



# Finance of International Trade

2nd edition

ALASDAIR WATSON



REPUBLICA DE COLOMBIA  
FACTURA CONSULAR

1- País de origen United Kingdom  
2- País de origen United Kingdom  
3- Lugar de destino 12.3.19....  
4- Nombre del barco o Compañía Aerea M.V. Perseus, Atila  
5- Consignatario Madero y Asociados Cotacachi Co. London  
6- Destinatario Madero y Asociados Jose Ferrn Rompos  
7- Nombre del capitán 28  
8- Número de embarque a pte 17  
9- Nombre de destino Barranquilla

Contenedor y Peso de la carga	País de origen	País de destino	No. de contenedores	Observaciones
28 contenedores	1,778	1,972	1,750	96
				Exitting machine

025- 6195 0411

British airways

JOHN WATSON & CO.  
CHIEF CLERK 6  
CHURCH  
LONDON

P. POSE VENTILAS LTD  
100 KING STREET  
LONDON

C. Graham

C. Graham

5-5-19

LONDON

CERTIFICATE/REPORT

OF

SUPERINTENDENT COMMISSIONER

Général de Surveillance SAJ

As all parts of Australia

MEMO CO-OPERATIVE MILLS LTD.,

RAY

1,000 Bags AUSTRALIAN NO. 1  
GRAIN 1000

1000

MEMO CO-OPERATIVE MILLS LTD.,

MOVEMENT CERTIFICATE

EUR.1 No. J 492116

THE EUROPEAN ECONOMIC COMMUNITY

1. Exporter (Name, full address, country)  
KIPPA Export Ltd  
High Street  
Burlington-on-Dever, 2815 172  
England  
VAT No. 541 0255 77

2. Certificate used in preferential trade between

3. Country, group of countries or territory in which the products are consigned as originating

4. Country, group of countries or territory of destination

5. Remarks

6. Transport details (Optional)

7. Gross weight (kg or other measure)  
10540  
5600  
kg

8. Net weight (kg or other measure)  
10540  
5600  
kg

that on the 22nd June, 1972, we have

above-mentioned consignment, and certify to

above.

