

International Trade Financial Solutions Newsletter

'Minimising Commercial Risks When Trading Abroad'

Issue 8

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Hello. Nearly half way through the year already.

This month, we'll look at some of the different ways in which overseas trade can be processed and financed, focusing on what's the best in terms of cashflow, depending on whether you are an importer or exporter, as well as starting an ongoing series of glossary terms which are often encountered when trading overseas. Lastly, a request to all of you to become more involved in these monthly newsletters - nothing too onerous.

Happy reading.....

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The Risk Ladder.

The Risk Ladder is one way to demonstrate some of the ways in which overseas trade can be financed. It focuses on the relative advantages and disadvantages, mainly from a cashflow point of view and clearly shows that, usually, what's best for one party will be the least favoured for the other. Such is the way with most trade. There is always the over-riding aspect of how you get on with your counter party, plus that fact that, in many instances, one party will hold the upper hand in terms of negotiating. For example, if you have to buy your stock from 1 supplier only, you have a much more limited bargaining hand. Nevertheless, the Risk Ladder is still a useful tool insofar as it explains the effect of various types of payment/settlement. From this, you can assess the impact on your cashflow. This, in turn, helps with finance planning and, if necessary, gives you longer advance notice of any pinch points in your cashflow.

OK, so what is it? It takes the most common forms of payment options and their appeal [or otherwise] to both an importer and exporter.

Looking at an importer first, your preference is to pay as late as possible - ideally well after you have received the goods and sold them. However, for the exporter, he wants money up front. The following payment methods are in *descending* order of preference for an **importer** and *ascending* order of importance for an **exporter**.

- Open Account. Pay after receipt of goods
- Acceptance Collections. Payment made by the acceptance of a future dated bill of exchange with all accompanying transport and commercial documents being processed through a bank. The longer the acceptance term, the more beneficial for the importer, as he has longer to pay.
- Payment collections. As above, except that there is no period of grace to pay. The buyer [importer] can only obtain the documents once he has paid for the underlying goods.
- Unconfirmed Letter of Credit. More costly to set up; the importer usually has to put some collateral aside for his bank to agree to issue.
- Confirmed Letter of Credit. Even more expensive, but the seller [exporter] has the added benefit that a local bank [in his Country] has added their name to the payment. [Note that with Letters of Credit, it is the **documents** and not the goods that determine whether or not payment is forthcoming].
- Advance Payment. Exporter is paid before he parts with goods.

With all of these, ITFS can help with more explanation, indication of likely costs and all other aspects of their respective uses and benefits.

Glossary - Some Common [and not so common] terms.

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Over the course of the next few issues, I thought that it may be useful to include some of the terms that are often seen in International Trade and a brief explanation. I cannot promise to include every one - we'd be here for ages but I will try to incorporate some that, from personal experience, I know have caught out both importers and exporters. I'll also try to keep things alphabetical, so if anyone wants help on a particular term or expression and I have passed that point in the alphabet, let me know, and I'll include in the next available newsletter.

Here goes.....

A.

Acceptance. Already mentioned above. When applied to Bills of Exchange, it is the act of the buyer [the Drawee] accepting that the amount quoted on the bill is correct and is a valid sum due from them to the Drawer. Acceptance is achieved by signing the bill - usually in the form 'Accepted, for and on behalf of XYZ Ltd, [plus signature & designation]'.

Accepting Bank. The bank specifically mentioned in a Letter of Credit as being the one upon whom any required Bill of Exchange is to be drawn.

Ad valorem. Literally, according to value. Included here since some banks still levy a sliding scale of charges [ad valorem] to some of their International services. Also important to be aware of minimum/maximum fee levels when comparing the offers of different providers.

Advising Bank. Within the confines of Letter of Credit operations, a bank, located in the exporter's Country that handles the Letter of Credit, advising it to the exporter. Should future amendments, etc. be needed, these will also usually come through the advising bank. Note, however, that the advising bank is not necessarily responsible for payment nor may you be limited to only dealing with this bank when you come to present documents and seek payment.

AWB. Air Waybill. The shipping document used when goods are transported by air. Unlike a Bill of Lading, it is not a document of title. AWB's are issued in multiple copies; it is usually copy 3 that is the one passed to the buyer and

which he, or his agent, needs to present to obtain the goods in the destination Country.

Aval, avalisation. Applies to Bills of Exchange. Unlike cheques, which are a form of Bill of Exchange, all parties to a Bill have to sign/endorse the Bill. Where someone whose name does not appear on a bill signs it, they are said to have added their aval or avalised it. The effect of doing this makes then liable should the bill be unpaid by the other parties. Often requested of banks by holders of the bill. A bank avalised bill is almost as good as cash and can be sold to obtain funds and help cashflow. Often overlooked by sellers.

OK, that's enough. B's next time.....

Your Input, please.

I've already mentioned this above in the Glossary article, but please let me know if there are any aspects of international trade that you would like me to cover in future newsletters. When I started these last year, my aim was not just to send another piece of mail to clog up in boxes and for everyone to delete without reading, but try to include information, help and tips that would be relevant to any business who is either currently trading overseas or who is thinking about entering such markets. However, there's no substitute to feedback from businesses who are actually trading - what are your issues? Where do you feel more information would benefit? What aspects of your overseas trade have confused/concerned you in the past? I will not pretend to have all the answers [if I did, I wouldn't be here!], but if there are things that gripe, let me know. If I can answer them or at least provide some solutions, I can include them in future newsletters for the benefit of everyone. No names will be disclosed, so your anonymity/privacy will be respected. I will, of course, still be more than happy to continue to deal with any client on a 1-2-1 basis in accordance with the usual T&C's of ITFS, if you prefer.

I look forward to hearing from everyone.

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?

The next issue will be out, as usual, on 15th of next month. With luck, it will coincide with the start of a long, hot summer.....