Export for beginners’

by

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The Export Development Service

The Author:-

Gerald Bratley MIEx has over 52 years' experience in International Trade. He has worked for large public companies, Chambers of Commerce, The Government and small to medium enterprises in every role from office junior to CEO. He has worked in the private and public sectors, exporting and importing and is very experienced in every facet of International Trade.

Mr Bratley has been personally involved in every element of exporting from market research, order negotiation, production, freight and insurance through to documentation, credit control/insurance, and payments.

He has visited 56 countries, some many times and lived and worked in the Far East for seven years to manage and police overseas licenced production. He remains active and passionate about exporting and is keen to share his expertise and experience with those new to International Trade.

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The Export Development Service was originally established by Gerald Bratley at Barnsley Chamber of Commerce in 1989. He added to the original Chamber Export training which then revolved around the documentation and issue of certificates of origin. He designed and established the very first Chamber based Export service offering “hand-on” export consultancy, in all aspects of International Trade to businesses of all sizes.

Initially assisting the supply chain to the closing mining industry in the Barnsley area the service was extended to the whole of South Yorkshire in 1990 to cover the steel closures, before being rolled out by the British Chambers of Commerce to the UK as a whole in 1992.

Mr Bratley the father of export training through the Chambers of Commerce has continued the Export Development Service and today produces training films on all aspects of international trade.

This Easy Guide for Export beginners has been produced to support the Governments Department of International Trade's “Exporting is Great” initiative.

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Did you know that there are 5.7 million small to medium sized businesses (SME's) in the United Kingdom? 4.3 million of them are sole traders and do not employ anyone aside from the owners, (our "Butchers, Bakers and Candlestick makers). 2.6 million are registered for VAT and 1.4 million are employers. Together they account for 52% of the GDP of the nation. Only a small proportion of them export any products or services, but if 25% of our SME's sold just £1000 more abroad it would add £15 billion to our exports.

Exporting – a quick overview

Exporting for the first time, can be a very daunting prospect. It is full of acronyms and terminology which are unfamiliar. However, the jargon used in export contracts has been standardised over the centuries of international trade into internationally agreed terminology called “Incoterms”.

The first reaction is usually where do we start? Well my advice is to start with your own products and services and review them to see if they will need any modification to enter into export markets.

Do your products or services require any government approvals? Before you can export them, this particularly applies to pharmaceuticals, arms and weapons etc. If your product requires a power supply, then be prepared to change the voltage and supply plug to suit the export market.

Consider the costs of translating your instructions and manuals into the destination language.

Remember there are many countries around the world, where English is widely used and they may have adopted the same power supply as we use in the UK. So correct targeting of the export market could mean easier entry into international sales.

When you are negotiating your first export order, your own negotiators (Export sales staff), need a good understanding of export procedures and payment terms, because they will agree with the customer the contract terms i.e. point of delivery, whether that be in your own factory (ex-works), delivered to the ship (F.O.B.) or delivered to the destination port, and who insures the consignment (CFR, CIF) and how and when you are going to get paid.

Many of the tricky tasks of exporting can be outsourced, preparation of your export documents, dealing with letters of credit, etc. can all be outsourced, and many export agents, consultancies and Chambers of Commerce offer these services.

Dealing with the transport of the goods to the customer will almost certainly be outsourced to a freight forwarding company.

So the first thing you need to do to start exporting is a member of your staff who understands international contracts and payments.

Incoterms

Incoterms are the internationally agreed terms applicable to International Trade. All the terms mean exactly the same thing throughout the world.

Incoterms 2015 Rules — **The Export Development Service**

CHART OF RESPONSIBILITY

INCOTERM	Any Transport Mode		Sea/Inland Waterway Transport				Any Transport Mode				
	EXW	FCA	FAS	FOB	CFR	CIF	OPT	CIP	DAT	DAP	DDP
Definition	Ex Works	Free Carrier	Free Alongside Ship	Free On Board	Cost & Freight	Cost Insurance & Freight	Carriage Paid To	Carriage Insurance Paid To	Delivered at Terminal	Delivered at Place	Delivered Duty Paid
Packaging	Buyer or Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Loading Charges	Buyer	Seller*	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Deliuery to Port/Place	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Export Duty & Taxes	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Origin Terminal Charges	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Loading on Carriage	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Carriage Charges	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Insurance						Seller		Seller			
Destination Terminal Charges	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller
Deliuery to Destination	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller
Import Duty E Taxes	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller

* Seller is responsible for loading charges if the terms state, FCA at sellers facility

The above table shows the various contract terms available for the various delivery locations and modes of transport.

The export contract will be agreed between your sales negotiator and the customer.

You will need to consider your pricing policy for export orders. Except for delivery ex-works (at your factory gate), you will have to consider the cost of packing and delivery to the carrier/ship.

Make sure your transport insurance covers the consignment up to your contracted delivery point.

Once the goods are shipped the documentation will need to be prepared. This will be made up of your commercial invoices, your packing lists, freight receipts, and certificates of origin which are available from your local Chamber of Commerce. The freight receipts will be in one of several formats, for ocean freight it will be bills of lading, for airfreight it will be Airway bills, for overland transport it will be truck/rail receipts.

Where to start?

A full SWOT (strengths, weaknesses, opportunities and threats) analysis of your products and business should be undertaken at this stage, with a view to highlighting any areas where you may need to make adjustments. Use this analysis to create an export plan.

Review your existing products/services.

As part of your planning for export you need to review your products/services

Are your products or services suitable for export?
Do your products require any approvals?
Do you require an export licence?
The following checklist outlines the broad categories of goods which are likely to be controlled:

- most items that have been specially designed or modified for military use and their components
- dual-use items - those that can be used for civil or military purposes - which meet certain specified technical standards and some of their components
- associated technology and software
- goods that might be used for torture
- radioactive sources
- Other items may well require a licence for destination countries that are subject to embargoes or sanctions.

There may also be restrictions imposed by the destination market, e.g. Food into the USA (FDA approval) and other considerations such as Electrical goods – voltage, CE, etc., but we will deal with individual markets later.

The top challenges listed by SME Exporters are:-

- Don't understand Export language/jargon
- Have no experience or expertise in the export business
- Availability and/or affordability of finance
- Accessibility of support
- Supply chain and/or logistical issues
- Competition
- Having a suitable product
- Legal and/or intellectual property issues
- Language and cultural differences
- Knowing where to go for support
- Tariffs and/or tax issues
- Local regulation/standards/licensing
- Market knowledge
- Overall costs involved
- Foreign exchange rates
- Marketing and product promotion
- Finding customers

So the plan needs to deal with any challenges which face each potential Exporter.

Commence putting a business plan together.

Add to your SWOT analysis:-
Product or service features and benefits. …

Benefits to the business that exporting would bring, such as:-

- Reducing /spreading risk
- Increased competitiveness
- Increased business productivity (longer production runs)
- Innovation and new product development
- Co-operate with other businesses
- Business survival
- Faster business growth
- Increased business sustainability
- Improved reputation, credibility and profile
- Increased profitability (amortisation free production)
- Increased turnover/ utilisation of capacity
- Access to more customers

Costs and pricing

- Export Training
- Market research
- Travel & Subsistence
- Extra raw material/components

Planning for legal compliance.

- Patents, Licensing, Copyright, corruption.

An export plan is a business plan for selling overseas but can only be fully completed after a full review of existing products and production facilities. It should detail the decisions you’ve made based on your objectives and how you plan to achieve them.

A well-structured plan will make sure you’ve thought about all the possibilities, chosen a logical way forward and set targets to keep you on track.

Your export plan is a tool to show banks, investors or partners that you’re serious and have realistic and achievable goals.

Establish your objectives

Before you start to write a plan, you should think about your overall objectives for exporting. Considering these questions should help you do this:

Where are you now?