1. SINGH: Fifty-four tons, eight hundredweight, all quarters

2. SINGH: Seventeen hundredweight quarter, eleven pounds

3. SINGH: Fifty-four tons, all quarters, seven hundredweight

In Containers Nos. EMU 273112, 273113, 273114, 273115, 273116, 273117, 273118, 273119, 273120, 273121, 273122, 273123, 273124, 273125, 273126, 273127, 273128, 273129, 273130, 273131, 273132, 273133, 273134, 273135, 273136, 273137, 273138, 273139, 273140, 273141, 273142, 273143, 273144, 273145, 273146, 273147, 273148, 273149, 273150, 273151, 273152, 273153, 273154, 273155, 273156, 273157, 273158, 273159, 273160, 273161, 273162, 273163, 273164, 273165, 273166, 273167, 273168, 273169, 273170, 273171, 273172, 273173, 273174, 273175, 273176, 273177, 273178, 273179, 273180, 273181, 273182, 273183, 273184, 273185, 273186, 273187, 273188, 273189, 273190, 273191, 273192, 273193, 273194, 273195, 273196, 273197, 273198, 273199, 273200, 273201, 273202, 273203, 273204, 273205, 273206, 273207, 273208, 273209, 273210, 273211, 273212, 273213, 273214, 273215, 273216, 273217, 273218, 273219, 273220, 273221, 273222, 273223, 273224, 273225, 273226, 273227, 273228, 273229, 273230, 273231, 273232, 273233, 273234, 273235, 273236, 273237, 273238, 273239, 273240, 273241, 273242, 273243, 273244, 273245, 273246, 273247, 273248, 273249, 273250, 273251, 273252, 273253, 273254, 273255, 273256, 273257, 273258, 273259, 273260, 273261, 273262, 273263, 273264, 273265, 273266, 273267, 273268, 273269, 273270, 273271, 273272, 273273, 273274, 273275, 273276, 273277, 273278, 273279, 273280, 273281, 273282, 273283, 273284, 273285, 273286, 273287, 273288, 273289, 273290, 273291, 273292, 273293, 273294, 273295, 273296, 273297, 273298, 273299, 273300, 273301, 273302, 273303, 273304, 273305, 273306, 273307, 273308, 273309, 273310, 273311, 273312, 273313, 273314, 273315, 273316, 273317, 273318, 273319, 273320, 273321, 273322, 273323, 273324, 273325, 273326, 273327, 273328, 273329, 273330, 273331, 273332, 273333, 273334, 273335, 273336, 273337, 273338, 273339, 273340, 273341, 273342, 273343, 273344, 273345, 273346, 273347, 273348, 273349, 273350, 273351, 273352, 273353, 273354, 273355, 273356, 273357, 273358, 273359, 273360, 273361, 273362, 273363, 273364, 273365, 273366, 273367, 273368, 273369, 273370, 273371, 273372, 273373, 273374, 273375, 273376, 273377, 273378, 273379, 273380, 273381, 273382, 273383, 273384, 273385, 273386, 273387, 273388, 273389, 273390, 273391, 273392, 273393, 273394, 273395, 273396, 273397, 273398, 273399, 273400, 273401, 273402, 273403, 273404, 273405, 273406, 273407, 273408, 273409, 273410, 273411, 273412, 273413, 273414, 273415, 273416, 273417, 273418, 273419, 273420, 273421, 273422, 273423, 273424, 273425, 273426, 273427, 273428, 273429, 273430, 273431, 273432, 273433, 273434, 273435, 273436, 273437, 273438, 273439, 273440, 273441, 273442, 273443, 273444, 273445, 273446, 273447, 273448, 273449, 273450, 273451, 273452, 273453, 273454, 273455, 273456, 273457, 273458, 273459, 273460, 273461, 273462, 273463, 273464, 273465, 273466, 273467, 273468, 273469, 273470, 273471, 273472, 273473, 273474, 273475, 273476, 273477, 273478, 273479, 273480, 273481, 273482, 273483, 273484, 273485, 273486, 273487, 273488, 273489, 273490, 273491, 273492, 273493, 273494, 273495, 273496, 273497, 273498, 273499, 273500, 273501, 273502, 273503, 273504, 273505, 273506, 273507, 273508, 273509, 273510, 273511, 273512, 273513, 273514, 273515, 273516, 273517, 273518, 273519, 273520, 273521, 273522, 273523, 273524, 273525, 273526, 273527, 273528, 273529, 273530, 273531, 273532, 273533, 273534, 273535, 273536, 273537, 273538, 273539, 273540, 273541, 273542, 273543, 273544, 273545, 273546, 273547, 273548, 273549, 273550, 273551, 273552, 273553, 273554, 273555, 273556, 273557, 273558, 273559, 273560, 273561, 273562, 273563, 273564, 273565, 273566, 273567, 273568, 273569, 273570, 273571, 273572, 273573, 273574, 273575, 273576, 273577, 273578, 273579, 273580, 273581, 273582, 273583, 273584, 273585, 273586, 273587, 273588, 273589, 273590, 273591, 273592, 273593, 273594, 273595, 273596, 273597, 273598, 273599, 273600, 273601, 273602, 273603, 273604, 273605, 273606, 273607, 273608, 273609, 273610, 273611, 273612, 273613, 273614, 273615, 273616, 273617, 273618, 273619, 273620, 273621, 273622, 273623, 273624, 273625, 273626, 273627, 273628, 273629, 273630, 273631, 273632, 273633, 273634, 273635, 273636, 273637, 273638, 273639, 273640, 273641, 273642, 273643, 273644, 273645, 273646, 273647, 273648, 273649, 273650, 273651, 273652, 273653, 273654, 273655, 273656, 273657, 273658, 273659, 273660, 273661, 273662, 273663, 273664, 273665, 273666, 273667, 273668, 273669, 273670, 273671, 273672, 273673, 273674, 273675, 273676, 273677, 273678, 273679, 273680, 273681, 273682, 273683, 273684, 273685, 273686, 273687, 273688, 273689, 273690, 273691, 273692, 273693, 273694, 273695, 273696, 273697, 273698, 273699, 273700, 273701, 273702, 273703, 273704, 273705, 273706, 273707, 273708, 273709, 273710, 273711, 273712, 273713, 273714, 273715, 273716, 273717, 273718, 273719, 273720, 273721, 273722, 273723, 273724, 273725, 273726, 273727, 273728, 273729, 273730, 273731, 273732, 273733, 273734, 273735, 273736, 273737, 273738, 273739, 273740, 273741, 273742, 273743, 273744, 273745, 273746, 273747, 273748, 273749, 273750, 273751, 273752, 273753, 273754, 273755, 273756, 273757, 273758, 273759, 273760, 273761, 273762, 273763, 273764, 273765, 273766, 273767, 273768, 273769, 273770, 273771, 273772, 273773, 273774, 273775, 273776, 273777, 273778, 273779, 273780, 273781, 273782, 273783, 273784, 273785, 273786, 273787, 273788, 273789, 273790, 273791, 273792, 273793, 273794, 