



European Digital Learning Situation: Delivery and Payment Terms in Foreign Trade

Target Group	Students in vocational training	
Subject/Bundling subject	Economics (Wholesale and foreign trade processes)	
Learning Area	Foreign trade transactions	
Learning situation	Delivery and payment terms in foreign trade	
Entry scenario As a wholesaler of fairly traded products, Kuniberg Berufskolleg's <i>Weltladen</i> (Fair Trade store) supplies a large number of customers throughout Germany. Increasingly, more and more products are being imported worldwide. Enquiries from abroad are also increasing. Recently, there have been more and more difficulties because, with the exception of two employees, no one else sufficiently familiar with foreign trade. Since both employees are absent for a longer period of time for various reasons, there is an urgent need for action. Therefore, the two experts are asked by the management to ensure that the employees are trained accordingly so that they can handle the tasks that arise in foreign trade. In addition, the information and training material produced will be made available digitally on the intranet. A new supplier for coffee and coffee machines is currently being sought. Three offers have already been received, which can be used as demonstration material.	Learning outcome/product	<ul style="list-style-type: none"> - Digitally prepared training material or work aids <ul style="list-style-type: none"> - INCOTERMS 2020 (EXW, FCA, FOB, CIF, DDP) - Payment terms (documentary collection, confirmed documentary credit) - Spreadsheet-supported evaluation of offers in foreign trade (import calculation) - Publishing a wiki on a virtual learning platform (e.g. ILIAS, Moodle)
Essential competences The students ...	Possibly notes on learning success assessment and performance evaluation	Concretisation of content
<ul style="list-style-type: none"> - plan and design their own learning and working processes independently, taking into account relevant information. - research on the internet and analyse suitable information material on international payment and delivery terms (Incoterms 2020). 	<ul style="list-style-type: none"> - Assessment of presentations and work results with the help of checklists or assessment sheets - If necessary, performance assessment through digital quiz software (e. g. Learning Snacks) 	<ul style="list-style-type: none"> - INCOTERMS 2020 (EXW, FCA, FOB, CIF, DDP) - Terms of payment: Documentary collection (D/P, D/A) Documentary letter of credit (L/C) Basic scheme of the import calculation



<ul style="list-style-type: none"> - can allocate the individual costs for transport, insurance, export and import to the respective Incoterms for the import calculation. - Create a template for an import calculation using the spreadsheet and take into account the conversion of a foreign currency. - choose suitable digital forms of presentation for their training materials - can apply and present your acquired knowledge of international payment (documentary collection/ letter of credit) and delivery terms (EXW, FCA, FOB, CIF, DDP) for training. - make their results or training material available on a virtual learning platform with the help of a self-created wiki. - evaluate and reflect on the work results, presentations and the digitally created training materials anti job aids. 	<ul style="list-style-type: none"> - Use bid comparison as an example for training, there are also three bids from China, each with an different Incoterm an different payment terms.
<p>Learning and working techniques</p> <ul style="list-style-type: none"> - Carry out an internet research and select content specifically - Use of the spreadsheet for the comparison of offers and creation of the import calculation - Use of digital presentation options and publication of a wiki on a virtual learning platform (e. g. ILIAS, Moodle) - Reflection on the training carried out, evaluation form for the evaluation of the training and the documents produced 	
<p>Teaching materials</p> <ul style="list-style-type: none"> - Information materials or links for internet research - Technical literature/textbook - Digital presentation: Microsoft Office products, videos, learning snacks, etc. - Instructions for creating a wiki 	
<p>Organizational information</p> <p><i>Technical requirements</i></p> <ul style="list-style-type: none"> - PC room with projector, internet connection and the possibility to use standard office applications - Alternatively: classroom with WiFi and projector, students use their own devices 	

Medienkompetenz, Anwendungs-Know-how, Informatische Grundkenntnisse

European Digital Learning Situation:

Delivery and payment terms in foreign trade

Shopping on the internet is becoming more and more popular. Since the COVID-19 pandemic, the *Wetladen* of Kuniberg vocational college is also known to many customers abroad. Furthermore, the *Wetladen* now wants to buy products from abroad. In order to prepare for import and export in the best possible way, there are still some questions to be clarified and decisions to be made.