Assess your current level of success and whether it’s in line with your expectations.

How did you get there?

Establish the significant events or decisions which have contributed to your current position.

Where would you like to be?

Identify your hopes and goals for your business in 5 or 10 years' time.

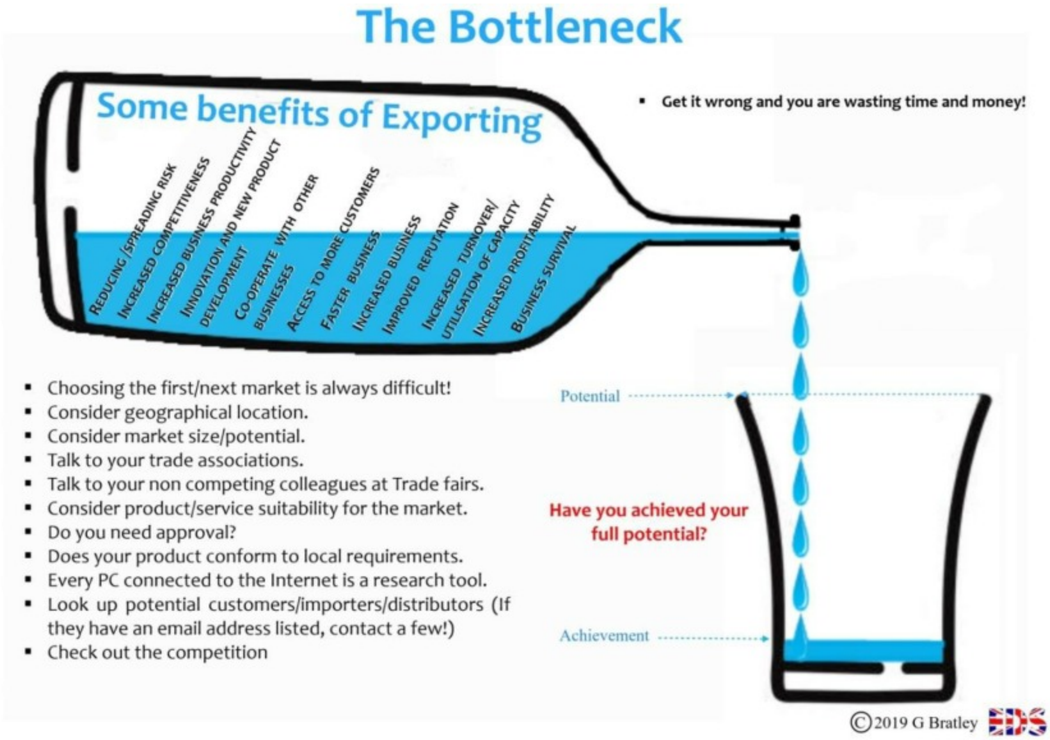
How do you get there?

Identify the options which might help you achieve these goals, including exporting.

Even if you are already exporting because of a direct approach from a customer, or from a third party recommendation, etc. At some stage you will need to assess which market(s) to enter next/first.

This is easier said than done. Identifying the first/next market to enter requires some careful research. Identifying the market(s) to enter is a critical decision, (get it wrong and you are wasting both time and money)

Don’t get the cart before the horse the best markets to enter will emerge as a result of the research you carry out! You will soon recognise the benefits to your business and the questions to ask? The bottleneck is market choice!



Choosing the first market is always difficult!

- Consider geographical location
- Consider market size/potential
- Consider product/service suitability for the market
- Are there language/cultural issues?
- Do you need any in market approvals?
- Does your product conform to local legislative requirements?
- Every PC connected to the Internet is a research tool
- Look up potential customers/importers/distributors
- (If they have email listed try a few out)
- Check out the competition
- Check out the national or regional import regulations, restrictions, duties, taxes or special instructions. As an example Australia bans all types of hay. Straw, and chaff as a packing material because of the risk of flora or fauna contamination. This information can be obtained from the Embassy/High Commission or through trade guides such as Croner’s International Trade Guide.

On analysis existing SME Exporters gave the following reasons why they chose their overseas markets

The top reasons for exporting to chosen markets are:-

1. They were advised to export there
2. They attended a trade mission
3. Common export destination
4. Similar business/ regulatory environment
5. Opportunity to partner/collaborate
6. Country is in the European Union
7. Knowledge/experience of local area
8. Ability to speak local language
9. Stable market to do business/trade with
10. High growth potential
11. Niche market opportunity
12. Easy to do business/trade with
13. Direct approach from local customers

When you have completed your market research you can expand your Export Plan to include:-

Some important considerations

1. Marketing budget and resource

Export marketing budget

Assess how much you can spend on:

- overseas market visits
- translation of brochures and website
- exhibition and other promotional costs
- legal fees for agents/distributors agreements
- training of in-market partners

1. Export staffing

Consider the availability and experience of staff who will handle:

- export enquiries
- documentation
- market visits

Establish whether any new staff and appropriate training will be required.

2. Market selection information

Define your target markets and the reasons why they have been selected. To do this you can consider a range of potential overseas markets, and then:

- select a few markets or a region for further investigation, based on sound market research
- establish sales forecasts with target dates, to help you set budgets and making cash flow projections

3. Product or service features and benefits

This should be based on your market research. You’ll want to:

- ensure your product or service is attractive to customers and stands out from the competition
- be aware of any changes you’ll need to make, including compliance with technical standards in the market
- ensure response, reliability, and delivery - you’ll need staff capacity and production capability to meet customer expectations

For effective marketing and promotion, be aware of local requirements and tastes. Think about:

- branding
- packaging
- design
- names
- logos
- colours

4. Costs and pricing

Consider the additional costs involved in selling into the overseas market. Establish a target price in the overseas market to the end user. Take account of:

- currency
- payment terms
- freight and carriage charges
- import duties and taxes
- commission to partners
- competition pricing

5. Market entry approach

Establish how you’ll sell your product or service. There may be several options that may be suitable for your business. Very often the product(s) dictates the market entry. e.g. chocolate bars would need a distributor but aero engines could be sold direct because the customers are few and easily identified. It may be best for you to:

- sell directly to end users
- sell via wholesalers or retailers
- use partners (agent/distributor)
- collaborate in local manufacturing through a Licensee.
- set up a local office
- enter into a joint venture

Find further information on these market entry methods.

6. Market development

Whether the objective is to sell directly or via partners, your plan should cover:

- overseas market visits - their number and length
- communication with key contacts such as clients and partners - regularity and types
- promotion - assess channels, including online and face-to-face at trade shows

Communication methods might include skype, WhatsApp, teleconferences, and other types of live chat options. Identify with clients and partners their preferred method for keeping in contact.

Establish what changes you may need to make to your website, including translations and marketing materials. Think about visiting international trade shows and exhibitions, or perhaps exhibiting yourself.

7. Planning for legal and ethical compliance

Export business is generally conducted fairly and honestly, but you need to consider how your business will manage any risk of unethical and illegal practices. This applies within your organisation and throughout your supply chain, covering matter such as:

- corruption, bribery and fraud
- human rights, child labour and modern slavery

Find more information on managing legal and ethical compliance.

Calculating export prices

In an ideal world your Export activity would be to use up spare production capacity, where the cost of equipment has already been amortised and the fixed overheads recovered on the UK sales. This would allow greater margins from which to recover your added export costs of travel, research, and modifications, etc. You can reflect any savings in your costings but ensure you calculate understand and include all added costs such as:-

- The cost of packing freight and insurance
- Any R&D and product modifications
- Interest & Foreign Exchange costs
- Travel and Subsistence costs

Your customer will inform you of the contract they require, e.g. Ex-Works, FOB, CNF, CIF, etc.

Find a good freight forwarder. They will explain any options, and provide you with quotations for the freight/delivery and insurance costs to meet your customers’ contractual choice.