273795, 273796, 273797, 273798, 273799, 273800, 273801, 273802, 273803, 273804, 273805, 273806, 273807, 273808, 273809, 273810, 273811, 273812, 273813, 273814, 273815, 273816, 273817, 273818, 273819, 273820, 273821, 273822, 273823, 273824, 273825, 273826, 273827, 273828, 273829, 273830, 273831, 273832, 273833, 273834, 273835, 273836, 273837, 273838, 273839, 273840, 273841, 273842, 273843, 273844, 273845, 273846, 273847, 273848, 273849, 273850, 273851, 273852, 273853, 273854, 273855, 273856, 273857, 273858, 273859, 273860, 273861, 273862, 273863, 273864, 273865, 273866, 273867, 273868, 273869, 273870, 273871, 273872, 273873, 273874, 273875, 273876, 273877, 273878, 273879, 273880, 273881, 273882, 273883, 273884, 273885, 273886, 273887, 273888, 273889, 273890, 273891, 273892, 273893, 273894, 273895, 273896, 273897, 273898, 273899, 273900, 273901, 273902, 273903, 273904, 273905, 273906, 273907, 273908, 273909, 273910, 273911, 273912, 273913, 273914, 273915, 273916, 273917, 273918, 273919, 273920, 273921, 273922, 273923, 273924, 273925, 273926, 273927, 273928, 273929, 273930, 273931, 273932, 273933, 273934, 273935, 273936, 273937, 273938, 273939, 273940, 273941, 273942, 273943, 273944, 273945, 273946, 273947, 273948, 273949, 273950, 273951, 273952, 273953, 273954, 273955, 273956, 273957, 273958, 273959, 273960, 273961, 273962, 273963, 273964, 273965, 273966, 273967, 273968, 273969, 273970, 273971, 273972, 273973, 273974, 273975, 273976, 273977, 273978, 273979, 273980, 273981, 273982, 273983, 273984, 273985, 273986, 273987, 273988, 273989, 273990, 273991, 273992, 273993, 273994, 273995, 273996, 273997, 273998, 273999, 274000, 274001, 274002, 274003, 274004, 274005, 274006, 274007, 274008, 274009, 274010, 274011, 274012, 274013, 274014, 274015, 274016, 274017, 274018, 274019, 274020, 274021, 274022, 274023, 274024, 274025, 274026, 274027, 274028, 274029, 274030, 274031, 274032, 274033, 274034, 274035, 274036, 274037, 274038, 274039, 274040, 274041, 274042, 274043, 274044, 274045, 274046, 274047, 274048, 274049, 274050, 274051, 274052, 274053, 274054, 274055, 274056, 274057, 274058, 274059, 274060, 274061, 274062, 274063, 274064, 274065, 274066, 274067, 274068, 274069, 274070, 274071, 274072, 274073, 274074, 274075, 274076, 274077, 274078, 274079, 274080, 274081, 274082, 274083, 274084, 274085, 274086, 274087, 274088, 274089, 274090, 274091, 274092, 274093, 274094, 274095, 274096, 274097, 274098, 274099, 274100, 274101, 274102, 274103, 274104, 274105, 274106, 274107, 274108, 274109, 274110, 274111, 274112, 274113, 274114, 274115, 274116, 274117, 274118, 274119, 274120, 274121, 274122, 274123, 274124, 274125, 274126, 274127, 274128, 274129, 274130, 274131, 274132, 274133, 274134, 274135, 274136, 274137, 274138, 274139, 274140, 274141, 274142, 274143, 274144, 274145, 274146, 274147, 274148, 274149, 274150, 274151, 274152, 274153, 274154, 274155, 274156, 274157, 274158, 274159, 274160, 274161, 274162, 274163, 274164, 274165, 274166, 274167, 274168, 274169, 274170, 274171, 274172, 274173, 274174, 274175, 274176, 274177, 274178, 274179, 274180, 274181, 274182, 274183, 274184, 274185, 274186, 274187, 274188, 274189, 274190, 274191, 274192, 274193, 274194, 274195, 274196, 274197, 274198, 274199, 274200, 274201, 274202, 274203, 274204, 274205, 274206, 274207, 274208, 274209, 274210, 274211, 274212, 274213, 274214, 274215, 274216, 274217, 274218, 274219, 274220, 274221, 274222, 274223, 274224, 274225, 274226, 274227, 274228, 274229, 274230, 274231, 274232, 274233, 274234, 274235, 274236, 274237, 274238, 274239, 274240, 274241, 274242, 274243, 274244, 274245, 274246, 274247, 274248, 274249, 274250, 274251, 274252, 274253, 274254, 274255, 274256, 274257, 274258, 274259, 274260, 274261, 274262, 274263, 274264, 274265, 274266, 274267, 274268, 274269, 274270, 274271, 274272, 274273, 274274, 274275, 274276, 274277, 274278, 274279, 274280, 274281, 274282, 274283, 274284, 274285, 274286, 274287, 274288, 274289, 274290, 274291, 274292, 274293, 274294, 274295, 274296, 274297, 274298, 274299, 274300, 274301, 274302, 274303, 274304, 274305, 274306, 274307, 274308, 274309, 274310, 274311, 274312, 274313, 274314, 274315, 274316, 274317, 274318, 274319, 274320, 274321, 274322, 274323, 274324, 274325, 274326, 274327, 274328, 274329, 274330, 274331, 274332, 274333, 274334, 274335, 274336, 274337, 274338, 274339, 274340, 274341, 274342, 274343, 274344, 274345, 274346, 274347, 274348, 274349, 274350, 274351, 274352, 274353, 274354, 274355, 274356, 274357, 274358, 274359, 274360, 274361, 274362, 274363, 274364, 274365, 274366, 274367, 274368, 274369, 274370, 274371, 274372, 274373, 274374, 274375, 274376, 274377, 274378, 274379, 274380, 274381, 274382, 274383, 274384, 274385, 274386, 274387, 274388, 274389, 274390, 274391, 274392, 274393, 274394, 274395, 274396, 274397, 274398, 274399, 274400, 274401, 274402, 274403, 274404, 274405, 274406, 274407, 274408, 274409, 274410, 274411, 274412, 274413, 274414, 274415, 274416, 274417, 274418, 274419, 274420, 274421, 274422, 274423, 274424, 274425, 274426, 274427, 274428, 274429, 274430, 274431, 274432, 274433, 274434, 274435, 274436, 274437, 274438, 274439, 274440, 274441, 274442, 274443, 274444, 274445, 274446, 274447, 274448, 274449, 274450, 274451, 274452, 274453, 274454, 274455, 274456, 274457, 274458, 274459, 274460, 274461, 274462, 274463, 274464, 274465, 274466, 274467, 274468, 274469, 274470, 274471, 274472, 274473, 274474, 274475, 274476, 274477, 274478, 274479, 274480, 274481, 274482, 274483, 274484, 274485, 274486, 274487, 274488, 274489, 274490, 274491, 274492, 274493, 274494, 274495, 274496, 274497, 274498, 274499, 274500, 274501, 274502, 274503

