PART V

FINANCING AND PAYMENT

14 International Trade

Overview

Companies selling internationally have a number of unique decisions to make before shipping an order. The first of these will be based on an analysis regarding the country in which a seller is planning to do business. Once the country risk is understood, a credit decision can then be made on the customer placing the order. Consideration should be given to how the shipment will be billed and financed.

The simplest way of extending credit is on open account, however, with this method comes the greatest risk. Other methods of payment include selling by means of various drafts, letters of credit and cash prior to delivery. All of these methods are used extensively in international trade and will be discussed later in this chapter.

THINK ABOUT THIS

Q. What factors must be considered while conducting business internationally versus domestically?

Q. What payment methods are used for international transactions and why?

Q. When does risk completely pass from seller to buyer, and what tools can be used to mitigate the risk of selling internationally?

DISCIPLINARY CORE IDEAS

After reading this chapter, the reader should understand:

- Country risk analysis versus international customer credit decisions.
- Common problems for the exporter.
- Different methods of international payment.
- Letters of credit.
- Commercial invoice.
- Sight drafts.
- Dated drafts.
- Incoterms®.
- The role of the freight forwarder.
- Credit insurance.
- Factoring and forfaiting.
- Bankers acceptances.
- Foreign exchange.

Chapter Outline

International Credit Decisions

Country Risk*

Background

When selling outside country boundaries, an exporter should take into account **country credit risk factors** such as the *political, economic, legal, cultural, geographical and financial risks of the countries where they are doing business.* The economy and business climate of any country is impacted by its policies and laws. Export sales credit decisions are impacted by the way trade is promoted or regulated, the politics of the government and the nationalism or political unrest of nations.

In many countries outside of the United States, the government may take a much larger role in economic development. For example, a large amount of construction may be driven by projects funded by the government either alone or blended with private investment. If a company stands to benefit from this situation, the credit professional should understand the philosophy of the current government and the likelihood of a change. In the case of a democratic country with periodic elections, a regime change in government can trigger a slowdown in payments during the transition as well as a change in investment priority. Anticipating and adjusting to this change may minimize exposure and risk.

Any number of events can impair a customer's ability to pay its overseas vendors. On the economic side, events can include currency devaluations, weak local demand, high inflation and the availability of foreign currency. On the political front, local instability will negatively impact the economy by harming investor and consumer confidence. Poor policy decisions can hurt local business conditions. Even more serious are threats of terrorism, revolutions or hostilities with other countries.

Foreign Exchange

When selling internationally, a critical consideration is the selling and receiving of currency. There are significant sales, treasury and tax implications. Each of these issues is reliant on the other and while credit is not generally considered in the actual transaction, it is important to realize potential problems which may become a credit issue. Often competitive reasons dictate the currency that will be used for the sale.

Both parties must be in agreement when selling/buying currency. A U.S. company, selling and expecting to be paid in U.S. dollars, must be aware that the purchaser may have to acquire U.S. dollars to pay in U.S. dollars. This may come at a gain or loss to the purchaser because of currency valuation differences. Global credit managers may find international customers extending payment terms while waiting for currency valuations to change. In some countries, it is not a simple matter of purchasing U.S. dollars with which to pay: for example, Venezuela has a Central Bank system which regulates the country's monetary policies. Buyers must apply to the Central Bank to receive funds to send outside the country which can take several months.

If sellers elect to be paid in the buyer's local currency, the same valuation issues between the local and foreign currency would occur. It is important to have treasury resources either in-house or with a bank to assist in determining the effects of these transactions because a currency exchange loss may have an impact on the seller's product margins.

Culture

Culture plays an important role in what an export customer expects from the relationship with the exporter. How credit information will be presented or in what form it is made available, and how negotiations are influenced by face-saving actions are all included in the cultural package that is part of the risk analysis process. The exporter has the extended role of not only analyzing the creditworthiness of the customer but also the need to evaluate the country itself as part of the business decision process.

Dimensions of Country Risk

The concept of country risk becomes a combination of factors that are critical in the risk assessment process for the international credit manager. Illustrated in Figure 14-1 is a tool that can be used by export credit managers in classifying the major risk issues and attributes of each risk by country. For example, in the "Current Economic Momentum" category, the credit professional may apply knowledge obtained through various direct and indirect sources of information. This information could be valuable if meeting with business management to determine if the current customer opportunity in a particular country has long-term implications for the seller. Political and Social Risks are an area that can severely impact the credit manager's ability to collect. While a company in another country may be well financed, with an excellent payment reputation, changes in the political make-up of the government may result in payments being frozen to creditors outside the country. Sources of valuable country risk material include FCIB, the Political Risk Letter written by the PRS Group (available through FCIB) and information published by global credit insurers or banks. This information includes topics specific to a country that need to be researched and evaluated including debt burden: the economic diversification of the country, reliability of available data and the stability of balance of payments.

It should be noted that country risk is mitigated in certain situations. For example, there are overseas customers who sell back to U.S. customers and collect receivables in dollars rather than local currency. Overseas apparel manufacturers buy cloth from U.S. suppliers, manufacture the garments in their country and then ship back to U.S. retailers. In these situations, exchange risk issues are minimized, and the customer may be able to borrow from local banks at rates comparable to U.S. interest rates, as opposed to the usually much higher rates offered in their own country.

**Country Risk section and figure 14-1 provided by Paul Beretz, CICE, Pacific Business Solutions, Clayton, CA.*

RWP 14-1

Real World Perspectives

GET ON THE PLANE, GET CREDIT 'STREET SMART'

As credit professionals, we like to think of ourselves as being street smart. We're not just somebody behind a desk saying, "Here's your limit; here's what to do." We deal with difficult situations and how to resolve them.

When dealing with foreign countries, sometimes using our street smarts can be more difficult. Their cultures and pressures differ. One of the best ways to address this problem is through travel. Visit the country. Talk to your customers. Talk to their customers, if possible. Learn about the problems that they face. This gives you an authentic, more complete view of what's happening in the country. Having sound street smarts about a country is very important. Otherwise, people will try to take advantage of you if you don't understand the places where you conduct business.

