

PRINCIPLES OF

International Trade and Payments

THE INSTITUTE OF EXPORT



PETER BRIGGS



Principles of Export

Principles of International Trade and Payments

Peter Briggs

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Foreword

This book on International Trade and Payments is the third in our series of export texts.

Peter Briggs, the author, is a well-known adviser on export issues and brings a wealth of experience to bear on the subject in this well written book.

It is thoroughly recommended to all who are making a career in exporting.

The Earl of Limerick, President,
The Institute of Export

Series Editor's Introduction

In launching the third of this series of guidebooks to the profession of exporting, the series editor – along with others associated with the project – is pleased to welcome Peter Briggs as its author.

Like the book on legal issues, *Principles of International Trade and Payments* is necessarily more technical than some in the series. The author's contribution to the development of you, the reader, rests on his long experience as a trade finance consultant and I present this book with great pride to the exporting public.

There is another book in this series (*Principles of Physical Distribution*) which covers some of the same ground but in a different way; all the books are preoccupied with bringing products to foreign markets (what else is export about?) and this volume focuses on the essential aim of any exporter – obtaining payment by as secure and speedy a method as possible.

May I welcome you, the reader, and hope to meet you again as the other books in the series appear on all aspects of export which you need to know – law (for the non-lawyer), transport and distribution, international marketing, market research, and export management in addition to the first book in the series which is a review of the whole subject.

Michael Z. Brooke



About The Institute of Export Examinations

The Institute is grateful for the initiative of Michael Z. Brooke, the series editor, and Blackwell Publishers in publishing this unique series of books specially written for the Professional Examinations.

The authors for the series have been carefully selected and have specialized knowledge of their subjects, all being established lecturers or examiners for the Professional Examinations.

The books have been written in a style that is of benefit not only to students of The Institute but also to commercial organizations seeking further information about specific aspects of international trade.

Professionalism in export is vital for every company if they are to compete successfully in world markets and this new series of books provides a sound basis of knowledge for all those seeking a professional qualification in export through The Institute of Export's Professional Examinations.

The book covers the following parts of The Institute's syllabus.

International Trade and Payments

Objectives of the Syllabus

- 1 To describe the framework within which international trade is conducted.

- 2 To describe the terms and conditions on which trade is conducted.
- 3 To consider the means of financing export trade and their application.

General survey of international trade

- 1 Commodity markets – merchants, brokers, futures, etc.
- 2 Multinational companies – advantages and disadvantages.
- 3 Economic, commercial and political factors.
- 4 Balance of Payments including Balance of Trade.
- 5 Invisibles and capital movements.
- 6 Outline of international, financial and trade organizations, e.g. IMF, IBRD, GATT, EBRD.
- 7 Countertrade – barter, counterpurchase, buy-back, offset, switch trading, evidence accounts.
- 8 Trading with Eastern Europe.
- 9 Trading within the European Community.

Export prices and terms of sale

- 1 Quoting ex works to DDP build up of retail price, including packing, transport, insurance, duties, etc.
- 2 Agents' commission and/or distributors' mark ups.
- 3 Sales terms offered – open account, cash with order, cash against documents, Bills of Exchange D/P or D/A.
- 4 Documentary credits.
- 5 Credit management – status enquiries, fixing limits.

Foreign exchange

- 1 Quoting prices in buyers' currency.
- 2 Exchange risk – use of Forward Exchange market to eliminate risk – borrowing the foreign currency.

Collection of payment

- 1 Credit risk cover and transfer risk – Export Credit Insurance.
- 2 Degrees of risk according to terms of sale.
- 3 Open account sales – payment to be remitted by buyer – by mail transfer, telegraphic transfer, SWIFT, etc.
- 4 Bills of Exchange – collection procedure through exporter's bank (remitting) and overseas bank (collecting).
- 5 Uniform Rules for Collections – Protesting, Case of Need, etc.
- 6 Documentary credits.
- 7 Use of Export Houses – Sales to Export Merchants – sales through Confirming Houses.
- 8 Pick-a-back schemes. Group selling.
- 9 Factoring companies – administer sales ledger and collect payments.

Documentary credits

- 1 Irrevocable and revocable.
- 2 Confirmed and unconfirmed.
- 3 Transferable and back-to-back credits.
- 4 Revolving credits.
- 5 Acceptance credit facility – often from Acceptance Houses and linked to Documentary collections.
- 6 Red Clause credit.

Sources of bank finance

- 1 Negotiation of Bills of Exchange (Discount or Purchase).
- 2 Loans against collections outstanding – pledge by Letter of Hypothecation.
- 3 Banks' smaller (up to £1 million) and larger (over £1 million) Export Schemes – credit period 180 days (which may be extended) – by arrangement with Export Credit Insurance Companies. Banks provide non-recourse finance of up to 90% of invoice value for exporters who hold a credit insurance policy.