# Finance of International Trade

2nd edition

by  
Alasdair Watson

THE INSTITUTE OF BANKERS  
10 Lombard Street, London EC3

First published: June 1976  
Second edition: September 1981

**This edition copyright © 1981 The Institute of Bankers and A.J.W. Watson**

This book is copyright and all rights are reserved. No part of it may be reproduced, stored in a retrieval system or transmitted in any form or by any means electronic, mechanical, photocopying, recording or otherwise without the prior permission of The Institute of Bankers in writing.

Any reference to a person of one sex in this publication is to be taken as including a reference to the other sex, unless otherwise specified.

ISBN: 0 85297 059 5

Prepared by Hobsons Press (Cambridge) Limited, Bateman Street, Cambridge  
CB2 1LZ.

Printed in Great Britain.



# Preface

---

The second edition of *Finance of International Trade* not only incorporates all relevant developments since mid-1976 but also includes important new material. Foreign currency financing has been expanded to accord with the importance placed upon it by the relaxation of controls. Tender bonds and performance and similar types of guarantee, together with sections on merchanting, forfaiting and composite currency units, are included for the first time. There is a wider treatment of the foreign currency capital markets than was contained in the first edition, and, of course, account has been taken of the changes to all transactions brought about by the abolition of UK exchange control in October 1979.

The text and the up to date documents which illustrate it are intended to assist all students who seek to acquire the background information necessary to an understanding of the finance of foreign trade, foreign exchange and support services provided by London's financial institutions for importers, exporters and merchants.

The book is also designed for exporters and businessmen who need a basic understanding of financing the movement of goods, or an introduction to funding techniques in foreign currencies. The essential information contained in Chapter 1, sections 1-8, is intended specifically for the exporter and for those engaged in providing services for exporters.

I have concentrated in particular on the needs of students studying for the following examinations:

- i Finance of International Trade – Banking Diploma – *The Institute of Bankers*
- ii Financial Institutions and the Monetary System – direct entry to the Financial Studies Diploma – *The Institute of Bankers*
- iii International Trade and Finance of Overseas Trade – *Institute of Export*
- iv Finance of International Trade – *The Institute of Freight Forwarders*
- v International Trade and Payments – A foundation course in Overseas Trade – *British Overseas Trade Board*.

Past examination questions from some of the above syllabuses are given at the end of each chapter, and relate to the subject matter covered.

I have placed considerable emphasis on the integration of theory with practice, and have thus sought to stimulate independent thought on the part of the reader. The text includes numerous lists of facts and references to specimen documents and examples which are designed to illustrate the interrelationship of the subject matter.

All technical subjects seem to have attracted their own jargon, language or terminology over the years which, though common knowledge to the practitioner, may be confusing to the learner. To help the reader understand specialised jargon, buzz words, etc, and to pick up principles easily, I have included several new glossaries for ready reference. These appear in Chapters 2,3,4,5,7,8 and 10; they explain and describe terms used in the context of each chapter's particular subject matter. It is quite possible that the reader may find the same technical word, such as 'negotiation', appearing in different contexts in different chapters. It may also come as a surprise to the reader to note the number of different technical meanings the word 'credit' has in the vocabulary of the

fully fledged professional international banker. No wonder we often suffer common misunderstandings about simple concepts.

There are certain areas of international business which are subject to frequent change, usually as a direct result of changes in the economic climate. Exchange control (there is still a need for a chapter on this subject, albeit a short one), the state of the foreign exchange market, developments in credit insurance and allied finance, and shipping documentation are particularly affected. As a result I have not dwelt on some of the more detailed technical aspects, but have endeavoured to state the general principles involved. I strongly recommend readers to study the following current publications:

*The Financial Times*

*Journal of The Institute of Bankers*

*Export and ECGD Services.*

The last is published free of charge and is available from the ECGD.

For the examination candidate there are four main subject themes in the various professional bodies' syllabuses that regularly feature in their examinations:

*a The methods of settlement of trade*

Why does open account trade favour the buyer, and to what extent? Why do advance payments provide the seller with the most secure position? What compromises are provided by means of clean or documentary collections, and by documentary credits? How do these work and what protection do they afford each of the trading parties?

*b Finance*

The meaning of the word 'finance' herein is the granting of credit to a buyer and/or provision of cash to a seller. Overdrafts, loans, negotiations, specialised advances, trade credit, factoring, leasing, hire purchase, forfaiting, discounting – are all associated with resolving the problem of the *timing* of settlement. A buyer normally wants to defer payment to assist his cash flow, whereas a seller wants his money as soon as possible. Finance usually relates to a lending technique often provided by banks to bridge the settlement timing problem of trading parties. One of the important techniques is the use of the documentary credit.

Examiners expect a thorough knowledge of how documentary credits function and a working knowledge of *Uniform Customs*. It is essential to know the advantages and protection that documentary credits afford to different parties; the procedures for establishing a credit; and the distinction between irrevocable and confirmed credits. Because of their practical importance these are questions that constantly recur; without a question on documentary credits no examination paper on finance of international trade would be complete. It is necessary to give a precise answer, for each examination question on the subject usually has a different 'slant', and no marks are gained if the answer is not directly relevant to the question set. Examiners look for evidence that the candidate knows:

- i* The basis of a documentary credit and its various types.
- ii* The benefits and disadvantages to both buyer and seller.
- iii* The means of settlement.
- iv* The nature of finance available.

*c Export Credits Guarantee Department (ECGD)*

The ECGD is assuming increasing importance in the finance of foreign trade, and this has been recognised by examiners. Recent papers have all included at least one

question on ECGD. Examiners look for up to date knowledge on this subject: they rarely get it.

It is essential to master the meaning of 'short-, medium- and long-term export finance', the risks involved and how the requisite finance is found. The parts played by the commercial banks, consortia and ECGD must be learnt. It is important for the candidate to keep abreast of all current developments, for conditions in this field change frequently.

Examiners may ask for detailed and accurate information regarding the different types of policies available to exporters. The candidate must know the different ways ECGD cover can be used to protect the exporter and the bank which may have provided finance for overseas sales.

*d Foreign exchange*

Examiners are fond of setting questions that require some knowledge of the theory and practice of foreign exchange. The theory requires good knowledge of 'options', 'premiums' and 'discounts' – both the definitions of these terms and how to apply the principles. These are attractive questions for candidates who have really studied the subject, and marks are gained for correct definitions and the ability to choose correct rates, thereby displaying a full understanding of the problems posed.

