Problem for the 6th Inter-college Negotiation Competition
<November 12 version>

１．Negoland is a developing country located in the southern hemisphere, and has a population of approximately 40 million, a land area of approximately 3.5 million km² (square kilometers) and a GDP of approximately 130 billion US dollars. Negoland has a long shape stretched from north to south. The northern part, Akasa region, has a subtropical climate, the central part, Tanaha region, a temperate climate, and the southern part, Mayara region, a cold climate. The western part is on the sea, and the mid-western part has a vast flatland suitable for the production of crops and the breeding of cattle and other livestock. The southeastern part is a mountainous area called Nego Mountains and is rich in energy resources such as oil and coal and also mineral resources such as tin, copper and uranium. The map of Negoland is as provided in Attachment 1.

２．Negoland is a constitutional republic, and with abundant nature, used to be one of the major economic countries supported by its agriculture up until the beginning of the 20th century. However, after the 1940's, unlike western countries that achieved successful development by focusing on manufacturing, etc., Negoland failed in nurturing new industries, due to the government's lack of policy, which triggered an economic recession from its maintenance of an industrial structure dependent solely on agriculture. Following this, as a result of increased public dissatisfaction due to government corruption and the misadministration of pension problems, Negoland shifted to a military government after a military coup dated in 1955. Although the country had a military government until 1980, it shifted to a civil administration in 1980 and such civil administration has been maintained up to the present day. Under the military government, a policy of protectionism was adopted, resulting in a stagnant economy. However, with the shift to a civil administration in 1980, policy also shifted to an open economy. This stimulated investments from western countries, allowing development of new industries and the successful development of the national economy of Negoland. However, the Oyoyo administration, which took political power during 1995 and 2000 performed lax financial management, and the financial deficit and overseas borrowings dramatically increased. As a result of this, Negoland's ability to pay against overseas borrowing became doubtful by international standards. Negoland aimed to overcome such financial deficit through support from the IMF and had been receiving financing from the IMF since 1997. The situation however did not improve, and in 1999 the IMF decided to suspend further financing. At this time, Negoland announced suspension of repayment of overseas loans, leading its economy into crisis. After that, an IMF-led economic reconstruction program was implemented. However, as the program was not effective, public life became poor and public safety deteriorated with the occurrence of civil unrest, etc.

３．In 2001 the Totoro administration was inaugurated, and it declared the abandonment of the

IMF-led economic reconstruction program, and announced a drastic financial reconstruction policy. The people in Negoland supported the Totoro administration, and public safety improved. In 2003, a large oil field was discovered in the Mamimu region (The Mamimu Oil Fields), in the eastern part of the country. The Totoro administration developed this oil field as a national policy, and the export of this oil led to the rapid improvement of the financial administration of Negoland. Having the good fortune of discovering the Mamimu Oil Fields, the Totoro administration implemented a rehabilitation plan for the domestic economy for the revitalization of industry, including the development of industrial complexes, in parallel to its financial reconstruction policy. As a result, Negoland paid off its loans from the IMF and its delinquent overseas borrowings in 2006. The economic growth rate has been showing a positive figure since 2004 and is expected to reach 10% for fiscal 2007.

４. Arbitria is a developed country located in the northern hemisphere, with a population of approximately 50 million, a land area of approximately 300,000 km² (square kilometers), and a GDP of approximately 1.5 trillion US dollars. Arbitria is located in the temperate zone and has a mild climate. Although the eastern part is facing the sea, Arbitria does not have much energy or mineral resources and is mostly dependent on importing these from overseas. The main industry is manufacturing, such as machinery, textiles, automobiles, iron, and steel. There are many internationally well-known companies in Arbitria with sophisticated technologies. As the country is on the sea, the fishing industry has flourished, but as there is not much flatland suitable for agriculture, the self-sufficiency ratio in food supply is steady at only approximately 35%.

５. While science and technology is advanced in various areas, the Ministry of Agriculture and Fisheries launched the “Get 100 Project” 5 years ago. This was to improve crop yields by 100 times compared to ordinary yields, through the application of gene-recombinant technology in agriculture, in order to increase the self-sufficiency ratio in food supply by obtaining more crops from the limited agricultural land. However, many people are fearful of genetically modified food. According to a survey conducted targeting 10,000 adults nationwide by the Ministry of Agriculture and Fisheries in 2005, 70% of the people said that they would not buy any gene-modified crops, and 80% of the people said that food should clearly state whether or not genetically modified crops are used as ingredients. However, 65% of the people said that research on gene-recombinant technology should be continued in respect of protecting national food security for emergencies, and the “Get 100 Project” is currently still ongoing. Nonetheless, no practical, innovative results have been achieved to date. With respect to the political system, the country has adopted a republican system and remains stable.

６. Domestic concern about the environment has been rising, due to ongoing abnormal climatic conditions observed in recent years and an international conference concerning environmental affairs

that was held in the capital city, Abu-Abu in 2004. The government, mainly the Ministry of the Environment, is undertaking various measures and policies for environmental protection. For instance, in order to realize reduction of CO2 emissions, a carbon tax was introduced last year. Also, the government has often taken measures to prohibit imports of goods which have been produced or harvested using a method that has a heavier burden on the environment. This is causing trade conflicts with certain countries. The economy of Arbitria had been in recession for many years until two years ago, however, now it has finally shifted to show a positive trend.

７．Major indicators concerning Negoland and Arbitria are provided in Attachment 2.

８．Red, Co. is engaged in the business of producing, processing and selling, etc. the agricultural products of the Negoland. It was founded in 1955 by a member of the Red family, Papa Red, a millionaire in Negoland. The Red family entered into the mining and manufacturing industry and the tourism industry, and has a strong network within the political community. During the economic crisis which began in 1999, Red, Co. also was caught in the crisis for a certain period. However, with the recovery of the economy in Negoland, their business condition has also recovered and remains stable. The company is mainly handling soybeans, grain such as corn, and meat, including beef and chicken. Red, Co. sources grain from producers around Negoland and sells to the domestic market, exports to overseas markets, or processes such grain into feed or food and sells them to the domestic market, etc. With respect to meat, Red, Co. has its own large farm in Otto in the Tanaha region, where they breed cattle and chicken and export the dressed meat overseas, or otherwise source from domestic producers around Negoland for sales to the domestic market or overseas export market. The recent business status of Red, Co. is as provided in Attachment 3. Red, Co. values a free and vigorous atmosphere and a corporate culture where employees including freshmen are encouraged to work with ambition and at their individual discretion. The president of Red, Co. says, “Just challenge without worrying about small things. Do not stick to manuals or fixed ideas.”

９．Blue, Inc. was founded in Arbitria in 1950. Blue, Inc. manages three core businesses, related to food, the environment, and precious metals, and is listed on the securities exchange in Arbitria. The food-related business supplies food including agricultural and livestock products to processed food manufacturers and restaurants in Arbitria. Blue, Inc. has a broad network worldwide and is achieving good performance by sourcing and processing various foods corresponding to the needs of its customers. With respect to the environment-related business area, Blue, Inc. has advanced technology in the disposal of industrial waste and toxic substances and is also highly esteemed for their technology in the area of water processing and recycling. In relation to the precious metal-related business, Blue, Inc. is engaged in the manufacturing, retailing and recycling of industrial components and materials using rare metals such as silver, platinum and palladium. The

recent business status of Blue, Inc. is as provided in Attachment 4. In addition, an abstract of the summary financial report for the term ending in December 2006 is as provided in Attachment 5. In recent years, awareness concerning compliance is increasing in Arbitria, and Blue, Inc. also established a special department responsible for compliance and is strictly working on this matter. Moreover, under the newly enacted Company Law of Arbitria, the importance of risk management is emphasized and the board of directors of a company of the size of Blue, Inc. must perform strict internal controls, including its subsidiaries. Therefore, Blue, Inc. is preparing manuals and rules for every department and placing a focus on the education and training of its employees for compliance. The applicable provisions of the Company Law of Arbitria are provided in Attachment 6. At the beginning of 2007, the President of Blue, Inc. announced to the employees, "The minimum requirement for today's top companies is compliance and risk management. Unless we manage these perfectly, we cannot think about improvement of profits. Companies with lax compliance and risk management systems do not gain the trust of their customers."

１０. The food-related business of Blue, Inc. has been mainly importing soybeans and chicken. The motto of the food-related business of Blue, Inc. is "Quality First". In fact, the customers in Arbitria are very strict about the quality and safety of food. The imported soybeans are mainly used for food and imported primarily from suppliers in the US and Canada. However, in 1994, there was an incident where one of the suppliers mixed some soybeans of a slightly inferior quality with the goods supplied to Blue, Inc. Blue, Inc. could not detect such inferior soybeans during its inspection, and it was delivered to a customer who was a manufacturer of soybean food. As a result, this caused serious trouble. Blue, Inc. immediately terminated the business with this supplier, but at the same time, as the domestic demand for soybeans in Arbitria was increasing, it was necessary to find a new supplier.

１１. The country Blue, Inc. was interested in was Negoland. The soybean yield in Negoland has maintained 5th place in the world since 1994. Soybeans for food produced in Negoland are known for their high quality. In particular, those produced in the area around Omame City are of the best quality, and those produced in the area around Tofu City are the second best. For the purpose of sourcing soybeans from Negoland, Blue, Inc. decided to contact Red, Co. to request procurement of soybeans from Negoland producers. In Negoland, there are three companies handling domestically produced soybeans. Red, Co. has the largest market share of 50%, followed by Black, Co. (35%) and then Brown, Co (15%). The status of these market shares remains unchanged as of 2007.