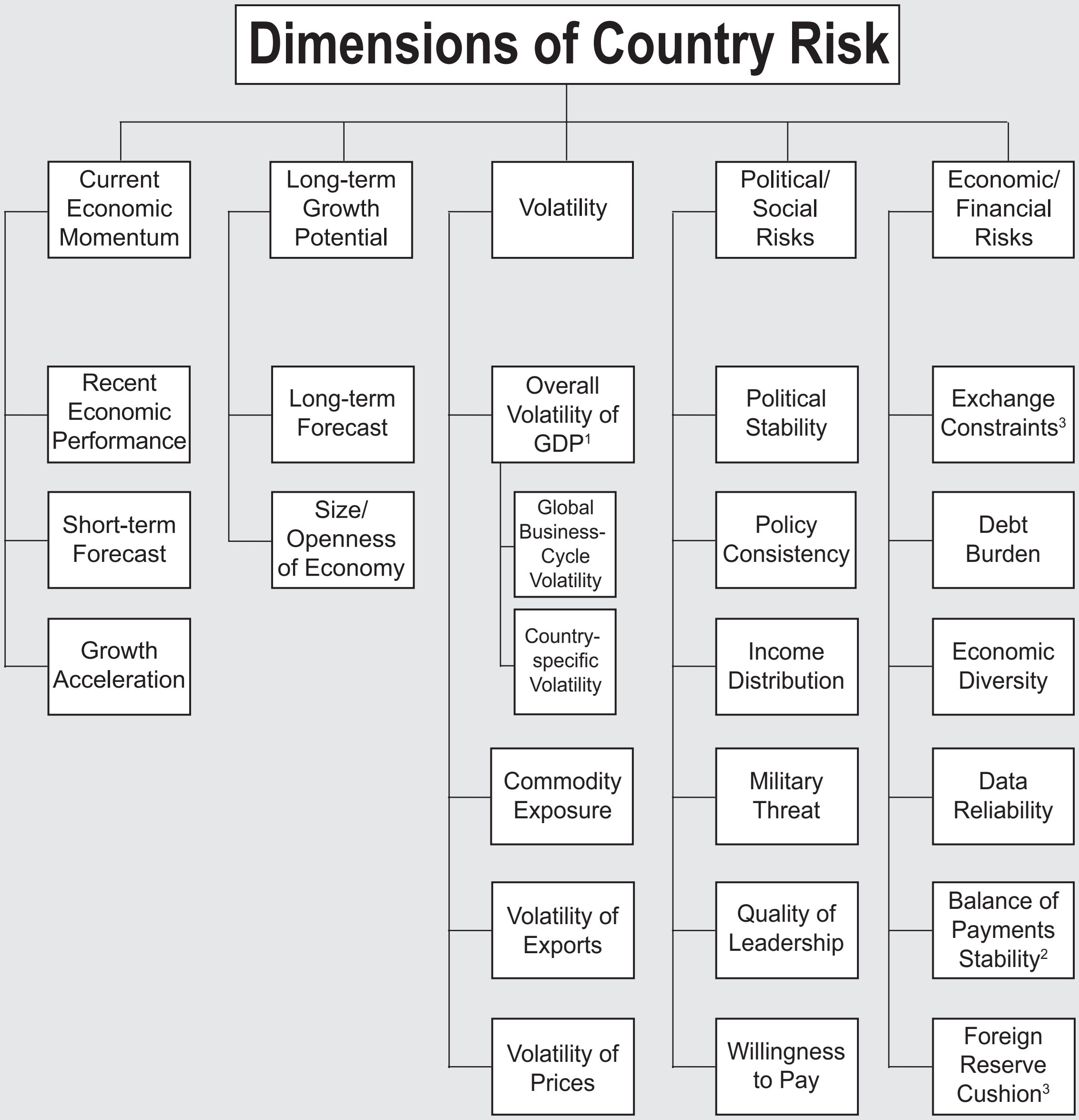
I went to Argentina in February to become educated about the pressures our gaming customers were feeling. We talked about how the government limits how much currency can be sent out of the country in any given month. The company may have the cash, but the government sets a cap. If it pays 80% of it to you, then how does it pay their other creditors? The customer has no control over the monthly amount allowed.

Companies, however, feel the most pressure from something I never would have considered, and it is not something you're going to learn by reading a mainstream newspaper: the soybean crop. It's one of Argentina's major exports. A good crop will free up cash in the country dramatically. Governments will have more to spend. Companies will have ready cash. Employees will have steady work and, thus, cash to spend in places like casinos.

The conversation doesn't always have to be about the debt they owe. Ask them about what they do and how they feel. Because I sat down with customers on the ground, I'm certain this will pay dividends the next time I do a deal with a business there. It already helped my company adjust our expectations. I can perform my job better when working within that country by knowing what I can do, what kind of terms I should be setting and when they're likely to make payments. Upper management was receptive to all of this information. Perhaps, it helped that I came back with a multi-million-dollar payment.

Darrell Horton, CICP, Director of Credit and Accounts Receivable, Aristocrat Technologies Inc.

Figure 14-1 **Dimensions of Country Risk**



[1] **Gross national product (GNP)** *is the total of ALL economic activity in a given country, regardless of who owns the productive assets and, therefore, includes everything produced in the country by both domestic and foreign ownership.*

[2] The **balance of payments (BOP)** *is a simple accounting record of international flows.* Financial inflows, such as receipts for exports or foreign investments in a domestic stock market, are recorded as credits or positive entries. Financial outflows, such as payments for imports or purchase of shares in a foreign stock market, are debits or negative entries. The current account covers trade in goods and services, **RIPDs** *(rents, interest, profits and dividends)* and transfers.

By definition, debits must equal credits so the net BOP must equal zero. Any references to deficits or surpluses reflect imbalances in individual accounts.

[3] *See* currency convertibility under Foreign Exchange section in this chapter.

Customer Risk

Once a decision to sell has been made on a country, investigating the customer in accordance with company policies can proceed. Credit information, using domestic references, can be exchanged as in any other credit transaction. However, exchanging credit information with foreign references can be time consuming and may produce little result. Because many foreign suppliers use credit insurance, references may not be as candid. International credit reports are often used to provide business and financial information not readily available through direct sources.

Financial information may be the most difficult to receive. Many foreign customers may refuse to disclose their financial statements. Unless they are a large or publicly owned company, those that do provide financial information may have more than one set of figures, depending on the needs of the time. It may be challenging for the credit professional to understand foreign financial information and accounting standards.