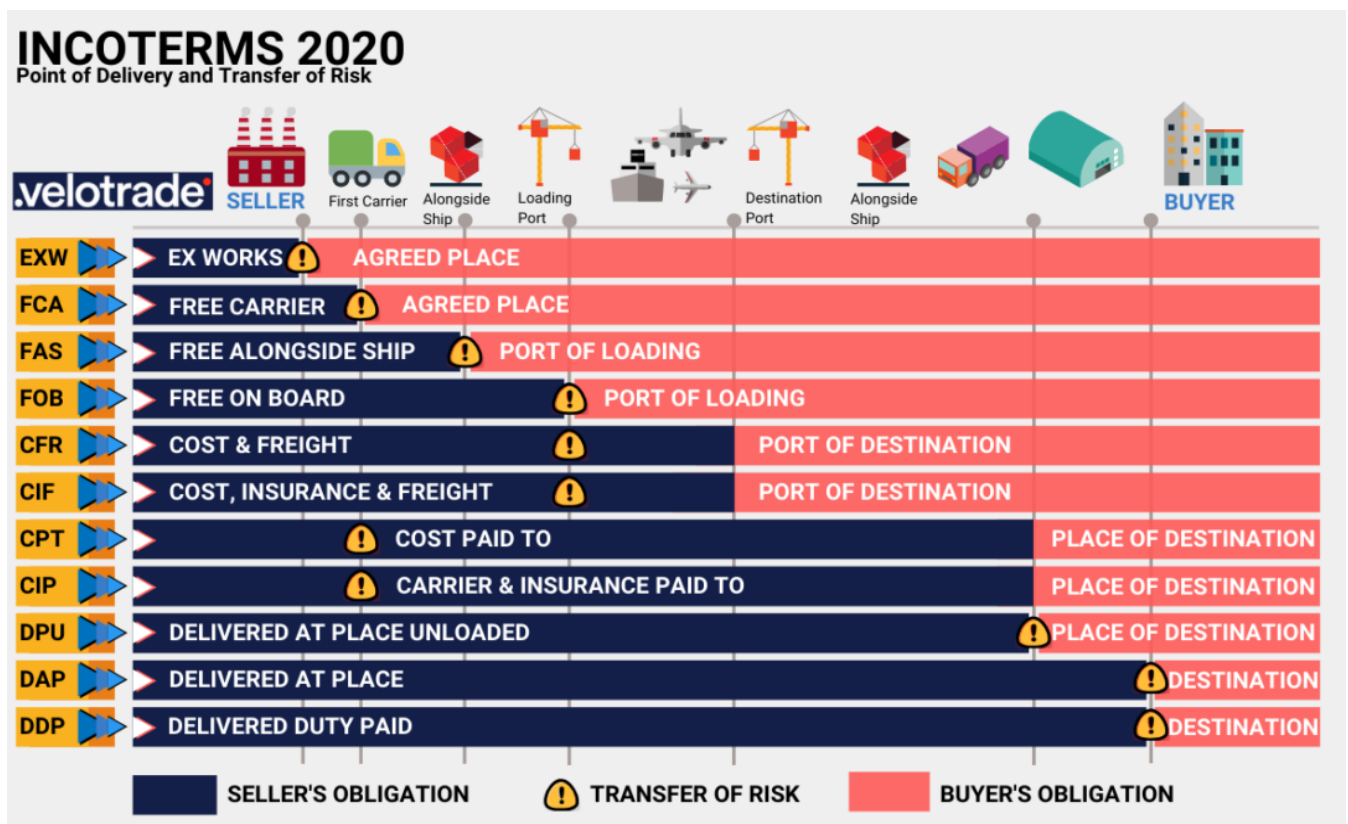
1 Payment terms in foreign trade

Task

1. What sources of supply are there for foreign trade? (internet research)
2. What additional costs arise from foreign trade?
3. What are the risks of foreign trade?