*Alasdair Watson, FIB, FIE<sub>x</sub>, MBIM*  
*June 1981*

# Acknowledgements

---

In the first edition of this book, published in 1976, the author recorded his thanks to several experienced bankers and teachers who had kindly read and commented on his original manuscript. Their assistance was invaluable in the preparation of a new book that has since become one of the most popular of the textbooks published by The Institute of Bankers.

Since 1976, considerable changes have taken place in the financing of international trade and its documentation. This second edition, updated to June 1981, therefore contains much new material including most of the documents that now illustrate the text. The author and The Institute of Bankers would like to express their appreciation and gratitude to the following who have freely given their advice and/or assisted in obtaining suitable specimen documents for reproduction in this second edition of the book:

L.A. Barlow	(Williams & Glyn's Bank)
C.A. Brooks	(Midland Bank)
C.P. Dunham	(SITPRO)
C.A. Freebury	(SITPRO)
R.H. French	(British Insurance Association)
J.N. Gordon-Graham	(Lloyds Bank)
H.G. Sinclair	(Beecham Research International)
B.S. Wheble, CBE, Hon. FIB	(ex-Brown Shipley & Co.)
V.H. Wilding	(ex-Midland Bank)
C.W.G. Wilson	(Institute of Freight Forwarders)
M.H. Wright	(Glaxo Holdings)

and to The International Chamber of Commerce for granting permission to reproduce the texts of three of their publications – No. 290 *Uniform Customs and Practice for Documentary Credits* (1974), No. 322 *Uniform Rules for Collections* (1978), and No. 325 *Uniform Rules for Contract Guarantees* (1978); to the Export Credits Guarantee Department for permission to reproduce their flow chart of ECGD Services; to FIATA for permission to reproduce a set of their specimen documents; to Blue Star Line Ltd. for permission to reproduce a specimen of their bills of lading; and to the Simplification of International Trade Procedures Board (SITPRO) for their permission to reproduce the documents illustrated on pages 62, 66, 67, 75, 76, 77, 119, 137, 138, 139, 140 and 141.

[SITPRO, 26 King Street, London SW1Y 6OW, will be pleased to provide details of its export documentation systems, services, and publications for those requiring further information.]

In preparing this edition of the book, the author has very much appreciated the helpful advice and assistance given to him by the individuals and organisations to whom he has expressed his thanks; but he wishes to emphasise that the responsibility for the views expressed in this book rests with him and not with The Institute of Bankers or those who have been kind enough to offer their advice.

Finally, the author would like to thank the National Westminster Bank, The Institute of Bankers and members of his family, without whose assistance this publication would not have been possible.

# Contents

---

## CHAPTER ONE: PRINCIPLES OF INTERNATIONAL TRADE AND THE ROLE OF LONDON'S FINANCIAL INSTITUTIONS

Sections:	1. Introduction to international trade	1
	2. Export markets – where to start	2
	3. Sources of information	3
	4. Methods of selling abroad	5
	5. Permissions exporters may require	6
	6. Market conditions	7
	7. Risk assessment and decision making	8
	8. List of export services provided by banks	10
	9. Introduction to London's financial institutions	10
	10. The Bank of England	13
	11. Clearing banks	13
	12. The overseas branch of a joint stock bank	14
	13. Merchant and investment banks	17
	14. Banking groups	18
	15. Other financial institutions	19
	<i>Past examination questions</i>	21

## CHAPTER TWO: CLEAN PAYMENTS AND SETTLEMENT

Sections:	1. Introduction	23
	2. Open account trade	25
	3. Advance payments	26
	4. <i>Vostro</i> accounts	26
	5. <i>Nostro</i> accounts	27
	6. Other foreign currency accounts	28
	7. Bankers' drafts	29
	8. Mail payment orders and cable payment orders	29
	9. Methods of reimbursement	31
	10. Cheques	32
	11. Travellers' cheques	33
	12. Open credit facilities	34
	13. Travellers' letters of credit	35
	14. Foreign notes and coin	35
	15. Means of settling debts incurred in international trade	36
	16. Glossary of terms used in this chapter	38
	<i>Past examination questions</i>	39

## CHAPTER THREE: SHIPPING TERMS AND DOCUMENTS OF FOREIGN TRADE

Sections:	1. Introduction and shipping terms	41
	2. Commercial documents	44
	3. Official documents	46



<b>Chapter Three: Shipping Terms and Documents of Foreign Trade</b> ( <i>continued</i> )	
Sections:	
4. Insurance documents	48
5. Transport documents	51
6. Financial and financing documents	56
7. Glossary of terms used in this chapter	58
<i>Specimen documents</i>	62
<i>Past examination questions</i>	112

## **CHAPTER FOUR: COLLECTIONS**

Sections:	
1. Introduction	113
2. Parties involved in a collection	114
3. Clean collections	114
4. Sight and term bills of exchange	115
5. Documentary collections	116
6. The collection order	117
7. Advantages and disadvantages to the exporter	118
8. Advantages and disadvantages to the importer	120
9. Protection of goods	120
10. Protest	121
11. Clauses on bills of exchange	122
12. Collections in foreign currency	123
13. Specific requirements of overseas importing authorities	124
14. <i>Uniform Rules for Collections</i>	125
15. Bank considerations when remitting bills	130
16. Bank considerations when collecting bills	131
17. Negotiation as a means of finance	131
18. Advances against collections	133
19. Bank considerations when negotiating bills	133
20. Acceptance credit lines	134
21. A set of shipping documents being sent for collection	135
22. Glossary of terms used in this chapter	146
<i>Past examination questions</i>	147