Consider the competition before submitting your final price to the customer.

Export Documentation
(Accurate documentation is vital!)

Packing lists, Invoices, Certificates of Origin, CMR notes, Bills of Lading, Air Way Bills, Drafts, etc. **must** be correct.

The Bill of Lading is legal title to the goods, whoever, holds that owns the cargo.

On Letters of Credit every letter of every document must match that listed in the credit.

Import and other duties are levied on the value of the goods shown on the invoice. In the destination country to calculate duties and taxes and so **must** be accurate.

Many Freight Forwarders, Chambers of Commerce and numerous Export Consultancies offer a documentation service and so this function can be outsourced.

The main documents

Drafts (Bills of Exchange)
Commercial Invoices
Packing Lists
Shipping Documents (Bills of Lading, AWB, CMR, etc.).
Certificates of origin

Sometimes:-

Inspection certificates
Consular Invoices

Draft/ Bill of Exchange

Amount ……………………………… (In figures) Date…………………………

At Sight* / 30/60/90 days from date* / Fixed maturity date* of this First/Second* Bill of Exchange (second*of same date and tenor being unpaid)
Drawn under irrevocable L/C No. ………………………………of ……………………………………Bank
Please pay to the order of ourselves the sum of…………………………………………………(Amount in words)
For value received.

To (Drawee Name &Address exactly as it is on L/C)

For and on behalf of :
(Your company name)

(capacity of signatory)

Make sure you also endorse and sign the reverse with 'For and on behalf of (your company name)'
* delete as appropriate

There is no special shape for a draft. Providing it is set out as above it can be simply typed onto an A4 or A5 sheet of paper.

How to create a draft (Bill of Exchange)

Variables

1. Duplicate Bills of Exchange to be drawn: ………………. “At Sight or 30/60/90 Days or Fixed Maturity date……. of this SECOND Bill of Exchange (FIRST of same date and tenor being unpaid)…….”
2. It is common for only one Bill of Exchange to be required, in which case drawn: “At……. of this SOLE Bill of Exchange………..”
3. Ensure that Bill of Exchange is signed on its face and endorsed on reverse, i.e.: signed „for and on behalf of……..“.(your company name)
4. Is “Drawee“ name & address correct?
5. If Bill of Exchange is presented direct for acceptance (e.g.: documentary / clean collection), Bill should be drawn on buyer.
6. If Bill (or “draft“) is to be drawn under a Letter of Credit, check requirements of L/C as to which bank is named as the drawee.
7. If Bill / draft is drawn under L/C ensure Bill is clearly marked as per L/C requirements, e.g.: “Drawn under irrevocable L/C no ………….. of ………….. (bank) dated ………“ (or as required under the L/C

Bills of Lading

Clean Bill of Lading

A Clean Bill of Lading is simply a B/L that the shipping carrier has to sign off on saying that when the packages were loaded they were in good condition.
If the packages are damaged or the cargo is marred in some way (rusted metal, stained paper, etc.), they will issue a "Soiled Bill of Lading" or a "Foul Bill of Lading."

Through Bill of Lading

Through Bills of Lading is a little more complex than most B/Ls. It allows for the shipping carrier to pass the cargo through several different ports or distribution centres.

Stale Bill of Lading

Occasionally in cases of short-over-seas cargo transportation, the cargo arrives to port before the Bill of Lading. When that happens, the Bill of Lading is then "stale. “ Customs and Warehouse charges may be payable if goods are not cleared promptly.

Shipped On Board Bill of Lading

A Shipped On Board Bill of Lading is issued when the cargo arrives at the shipment port in good, expected condition from the shipping carrier and is then loaded onto the cargo ship for transport overseas.

Claused Bill of Lading

If the cargo is damaged or there are missing quantities, a Claused Bill of Lading is issued

Getting Paid

Many transactions, especially in Europe, are now done on open account credit terms Net cash 30 days, etc.), the same as they are in the UK, and payments made on-line Bank to Bank.

However, with overseas clients being so far away and where there may be local foreign exchange controls, and the buyer being possibly unknown to the Exporter prior to the contract, some form of guarantee of payment is prudent.

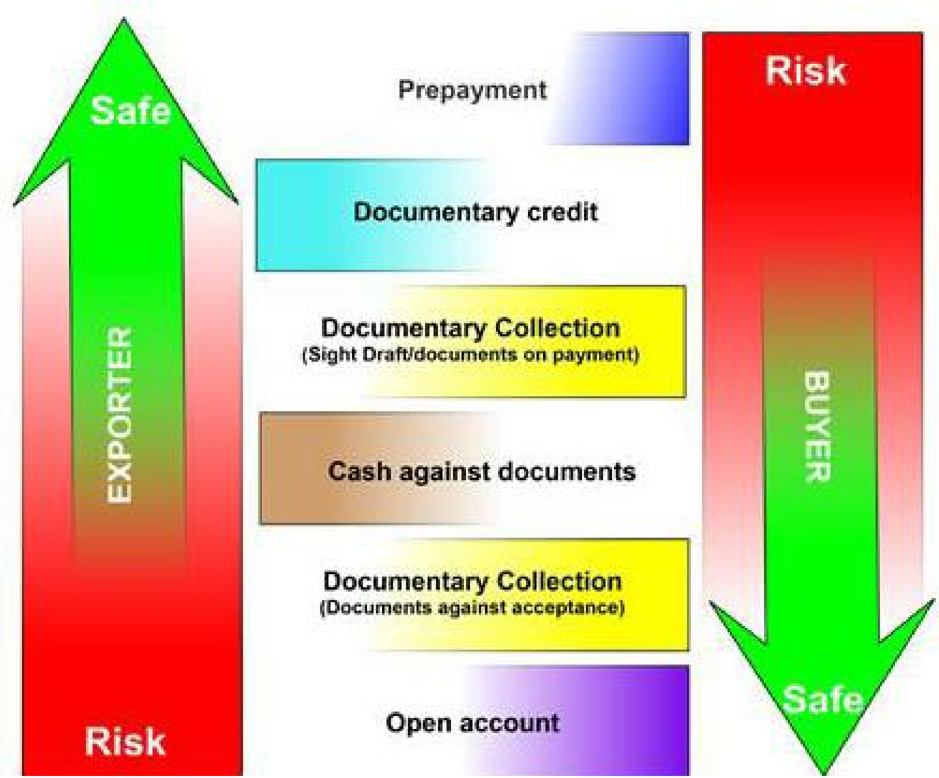
Payment is a must, and depending on where you trade, you may need to know how to set up documentary collections, where on sea freight where the original Bill of Lading is title to the goods, that Bill of Lading can be exchanged for payment.

Payment Methods for International Transactions/Methods of Payment

Methods of Payment

- open account
- documentary collections
- documents against acceptance
- documents against payment
- letter of credit
- confirmed letter of credit
- advised letter of credit
- cash in advance

Payment terms are a balance between the risk of the seller not being paid and the risk of the buyer not receiving the goods.