Link-Tip: Incoterms simply explained: <https://www.youtube.com/watch?v=Ri6AbnYYPqo>

Quelle: <https://www.velotrade.com/guides/what-is-incoterms-2020/>



Task

4. Work on the following tasks with the help of the available information material.

Case 1)

Felix and his instructor were talking about the case of bicycles damaged by a storm. The purchase contract contains the following clause: "Our prices are FOB Hamburg according to Incoterms 2020..."

- a. Does the customer have to pay for the bicycles or can he reject them because of the damage?
- b. Explain what is meant by Incoterms, also address the legal effect of Incoterms.

Case 2)

The instructor explains to Felix under which conditions "Fahrradwelt GmbH" also delivers. Identify which clause is involved in each case and give the respective English term.

- a) "Normally our customers have to bear the transport costs and the transport risk from the moment the bicycles leave our company premises."
- b) "Some customers ask us to bear all transport costs until the goods are loaded onto the ship at the port of loading. Until then, we then also bear the risk of loss and damage to the goods."
- c) "For particularly good customers, we assume all transport costs incurred and bear the risk until the goods have arrived at their destination. However, this is rarely the case."
- d) "We often bear the transport costs to the port of destination. We then take out insurance for the customer so that the goods are also insured during the freight, as the customer actually bears the risk for this time."
- e) "Some customers want us to bear the main risk of the transport. They want to make sure that we have to bear the costs if something goes wrong when the ship is unloaded, for example if the goods fall into the water."
- f) "Sometimes we bear the costs up to the destination, but the risk only until the goods are handed over to the 1st carrier".
- g) "However, customers prefer it if we bear the costs up to the destination and take out insurance for the customer from the handover to the first carrier".

Mrs. Dehn, chairperson of *Weltladen*, has asked her trainees to obtain quotations for new fully automatic coffee machines. However, when the offers arrive, it becomes apparent that the *Weltladen* team first has to get used to the new situation of buying products from abroad. Mrs. Dehn asks the whole team for help...



Task

5. First explain the Incoterms CIF and DAT, indicate the transfer of costs and risks.
6. Determine the purchase costs for the Incoterms CIF and DAT.
7. Determine the purchase costs for a purchase quantity of 500 PCs and select the more favorable offer.

Situation 1

The company Scholz KG from Munich (wholesaler for tool parts and car accessories) has received two offers. Both offers are subject to change, i.e. non-binding. The exchange rate indicated is USD 1.42.

1st offer: Company Pionier Teletech Co Ltd, Seoul.

- Item: Coffee machine AVC-501 DVB-T
- Colour: white
- Price: 750.00 USD per piece for a purchase quantity of 500 pieces
- Delivery condition: FOB Seoul, according to Incoterms 2000
- Delivery time: 6 weeks after receipt of order
- Payment: documents against payment (d/p)

Information on transport costs (1st offer)

- Transport to port of shipment Seoul = Pusan 200 USD
- Handling costs at port of loading 100 USD
- Sea freight and sea transport insurance 950 USD
- Unloading costs at port of destination 180 USD
- Customs, taxes, customs formalities 350 EUR
- Transport costs to Munich 200 EUR

2nd offer: Company TwinHa Technology Co. Ltd., Taipei

- Item: Fully automatic coffee machine AVC-501 DVB-T
- Colour: silver or black
- Price: 752.00 USD per piece with a minimum order quantity of 500 pieces
- Delivery condition: DDP Munich, according to Incoterm 2000
- Delivery time: 6 weeks after receipt of order
- Payment: Documents against cash (d/p)



Information on transport costs (2nd offer)

- Transport to port of shipment 100 USD
- Handling costs at port of shipment 120 USD
- Sea freight and sea insurance 850 USD
- Unloading costs at port of destination 180 EUR
- Customs, taxes, customs formalities 350 EUR
- Transport costs to Munich 200 EUR

Situation 2

Weltladen receives an offer from a manufacturer in Poona (India) for the delivery of coffee. The coffee is transported from Poona by truck to Mumbai and from there by ship to Hamburg. The transport from Hamburg to the incoming goods warehouse in Recklinghausen is again done by truck.