１２. When Blue, Inc. first contacted Red, Co. in 1994, Red, Co. had just lost a Japanese business partner due to its bankruptcy, who had been a large account client of soybeans for the last 30 years. For this reason Red, Co. and looking for another stable, large account business partner. On the other hand, Blue, Inc. was looking for a supplier that had the ability to stably procure soybeans in

certain quantity. In this situation, the needs of both Red, Co. and Blue, Inc. matched. In 1995, a representative of Blue, Inc. visited Negoland and negotiated with a representative of Red, Co., and the negotiation went smoothly. During the course of the negotiation, the representative of Blue, Inc. said to Red, Co., “Our customers are very strict about the quality of not only soybeans, but also of all food. Therefore, we would like you to promise that you will always provide us with products of the best quality.” In response to this demand, the representative of Red, Co. said, “We will do our best to deliver the products of the type and quality specified in your order. However, it is difficult to promise always the best quality.” The representative of Blue, Inc. then said, “We recently experienced a serious problem over quality. Our company leaders also think that the quality matter is very important. It is also important for both of us to expand our trading through importing what the people in Arbitria like. In order to confirm this point, we would like to execute this memorandum. ” and proposed the draft memorandum in Attachment 7. The representative of Red, Co. consulted the head of its legal department and was told, “This should not have any special problem.” Accordingly, the representative of Red, Co. obtained approval from the president and agreed to execute the memorandum in Attachment 7.

１３. The memorandum in Attachment 7 was executed with no problem, and the trading of soybeans between the two companies commenced in August 1998. So far, all of the traded products were the soybeans produced in Omame City. Transactions were done in the following way. The representative of Blue, Inc. enquired about the price level over the phone with the representative of Red, Co. and upon response from the representative of Red, Co., the representative of Blue, Inc. informed Red, Co. of the quantity, price and delivery deadline over the phone, and then a sales agreement was executed in writing. In the communications between the representatives, the soybeans were presumed to be the products of Omame City, therefore the origin of the products was not specifically discussed. Also, in the sales agreements, the only description was “Negoland soybeans-1st class” and the origin was not clearly stated.

１４. Trading went smoothly at the beginning of their business. However, the financial condition of Red, Co. rapidly deteriorated from 2000, given the economic crisis in Negoland. This information was indirectly communicated to Blue, Inc. In the meantime, the demand for soybeans in Arbitria was increasing. From the perspective of ensuring more stable procurement, Blue, Inc. thought that the impact in the event of the bankruptcy of Red, Co. would be enormous. Moreover, aiming at the start of beef trading in addition to soybeans, trading of some samples had just begun in early 2000. Under these circumstances, if Red, Co. ever went into bankruptcy, Blue, Inc. would lose a stable supplier in Negoland and it was very clear that such event would have a severe, negative impact on the performance of the food-related business. Furthermore, although Negoland’s economic situation was deteriorating, its agricultural production was still doing well and Blue, Inc. could not ask for anything more in terms of quality and amount supplied.

１５．The president of Blue, Inc. visited Negoland and told the president of Red, Co. that it was willing to temporarily finance Red, Co. The president of Blue, Inc. said, "You are a very important company to us, and we are happy about our business up to now. You may have been surprised with the memorandum we requested you to execute before starting our business, however quality is very important to us. We would like you to continue supplying to us high quality products that can satisfy the customers in Arbitria as in the past. This financing is our investment for such future relationship between us." Around this time, not only Red, Co. but also all of the companies owned by the Red family were going through an extremely difficult time financially. Therefore, Red, Co. decided to accept the offer of Blue, Inc. to receive financing in the amount of 5 million US dollars. The president of Red, Co. said to the president of Blue, Inc., "We are grateful for your kindness and happy to hear that you are satisfied with the business with us. We will keep our promise." This negotiation was recorded in the meeting minutes prepared by Blue, Inc., a copy of which was delivered to Red, Co.

１６．After this event, the trading of soybeans between the two companies continued smoothly. In 2004, Sakura Trading in Japan proposed to Red, Co. an offer to buy the best quality soybeans in bulk at a price 10% higher than the price paid by Blue, Inc. However if Red, Co. accepted such offer, it would not have been able to supply soybeans produced in Omame City to Blue, Inc. Therefore, Red, Co. refused this order in order to secure the supply for Blue, Inc.

１７．The trading of beef also started in full from 2002. In Negoland, there are 10 farms that produce the beef approved as the best quality by the Ministry of Agriculture of Negoland. Among them, in particular the beef produced on the Otto Farm, directly owned by Red, Co., and the beef produced on the Sanbo Farm, owned by a foreign company, were considered the best quality. Cattle type, quality and price were exactly the same at the Otto Farm and the Sanbo Farm. However, the Sanbo Farm started using feed containing growth hormone from January 2007. In Negoland, use of growth hormone is not prohibited, and the people in Negoland do not care about it at all. Also, producers are not obliged to indicate the use of growth hormone. When Blue, Inc. and Red, Co. were to start trading beef, as the supply quantity required by Blue, Inc. was sufficiently manageable by the Otto Farm, from the beginning the negotiation proceeded based on an implicit premise of trading the beef produced by the Otto Farm, and the Sanbo Farm was never talked about during the discussion between the two companies.

１８．In 2004, Negoland's economy had recovered, and the business condition of Red, Co. also showed a rapid recovery. Red, Co. repaid the 5 million dollars to Blue, Inc. by March 2006. In April 2006, the president of Red, Co. visited Blue, Inc. in Arbitria and showed his appreciation for the financing. The president of Red, Co. told the president of Blue, Inc. about the experience of

refusing an order from Sakura Trading in Japan, and said, “We consider that our relationship with you is very important.” During this meeting, the president of Blue, Inc. explained to the president of Red, Co. about the Arbitria Market. Given the announced results of a survey conducted by the Ministry of Agriculture and Fisheries in 2005 concerning genetically-modified crops, the president of Blue, Inc. explained to Red, Co. about the results and said, “The people in Arbitria are very sensitive about food safety and refuse genetically-modified crops. As the crops produced in Negoland are not genetically-modified, we feel safe about them.” In fact, in Negoland, genetically-modified soybeans are not produced. The president of Blue, Inc. continued, “It seems that the administration of growth hormones in beef in the US and EC is controversial at the WTO. In our country, we also have a negative opinion about beef fed with growth hormones. We currently do not have any restrictions, however, some lawmakers are pushing the Ministry of Agriculture and Fisheries for a prohibition on the importation of beef fed with growth hormones.” In response to this, the president of Red, Co. said, “In Negoland, use of growth hormones is not prohibited, and the people here are not concerned about it at all. However, we do not use growth hormones at Otto Farm, which we directly manage.”

１９. When beef trading started in 2002, Blue, Inc. was importing beef carcasses to Arbitria and packaging the meat for steak and ham, etc. at its own factory, for retailing to customers. However, as the food-related business was not performing very well, for the purpose of cutting costs, Blue, Inc. planned to import processed beef by completing meatpacking in Negoland where the labor cost was lower. According to the estimate by Blue, Inc., it cost approximately 1 million US dollars to establish a factory in Negoland. However, as the labor cost was low and there was a tax advantage, cost reduction of approximately 300,000 dollars per year was expected. Blue, Inc. compared and evaluated the advantages and disadvantages in the case of establishing a new company wholly owned by Blue, Inc. and the case of establishing a new company under joint management with Red, Co. As a result, Blue, Inc. thought that it would be necessary to receive support from Red, Co. in securing human resources and facilities in Negoland and proposed to Red, Co. a plan to establish a joint venture. As the meatpacking factory of Red, Co. was starting to show signs of getting old, Red, Co. also thought it might be a good opportunity to transfer its own meatpacking line to this joint venture factory, and decided to accept Blue, Inc.’s proposal.

２０. In 2003, Red, Co. and Blue, Inc. established Yellow, Co., a joint venture company for meat processing, with an investment ratio of 50:50. The Joint Venture Agreement is as provided in Attachment 8. The head office and factory of Yellow, Co. was established in Ponta, south of the capital city, Nego-Nego. Capital investment was 100,000 US dollars. Two directors each from Red, Co. and Blue, Inc. were selected. The representative director is personnel seconded from Blue, Inc. (from one of the directors). From Blue, Inc., in addition to two directors, two other personnel were seconded for the finance and quality control departments. The method with respect to trading

with Blue, Inc., was that Yellow, Co. purchases beef from Otto Farm owned by Red, Co., and processes it into packaged meat. Such packaged meat is then purchased by Red, Co. and exported by Red, Co. to Blue, Inc. For tax reasons, it was decided to choose the method to have Red, Co. export to Blue, Inc. rather than having Yellow, Co. export directly to Blue, Inc.

２１. On March 15, 2007, Purple, Co., an Arbitria company, the most important customer of Blue, Inc., placed an order for beef, in the quantity of 100 tons. As this order could not be covered by the ordinary stock maintained by Blue, Inc., Blue, Inc. immediately placed an order to Red, Co. for the necessary amount of beef. The price was 1million US dollars based on CIF terms (the prevailing market price including miscellaneous costs was 10 US dollars per kilogram). The shipping date was by the last day of May, 2007. The sales contract concerning this transaction is as provided in Attachment 9.

