FEEDBACK TUTORIAL LETTER

2nd SEMESTER 2019

ASSIGNMENT 2

FUNDAMENTALS OF LOGISTICS MANAGEMENT

FLM521S
FEEDBACK TUTORIAL FLM
ASSIGNMENT 2

Dear students

To prepare for examination please visit your ITS/Portal, I have forwarded the notes that you should use to study from for the November 2019 and January 2020 examinations.

QUESTION 1 (20 MARKS)
As an International Procurement Manager, you must be acquainted with international commercial terms used in import and export practices. Explain in detail ten incoterms focusing on responsibilities, risks, and costs of both the buyer and the seller.

Only a few students had the understood the question as most of you just went on the internet, copied what you found there, and submitted it as your work. Although I have been warning students to refrain from copying some could not just care less. Everything you get from the internet even a picture should be referenced. The important part of this question was that you should have explained in detail the 10 incoterms focusing on responsibilities, risks, and costs of both the buyer and the seller.

Let me give you a sample of the work of Mr Michael Mafulu, student number 214050793 that got full marks for this specific question, and how he went about attempting answering the question.

Firstly, gave a background on the incoterms
The International Chamber of Commerce (ICC) created a set of standardized Terms of Trade in 1936, they have evolved into eleven International Commerce Terms rules, from which the acronym Incoterms® is derived. Since the Incoterms needed to be adapted to the changing commercial and logistical practices, they were revised in 1953, 1967, 1976, 1980, 2000, and most recently in 2010. For the past revisions, new terms have been introduced, merged and other terms have been removed (David, 2013). Secondly, he referenced his statement above.

Thirdly, a general understanding was provided and what should be considered when choosing a specific incoterm.
Incoterms’ are harmonized interpreted set of rules that forms part of a sale contract as trading terms that stipulate;

- Who is in charge of what?
- Who bears the risks during the transaction and until what point
- Who bears the transport and insurance cost
Who is responsible for the documents preparations and all related formalities

Selecting Incoterms

When we internationalize our deals, we are worried about a number of things

**For the Seller**: Delay receiving payment equals a potential cash flow problem. The Seller is risking not getting paid and may also find difficulty enforcing the contract due to expense and distance etc.

**For the Buyer**: There is an increased risk that the goods are going to get damaged. The goods will take longer to arrive and the buyer will have to reconsider its business strategy.

**Also**: Higher transport costs who pays for what?

**Consider:**

*What is the means of transportation?*

Is it by sea/air/land?

F & C = the risk passes in the Seller’s country. The difference between F and C is that in the F terms the Buyer will pay for the main carrier and in the C terms the Seller will pay for the main carrier.

1. **Who is paying for the main carriage?**
   - Buyer : F Terms Seller : C Terms
   - Risk passes before main carriage (i.e. risk passes in S’s country). Therefore, if S is a UK Co. risk passes in UK

2. **What is the method/form of transport?**
   - Shipping: FAS, FOB CFR CIF
   - Any (e.g. air or multi-modal (container)): FCA CPT, CIP

*Fourthly, a general understanding of the roles of Incoterms was provided.*

<table>
<thead>
<tr>
<th><strong>Role of Incoterms</strong></th>
<th><strong>Incoterms will not:</strong></th>
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</thead>
<tbody>
<tr>
<td>• Mode of delivery</td>
<td>• Define contractual rights</td>
</tr>
<tr>
<td>• Arrangements of customs clearances and licences</td>
<td>• Specify transport details regarding delivery of goods</td>
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<tr>
<td>• Passage of title</td>
<td>• Define liabilities and/or obligations between the parties</td>
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<tr>
<td>• Transfer of risk and insurance responsibilities (i.e., who has to insure goods during transport)</td>
<td>• Dictate how the title of the goods will pass (although Incoterms dictate when they transfer)</td>
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<tr>
<td>• What delivery terms are</td>
<td>• Dictate obligations with regards to the goods prior to and after delivery</td>
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<tr>
<td>• How transport costs are shared between the parties</td>
<td>• Protect a party from his/her own risk of loss</td>
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<tr>
<td>• When a delivery is completed</td>
<td></td>
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</tbody>
</table>
Fifth, an organogram could have been created differentiating the different modes of transportation and their incoterms.

Six, the picture below could have been used to discuss the question, but most of you just copied the picture and left to me to interpret.
Seven, the interpretation and how the one part of the question should have been answered

1.2.1 Ex-Works (EXW)

- Responsibility - Seller has minimum responsibility to package goods and transport them to the arranged location, while the buyer has maximum responsible for load and transportation.
- Risk – Low risks when it comes to the seller while high risk or damage is on the buyer.
- Costs – damage cost and transportation cost are higher to the buyer than to the seller (ICC knowledge 2 go, 2010). Picture below clearly indicates the Ex-works details.
1.2.2 **Free carrier (FCA)**
- Obligation – Seller delivers goods to the carrier selected by the buyer at the named place or seller’s premises, while buyer arranges for the transport.
- Risks – seller carries the risk as from the pick-up point until goods are transferred to the carrier, and thereafter risk is transferred to the buyer once the truck arrives to the destination.
- Costs – seller is not responsible for any cost, but the buyer pays for import and export transportation costs (Aaron, 2018).