The Indian coffee exporter offers the coffee as follows:

FOB	Mumbai	1.764.648,08 INR
CIF	Hamburg	2.354.002,95 INR
DDP	Wareneingangslager Recklinghausen	2.910.900,60 INR
DAT	Hamburg	2.402.973,50 INR

The World Shop has also identified the following costs that play a role in the purchase of goods:

Costs for export handling	14.235,63 INR
Transport costs from Poona to Mumbai long side ship	19.929,88 INR
Loading costs in Mumbai	8.541,35 INR
Congestion costs in the Mumbai ship	5.409,54 INR
Sea freight Mumbai - Hamburg (the unloading costs in Hamburg are not included in the freight costs)	227.770,00 INR
Unloading costs in Hamburg	150.00 €
Costs for import processing in Germany	4.120,00 €
Transport costs from Hamburg to the goods-in warehouse in Recklinghausen	1.120,00 €
Unloading costs in the goods-in warehouse in Recklinghausen	80.00 €
Insurance costs	
- Transport Poona - Mumbai	180.00 €
- Sea transport Mumbai - Hamburg	1.250,00 €
- Transport Hamburg - Recklinghausen	90.00 €

The *Weltladen* would like the coffee to be insured on the respective transport route for which it has to bear the risk.

Calculate with the following conversion rates:

EURO to INR = Indian Rupee
Exchange rate
56,9425

2 Documentary credit and documentary collection

The *Weltladen* would also like to gain experience with direct import. For this purpose, the company has sent out five enquiries after an internet search, to which a promising offer has just arrived.

Work order 1

8. Read the English offer. Work out the essential details of the delivery and payment conditions without doing a direct translation.
9. Describe the terms of payment.
10. Describe the payment terms graphically and verbally. Use the attached overview for this.
11. Explain the advantages for the contracting parties.

P.I. GREAT GIANT PINEAPPLE CO.

Dear Sirs,

in reply to your letter dated 2019-04-20, we have the pleasure to offer you the demanded pine-apple as well as high-grade canned fruits and vegetables in general.

Please let us first say that you can rely on our delivery even though our country faces a difficult situation at this moment. Our company was founded in 1922 and is well-known in South-East Asia because of our experience in exporting excellent goods. Thus we assure you that your order will be executed promptly and carefully.

If you place an order with us, we will be glad to grant you a special first-time-discount of 3,5 % in addition to our usual discount of 12 %. This offer is firm subject to acceptance by 2019-05-10. Our prices are quoted F.O.B. Panjang Port. Our prices therefore do not include freight, insurance and seaworthy packing. The goods can be shipped within 30 days after having received your order.

Should you wish to quote C.I.F. Bremerhafen or Hamburg, we generally increase the invoice amount for about 30 %. We have made the experience that European customers because of their strong exporting positions find themselves in a situation where it is cheaper for them to quote F.O.B. and to regulate all transport affairs for their own.

Concerning the payment we are glad to offer you a 90-days-credit. On the other hand we expect a payment by an confirmed documentary letter of credit in our favour, payable at the Bank Bumi Daya, Jakarta branch and valid for 90 days from date of issue.

We are looking forward to your answer and remain
yours very faithfully

Bihatchi

(H. Bihatchi, President, 2022-05-25)

Special Offer for:

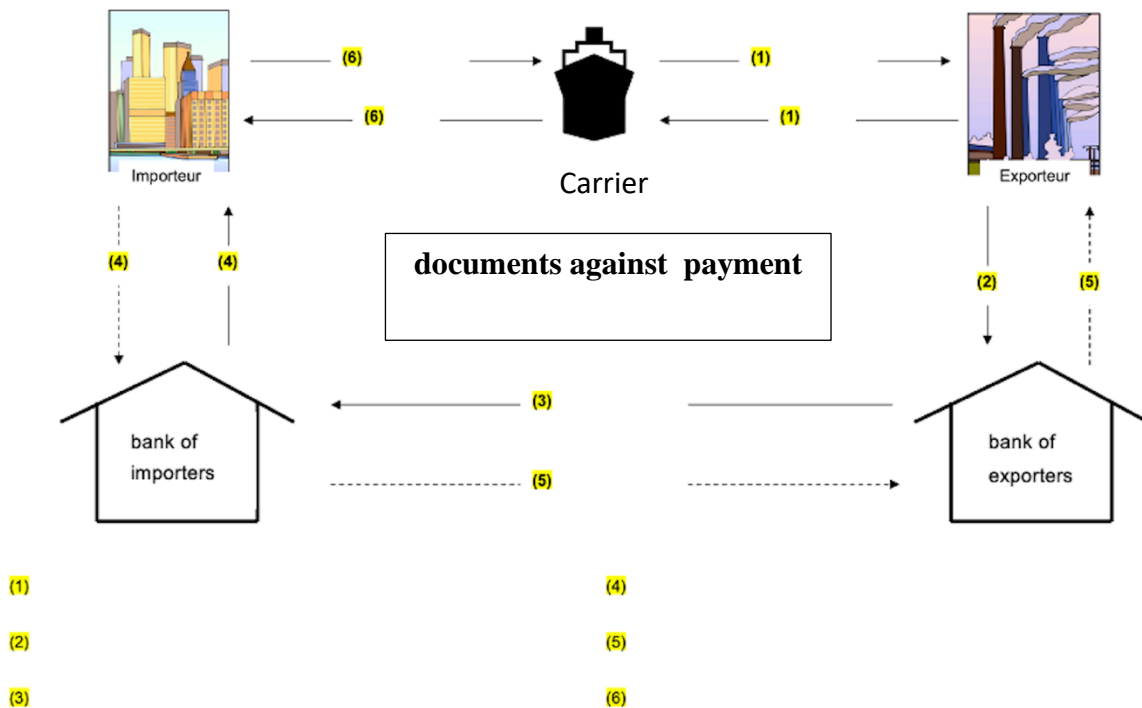
1 carton, filled with 10 x 3100 ML
Pine-apple tidbits containing sugar
for use up to 31.12.2020.

Our price per carton quoted FOB Panjang Port is: **12,90 US-\$**
Would you please pay attention to our discount-conditions stated in this letter.

Task: *Weltladen* would like to offer documentary collection as an alternative to documentary credit as a condition of payment.

12. What are the differences between a documentary letter of credit and a documentary collection?
13. What are the advantages and disadvantages of each payment term?

How does a documentary collection work?



3 Transport documents

For import and export, it still has to be decided which documents are necessary for transport. Based on information from her bank and various publications, Ms. Dehn had found out that there are different ways to secure oneself.



Task

14. Read the information on the transport documents.
15. Complete the attached overview.

▪ Accompanying documents

Accompanying documents are written documents that accompany the goods during transport. The type and number of documents required depends on the means of transport, the transport route, the type of goods, the regulations of the recipient country and the export country. Accompanying documents include:

- Commercial invoice: commercial invoice, supplier's invoice relating to goods delivered or services rendered to the buyer.
- Consular invoice: Based on the commercial invoice and used for customs clearance in the importing country, prices listed must be certified by the consulate of the importing country.
- Customs invoice: Based on the commercial invoice and used for customs clearance in the importing country. The certification of the customs invoice is done by the exporter and a witness, mainly an employee of the exporter.
- Certificate of origin: Certifies the origin of the goods for export transactions by an authorised authority, e.g. Chamber of Commerce, Customs.
- Packing list: In the case of large consignments of goods, packing lists for customs and insurance purposes break down the transported goods per package according to type, weight and number of pieces.
- Inspection certificate: Confirmation that the goods have been inspected prior to shipment and that they comply with the contractual agreements between buyer and seller in terms of quantity and quality. Usually issued by a neutral body.
- Health certificate: Official confirmation that animal and agricultural products are free of disease.

▪ **Waybill**

Sales contracts concluded between companies that have their registered office in Germany are usually pure commodity transactions, i.e. the two contracting parties have fulfilled their obligations under the sales contract when the seller duly hands over the goods and the buyer accepts the goods and pays for them in accordance with the provisions in the contract.

