

International Trade Financial Solutions Newsletter

'Minimising Commercial Risks When Trading Abroad'

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Hullo. Flaming June, at last. Will anyone read this, this month, I wonder? I suppose it all depends on what happens in S Africa!! Talking of which, an interesting place, trade wise. The South African Rand is a fully convertible currency, i.e. it can be traded on the international markets in the same way as Sterling, US Dollar, etc. Until recently, however, it was one of the few places where trading in Sterling in S Africa as opposed to the local currency could result in better prices, due to local exchange control. It was all to do with 2 slightly different exchange rates that were applied according to the background of the underlying transaction.

As for this month, a shorter version than usual [hurrah, I hear you say/shout]. 2 reasons:- the aforesaid alternative entertainment, or not, as the case may be, and the fact that I'm away for 2 weeks shortly, so I'm trying to get everything sorted out before I disappear. Fear not, though, I'll be back well in time for the next issue in the middle of July.

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New Bookkeeping Service for Start Ups [and others!].

Many of you will know that, in addition to the International Trade side, I have also run some of the Business Link East workshops for new start up businesses for almost 3 years. These covered various finance and legislative topics - with perhaps the most common one being Bookkeeping and Accounts. During this time, it has become ever more apparent that many new start ups know little about what is needed or what to do. Many do engage either an external bookkeeper or use an Accountant; however, many also, quite rightly, want to keep their own books, but don't really know where to start and/or just want someone to look over what they are doing. So, I am launching RAS-Bookkeeping Services from 1st July - see www.ras-bookkeepingservices.co.uk targeting precisely these businesses.

Have a look at the website for more info and if there's anyone you know who just needs that initial helping hand please pass on my details to them. The International

Trade consultancy will still continue, and this newsletter will continue to focus on the import and export issues that we all face.

Recent ITFS Events.

2 things - My interview in Trade International Digest [TID] - 'How I Got Here' - is now on the website. As a result, it's free to read and download. If you haven't already found it, the path is www.tradeinternationaldigest.co.uk under the 'Interviews' section on the left hand side.

Secondly, at the Business Start Up exhibition, which was held at ExCeL last month, I managed to get an opportunity for a 5-10 minute video interview on trading overseas. I'm hopeful that it will be available in the near future and, if so, I'll try to add a link through the website. Watch this space, as they say.....

Glossary of Terms - J-L.

No one has come back with any suggestions on J and K, so I can skip over them and go straight to L. There's only really 1 term that starts with the letter L, but it's a big one - Letter of Credit [L/C]. As there are several types, I'm going to deal with all of them here, so it's a rather chunky read. What I will say to anyone who may be new to L/C's is to seek practical advice on their uses, pros and cons before you decide to use them. They are useful, but they can easily trip up the unsuspecting.

Letter of Credit. Also abbreviated to L/C, LOC and, sometimes, DC, for *Documentary Credit*. In this last form, do not confuse with Documentary Collection - see Issue 14 for these.

There are many definitions of what a L/C is - from the bland 'A banking mechanism that allows importers to offer secure payment terms to exporters' to far more detailed, 2+ page definitions on some specialist sites. I'll try to keep it as short and succinct as possible. For a seller, a L/C is the 2nd most secure payment method [cash up front being the best]. Although the contract for the supply of goods or services remains between seller and buyer, the buyer's bank effectively becomes the party that will pay out. Historically, this was seen as a better risk for the seller [although the recent credit crunch, worldwide, has caused some to question this]. In essence, there are 4 parties involved; in addition to the buyer/seller, there is also the buyer's bank and another bank, usually in the country of the seller. The underlying contract would call for the buyer to issue a L/C in favour of the seller, through his [the buyer's] bank. To facilitate eventual payment, the L/C would usually be routed through a bank in the seller's country. A L/C calls for specific documents to be presented - these need to be agreed in advance between buyer and seller and will usually form part of the contract. If the agreed documents are presented and are not discrepant, i.e. have no errors on them, the buyer's bank will pay up, irrespective of the quality of the goods. Therefore, it is said that, for L/C's **banks deal in documents, not goods. REMEMBER THIS - IT IS IMPORTANT!!** It is possible to include deferred terms, i.e. payment at some point after presentation of documents, possibly evidenced by a Bill of Exchange [see issue 9]. I have also included below a couple of the more usual variations seen on L/C's. So, when are they used? When buyer/seller are new to each other, or if the seller wants more comfort that payment will be made. They are also the usual terms in parts of the world - the Far East, for example, and other areas where local credit ratings are poor - much of Africa springs to mind. On the plus side, they can help trade that otherwise may not have occurred, for credit reasons and the seller, as beneficiary under a L/C, can often use them to secure credit facilities to manufacture/gather the goods covered by the L/C. If the L/C includes deferred terms, e.g. 90 days after shipment, once the goods have been shipped and the