２２. On April 1, 2007, Red, Co. received an order from Red Trading, also for 100 tons of beef. Red Trading never handled beef before, however, as its most important customer suddenly made this request, Red Trading contacted Red, Co. for help. Red Trading said that it would purchase beef at a price 20% higher than the prevailing market price, which was 12 US dollars per kilogram. The delivery due date was May 15. At this time, Red, Co. was handling beef produced by both Otto Farm and Sanbo Farm. The beef which Red, Co. had been supplying to Blue, Inc. was produced by Otto Farm. In order for Red, Co. to meet the shipping due date for the order by Blue, Inc. which was the last day of May, the beef needed to be delivered to Yellow, Co. by May 15 at the latest. On the other hand, in order for Red, Co. to satisfy the order of Red Trading, the beef needed to be delivered to Yellow, Co. by May 1.

２３. Around this time, the representative of Red, Co. responsible for trades with Blue, Inc. was Bob Orange. Mr. Orange was an employee headhunted from another company by Red, Co. in March 2007. In the previous company, he was responsible for the trading of grain and chicken for American companies. Due to the sudden resignation of Mr. Peach, the predecessor of Mr. Orange, for family reasons, Mr. Orange was hastily recruited. Mr. Peach emphasized to Mr. Orange that products to Blue, Inc. needed to be the best quality. During the job handover, Mr. Peach said, “We have been handling beef produced by Otto Farm. Note that the reason for that is that the quality must be the best.” Mr. Orange never handled beef before in the previous company, however, he was handling the chicken of Sanbo Farm. Through his experience in the previous company, Mr. Orange had knowledge that the beef of Sanbo Farm was of the best quality, together with those of Otto Farm, and that Sanbo Farm started using growth hormone from January 2007. Mr. Orange said to Mr. Peach, “As long as the quality is the best, can we use the products of Sanbo Farm? Of course, I would use the products of Otto Farm as much as possible, though…” Mr. Peach answered, “Probably.”

２４. Upon receiving an order from Blue, Inc. on March 15, Mr. Orange immediately requested Otto Farm to make the arrangements. However, after receiving the order from Red Trading, Red, Co. contacted both Otto Farm and Sanbo Farm. The result was that only Otto Farm could deliver products to Yellow, Co. by May 1. The best they could do however, was to deliver 100 tons by May 1 and a further 20 tons by May 15, which makes a total of only 120 tons. On the other hand, Sanbo Farm said, “Because there is a large order to be delivered on May 1, we could supply nothing by May 1. We could, however, deliver a maximum of 80 tons by May 15.

２５. As Mr. Orange had the impression that products for Blue, Inc. needed to be the best quality yet could be those of Sanbo Farm, based on the conversation with Mr. Peach during the job handover, Mr. Orange changed the original plan and decided to allocate beef from Otto Farm to Red Trading and supply 20 tons of beef from Otto Farm and 80 tons of beef from Sanbo Farm to Blue, Inc. On April 15, Mr. Orange informed Yellow, Co. that beef for Blue, Inc. would be delivered to Yellow, Co. in the quantity of 20 tons from Otto Farm and 80 tons from Sanbo Farm. The counterpart of Mr. Orange in Yellow, Co. was Apple. Apple was one of the directors seconded from Blue, Inc. and responsible for management of the processing schedule, etc. in Yellow, Co. Mr. Apple asked Mr. Orange, “Why is beef this time partly from Sanbo Farm? It is normally from Otto Farm.” To this question, Mr. Orange explained, “This time, we had a large order, and only Sanbo Farm can deliver the products by the deadline. You do not have to worry. Beef from Sanbo Farm is of the same best quality as that of Otto Farm. This is satisfying your requirement of “the best quality beef.” Mr. Apple knew that Blue, Inc. would only accept the best quality beef and that Sanbo also offered the best quality beef. Therefore, Mr. Apple accepted the explanation given by Mr. Orange and did not question anything further. Mr. Apple did not communicate the above situation to Blue, Inc. However, on April 17, Mr. Orange sent an e-mail, as provided in Attachment 10, to Tom Grape, a representative of Blue, Inc.

２６. Upon receiving the e-mail from Mr. Orange on April 17, Mr. Grape phoned Mr. Apple and asked about Sanbo Farm. Mr. Apple confirmed that the quality of the beef of Sanbo Farm was exactly the same as that of Otto Farm. Just when Mr. Grape was preparing a response to Mr. Orange, on April 19 the Ministry of Agriculture and Fisheries enacted an ordinance concerning the prohibition of the import of animals as meat raised with feed containing growth hormones. This was a movement that had been demanded by some lawmakers yet had been refused by the Ministry of Agriculture and Fisheries, which was concerned about the deterioration of the relationship with the US and other countries. However, as a result of the election in March, the number of seats of the political party of these lawmakers was dramatically increased, and the Ministry of Agriculture and Fisheries ended up taking certain action. The contents of the regulation are exactly the same as those enacted in the EU and judged by the WTO panel established based upon a motion by the US.

In this situation, Mr. Grape mentioned the enactment of this ordinance in his e-mail sent to Mr. Orange, as provided in Attachment 11. However, Mr. Orange did not remember seeing this e-mail. Later, following an investigation, it was discovered that this e-mail message from Mr. Grape was automatically sorted into a folder for junk e-mail in the e-mail software used by Mr. Orange, due to the reason that the subject line was too long. Mr. Orange did not realize this fact until long afterward. In addition, Mr. Grape also conveyed this information to Mr. Apple. Mr. Apple replied, "I see. I will check how it would affect our business and let you know if there is anything." However, on the day following this communication, Mr. Apple fell ill and required hospitalization. Mr. Apple thus ended up not doing any research. With respect to the above action taken by the Ministry of Agriculture and Fisheries, it was reported in a few industry journals in Arbitria and the US. It was not in Negoland, however, because there was a big incident which occupied such industry journals in Negoland. Mr. Orange usually read such US journals, but he had been too busy with other business to read foreign journals and papers after he sent e-mail to Mr. Grape on April 17.

２７． Yellow, Co. individually processed each beef shipment received from Otto Farm and Sanbo Farm and delivered them to Red, Co. Red Co. completed shipping and delivery by the date designated in each agreement with Blue, Inc. and Red Trading. The beef for Blue, Inc. was shipped on May 28 and arrived in Arbitria on June 7 (it takes about 10 days to transport goods from Negoland to Arbitria). The purchase price was already settled by Letter of Credit (L/C). However, the beef was detected at the customs inspection in Arbitria as having been raised with feed containing growth hormones, and the importation of such beef was prohibited. Yellow, Co. didn't distinguish the beef from Otto Farm and the beef from Sanbo Farm when processing, making it impossible to identify which part comes from which farm. Therefore, the whole 100 tons of the beef was prohibited. Mr. Grape was contacted by the customs office on this matter on June 12 and immediately contacted Mr. Orange.

２８． The fact was that on May 29, when Mr. Orange visited Mr. Apple at the hospital, Mr. Apple informed Mr. Orange that the Ministry of Agriculture and Fisheries of Arbitria prohibited the importation of beef raised with feed containing growth hormones. However, by that time, delivery of the beef to Red Trading from Otto Farm was already complete. Mr. Orange thought that there was nothing he could do about the situation. Therefore he left this problem without taking any action. When Mr. Orange heard from Mr. Grape, Mr. Orange said, "We delivered the "processed beef products of the best quality in Negoland" as designated by the agreement, and we did nothing wrong. However, I understand that you are in trouble. If you could have let us know earlier, we could have taken some action… I will immediately search for another possibility to obtain replacements which are free from growth hormones." Mr. Grape said, "I did inform you in the e-mail on April 20. We should discuss who is liable for this trouble later. First I would like you to immediately check whether replacements are obtainable. I informed our customer Purple, Co. that we could not

deliver the beef by June 20, the original deadline. On the condition of offering a 30% discount, we negotiated a deal with Purple Co. to deliver the best quality beef in Negoland, which could be from a farm other than Otto Farm or Sanbo Farm, by July 15. This 30% discount follows a trade custom in Arbitria. If unprocessed beef could be delivered to us by June 30, we could process such beef at our own factory and delivery could be made on time. If we are not able to deliver the products to Purple, Co. by July 15, we will need to pay damages of 700,000 US dollars. By all means, such circumstances should be avoided."

２９. Mr. Orange sought possible alternatives as soon as possible by speaking with the other departments of Red, Co. As a result, on June 15, he found that he could ship by June 20 the best quality beef produced by Oniku Farm, at a price of 10 US dollars per kilogram, and informed Mr. Grape about this. However, Mr. Grape said, "Yesterday, we agreed with Sakura Farm in Japan to purchase alternatives from them. The beef produced by Sakura Farm is the same or higher quality than the beef produced in Negoland. Purple, Co. also agreed to this beef. However, this beef is 13 US dollars per kilogram. As a result, we have incurred losses from providing a 30% discount (The total loss incurred by Blue, Inc., because of the 30% discount was 300,000 US dollars) and from paying an extra three dollars per kilogram compared to the case of purchasing beef from you. We also need to receive a refund of the 1 million US dollars, which has already been paid. In total, we request you to pay us 1,600,000 US dollars immediately." In addition, from April to June the worldwide market price of meat has skyrocketed, and in every country and farm when you compare the contracted price in April, May, June, and July, it is clear that it has increased one dollar per kilogram every month. In response to this, Mr. Orange insisted, "We simply delivered the beef specified in our agreement and cannot accept your claim." As a result of the investigation, it was revealed that Blue, Inc. could have obtained alternative beef from Sakura Farm at a price of 13 US dollars per kilogram by June 15 if on May 31 Blue had known the fact that the growth hormone was used in the beef delivered by Red (no other farm could have supplied an alternative). Even in such case, however, Blue, Inc. could not have delivered the beef by the deadline because it would have taken about 15 days to process it, and Blue could not avoid making a 20% discount (The total loss incurred by Blue, Inc., because of the 20% discount was 150,000 US dollars).