## **CHAPTER FIVE: DOCUMENTARY CREDITS**

Sections:	
1. Introduction	149
2. Parties concerned with a credit	150
3. Revocable, irrevocable and confirmed credits	151
4. Credits as a means of international settlement	152
5. The procedure of establishing a credit	152
6. Bank considerations on issuing a credit	153
7. Considerations affecting the applicant	157
8. Considerations affecting the beneficiary	158
9. Bank position on advising or confirming a credit	159
10. Reimbursement under a credit	160
11. Negotiable credits	161
12. Liability of banks handling credits	161
13. <i>Uniform Customs and Practice for Documentary Credits</i>	162
14. Discrepancies, indemnities and amendments	172
15. Foreign currency credits	175

**Chapter Five: Documentary Credits (continued)**

Sections:	16. Back to back credits and counter credits	176
	17. Transferable credits	179
	18. Transit credits	180
	19. Clean reimbursement credits	181
	20. Revolving credits	182
	21. Credits as a means of international finance	182
	22. Acceptance credits and discounting	183
	23. Pre-shipment finance	184
	24. Refinance arrangements	186
	25. The use of credits for other than the international movement of goods	187
	26. A set of documents presented under a credit	188
	27. Key legal cases	213
	28. Glossary of terms used in this chapter	215
	<i>Past examination questions</i>	219

**CHAPTER SIX: CREDIT INSURANCE AND PREFERENTIAL EXPORT FINANCE**

Sections:	1. Introduction – the benefits and problems of granting credit	220
	2. ECGD	221
	3. The London credit insurance market	223
	4. ECGD comprehensive short-term guarantees (insurance policies)	224
	5. Specific guarantees and special policies	226
	6. Assignment of ECGD policies	227
	7. Short-term direct ECGD bank guarantees	227
	8. Medium- and long-term direct guarantees	229
	9. Refinance and interest make-up scheme	232
	10. Direct investment cover	232
	<i>Past examination questions</i>	233

**CHAPTER SEVEN: TRADE FINANCE AND GUARANTEES**

Sections:	1. Introduction and glossary of terms used in this chapter	235
	2. Financial facilities for UK exporters	237
	3. Financial facilities for UK importers	239
	4. Financial facilities for merchanting trade	243
	5. Guarantees given by banks	245
	6. <i>Uniform Rules for Contract Guarantees</i>	249
	7. The Harbottle case	253
	<i>Specimen documents</i>	254
	<i>Past examination questions</i>	264

**CHAPTER EIGHT: FOREIGN EXCHANGE**

Sections:	1. Introduction and glossary of terms used in this chapter	265
	2. Spot rates of exchange and how they are determined	268
	3. Rates of exchange for different transactions	269
	4. Forward rates and how they are determined	273
	5. Close-out of forward contracts	277
	6. Extension of forward contracts	277
	7. Protection against exchange risks, and invoicing policy	278

**Chapter Eight: Foreign Exchange** (*continued*)

Sections:	8. Supply and demand	283
	9. International interest rates	284
	10. Confidence	285
	11. Leads and lags	287
	12. Balance of payments	288
	13. Central bank operations in the foreign exchange market	288
	14. 'Hot' money	290
	15. The cost of forward cover, and the relationship between the domestic and Euro interest rates	291
	16. Press reports	293
	17. Composite currency units	294
	<i>Past examination questions</i>	295

**CHAPTER NINE: EXCHANGE CONTROL**

Sections:	1. Introduction	297
	2. An outline of exchange controls in force in the UK to October 1979	297
	3. The effect of exchange control abolition in the UK	300
	4. Exchange control abroad	300
	<i>Past examination questions</i>	301

**CHAPTER TEN: INTERNATIONAL FUNDING AND FINANCING**

Sections:	1. Introduction and glossary of terms used in this chapter	303
	2. Summary of a bank's foreign currency funding sources	312
	3. How a bank may employ its foreign currency funds	314
	4. Euro-currency	314
	5. Certificates of deposit	319
	6. Eurobonds	320
	<i>Specimen documents</i>	324
	<i>Past examination questions</i>	330

<b>INDEX</b>	331
--------------	-----

# Principles of International Trade and the Role of London's Financial Institutions

---

## 1. INTRODUCTION TO INTERNATIONAL TRADE

A company with a healthy home market for its goods may consider exporting to be a waste of time and effort. This is usually an ill-advised policy, for the following reasons. If the home market is the only market, a company is more exposed to falling demand than if its products are being sold in several. For the same reason fund managers spread their investment portfolios over several stock exchanges to obtain a spread of risk over several markets. This spread of risk acts as a buffer and will enable a manufacturer to ride out recession periods more easily, particularly if the export markets were established when the home market was booming. A wider market should lead to lower unit costs; and the expansion of sales might prompt improved automation and production techniques, which in turn will lead to goods being priced more competitively, or to greater profits being made. A well-developed export market will often lead to economic growth, improved productivity, higher levels of employment, greater profits from which to pay higher wages, and yield an improved return to stockholders, as well as a safer margin against redundancy and failure during periods of recession.

The importance to the United Kingdom of exporting is well known since we often have a trade deficit which needs to be funded, sometimes by the falling value of our currency (sterling devaluation) and sometimes by foreign ownership of UK assets (the purchase of UK investments by non-residents of the UK). The falling value of sterling puts up the price of imports which of course include a large proportion of our raw materials and food, often being paid for immediately. On the other hand, exports are said to become more competitive as the value of sterling falls, but the exporter must pay for raw materials which then cost him more to import. Moreover, the exporter does not necessarily receive the proceeds from his manufactured goods straight away, and there will be a time lag between the effect of the inflationary costs of imports and the receipt of payments for goods which are often sold on credit terms abroad. It may be argued that apart from the obvious benefits to the balance of payments, an increase in UK exports will

tend to lower inflation and increase the value of sterling. Over the last 30 years or so successive British governments have recognised the prime importance of exports in the UK economy. This is manifested in the proliferation of services offered by government departments (see section 3 of this chapter, and Chapter 6). Further stimulus has been developed by the Queen's Award for Export Achievement and the training of staff involved in exporting led by the Institute of Export and the British Overseas Trade Board.

