

International Trade Financial Solutions Newsletter

'Minimising Commercial Risks When Trading Abroad'

Issue 39

January, 2012

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Hullo.

A Happy new Year to all.

Back to normal in all senses this month:

- it's out on 15th again, after last month's hiatus;
 - it's back to its more usual format and layout; and
 - everyone's back to work after the Christmas/New Year break
- oh, and the euro is still high on everyone's agenda. Greece - will they/won't they stay in the single currency, etc., etc.

On the plus side, there's the Olympics and the Diamond Jubilee to look forward to and the nights are slowly starting to shorten as Spring approaches. What?, I hear you say - Spring, but it's still only the middle of January! Sorry, but I just like the days getting longer, and it reminds me of Spring, so I'll be positive, even if we do still get feet of snow in-between.

If you can cast your mind back to the November newsletter, I looked at trade patterns with Asia, even though I forgot to change the contents headline from the Middle East! Sorry. It's the Antipodes this month. Also, an overview on the services offered by UKTI to exporters and, in response to a couple of unrelated enquiries, a look at Inward Investment, again, with UKTI's help.

Happy reading!

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Global Trade Patterns - Australasia.

By and large, I am referring to Australia and New Zealand here. Many of the

smaller Pacific Island countries, as well as much of the southern half of Indonesia and associated islands tend to route much of their export produce through Australia/New Zealand, or to some of the more mature Asian economies covered back in November.

Historically, both countries evolved similar payment systems to the UK, much having been introduced by early settlers. However, in those days, the sheer distances meant that they encountered some unusual difficulties. These days, we moan if payments take over about 5 or 6 days; then 5 or 6 weeks was far more the norm. Add to this the difficulty in keeping abreast of developments/issues that may be affecting your counterparty and it was a potential recipe for disaster.

Because of this, once any initial wariness between new buyers/sellers had started to thaw and parties wanted to move away from advance payment/Letters of Credit, cashflow issues to either/both parties immediately became problematical. For example, an Australian seller did not want to wait weeks for payment whilst his goods were on the high seas [no fax in those days], so they tended to rely on what we now know as documentary collections, i.e. the goods were shipped, whilst, almost simultaneously, the documentation was sent via the seller's bank to that of the buyer - usually on a different ship, but not always. Although this still meant a delay in payment, at least the buyer could get their hands on the goods on arrival and sell/pay accordingly. Today, Collections are still widely used to settle trade from this part of the world, even though timescales are vastly reduced, with telecommunications being instantaneous. Time zones can still be an issue - being almost 12 hours ahead of the UK, some parts are never in their conventional working hours when the UK is, and vice versa. There still remains the problem of what to do if things go wrong - if you have a local representative, etc., it may be easier to resolve, but Collections and, to some degree, Letters of Credit are still seen as a 'safer' way of dealing with Australasian exports. Much trade is still by sea, given the high air costs, but journey times are now more like 18-21 days. Of late, there has been some more movement towards true open account type trading, but often with some deferred payment term to allow for the fact that the goods [by sea] will be slower than the documentation [by air].

The main consideration if importing from these areas is that of timing and the effect on your cashflow. How quickly will the goods arrive vis-a-vis the documentation? Do you need to negotiate a deferred payment period, even if it's only 7 or 14 days after sight [i.e. receipt of documentation], or x days after the Bill of Lading? For exporters, the issues are similar in that the buyer may have the same concerns and want some leeway in payment terms after you have shipped. Again, what's the likely effect on your cashflow?

Therefore, in summary, in addition to the usual know your customer research, etc., you need to consider payment timescales and their likely effect. It's also fair to say that both economies are looking more and more at their nearer markets, i.e. Asia, and trade with the UK continues to decline. Much of this may be connected with high overheads [fuel costs] re transportation and their ability to obtain better returns/margins.

Both Australia and new Zealand have their own currencies, the Australian 'Aussie' Dollar [AUD] and New Zealand 'Kiwi' Dollar [NZD] and these are frequently seen as the preferred payment currency, so there's also the exchange rate issue to consider.

UKTI - Help for Exporters.

UKTI offers several areas of assistance to exporters - both those new to the whole process and experienced ones who may, for example, be wanting to venture into new parts of the globe. Too often, however, UKTI is overlooked by smaller businesses on the assumption that 'I'm not big enough for them to get involved'. Whilst some of their programmes are undoubtedly skewed towards larger entities, many also cater for the smaller end of SME's.

Some of the more 'approachable' services that may benefit smaller businesses include:

Passport to Export ['P2E']. This helps businesses who are inexperienced in exporting gain the necessary training, advice on planning and, importantly, ongoing support to help achieve success. P2E can be tailored to your specific needs as opposed to providing a general overview; something that new exporters can find invaluable.

Overseas Market Introduction Service ['OMIS']. OMIS is a chargeable service, but it provides access to market and industry specific information to allow you to identify potential contracts and/or events. Again, it is tailored to your specific needs.

Export Market Research Scheme ['EMRS']. Again chargeable, it offers advice and support if you wish to undertake more in depth research on a specific market. In addition, there may be access to some grant money, typically on a matched funds basis, which can make the overall cost more palatable.

Market Visits/Trade Seminars/Access to Trade Shows. UKTI regularly undertake all of these activities - I have given examples in the past. They can be industry as well as country specific and, if you are thinking about getting involved, it is worth flagging up your interest with UKTI, who can then keep you informed of any event that may be of interest. Again, these do cost, but funding can sometimes be available and, in any regard, what you can get from Trade Missions, etc., is the full backing of HMG and local Embassy assistance - great for opening doors!

Events and Seminars. If your budget will not stretch to overseas missions at this time, UKTI also hold regular UK based events - often with foreign dignitaries visiting. Potentially a cheaper way to start off your export research.

These are but a few of the services that UKTI offer. To obtain more information, a good starting point is their website www.ukti.gov.uk or give them a call on 020 7215 8000. The initial enquiry will cost you nothing - and it could help open up a whole new area of possibilities for you and your business.

UKTI - Help for Inward Investors.

The other area where UKTI is particularly active is in attracting Inward Investment into the UK. So what, I hear you say, you're talking big numbers here. What's that got to do with the likes of my small business? Well, true, some Inward investment is aimed at large scale infrastructure developments, but regardless, and by definition, it will be used in the UK economy in some shape or form and much will filter down to SME's who are needed to fulfill specific parts of a contract - in much the same way as tendering for contracts.

Some funds are specifically to be used in certain regions/activities, e.g. Thames Gateway redevelopment. Whilst the aim of this part of UKTI is to help the overseas investor to choose the most beneficial sector[s] and area[s], they can also help to arrange key contacts with local professional services, e.g. legal, accountancy, HR issues, etc. Therefore, there can be opportunities here for local businesses to expand by becoming proficient in helping overseas businesses set up in the UK and then providing ongoing help and assistance. The key here is to try to become a preferred supplier - something that does take time.

On a slightly different tack, remember that many countries will operate a scheme for their own businesses to expand overseas similar to what UKTI does for our exporters. If you have identified specific countries with whom you would like to try to work with in the UK, consider an approach to the commercial section of that country's UK embassy and see if they can help. After all, it should be what they are in the UK to do!

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?

Also, if you read the next edition and haven't bought a Valentine's Card, you will be in trouble - it will be out on 15th February!! See you then.