Sales contracts, which are concluded as the contractual basis of foreign trade transactions, consist of two parts: the goods transaction, comparable to the goods transaction in domestic trade, and the documentary transaction. In a documentary transaction, documents are handed over by the seller in addition to the goods. These export documents are intended to prove, for example, that the goods have been handed over to the respective carrier in accordance with the contract, proof of transport insurance or the origin of the goods. In addition, in foreign trade transactions the handover of the documents often replaces the handover of the goods, especially if documents certify the right of disposal over the goods. For this reason, the documentary transaction is more important than the goods transaction in certain foreign trade transactions.

Typical export documents are those that become necessary when transporting the goods. Transport insurance documents, which contain information on the type and scope of insurance cover, and trade and customs documents, which provide information on the value of the goods and their origin, for example.

Transport documents are divided into two groups based on their different functions:

- Traditional papers -documents that have a securities function as they represent goods.
- Waybills -documents that serve as proof that the goods have been dispatched or handed over to the carrier for transport.

Waybills are documentary evidence of the conclusion and content of a contract of carriage in rail, road, air, sea and combined transport. In maritime and inland waterway transport, the bill of lading (see other group) predominantly takes the place of the consignment note. A distinction is made according to the means of transport used:

- Lorry consignment note, CMR consignment note: Transport document for road transport, which shows a complete lorry load. The CMR is an agreement under international law on the freight-legal organisation of the cross-border transport of goods by motor vehicle.
- Air Waybill: The Air Waybill is an internationally standardised transport document of the IATA according to the Warsaw Convention of 1929 and is internationally recognised as the sole document accompanying goods in air transport.

The waybill does not embody the goods themselves (i.e. it is not a commodity document). Accordingly, the transfer of the consignment note does not lead to a transfer of ownership (it is therefore not a traditional document). Nor does it entitle the bearer to delivery of the goods (thus it is not a document of legitimation).

▪ **Bill of lading**

Sales contracts that are concluded between companies that are domiciled in Germany are usually pure commodity transactions, i.e. the two contracting parties have fulfilled their obligations under the sales contract when the seller properly hands over the goods and the buyer accepts the goods and pays for them in accordance with the provisions in the contract.

Sales contracts concluded as the contractual basis of foreign trade transactions consist of two parts: the goods transaction, comparable to the goods transaction in domestic trade, and the documentary transaction. In a documentary transaction, the seller hands over documents in addition to the goods. These export documents are intended to prove, for example, that the goods have been handed over to the respective carrier in accordance with the contract, proof of transport insurance or the origin of the goods. In addition, in foreign trade transactions the handover of the documents often replaces the handover of the goods, especially if documents certify the right of disposal over the goods. For this reason, in certain foreign trade transactions the documentary transaction is more important than the goods transaction.

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Transport documents are divided into two groups due to their different functions:

- Traditional documents - documents that have a securities function, as they represent goods.
- Waybills - documents that serve as proof that the goods have been dispatched or handed over to the carrier for transport.

Traditional documents are securities. In the context of the transport of goods, this means that the handing over of the documents corresponds to the handing over of the goods: The following documents represent the goods:

- Bill of lading, B/L (Bill of Lading): The bill of lading is a note of lading issued by the carrier in maritime and inland waterway transport, which regulates the legal relationship between the carrier and the consignee of the transported goods. It can be a confirmation by the carrier that the goods have been taken over for shipment or a confirmation that the goods have been placed on board. It also includes the carrier's obligation to carry the goods to the port of destination and to deliver them to the legitimate holders of the bill of lading against return of the bill of lading.
- Notes on externally visible defects of goods or their packaging render the bill of lading "unclean". Only "clean" bills of lading are permitted as proof of performance for foreign trade transactions and as a document triggering payment in the letter of credit business.



document	Evidence paper	Paper consignment note	Disposition paper	legitimacy paper	traditional paper
definitions	Serves as proof to the seller that he has properly fulfilled his obligations.	Accompanies the goods during transport	Authorises the holder to dispose of the goods and, for example, to re-direct the goods (to a recipient other than the original recipient) or to retrieve them.	Gives its holder the right to take delivery of the goods.	Goods paper function, i.e. the handover of the papers corresponds to the handover of the goods
1. bill of lading Order/name/holder bill of lading					
2. consignment note rail freight CIM, lorry freight CMR, air freight					
3. insurance policy individual and general policy					
4. commercial invoice					
5. proof of origin					