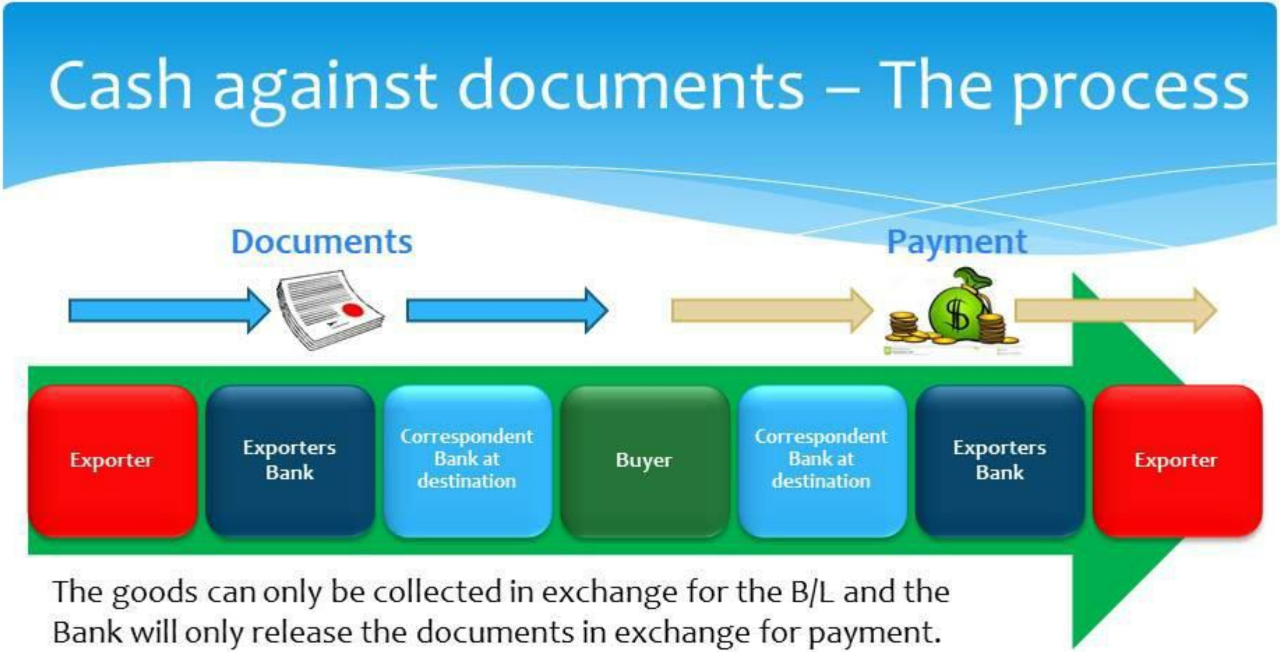


Open Account

A seller ships the goods and all the necessary shipping and commercial documents directly to a buyer. This buyer agrees to pay the seller’s invoice at a future date (net cash 30 days with, or without a discount offered, for example, 1% if paid within 10 days of invoice date).

Documentary Collections

A documentary collection is a payment in which a seller uses a bank as his/her "agent" in collecting payment from a buyer located overseas. After shipping the goods, the seller submits a draft (a demand for payment) and the relevant shipping documents to the bank. The draft will include instructions to release the documents to the buyer upon the buyer’s payment or acceptance of the draft. The seller’s bank sends the documents, draft, and collection instructions to a branch or correspondent bank in the buyer’s country. This bank carries out the seller’s collection instructions and, upon receipt of payment from the buyer, remits payment to the seller’s bank for the credit of the seller.


Cash against documents – The process
Documents
Payment
Exporter
Exporters Bank
Correspondent Bank at destination
Buyer
Correspondent Bank at destination
Exporters Bank
Exporter
The goods can only be collected in exchange for the B/L and the Bank will only release the documents in exchange for payment.

Documentary collection procedures are uncomplicated. After shipping the goods, the exporter submits to the bank: shipping documents, including the bill of lading conveying title to the goods, as well as other documents related to the shipment.

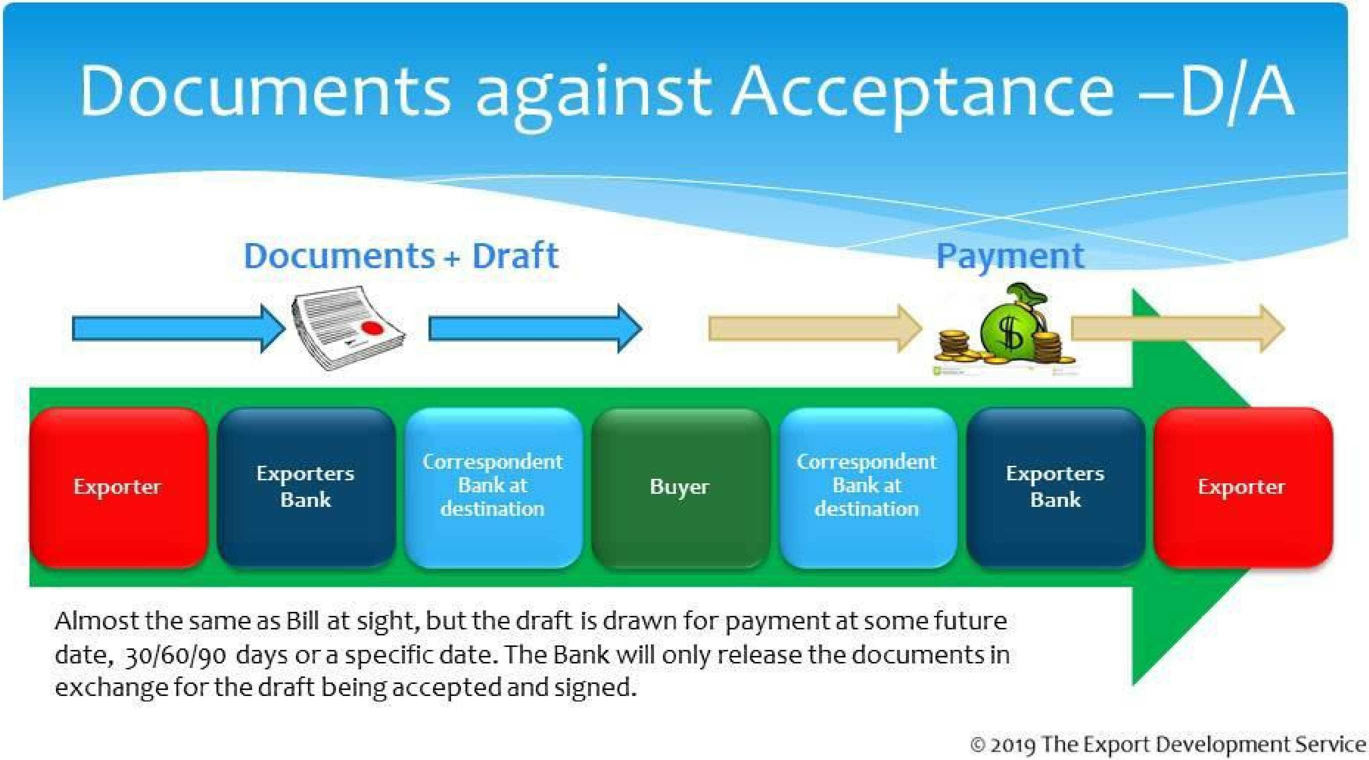
a. a draft (also called a bill of exchange), demanding payment from a buyer. Depending on the agreed terms of sale, this may be a sight draft, demanding payment on presentation, or a time draft, demanding payment at some stated future time after presentation or after the bill of lading date.
b. instructions to the bank as to how to handle the transaction to release documents to a buyer upon payment of the sight draft, which is known as a documents against payment, or D/P collection; or release documents to a buyer upon acceptance of the time draft, a documents against acceptance, or D/A collection.

Note that a documentary collection requiring payment before the release of documents may sometimes be transacted without a sight draft. Under cash against documents (CAD) terms, the documents are released to a buyer against receipt of payment. CAD terms are generally used when the government of the importing country requires tax stamps affixed to drafts; by eliminating the draft, both buyer and seller avoid stamp taxes.

The seller’s bank, called the remitting bank, sends the documents, draft, and instructions to one of its branches or correspondent banks in the buyer’s country. This bank, called the collecting or presenting bank, contacts the buyer and informs him/her that the documents have arrived and can be obtained when he/she complies with the payment terms, which may be documents against payment or documents against acceptance.