Export and Customs Compliance

Export and customs compliance are critical areas for the international credit professional. For example, the United States currently has a trade embargo prohibiting the movement of goods to the Crimea Region of Ukraine, Cuba, Iran, North Korea, Sudan and Syria (as of March 2016). Shipping into these countries from the U.S. comes with severe sanctions and penalties. Beyond specific countries, there are also denied persons lists, which include individuals, concerned parties and entities. These databases are provided by the Bureau of Industry and Security through the U.S. Department of Commerce and can be found at https://www.bis.doc.gov/index.php/policy-guidance/lists-of-parties-of-concern/denied-persons-list.

Equally important are specific sanctions or penalties imposed by the U.S. Department of Treasury. These sanctions vary in their restrictions and again, come with significant penalties for violation and may include financial fines and even jail time. There are approximately 28 sanction programs which may be found at https://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx.

Depending on the size of the company, or the magnitude of the international shipments, export and customs compliance may be handled internally or by an outside third party. In both cases, it should be assured that the persons or agencies responsible are fully aware of requirements and restrictions of shipping from one point to another, especially when crossing country borders. The main purpose of customs compliance is to protect the border, safeguard duty payments, control the flow of goods and enforce legal regulations.

It is also important to realize the regulatory compliance rules when exporting. For example, U.S. companies are always subject to U.S. law, regardless of where they are shipping from. There are always two sides to international transactions which require credit professionals to check the export laws of the country from which the shipment originates and the import laws of the country of the product's destination.

Comprehension Check
Define **country credit risk** and list resources that can be used to analyze the risk.

International Methods of Payment

Once the country and customer credit investigations have been completed, selling terms to the customer can be established. It is important to remember that the terms of sale being offered to the customer should not be more liberal than the threshold of terms established for the country. Part of this decision will be determined on the profitability of the product or service being sold. If the product or service has a large bottom line contribution, the seller should be willing to accept more risk; for products and services with a smaller profit margin, more restrictive terms should be considered.

The following methods of payment most likely to be used in international sales are:

Cash-in-Advance

With cash-in-advance payment terms, an exporter can avoid credit risk because payment is received before ownership of goods is transferred. For international sales, wire transfers and credit cards are the most commonly used cash-in-advance options available to exporters. Escrow services are another cash-in-advance option for small export transactions. However, requiring payment in advance is the least attractive option for the buyer because it creates unfavorable cash flow. Foreign buyers are also concerned that the goods may not be sent if payment is made in advance. Exporters who insist on this payment method as their sole manner of doing business may lose to competitors who offer more attractive payment terms. Cash-in-Advance terms include:

- **Cash With Order (CWO)** *is the most conservative term offered and most commonly used if the product or service is unique to the customer.*
- **Cash Before Delivery (CBD)** *is much the same as Cash with Order; however, it is normal to wait until the product or service is ready to ship before collecting the balance.*

Consignment

Consignment in international trade *is a variation of open account in which payment is sent to the exporter only after the goods have been sold by the foreign distributor to the end customer.* An **international consignment** transaction is based on *a contractual arrangement in which the foreign distributor receives, manages, and sells the goods for the exporter who retains title to the goods until they are sold.* Exporting on consignment is very risky as the exporter is not guaranteed any payment and its goods are in a foreign country in the hands of an independent distributor or agent. Consignment helps exporters become more competitive on the basis of better availability and faster delivery of goods. Selling on consignment can also help exporters reduce the direct costs of storing and managing inventory. The key to success in exporting on consignment is to partner with a reputable and trustworthy foreign distributor or a third-party logistics provider. Appropriate insurance should be in place to cover consigned goods in transit or in possession of a foreign distributor as well as to mitigate the risk of non-payment.

Open Account

An **open account transaction** *is a sale where the goods are shipped and delivered before payment is due, which in international sales is typically in 30, 60 or 90 days.* This is one of the most advantageous options to the importer in terms of cash flow and cost, but it is consequently one of the highest risk options for an exporter. Because of intense competition in export markets, foreign buyers often press exporters for open account terms since the extension of credit by the seller to the buyer is more common abroad. Exporters who are reluctant to extend credit may lose a sale to their competitors. Exporters can offer competitive open account terms while substantially mitigating the risk of non-payment by using one or more of the appropriate trade finance options.

Letters of Credit

Definition

A **letter of credit (L/C)** *is a written understanding by a bank (issuing bank), acting at the request and on the instructions of its customer (applicant for the credit)* to*:*

- Make payments to, or to the order of, a third party (beneficiary).
- Accept and pay bills of exchange (drafts) drawn by the beneficiary.
- Authorize another bank to effect such payment or to pay, accept, or negotiate such bills of exchange (drafts).

Letters of credit are one of the most secure instruments available to international traders. An L/C is useful when reliable credit information about a foreign buyer is difficult to obtain, but the exporter is satisfied with the creditworthiness of the buyer's foreign bank. An L/C also protects the buyer since no payment obligation arises until the goods have been shipped as promised. The terms and conditions of the credit must be complied with before payment, negotiation or acceptance can be made.

A variety of documents, including documentary requirements, may have to be presented for a drawing under a letter of credit, such as:

- A draft.
- A bill of lading or other transport document, which may be a document of title in negotiable form.
- A commercial invoice.
- A certificate of origin.
- An insurance policies or certificates.

International letters of credit are generally governed by the current International Chamber of Commerce (ICC) publication, the *Uniform Customs and Practices for Documentary Credits,* commonly referred to as UCP 600. An example of basic L/C requirements is shown in Figure 14-2. Standby letters of credit may be governed by UCP 600, International Standby Practices ISP98 or Article 5 of the Uniform Commercial Code.

Contents of the Letter of Credit

Banks normally issue letters of credit in computerized formats that clearly indicate the bank's name and the extent of the bank's obligation under the credit. In general, commercial letters of credit contain the following information:

- **Expiry date,** *which specifies the latest date for presentation of documents.* In this manner, and by including a latest shipping date, the buyer may exercise control over the date of shipment.
- **Name of the seller,** *who is also known as the beneficiary.*
- **Name of the buyer,** *who is also known as the applicant or account party.*
- **Amount of the credit,** *which should be the value of the merchandise plus any other charges the seller intends to collect under the credit.*
- **Tenor of the draft,** *such as at sight,* 90 days after date of shipment, *which is normally dictated by the terms of the sale contract or purchase order.*
- **General description of the merchandise,** *which briefly and in only a general manner describes the merchandise covered by the letter of credit.*
- **Shipping terms,** *such as FOB, FCA, CIP, indicating whether the price includes freight and insurance, where responsibility for damage to the goods changes, who is to arrange transportation.*
- **Documents required,** *which, under a commercial L/C, will normally include commercial invoices, original transport documents, and, if the insurance is to be effected by the seller, insurance policies or certificates.*

Participants under a Letter of Credit

The **buyer** or **importer** *is referred to as the* **applicant** *or account party.* The **beneficiary** *is the seller/exporter.* Upon the instructions of the **applicant** *(importer),* the issuing bank opens or issues the letter of credit. The **advising bank,** *usually a branch or correspondent of the issuing bank located in the beneficiary's local area, advises or checks the apparent authenticity of the letter of credit it transmits to the beneficiary.*

Figure 14-2 Letter of Credit Instructions

LETTER OF CREDIT INSTRUCTIONS

This format is for use in designing a Letter of Credit Instructions Form appropriate for your company.

