

The Elements of Export Practice

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CHAPMAN AND HALL

LONDON

*First published 1979
by Chapman and Hall Ltd
11 New Fetter Lane, London EC4P 4EE*

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*Typeset by Inforum, Guildhall Square, Portsmouth
and printed in Great Britain by
J.W. Arrowsmith Ltd, Bristol*

ISBN 0 412 15610 5

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Distributed in the U.S.A. by
Halsted Press, a Division of John Wiley & Sons, Inc.,
New York

Preface

This book has been written to provide a basic overall understanding of the theory and efficient, practical, professional technique of exporting goods involving the complete, competitive, profitable export business contract. It is written in simple language and deals with documentation, Customs, export finance, packing, cargo insurance, the export office, the contract of affreightment, market research, dangerous cargoes, marketing, transport distribution analysis, freight rates, export facilitation organizations, together with many other aspects of this extensive subject.

It is intended not only for the student preparing for the export examination, but also for the person employed in the export/shipping office who wishes to further his or her knowledge of the subject. In short, it is an 'aide memoire' to those engaged in the industry and may be regarded as the 'exporters handbook.'

I was one of the four subject specialists responsible for the evolution of the Foundation Course in Overseas Trade introduced in 1975, and sponsored by the HM Government under the aegis of the British Overseas Trade Board. My subject was transportation and documentation. This book covers all the aspects of this subject and, therefore, is specifically recommended to students taking this course.

The book is also particularly commended to students taking export/shipping/transport examinations sponsored by the Institute of Export, Institute of Freight Forwarders Ltd, Institute of Marketing, Institute of Materials Handling, Institute of Traffic Administration, Institute of Road Transport Engineers, Institute of Chartered Shipbrokers, Chartered Institute of Transport, London Chamber of Commerce and Industry, University of London Diploma in Transport Studies, and the shipping certificate sponsored by the City of London Polytechnic and City of Liverpool College of Commerce. The book is also ideal for the student or export/shipping executive taking the short export induction courses often sponsored by local Chambers of Commerce.

In writing this book I am greatly indebted to the various organizations who have helped me so enthusiastically in their various contributions. These organizations appear under 'Acknowledgements'

and I am grateful for their help.

At my request, Mr D.W. Disley was responsible for Chapter 7 on export customs practice, and Mr H.B. Jackson, B.Sc. (Econ), F.I.Ex, FIB, for Chapters 1 and 9 on international trade and export finance respectively. Mr H.B. Jackson was a subject specialist colleague responsible for the International Trade and Payments under the Foundation Course in Overseas Trade and formerly Chief Executive Barclays Export and Finance Co. Ltd. Likewise Mr D.B. Cox was responsible for the diagrams. I am most grateful to all of them for their very significant contribution which has enriched the contents of the book.

Finally, I would like to record my grateful thanks for all the secretarial help given by lifelong family friends Mr and Mrs Splarn, who have undertaken similar tasks for my four previous publications. As always, I record with gratitude the help rendered by my wife in proof reading and her tolerance and enthusiasm involving many lost weekends.

A.E.B.

*19, The Ridings,
Emmer Green,
Reading,
Berkshire.*
January 1979.

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Foreword

*by Sir Frederick Catherwood,
Chairman of the British Overseas Trade Board*

The Foundation Course in Overseas Trade is now in its fourth year and is attracting hundreds of students to many centres throughout the United Kingdom. Much of its success is owed to the subject specialists who at the outset assisted the British Overseas Trade Board and the professional institutes concerned in drawing up the syllabus. Mr Branch, as the specialist on transportation and documentation, and subsequently as a moderator on this subject, has made a major contribution to the course.

For students and businessmen alike, there is a need to know more about export practice and I am sure this book will be of considerable help towards providing a more professional approach by all concerned. I wish it every success.

Acknowledgements

British Airways
British Overseas Trade Board
British Railways Board
British Shippers Council
British Standards Institution
Central Office of Information
Confederation of British Industry
Department of the Environment
Department of Transport
Export Credits Guarantee Department
Foreign and Commonwealth Office
Freight Liners Ltd
HM Customs and Excise
International Air Transport Association
Inter-Governmental Maritime Consultative Organisation
London Chamber of Commerce and Industry
Lufthansa Airline
Overseas Containers Ltd
Ozalid (UK) Ltd
Post Office — Overseas Post Division
Road Haulage Association
Simplification of International Trade Procedures Board

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CHAPTER 1

International Trade

Scope of book. Function of international trade. Survey of international trade. Commodity trades. Flow of manufactured goods. Multinational companies. Balance of trade and balance of payments. International organizations. Major trading areas of the world.

