger lines



Roads

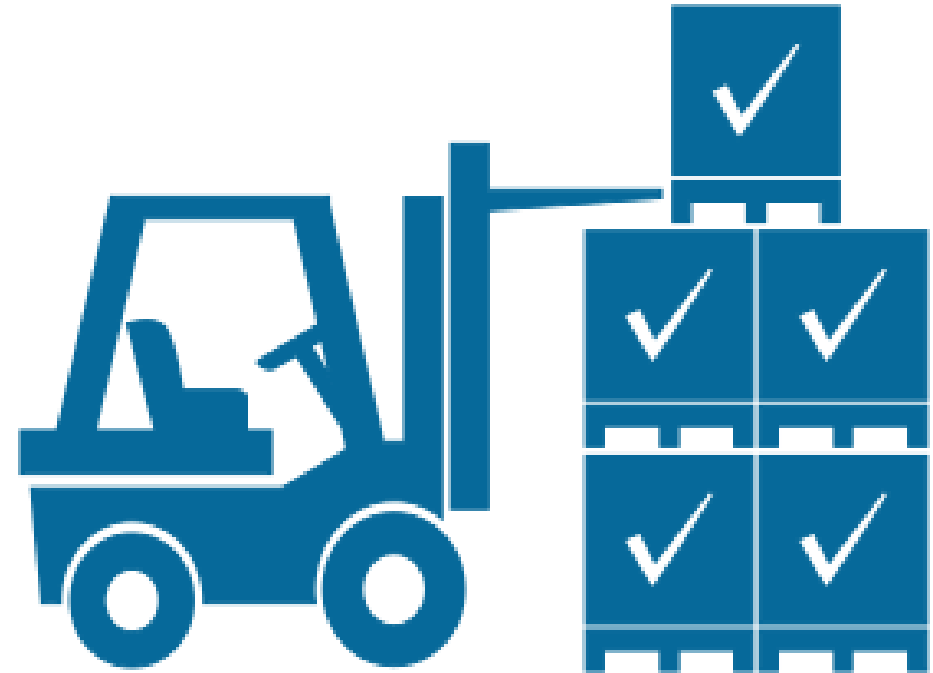


- Road metric: Usability + traffic congestion
- Even/odd license plates
- Motorcycle/moped
- City entry tax
- Limited access highways
- High-speed tollways

Understand Local Infrastructure Considerations

Transportation Infrastructure: Warehouses

- Shipment layover point
- Warehouse space and conditions require research
 - Locations
 - Environment exposure



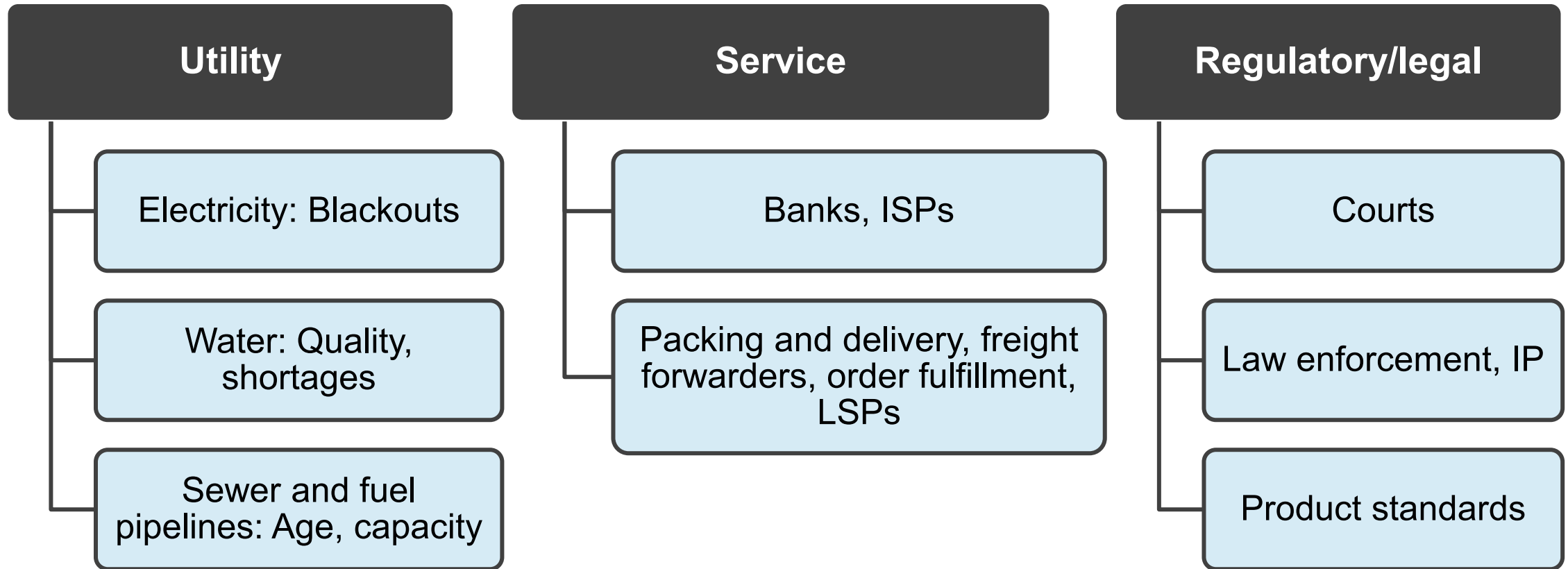
Understand Local Infrastructure Considerations

Transportation Infrastructure: Airports

- Runways are big constraint
- Airport noise
- Cargo air hubs
 - Hong Kong, Chek Lap Kok
 - Memphis, Tennessee
 - Anchorage, Alaska
 - Shanghai, Pudong International

