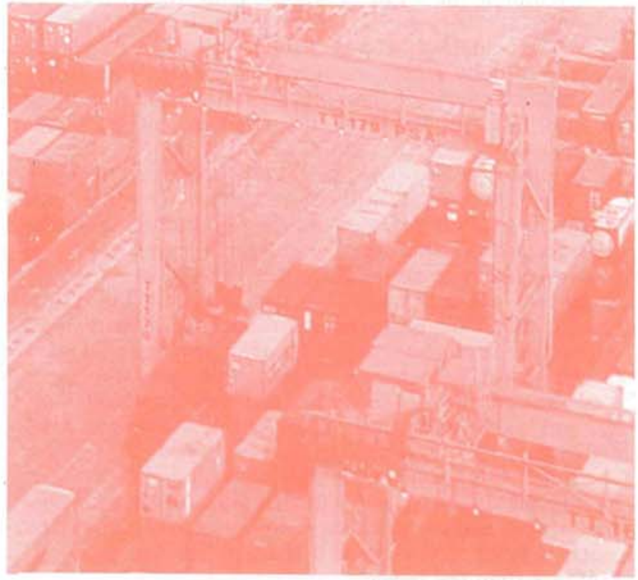

BENEFITS FROM CIF EXPORT AND FOB IMPORT

by TÔ BÌNH MINH

Vietnamese enterprises now sell exports and buy imports on FOB and CIF contracts respectively, that is, they transfer the rights of transport and insurance to foreign partners. If they implement CIF export and FOB import, what do the country and they benefit from that?

Regarding national benefits, CIF export and FOB import will generate following interests:

- Developing local transport and insurance sectors

In case of CIF export and FOB import, the traders will opt for local shippers and insurance firms. Therefore they will make favorable conditions for local transport and insurance sectors to grow and raise their reputation in the world market.

- Increasing the revenues for the State budget via taxes on transport and insurance services

Once local forwarders and insurers make earnings from their services, they will pay taxes to the State budget.

- Creating jobs to workers

- Increasing earnings, reducing expenses in foreign currency and bettering the national trade balance

According to estimates of the Ministry of Transport, if local carriers win 40% of total annual shipment, they can collect charges worth about US$400 million. And if domestic firms had insured 100% of imports into Vietnam with a premium of 0.3%, they would have earned US$24.465 million (in 1995); US$33.432 million (in 1996); US$33.75 million (in 1997) and US$34.17 million (in 1998). In addition to saving foreign currency, local shippers and insurers can be invested for development.

If implementing CIF export and FOB import, the country will increase its export turnover and reduce its import turnover, thereby improving its international trade balance.

Besides national interests, Vietnamese exporters and importers also have significant advantages as follows:

- The CIF seller will take more initiative in goods delivery than the FOB seller

In case of FOB import, because the purchaser has the right to name the shipper so he can opt for the port of shipment. If some ports are defined in the contract, the buyer always choose the nearest port and the most convenient transport line. If the port selected by the buyer is far from the seller's warehouse, the seller has to incur more inland risks and transport costs.

In case of CIF export, the contract does not state the port of shipment, the seller thus choose the most convenient port to reduce inland risks and transport costs.

An CIF contract typically stipulates the destination port and no distinct port of departure, then the seller may choose a port facing war, strike, natural calamity-for delivery and he will have no responsibility for late or no delivery.

The FOB seller must abide by the delivery date as specified in the contract. If the seller has not yet prepared their goods for loading, he will incur additional costs because the ship waits for loading at the port. In contrast, when the seller is ready for loading their goods, but the buyer has not yet named the ship, then the seller has to incur costs of storage, risks and doldrums when waiting for the ship.

Under CIF terms, the seller will determine the date of delivery properly and avoid paying the costs of storage, risks and increase the times of capital turnover.

- Winning the right of selecting the commodity difference

When trading in a great volume of commodities, the contract usually states a volume difference. Which side can have the right of choosing the difference? According to international practices, the charterer of transport means usually win the right of selecting the difference.

In case of FOB terms, the buyer has the right to decide the difference, he will choose the positive difference when the market price on delivery is higher than the contract price or the negative difference vice versa, then the buyer enjoy more interests than the seller.

In case the seller has the right to choose the difference, if the seller prepares less commodities than those ordered by the buyer, the seller may pay compensation to the buyer. In contrast, if the seller prepares more commodities, he will incur the additional costs of storage and wait for the next export or sell the rest in local markets.

Under CIF terms, the seller has the right of determining the difference, he will choose the positive difference if the market price on delivery is lower than the contract price or vice versa and the seller has more advantages than the buyer.

