Facultat d'Economia i Empresa

External trade

Code: 102342
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Grup 4
Fall term

Second Exam

(Duration: 105 minutes)

Problem 1 (2.5 points)

Corporation ABC (with headquarter in Los Angeles, US) has purchased a large order from their manufacturer in China of three full containers of electronics and plans to import them by sea. They would like their Chinese partners to arrange inland shipping to the port of Shanghai and load the vessel. Corporation ABC will contact with their sea-cargo service for delivering the merchandise into the US at the port of Long Beach (NY) and assume the risks of the shipment once loaded at the port of Shanghai. Once arrived in NY and after the release of the merchandise at NY customs, the merchandise will be ready for being loaded on some trucks to be delivered from NY to the ABC warehouse in Los Angeles. Corporation ABC itself will be in charge to contract these trucks for the last part of the service.

1. Which the incoterms that could fit the proposed split of transport and insurance changes between Corporation ABC and the Chinese provider?
2. Given the Incoterm detected at point 1, who is in charge to pay the broker fees for the release of the merchandise?
3. For the Chinese provider, could it be more convenient to opt for the EXW incoterms rather than the one proposed by Corporation ABC ?

Answers (sketch)

The situation is the following: US firm imports goods from a Chinese provider. The US firm requires that the Chinese partners arrange inland shipping in China and load the merchandise on the boat. In exchange, the US firm will take care of the international transport costs and insurance (once loaded) up to the final destination.

However,

1) FOB is the incoterms that fits the proposed split of responsibility and transport charges.
2) In the case of FOB, it is the buyer (Corporation ABC) who is in charge of the release of the merchandise and pays for the broker fees.
3) Yes, definitely: in the case of EXW, the Chinese provider is just in charge to prepare the merchandise at its own premised and ready for the pick-up. A remaining open issue would be the one concerning the quality and the type of packaging

Problem 2 (5 points)

The US firm FRESHCLEAN sells to a Spanish buyer (whose headquarter is in Vigo) 10,000 litres of hygienizing cleaning product. The signed contract is a FAS (New York) for a value of 50,000 €. The product sold by FRESHCLEAN is unique in the market and it is protected by a patent. The Spanish buyer needs to pay 1€/litre for being able to distribute it in the Spanish market. In addition, the Spanish importer also committed to pay 1% of the expected revenues to the commercial that intermediated between the buyer and the seller. At the moment to import the merchandise, the Spanish buyer has already committed to sell the whole imported merchandise at a price of 7€/litre.

The other costs involved in this business are:

a) Internal transport costs in the US: 2,000 $ (1€=1.20$)
b) Loading charges in New York: 300$ (1$=1.20)
c) Costs for delaying the upload of the merchandise in New York: 50$ (1$=1.20 €)
d) International insurance and transport costs: 5,500 €
e) Internal transport costs in Spain from the port of Vigo to the headquarter of the Spanish buyer: 450€
f) Downloading costs at the premises of the Spanish importer: 150€
g) Tariff on import: 10% with a minimum 0.1€/litre

Calculate:

1) The EXW and FOB,
2) The VA making the assumption that VIGO is the customs of import,
3) The Tariff paid on this import,
4) The total TVA paid by the Spanish buyer for this purchase.

Answers

Contract: FAS= 50,000 €

Royalties for patents to be paid= 1€/l x 10,000 l = 10,000€
Commissions on revenues= (7x 10,000)x 1%= 700€
Internal US transport costs= 2,000/1,20= 1,666.67 €
Loading charges in NY = 300/1,20 = 250 €
Delay in loading the merchandise= 50/1,20= 41,67€

1) FOB= FAS + loading charges + delay in loading

   FOB= 50,000 + 250 + 41,67 = 50,291.67€

   EXW= FAS – US internal transport costs
   EXW= 50,000 – 1,666.67 = 48,333.33 €

2) VA in Vigo
   VA= CIF + Adjs
   Adjs= 10,000 + 700 = 10,700 €

   CIF= FOB + International transport & insurance

   CIF= 50,291.67 + 5,500= 55,791.67 €

   VA= 55,791.67+10,700 = 66,491.67 €

3) Tariff paid on import
   10% VA with minimum 0.1x 10,000= 1000€

   10% VA= 10% x 66,491.67 = 6,649.17€ => Tariff paid

4) Total TVA

CIF	55,791.67 €
Adjustments	10,700.00 €
Tariff	6,649.17 €
Internal transport costs Spain	450.00 €
Downloading costs	150.00 €
TOTAL	73,740.84 €
TVA 21%	**15,485.58 €**

Problem 3 (2.5 points)

The Spanish firm ALTRO signs an international contract under these conditions:

a) Exporter: ALTRO (Spain)
b) Importer: BING (US)
c) Objects: Mechanical machines
d) Value of the merchandise: $6,500,000 under CIF conditions whose value is composed by:
- Goods and services: $4,500,000 (FOB)
- Material for the machines provided from firms in France: $300,000
- Material for the machines provided from firms in Germany: $500,000
- Material for the machines provided from US: $700,000
- International freight and transport costs: $2,000,000

e) Commercial commissions: $450,000

According to the available data, determine the maximum amount of credit to export (namely CARI) that this firm can enjoy when the freight and transport services are provided by

a) A Spanish carrier
b) A carrier from US
c) A carrier from Panama

Answers

Max local material: 15% 4,500,000 =675,000 €
Max foreign material: 15% 4,500,000 = 675,000 €
Max commissions: 5% 4,500,000 = 225,000 €

Foreign Material:
MAX 675,000
Included -800,000 (300,000 + 500,000)
Difference -125,000

Local Material:
MAX 675,000
Included -700,000
Difference -25,000

Commissions:
Maximum amount: 225,000 €

A) **Spanish carrier**

FOB	4,500,000	
Local material	-25,000	
Foreign material	-125,000	
Commissions	225,000	
Transport costs	2,000,000	
Total	**6,575,000**	**x 85%= 5,588,750 € (max CARI)**

A) US **carrier**

FOB	4,500,000	
Local material	-25,000	
Foreign material	-125,000	
Commissions	225,000	
Transport costs	0	
Total	**4,575,000**	**x 85%= 3,588,750 € (max CARI)**

C) **Panama carrier**

FOB	4,500,000	
Local material	-25,000	
Foreign material	-125,000	
Commissions	225,000	
Total	**4,575,000**	**x 85%= 3,888,750 €**
Transport		**0**
Max CARI		**3,888,750 €**

The maximum amount of CARI can be granted in the case of the **Spanish carrier.**