

ST. JOSEPH'S EVENING COLLEGE (AUTONOMOUS)

IV SEMESTER M.COM EXAMINATIONS - APRIL 2019

COMMODITY MARKETS

Duration: 2.5 Hours

Max. Marks: 70

SECTION - A

I) Answer any EIGHT of the following questions. (8x2=16)

1. What do you understand by the term 'Commodity Management'?
2. List the International Traded Commodities and their basis of Classification.
3. Write a note on the International Coffee Agreement.
4. What is a 'Bill of Lading'?
5. What are 'Cartels'?
6. What do you understand by 'Buffer Stock Agreements'?
7. Briefly explain the term 'Margin Trading'.
8. What is the purpose of having 'Commodities Standards and Grades'?
9. Explain 'Mark to Market' Commodities trading.
10. What do you understand by 'Counter Trade'?

SECTION - B

II) Answer any THREE of the following questions. (3x8=24)

11. What are Spot Commodity Markets? Discuss the features of Spot Commodity Markets.
12. Discuss the Responsibilities of Commodities Management and Commodity Management strategies.
13. Explain the Principles for Procurement of Commodities.
14. Discuss the various methods of Quality Assurance for Commodities.
15. What are the problems in Standardization and Grading in India?

SECTION - C

III) Answer any ONE of the following questions. (1x15=15)

16. What are Commodities futures Contracts? Explain the features of Commodity futures and the role of commodity futures market participants.
17. Discuss the following:
 - (a) Importance of Commodity Exchanges
 - (b) Import Procedure for Commodities
18. Explain the reasons for formation of Cartels and the basis of their agreement. Also explain about the different types of Cartels.

SECTION - D

IV) Analyze the case and answer the questions.

(1x15=15)

19. Case Study

To clinch the sale of \$250 million worth of Apache helicopters to the United Arab Emirates (UAE), United States aircraftmaker McDonnell Douglas recently agreed to equip the Arab sheikdoms against a pesky airborne enemy: the whitefly.

McDonnell Douglas is helping install an insect trap system in the UAE capital Abu Dhabi to fight a major infestation of the whitefly, which is decimating vegetable crops there.

The unusual transaction is an example of countertrade, a relatively obscure but growing practice that experts say accounts for roughly 15 percent of world trade.

Broadly defined, countertrade involves a contractual agreement by the exporter to provide some benefit or compensation to the buyer as a condition of sale. In essence, the exporter is attempting to promote sales, either by offering incentives or by overcoming some barrier to the trade.

"Countertrade is a marketing tool that we use to help facilitate our sales overseas," says Gary Pacific, manager of countertrade for McDonnell Douglas in Mesa, Ariz. The aircraft giant is one of the country's most active participants in countertrade, with total transactions of several billion dollars each year, Mr. Pacific says.

Most countertrade is conducted by big companies with foreign markets to defend, such as McDonnell Douglas, Pepsi-Cola International, General Motors Corporation, Caterpillar Inc., as well as oil, telecommunications, and computer firms. Many of these firms have in-house countertrade departments. McDonnell Douglas a staff of more than 50. Others employ independent trading companies, says Dan West, chairman of the American Countertrade Association in St. Louis.

Several factors are pushing large US companies to more countertrade:

* Hard currency shortages and a lack of credit to finance trade. Official trade financing is stagnant, and the private sector is hard pressed to fill the gap created by growing demand, says Pompiliu Verzariu of the US Commerce Department.

For example, Chicago-based Inland Steel Industries Inc. plans to include

countertrade in a joint venture with China it recently announced. Inland will set up centers in China to manage, distribute, and process steel and other metals for US and Chinese firms. When needed, Inland will accept Chinese-made coke and other raw materials as payment for its services. "The PRC [China] is looking for inflows of US dollars," says Robert Weidner, head of investor and commercial relations at Inland. "If the optimal return is through a barter arrangement rather than hard currency, that's how we'll go," he says.

*More foreign governments are requiring countertrade to offset the cost of large procurements in the civil and defense sectors. Enjoying considerable leverage, the governments impose "offset requirements" that in effect force companies to compete to provide the most attractive package of goods, services, and compensation.

Recently, for example, McDonnell Douglas won an \$800 million sale of Apache AH-64 helicopters to the Netherlands after agreeing to offset the cost through technology transfer and helping to sell Dutch ships around the world.

"We were competing with the French," Pacific says. "We won because besides the best helicopter, we had the best offset." Countertrade is used increasingly by companies as a marketing strategy in Asia, the Middle East, and other areas where sophisticated bargaining is part of the business culture.

"We sit in an isolated area where the dollar is king. We don't bargain in this country, it's not part of our modus operandi," says Mr. West, who formerly directed countertrade for Monsanto. West stresses that countertrade is an umbrella term that encompasses far more than traditional barter trade. Indeed, barter trade -- the exchange of goods or services without the use of money -- has shrunk since the late 1980s when the fall of East bloc communist states allowed them to adopt convertible currencies and an end to bilateral trade clearing agreements.

More common today are these comparatively innovative and complex forms of countertrade i.e. Compensation trade, or "buy-back.", Offset and Counterpurchase. **Answer the following:**

- a) Examine the reasons for the growing popularity of Countertrade globally.
- b) Explain the different types of 'Counter Trade'.
- c) How does the concept of 'Counter Trade' help the developing Nations?