## 2. EXPORT MARKETS—WHERE TO START

'There are those who make things happen': fortunately these are usually the right things; but, to achieve results, *drive* is essential.

'There are those to whom things happen': very often the wrong things; this is frequently called bad luck but is often just bad management arising from lack of imagination and drive.

'There are those who are even unaware of what is happening': a successful businessman knows that continuous, accurate and up to date information plays a vital part in the success of a venture.

Most exporters have the drive required to achieve results by the well-tested formula of 'research', 'assess', 'decide', 'act', applied on a *continual* basis.

The sheer volume of information which can be obtained by an exporter is often daunting and can easily prove unmanageable. Unless one is selective it tends to be of little practical use. To someone new to exporting an answer to these basic questions is essential:

- i What information do I need?
- ii Where do I get it?
- iii What is relevant to my particular needs?
- iv What reliance can I place on the information?
- v How often should I review the information?

The first area for research is usually the product or service to be sold. A detailed study of this will help to establish the parameters for further research along more meaningful lines and probably at lower cost.

The kind of information which *could* be obtained before deciding whether to enter an export market will vary from company to company. It will depend primarily upon the nature of the goods manufactured or services provided, and also upon a company's *scale* of operations. Capital goods, consumer goods, and services each demand separate techniques. However, the information in general which exporters should consider is contained in this chapter. Consider the wide differences of approach between:

- i A manufacturer of capital goods designed to meet the specific requirements of each buyer.
- ii A manufacturer making a standard, unalterable product with sales linked to a well-developed home market.
- iii A manufacturer of consumer goods that may be varied without excessive cost or difficulty, given six to 12 months' notice of a need for design or production changes.
- iv A manufacturer of goods that can only be varied in a limited way and at considerable cost.
- v A service industry wishing to expand its network of finance operations/services internationally.

The emphasis in each of the above cases will be quite different, although the basic principles will be the same. Whether or not an outside professional research agency is employed, the steps which should be taken are as follows:



- obtain as much background information available in the UK as possible, particularly about the subject matter referred to in sections 4,5,6 and 7 of this chapter
- visit the market(s) for further on the spot research or to find or train an agent, or to plan sales campaigns, or to visit customers
- obtain a marketing survey in the market itself

### 3. SOURCES OF INFORMATION

#### a Technical Help for Exporters (THE)

THE was established in 1966 by the British Standards Institution (BSI) and the British Overseas Trade Board (BOTB) to assist manufacturers and distributors to overcome the problems of translating technical documents and complying with the many standards applicable to individual countries. Preliminary discussions between THE representatives, designers and production manager can save an exporter both time and money if he is entering a new export market.

#### b The Department of Trade and Industry

*Export Service and Promotions Division* provides information and advice as follows:

- i Specific trade opportunities.
- ii Computerised export intelligence service.
- iii *British Business* (journal).
- iv Market assessments.
- v Invisible exports.
- vi Project information.
- vii Tariff and import regulations abroad.
- viii Foreign samples.
- ix Help with overseas business missions.
- x Finding a buyer or representative.
- xi UK buying houses for overseas stores.
- xii Foreign importers.
- xiii Commercial standing of overseas traders.
- xiv Resolving commercial disputes.
- xv Manufacture under licence: sale of know-how.
- xvi Group Export Representation Scheme.
- xvii Export marketing research.

*Overseas Projects Group* (part of Export Development Division) co-ordinates official support for overseas projects.

*Commercial Relations and Exports Divisions* provide information and advice on:

- i Protection of commercial interests abroad.
- ii Exporting to communist countries.
- iii Tariff advantages overseas.
- iv Export prohibitions and restrictions.
- v Security export controls.
- vi Exchange control abroad.
- vii Documentation procedures.
- viii Export documentation for statistics.
- ix Reducing work on export documents.

*Statistics and Market Intelligence Library* provides:

- i Statistics, trade directories, catalogues.
- ii Overseas market surveys and development plans, etc.

*Fairs and Promotions Branch* provides support for:

- i Trade fairs and exhibitions.
- ii Direct support for joint ventures.
- iii British pavilions.
- iv Information stands.
- v All-British trade fairs.
- vi British weeks.
- vii British shopping weeks.
- viii Store promotions.
- ix Outward missions.
- x Trade drives.

Information and advice are given free of charge, and the Fairs and Promotions Branch is prepared to meet certain expenses arising from export promotions established under its auspices.

### **c British Overseas Trade Board (BOTB) market entry guarantee scheme**

Designed to help the smaller and medium-sized firms in manufacturing industry break into new overseas markets, the scheme aims to capture a significant increase in market share for the UK. The BOTB will fund 50 per cent of the following overhead costs which must be incurred specifically in relation to a proposed venture and its defined market and products:

- i *Overseas office accommodation* Rental; property and contents insurance; maintenance; services; local property taxes; office equipment; office consumable supplies; purchase and running costs, or rental, of cars.
- ii *Staff costs* Salaries, recruitment and relocation costs in respect of overseas-based administration, sales and warehouse staff.
- iii *Training* Training in the selling and servicing of the venture product(s) of overseas-based staff only.
- iv *Travel and expenses* Travel and subsistence costs for overseas-based staff; and for home-based staff visiting the market directly in connection with a venture.
- v *Sales promotion* Advertising; publicity; sales literature specific to the venture market; product demonstration costs.
- vi *Overseas warehousing* Costs of storage facilities, including showrooms, under similar headings to those for overseas office accommodation.
- vii *Commercial and legal costs* Legal costs in setting up the overseas operation; external audit costs; costs/fees for patents, trade marks, licences, testing and approval of venture product(s) to local standards.