Documents against Acceptance (D/A)

A buyer is required to "accept" a seller’s time draft, thus acknowledging obligation to pay at the specific future date. The time of payment occurs at maturity of an accepted time draft, 30, 60 or 90 days after date of acceptance or date of bill of lading


Documents against Acceptance –D/A
Documents + Draft
Payment
Exporter
Exporters Bank
Correspondent Bank at destination
Buyer
Correspondent Bank at destination
Exporters Bank
Exporter
Almost the same as Bill at sight, but the draft is drawn for payment at some future date, 30/60/90 days or a specific date. The Bank will only release the documents in exchange for the draft being accepted and signed.
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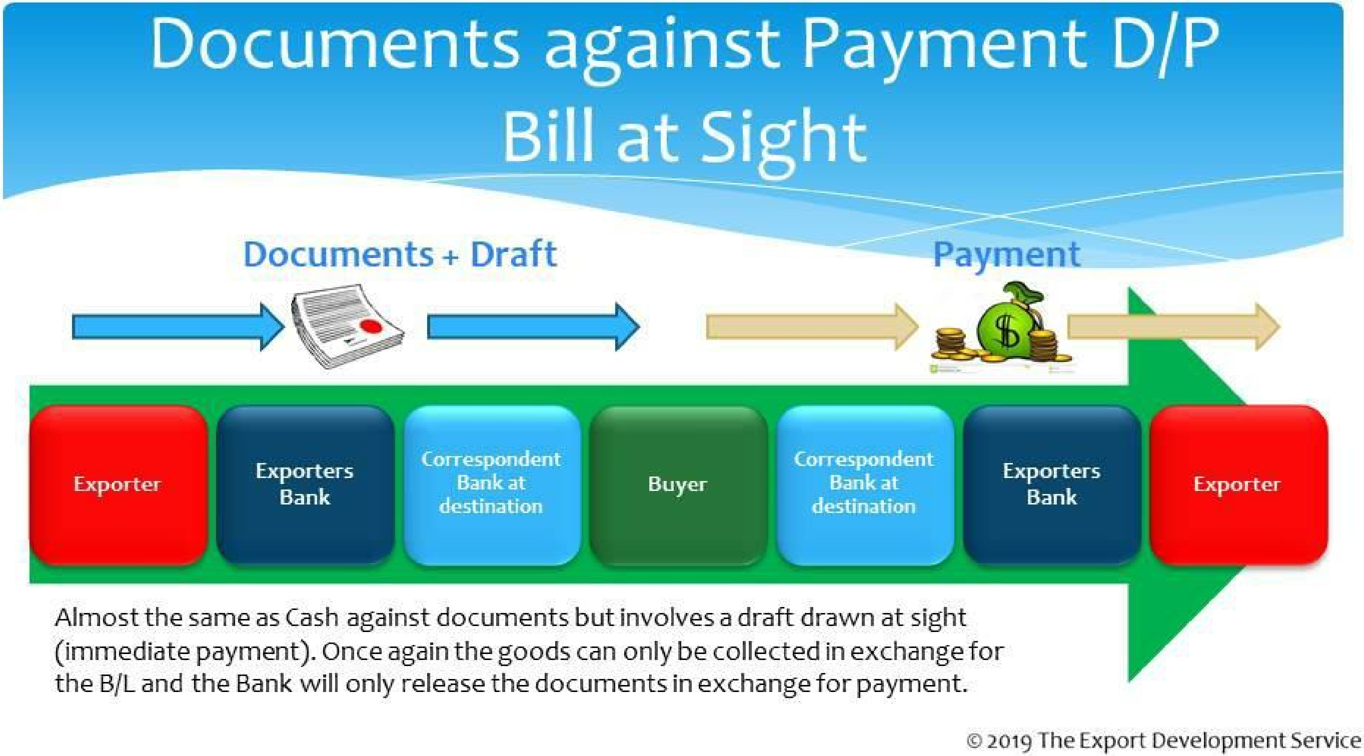
Documents against Payment (D/P)

A buyer is required to pay a seller’s sight draft in order to obtain shipping documents. Payment is made on presentation of the sight draft by a bank to the buyer, usually one or two weeks after shipment. Under D/P terms, the seller, through a bank acting as an agent, is able to retain control of the goods until the buyer pays. Under certain circumstances, such as to meet legal requirements of the importing country or to obtain a government permit for foreign exchange, the buyer will require possession of the documents before payment. The seller should inquire as to the practice in specific countries. Air shipments are often made under documentary bill collections. The buyer, as direct consignee of the non-negotiable air waybill, will be able to take possession of the goods before meeting his/her payment obligations.


Documents against Payment D/P
Bill at Sight
Documents + Draft
Payment
Exporter
Exporters Bank
Correspondent Bank at destination
Buyer
Correspondent Bank at destination
Exporters Bank
Exporter
Almost the same as Cash against documents but involves a draft drawn at sight (immediate payment). Once again the goods can only be collected in exchange for the B/L and the Bank will only release the documents in exchange for payment.
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Letter of Credit

A commercial letter of credit is, essentially, an agreement in international trade whereby a bank assumes a conditional obligation on behalf of its customer, a buyer, to make payment to a seller. Payment is conditional upon a seller’s compliance with the terms and conditions specified in the letter of credit. These terms and conditions require the seller to present stipulated documents, which are usually those required for transport, commercial, and official purposes (bill of lading, commercial invoice, insurance certificate, consular invoice). Once the seller has complied with the documentary requirements of the letter of credit, prompt payment is secured. In effect, a bank in the letter of credit transaction substitutes its credit standing for that of the buyer. Thus, the seller, who is the beneficiary of the letter of credit, has the undertaking of a bank to pay when the terms and conditions of the credit have been complied with. On the other side, the buyer is assured that payment will not be made unless the seller meets the conditions stipulated in the letter of credit.

The buyer's bank substitutes its creditworthiness for that of its customer and agrees to honour a seller's demand for payment if that seller complies with all the requirements specified in the letter of credit.

Confirmed Letter of Credit

In addition to the standard letter of credit, this instrument carries the undertaking of a second bank, usually in the seller's country, to honour the seller's demand for payment upon presentation of documents specified in the credit.

A second bank, usually in the seller's country, gives its undertaking to the letter of credit issued by the buyer's bank and promises to pay the seller upon that party's compliance with the terms and conditions of the credit.

If the seller does not want to lessen risk, this seller may require that the letter of credit be confirmed by a bank in his/her country (or in some third country). A bank that confirms the letter of credit adds its commitment to pay to the original credit. Since the seller can look to the confirming bank for payment, he/she is protected against the financial risk of the issuing bank and the political risk of the importing country. To the extent that the credit standing of the confirming bank is undoubted, this is the most favourable type of letter of credit from the seller’s point of view.

Advised Letter of Credit

A letter of credit issued by the buyer’s bank (the issuing bank) may be advised to a seller by a bank, usually in his country--called the advising bank--without any undertaking on the part of that bank, except that it must use reasonable care to check the authenticity of the credit which it advised.

As the issuing bank undertakes to pay the seller, the advised letter of credit relieves the seller of the financial risk of the buyer. However, as beneficiary of the advised credit, the seller is subject to the financial risk of the issuing bank, which may not be willing or able to make payment when due. In addition, the seller is subject to political risk of the importing country: that is, the risk that sovereign action of the government may block the transfer of funds regardless of the issuing bank’s ability or willingness to pay the credit.

A L/C is an arrangement where a buyer arranges with their own bank to establish the credit in your name.

It will be for a fixed sum.
It will list the products being bought.
It will stipulate a final date for shipping.
It will stipulate a final date for presentation of the documents.
If you get anything wrong the L/C becomes void. That doesn't mean you will not get paid, you are still holding the bill of lading, the title to the goods, but the documents will have to be sent through to the Bank who opened the L/C for collection on a D/A or D/P basis.

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Types of Letters of Credit

Irrevocable L/C. This L/C cannot be cancelled or modified without consent of the beneficiary (Seller). This L/C reflects absolute liability of the Bank (issuer) to the other party.