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European Digital Learning Situation:

Delivery and Payment Terms in Foreign Trade

Possible Solution

1 Payment terms in foreign trade

Task 1:

- Supplier catalogue (article index)
- Available price lists and offers
- Trade fair
- ixpos.de
- AHK
- trade information centres
- Internet

Task 2:

- extra production for the foreign partner
- Shipping / shipping time / shipping risk
- Customs / toll and freight costs / certificates etc.
- Transaction costs
- Travel costs / visa...
- Internet and telephone costs
- Costs for interpreters

Task 3:

- Political risks
- Differences in quality and procurement
- Delivery distance
- Damage to goods due to delivery route (ship, plane etc.)
- Price stability / currency risk
- fewer experience reports

Task 4:

Case 1)

- a. FOB: The customer has to pay, because according to FOB the seller bears the risk only until the goods are on board the ship in the port of loading.
- b. The totality of the usual and uniform conditions for the delivery, carriage and acceptance of goods in international trade, which must be laid down in the CT and are legally binding from that moment.

Case 2)

- a. EXW
- b. FOB
- c. DAP/DDP
- d. CIF
- e. DAT
- f. CPT
- g. CIP

Task 5:

CIF: In Carriage and Insurance Paid To (CIP), the seller assumes all risk until the goods are delivered to the first carrier at the place of shipment—not the place of destination. Once the goods are delivered to the first carrier, the buyer is responsible for all risks. However, the seller is responsible for the cost of carriage as well as all-risk insurance coverage until the freight reaches the named place of destination. A carrier is any person or company who undertakes the carriage of goods, such as a shipping line, airline, trucking company, railway or freight forwarder.

DAT: When goods are bought or sold “Delivery at Terminal” (DAT) it means that the Seller delivers the goods to a terminal at destination previously agreed to by the seller and the buyer. This can also be a road transportation hub or a quay. The agreed place of delivery (e.g. the terminal) needs to be specifically named. The buyer then takes care of the import formalities and transportation to the final destination. DAT is mainly used for air freight and ocean freight deliveries.

Task6:

Situation 1)

FOB:

750*500 = 375.000 USD

+ Sea freight 950 USD

375.950 USD

Exchange rate conversion: 375.950 : 1,42 = **264.753,52 €**

+ Unloading costs	180 €	
+ Customs		350 €
+ Transport Munich	200 €	
<hr/>		
=		265.483,52 €

DDP: Costs and risk shall pass to the named place, in this case Munich:

752 * 500 piece = 376.000 USD

: 1,42 = **264.788,73 €**

Situation 2)

FOB : 30.990,0

+ Congestion costs 95 €
 + Sea freight 4.000€
 + Discharge 150€
 + Import 4.120€
 +Transport 1.120€
 + Discharge 80€



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+ insurance 1.250€
+ insurance Trans. 90€

41.895,00 €

CIF: 41.340 €

+ Unloading costs 150 €
+ Import processing 4.120€
+Transport HH_RE 1.120€
+ Unloading costs RE 80€
+ insurance Transp. 90€

46.900,00€

DDP: **51.120,00€**

2 Documentary credit and documentary collection

Work order 1

8. Terms of delivery: FOB , 12% discount, 3.5% discount for new customers
CIF: Invoice amount 30% higher, 12% discount and 3.5% discount for new customers

Terms of payment: 90 days payment term
Payment by documentary credit, payable at Bank Bumi Daya (Jakarta)

FOB: per carton \$12.9

Delivery time: 30 days, CIF Bremerhaven or Hamburg

9. A letter of credit is the contractual obligation of a bank to make a specified monetary payment to the named beneficiary on behalf of and for the account of a customer, against surrender of certain documents and upon fulfilment of certain conditions within a specified period of time.

10 .