３０. The beef delivered to Blue, Inc. was stored in a bonded customs warehouse in Arbitria, which cost 1000 US dollars per day for storage. There was also an argument on who should be responsible for such cost. In the meantime, setting aside the question of whose position is right between Red, Co. or Blue, Inc., they agreed on the point that it would be best to find a party who could purchase the beef stored in the bonded warehouse at as high a price as possible. On June 30, Mr. Orange found out that Green, Co. in the US was looking for beef products in an urgent manner and negotiated with them. As a result, Green, Co. offered to pay 11 US dollars per kilogram for this beef and wanted to have an answer by July 2 as to whether or not it would be acceptable. Mr.

Orange had the following conversation with Mr. Grape on July 1:

Mr. Orange: “Green, Co. in the US is willing to purchase the stored beef in bulk. The price is 11 US dollars.”

Mr. Grape: “This is good news. Then, shall we send the beef stored in the bonded warehouse as it is to Green, Co.?”

Mr. Orange: “Yes, Green, Co. is requesting to deliver the beef immediately”.

Mr. Grape: “What happens to the agreement? In our opinion, the beef delivered this time needed to be returned to you in any case, therefore, it is more proper if you enter into an agreement with Green, Co.”

Mr. Orange: “As I said before, we think that the beef belongs to you as we delivered the products according to the agreement. Therefore, it is more reasonable for you to make an agreement with Green, Co.”.

Mr. Grape: “We cannot agree to that idea.”

Mr. Orange: “At this point, it is more important to execute an agreement with Green, Co. immediately and send them the beef. We cannot accept liability concerning this issue on our side. However, it will definitely be an advantage for both of us if Green, Co. buys this beef. Let’s say that we, Red, Co., will make an agreement with Green, Co. this time and have a separate discussion later for resolving this issue between Red, Co. and Blue, Inc.

Mr. Grape: “I agree. Then, I would like you to arrange the contract procedures. Luckily, there is an empty space in a ship going to the US that we have arranged. I will speak to the customs office and arrange to have loading done right away. Please give us the information about Green, Co.”

３１． After this conversation, Mr. Orange executed the agreement between Red, Co. and Green, Co. as provided in Attachment 12 and sent a copy of the agreement to Mr. Grape. Blue, Inc. informed Red, Co. that it decided to make the shipping on July 5. However, due to a clerical mistake by a staff member of Blue, Inc., which was missing one signature by an official on a document necessary for taking goods out of the bonded warehouse, the operation to take out the beef was one day delayed. This was only a one day delay and still before the shipping due date specified in the agreement. Therefore, Blue, Inc. did not inform Red, Co. about this shipping delay. On July 6, when these 100 tons of beef of Blue, Inc. was just about to be taken out for loading onto the ship, the bonded warehouse was hit by lightning and burnt down. As a result, all of the beef was destroyed. Under the laws of Arbitria, the customs office managing the bonded warehouse assumes no responsibility in such case.

３２． Under the agreement between Red, Co. and Green, Co., any risk before shipping must be borne by Red, Co. For this accident, Red, Co. could not deliver the beef to Green, Co., due to a circumstance occurring before shipping, and was forced to indemnify Green, Co. for its loss in the amount of 500,000 US dollars on July 28 (there is no issue or disagreement concerning the

reasonableness of the amount of the damages). In addition, there was no insurance to cover the risk of destruction by fire during storage in the bonded warehouse.

３３．Under these circumstances, on July 30 Red, Co. sent the Fax as provided in Attachment 13 to Blue, Inc.. Blue, Inc. then sent back the Fax as provided in Attachment 14 to Red, Co. on August 1 to argue entirely against Red, Co. After these communications, both companies intended to settle this matter by negotiation but could not do reach an agreement. Blue, Inc. filed for arbitration, claiming for the payment of 1,630,000 US dollars. Red contested all of Blue's arguments, and at the same time, made a cross demand for compensation of 500,000 US dollars. Red, Co. and Blue, Inc. agreed in writing to settle their claims by arbitration.

３４．The arbitrator said that the trial on December 1 would proceed focusing on the following points and instructed the parties to prepare and submit preparatory pleadings including a summary of its position on each point of dispute by November 24.

（１） With regards to the sale and purchase agreement of beef between Red, Co. and Blue, Inc., is Red, Co. responsible to Blue Inc. for its non-performance of obligations?

（２） If the answer to the above (1) is affirmative and Red, Co. is responsible, is Red, Co. obliged to pay for any of the following items claimed by Blue, Inc.?

① Damage incurred due to the inevitable offering of a 30% discount : 300,000 US dollars;

② Damage incurred from purchasing beef from Sakura Farm which was 3 dollars higher (per kilogram) than that of Red, Co. (3 dollars/Kg x 100 tons): 300,000 US dollars;

③ Purchase price already paid by the L/C: 1,000,000 US dollars; and

④ Costs for the bonded warehouse (1,000 US dollars x 30 days): 30,000 US dollars

（３） Is Blue, Inc. liable to pay to Red, Co. 500,000 US dollars with respect to the transaction with Green, Co.?

Round B

３５．Red, Co. and Blue, Inc. had been trading corn in addition to soybeans and beef. They started trading corn following soybeans since 2000. Corn was procured by Blue, Inc. to meet the needs of its three important customers in Arbitria, Tomato, Co., Pine, Co. and Melon, Co., for use as feed. With these three companies, there was an agreement to offer a fixed price for long period instead of trading a fixed quantity every year. This was Blue, Inc.'s strategy to enter into business with these three companies who already had business relationships with large trading companies, etc. yet wanted to purchase corn at a stable price. Blue, Inc. executed a long-term sales and purchase agreement for 10 years with these companies in 2000. Blue, Inc. was importing corn in the quantity of 2 million tons per year, of which 50% was produced in Negoland (Please note that in relation to corn transactions in Round B of this Problem, 1 (metric) tons shall be understood to be equal to 1 bushel). All of the corn produced in Negoland was supplied to the above three companies. The proportions of supply to these three companies were: 500,000 tons to Tomato, Co., 300,000 tons to Pine, Co. and 200,000 tons to Melon, Co.

３６．Corresponding to the agreements with the above three companies, Blue, Inc. proposed to Red, Co. to execute a long-term sales and purchase agreement. Under the situation of economic disorder, it was attractive for Red, Co. to secure stable income. Therefore, Red, Co. accepted this proposal and executed an agreement to sell 1 million tons at the price of 200 cents/bushel. This agreement is as provided in Attachment 15. In 2000, some reports said that the price of the corn was expected to decrease because of the increase of the acreage for planting and of yield. On the other hand, some reports said that it would rise in long-term because of the increasing demand for corn and the abnormal weather resulting from the global warming.

３７．In recent years, the market price of corn has been remaining at a level considerably higher than the level expected by both parties in 2000. The price of the corn is as listed in Attachment 16 (NOTE: In relation to this problem, you should rely on the attachment 16, not on the price in real markets. Also note that it has been the trade usage that Negoland corn is traded at 20 cents cheaper than the price listed in the attachment 16.) Accordingly, this was becoming a substantial money-losing trade for Red, Co., and they requested revision of this long-term supply agreement. Red, Co. requested such re-negotiation in accordance with the hardship rules under the UNIDROIT Principles. The claim of Red, Co. was, "This sale and purchase agreement of corn is causing great pressure on our management, and if this situation continues it can cause a management crisis. We would like you to either cancel this long-term sale and purchase agreement or revise the price to the level reflecting the market price." Blue, Inc. replied, "we don't consider there is the hardship".

３８．On the other hand, the Environmental Business Department of Blue, Inc. suggested to Red, Co.

to employ Blue, Inc.'s water treatment facility in the factory of Red, Co. In Negoland, the public has been becoming increasingly concerned about the environment in recent years, and Blue, Inc. has been looking to it as a potential market. In response to the proposal of Blue, Inc., Red, Co. said, "As the concern for the environment is becoming high in Negoland, it will also be beneficial for Red, Co. to have a company image as an environmentally friendly company." and asked for a specific price. Blue, Inc. said that the regular price was 1 million US dollars. Red, Co. responded, "It is too expensive. If it was around 500,000 US dollars, we could consider…"