Revocable L/C. This LC type can be cancelled or modified by the Bank (issuer) at the customer's instructions without prior agreement of the beneficiary (Seller). The Bank will not have any liabilities to the beneficiary after revocation of the L/C.
Stand-by L/C. This L/C is closer to the bank guarantee and gives more flexible collaboration opportunity to Seller and Buyer. The Bank will honour the L/C when the Buyer fails to fulfil payment liabilities to Seller.

Confirmed L/C. In addition to the Bank guarantee of the L/C issuer, this L/C type is confirmed by the Seller's bank or any other bank. Irrespective to the payment by the Bank issuing the L/C (issuer), the Bank confirming the L/C is liable for performance of obligations.

Unconfirmed L/C. Only the Bank issuing the LC will be liable for payment of this L/C.

Transferable L/C. This L/C enables the Seller to assign part of the letter of credit to other party(ies). This L/C is especially beneficial in those cases when the Seller is not a sole manufacturer of the goods and purchases some parts from other parties, as it eliminates the necessity of opening several L/C's for other parties.

Back-to-Back L/C. This L/C type considers issuing the second LC on the basis of the first letter of credit. L/C is opened in favour of intermediary as per the Buyer's instructions and on the basis of this L/C and instructions of the intermediary a new LC is opened in favour of Seller of the goods.

Payment at Sight L/C. According to this L/C, payment is made to the seller immediately (maximum within 7 days) after the required documents have been submitted.

Deferred Payment L/C. According to this L/C the payment to the seller is not made when the documents are submitted, but instead at a later period defined in the letter of credit. In most cases the payment in favour of Seller under this L//C is made upon receipt of goods by the Buyer.

Red Clause L/C. The seller can request an advance for an agreed amount of the L/C before shipment of goods and submittal of required documents. This red clause is so termed because it is usually printed in red on the document to draw attention to "advance payment" term of the credit.

Cash in Advance

The seller requires receipt of payment from the buyer before shipping goods. Payment may be made by wire-fund transfer from the buyer’s bank to the seller’s bank, or by company check, credit card, or other agreed upon means.

Setting up an L/C

- Your customer has to set up the L/C, but will need to know:-
    - How long it will take before you can prepare and deliver the goods to the port. – to allow sufficient time on the shipment date
    - Are there direct sailings to the destination – if not transhipment will need to be allowed
    - Are there regular sailings – No point in rushing the goods to the embarkation port if there is no service due?
    - The shipment date is the date the ship sails!
- Plan all these things in advance and make sure your client allows sufficient time for shipment and submission of the documents
- In consequence your sales negotiator must understand the mechanics of a L/C and have a good grasp of when the goods will be ready for shipment.
- **Get the payment terms right! It is a major part of the sales process!**

Arranging delivery/freight

The freight forwarder who supplied you with costs can make all the arrangements for collection from your premises, packing for conventional sea freight, or consolidated with other exports into a shared container. Shipping by Sea, Rail, or Truck to the destination as per your contract.
Cost will have decided at the quotation stage which option was the most appropriate.

Insurance

Many customers find it more convenient to sort out any claims at their own location and so opt to insure the cargo themselves.
The only times you need to insure are when your contract is:-

CIP – Carriage and Insurance paid to (Destination)
CIF – Cost (of the goods), Insurance and Freight to (Destination)
Your freight forwarder will arrange all this for you.

What help is there available to new Exporters

Export Advisers and Export Advocates available through the DIT website/local office

Export Development Service @ www.gbratley.co.uk

Your local Chamber of Commerce

Institute of Export & International Trade

Conclusions - What you need before starting:-

- Sales, Administration and Credit control staff must all be conversant with how International Payments work.
- Precise documentation is essential.
- Documentary collections involving sea freight mean you still own the goods right up to when your customer collects the bills of lading. However, airway bills and other freight receipts do not provide the same security.
- Consider Risk/credit Insurance

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Additional costs: the price you negotiate with overseas customers also need to include some additional costs. For example, transportation costs may include the cost of special packaging and labelling, while the detailed documentation you generally need may involve extra costs.

Ad valorem: According to value (see Duty).

Advising Bank: bank operating in an exporter's country that handles letters of credit (see Letter of Credit) for a foreign bank by notifying the exporter that the credit has been opened in its favour. The advising bank lets the exporter know exactly what the conditions of the letter of credit are but isn't necessarily responsible for payment.

Air waybill: a bill of lading (see Bill of lading) that covers both domestic and international flights carrying goods to a specified destination.

Anti-dumping: if a company exports a product at a price lower than the price it normally charges in its home market, it's said to be dumping the product. Member countries of the World Trade Organisation may be able to impose certain measures on other members that dump products on their markets.

Asian dollars: US dollars deposited in Asia and the Pacific Basin.

ATA: admission temporaire of temporary export, used in conjunction with the term carnet.

Bill of exchange: written document in which a supplier is guaranteed payment of a specified amount by a drawee by a fixed date. The drawee is generally the customer but is likely to be the customer's bank if the bill of exchange is used with a term letter of credit (see Letter of Credit). The bill can request immediate payment (“at sight” or “on demand”). It can specify payment at a later date (“the term”). *The drawees become legally liable for payment once they accept (agree to pay) the bill.*

Bill of lading: document generally issued by a shipper which acts as a receipt for goods received for carriage. In addition it provides evidence of the terms of contract between a shipper and a transport company under which goods are moved between specified places for a specified charge. And a bill of lading also acts as a transferable document of title to goods - meaning goods can be bought and sold dimply by exchange of the bill. Bills of lading are used for all modes of transport - they're known as air waybills for airfreight. See also Air Waybill.

Bonded warehouse: warehouse authorised by Customs for storing goods on which payment of duty is deferred until the goods leave the warehouse.

British International Freight Association (BIFA): body representing the UK international freight services industry. BIFA can provide you with a list of freight forwarders (see Freight Forwarders) and customs clearing agents.

British Trade International: government body operated by the Department of International Trade and the Foreign Commonwealth Office to promote trade development and promotion in the UK. Through UK Trade & Investment, it offers free and impartial advice to businesses which trade abroad, both online and through its information centre.

Carnet: Customs document which allows you to carry or send goods temporarily into certain countries for display or demonstration purposes without paying duty or posting a bond.

Cash in advance (CIA): full payment for exported goods before shipment is made.

Cash with order (CWO): the buyer pays for goods when ordering. The transaction is binding on both supplier and customer.

Certificate of inspection: document certifying that certain types of goods (such as perishable items) were in good condition before shipment.

Certificate of insurance: shows insurance cover has been arranged for goods being exported. It should detail the degree of cover and list the policy number and all other relevant details.

Certificate of manufacture: statement (often legalised by a notary) in which a producer of goods certifies that manufacture has been completed and the goods can be bought.

Certificate of origin (C/O): statement on the origin of goods. You may need one if you're exporting to a number of countries. They're available from your chamber of commerce for goods of EU origin.

VCR: cost and freight. This is an Incoterm. Find more information about Incoterms at the Incoterms 2000 website. The seller clears the goods for export and meets the cost of carriage to the port in the destination country. But the buyer bears all risks after delivery, which occurs when goods pass over the ship's rail in the port of shipment. The buyer also bears any extra costs caused by events that happen after delivery.

CIF: cost, insurance and freight. This is also an Incoterm. Find more information about Incoterms at the Incoterms 2000 website. The seller clears goods for export and meets the cost of carriage to the port in the destination country, including insurance. But the importing buyer bears all risks, except marine insurance, after delivery. Delivery occurs when goods pass over the ship's rail in the port of shipment. The buyer also bears any extra costs caused by events that happen after delivery.