Date:____________________

To:______________________

From:______________________________________
Address:___________________________________
City/State:_________________________________
Country:___________________ Zip Code:_________
Attn:_____________________________________
Telephone:_________________________________
Fax:______________________________________

RE: ☐ Our Pro-Forma Invoice # _______________________ Dated:_______________
☐ Your Purchase Order # _________________________ Dated:_______________
☐ Commercial Contract # _________________________ Dated:_______________

Gentlemen:

In connection with your above-referenced purchase, the following terms and conditions are for inclusion in your irrevocable letter of credit. We are providing you with these details as a confirmation of our understanding of the terms of sale covering this transaction. If these details do not agree with your understanding or if you are unable to comply with these terms and conditions, please notify us prior to the issuance of your letter of credit to avoid unnecessary delays and costs. Thank you for your patronage and cooperation.

1. The letter of credit must be issued no later than ______________ by a bank acceptable to us.
2. The letter of credit must be irrevocable and be subject to the 2007 Revision of the Uniform Customs and Practice for Documentary Credits published by the International Chamber of Commerce (UCP 600).
3. The letter of credit must state that it is available with any bank by negotiation.
4. The letter of credit must be opened with full details by SWIFT or tested telex

   In favor of: _______________________________
   ____
   Attn: _______________________________
   Telephone: _______________________________

   [indicate the company name and address you will use in your invoices; if this is ***not*** the address you want your L/Cs mailed to, give separate instructions for where this L/C is to be sent]

   While we will not initiate shipment until the actual letter of credit is received, it may expedite processing if you scan and email a copy of the letter of credit to [name] at [email address]. This must be a copy of your bank's actual SWIFT message sent to the advising bank. A copy of your letter of credit application is not sufficient.

5. The letter of credit must be payable in U.S. dollars for

   ☐ up to an amount of _________________
   ☐ an approximate amount of _________________

6. The letter of credit must be advised through an acceptable "prime" U.S. bank such as:

   [*list your preferred letter of credit advising banks*]

7. The letter of credit must authorize the advising bank to add its confirmation only if requested by beneficiary.
8. The letter of credit must authorize the negotiating bank to debit the issuing bank's account with a U.S. reimbursing bank with no deductions. It will expedite processing, and possibly reduce the reimbursing bank's charges, if your bank indicates their account number with the reimbursing bank in the L/C.
9. The letter of credit must be payable against drafts drawn, at the beneficiary's option, on the issuing bank, on the advising bank, or on the reimbursing bank. Drafts must be

   ☐ at sight
   ☐ at ______ days from the date of the transport document/forwarder's receipt.
   ☐ at ______ days from the date of the invoice.

Figure 14-2 Letter of Credit Instructions continued

10. The letter of credit must indicate:

    ☐ All banking charges outside the applicant's country, including any amendment charges, are for the account of the ☐ applicant ☐ beneficiary.
    ☐ Discount and acceptance charges for time drafts shall be for the account of the ☐ applicant ☐ beneficiary.
    ☐ Reimbursement related charges must be for the account of the issuing bank. Please instruct your bank to reflect this in their reimbursement authorization as well as in the letter of credit.

11. ☐ The letter of credit must be transferable by any bank.

12. ☐ The letter of credit must allow partial shipments.

13. The latest shipping date in the letter of credit must be at least ______ days after the issuance date of the L/C.

14. The letter of credit must allow a minimum of ______ days after the date of transport document/forwarder's receipt for presentation of documents. Add 14 days if any documents required must be consularized or legalized or if they include an inspection certificate issued by S.G.S. or similar inspection service. Expiration should be this same number of days after the latest shipment date at the counters of the negotiating bank.

15. The letter of credit must require the commercial invoice to describe the merchandise, in accordance with our pro-forma invoice, as (use only generic terms, avoiding details as to grade, quality, etc.):

    ____
    ____
    ____
    ____

☐ EXW (Ex Works, Ex Factory)	☐ cleared for export ☐ loaded on departing vehicle
☐ FCA (Free Carrier At)	☐ Seller's premises ☐ Consolidator's terminal in Seller's country ☐ Carrier's terminal ☐ Airport of departure
☐ CPT (Carriage Paid To)	☐ Customs terminal in Buyer's country ☐ Consolidator's terminal in Buyer's country ☐ Buyer's premises ☐ Airport of destination
☐ CIP (Carriage & Insurance Paid To)	☐ Customs terminal in Buyer's country ☐ Consolidator's terminal in Buyer's country ☐ Buyer's premises ☐ Airport of destination

16. If you have selected a freight forwarder who will be receiving the goods for consolidation and/or shipment, payment must be available against a Forwarder's Cargo Receipt showing merchandise consigned to/at disposal of yourselves. Otherwise the L/C must require either a multimodal transport document consigned to order of the issuing bank showing place of receipt as ________________ and place of delivery or final destination as ________________ or an air waybill consigned to yourselves showing airport of departure as ________________ and airport of destination as ________________ L/C must require the multimodal transport document or air waybill be marked "Freight Prepaid" if terms are CIP or CPT or "Freight Collect" if terms are EXW or FCA.

17. If terms are CIP, you may require a marine cargo insurance certificate covering

    ☐ All risks
    ☐ All risks including SRCC and War Risks

    If terms are EXW, FCA or CPT and we are arranging the shipment, you may require a copy of a cable or fax message to yourselves giving date and means of shipment and description and value of the goods shipped, certified by the beneficiary (ourselves) to be true and accurate and to have been sent no later than two days after shipment.