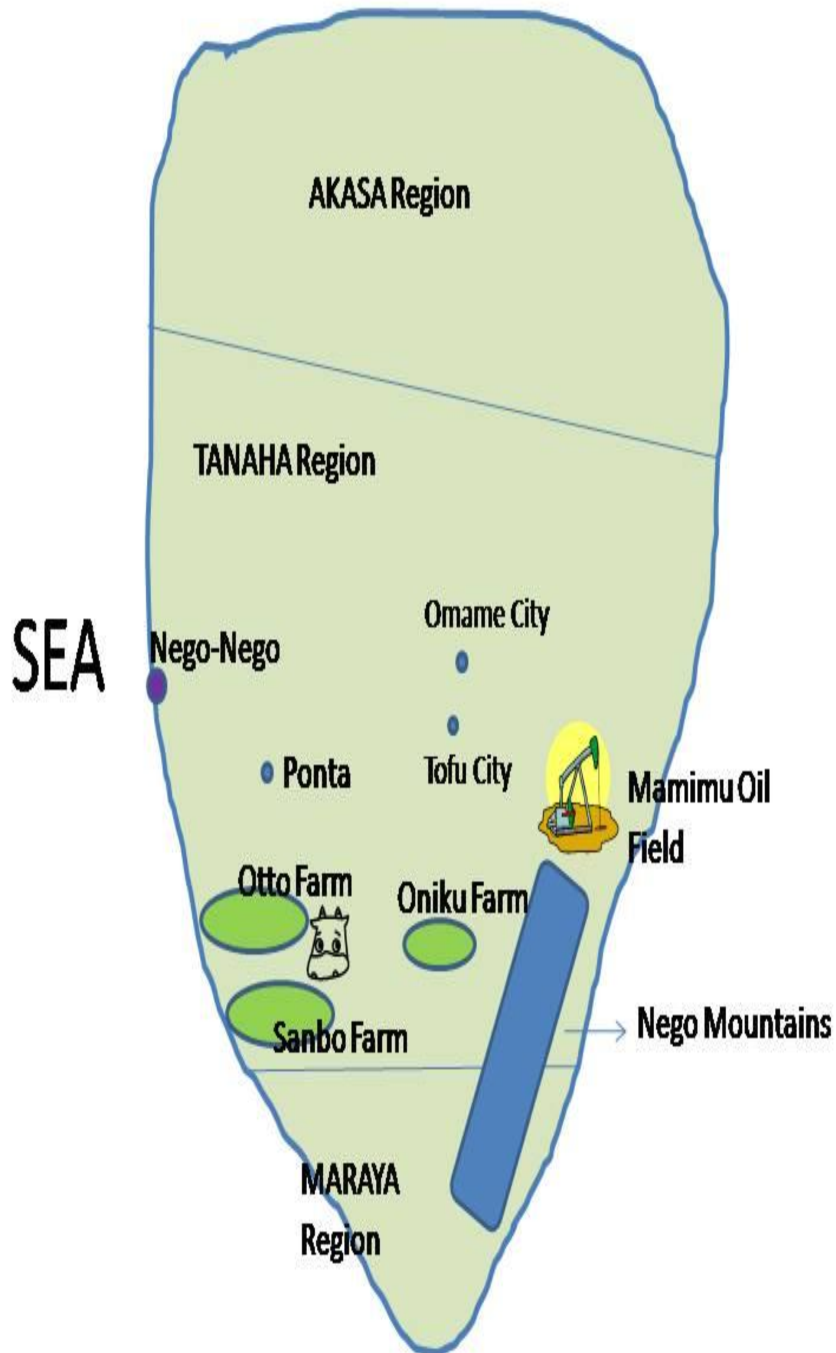
３９．Another problem is about the management of Yellow, Co. Yellow, Co. was first established for the purpose of processing beef for Blue, Inc. Since 2004, Yellow, Co. started processing beef and chicken for domestic supply at the request of other companies in Negoland and has been making steady business performance. Now, the volume of domestic supply in Negoland is bigger than exports. The historical business performance of Yellow, Co. is provided in Attachment 17.

４０．In Yellow, Co., during the last two years, employee misconduct and quality management violations had been occurring frequently. Specifically, there were two cases of embezzlement of company funds by employees and two cases of tampered processed food. With respect to the embezzlement cases, as the employees admitted their misconduct, they were not reported to the police and treated as punitive dismissals. In the cases of tampered food, as the purchaser was Red Trading and the defects were found during inspection at Red Trading before delivery to consumers, these matters were settled quietly without becoming a big deal. These were the common approaches for handling problems in Negoland. These problems were discussed in the board meeting of Yellow, Co. A director seconded from Blue, Inc. suggested, "We should develop detailed manuals to restrict the scope of discretion. At the same time, in order to fully enforce these manuals, training sessions at each workplace should be obligatory at a pace of at least once a week. In addition, we should also reinforce controls by increasing the number of control department members in the head office and executing no-notice inspections, etc." However, a director seconded from Red, Co. gave an opposing opinion, saying "Such controlled management or management depending too much on manuals would break the free and vigorous atmosphere." To this opinion, Blue, Inc. said, "Arbitria is highly concerned about food safety. If appropriate quality control cannot be performed, we would lose the trust of the market in Arbitria. If Red, Co. is against us, depending on the circumstances, we would even consider purchasing your share in Yellow, Co. and make Yellow, Co. a wholly-owned subsidiary of Blue, Inc." The response to this was, "The steady growth of Yellow, Co. to date was the result of the cooperation of our two companies. Moreover, two-thirds of the business of Yellow, Co. is now made up of domestic business in Negoland. We do not have any intention to abandon Yellow, Co."

４１．At the meeting on December 2, these matters of concern by Red, Co. and Blue, Inc. will be

discussed in a comprehensive manner. The presidents of the two companies are unable to attend the meeting, but instead their vice-presidents are going to attend, and have been given full authority. The agreed matters will be summarized in the form of a letter of intent.

Attachment 1 Negoland



Attachment 2

	Negoland	Arbitria
Population	approx.　40 million	approx. 50 million
Land Area	approx.3.5 million km2	approx. 300,000 km2
Regime	Constitutional republic	Republic
Capital	Nego-Nego	Abu-Abu
Currency	Nego Dollars	Arb
GDP	130 billion US dollars	1.5 trillion US dollars
Main Industries	Agriculture, Manufacturing, Mining	Manufacturing、Financial Industries、Trade
Ratio in Food Supply	100%	35%

Trade Between Negoland and Arbitria（custom-clearance basis）(10 million US dollars)

	Negoland→Arbitria	Arbitria→Negoland
2002	446	189
2003	438	267
2004	455	436
2005	326	542
2006	475	663

＊Note : Through every period for this problem, the exchange rates of the relevant currencies are 1 Nego Dollar = 1 Arb = 1 US dollar.

Attachment 3

Red, Co.

Establishment	1955
President	Toru Red
Directors	Taruya Red、Yanesu Red
Number of Employees	150
Capital	3 million Nego dollars（unlisted; Capital comes from Red families, but detailed information is unpublicized）
Volume of Sales	2005 400 million Nego dollars
	2006 450 million Nego Dollars
	2007 500 million Nego Dollars（projection）

Attachment 4

Blue, Inc.

President：Lucio Blue
Establishment：1950
Number of Employees：900
Shares：Listed on the Arbitria Stock Exchange

Some Items of Statement of Income and Balance Sheet (10,000 Arb)

Items	2002/12	2003/12	2004/12	2005/12	2006/12
Volume of Sales	88,000	92,000	108,000	127,000	167,000
Business Profit	1,100	2,200	3,500	4,000	7,000
Ordinary Profit	1,000	2,300	3,800	4,600	8,000
Current Net Profit	460	1,200	2,000	2,700	5000,
Total Asset	32,000	34,000	36,000	48,000	55,000
Net Asset	16,000	18,000	20,000	22,000	26,000
Liabilities with interest	3,000	2,000	2,000	3,000	4,500

Volume of Sales of each segment

Segment	2002	2003	2004	2005	2006
Precious Metal	39,000	43,000	52,000	62,000	99,000
Food	39,000	35,000	39,000	46,000	45,000
Environment	10,000	14,000	17,000	19,000	23,000

Attachment 5

This is an abstract from the summary financial report of Blue, Inc. for the term ending in December 2006 (apart from the description below, there is no other description related to this issue which needs to taken into consideration)

1 Operating Results

(1) Analysis concerning Operating Results

① Operating Results for the Current Term

In the economy of Arbitria during the current accounting year, although consumer spending was slightly weak, the trend of economic recovery continued, supported by the improvement of corporate earnings and increase of capital expenditures. Because the semi-conductor/electronic component industry, which is the main target industry of our precious metal-related business, enjoyed the active demand for digital products, our activity in precious metal-related business basically showed steady performance. At the same time, food-related business continued to experience a strict management environment in the situation of escalating price competition, while grain, etc. is being traded at high price levels, backed by depreciation of the Arbs and an increase in overseas demand. In the environment-related business, with the increasing concern about the environment by domestic companies, sales of industrial liquid waste processing equipment were performing well.

We have been working to expand sales through the offering of products and services sought by customers in each area. During the current consolidated accounting year, precious metal-related business marked a substantial improvement in sales and operating profit, supported by the strong performance in sales of rare metals and the continued high standing of the market price of precious metals. As a result, the figures were record-setting performances in both sales and profits.

② Forecasts for the Next Term

The economy of Arbitria is expected to maintain steady performance, mainly led by the corporate sector, and the economies of neighboring countries are also expected to stay strong. With respect to our precious metal-related business, further quantitative expansion is expected, supported by a continuous demand for rare metals. In the meantime, during the next term, we are planning on entering into overseas markets in a proactive manner in order to realize steady procurement of rare metals and precious metals. From this aspect, we cannot avoid an increase in expenses to a certain extent. In the food-related business, the domestic demand is still strong. We would like to aim at increasing sales by supplying high quality grain and meat.

These business forecasts are only an outlook on the future and include risks and uncertain elements. Please note that the actual business results may differ from these forecasts due to various factors.

Attachment 6

Relevant Provisions of the Company Law of Arbitria

Article 100

Directors of a Company shall make efforts to ensure that the company business is appropriately managed in compliance with laws and regulations.