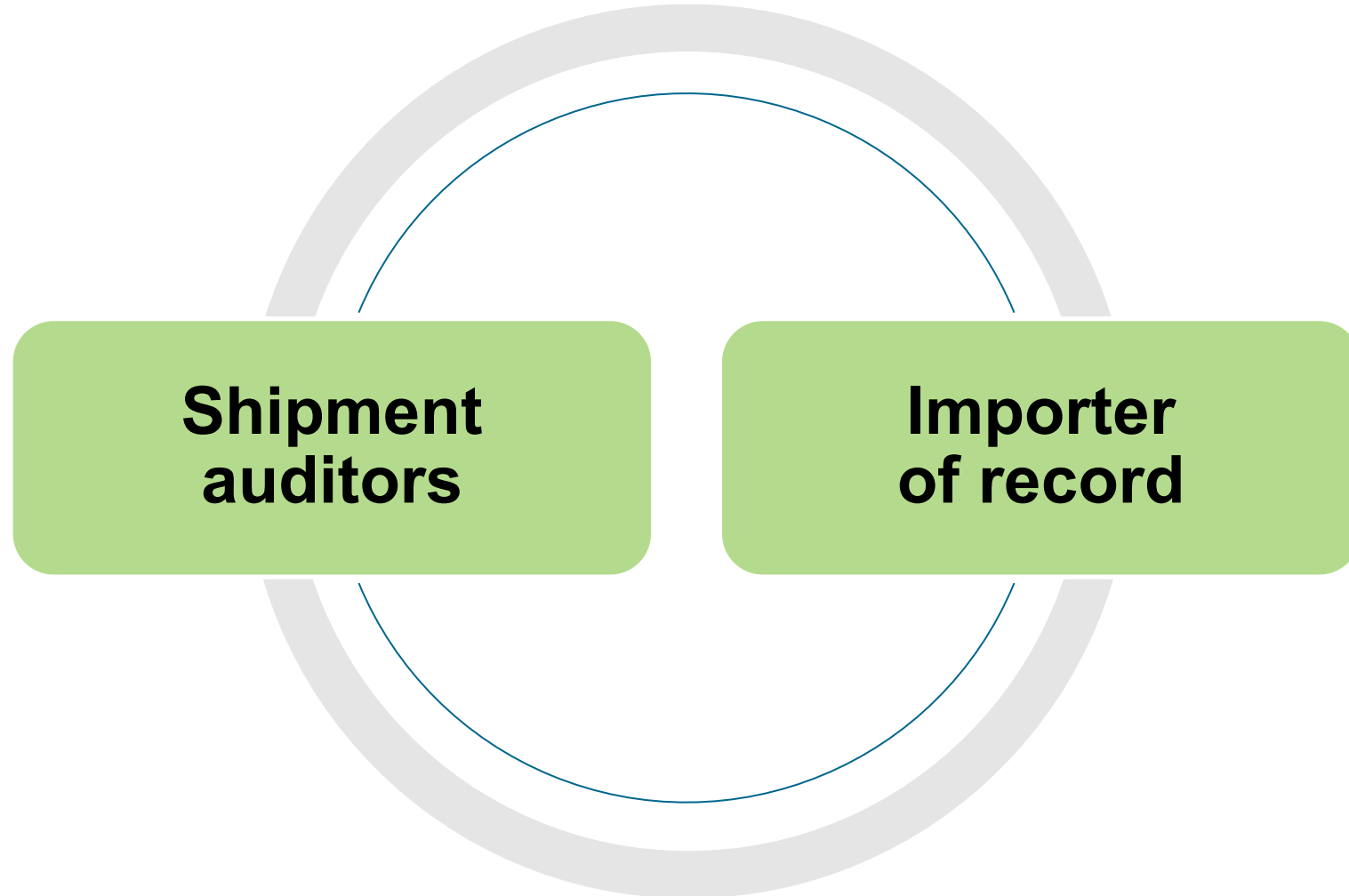
Understand Local Infrastructure Considerations

Other Infrastructures



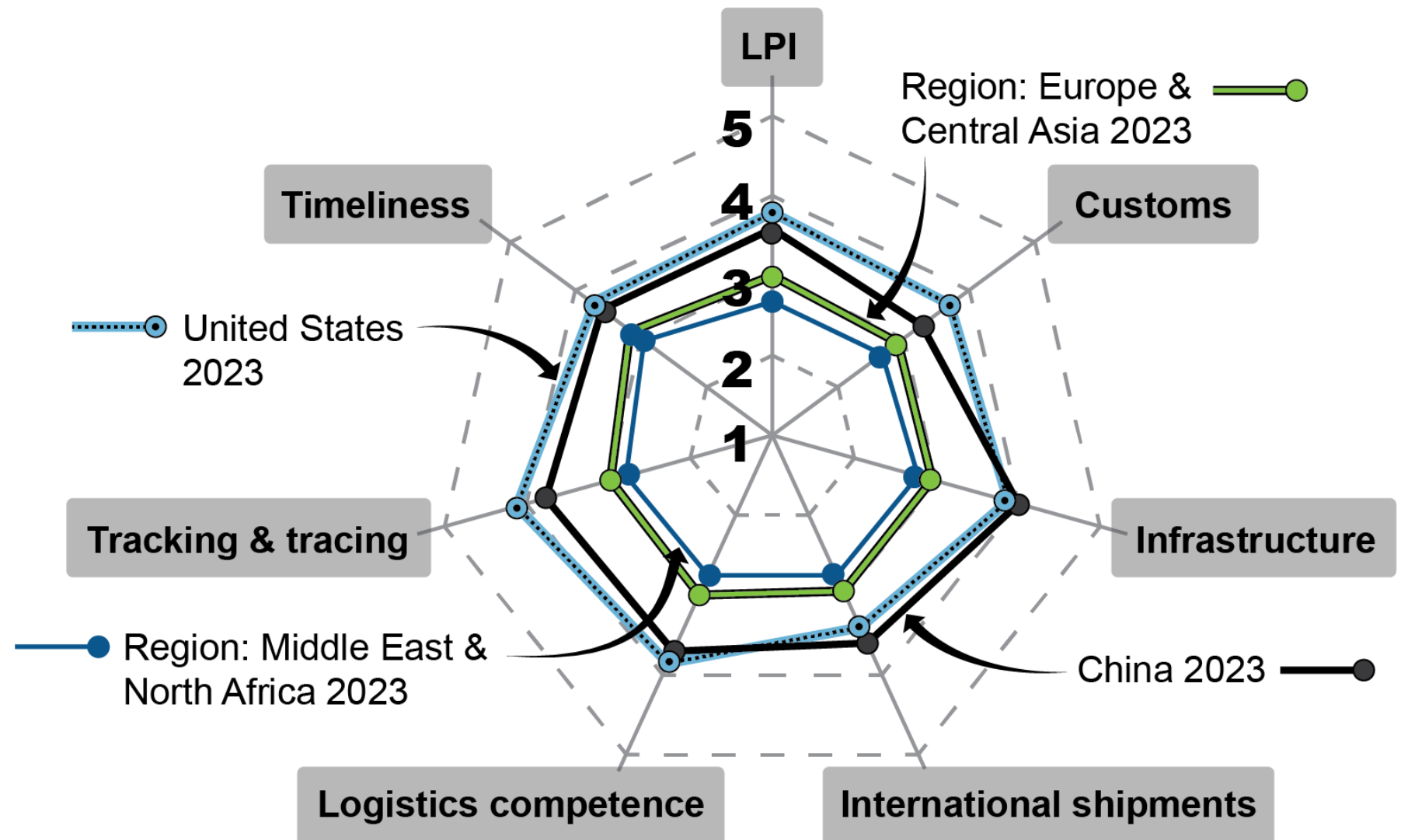
Understand Local Infrastructure Considerations

Global Trade Specialists



Consider Global Logistics Performance Management Factors

Logistics Performance Index (LPI): China, 2023



Source: The World Bank: Logistics Performance Index, 2023 (www.worldbank.org).

Global Supply Chain Cost

- TCO, NPV, exchange rates
- Cost of lead time, e.g.:
 - Number of ASNs filed
 - Containers/loads inspected
 - Days of port shutdowns
 - Days of delays at ports
- Cost of lost sales
- Cost of flexibility (or inflexibility)
- Cost of quality
- Cost of added risk

Risk and Exception Management

Metrics

- Number/cost of documents/approvals per international transaction
- Percentage of containers inspected, intensity level
- Percentage of shipments damaged/stolen
- Number of borders crossed/time waiting at borders

Factors

- Number of government agencies with inspection rights
- Ease of crossing borders

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MODULE 7, SECTION B: INCORPORATE REGULATIONS INTO GLOBAL LOGISTICS PROCESSES

Free Trade Agreements (FTAs)

Treaties to eliminate tariffs, quotas, preferences on many goods or services

- Faster/more transactions
- Opens trade/international freight demand
- Removes trade barriers and transport permit restrictions
- Frees capital and reduces or eliminates duties
- Testing/documentation standards

Trade Blocs

“An agreement between or among countries intended to reduce or remove barriers to trade within member countries. Frequently, but not always, those countries are geographically close.”