We anticipate receipt of your letter of credit conforming to these requirements.

Other banks may become involved in a letter of credit transaction. The **paying/accepting bank** *is the bank on which the draft is drawn. The* **negotiating bank** *is the bank that gives value for drafts and/or documents under the credit.* The **confirming bank** *is the bank that may, at the request of the issuing bank, confirm or obligate itself to the beneficiary to ensure payment and acceptance of a draft under the letter of credit, upon presentation of documents that are in compliance with the letter of credit.*

Types of Letters of Credit

Standby Letter of Credit. This is a letter of credit where *the issuing bank agrees to make payment upon the presentation of a document, preferably only a statement in writing by the beneficiary, that the customer did not pay according to terms.* In a trade transaction, for instance, a bank may issue a standby letter of credit on behalf of a buyer to provide assurances of their ability to perform under the terms of a contract with the seller. The parties involved with the transaction do not expect that the letter of credit will ever be drawn upon. The seller knows they can draw on the letter of credit if necessary. The seller is usually able to draw under the credit simply by presenting a draft and a statement that the buyer has not performed its payment obligation. The bank is obligated to make payment if the documents presented comply with the terms of the letter of credit. A standby L/C is issued by the bank and held by the seller. The buyer is provided open account terms. The seller pursues the customer for payment directly. If payments are made in accordance with the sellers' terms, the L/C would not be drawn on and would be allowed to expire. If the buyer is unable to pay, the seller presents a draft and required documents to the bank for payment.

Commercial Letter of Credit. This L/C is *a contractual agreement between the issuing banks, on behalf of one of its customers, authorizing another bank known as the advising or confirming bank, to make payment to the beneficiary.* Both commercial and standby letters of credit can be confirmed. The primary purpose of confirmation is to cover political and economic events that may impede the ability of an issuing bank in another country to honor the L/C. By getting the letter of credit confirmed, a seller will receive a guarantee from the confirming bank to disburse to it the amount of the letter of credit if that seller presents the documents required by the letter of credit to the confirming bank. Generally a seller will request that a trusted bank in that seller's country be tapped by the issuing bank to act as the confirming bank. Also called **Export/Import Letter of Credit** depending on who uses it.

Revocable Letter of Credit. This creates leverage for the issuer. It is contractually legal for one party to either amend or cancel the exchange at any time, normally without the consent of the beneficiary. These types of letters are not seen very frequently, since most beneficiaries do not agree to them, and the UCP has no provision for them.

Irrevocable Letter of Credit This is more common than revocable letters of credit. It stipulates that *no amendments or cancellations can occur without the consent of all parties involved*. Irrevocable Letters of Credit can either be confirmed or unconfirmed. Confirmed letters require that another financial institution guarantees the payment, which is usually the case when the beneficiary does not trust the other party's bank.

Confirmed Irrevocable Documentary Letter of Credit. This type of letter of credit transaction *transfers the payment responsibility from the customer to a bank, usually located in the same country as the seller, that did not open the letter of credit but agrees, at the request of the issuing bank, to be bound by the terms of the letter of credit.* The confirming bank agrees to make payment upon presentation of documents conforming to the contract of sale. It is important to understand that this is a documentary transaction. The bank will make payment upon presentation of documents that are in compliance with the letter of credit. No consideration is given to the quality of the product.

Irrevocable Documentary Letter of Credit. This type of letter of credit is similar to a confirmed irrevocable letter of credit except that *the payment responsibility lies with the bank that issued or opened the letter of credit.* This would normally be the buyer's or customer's bank. With this type of transaction, it is important to determine the financial responsibility of the foreign bank since it will be making payment.

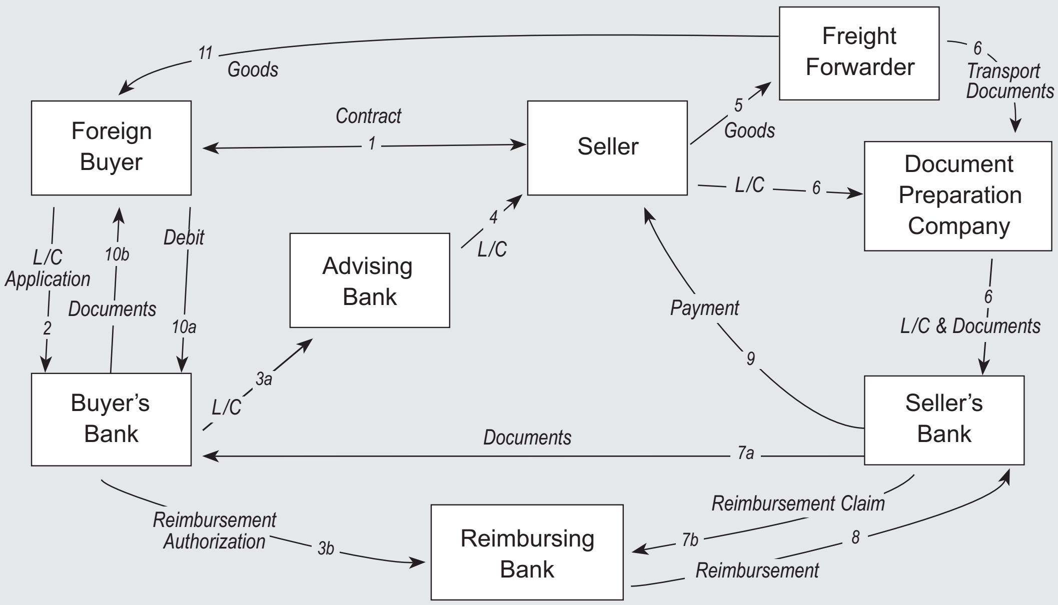
Every letter of credit, regardless of type, is written in an official document agreed to by both parties before it is submitted to the guaranteeing financial institution for review.

Comprehension Check

Discuss the purpose of **letters of credit** and list the types available.

Figure 14-3 **Letter of Credit Cycle**

Although the letter of credit cycle appears quite complex at first, it is not difficult to understand. This cycle merely involves the exchange of documents for money through intermediaries.



Step 1: The buyer agrees to purchase goods from the seller using a letter of credit as the mechanism of payment.

Step 2: The buyer applies to his bank for a letter of credit, signing the bank's letter of credit application/agreement form.

Step 3a: After approving the application, the issuing bank issues the actual letter of credit instrument and forwards it to their chosen advising bank.