1.2.3 **Free alongside ship (FAS)**
- Responsibility – the seller delivers the goods alongside the vessel of nominated port of shipment by the buyer. When the shipment is loaded onto the vessel, buyer is obliged for the rest of tasks.
- Risk is immediately transferred to the buyer when goods have loaded onto the vessel (Aaron, 2018).
- Costs – seller bears the cost of carriage only until goods are on the board of the vessel and thereafter cost is transferred to buyer when goods are loaded onto the vessel (ICC knowledge 2 go, 2010).

1.2.4 **Free on board (FOB)**
- Responsibility – seller is responsible until goods are placed on the vessel and thereafter buyer will be responsible for them if placed on the ship.
- Risk – risk is passed to the buyer immediately when shipment is loaded on the vessel as shown below in the picture.
- Costs – both seller and buyer are liable for transportation cost, but varies when one is handing over the consignment and other is receiving it from the designated port.
(Aaron, 2018). The diagram below illustrates clearly the details from FCA to FOB.

**Free Carrier (FCA)**

**Free On Board (FOB)**

**Legend:**
- Risk
- Cost
- Seller's Obligation
- Buyer's Obligation

1.2.5 **Carriage Paid to (CPT)**
- Responsibility: seller delivers the shipment to the carrier nominated by the seller at agreed place. Buyer becomes responsible when exporter hands over to the nominated carrier.
- Risk: buyer is liable for carriage risk at the place of departure when shipment is handed over by the seller.
- Cost: seller pays the cost necessary for carriage for bringing goods to the named place of destination and then the buyer will take over.

1.2.6 **Carriage and insurance paid to (CIP)**
- Responsibility: exporter purchase insurance for cargo while in carriage to agreed destination point inclusive of minimum cover, and thereafter buyer will have less responsibility.
- Risks: buyer is liable for risk of loss during carriage of good if no insurance have agreed up on. The seller may not be liable for risk of loss as the insurance cover is not for the seller’s own risk but for the buyer’s benefit.
- Costs: seller may pay the cost of carriage necessary to bring the shipment to the destination place named and thereafter buyer will pay costs until goods arrive in the desired premises (ICC knowledge 2 go, 2010).

1.2.7 **Cost and freight (CFR)**
- Responsibility: passing of responsibility occur at the port origin in export country from the seller to the buyer when goods are placed on the vessel.
- Risk: risk of damage to goods is transferred to the buyer by the seller when goods are on board the vessel.
- Costs: seller pays for consignment to the port of destination (Aaron, 2018).

1.2.8 **Cost, Insurance and freight (CIF)**
- Responsibility: the seller may procure marine cargo insurance in buyer’s interest as an additional responsibility. Buyer is not obliged to any task at this level.
• Risk – risk of damage is passed on to the buyer when goods are on board the vessel.
• Costs – seller has to pay for necessary cost and freight to bring goods to the named port of destination before goods are handed over to the buyer.

1.2.9 Delivered at terminal (DAT)
• Responsibility - Seller delivers when consignment is unloaded and put at the disposal of buyer at a named destination port. Buyer’s responsibility is only to clear goods for import.
• Risks – the seller bears all risks and costs involved in bringing the goods to and unloading them at the named port destination. No costs and risks are transferred to the buyer (ICC knowledge 2 go, 2010).

1.2.10 Delivered duty unpaid (DDU)
• Responsibility – seller delivers goods to the buyer, not cleared for import and unloaded from transport means at the named destination. Buyer is responsible for paying all customs and duties.
• Risks and costs – the seller bear all costs and risks in bringing goods to the named place for import into the country of destination. The buyer only bears the cost of taxes and duties but not for custom formalities (ICC knowledge 2 go, 2010).

QUESTION 2 (50 MARKS)
Choose a Government entity of your choice and discuss the importance of Procurement Management, considering the activities of procurement and the relationship of the Procurement function with other departments in that specific entity.

1. If you did not choose a government entity, you were penalised.
2. If you discussed the importance of Procurement Management in that entity you were penalised.
3. If you have provided the definition for procurement management and have not referenced, I have penalised you.
4. If you didn’t discuss the activities of Procurement in the chosen company, marks were deducted.
5. If you have not discussed the relationship of procurement with other department within this same institution you were penalised.