— *(ASCM Supply Chain Dictionary)*

- EU was first trade bloc, but now a federation moving toward an economic and political union.

Foreign/Free Trade Zones (FTZ)

- In U.S., called “foreign”; internationally, called “free.”
- Ship to zone re-export no duties, quotas until sold in country.
- Reassemble, transform, repackage, store, clean, test, grade, repair, or combine
- Inverted tariff structure (parts tariffs > than finished good).
- Hold indefinitely (e.g., for quota).
- Less risk of inspection rejection.
- FTZs virtual in Europe

Government Policies and Regulations

- Tariffs and duties
- Import quotas
- Prohibited imports
- Nontariff trade barriers
 - Quotas
 - Cabotage laws
- Embargos
- Closures for national holidays (e.g., Chinese New Year)

Trade Compliance

- How organizations manage their fulfillment of government regulations
- Regulations affect:
 - Product classifications
 - Documentation requirements
 - Valuation
 - Record-keeping practices

Trade Compliance: Terms of Sale

- Incoterms® used to indicate responsibilities, costs, risks
- Harmonized system codes identify cargo
- Preferential fees, duties, and taxes
 - Import tariffs and preferential duties based on country agreements
 - Anti-dumping duties
 - Other fees (value-added tax, general services tax, harbor fees, control taxes, excise taxes, trade promotion fees)

Export Regulations

- Export quotas and taxes
- U.S. CCL
 - ECCN, export license
- Restrictions
 - Denied persons, specially designated nationals, unverified and entity lists
- Deemed exports
 - Controlled technology, biochemical, agriculture



International Air Transport Association (IATA)

- 330 airlines (80% of traffic)
- e-Air Waybill (e-AWB) default contract of carriage
- IATA priorities
 - Net zero carbon emissions, sustainable aviation fuel
 - Digital transformation
 - Cybersecurity
 - Diversity, equity, and inclusion

International Maritime Organization (IMO)

- Regulates sea shipments of dangerous goods (hazmat)
- UN agency
- Mission: “promote safe, secure, environmentally sound, efficient and sustainable shipping through cooperation”
- Publishes IMO Dangerous Goods (IMDG) Code
- *De facto* standard for sea shipments
 - Widely adopted by government regulations
 - Must also meet domestic requirements

Anti-Bribery and Anti-Corruption Practices

- Bribery violates United Nations Global Compact.
- OECD Anti-Bribery Convention:
 - Countries must develop regulations.
 - Organizations can't deduct bribery as a business expense.
- Bribery Act, 2011 (U.K.):
 - Passive bribery
 - Active bribery
 - Failing to prevent
 - Bribe official to obtain or retain business

Understand and Adhere to Transportation Safety Regulations

Security: Regulatory Initiatives

AEO

CTPAT

AMR

CSI

FAST

**U.S. Trade
Act of
2002**

AES

Vehicle Security

- Alarms
- Explosives detectors in RFID tags
- Immobilization equipment
- Visible registration number
- Key security, driver in-yard moves
- Prearranged secure trailer areas
- Multi-vehicle convoys
- In-transit tracking and visibility

Understand and Adhere to Transportation Safety Regulations

Border Security Partnerships

Authorized Economic Operator (AEO) program

- Business audit, good customs record
- AEOC: Customs
- AEOS: Security
- AEOF: Both of above
- Mutual recognition agreements

EU

Customs Trade Partnership Against Terrorism (CTPAT)

- Questionnaire
- Continually improve security
- Fewer inspections, less border time (no guarantee)

U.S.

Understand and Adhere to Transportation Safety Regulations

Labor Safety

- Driver fatigue
- Speeding
- Maximum driving time

U.S. 2010 Compliance, Safety, and Accountability Act (CSA) ratings

- Unsafe driving
- Crash history
- Hours of service
- Fitness
- Alcohol and substances
- Maintenance
- Cargo

Dangerous Goods (Hazmat)

- Risk to human, animal, environmental health, property
 - On its own or due to interaction
 - Permits and safety precautions
-
- UN Model Regulations
 - Prevent accidents
 - Keep transport feasible
 - Dangerous goods forbidden from commercial transport
 - Road: ADR, U.S. 49CFR
 - Rail: RID, U.S. FRA
 - Sea: IMDG Code
 - Inland waterways: ADN
 - Air: IATA Dangerous Goods Regulations

Understand and Adhere to Transportation Safety Regulations

Dangerous Goods (Hazmat) Classes



Understand and Adhere to Transportation Safety Regulations

Dangerous Goods (Hazmat), Continued


- Degree of hazard and packing groups I, II, III
- Dangerous goods documentation
 - 4-digit UN Code and Proper Shipping Name
- Safety data sheet (SDS)

n-Propyl Alcohol
UN No. 1254
CAS No. 84-26-2
WARNING
Flammable liquid and vapor. May cause eye damage.
May cause drowsiness and dizziness.

Keep away from heat/sparks/open flames/hot surfaces. No smoking. Avoid breathing fumes/mist/vapours/spray. Wear protective gloves/protective clothing/protective eyewear/face protection. IF IN EYES: Rinse cautiously with water for several minutes. Remove contact lenses if present. Continue rinsing.

Fill Weight: 22.36 lbs. Lot Number: D345192
Gross Weight: 30 lbs. Fill Date: 4/25/2017
Expiration Date: 3/26/2025

ABC Company 1234 Main Street, U.S.A. www.abc-company.com



See SDS for further information.

Dangerous Goods (Hazmat): Air and Sea

IATA Dangerous Goods Regulations (DGR) for Air

- Can it be transported between specific airports?
- Requirements for specific 4-digit UN Code, aircraft type, carrier, and airport
- Limited quantities (LQ)
- Cargo aircraft only (CAO)
- Updated annually

IMDG Code for Sea

- Dangerous and hazardous cargo shipping
- Emergency responses
- Updated every two years

Understand and Adhere to Transportation Safety Regulations

Dangerous Goods (Hazmat): Segregation Rules

- Segregation charts
- Same class together usually unless risk
- 1.1, 1.2, 6.2, 7, 9 segregated from all other DG

	Kept Segregated From		
Acids	←	→	Alkali
4.3 Spontaneously flammable when wet	←	→	Water
5.2 Organic peroxides	←	→	4.2 Highly pyrophoric materials
6.1 Toxic substances	←	→	Food, feed

Dangerous Goods (Hazmat): Training Requirements

- International agencies
 - IATA requires all employees in transport of DG to renew every 2 years
- Nations
 - Mandate training

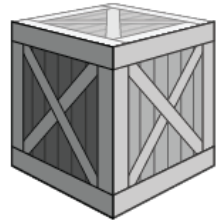
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MODULE 7, SECTION C: FACILITATE EXPORT/IMPORT, CUSTOMS CLEARING, AND DOCUMENTATION

