Facultat d'Economia i Empresa

External trade

Code: 102342
Academic year: 2022-2023

Grup 4
Fall term

Second Exam

(Duration: 105 minutes)

Problem 1 (2.5 points)

A Colorado company (US) received a large order from a Mexican company. The goods produced by the Colorado company are unique in the market and protected by patent rights in the US. The Colorado company was eager to accept this order and it offered an important discount on the price of the merchandise. This discount was reflected in the FCA contract they agree to sign to conclude the transaction. The buyer agreed, but the day after the Colorado company left the merchandise at the international airport for the international delivery, the CEO of the Colorado company found the merchandise sold to the Mexican company in a chain of US retail stores at a very discounted price and, de facto, sabotaging the Colorado company's sales in the US market.

1. Is the Mexican company performing an illegal international commercial practice under the signed INCOTERMS agreement? Why?
2. Could the Colorado company go to the court to protect the own position and claiming to get the merchandise back from the buyer?
3. In order to avoid this unpleasant situation for the Colorado company, could it be more convenient to opt for signing a CIP agreement with the Mexican company rather than the FCA?

Some hints for the answers:

1. Yes. FCA implies that the merchandise has to be delivered abroad (the buyer is in charge to arrange the international delivery). In addition, the patent issue needs to be managed: a patent grants the exclusivity to sell the merchandise in a country. It is not mentioned in the text if the patent right has been paid in the US.
2. The Colorado company can go to the court because of the illegal behaviour of the buyer that does not fulfil the terms of trade. However, if the buyer did not pay for the merchandise, the property is still of the seller. Hence, there is always the need to evalyate the possible options.
3. Yes. The CIP could have protected the seller from this practice because the seller would have been in charge to deliver the merchandise in Mexico.

Problem 2 (5 points)

The Belgian firm CHOCOLATE sells to a Canadian buyer (whose headquarter is in Ottawa) 10,000 kilos of chocolate. The signed contract is a EXW (Brussels) for a value of 50,000 €. The product sold by CHOCOLATE is unique in the market and it is protected by an exclusivity copyright for the receipt. The Canadian importer is also committed to pay 2% of the expected revenues to the commercial that intermediated between the buyer and the seller. At the moment to import the merchandise, the Canadian buyer has already committed to sell the whole imported merchandise at a price of 80CAD/kg (CAD: Canadian Dollar). At the moment to sign the contract, the exchange rate CAD/€ is 1€=1.30CAD

The other costs involved in this business are:

a) Internal transport costs in Belgium: 200 €
b) Loading charges in Brussels: 300€
c) International insurance and transport costs: 5,500 €
d) Costs for delaying the download of the merchandise in Ottawa: 150CAD
e) Internal transport costs in Ottawa from the airport to the headquarter of the Canadian buyer: 500 CAD
f) Downloading costs at the premises of the Canadian importer: 800CAD
g) Tariff on import: 10% with a minimum 1000CAD
h) As for TVA, this merchandise in Belgium is subject to a rate of 12% and in Canada 5%.

Calculate:

1) The FCA and CIP,
2) The value at the customs in Ottawa making the assumption that Ottawa is the customs of import,
3) The Tariff paid on this import,
4) The total TVA paid by the Canadian buyer for this purchase.

Hints for solutions

1) FCA
   FCA= EXW + Internal transport costs + loading= 50,000+200+300= 50,500€

2) CIP
   CIP= FCA+ International transport costs= 50,500+5,500= 56,000€

3) VA (in Ottawa)
   VA= CIP+Adj

   Adj= 2% Expected revenues

   Expected revenues= 10000 * 80= 800,000 CAD (615,384,6 €)

   Adj= 2% *615,384,6= 12,307.7 €

   VA= 56,000 +12,307.7= 68,307.7 € (88,800 CAD)

4) Tariff
   10% VA min 1000 CAD
   Tariff: 10% * 88,800 CAD= 8,880 CAD (6,830.77 €)

5) Total TVA on the purchase

VA	88,800 CAD
Tariff	8,880 CAD
Delay dow	150 CAD
Inter TCost	500 CAD
Downl cost	800 CAD

Total 99,130 CAD ; TVA 5% Total value: 5% * 99,130 CAD= 4,956.5 CAD (3,812.7€)

Problem 3 (2.5 points)

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

a) Exporter: MACANO (Spain)
b) Importer: DRILL (Brazil)
c) Objects: Mechanical machines
d) Value of the merchandise: $7,500,000 under CIF conditions whose value is composed by:
- Goods and services: $5,500,000 (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 the US: $700,000
- Material for the machines provided from firms in Brasil: $ 700,000
- Export commissions: $50,000
- 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 Brazil

Hints for solutions

Foreign material: 15% FOB= 15% * 5,500,000 $= 825,000 $
Local material: 15% FOB= 15% * 5,500,000 $= 825,000 $
Commissions: 5% FOB = 5%* 5,500,000 $= 275,000 $

Foreign material: (300,000+500,000+700,000) – 825,000 = (675,000 $)

Local material: 700,000$ vs 825,000 $: OK

Commission:
Internal: 50,000 $ OK
External 275,000 – 50,000= 225,000 $

a) Spanish carrier

FOB	5,500,000	
Foreign mat	(675,000)	
Commiss	225,000	
Transport	2,000,000	
TOTAL	7,050,000	* 85% = 5,992,500 $ (max CARI)

b) US carrier

FOB	5,500,000	
Foreign mat	(675,000)	
Commiss	225,000	
Transport	0	
TOTAL	5,050,000	* 85% = 4,292,500 $ (max CARI)

a) Brazilian carrier

FOB	5,500,000			
Foreign mat	(675,000)			
Commiss	225,000			
TOTAL	5,050,000	* 85% =	4,292,500 $	
Transport			125,000 $	(825,000 – 700,000)
	MAX CARI		4,417,500 $	

The most convenient option is to select the Spanish carrier for the delivery.