- The CIF seller and the FOB buyer may enjoy benefits from price if the price is based on the market price on delivery

In long-term contracts, the prices of commodities may see great fluctuations, both sides do not fix prices, the price of each shipment will depend on the market price on delivery. In case of CIF export, the seller can choose the date of delivery when the market price is higher within the contract terms (for example within a month or a quarter). In contrast, in case of FOB import, the buyer can order the shipper to load goods when the market price is lower. Therefore the CIF seller and the FOB buyer also have obvious advantages.

- The CIF seller and the FOB buyer can engage in transport and insurance business to earn more profits

The CIF seller and the FOB buyer must pay charges to transport goods to the destination. If they have knowledge and experience in the transport sector, they can gain more profits when signing the transport contract. For example, if they forecast the charges tend to go down, they will enjoy the charge difference between the time of signing contract and the time of chartering ships. If they trade in large quantity of goods regularly, they can gain commissions from shippers or lower charges.

The CIF seller has to buy insurance and pay premium, the FOB buyer also take up insurance cover to avoid losses in the process of transport, the premium is also volatile. If they foresee the premium may drop during the time of contract, they will gain more profits from this premium difference. If the trader win the right of buying insurance regularly for exports and imports, they can sign insurance contracts with local firms for lower premium, thereby increasing their profits.

- In case of FOB import (or CFR), the importer can buy insurance for goods from the Vietnamese insurers, they will enjoy benefits as follows:

- Because the premium is paid in Vietnamese đồng, the enterprise can ease their troubles due to lack of foreign currency, at the same time the country can save foreign currency.

- Their losses are compensated shortly, exactly and fully. In the past years, the Bảo Việt Insurance Company tried to settle reimbursements within 30 days when receiving legal claims of its clients. In case the documentation was not complete, it met the clients to seek for solutions.

- The communications are convenient. Once the loss takes place in Vietnam, the supervisors can conduct an immediate survey. While buying insurance overseas, the importer has apply for visa and incur fees of telephone, fax and payments to the person who go abroad to take the compensation. In case the importer has no experience in making insurance claims, it has to suffer losses.

The enterprise finds it convenient to hedge and reduce losses. The insurer can cooperate with the shipper, the goods owner to monitor closely goods when they are unloaded and carried to the warehouses.

- The trader find it comfortable to claim compensations. The CIF seller has to buy insurance for goods and the buyer benefits from this service. Therefore the seller wants to purchase minimum insurance cover. This may affects the buyer's interests. It is noteworthy that in case of CIF import, the exporter has to buy minimum insurance cover (C term). Even though they are requested to buy larger insurance cover, they may agree but ignore covering a series of risks that the importer cannot control.

- The buyer's capability of payment is assured in case of CIF export

On the FOB contract (or CFR), the buyer usually take up insurance cover for the total costs of goods. However, the seller should pay attention to the buyer's insurance purchase. If the shipment is not insured (or insured improperly) and faces losses, the buyer may not be compensated. This will have bad effects on the buyer's payment to the seller.

When the contract specifies payments via L/C, the bank can refuse opening L/C if it knows the goods have not been insured. The bank fears that it has to pay to the seller as defined in the L/C, then the buyer announces its bankruptcy and the cargo which has not been insured is damaged in transit. In this case, the opening bank must incur total risks because they cannot be compensated by any insurers.

In many cases of L/C trading, the buyer rejects paying to the seller because they know the cargo has been damaged in transit and they have not bought insurance. Then the seller has to suffer total losses of goods.

- The CIF seller and the FOB buyer have the right to opt for trustworthy carriers and insurers.

The selection of credible transporters and insurers is very important. Evidence shows that not a few goods were carried by "ghost" ships and insured by fraudulent firms, causing losses to traders.

- In case of CIF export, the seller will avoid losses of goods in transit from warehouses to the port.

In case of FOB export (or CFR), the seller may suffer loss if goods are damaged when transported to the ship. When the seller does not buy insurance for goods in this case, he has to incur this risk.

Even though the buyer has an insurance policy covering the risks happening when goods are transported to the ship (or from one warehouse to another), the insurer may reject compensation because the buyer does not enjoy "insurance interest" before goods are delivered on board. In addition, the insurer is not willing to pay compensation to the seller because the seller is not the party involved in the insurance contract.

In case of CIF export, the seller has more advantages because the insurance is beneficial to the seller before the goods are on board and then to the buyer. If the goods are damaged before they are on board, the seller still can make insurance claim because he is the buyer of insurance and benefits from insurance in this case. Regarding losses after goods have been loaded, the buyer can do the same when the insurance cost passes to the buyer.

- Being more competitive when offering goods at CIF prices and ordering goods at FOB prices

The buyer can estimate efficiency when receiving goods quotation with CIF prices because CIF prices include costs of shipping the goods to the port of destination and of insuring the goods up to this point. If goods are sold at FOB prices, the buyer has to understand freight and the cost of insurance.