SCOPE OF BOOK

This book is written primarily for the student or businessman (export/shipping executive) who knows little or virtually nothing of export practice involving the processing of international trade. It aims to provide a basic overall understanding of the theory and efficient, practical, profitable technique of exporting goods involving the complete, competitive, export business contract. With this in mind, it deals with the salient aspects of the subject embracing transportation, documentation, rates, Customs, principal export facilitation organizations, export/shipping office, contracts of sale/affreightment, export packing, export agents, shipping/international trade terms/abbreviations, export research and marketing. It also examines cargo insurance and export finance also involving the Export Credits Guarantee Department.

Overall, it is written in a simple but lucid style. It reflects the author's very wide experience in the export industry spanning many years. This embraces not only work in the industry itself, but also as a lecturer/chief examiner of the subject at home and overseas, and as a member of a special four-man subject specialist team brought together to evolve for HM Government a Foundation Course in Overseas Trade sponsored by the British Overseas Trade Board. This was implemented in September 1975. Above all, the theme of export practice must be to develop international trade on a profitable basis and this book sets out to achieve this objective. Successful exporting is only realized through complete professionalism in the development and processing of international trade.

FUNCTION OF INTERNATIONAL TRADE

There are several reasons why nations began to trade with one

another. The distribution of natural resources around the world is somewhat haphazard: some nations possess natural ores and chemical deposits in excess of their own requirements while other nations have none. For example, Britain has large reserves of coal but lacks many minerals such as nickel, copper, aluminium etc, whereas the Arab states have vast oil deposits but little else. In the cultivation of natural products climate plays a decisive role. Some products will only grow in tropical climates whereas others, such as citrus fruits, require a Mediterranean climate. Moreover, some nations are unable to produce sufficient of a particular product to satisfy a large home demand, for example, Britain and wheat. These are the reasons why international trade first began but, with the development of manufacturing and technology, there arose another incentive for nations to exchange their products. It was found that it made economic sense for a nation to specialize in certain activities and produce those goods for which it had the most advantages, and to exchange those goods for the products of other nations which had advantages in different fields. This trade is based on the 'law of comparative costs'.

Economists maintain that it will be advantageous for mankind if people specialize in those occupations at which they have the greatest comparative advantage, or the least comparative disadvantage, leaving others to produce the goods and services for which they have little aptitude. This principle is the basis of specialization into trades and occupations. Today it is paramount in the theory of international trade. At the same time, complete specialization may never occur even when it is economically advantageous. For strategic or domestic reasons, a country may continue to produce goods for which it does not have an advantage. The benefits of specialization may also be affected by transport costs: goods and raw materials have to be transported around the world and the cost of the transport narrows the limits between which it will prove profitable to trade. Another impediment to the free flow of goods between nations, in accordance with the principle of comparative advantage, is the possible introduction of artificial barriers to trade, such as tariffs or quotas.

The benefits derived from the development of international trade are (i) cheaper goods because of the advantages possessed by the supplying country; (ii) a greater variety of products available to the con-

sumer; (iii) wider markets for the producing country conferring the economies of large scale production; and (iv) the overall growth of trade due to the reciprocal advantages.

SURVEY OF INTERNATIONAL TRADE

There is evidence of trading between nations as far back as the sixth century B.C. In those early days, the exchange of goods was conducted on a 'barter' basis now known as 'compensation trade.' Solomon exchanged food with the Lebanon against delivery of timber for the building of the Temple and early Phoenicians brought fabrics and dyestuffs to Cornwall in exchange for tin. A medium of exchange in the form of coins was introduced early in the fifth century B.C. These coins were exchanged weight for weight one country against another, where sufficient confidence existed in the metallic values. This, however, was not a foreign exchange system in the modern sense. In Roman times, some trading was carried on by exchange of coin and is the first evidence of a foreign exchange system. Money changers such as those ejected from the Temple were carrying on the dual function of bullion dealing and foreign exchange which now form distinct but related markets. From the end of the Roman Empire there was a considerable reversion to barter or the exchange of metallic coin by weight but, by the eleventh century A.D., money changing once more became an important profession. Money changers were found in places like Genoa and, during the time of the Papal Court in France, Avignon became the centre of foreign exchange where the wide variety of coins brought by visitors from all parts of the Christian world were freely exchanged. Medieval English coins made their way to the Low Countries and world expansion made foreign exchange important even in India and China.

From the thirteenth century onwards, bills of exchange gradually took the place of coin and the market in bills of exchange remained almost unchanged until the end of the eighteenth century. Throughout this period, the importance of London was increasing, although in the sixteenth and seventeenth centuries Antwerp and Amsterdam were probably more important. In the sixteenth century, there also appeared a system of forecasts of future exchange rates which in Holland, Belgium and Spain was mainly in the form of betting. From the French Revolution onwards, although bills of exchange remained of

greatest importance, mail transfers came into being and, throughout the nineteenth century, there was some development of forward exchange dealing. At that time, London lagged behind such centres as Vienna, Berlin, Trieste and St. Petersburg. This was mainly because, with the growing influence of Great Britain on world trade, a large proportion of that trade was expressed in sterling and London merchants had no need to buy or sell currencies, whilst abroad the need for a market in sterling against other currencies was obvious.

