

International Trade Financial Solutions Newsletter

'Minimising Commercial Risks When Trading Abroad'

Issue 9

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In This Issue

Glossary - Some common terms.

A Case Study

Foreign Exchange - Options?

Quick Links

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Hello. In an effort to try and stay organised and keep on top of things, I usually start to prepare each month's newsletter about 2 weeks before it is sent. So, here I am, 'glowing' in 30 degree heat and trying not to be distracted by Wimbledon. It's a hard life!

This month, we'll continue with the A-Z of International Trade terms as well as a recent case study and finally an overview of what steps you may be able to take to secure your exchange rates.

For those of you who are due to have a holiday towards the end of the month/early August, can I wish you a relaxing and enjoyable time.

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Glossary of Terms - The "B's".

That's B's as in the letter B, not anything else, although the 2 terms that I'm covering here are right B's!. Before anyone starts worrying, I've no intention of filling out the next 26 issues with 1 letter per month, partly because we'll all lose the will to live and I'll get stuck on some of the more exotic letters later on. It just seems that the early part of the alphabet has more terms. However, the letter B will be rewarded with more next month.....

OK, then, the 2 worst B's.

B.

Bill of Exchange. One of the most confusing documents until you understand it, then it's easy - honest! Often referred to as B/E, BEx, BoE and some other variants. Here, I'll call them B/E.

There's the legal definition and a more colloquial one, both of which do explain.

The legal one first. B/E have their own piece of Legislation, The Bills of Exchange Act, 1882. In it, a B/E is defined as 'An unconditional order, in writing, addressed by one person to another, signed by the person giving it requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a certain sum of money to, or to the order of, a specified person or to bearer'.

There, clear as mud.

Perhaps an easier way to explain is to think of a cheque. If you think of a cheque as a form of 'IOU' in as much as if you owe me money, you will write out a cheque in my favour. The B/E, however, is a 'You Owe Me', i.e. in the above scenario, I would write out the B/E and sign it, before giving it to you. In turn, you would sign to acknowledge the debt due, and then pay according to the terms - straight away [pay on demand] or later [at a fixed or determined future date].

B/E are not common in UK trade these days [except for some specific sectors] but are common in International Trade - especially for those who deal with Letters of Credit or Collections - both of which will be explained when we get to the relevant letter. Therefore, if you do deal with these, it's important to understand what a B/E is and, more importantly, what you can do with it, since, especially under Letters of Credit, they can be used to raise funds.

Bill of Lading. Not to be confused with B/E above. Bills of Lading are often referred to as BL or BLading. BL here to save space. A BL is a document of title to the goods to which it refers. It is issued to cover sea shipments and is usually issued by the shipping company. It also acts as a receipt for goods received for carriage and provides evidence of the terms of the underlying contract between the shipper and transport company. Being a document of title, the buyer [or more usually their agent] needs to present an original BL at the destination to obtain the goods. BL are often issued in sets of 3 original - any one can be used to collect goods - plus any number of non negotiable copies. It is important that, as a buyer, you know how many original BL are to be issued and that you can account for them all. They are usually referred to in documentation, as, for example, 3/3BL + 2NNC, meaning 3 original Bills of Lading [any of which can be used to obtain the goods] and 2 Non Negotiable Copies.

That's more than enough for this month. Both are important, though, and if you are involved in International Trade, it is well worth taking the time to understand their functions and some of the drawbacks and advantages of using them. For Bills of Exchange, they can have a beneficial effect on cashflow in some circumstances, so find out more *before* you sign any contracts.

A Case Study.

No names, etc., but here's an overview of an issue that I was recently asked for help.

A relatively new business, started up by a young woman who was born and brought up in China, but had been in the UK for the past 12 years or so, was looking to expand and reduce overheads by importing directly from China as opposed to using a UK distributor. Her main issues were that she would have the direct relationship with the manufacturer; how best to structure the deal from a cashflow point of view and foreign exchange issues. The first was perhaps less of an issue, given her ethnicity. Nevertheless, the need to undertake fact finding trips and to keep in regular contact is essential. On the other 2 points, I explained the different options available [partly referring to the 'Risk Ladder' - which I talked about last month] and illustrated to her the effect on cashflow. Typically, many Far East suppliers need funds 'up front' to allow them to manufacture. Correct contract structuring at this point in the process can often avoid any physical cash prepayment, which is important. Buying in US Dollars and selling in Sterling meant that she had to keep an eye on her expected profit margin from the whole deal, so we discussed how she could do this whilst retaining some flexibility to allow for delays in shipment, etc. All in all, over the course of a couple of weeks [not intensive], she was able to decide how best to structure this particular opportunity to the benefit of both her business and that of the seller.

If this sounds like something your business, or someone you know could benefit from, let me know.

Foreign Exchange - Options?

Buy now, buy later, or do nothing until you have to, and hope. These are the usual choices importers face when it comes to paying for goods invoiced in a foreign currency.

For exporters, it's usually sell in Sterling only or use a foreign currency and then do what with the proceeds?

Much is dependent upon your business, volumes, values, etc. and it really needs a case by case approach. The 'Do nothing until you have to' option can, in some cases, be the right thing to do. What's vital, though, is that you are taking the decision with some valid background knowledge and information as opposed to just guessing. Even for modest sums [£2,000+], it is possible to structure your foreign exchange needs so that it benefits, not hinders you. If you export, one option to consider is to open a currency account and use this to collect individual sales before converting in bulk to Sterling. Make sure you change your invoice details, though as your bank will automatically credit whatever account is on the instruction, even if this involves a currency conversion. You will almost certainly not earn any interest on the currency, but you should see a better exchange rate, giving you more Sterling. Importers can also make use of a currency account to 'bulk convert' funds and then pay out individual sums. However, be careful, sometimes it will be more cost effective to make separate Foreign Exchange deals and payments. Do your homework first!

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. For those of you off on holidays, I wish you all a very enjoyable and relaxing time. But don't worry, Issue 10 will be awaiting your return, along with hundreds of other e-mails, letters, faxes needing your urgent attention.....