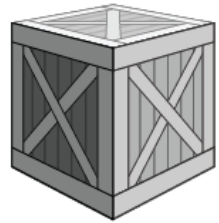
Consider Methods for Entering Global Markets

Exporting and Other Common Methods



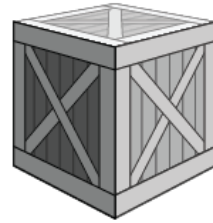
Exporting

- Agent
- Distributor
- Marketing subsidiary

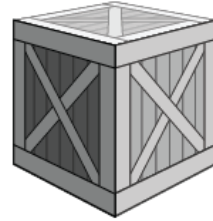


Indirect exporting

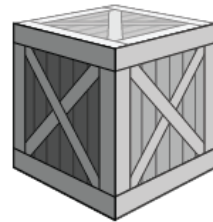
- Export trading company
- Export management company
- Piggybacking



Licensing



Direct ownership and production abroad

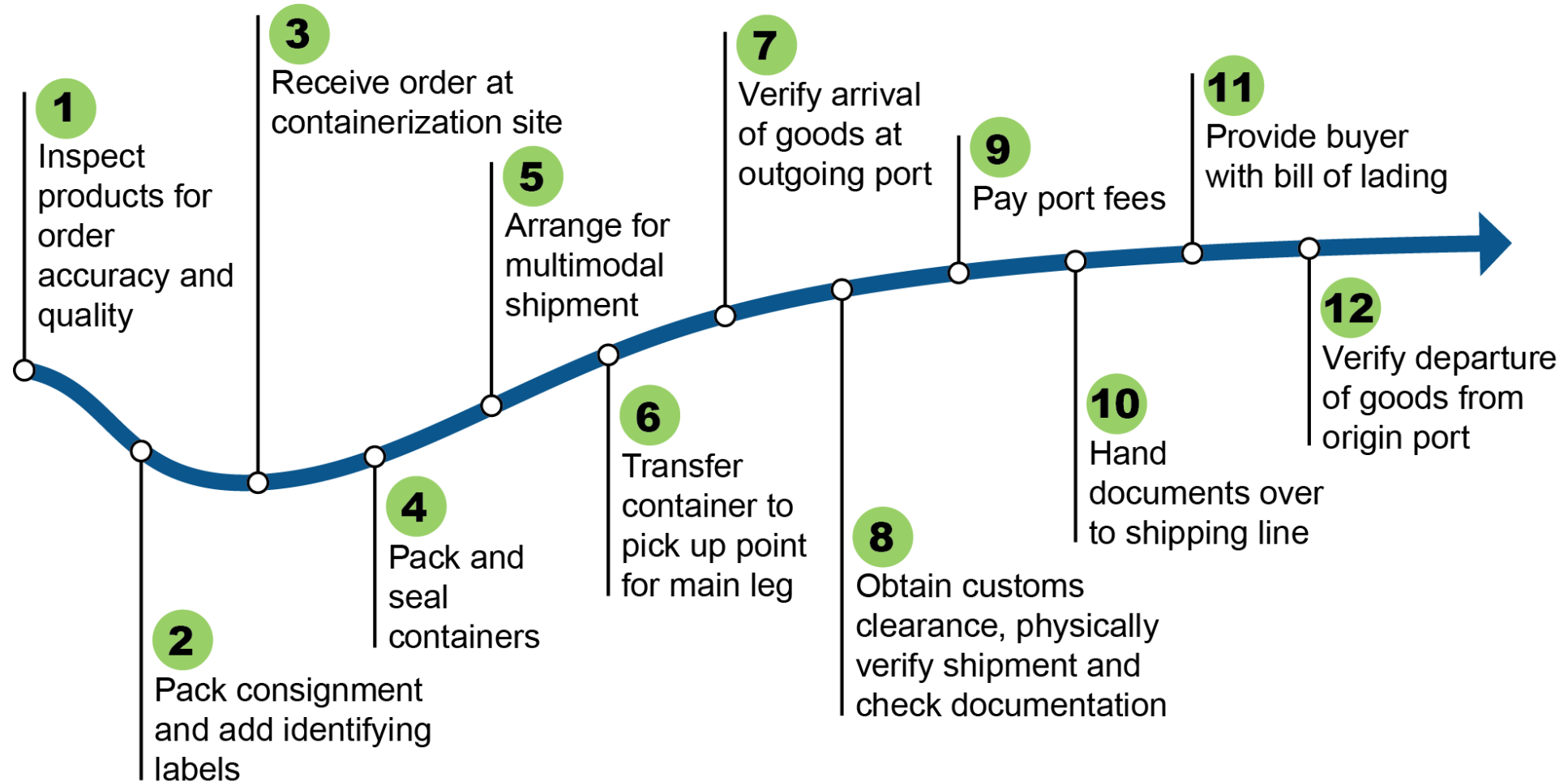


Joint ventures



Understand the Import/Export Process and Invoice Types

Import/Export Process



Understand the Import/Export Process and Invoice Types

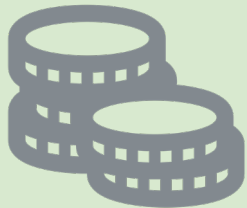
Types of Invoices: Commercial



Widely used



Provided by seller with shipment, unless payment terms specify to importer or bank



Customs uses for valuation

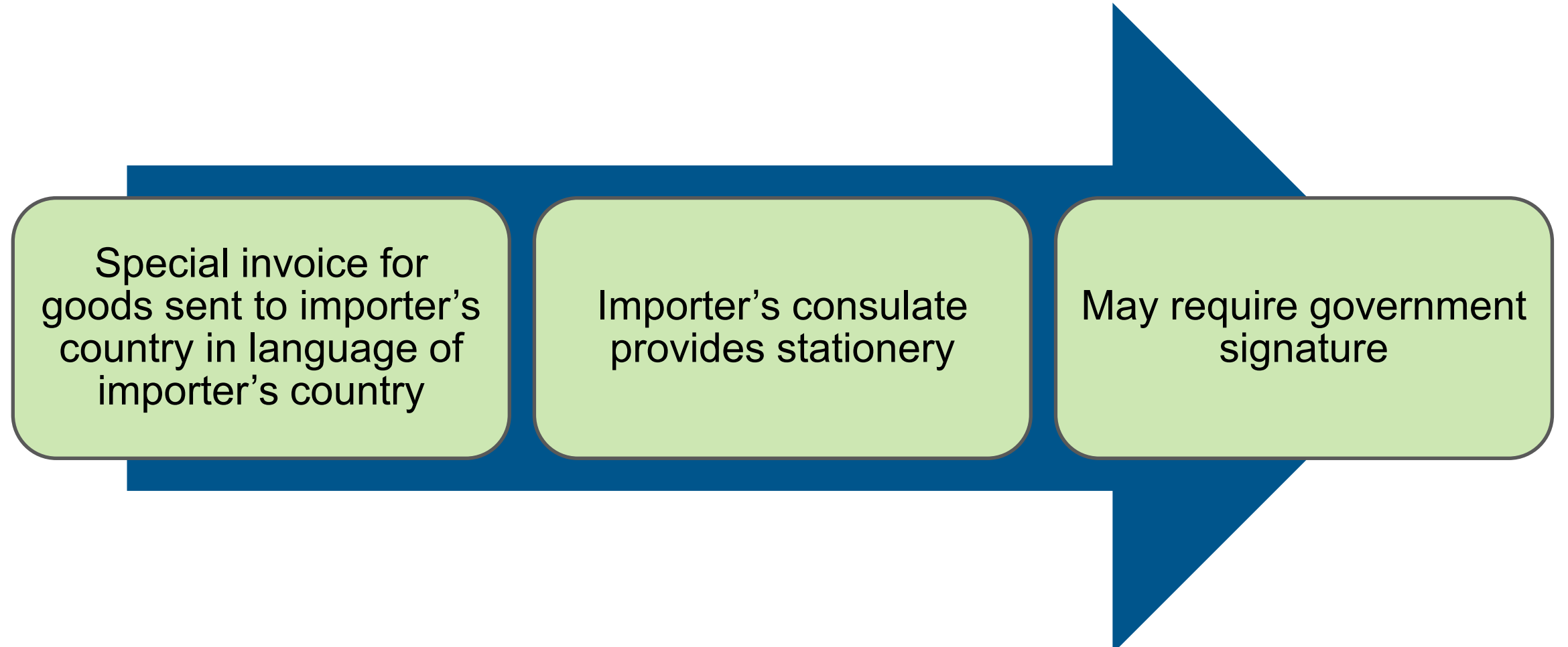
Understand the Import/Export Process and Invoice Types