The conduct of international trade developed from a system of barter to the settlement for goods exchanged by means of an independent commodity, that is, metallic coinage, and then on to the bill of exchange and the bank note. At the same time, the medium of exchange was organized until the foreign exchange markets as we know them today were developed. As banking techniques and services were developed, the banks provided facilities for the smooth conduct of international trade: the foreign exchange markets enabled traders to conduct their business in any currency and exchange currencies freely one for another; and worldwide banking networks made the transfer of monies easier and quicker and provided economic and credit information. The activities of merchants made everyone more aware of what was available in other lands and so the desire to exchange goods became greater. Just as the means of payment had developed, so did the means of transport. With the development of shipping from the clipper through to steam, then oil-driven vessels and now the growth of container transport, the transfer of goods from one part of the world to another became quicker and safer. Alongside this grew the development of cargo insurance.

The basic requirements for the growth of international trade were provided and there then developed a variety of methods and expertise to assist in the conduct of that trade, for example, the services of export houses who were specialists in certain markets; the appointing of agents overseas; selling direct by travelling sales staff; setting up of branch offices or subsidiary companies in overseas markets; and group marketing to share expenses.

Everything would suggest that the 'law of comparative costs' could operate to its fullest extent to the benefit of all. Unfortunately, the pressures both economic and political under which individual nations exist have tended to impose barriers to the free flow of

goods. Home industries are protected by tariffs and quotas, Customs duties are imposed for revenue, the import of goods from certain countries prohibited, for example, the activities of the Arab nations against those firms selling to Israel, the formation of Customs Unions, for example, EFTA and the EEC. On the other hand, there have been the attempts by the more prosperous countries to facilitate the sale by the underdeveloped countries of their primary products.

COMMODITY TRADES

A commodity is any article of commerce of any kind, that is, anything that is for sale — goods, merchandise or produce. In modern marketing, however, the term is employed in a more restricted sense and as the opposite of 'manufactured goods'. It is used to describe any primary product or any raw material marketed internationally, either in its original state, for example, mineral ores, corn, cotton etc, or after the initial process which makes it acceptable as an industrial raw material, for example, metal ingots.

As already mentioned above, the essential factors of climate, topography and accessibility have led to commodities surplus to local requirements being produced for export, from certain areas of the world. Primary producers are increasingly aware of the importance of studying the requirements of their buyers, and adjusting their product accordingly. Whereas the producers of manufactured goods will assist in the marketing of their goods and often deal direct with the retailer, very few primary producers go further in the marketing process than to place their offers through intermediaries such as the merchant, broker or jobber. Moreover, in the marketing of manufacturers the 'market' is the chain of retailers nationwide but for the primary products (commodities) there are market places where buyers meet the sellers (or the merchants or brokers who deal for the sellers), and bargains are struck which conform to the self-imposed rules and regulations of the members of the market. Membership of the latter is exclusive.

Some of the most important commodity markets of the world are in England and particularly in London. The prices fixed in the London markets are reported daily in the financial press, which also comment on what is happening in foreign terminal markets such as New

York (for example, coffee).

Three different types of sale are practised in the London markets: sale of actual bulk of physical goods, sale by sample and sale by specification. Thus fruit, fish etc. is sold in bulk after inspection; imported frozen meat is sold by auction against sample at Smithfield; wool from Australia and New Zealand is auctioned on the Wool Exchange after inspection in warehouse; and at the daily meeting of the London Metal Exchange members buy and sell by specification such metals as copper, lead, tin and zinc. The Bullion Market meets twice daily, and the dealers both buy and sell gold and silver on behalf of their clients. All orders are tabled and the price is fixed to reflect the forces of supply and demand.

In markets where sale is by specification, the members have evolved through their associations standard specifications to which all conform. On the Metal Exchange 'lead' is defined as 'good soft pig lead' and on the Baltic Exchange there are international standards for grain. Rubber is in the form of 'latex' or 'sheet' conforming to standards laid down by the Rubber Trading Association.

Membership of any of these markets involves the firms concerned in compliance with established discipline as follows:

(1) Although transactions are verbally conducted, where the commodity is not immediately transferred to the buyer against payment, written confirmations are exchanged between buyers and sellers. These take the form of standard 'contracts' which have been evolved over time and must be employed by all parties.

(2) In the event of a dispute between any buyer and his seller, this is submitted to arbitration as laid down by the market authorities.

(3) Where any commodity is sold by specification, the established practice is for the actual quantity delivered by the seller to be inspected and the price adjusted to allow for divergences from standard.

Many of these markets have evolved an important form of 'futures' contract, usually for three months ahead. A 'future' is a contract by which the seller undertakes to deliver and the buyer undertakes to take delivery of a stipulated quantity of a standard commodity at a future date, the date and related price being fixed at the time the contract is entered into. This procedure enables dealers to safeguard their position against the risk of price fluctuations. It also enables dealers who are carrying stocks to 'hedge' against the