CIP: carriage and insurance paid to (named place of destination). This is an Incoterm. Find out more information about Incoterms on the Incoterms 2000 website. The seller clears the goods for export and pays for delivery to the named destination. The goods are delivered when the seller passes the goods to its carrier. From this point the buyer takes responsibility for all costs and risks. But the seller must also take out insurance to cover the buyer's risk during transport.

Commercial agent or sales agent: a person or organisation appointed by exporter to sell and distribute goods in a foreign country.

Commercial invoice: bill listing the goods and prices shipped by an exporter.

Confirmed letter of credit: letter of credit issued by an overseas bank but also confirmed by a domestic bank (in your country). Under these circumstances you'll be paid by the domestic bank even if your buyer or other bank defaults, providing the terms of the letter are met fully. (see letter of credit)

Consignment: when goods are exported subject to consignment, the exporter only receives payment on completed sales. Any unsold items may be returned to the exporter, usually at their expense. This is a high-risk method of payment for an exporter.

Consolidator: company issuing bills of lading (see Bill of lading) for the carriage of cargo on vessels or aircraft.

Containerised/containerisation: the packing of goods for transport in sealed containers.

Convertible currency: a currency that can be bought and sold for other currencies at will.

Correspondent bank: a bank that handles in its own country the business of a foreign bank.

CPT: carriage paid to (named place of destination). This is an Incoterm. Find more information about Incoterms at the Incoterms 2000 website. The seller clears the goods for export and pays for delivery to the named destination. The goods are delivered when the seller passes the goods to its carrier. From this point the buyer takes responsibility for all costs and risks. Credit-risk insurance: insurance for exporters designed to cover risk of non-payment for delivered goods. (See Export Credits Guarantee Department).

Customs and Excise: UK government department with the responsibility for collecting VAT and other taxes and customs duties. It's also charged with preventing illegal imports of drugs, alcohol and tobacco smuggling and VAT and duties fraud.

Customs commodity code: eight-digit commodity code required for exports outside the EU. It needs to be entered on your customs export declaration. Sometimes known as the "first eight digits of the Customs Tariff number" or "CN (Customs nomenclature) code", it's also used as the basis for the import declaration in the country of destination. Find more information about Customs community codes in Customs Notice 600 on the Customs and Excise website.

Customs Freight Simplified Procedures (CFSP): electronic declaration methods that simplify customs procedures for clearing non-EU imported goods either at a frontier or upon removal from a free zone or customs warehouse. Find more information about CFSP at the Customs and Excise website.

DAF: delivered at frontier (named place). This is an Incoterm. Find more information about Incoterms at the Incoterms 2000 website. The seller clears the goods for export and pays for delivery. The goods are delivered - not unloaded or cleared for import - when they arrive at the named place at the frontier of the importing country but outside the customs border. The buyer clears the goods for import and is responsible for all costs and risks from this point.

Dangerous goods note: document required when shipping hazardous or potentially hazardous goods.

DDP: delivered duty paid (named place of destination). This is an Incoterm. Find more information about Incoterms at the Incoterm 2000 website. The seller clears the goods for export and pays for delivery to the named destination. The seller meets all the costs and risk of clearing the goods for import, though the buyer may agree to bear some of the costs. The goods are delivered when they arrive, cleared for import but not unloaded, at the named destination.

DDU: delivered duty unpaid (named place of destination). This is an Incoterm. Find more information about Incoterms at the Incotyerms2000 website. The seller clears the goods for export and pays for delivery. The goods are delivered when they arrive at the named destination place, not cleared for import or unloaded. The buyer is responsible for clearing the goods for import and the associated costs and risk, though the seller can agree to bear some of these costs.

DEQ: delivered ex quay (named port of destination). This is an Incoterm. Find more information about Incoterms at the Incoterms 2000 website. The seller clears the goods for export and pays for delivery. The goods are delivered when they're placed on the quay at the named port of destination. The buyer is responsible for clearing the goods for import and associated costs, unless agreed otherwise.

DES: delivered ex ship (named port of destination). This is an Incoterm. Find more information about Incoterms at the Incoterms 2000 website. The seller clears the goods for export and pays for delivery. Delivery occurs when the goods are placed at the disposal of the buyer on board the ship at the named port of destination. From this point the buyer bears the costs and risks of clearing the goods for import and unloading.

Distributor: overseas agent which sells for a supplier directly and maintains an inventory of the supplier's products. (See Commercial agent or sales agent).

Documentary collection: where you draw up a bill of exchange (see Bill of Exchange), which allows you to keep control of your goods and raise additional finance. An overseas bank, acting on your bank's behalf, will only release the documents necessary for your customer to take possession of goods once it formally accepts the terms of the bill. Documentary collections are typically used for exports outside the EU to customers you have an established relationship with.

Documentary credits: letters of credit are the most secure method of payment (other than payment in advance). Your customer arranges a letter of credit with its bank which pays a corresponding bank domestically - the advising bank - once you submit all the necessary documentation. An accurate and authentic “irrevocable” letter of credit, verified by your bank, carries little credit risk. Documentary credits are typically used for exports to customers you have not sold to before and for customers and countries that present particular credit risks.

Duty: you may be required to pay import duty if you are bringing goods into the country. There is no duty on goods that re in free circulation (See Free circulation with the EUL). For goods that are imported from outside the EU, the rate of duty depends on the product and the country of origin. Duty is based on the cost, insurance and freight value (ad valorem duties) of the goods. Rates of duty can vary suddenly and without warning and can have a significant effect on the value of the goods.

EFTA: European Free Trade Association, Members are Iceland, Norway, Liechtenstein and Switzerland.

Eurodollars: US dollars deposited in Europe.

Export Cargo Shipping Instruction (ECSI): the UK Government's official export credit agency. It helps UK manufacturers and investors trade overseas by providing them with insurance and backing for finance to protect against non•payment. Find information on the ECGD at the Export Credits Guarantee Department website.

Export invoice: part of the documentation needed if you ship your goods abroad. It should contain a full description of your goods, their price, weight and country of origin.

Export house: intermediary organisation between an exporter and a buyer.

Export licence: government document legally required for the export of certain goods such as pharmaceuticals, chemicals and munitions. It's the exporter's responsibility to obtain a licence if necessary.

Export packing list: this is attached to the outside of the package to be shipped and specifies the weight, volume and type of cargo.

Export preferences: preferential rates of duty charged on certain goods exported from the UK, in effect allowing the buyer to benefit from a lower or zero rate of Customs duty. To be eligible, your goods must satisfy a number of rules. Find out more about export preferences on the Customs and Excise website.

EXW: ex work. This is an Incoterm. Find more information about Incoterms at the Incoterms 2000 website. The seller makes the goods available to the buyer at their own premises or another named place. The buyer assumes all the costs and risks of loading and transporting the goods.

FAS: free alongside ship. This is an Incoterm. Find more information about Incoterms at the Incoterms 2000 website. The seller clears the goods for export. Delivery takes place when the goods are placed alongside the relevant ship at a named port. From this point the buyer bears all costs and risks.

FCA: free carrier. This is an Incoterm. Find more information about Incoterms at the Incoterms 2000 website. The seller is responsible for clearing the goods for export and delivering them to a specified place. This could be the seller's premises or those of a carrier or freight forwarder. The place of delivery determines who is responsible for loading or unloading the goods. Once the goods are delivered the buyer bears all costs and risks.

FOB: free on board. This is an Incoterm. Find more information about Incoterms at the Incoterms 2000 website. The seller clears the goods for export and delivers when the goods are passed over the ship's rail at the specified port. From this point on the buyer bears all costs and risks.

Foreign and Commonwealth Office (FCO): government department responsible for foreign affairs. With the Department of Trade and Industry, the FCO manages British Trade International to support international trade by UK exporters and boost inward investment by overseas firms in Britain.

Foreign-currency accounts: it may be more convenient for you to set up foreign-currency which is volatile or very weak. Some currencies present extra difficulties - for example, there may be exchange controls requiring government approval before you can exchange a particular currency.