11. Bank's promise to pay: With the documentary credit, the importer's bank assumes a conditional promise to pay the exporter. As an importer, the letter of credit gives you the security that payment will only be made to the exporter upon presentation of the required documents.

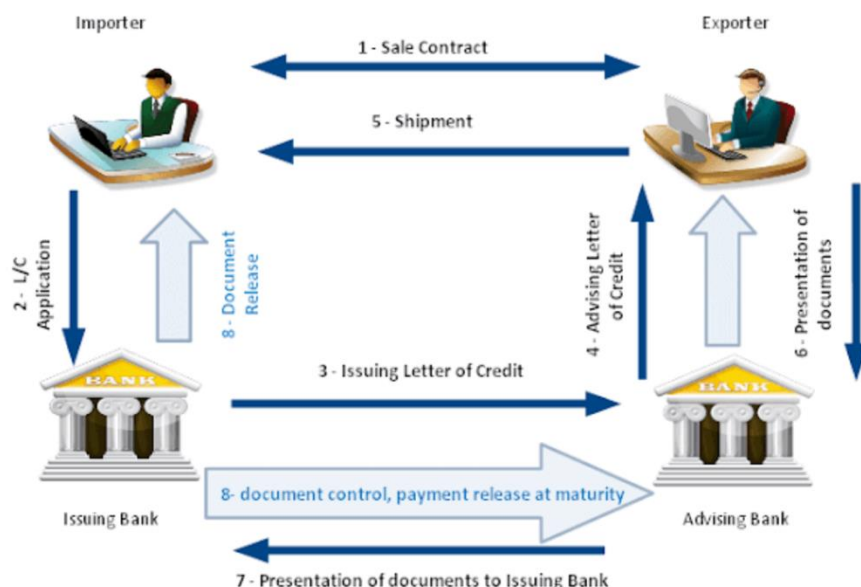
12. While the irrevocable documentary credit tends to favour the seller from the point of view of payment security, documentary collection distributes the advantages and disadvantages in a much more balanced way.

It should be noted that with documentary collection the banks involved do not assume an independent promise to pay. This security element, which is the special feature of the letter of credit transaction, is not present in this payment variant. It is therefore all the more important that the buyer places a considerable degree of trust in the seller or defines further security elements such as

Hermes cover, bank guarantees from the buyer, etc. The buyer's bank is responsible for the payment.

Advantage for seller and buyer: The bank charges are regularly significantly lower

How Does a Simple Letter of Credit Work?





than with the letter of credit transaction.

13.

- document collection

Advantages

Simpler and less expensive than the letter of credit. There is no payment obligation for the importer.

Disadvantage

You make the payment before you can check the quality of the goods.

- letter of credit

ADVANTAGES: - no payment risk - no risk of goods being accepted - no risk of realisation - no risk of return transport - exporter gets the money when documents conforming to the letter of credit are submitted.

DISADVANTAGES:- importer's bank (opening bank, letter of credit bank) becomes insolvent - if the documents are not submitted in conformity with the letter of credit, the letter of credit bank (importer's bank) must refuse to honour them; thus delayed presentation



3 Transport documents

document	Evidence paper	Paper consignment note	Disposition paper	legitimacy paper	traditional paper
definitions	Serves as proof to the seller that he has properly fulfilled his obligations.	Accompanies the goods during transport	Authorises the holder to dispose of the goods and, for example, to redirect the goods (to a recipient other than the original recipient) or to retrieve them.	Gives its holder the right to take delivery of the goods.	Goods paper function, i.e. the handover of the papers corresponds to the handover of the goods
1. bill of lading Order/name/holder bill of lading	Time and place of unloading, quantity of takeover, Acceptance of the goods without external defects	-----	X	X	X
2. consignment note rail freight CIM, lorry freight CMR, air freight	Proof of the conclusion of a transport insurance policy	-----	-----	-----	-----
3. insurance policy individual and general policy	Goods were dispatched on time	X	X	-----	-----
4. commercial invoice	Exact details about business	possible	-----	-----	-----
5. proof of origin	Certification and authentication of the origin of the goods	X	-----	-----	-----