Article 101

（1） In order to achieve the objective described in the preceding article, directors of a large company shall make decisions with regards the following matters:

① Systems for storage and management of information concerning director's exercise of duties;

② Rules and systems concerning management of risk of loss;

③ Systems to ensure director's exercise of duties to be performed in an effective manner;

④ Systems to ensure employee's exercise of duties is in conformity with laws and regulations and the Company's articles of association; and

⑤ Systems to ensure appropriateness of businesses conducted by the Company and the corporate group, consisting of its parent company and subsidiaries.

（2） A large company shall prepare a report stating the systems prescribed in the preceding section and evaluations of such systems every accounting year and make such report available for public inspection in accordance with rules separately determined.

（3） In the case that the Company incurs any damage for reason that the systems described in Section (1) are not appropriately developed or managed, the directors shall be responsible for compensating such damage to the Company.

＊Note: Blue, Inc. is a "large company" as defined in Article 101.

Attachment 7

Memorandum (Draft)

Red, Co. and Blue, Inc. confirm the following matters, concerning trading between the two parties:

Red, Co. acknowledges that Blue, Inc. thinks the offering of superior quality products that satisfy the preference of Blue, Inc's customers in Arbitria and stable supply of such products are extremely important for this trading and shall make the utmost efforts to ensure procurement of such superior products satisfactory to customers

Attachment 8

Joint Venture Agreement

THIS AGREEMENT made as of January 10, 2003 by and between Red, Co., a corporation duly incorporated and existing under the laws of Negoland, having its principal place of business at….., Negoland ("Red") and Blue, Inc., a company duly incorporated and existing under the laws of Arbitria, having its principal place of business at …., Arbitria ("Blue")

witnesseth:

WHEREAS Red is engaged in the business of production, processing and sales of agricultural products, in Negoland,
WHEREAS Blue is engaged in the business of food products, environmental business and business of precious metal, and
WHEREAS Red and Blue wish to cooperate in processing meat supplied by Red making variety of dressed beef,

THE PARTIES AGREE as follows:

1. Joint Venture Company

1.1 By the end of March 2003, Red and Blue shall cause incorporation and commencement of operations of a joint venture company in Negoland, to be named Yellow Co., Ltd. ("Yellow").
1.2 The aim of Yellow is to process the carcasses received from Red into various type of dressed meat and pack them for commercial distribution and export.
1.3 Red will provide staff, Technology, equipment and facilities and Blue will provide funds necessary for Yellow to commence highly advanced research.
1.4 Registered principal office of Yellow shall be located in the city of Ponta, State of Angus, Negoland

2. Incorporation of Yellow

2.1: The objects of Yellow are to engage in i), processing the carcasses and packing the carcasses for commercial distribution and export and ii) other business relating or incidental to the foregoing.
2.2 The initial paid-in capital of Yellow shall be US Dollars 100,000. Red shall contribute US Dollar 50,000 and Blue shall contribute US Dollar 50,000.

2.3 Transfer of Yellow shares shall be subject to the approval of the Board of Directors of Yellow.

3. Corporate Governance of Yellow

The number of the members of the Board of Directors shall be four. Two directors shall be nominated by Red and other two shall be appointed by Blue.

4. Important Corporate Actions of Yellow

4.1 The following actions shall require an affirmative vote of a Meeting of the Board of Directors:

a) Adoption and modification of annual business plans, budgets and capital expenditure budgets;

b) Borrowing, lending or extending credit, at any one time, in excess of US Dollar 100,000;

c) A transaction which would cause the total borrowing, lending, credits, guaranty and indemnity outstanding to exceed US Dollar 1,100,000;

d) Entering into agreements to employ a person for remuneration in excess of US Dollar 500,000 per year;

e) Initiating or terminating litigation, arbitration or administrative proceedings;

f) Any decision which would materially affect the scope of business of Yellow or which would materially affect the financial condition of Yellow.

4.2 The following actions shall require unanimous vote of the shareholders of Yellow:

a) Amendment to the Articles of Incorporation;

b) Change in the number of shares Yellow is authorized to issue;

c) Creating different classes of shares including preferred shares;

d) Listing and delisting of the shares of Yellow on a stock exchange;

e) Sale, transfer or disposal of a material part of the business or assets of Yellow;

f) Dissolution or liquidation of Yellow.

5. Transfer of Shares

5.1 Either Red or Blue may sell all of its shares in Yellow (and only all of its shares) to the other party. The offer shall be in writing and shall set forth the price. The offeree shall have an exclusive option for a period of 45 days to buy the shares at a price not lower than the offered price.

5.2 In the event the offeree fails to exercise its option within the applicable period above, and only in that event, the offeror shall be free to sell all the offered shares to a third party at a price not lower than the price earlier offered to the other party. If sale does not take place within forty days following the expiration of the abovementioned

applicable period, the offeror shall forgo the sale or this Agreement shall terminate.
5.3 In the event of the sale of shares by either party, Yellow shall change the name of the company to reflect the change in ownership.
5.4 Neither party may pledge any shares of Yellow without the prior written approval of the other party.

6. Deadlock

If a decision is not made at a Meeting of Shareholders or by the Board of Directors because of a tie vote, the directors or shareholders, as the case may be, shall seek to find a way of resolving the relevant issues. If they are not successful after three business days, the matter shall be referred to a meeting of the top managements of the parties. If the meeting of the top managements fails to resolve the deadlock expeditiously, the matter shall be solved by arbitration in accordance with Article 10 below.

7. Marketing

7.1 All products of Yellow shall be sold to Red.
7.2 All products to be exported to Blue shall be of the first quality in every respect.

8. Assignment

8.1 Assignment of any right or obligation under this Agreement without prior written approval of the parties shall be void.

9. Termination of the Agreement

This Agreement shall terminate when:
a) Sale of shares has failed and the offeror chooses to terminate;
b) Failure to agree on the business plan and budget has occurred and the effort to resolve deadlock has not been successful;
c) Material breach of this Agreement is not cured within 30 days and the party not in breach chooses to terminate;
d) Red and Blue agree on termination;
e) Material change in the ownership or control of either of the parties occurs;
e) Liquidation of Red or Blue voluntarily or otherwise; insolvency or bankruptcy of Red or Blue; or
f) Any resolution of the Meeting of Shareholders requiring termination.

10. Settlement of Disputes and Governing Norms

10.1 Any dispute, controversy or difference which may arise between the parties out of or in relation to or in connection with this Agreement or for the breach thereof shall be

amicably settled by consultation among the parties.

10.2 All such disputes, controversies and differences, if not settled amicably, shall be finally settled by arbitration to be held at Tokyo under UNCITRAL Arbitration Rules by three arbitrators.

10.3 In resolving disputes, the arbitrators shall take into consideration the UNIDROIT Principles of International Commercial Contracts and shall apply rules of reason that the arbitrators find applicable.

11. Miscellaneous

11.1 This Agreement does not limit either party from independently engaging in activities involving the same subject matter as the present joint venture.

IN WITNESS WHEREOF,

Red	Blue
By:	By:

Attachment 9

Contract

Date: March 15, 2007
No.: 123
Seller:Red Corporation、and
Buyer: Blue Inc.
have this day entered into a contract on the following terms and conditions.

1. Goods: Chilled Boneless Negoland Beef, Processed and Packed- First Class

2. Quantity: 100 tons. Seller may have the option of shipping up to 5 % more or less.

3. Price

At 10 US dollars per 1 kilograms, gross weight, cost, insurance and freight to the Arbitria port, total 1,000,000 US dollars CIF.

4. Trade Terms and Passage of Risk

The trade term of this contract is CIF Ab-Ab.　Seller shall bear all risks until the Goods are shipped at the port of shipment.

5. Quality

To be fair average quality of the first rank and inspected and marked as such by the Ministry of Agriculture of Negoland.

6. Period of shipment

By 31 May 2007, as per bill(s) of lading dated when the goods are actually on board. Date of the Bill(s) of Lading shall be accepted as proof of date of shipment in the absence of evidence to the contrary.

7. Shipment and classification

Shipment to be made in good condition without transshipment by first class steamer(s)

and/or power engined ship(s) classed not lower than 100 A1 or British Corporation B.S. or top classification in American, French, Italian, Norwegian, German or other equal ranking Registers.

8. Payment

Payment: 100 % of invoice amount by letter of credit issued by the first ranked bank in Arbitria.

9. Shipping documents

Shipping documents shall consist of:

1. Invoice.
2. Full set(s) of on board Bill(s) of Lading in negotiable and transferable form.
3. Insurance Policies in the currency of the contract covering 110% of the invoice value of goods.
4. Certificate of Origin by Negoland Agricultural Chamber.
5. Other documents as called for under the contract.

10. Duties, taxes, levies, etc.

All export duties, taxes, levies, etc., present or future, in country of origin, shall be for Seller's account. All import duties, taxes, levies, etc., present or future, in country of destination, shall be for Buyer's account.

11. Latent defect

The goods are not warranted free from defect, rendering same unmerchantable which would not be apparent on reasonable examination, any statute or rule of law to the contrary notwithstanding.

12. Prohibition

In case of prohibition of export, blockade or hostilities or in case of any executive or legislative act done by or on behalf of the government of the country of origin or of the territory where the port or ports of shipment named herein is/are situate, restricting export, whether partially or otherwise, any such restriction shall be deemed by both parties to apply to this contract and to the extent of such total or partial restriction to prevent fulfillment whether by shipment or by any other means whatsoever and to that

extent this contract or any unfulfilled portion thereof shall be cancelled. Seller shall advise Buyer without delay with the reasons therefore and, if required, Seller must produce proof to justify the cancellation.