- 4 Banks smaller and larger Export Schemes as above but the Exporter is nominated as joint policyholder with bank.
- 5 Medium-term arrangement – bank provides post-shipment finance to exporter selling on credit terms of from two to five years from date of shipment against a specific unconditional guarantee from ECGD – finance at fixed rate.
- 6 Long-term finance – buyer finance – ECGD guarantees loans to overseas buyer and so enables supplier to be paid in cash. This principle also applies to provide finance to say a State organization for a basket of purchases.
- 7 Exporters selling on Open Account and using the services of a Factoring Company may also obtain advances from the Factor against outstanding debts.
- 8 Forfaiting – Forfeiter purchases Bills of Exchange without recourse drawn by exporter and accepted by overseas buyer which usually bears the aval or unconditional guarantee of buyer's bank.

Other trading methods

- 1 Consignment Trading.
- 2 Joint Ventures.
- 3 Royalty agreements.
- 4 Licensing.

Bank finance for imports

- 1 Security in the Documents of Title of the goods. Pledge to bank and subsequent release on Trust if required to effect sale.

Other documents of interest

- 1 Indemnities – to shipping company in case of absence of Bills of Lading or to bank to cover discrepancies in documents presented.
- 2 Bonds – Tender, Performance and Advance Payment. Situations

in which used – issued by UK Bank or its Correspondent in Buyer's Country – Types, On Demand and Conditional – Expiry dates and extensions – Unfair Calling.

R.T. Ebers FIEx,
Director of Education & Training,
The Institute of Export

Preface

During the years following the Second World War national leaders have variously described the export industry as a patriotic duty, a challenge and, in the best remembered comment, as fun. While the experienced exporter endeavouring to supply goods over barely adequate roads to an impoverished African country might smile wryly at the last description, the common factor to all these comments is that they were made in the knowledge that export is vital to the United Kingdom economy and our industrial and commercial sectors must be encouraged to exploit opportunities for selling abroad.

Of all the economic activities it is difficult to imagine one more relevant to our everyday lives than exporting. Without it we would be unable to earn the foreign exchange necessary to defray the costs of imports we require not only to supply raw materials, of which we have no indigenous source of supply or insufficient to provide the needs of industry, but also to enable us to enjoy a wide variety of consumer goods and commodities from abroad without which our standard of living would be severely prejudiced. The flexibility which exports provide to industry by ensuring a variety of markets, some perhaps in deep recession while others are not so adversely affected, is a source of strength and profitability. That same flexibility may also help to lessen the debilitating effects of recession-based unemployment since while, on occasion, recession can be worldwide, at other times export demand from some markets may reduce the

redundancies which might otherwise arise from stagnation or falling sales in the domestic or other markets.

The success or failure of our export industry, being the main contributor to the current account statement in our balance of payments, will also have a direct effect on fiscal policy as determined in the Chancellor's annual Budget and thus indirectly on the taxation to which we may be subject, and the interest rates which determine our ability to borrow, including the emotive subject of mortgages.

The exporter is thus carrying a responsibility not only for the success or otherwise of his or her own business but, in a real sense, for the well-being of the United Kingdom and the quality of living of its peoples. A nation is no more able than a company or individual to live beyond its means and to endeavour to do so can only result in the painful constraints and belt tightening which we, in common with other offenders, have suffered from time to time.

Success in exporting, as with many other activities, is much more likely to be achieved by the professional and not an amateur approach. Exhortations to export made in the past have not always been accompanied by the stress on professionalism required and the determination to make more widely available the assistance necessary to achieve that end. It has somehow been assumed that, as in the Olympic Games, the importance of exporting lies as much in the taking part as in succeeding. Alas, the contribution of the exporter whose sales are not carried through to the obtaining of payment cannot be described as other than negative.

Professionalism is attained by a combination of skills applied to different aspects of exporting. Other books in this series deal with a variety of such skills, and this volume with the essential aim of any exporter; obtaining payment by as secure and speedy a method as possible. We shall look briefly at the history of international trade and any lessons it may have for us and the structure or environment in which a would-be exporter has to operate; what we might perhaps describe as the rules of the game. Thereafter we follow the exporter's progress through the many financial pitfalls which may line the road to a successfully completed overseas sale and the receipt of settlement;

examining the individual risks and the ways in which they may be eliminated or minimized by the true professional.

To assist the student there is included at the end of this book a series of self testing questions, chapter by chapter, which will reveal if the salient facts have been understood. Additionally, that list is followed by one identifying, where appropriate, topics which could usefully provide the basis for company seminars seeking to apply the general principles to the specific circumstances of the company. The Institute of Export is able, upon request, to provide experts who can assist company executives in organizing and conducting such seminars.

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