Step 3b: At the time the L/C is sent, the issuing bank also sends a reimbursement authorization to their chosen reimbursing bank. This bank is the clearing bank the issuing bank uses when making payments in the currency of the L/C and will play a role when the time comes to pay the L/C.

Step 4: The advising bank authenticates the letter of credit and delivers it to the beneficiary (the seller). If the issuing bank has requested them to do so, the advising bank may add its confirmation to the L/C (and thereby become the confirming bank).

Step 5: Having received the issuing bank's assurance of payment (and that of the confirming bank if the L/C has been confirmed), the seller entrusts the goods to a freight forwarder, who arranges to ship the merchandise to the buyer.

Step 6: The seller, the freight forwarder, and/or a document preparation company prepares the documents called for in the letter of credit and presents them to the "nominated bank." The L/C may nominate a specific bank where documents are to be presented or it may say it is "available with any bank," giving the seller the freedom to choose where to present documents. If the L/C has been confirmed, documents must be presented to the confirming bank.

Steps 7a and b: The nominated bank examines the documents and, if they comply, obtains funds for payment to the beneficiary in accordance with the terms of the letter of credit, generally by sending the documents to the issuing bank and a reimbursement claim to the reimbursing bank named in the credit.

Step 8: The reimbursing bank matches the nominated bank's claim against the reimbursement authorizations they are holding, charges the issuing bank's account and transfers funds to the nominated bank.

Step 9: The nominated bank transfers payment to the beneficiary (seller).

Steps 10a and b: The issuing bank examines the documents. If it agrees with the nominated bank that the documents comply with the letter of credit, the issuing bank obtains payment from the applicant (buyer) in accordance with the terms of the applicant's letter of credit agreement and forwards the documents to the applicant.

Step 11: The applicant (buyer) uses the documents to pick up the merchandise from the carrier, completing the letter of credit cycle.

Special L/C Arrangements

Letters of credit may include special arrangements, such as:

Transferability

A **transferable credit** *allows the beneficiary of a letter of credit (the exporter) to transfer all or part of the rights under the credit to a third party (the transferee).* For a credit to be transferable, the exporter must arrange for the importer to have a credit opened expressly stipulating that it is transferable.

Assignment of Proceeds

Under an **assignment of proceeds,** *the beneficiary of a letter of credit assigns all or part of the proceeds under a letter of credit to a third party (the assignee).* Unlike a transferred credit, the beneficiary maintains sole rights to the credit and is solely responsible for complying with its terms and conditions.

Back-to-Back

When one letter of credit is used as security to obtain the issuance of a second letter of credit to cover the same transaction, that arrangement is known as a **back-to-back letter of credit.** Most banks are reluctant to enter into back-to-back credit arrangements because of the associated risks.

Red Clause

A **red clause** *in a letter of credit is used when a beneficiary needs financing in order to complete the manufacturing of merchandise or to purchase items to fill a particular order.* A red clause permits the exporter to obtain an advance of part or all of the amount of the credit, as specified in the credit.

Installment Credit

The applicant for an L/C may need to be assured of receiving the merchandise over a period of time in specific installments. *When a bank issues an* **installment credit** *or a credit stipulating shipments by installment within given periods, that credit should clearly state, "Shipment must be effected in the following installments."*

Revolving

A **revolving letter of credit** *contains instructions that allow the beneficiary to draw up to a specific limit for a specified period.* Revolving credit uses the same letter of credit to cover numerous scheduled shipments over a long period without the necessity of issuing new credits for each shipment or amending the existing credit. However, revolving L/Cs usually restrict the amount of money available for each shipment and control the frequency of shipments and amounts available. Revolving credits are either cumulative or noncumulative. A cumulative revolving credit allows an unused portion of a credit to be added to a subsequent period. In a noncumulative letter of credit, any portion not used in one period cannot be added to the next.

Deferred Payment

Under a deferred payment L/C, the exporter presents complying documents to the negotiating/paying bank after shipment.

Discrepancies

All documents under a letter of credit must comply with the L/C's terms and conditions before payment/acceptance can be made. Surveys of banks in major money centers reveal that approximately half of all drawings presented contain one or more discrepancies.

When the documents presented do not conform to the terms of the L/C, the exporter has the following options:

- To ask the negotiating/paying bank to return the documents for corrections and then resubmit the documents.
- To request that the negotiating/paying bank contact the issuing bank for permission to negotiate/pay or accept despite discrepancies.

- To instruct the negotiating/paying bank to forward the documents to the issuing bank on approval, that is, for honor under the L/C.
- To request that the negotiating/paying bank honor the drawing under reserve or against a guarantee.

It is important to examine all the documents for compliance with terms and conditions of the credit, such as:

- Spelling, such as company name, bank or address does not agree with spelling of required letter. All names and addresses, applicant, beneficiary and bank details must match. Shipment documents are not the place to correct misspelled names and addresses.
- The bill of lading indicates damage or states goods or packaging are defective in some manner.
- Bills of lading dated after the latest shipment date; credit will have either an explicit or an implicit latest shipment date.
- Failure on the part of the shipper to show the correct consignment; the manner in which the bill of lading is consigned is one of the terms and conditions of the credit.
- Bill of lading does not indicate goods have been shipped “on board”; somewhere on the face of the bill of lading must indicate goods have been loaded on board the named vessel.
- Unless the credit expressly permits on deck shipments, banks will not accept such notation on a transport document.
- No evidence on bill of lading of payment of freight; bill of lading must indicate whether freight is either “Collect” or “Prepaid.”
- Unauthorized charter party bill of lading; the use of a charter party bill of lading must be expressly permitted within the credit to be accepted by the banks.
- Failure to comply with the named ports; the credit will stipulate a port of loading and destination.
- Unauthorized transshipment; credit will explicitly state whether goods may or may not be transshipped.
- Draft and documents presented after expiration date of credit.
- Description of goods on invoice differs from that in the credit.
- Marks and numbers on packages not identical on all documents.
- Weights not identical on all documents.
- Amount on invoice differs from that on draft.
- Draft, shipping documents or insurance documents not properly signed or endorsed: draft must be signed on the face and correctly endorsed on the reverse side. Shipping document originals must be properly signed by the correctly identified freight party and originals endorsed on the reverse side as required. Insurance certificates must be signed on the face and properly endorsed on the reverse side as required.
- Insurance documents not consistent with what the credit requires; wrong currency, incorrect coverage value, document dated after date of the departure of the freight, wrong coverage, etc.
- Insurance coverage in currency other than that of credit; coverage must be stated in the currency of the credit unless expressly stated otherwise.
- Effective date of insurance not as specified in the credit or shown on shipping documents; banks will not accept an insurance document which bears a date later than the on board or dispatch or taking in charge as indicated on the transport document.