Types of Invoices: Pro Forma

“A quote provided by the seller/exporter prior to delivery of products or services, informing the buyer/importer of the price.” –*ASCM Supply Chain Dictionary*

Understand the Import/Export Process and Invoice Types

Types of Invoices: Consular

A large blue arrow pointing to the right, containing three light green rounded rectangular boxes. Each box contains text describing a feature of a Consular Invoice.

Special invoice for goods sent to importer's country in language of importer's country

Importer's consulate provides stationery

May require government signature

Differentiate between Various Import Documents

Import Documentation

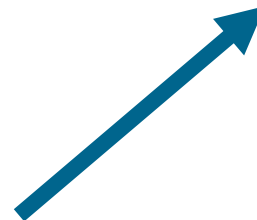
- Import license
- Import quotas
- Import declarations
- Certificates of:
 - Analysis
 - Manufacture
 - Origin
 - Inspection
 - Insurance
- Phyto-sanitary certificate
- Certificate of free sale
- Carnet

CERTIFICATE OF ORIGIN FOR GENERAL USE				
The undersigned _____ (OWNER OR AGENT, & TITLE)				
for _____ (Name and Address of Shipper)				
declares that the following mentioned goods are shipped via _____				
on the date of _____ consigned to _____ (Name and address of Consignee)				
(ADDRESS)				
(CITY, POSTAL CODE , COUNTRY)				
Marks and Numbers AS ADDRESSED	No. of Pkgs Boxes or Crates	Weight in Kilos Gross Net		Complete and accurate Description of Goods
Sworn to before me this _____ day of _____, _____				
Notary Signature				
The undersigned hereby declares that the above details and statements are correct and that all the goods were produced in _____				
Signature of Owner or Agent _____				
The _____ Chamber of Commerce certifies, in reliance on the exporter's representation and not on the basis of independent verification, that to the best of its knowledge and belief, the products named in this document originated in _____				
Acting as Assistant Secretary on behalf of the Chamber of Commerce.				
Certified this _____ day of _____, _____.				
Executing Agent _____ SIGNATURE				

Differentiate between Various Export Documents

Export Documentation

- Export licenses
- Export taxes and quotas
- Electronic export information (EEI)/shipper's export declaration (SED)
 - AESDirect
 - Owner/Importer/Consignee/Agent Declaration
- Returned products
- Declaration for Free Entry of Returned Products



DEPARTMENT OF HOMELAND SECURITY U.S. Customs and Border Protection DECLARATION FOR FREE ENTRY OF RETURNED AMERICAN PRODUCTS			Form Approved OMB No. 1651-0011 Exp. 03-31-2016
19 CFR 7.8, 10.1, 10.5, 10.66, 10.67, 12.41, 123.4, 143.23, 145.35			
1. PORT	2. DATE	3. ENTRY NO. & DATE	
4. NAME OF MANUFACTURER		5. CITY AND STATE OF MANUFACTURE	
6. REASON FOR RETURN		7. U.S. DRAWBACK PREVIOUSLY <input type="checkbox"/> CLAIMED <input type="checkbox"/> UNCLAIMED	
		8. PREVIOUSLY IMPORTED UNDER HTSUS 9813.00.05? <input type="checkbox"/> YES <input type="checkbox"/> NO	
9. MARKS, NUMBERS, AND DESCRIPTION OF ARTICLES RETURNED			10. VALUE*
<small>* If the value of the article is \$10,000 or more and the articles are not clearly marked with the name and address of U.S. manufacturer, please attach copies of any documentation or other evidence that you have that will support or substantiate your claim for duty free status as American Goods Returned.</small>			
11. I declare that the information given above is true and correct to the best of my knowledge and belief; that the articles described above are the growth, production, and manufacture of the United States and are returned without having been advanced in value or improved in condition by any process of manufacture or other means; that no drawback bounty, or allowance have been paid or admitted thereon, or on any part thereof; and that if any notice(s) of exportation of articles with benefit of drawback <input type="checkbox"/> was <input type="checkbox"/> were filed upon exportation of the merchandise from the United States, such notice(s) <input type="checkbox"/> has <input type="checkbox"/> have been abandoned.			
12. NAME OF DECLARANT		13. TITLE OF DECLARANT	
14. NAME OF CORPORATION OR PARTNERSHIP (if any)		15. SIGNATURE (See note)	
16. SIGNATURE OF AUTHORIZING CBP OFFICER			
NOTE: If the owner or ultimate consignee is a corporation, this form must be signed by the president, vice president, secretary, or treasurer of the corporation, or by any employee or agent of the corporation who holds a power of attorney and a certificate by the corporation that such employee or agent has or will have knowledge of the pertinent facts.			
PAPERWORK REDUCTION ACT STATEMENT: An agency may not conduct or sponsor an information collection and a person is not required to respond to this information unless it displays a current valid OMB control number and an expiration date. The control number for this collection is 1651-0011. The estimated average time to complete this application is 6 minutes. If you have any comments regarding the burden estimate you can write to U.S. Customs and Border Protection, Office of Regulations and Rulings, 799 9 th Street, NW., Washington DC 20229.			
Previous Editions are Obsolete			CBP Form 3311 (08/11)

International Bills of Lading

- Legally binding carrier/shipper contract
 - Exporters paid
 - Importers get goods
- Carrier signature: Proof that carrier received goods
- Consignee signature: Receipt for goods
- Basis for freight claims
- Mode
 - Uniform bill of lading
 - Ocean bill of lading
 - Through bill of lading (multimodal)
- Condition
 - Clean
 - Claused (soiled or foul)
 - Negotiable