Forwarding agent: most smaller importers use a forwarding agent to handle customs clearance for goods coming into the UK from outside the EU.

Forward foreign exchange contract: exporters can hedge against the risk of adverse exchange rate movements by using a forward foreign exchange contract. You agree to sell the bank a particular foreign currency at a fixed future date for a price that is set now.

Free circulation: goods are in free circulation in the EU if they originate from an EU country or have already been imported, all customs charges paid, into an EU country.

Free trade zone: port designated by a country's government for duty-free entry of non-prohibited goods.

Freight forwarder: if you want to send goods overseas you'll normally need the services of a freight forwarder. The forwarder quotes for freight costs and other charges, prepares most of the freighting and customs documents, arranges marine insurance and attends to other freighting details.

Groupage: this allows exporters of small consignments to gain the benefits of containerisation. A freight forwarder undertakes to group together different exporters' consignments to fill a whole container for a particular destination.

Import license: some countries may require import licences for certain or all goods. As an exporter it's normally your customer's responsibility to comply with import procedures, but it's a good idea to check they're doing so.

Import paperwork: Goods imported from outside the EU require a range of import documentation and may also need an import licence. Goods in free circulation within the EU generally require minimal documentation. But if your imports exceed £221,000 you must provide Intrastat (see Intrastat) declarations to Customs for statistical purposes. And, some goods need special documentation.

See handling Logistics and paperwork.

Incoterms (International Commercial Terms): agreed rules which set out the delivery terms for goods which are traded internationally. They allow the buyer and seller to agree responsibilities for the carriage of the goods, customs clearance and a division of costs and risks. The current version of Incoterms, agreed in 2000, contains 13 terms. They are grouped into categories covering various modes of transport. Find more information about Incoterms at the Incoterms website.

Inspection certificate: sometimes required by the importer's country to confirm that the shipped goods meet its national specifications.

Insurance policy: should cover goods for at least their full value (110 per cent is common), and include details of quantity and route. Where necessary, it should also provide for time extensions and transhipments.

Intrastat: system for collecting statistics on the physical trade in goods (i.e. the actual movement of goods) between the member states of the European Union threshold must complete Instrastat supplementary declarations. Find more information in the guide to Intrastat on the UK Trade Info Website.

Inward processing relief (IPR): if you intend to re-export goods you've imported after processing them, you can apply for inward processing relief. This means VAT and duty only become payable if you decide to sell your goods in the UK or if you fail to meet the conditions of the scheme.

Letter of credit: banking mechanism that allows importers to offer secure terms to exporters. (See Documentary credits).

Marking: letters, numbers and other symbols placed on cargo to enable it to be identified more easily.

Marine insurance: warehouse-to-warehouse insurance that covers exporters transporting goods overseas for losses they can't legally recover from the carrier. Despite its name, it covers all transport modes. (See also Credit-risk insurance)

Movement certificate: required where goods are being exported from the EU to a country covered by EU trade agreements. These certificates ensure preferential rates of duty on an exporter's goods.

MTS (Multilateral Trading System): the processes through which large numbers of countries agree to trade with each other. The World Trade Organisation is part of this system.

NCTE: Customs and Excise's new computerised transit system, introduced in 2003.

NES: Customs and Excise's new export system, introduced in 2002.

Open account: a trade arrangement under which goods are shipped by an exporter without guarantee of payment. This is similar to offering credit to a customer, with the exporter bearing all the risks of offering credit. Open account payment should only be used if you have an established relationship with the buyer and I typically for exports within the EU.

Open General Import Licence: available from the Department of Trade and Industry, this allows the import of most goods from outside the EU without licensing formalities. But some goods require a special licence and are listed in a schedule to OGIL.

Open insurance policy: marine insurance policy that applies to all shipments made by an exporter over a period of time rather than a single shipment. (See Marine insurance.)

Payment in advance: an exporter may be able to negotiate these terms for all or port of its shipment. The exporter bears no risks or financing cost. Payment or part-payment in advance is typically used for low-value sales to individuals or new customers.

Pre-shipment inspection (PSI): a few countries require goods and documents to be examined before export by an independent agency. In some countries it's optional but can be requested by the customer. Usually, countries where PSI applies have appointed one dedicated agency to perform the pre•shipment inspection. Normally, your freight forwarder or customer will be able to advise on the necessary arrangements.

Pro forma invoice: invoice provided by an exporter to an import customer before shipping. Typically used when the importer has to organise foreign exchange or get an import licence.

Quota: quantity of a particular type of goods that a country allows to be imported before levying duty or restrictions.

Quotation: offer to sell goods at a stated price and under specified conditions.

Reduced rate of duty: some goods can be imported at a nil or reduced rate of customs duty because they originated in a preference country or are from a non-EU country and qualify for a temporary suspension of customs duty. Get more information on which countries get preference and temporary suspension of customs duty on the Customs and Excise website. (See also Tariff quotas.)

Re-exports: goods temporarily imported into a country and then exported again. Because they are only imported temporarily, the importer or agent is usually permitted to reclaim some or all of the import duty and VAT paid on the goods. Usually the importer must comply with special customs control procedures, such as specific warehousing regulations. (See also Inward processing relief.)

Single Administrative Document (SAD): also known as the C88, this document must be completed for all exports, imports and goods crossing the EU. Find more information about the SAD at the Customs and Excise website.

SITPRO (formerly The Simpler Trade Procedures Board): public body which aims to help businesses trade more effectively across national borders and cut the red tape associated with international trade. Find information about SITPRO at the SITPRO website.

Standard industrial classification (SIC): standard numerical code used by the UK Government to classify products and services.

Standard international trade classification (SITC): standard numerical code system developed by the United Nations to classify commodities used in international trade.

Standard shipping note: document completed by the exporter which tells destination ports and container depots how the goods should be handled. A dangerous goods note must also be sent with hazardous goods.

Tariff: customs duties on imports of goods. They give price advantages or parity to similar locally produced goods and raise revenues for the government that levies them.

Tariff quotas: European Union (EU) system to allow the importation of limited amounts of certain goods (sometimes from specified countries) at a rate of duty lower than would otherwise apply.

Terms of delivery: cover the division of responsibility for the costs of an export or import sale and for the risk of loss or damage in transit.

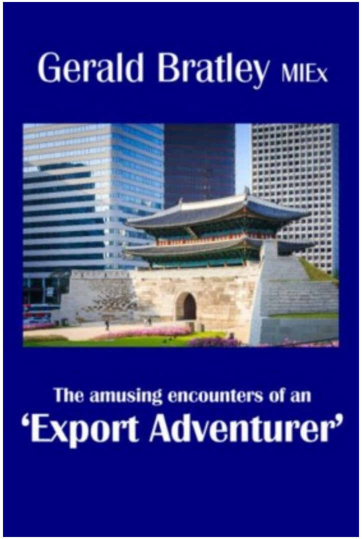
TIR: transports internationaux routiers. International system that allows goods to be packed in a container under customs inspection at point of origin. The container can then pass across all national frontiers without being opened by customs officers.

UNCTAD: United Nations Conference on Trade and Development. Main arm of the United Nations General Assembly dealing with trade, investment and development issues.

VAT: value added tax - in general terms VAT is payable on all imports at the same rate that would apply to the product or service if supplied in the UK. Many exports are zero-rated for VAT. There are complex rules surrounding VAT on imports and exports, and businesses should seek advice form the Customs and Excise National Advice Service Enquiry Line on Tel 0845 010 9000. Find more information on VAT rules on imports and exports at the Customs and Excise website.

World Trade Organisation (WTO): intergovernmental organisation set up in 1995 to negotiate and administer trade agreements, handle trade disputes and monitor national trade policies.

Other books by the author



The Export Adventurer – Read an account of the authors Export adventures from the 1960's right up to date.