13. Force majeure, strikes etc.

Seller shall not be responsible for delay in shipment of the goods or any part thereof occasioned by any Act of God, strike, lockout, riot or civil commotion, combination of workmen, breakdown of machinery, fire or any cause comprehended in the term "force majeure". If delay in shipment is likely to occur for any of the above reasons, the Seller shall give notice to the Buyer by telegram, telex, fax or by similar means within 5 consecutive days of the occurrence. The notice shall state the reason(s) for the anticipated delay. If shipment be delayed for more than 30 consecutive days, Buyer shall have the option of cancelling the delayed portion of the contract, such option to be exercised by Buyer giving notice to be received by Seller not later than the first business day after the 30 consecutive days. If Buyer does not exercise this option, such delayed portion shall be automatically extended for a further period of 30 consecutive days. If shipment under this clause be prevented during the further 30 consecutive days extension, the contract shall be considered void. Buyer shall have no claim against Seller for delay or non-shipment under this clause, provided that Seller shall have supplied to Buyer, if required, satisfactory evidence justifying the delay or non-fulfilment.

14. Arbitration

(a) Any dispute arising out of or under this contract shall be settled by arbitration in accordance with UNCITRAL Arbitration Rules, in the edition current at the date of this contract, such Rules forming part of this contract and of which both parties hereto shall be deemed to be cognisant.
(b) Neither party hereto, nor any persons claiming under either of them shall bring any action or other legal proceedings against the other of them in respect of any such dispute until such dispute shall first have been heard and determined by the Arbitrators, as the case may be, in accordance with the Arbitration Rules and it is expressly agreed and declared that the obtaining of an award from the Arbitrators, as the case may be, shall be a condition precedent to the right of either party hereto or of any persons claiming under either of them to bring any action or other legal proceedings against the other of them in respect of any such dispute.

15. Governing Law

This contract shall be construed in accordance with and governed by UNIDROIT Principles of International Commercial Contracts 1994.

The followings shall not apply to this contract:

(a) the Uniform Law on Sales and the Uniform Law on Formation to which effect is given by the Uniform Laws on International Sales Act 1967;

(b) the United Nations Convention on Contracts for the International Sale of Goods of 1980; and

(c) the United Nations Convention on Prescription (Limitation) in the International Sale of Goods of 1974 and the amending Protocol of 1980.

Seller : ____________ Buyer : ____________

____

Attachment 10

Dear Mr. Grape,

We would like to thank you for your business.
With regards to the contract number 123 which is your order placed on March 15, we would like to use the beef from Sanbo Farm in addition to the beef from Otto Farm. As you may know, the beef from Sanbo Farm is of the same type and quality as that from Otto Farm and known for its exceptional characteristics as the best quality beef. As we manage Otto Farm directly, we had been using the beef from Otto Farm. However, as it was difficult to secure the quantity requested in your order this time, we would like to satisfy your order by using also the beef from Sanbo Farm.
If this arrangement causes any inconvenience to you, please let us know immediately.

April 17, 2007
Bob Orange

Attachment 11

Dear Mr. Orange,

Thank you for your message.
We also know that the beef from Sanbo Farm is considered of the best quality and is the same type and quality as the beef from Otto Farm. We explained this to our customers, and they also knew the beef from Sanbo being the best quality and agreed to the use of beef from Sanbo Farm.

Incidentally, yesterday, the Ministry of Agriculture and Fisheries of our country enacted an ordinance to prohibit entirely the import of beef and chicken raised with feed containing growth hormones. It is the same ordinance as that enacted in the EU. Is there any firm that uses growth hormones in Negoland? If there is, please let me know immediately.

April 20, 2007
Tom Grape

Attachment 12

Contract

Date: July 2, 2007
No.:
Seller:Red Corporation、and
Buyer: Green Inc.
have this day entered into a contract on the following terms and conditions.

1. Goods: Chilled Boneless Negoland Beef, Processed and Packed- First Class

2. Quantity: 100 tons. Seller may have the option of shipping up to 5 % more or less.

3. Price

At 11 US dollars per 1 kilograms, gross weight, cost, insurance and freight to the US port, total 1,100,000 US dollars CIF.

4. Trade Terms and Passage of Risk

The trade term of this contract is CIF US port. Seller shall bear all risks until the Goods are shipped at the port of shipment.

5. Quality

To be fair average quality of the first rank and inspected and marked as such by the Ministry of Agriculture of Negoland.

6. Period of shipment

By 7 July 2007, as per bill(s) of lading dated when the goods are actually on board. Date of the Bill(s) of Lading shall be accepted as proof of date of shipment in the absence of evidence to the contrary.

7. Shipment and classification

Shipment to be made in good condition without transshipment by first class steamer(s) and/or power engined ship(s) classed not lower than 100 A1 or British Corporation B.S. or top classification in American, French, Italian, Norwegian, German or other equal ranking Registers.

8. Payment

Payment: 100 % of invoice amount by letter of credit issued by the first ranked bank in the United States.

9. Shipping documents

Shipping documents shall consist of:
1. Invoice.
2. Full set(s) of on board Bill(s) of Lading in negotiable and transferable form.
3. Insurance Policies in the currency of the contract covering 110% of the invoice value of goods.
4. Certificate of Origin by Negoland Agricultural Chamber.
5. Other documents as called for under the contract.

10. Duties, taxes, levies, etc.

All export duties, taxes, levies, etc., present or future, in country of origin, shall be for Seller's account. All import duties, taxes, levies, etc., present or future, in country of destination, shall be for Buyer's account.

11. Latent defect

The goods are not warranted free from defect, rendering same unmerchantable which would not be apparent on reasonable examination, any statute or rule of law to the contrary notwithstanding.

12. Prohibition

In case of prohibition of export, blockade or hostilities or in case of any executive or legislative act done by or on behalf of the government of the country of origin or of the territory where the port or ports of shipment named herein is/are situate, restricting export, whether partially or otherwise, any such restriction shall be deemed by both

parties to apply to this contract and to the extent of such total or partial restriction to prevent fulfillment whether by shipment or by any other means whatsoever and to that extent this contract or any unfulfilled portion thereof shall be cancelled. Seller shall advise Buyer without delay with the reasons therefore and, if required, Seller must produce proof to justify the cancellation.

13. Force majeure, strikes etc.

Seller shall not be responsible for delay in shipment of the goods or any part thereof occasioned by any Act of God, strike, lockout, riot or civil commotion, combination of workmen, breakdown of machinery, fire or any cause comprehended in the term "force majeure". If delay in shipment is likely to occur for any of the above reasons, the Seller shall give notice to the Buyer by telegram, telex, fax or by similar means within 5 consecutive days of the occurrence. The notice shall state the reason(s) for the anticipated delay. If shipment be delayed for more than 30 consecutive days, Buyer shall have the option of cancelling the delayed portion of the contract, such option to be exercised by Buyer giving notice to be received by Seller not later than the first business day after the 30 consecutive days. If Buyer does not exercise this option, such delayed portion shall be automatically extended for a further period of 30 consecutive days. If shipment under this clause be prevented during the further 30 consecutive days extension, the contract shall be considered void. Buyer shall have no claim against Seller for delay or non-shipment under this clause, provided that Seller shall have supplied to Buyer, if required, satisfactory evidence justifying the delay or non-fulfilment.

14. Arbitration

(a) Any dispute arising out of or under this contract shall be settled by arbitration in accordance with UNCITRAL Arbitration Rules, in the edition current at the date of this contract, such Rules forming part of this contract and of which both parties hereto shall be deemed to be cognisant.
(b) Neither party hereto, nor any persons claiming under either of them shall bring any action or other legal proceedings against the other of them in respect of any such dispute until such dispute shall first have been heard and determined by the Arbitrators, as the case may be, in accordance with the Arbitration Rules and it is expressly agreed and declared that the obtaining of an award from the Arbitrators, as the case may be, shall be a condition precedent to the right of either party hereto or of any persons claiming under either of them to bring any action or other legal proceedings

against the other of them in respect of any such dispute.

15. Governing Law

This contract shall be construed in accordance with and governed by UNIDROIT Principles of International Commercial Contracts 1994.

The followings shall not apply to this contract:

(a) the Uniform Law on Sales and the Uniform Law on Formation to which effect is given by the Uniform Laws on International Sales Act 1967;

(b) the United Nations Convention on Contracts for the International Sale of Goods of 1980; and

(c) the United Nations Convention on Prescription (Limitation) in the International Sale of Goods of 1974 and the amending Protocol of 1980.

Seller : ____________ Buyer : ____________

Attachment 13

July 30, 2007

To: Blue, Inc.

Red, Co.

With respect to the sale of beef to Green, Co., we were forced to pay 500,000 US dollars in damages to Green, Co.

If you completed shipping on July 5 as you promised, this situation would not have occurred. However, the shipping was delayed due to a mistake on your side, and it resulted in the destruction of the beef by fire caused by lightening.

In the first place, we became the contracting party of the sale and purchase agreement with Green, Co. for the sake of convenience. Also, in any event, this situation was caused by your mistake. Therefore, please pay us immediately 500,000 US dollars.

Attachment 14

August 1, 2007

To: Red, Co.

Blue, Inc.