documents accepted, the seller can usually obtain an advance, or discount, on the L/C, helping cashflow. On the minus side, they are relatively expensive, as there is much manual handling - checking documents, etc. The documents themselves have to be 100% accurate to ensure payment. As a seller, you have to be satisfied with the credit rating of the issuing bank - it is possible for them to default in just the same way as any other counterparty, albeit less likely.

Letters of Credit are recognised throughout the world - there is a standard set by the ICC [see last month's issue]. Currently, all L/C's are issued 'subject to ICC600' - this being the current version of L/C rules in force. Their main website is www.iccwbo.org in case anyone wants more info. L/C's are also *irrevocable*, i.e. once issued, they can only be amended if both parties agree or if the amendment is to the benefit of the other party.

I just want to mention 3 other types of L/C that are frequently seen, namely:-

1. Confirmed L/C. This is as described above, except that the bank in the seller's Country undertakes to pay the seller if the buyer's bank does not. This gives the seller more comfort, but is more expensive. Confirmed L/C's are seen much more now since the credit crunch.
2. Transferable L/C. This is where the seller of an L/C is not the ultimate supplier. Under an Transferable L/C [which must be so stated], the seller can 'transfer' the L/C to what is known as a 2nd beneficiary. Often used by middlemen, you do need to know what you are doing as timings re documentation is paramount.
3. Stand-by L/C. This is akin to a performance Guarantee. In some parts of the world, only Stand-by's are recognised, whereas elsewhere, either can be used. The benefit of a Stand-by is that you have globally agreed rules backing it's operation; guarantees are usually subject to local laws. A stand-by L/C essentially sits in the background and is only enforced if necessary. Again, the terms of the Stand-by L/C will detail how and when this can occur.

As I said above, L/C's are complex instruments, especially to anyone new to them. They can and do have a valuable position in international trade , and should not be dismissed out of hand. However, it is vital that you do your homework before embarking on the L/C option. Having spent a significant part of my previous life working with L/C's, I am always prepared to help explain their workings in more detail, based on your specific needs - just give me a call.

That's enough for this month, methinks!!

Future Events.

UKTI continue to hold a series of seminars and trade missions. Check out their website www.marketing@uktilondon.gtml1.com for more information. For example, at their Southwark offices, just south of the City, they are holding seminars on exporting to India later this month, plus Brazil and fashion in the US in July, with Mexico coming up later in the year. On the trade mission front, the immediate ones are to Switzerland, Hungary and Russia.

Also, have a look at East Of England International [EEI]. They also run a regular programme of events for businesses that are based in E Anglia/Eastern region.

Lastly, don't forget your local Chambers of Commerce, Networking Groups, etc. From time to time, some of these may put on more generic international trade themed events and, if they don't, why not ask if they would? Many such events

only occur as a result of demand so, as they say, if you don't ask, you don't get!!

If you know of any other business to whom this ezine may be of interest, why don't you forward it on to them and encourage them to sign up for future issues?

I'll be away for a couple of weeks between now and the next edition, out on Bastille Day [15th July]. If you're following the World Cup, I hope your chosen team, whoever it may be, is successful. If you're not, there's always the garden to tidy up, assuming it stays dry, of course!!