Moreover, when receiving CIF quotations, the buyer may feel assured that the seller is able to charter ship and buy insurance. As a result, they can select import under the terms of FOB or CIF. When receiving FOB quotations, the buyer finds it hard to make this choice because they do not know whether the seller is capable of chartering ship and buying insurance.

Similarly, when receiving FOB orders, the seller find it easy to calculate the efficiency and select the export under FOB, CFR or CIF terms.

On the other hand, when selling goods at CIF prices or buying goods at FOB prices, the trader affirms his ability of chartering ship and buying insurance, thereby generating his power in negotiations. Once he has to give way to his clients in this point (agreeing on FOB sale or CIF purchase), he may force them to concede in other points in the contract.

- The seller prevents some risks in the preparation of L/C documents

In FOB terms, when the seller has delivered goods on board and taken the documents proving that (or mate's receipt M/R for example), that is, in principle, the seller's obligations have been fulfilled. However, the exchange of M/R for bill of lading (B/L) may be impossible due to the buyer's faults, for example, the buyer has not yet partly or fully paid the costs to the transporter so the transporter does not issue B/L. The L/C requiring the documents that the seller must present for the bank's payment include B/L. But the L/C is independent from the contract, so when the seller cannot obtain B/L, he cannot be paid by the bank. In case of CIF sale, the seller will wholly take the initiative in getting B/L and does not depend on the buyer, so he finds it easy to make L/C documents.

In case of FOB import, the L/C required by the buyer can have terms concerning transport such as :"partial shipments are not permitted", "transshipment is prohibited" But the transport depends on the buyer's ship chartering. In this case, the seller may face difficulties if the buyer decides a ship that cannot carry the whole cargo or it has to transfer goods on the line to the destination. If the seller does not see that and still deliver goods on board, he cannot complete L/C documents. If he know it on time, he has to require the buyer to amend the L/C. This will result in delaying the time of delivery. Even in some cases, the buyer does not amend the L/C, and the seller faces many troubles in delivery and payment.

- CIF import (CFR) may face risks in the reception of goods from the carrier

In principle, the transporter always has the right to hold back goods if he has not yet received the freight. In many cases of CIF (or CFR) import, when the importer presents B/L, the shipper does not agree to discharge goods because the seller has not yet paid transport costs even though the B/L include "freight paid". Because they fear they will incur storage costs and their business plan will be badly affected, the importer has to pay transport costs to the shipper in order to receive goods.

- There are adverse risks generating from the client's ship charter

When signing the ship charter, the client find every way to reduce costs. So they can charter old and inappropriate ships, increasing risks for goods.

The ship owner even has ambiguous origin and address. As a result, the goods are damaged or the ship is missed with no understandable reasons. At present, the percentage of missed ships in the region and Vietnamese traders who lost their goods is large, so local importers need be cautious when having their imports carried by foreign vessels.

Moreover, in the ship charter, there may be terms fully adverse to the goods owner (the side does not sign the contract) such as WIPON/WIBON/WICCON/WIFPON

-Flexibly changing clients

In case of FOB import, after naming the ship to receive goods at the port, if the importer knows the exporter is not capable of delivering goods and there is another eligible supplier. The importer can change his supplier but need not cancel the transport contract, leaving no bad effects on his import plan.

In case of CIF export, after delivering goods on board, the exporter can also change the buyer if he knows the buyer is not solvent. Under CIF terms, the exporter can decide the mode of goods supplied to the buyer: delivering goods on the ship specified by him or supplying afloat goods to the buyer.

This practice is very convenient in the re-export business when buying goods from one country and exporting them to another.

- Reducing the capital contribution of the foreign party in joint ventures if importing machinery and equipment under FOB terms

In JV contracts, the capital contribution of the foreign side usually include cash and machinery and equipment. If their equipment is imported into Vietnam under CIF terms, the value of capital contribution has included freight and insurance. This will increase their stake. In case of FOB import, their contribution value will be reduced and the local stake will rise.

- Taking more advantages in barter trade regarding precious goods

In barter trade contracts, the party whose goods are precious and scarce always wants to exchange its minimum goods for its partner's maximum goods. As a result, if shipping goods under CIF terms and receiving under FOB terms, the sent cargo will be less and the received goods will be more, therefore the receiver takes more advantages than the sender.

- Improving the staff's skill and experience

In case of CIF and FOB import, import-export enterprises win the right to charter ship and buy insurance, they thus have favorable conditions for improving their staff skill and experience in import-export, transport and insurance sectors. They will fulfill their tasks quickly, flexibly and more effectively in each case.

Due to benefits from CIF export and FOB import mentioned above, the competent agencies should offer assistance measures and enterprises should ponder changing their long adverse habits■