- Cargo underinsured; goods must be insured for a minimum of 110 percent of the invoice value or the amount for which payment, acceptance or negotiation is requested, whichever is greater.

There are also other key items to consider in international trade, such as:

- A **green clause** *is very similar to a red clause in that it also allows the drawing of a clean draft, but it requires that the merchandise be stored by the paying bank until all documents are received.*
- A **telegraphic transfer clause** *speeds payments when the receiver of funds is not located in a financial center.*
- An **evergreen clause** *provides a periodic expiry date with an automatic extension and usually states one final date.*
- A **bill of lading (transport document)** *is issued by a carrier and serves as a receipt for the goods and as a contract to deliver the goods to a designated party or to its order.*
- *The person shipping the goods is the* **shipper** *or* **consigner.** *The company or agent transporting the goods is the* **carrier,** *and the party to whom the goods are destined is the* **consignee.**

Documentary Collections

A **documentary collection (D/C)** *is a transaction whereby the exporter entrusts the collection of the payment for a sale to the* **remitting bank** *(its bank), which sends the documents that its buyer needs to the* **importer's bank** *(collecting bank), with instructions to release the documents to the buyer for payment.* Funds are received from the importer and remitted to the exporter through the banks involved in the collection in exchange for those documents. D/Cs involve using a draft that requires the importer to *pay the face amount either at sight* **(document against payment)** or *on a specified date* **(document against acceptance).** The collection letter gives instructions that specify the documents required for the transfer of title to the goods. Although banks do act as facilitators for their clients, D/Cs offer no verification process and limited recourse in the event of non-payment. D/Cs are generally less expensive than L/Cs.

Commercial Invoice

The **commercial invoice** *is the document that lists the value of the shipment.* This invoice is one of several documents often required for an exporter/seller to obtain payment from the buyer for the value of goods or services supplied to an international customer. In addition to the commercial invoice, documents commonly required include a draft, a certificate of origin, a certificate of insurance, a bill of lading or air waybill. All such properly completed documents must be presented along with the original letter of credit when claiming payment. Copies of these documents must also accompany the shipment of product.

All documentary letters of credit are governed by the Uniform Customs and Practices for Documentary Credits, commonly referred to as the UCP 600. Commercial invoices are covered under Article 18 and should contain the following information:

1. Complete name and physical address of the seller.
2. Date of issue.
3. Invoice number.
4. Complete name and physical address of the buyer.
5. Order or contract number.
6. Quantity and description of the goods, unit price, details of any other agreed upon charges not included in the unit price and the total invoice amount.
7. Shipping marks and numbers as required.

8. Terms of delivery and payment.
9. Any other information required by the letter of credit (documentary credit).
10. The regulations of the buyer's country may require a consular invoice. A **consular invoice** *describes the shipment of goods and shows information such as the consignor, consignee, and value of the shipment and is notarized by the local consulate.* If required, copies are available from the destination country's embassy or consulate in the U.S.

Many credit professionals make the mistake of attempting to use an invoice that has been generated by their billing or ERP system as a commercial invoice. This can be a mistake on international shipments because Ship to and Bill to information, product descriptions or payment and FOB terms stated on system-generated invoices may not exactly match the letter of credit instructions.

Drafts

Sight Draft/Bill of Lading

The seller issues an **order bill of lading** made out to the order of the shipper (*see* Figure 14-4). The seller endorses this bill of lading and forwards it, attached to a sight draft to a bank agreed upon by the buyer and seller. A **sight draft** *requires that the buyer pay the amount of the draft immediately, before it can obtain the bill of lading or original shipping documents that enable the buyer to take possession of the goods from the carrier/warehouse.* Once paid, the bank transmits the funds to the seller. The bill of lading, if not endorsed, will *not* enable buyer possession. This procedure is designed to ensure that the buyer renders payment before taking possession. A bill of lading simply made out to order of the buyer/consignee would not provide such safeguards. Under these terms, the bill of lading will not be released by the bank until the customer pays the draft, or agrees to pay in accordance with any loan provisions provided to him by the bank. In the latter event, the supplier still receives payment from the bank, and the loan agreements exist between the bank and the buyer. As with COD shipments, the seller faces the risk of paying for transportation and packaging costs if the buyer does not honor the draft. Consequently, the seller may wish to obtain a deposit from the buyer as protection against such events. These arrangements are employed fairly frequently in sales of container quantities of meats, grains and flour.

Cash against Documents

Cash against documents shipment are consigned to the customer's bank. The product is shipped to the customer's port of entry and once payment has been made by the customer to their bank, documents will be released so the customer can now clear the shipment through customs and take possession.

Dated Draft/Documents against Acceptance

Dated drafts allow the customer to sign a **time draft,** *similar to a postdated check* with their bank for payment at some time in the future. Normally the time period is between 30 and 90 days from the date of acceptance.

Comprehension Check
What are the types of international methods of payment?

International Shipping Terms

Incoterms® Establish Passage of Risk

First introduced in 1936, the terms are endorsed by the United Nations Commission on International Trade Law and are updated periodically. Short for International Commercial Terms, **Incoterms®** are a set of internationally recognized trading rules created by the International Chamber of Commerce (ICC) which are used define and guide the purchase and shipping of goods in the international marketplace. *Incoterms® establish where the passage of risk passes between the buyer and the seller.*

Incoterms® are part of language of international trade; they are three letter codes that describe the responsibility of an international seller to an international buyer. They outline the liabilities and responsibilities of the exporter and

Figure 14-4 Sample Bill of Lading

DATE

BOL/INVOICE 3516677

NOTE: IF A SERVICE BOX IS NOT CHECKED, STANDARD SERVICE WILL APPLY.

SERVICE CHARGES

☐ EXPRESS SERVICE ☐ STANDARD SERVICE ☐ 3 DAY SERVICE ☐ DEFERRED SERVICE

☐ PREPAID ☐ COLLECT ☐ 3RD PARTY

NOTE: IF "3RD PARTY" IS CHECKED, "BILL TO" AREAS BELOW MUST BE COMPLETED.

