PGDM (IB) 2015-17 Batch
INTERNATIONAL TRADE OPERATIONS
Sub. Code IB-205

Trimester – II, END-TERM EXAMINATION, December 2015

Time: 2 Hrs 30 Min Max Marks: 50

Roll No. ---------------

Instructions: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means.** In case of rough work please use answer sheet.

SECTION A

Note: Attempt any three Questions

1. You have received an inquiry for import of textile from a buyer in Tanzania. What things will you keep in mind before finalizing the contract and also the terms and conditions that you will include in the contract?

2. Discuss the importance of Bill of Entry in imports. Explain following types of B/E

    a. White Bill of Entry
    b. Yellow Bill of Entry
    c. Green Bill of Entry

3. Discuss the most important transport documents used in International Trade by sea? Why is it important for exporter to get clean bill of lading?

4. Discuss in brief the process of payment when Letter of Credit is used as method of payment. Explain the following types of Letter of Credit
    a. Divisible L/C
    b. Green Clause L/C

5. Enumerate the types of risks to which export businesses are exposed. Discuss the role of ECGC in insuring against these risks, also making clear mention of the risks not covered by ECGC.

3X5=15 Marks

SECTION B

Note: Attempt any two Questions

1. An exporter of textiles situated at Mumbai wishes to export the goods through sea port (JNPT Mumbai). Discuss the procedure followed for getting the custom clearance of goods at sea port.

2. While negotiating with buyer it is very important to choose the appropriate INCOTERMS. Discuss in detail how does the risk and cost of exporter changes with every INCOTERM for any mode of transport. What will be the most preferred incoterm? Give reasons

3. "UCP has been revised in UCP 600 with the aim to improve the drafting of the UCP in order to facilitate consistent application and interpretation of the Rules". In light of above statement explain briefly the changes brought about in UCP 600 in comparison to UCP 500. Also discuss the common defects in documentation in L/C transaction and its associated risks.

Section C

Note: Case Study (1 and 2) is Compulsory

Case Study 1

M/S ABC has received an enquiry for the supply of 2000 ladies dresses to an importer in US. The pricing policy of ABC garments is to earn 25% profit margin on ex-works cost. It is also known that the same item imported from other countries is on sale in the retail stores in US at $ 20 per dress. The following costs and expenses denominated in US$ are as follows.

Variable production expense per dress

- Raw Material — $ 2.00
- Labor — $ 1.50
- Overhead — $0.50
- Packing Expense per box — $ 50.00 (Ten boxes required for all 2000 dresses)
- Other Item per box
  - Newsprint — $9.00
  - Polyethylene bags — $5.00
  - Stencil marking — $ 1.00
- Forwarding per box
  - Handling — $ 1.00
  - Wharfage — $ 1.50
  - Trucking — $8.00
- Quota premium — $ 1.00 per dress
- Documentation — $ 40.00
- Export credit insurance — $ 30.00
- Ocean freight — $ 917.50
- Marine Insurance — $ 100.00
- Handling charges in US — $ 10% on CIF price
- Tariff in US — 20% on CIF
- Sales Tax — 10% on landed price
- Wholesaler's markup — 30% on wholesaler's cost
- Retailer's markup — 100% on retailer's cost

From the information given above calculate

1. FOB price quotation
2. Retail price at which dress would sell in US
3. Do you think price is competitive? What steps should be taken to make the price competitive.

9 Marks

Case Study 2

A sight payment L/C is issued for the amount of (not exceeding) $ 50,000 allowing partial shipment, the beneficiary presented his first shipping docs for the amount of $30,000 and was paid due to complying presentation.

2 days before expire date, the issuing bank received a second shipping documents for an amount of $ 30,000 for payment (approval basis). Due to overdrawing, the applicant waived the discrepancy and instructed the issuing bank to notice the nominated bank and the beneficiary with the following:

- Documents of the second shipment are accepted. –L/C amount to be increased to $75,000.
- Latest shipment date and expiry date are extended (where a third shipment can be made).

The beneficiary presented his 3rd shipping documents for an amount of $ 25,000 during the new L/C validity. As no discrepancies were found, the nominated bank took them in compliance and sent them to the issuing bank after debiting the account of the issuing bank.

The issuing bank rejected the documents presented (within the 5 days) due to overdrawing the L/C amount, considering that the beneficiary presented documents for $ 85, 000, where as the L/C amount must not exceed $ 75,000 after the amendment, and requested the nominated bank to reverse its entry.

The issuing bank argued that when the 2nd. Shipping documents were accepted the total amount of presentations reached $ 60,000 then the L/C was amended to be $ 75,000 so the beneficiary will only have a remaining balance of $ 15,000.

The nominated bank argued that the $ 10,000 overdrawing did not affect the L/C amount, because they were sent for payment, accordingly the L/C was amended to be $ 75,000 instead of $ 50,000 which enabled the beneficiary to present a 3rd shipping documents for $ 25,000 dollar.

Which bank decision do you think is correct? Give reasons to support your answer

6 Marks