Differentiate between Various International Transportation Documents

Manifests, Waybills, Packing Lists, and DG Declaration

- Manifest
- Air waybill (AWB)
- Road waybill
- Rail waybill
- Packing list
- Dangerous goods declaration

Shipper's Name and Address		Shipper's Account Number		Not Negotiable		001-12345678	
				Air Waybill			
				Issued by			
Consignee's Name and Address				Copies 1, 2 and 3 of this Air Waybill are originals and have the same validity.			
Consignee's Account Number				It is agreed that the goods described herein are accepted in apparent good order and condition (except as noted) for carriage SUBJECT TO THE CONDITIONS OF CONTRACT ON THE REVERSE HEREOF. ALL GOODS MAY BE CARRIED BY ANY OTHER MEANS INCLUDING ROAD OR ANY OTHER CARRIER UNLESS SPECIFIC CONTRARY INSTRUCTIONS ARE GIVEN HEREON BY THE SHIPPER AND SHIPPER AGREES THAT THE SHIPMENT MAY BE CARRIED VIA INTERMEDIATE STOPPING PLACES WHICH THE CARRIER DEEMS APPROPRIATE. THE SHIPPER'S ATTENTION IS DRAWN TO THE NOTICE CONCERNING CARRIER'S LIMITATION OF LIABILITY. Shipper may increase such limitation of liability by declaring a higher value for carriage and paying a supplemental charge if required.			
Issuing Carrier's Agent Name and City				Accounting Information			
Agent's IATA Code				Account No.			
Airport of Departure (Addr. of First Carrier) and Requested Routing				Reference Number		Optional Shipping Information	
To By First Carrier Routing and Destination to by to by				Currency <input type="checkbox"/> US <input checked="" type="checkbox"/> EUR <input type="checkbox"/> GBP <input type="checkbox"/> JPY <input type="checkbox"/> Other		Declared Value for Carriage Declared Value for Customs	
Airport of Destination				Requested Flight/Date		Amount of Insurance	
Handling Information				INSURANCE - If carrier offers insurance, and such insurance is requested in accordance with the conditions thereof, indicate amount to be insured in figures in box marked "Amount of Insurance".			
These commodities, technology or software were exported from the United States in accordance with the Export Administration Regulations. Ultimate Destination				Diversion contrary to U.S. law prohibited.			
No. of Pieces RCP				Gross Weight		SCI	
Rate Class				Commodity Item No.		Nature and Quantity of Goods (incl. Dimensions or Volume)	
Chargeable Weight				Rate		Total	
Prepaid				Weight Charge		Collect	
Valuation Charge				Other Charges			
Total Other Charges Due Agent				Shipper certifies that the particulars on the face hereof are correct and that insofar as any part of the consignment contains dangerous goods, such part is properly described by name and is in proper condition for carriage by air according to the applicable Dangerous Goods Regulations.			
Total Other Charges Due Carrier				Signature of Shipper or his Agent			
Total Prepaid				Total Collect			
Currency Conversion Rates				CC Charges in Dest. Currency			
For Carrier's Use only at Destination				Charges at Destination		Total Collect Charges	
				Executed on (date)		at (place) Signature of Issuing Carrier or its Agent	
				ORIGINAL 1 (FOR ISSUING CARRIER)		001-12345678	

Customs Clearance, U.S. Example

1. Importer files entry 7 to 10 days before arrival.
 - CBP entry summary, commercial/pro forma invoice, shipping forms, packing list, bond posting evidence.
2. Customs notified of arrival; carriers apply for release.
3. Customs can examine and verify value, duty status, labeling, origin, prohibited items, and match.
 - If issues: hold, export, or destroy.
4. Customs determines duty based on Harmonized Tariff Schedule (HTS).
5. Customs releases goods to importer, customs bonded warehouse, or foreign trade zone (FTZ).

Harmonized System of Classification and Tariffs

- Partial basis for duties
 - Harmonized code
 - Invoice value
 - Import country or countries
- Six-digit root plus four digits for country subcategories
- Customs may issue binding ruling on classification
- Can sometimes appeal



Harmonized System of Classification and Tariffs

- Harmonized Tariff Schedule
- “Rates of Duty” columns: One column per class, up to four.
- U.S. has several columns:
 - Column 1: Normal trade relations (NTR)

Valuation

- Begins with value identified on exporter's invoice
- Can be different by country
 - Landed value
 - Packaging
 - Transportation in importing country
 - International transportation to destination
 - International insurance
 - More complex methods

Transfer Pricing

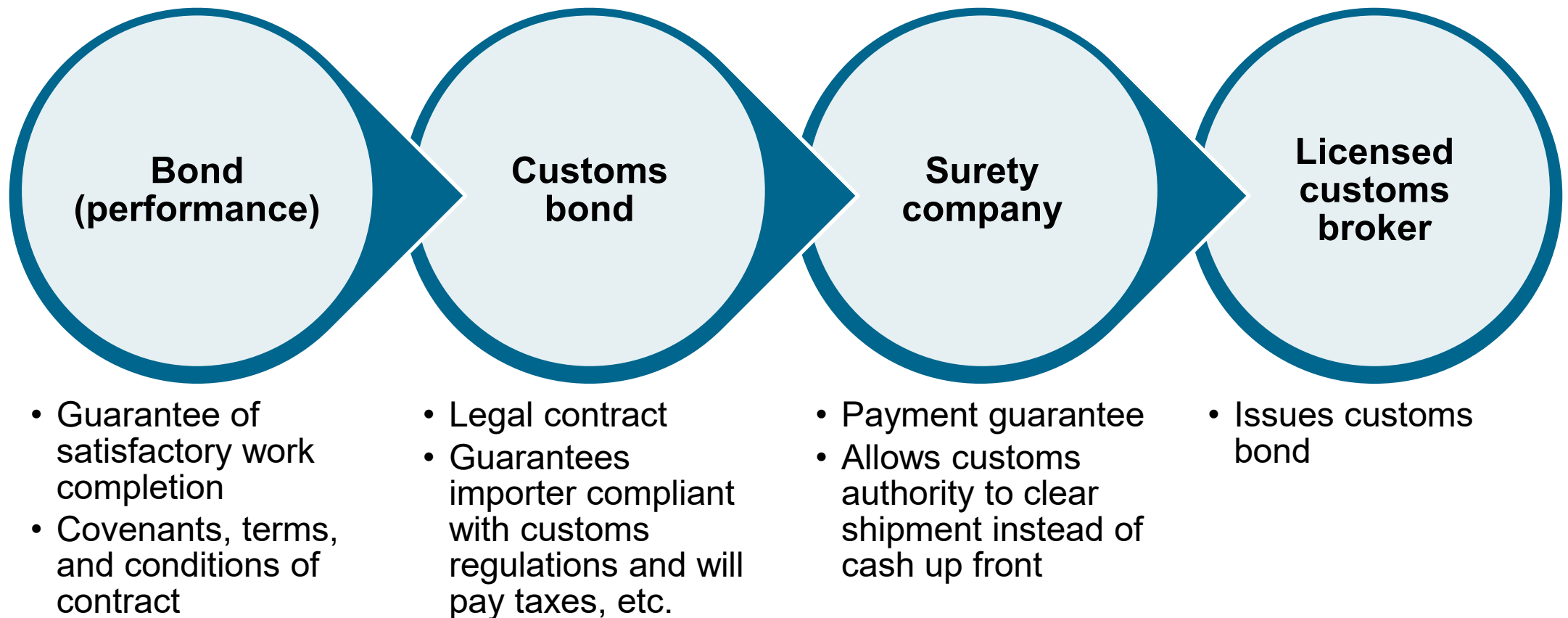
Arm's-length transfer pricing

- When companies set prices based on the market (as if to a customer that has no relational ties to them).