Corresponding to your Fax dated July 30, we would like to respond to you as follows:
We think that it is not necessary for us to pay 500,000 US dollars to you, because the destruction of beef by fire was due to an event of force majeure. Under the agreement, we were required to complete shipping by July 7, and the lightening occurred on July 6. Therefore, there is no fault on our company.
Meanwhile, as we mentioned before, with respect to the beef which did not clear customs due to administration of growth hormones, we will cancel the sale and purchase agreement (contract number 123). In addition, we demand from you the payment of 1,630,000 US dollars in total as damage incurred by us from this transaction. Please make the payment immediately. The details are as follows:

(1) Damage incurred due to the inevitable offering of a 30% discount : 300,000 US dollars;
(2) Damage incurred from purchasing beef from Sakura Farm which was 3 dollars higher (per kilogram) than that of Red, Co. (3 dollars/Kg x 100 tons): 300,000 US dollars;
(3) Purchase price already paid by the L/C: 1,000,000 US dollars; and
(4) Costs for the bonded warehouse (1,000 US dollars x 30 days): 30,000 US dollars

Total of 1,630,000 US dollars

END

Attachment 15

MASTER PURCHASE AND SUPPLY AGREEMENT

THIS MASTER PURCHASE AND SUPPLY AGREEMENT (this "Master Agreement") is made and entered into as of this 1st day of January, 2000 (the "Effective Date") by and between Red Corp., a Negoland corporation ("Seller"), and Blue, Inc., an Arbitria corporation ("Buyer").

IN CONSIDERATION of the mutual promises, covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

ARTICLE 1: Sale
Seller shall sell and Buyer shall purchase Negoland Non-GMO Mixed Corn of U.S. Grade No.3 (hereinafter called "Corn") in accordance with the terms of this Agreement for the period of ten years starting from the date hereof.
Quality of the Corn shall be determined by the certificate issued by Negoland Maritime Inspection Institute as final.

ARTICLE 2: Quantity
Quantity of the Corn shall be 1,000,000 metric tons per each Contract Year. Contract Year shall be one calendar year period starting from the date hereof or an anniversary thereof until the expiration of the tenth Contract Year. Shipment shall be made each month for about 1,000,000/12 metric tons. Total quantity to be sold and purchased hereunder shall be subject to 5% plus or minus at Buyer's option.
Weight shall be determined by the scale measurement at discharging port (Abu-Abu) as final.

ARTICLE 3: Price
The price of the Corn shall be US Dollar 2.00/bushel throughout all Contract Years.

ARTICLE 4: Delivery and Shipping
Delivery term of the Corn shall be FOB port of Nego-Nego. The term "FOB" shall be construed in accordance with the INCOTERMS2000. (Shipping conditions, omitted)

ARTICLE 5 to 10 Omitted

ARTICLE 11： Force Majeure

Seller shall not be responsible for delay in shipment of the goods or any part thereof occasioned by any Act of God, strike, lockout, riot or civil commotion, combination of workmen, breakdown of machinery, fire or any cause comprehended in the term "force majeure". If delay in shipment is likely to occur for any of the above reasons, the Seller shall give notice to the Buyer by telegram, telex, fax or by similar advice within 5 consecutive days of the occurrence. The notice shall state the reason(s) for the anticipated delay. If shipment be delayed for more than 30 consecutive days, Buyer shall have the option of cancelling the delayed portion of the contract, such option to be exercised by Buyer giving notice to be received by Seller not later than the first business day after the 30 consecutive days. If Buyer does not exercise this option, such delayed portion shall be automatically extended for a further period of 30 consecutive days. If shipment under this clause be prevented during the further 30 consecutive days extension, the contract shall be considered void. Buyer shall have no claim against Seller for delay or non-shipment under this clause, provided that Seller shall have supplied to Buyer, if required, satisfactory evidence justifying the delay or non-fulfillment.

ARTCILE 12: Governing Law

This Agreement shall be construed in accordance with and governed by UNIDROIT Principles of International Commercial Contracts 1994.

The followings shall not apply to this Agreement:

(a) the Uniform Law on Sales and the Uniform Law on Formation to which effect is given by the Uniform Laws on International Sales Act 1967;

(b) the United Nations Convention on Contracts for the International Sale of Goods of 1980; and

(c) the United Nations Convention on Prescription (Limitation) in the International Sale of Goods of 1974 and the amending Protocol of 1980.

ARTICLE 13: Arbitration

(a) Any dispute arising out of or under this contract shall be settled by arbitration in accordance with UNCITRAL Arbitration Rules, in the edition current at the date of this contract, such Rules forming part of this contract and of which both parties hereto shall be deemed to be cognizant.

(b) Neither party hereto shall bring any action or other legal proceedings against the other in respect of any dispute arising out of or in connection with this contract until

such dispute shall first have been heard and determined by the Arbitrators in accordance with the Arbitration Rules and it is expressly agreed and declared that the obtaining of an award from the Arbitrators shall be a condition precedent to the right of either party hereto to bring any action or other legal proceedings against the other in respect of any such dispute.

IN WITNESS HEREOF, parties hereto have caused this Agreement to be duly executed as of the day and year first above written by respective authorized officer.

Seller:	Buyer:
By:	By:

Attachment 16

CORN PRICE HISTORICAL DATA (Cent/Bus)

M/Y	Price	M/Y	Price	M/Y	Price
1993/Jan	215	1994/Jan	290	1995/Jan	230
1993/Feb	211	1994/Feb	286	1995/Feb	234
1993/Mar	230	1994/Mar	275	1995/Mar	250
1993/Apr	228	1994/Apr	269	1995/Apr	249
1993/May	225	1994/May	279	1995/May	266
1993/Jun	223	1994/Jun	249	1995/Jun	272
1993/Jul	236	1994/Jul	219	1995/Jul	282
1993/Aug	230	1994/Aug	221	1995/Aug	296
1993/Spt	245	1994/Spt	216	1995/Spt	312
1993/Oct	258	1994/Oct	216	1995/Oct	333
1993/Nov	280	1994/Nov	213	1995/Nov	331
1993/Dec	306	1994/Dec	231	1995/Dec	369
1996/Jan	369	1997/Jan	270	1998/Jan	273
1996/Feb	395	1997/Feb	297	1998/Dec	262
1996/Mar	409	1997/Mar	308	1998/Mar	260
1996/Apr	463	1997/Apr	295	1998/Apr	252
1996/May	477	1997/May	271	1998/May	239
1996/Jun	516	1997/Jun	248	1998/Jun	245
1996/Jul	354	1997/Jul	266	1998/Jul	224
1996/Aug	371	1997/Aug	266	1998/Aug	200
1996/Spt	297	1997/Spt	258	1998/Spt	209
1996/Oct	266	1997/Oct	280	1998/Oct	219
1996/Nov	271	1997/Nov	271	1998/Nov	230
1996/Dec	258	1997/Dec	267	1998/Dec	214
1999/Jan	214	2000/Jan	191	2001/Jan	198
1999/Feb	205	2000/Feb	185	2001/Feb	199
1999/Mar	200	2000/Mar	180	2001/Mar	203
1999/Apr	195	2000/Apr	188	2001/Apr	208
1999/May	180	2000/May	195	2001/May	193
1999/Jun	177	2000/Jun	188	2001/Jun	189
1999/Jul	175	2000/Jul	192	2001/Jul	205
1999/Aug	180	2000/Aug	197	2001/Aug	200
1999/Spt	188	2000/Spt	198	2001/Spt	215
1999/Oct	196	2000/Oct	195	2001/Oct	206
1999/Nov	188	2000/Nov	196	2001/Nov	209
1999/Dec	205	2000/Dec	197	2001/Dec	209
2002/Jan	206	2003/Jan	238	2004/Jan	276
2002/Feb	201	2003/Feb	232	2004/Feb	303
2002/Mar	203	2003/Mar	237	2004/Mar	320
2002/Apr	201	2003/Apr	233	2004/Apr	320
2002/May	214	2003/May	244	2004/May	304
2002/Jun	226	2003/Jun	229	2004/Jun	267
2002/Jul	257	2003/Jul	206	2004/Jul	226
2002/Aug	268	2003/Aug	233	2004/Aug	238
2002/Spt	252	2003/Spt	220	2004/Spt	206
2002/Oct	248	2003/Oct	247	2004/Oct	203
2002/Nov	240	2003/Nov	245	2004/Nov	193
2002/Dec	236	2003/Dec	246	2004/Dec	205
2005/Jan	197	2006/Jan	219	2007/Jan	406
2005/Feb	223	2006/Feb	239	2007/Feb	416
2005/Mar	213	2006/Mar	240	2007/Mar	374
2005/Apr	205	2006/Apr	246	2007/Apr	355
2005/May	222	2006/May	250	2007/May	387
2005/Jun	222	2006/Jun	260	2007/Jun	390
2005/Jul	237	2006/Jul	257	2007/Jul	400
2005/Aug	217	2006/Aug	246	2007/Aug	380
2005/Spt	206	2006/Spt	278	2007/Spt	385
2005/Oct	196	2006/Oct	325	2007/Oct	410
2005/Nov	202	2006/Nov	391	2007/Nov	420
2005/Dec	216	2006/Dec	390	2007/Dec	

Attachment 17

Business Performance of Yellow, Co.

	2003	2004	2005	2006	2007(estimation)
Sales Volume (million US dollars)	10	12	15	20	30
Profit (thousand US dollars)	5	1 0	50	100	200
To Blue (thousand tons)	10	10	10	10	10
To Negoland customers (thousand tons)	0	2	5	10	20