The exporter is required to pay a 3 per cent flat charge for the funding, and also to pay a levy on sales receipts. This levy will be calculated to recover the funding costs plus interest at commercial bank lending rates. This means that, provided the venture is successful, the exporter will be expected to repay funds provided initially plus interest at 2½ per cent over the average of the UK clearing banks' base rate. The minimum funding is £20,000 and the maximum £125,000, and it will only be made available on production of independently certified evidence of eligible costs having been incurred.

**d Other sources of information**

Association of British Chambers of Commerce	Finance Houses Association
Association for Industrial Marketing Research	Finance for Industry
Banks	Foreign and Commonwealth Office
BBC External Services	Foreign Press Association of London
British Export Houses Association	HM Customs and Excise
British Insurance Association	HM Diplomatic Service overseas
British Insurance Brokers' Association	HM Patent Office
British National Export Council	HM Stationery Office
British Overseas Fairs Ltd	Industrial and Trade Fairs Holdings Ltd
British Overseas Trade Board	Institute of Bankers
British Standards Institution	Institute of Credit Management
Central Office of Information	Institute of Export
Chambers of Commerce	Institute of Freight Forwarders Ltd
Chartered Institute of Patent Agents	Institute of London Underwriters
Confederation of British Industry	Institute of Marketing
Council of Industrial Design	Institute of Trade Mark Agents
Department of Trade and Industry	Market Research Society
Embassies	Post Office
Export Credits Guarantee Department	Trade Associations
	Trade Indemnity Co Ltd
	UK diplomatic representation abroad

**4. METHODS OF SELLING ABROAD**

Developing an export market means participation. A company cannot expect to be in a market and enjoy its benefits without effective commitment by way of appropriate representation. It is therefore relatively unusual for a manufacturer to deal directly with a user abroad, except in the field of capital projects. One-off direct sales abroad to unload spare production capacity after home sales are satisfied is not serious exporting and can ruin an exporter's opportunity to develop a new market properly.

The sale of goods abroad may be carried out through sales outlets in the UK, or through sales outlets abroad. Dealing with each in turn . . .

**a The UK-based outlets include:**

- i General merchants:* some are specialists in certain types of commodity, others have their own retail outlets such as stores; there are a number who will try to sell anything anywhere so long as there is a profit.
- ii Confirming houses:* some guarantee payment by the overseas buyer, others undertake to pay on behalf of the overseas buyer. There is normally no contact between manufacturer and buyer, which limits the flow of research information to the manufacturer. The exporter may derive benefits of reduced complexity in selling abroad by this method.
- iii Export houses:* do not normally act as agents of the foreign buyer, but will be prepared to purchase the goods themselves. They frequently undertake the shipping, packing and insurance documentation and procedures, and often can arrange finance if required.

**b The overseas-based outlets may be:**

- i A branch:* the alternative activities are local manufacturing or local assembly and sales, or just sales and after-sales servicing. There are obvious advantages in having the prestige of one's name represented abroad through a branch. However, major points to consider before taking such a step will include the questions of local taxation, the remittance of quasi-capital (as a branch cannot be incorporated locally), repatriation of profits, and local laws in respect of ownership and the employment requirements of locally recruited labour.
- ii A wholly owned subsidiary:* it sometimes pays to buy a going concern with the local expertise to go with it, rather than to establish a branch and train local staff from the beginning. The prestige value can still be obtained, but the purchase price to be paid might mean writing off a substantial figure to goodwill.
- iii A subsidiary with a controlling interest:* the prime role of such a subsidiary is normally the distribution and sales of the parent's products, not necessarily the subsidiary making a profit locally.
- iv An affiliate or trade investment:* one of the most common direct outward investments by UK companies. There is no control over the policy of the affiliate, but an equity holding often helps to cement a closer working relationship with a well-established institution in the market.
- v A representative or agency:* the type of agency will depend upon the agency agreement drawn up between the exporter and his overseas representative. The functions an agent may be asked to fulfil could include some or all of the following:
  - \* handling enquiries from potential buyers
  - \* giving or obtaining quotations and receiving orders
  - \* completing questionnaires on market conditions for the exporter
  - \* advising on sales policy, advertising and new products
  - \* dealing with complaints
  - \* assisting in obtaining payment (case of need; see Chapter 4)
  - \* keeping the exporter informed on local prices, competition, and technical information, and
  - \* generally protecting the exporter's interests

Sole agents are usually given exclusive rights in a specified area and do not deal with competitors' products; there is always the danger of a conflict of interests where general agents are concerned. Agents who hold stock are usually called distributors and they may also be required to provide after-sales servicing.

An exporter who is seeking assistance in establishing overseas representation as indicated in *i-v* above should consult his bank, the Department of Trade and Industry, and perhaps a law firm with experience of international commerce. Chambers of commerce and the Institute of Export may assist with agency agreements.

**5. PERMISSIONS EXPORTERS MAY REQUIRE**

When examining the permissions which may be required (they are listed below), exporters should consider the following questions:

- are these restrictions in force at present?
- how important are they?
- to what extent do they limit the marketing prospects?
- can they be avoided or can approval be specifically obtained?
- are there any impending regulations which will require permissions to be obtained?
- is there a history or likelihood of retro-active legislation?