Other methods of transfer pricing

- May allow a subsidiary or division of a company to sell a product to another division or subsidiary that is located in a lower-tax country at a lesser price.

Customs Bonds



Other Taxes

- Taxes based on value of goods: *Ad-valorem* taxes
- Value-added tax (VAT)
- Consumption taxes
- Exemptions for some member countries in free trade agreements

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MODULE 7, SECTION D: UNDERSTAND FINANCE, PAYMENT, CURRENCY, AND TAX OPTIONS/IMPLICATIONS

Obligations of International Trade

Importer-exporter contracts

- Sales
- Insurance
- Carriage (also with carrier)
- CISG

Contract between

- Exporter/importer and bank
- Exporter and distributor/agent

Risks of International Trade

- Often no firsthand knowledge of counterparty
- Commercial risk
 - Non-, partial, or late payment
- Country risk
- Limited recourse

Contract Terms and Conditions

- Language
- Product specifications
- Pricing
- Order requirements
- Conditions for incentives and application of penalties
- Security requirements
- Status update requirements
- Quality checks
- Problem resolution steps
- Legal entity that will govern agreement
- Contract termination process
- Payment terms
- Transfer of ownership

Incoterms® 2020 Trade Terms

Example:

- CIF Los Angeles, U.S.A., Incoterms® 2020

- Exporter tasks and payments
- Importer tasks and payments
- Point of delivery
- Two categories
 - Any mode
 - Sea and inland waterway
- Not legally binding unless written into contract, standard terms in contracts of sale (not transfer of title)

Understand and Apply Terms of Sale and Methods of Payment

Incoterms 2020[®] Definitions

Terms for Any Mode or Modes of Transport

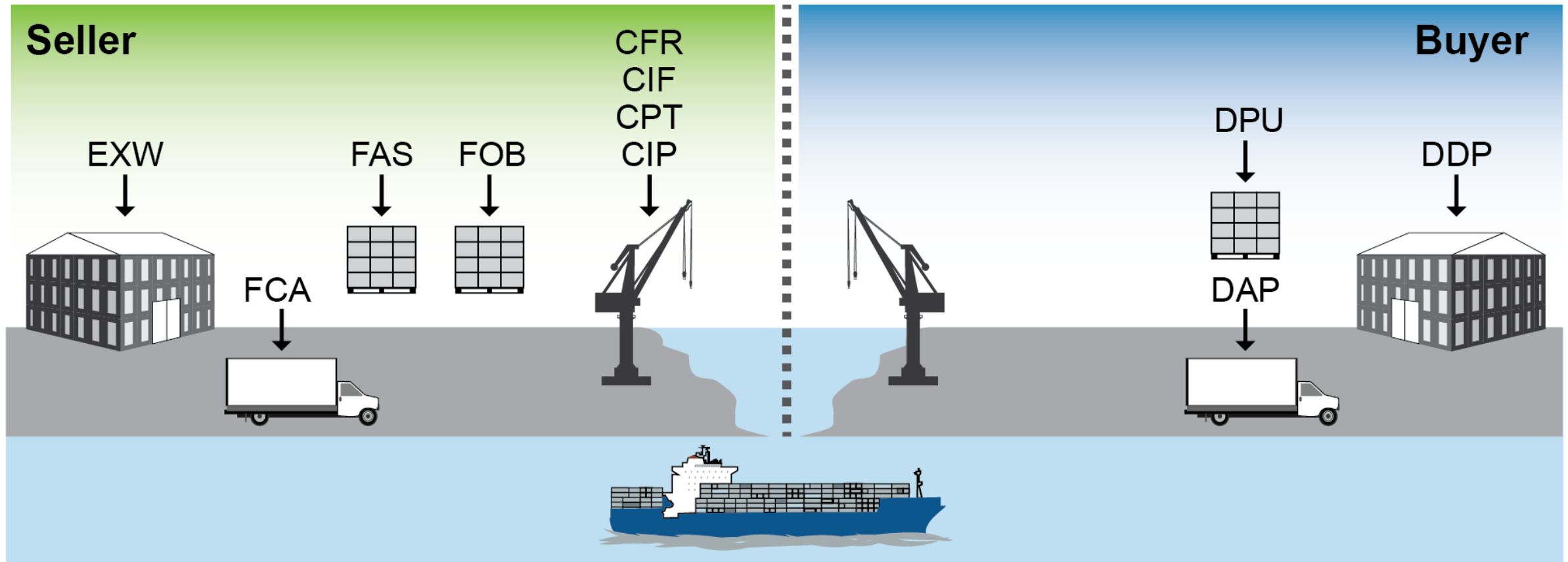
EXW	Ex Works (<i>Buyer loads goods and takes control at seller's location.</i>)
FCA	Free Carrier (<i>If named place is seller's premises, seller loads on transport arranged by buyer (e.g., truck)</i>)
CPT	Carriage Paid To (<i>Seller selects and pays for main carriage.</i>)
CIP	Carriage and Insurance Paid To (<i>Seller pays main carriage and insurance.</i>)
DAP	Delivered at Place (<i>Seller delivers goods and buyer unloads them.</i>)
DPU	Delivered at Place Unloaded (<i>Seller delivers goods to a location and unloads them.</i>)
DDP	Delivered Duty Paid (<i>Seller incurs all costs, including import duty.</i>)

Terms for Sea and Inland Waterway Transport

FOB	Free on Board (<i>Seller puts goods on main transport vessel.</i>)
FAS	Free Alongside Ship (<i>Buyer lifts cargo on board.</i>)
CFR	Cost and Freight (<i>Seller selects/pays main carriage.</i>)
CIF	Cost, Insurance, and Freight (<i>Seller pays main carriage and insurance.</i>)

Understand and Apply Terms of Sale and Methods of Payment

Incoterms® 2020: Buyer/Seller Responsibilities



Understand and Apply Terms of Sale and Methods of Payment

Coverage Under Institute Cargo Clauses (ICC)

Type of Risk	A	B	C
Fire or explosion; stranded/grounded/sunk/capsized; overturning/derailment; collision or contact of vessel, craft, or conveyance with any other external object other than water; discharge at port of distress; general average sacrifice; jettison	Yes	Yes	Yes
Earthquake, volcanic eruption, or lightning; washing overboard; water penetration into the ship, place of storage, container, etc.; loss at loading/unloading (full)	Yes	Yes	No
Loss at loading/unloading (partial); malicious damage; thefts/pilferage/non-delivery; piracy; any other risk not explicitly excluded	Yes	No	No
Risks of war, terrorism, riots, and strikes; loss, damage, or expense of delay	No	No	No

Avoiding Acronym Confusion: Free on Board (FOB)

- **Incoterms® 2020 Free on Board (FOB):**

Incoterm® trade term FOB applies only to sea and inland waterway transport.

- **U.S. Domestic FOB Origin, FOB Destination:**

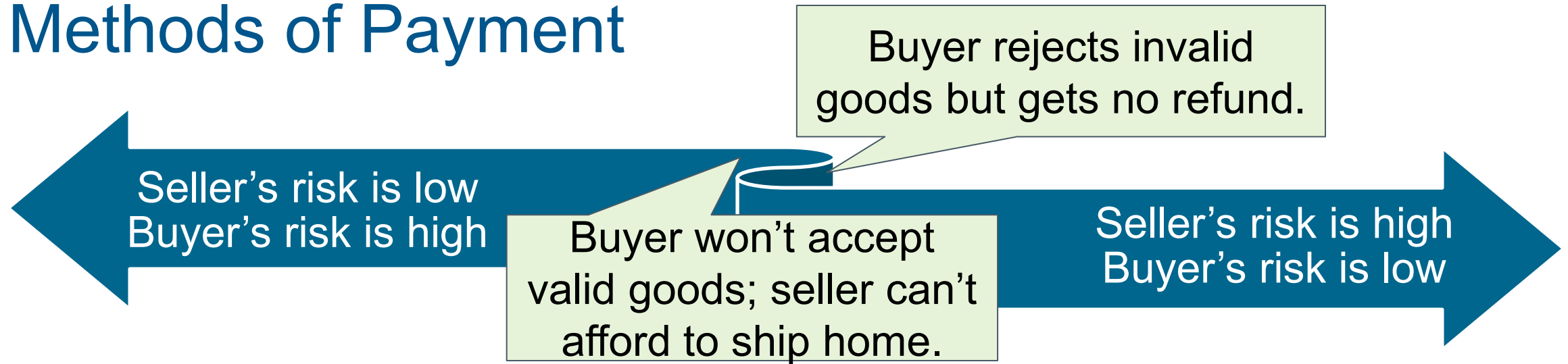
The U.S. terms FOB Origin (sometimes FOB Factory) and FOB Destination are to be used only for domestic U.S. shipments by various transportation modes.

Cash Budgets and Payment Terms Policy

- Actual cash inflows/outflows adequate per period?
- Payment terms: How long until paid/how long to pay.
 - Cash in advance (early), on delivery (late).
 - Open account: window (early pay discount or full).
- Prioritize payment terms in negotiations.
 - Strategy should drive choices, can be segment-specific.
 - Will early cash be utilized, or will late cash require financing?
 - International: Slow transport intensifies impact.

Understand and Apply Terms of Sale and Methods of Payment

Methods of Payment



Cash in advance

- All risk on buyer

Letter of credit (L/C)

- Irrevocable
- Confirmed irrevocable

Bills of exchange

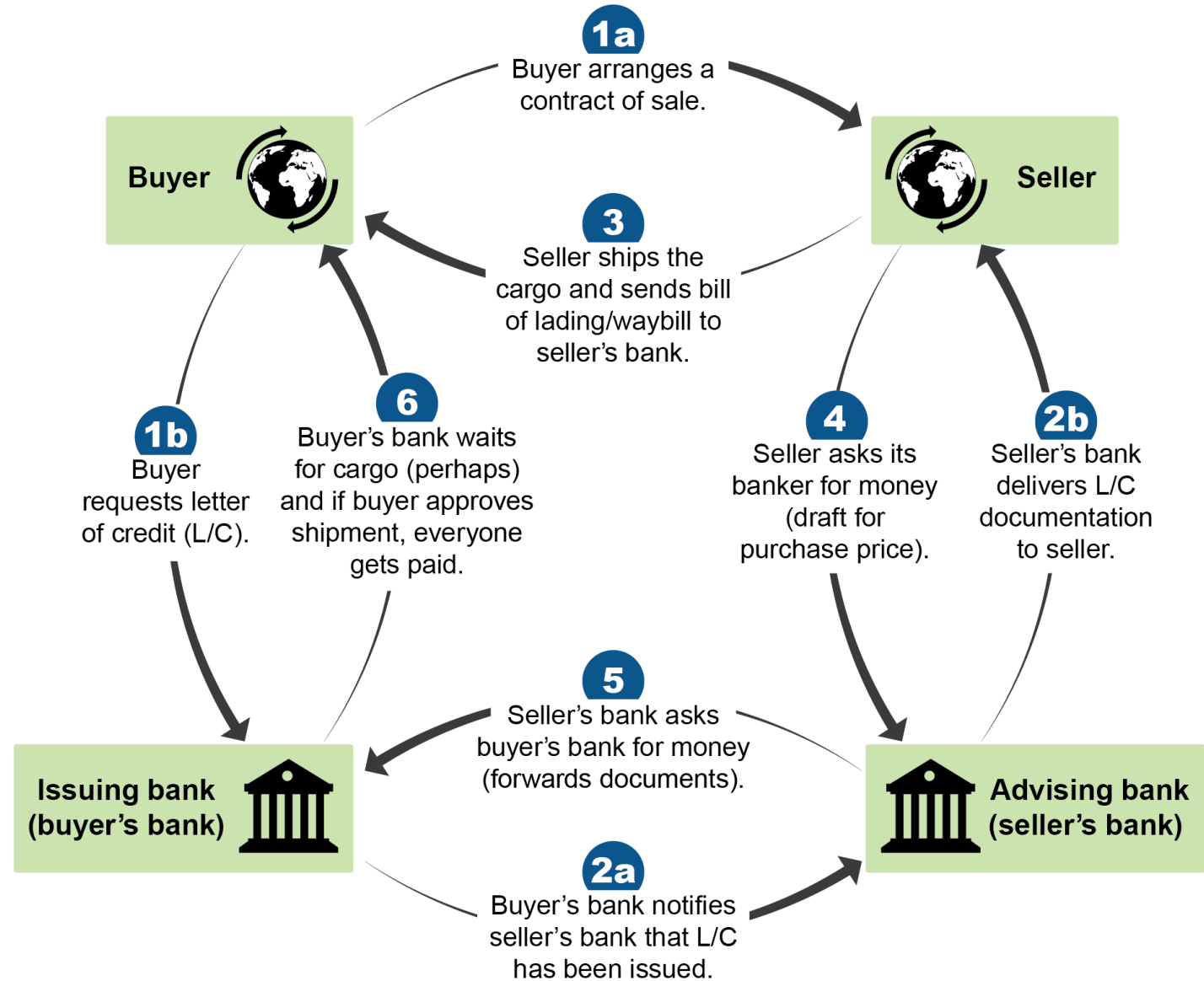
- Date draft
- Time draft
- Sight draft

Open account

- All risk on seller

Understand and Apply Terms of Sale and Methods of Payment

Letter of Credit (L/C) Process



Consider Currency Implications

Selecting a Currency and Hedging

- Convertibility and risk of fluctuation
- Hard vs. soft currencies
- Time of sale vs. time of payment
- If one party's currency used, other assumes risk
 - Seller: Offer buyer currency as sales tool
- Third country currency: Both assume risk
- International Monetary Fund's Special Drawing Rights
- Hedging transaction exposure
 - Forward contract
 - Money market