FROM SHIPPER | SHIPPER'S ACCT. #

TO CONSIGNEE | CONSIGNEE ACCT. #

PHONE

SHIPPERS MUST INITIAL ONE OF THE BOXES BELOW

☐ CONTAINS DANGEROUS GOODS DESCRIBED BELOW ☐ CONTAINS NO DANGEROUS GOODS

BY SIGNING, I HEREBY ACKNKOWLEDGE AND ACCEPT THE TERMS AND CONDITIONS OF WAYBILL (INCLUDING THE BACK SIDE AND TARIFF) AND AGREE TO BE BOUND THEREBY.

SHIPPER'S SIGNATURE:

X

DECLARED VALUE: OUR LIABILITY IS LIMITED TO $100.00 UNLESS A HIGHER VALUE IS DECLARED. SEE BACK FOR DETAILS

DECLARED VALUE $ ____________

INSURANCE $ ____________

CUSTOMS VALUE $ ____________

ANY CUSTOMS VALUE GREATER THAN $2,500.00 MUST HAVE A SHIPPERS EXPORT DECLARATION.

NO. OF PCS / PKGS	DESCRIPTION OF PIECES NATURE OF CONTENTS, MARKS, AND NUMBERS	GROSS WEIGHT (LBS)	CHARGEABLE WEIGHT	SCALE/TARIFF	RATE

REFERENCE NUMBERS

SPECIAL INSTRUCTIONS

B I L L T O ACCT. #

☐ **COLLECT SHIPPER'S C.O.D. ON DELIVERY. CERTIFIED CHECK PAYABLE TO SHIPPER.**

C.O.D. AMOUNT

RECEIVED IN GOOD ORDER AND CONDITION EXCEPT AS NOTED HEREON

X____________________ Consignee or Consignee's Agent Signature

X____________________ **PLEASE PRINT CONSIGNEE NAME**

DATE / / TIME AM PM

RECEIVED FOR CARIBBEAN BY: X ____________________

DATE / / TIME AM PM

NAME AND PRO NUMBER FOR ADVANCED CHARGES			ADVANCED CHARGE	OTHER CHARGES	OTHER DESC.	C.O.D.
FREIGHT	PICK-UP	DELIVERY	DECLARED CHARGE	C.O.D. FEES	BEYOND CHARGES	TOTAL CHARGES

WEIGHTS SUBJECT TO DIMENSIONAL CORRECTIONS

#	L	W	H	#	L	W	H	#	L	W	H	#	L	W	H
#	L	W	H	#	L	W	H	#	L	W	H	#	L	W	H
#	L	W	H	#	L	W	H	#	L	W	H	#	L	W	H

IMPORTANT NOTICE: Cargo items tendered or directed to be tendered by your firm for air transportation are subject to Aviation Security controls by air carriers and when appropriate, other Government Regulations. Copies of all relevant shipping documents showing the cargo's consignee, consignor, description, and other relevant data will be retained on file until the cargo completes its transportation. Carrier's liability is limited under Terms & Conditions on reverse side unless shipper requests additional declared value (subject to additional charge). **WARNING:** These commodities, technology or software were exported from the United States in accordance with the export administration regulations. Diversion contrary to U.S. law prohibited.

ORIGINAL SHIPPER RECEIPT

buyer. **Incoterms®** *establish the passage of risk between the seller and the buyer and govern the delivery of goods between the parties engaging in international trade.* Sellers must look to the country of the buyer when using Incoterms®; some countries stipulate which Incoterms® must be used and other countries specify which are preferred.

Incoterms® define the seller's obligation within an international sales contract to complete delivery. Incoterms®:

- Identify the physical point in the supply chain where the risk of loss or damage shifts from the seller to the buyer.
- Define the physical point the responsibility for all transportation, customs clearance, duties and related charges shift from the seller to the buyer; and.
- The responsibility between the seller and the buyer to complete delivery obligations; under Incoterms®, delivery means transfer of risk.

Incoterms® Updates

Given the explosive growth of importing and exporting, Incoterms® have been updated every ten years since 1980. In 2010, the ICC revised and simplified its Incoterm® rules by decreasing the number of individual terms from 13 to 11 and moving from four groups to two. The reduction in individual terms was accomplished by replacing four of the five D-terms with DAT (Delivered at Terminal) and DAP (Delivered at Place). Under DAT and DAP, the mode of transport is no longer the defining factor. Broadly speaking, DAT replaces DEQ (Delivered Ex Quay [Named Port of Destination])—delivery occurs at the buyer's disposal unloaded from the arriving vehicle. DAP replaces DAF (Delivered At Frontier [Named Place]), DES (Delivered Ex Ship [Named Port of Destination]) and DDU (Delivered Duty Unpaid [Named Place of Destination])—delivery occurs at the buyer's disposal, but ready for unloading.

There are two, rather than four, Incoterm® groups. The bigger group, which comprises seven terms (EXW, FCA, CPT, CIP, DAT, DAP and DDP), is applicable regardless of transport type. The smaller group of four terms (FAS, FOB, CFR and CIF) is applicable only for those transactions involving sea and inland waterway transport.

According to the ICC, all contracts made under Incoterms® 2000 remain valid even after 2011. In addition, although the ICC recommends using Incoterms® 2010 from January 2011 onward, parties to a sales contract can agree to use any version of Incoterms® after 2011. It is important, however, to clearly specify the chosen version of Incoterms® being used (i.e. Incoterms® 2010, Incoterms® 2000, or any earlier version).

Incoterms® 2010 with Definitions

Rules for any mode/modes of transport:

EXW: Ex Works (Named Place): This places the minimum obligation on the seller, as the seller makes the goods available to the buyer at the seller's premises or any other named place, such as a different warehouse or factory. Delivery is deemed to occur at this named place. The buyer bears all costs and risks after taking the goods from the seller's premises. The goods must also be cleared for export by the buyer.

FCA: Free Carrier (Named Place): The seller has fulfilled its obligation (for delivery, freight costs and risk of loss) when the goods are delivered, cleared for export, to the carrier that has been appointed by the buyer at the named place. The buyer then has to bear all costs and risks of loss for damage to the goods (insurance) from that point forward. This term may be used regardless of the mode of transport, including multimodal transport (transport by more than one carrier—truck, rail, ship, etc.).

CPT: Carriage Paid To (Named Place of Destination): This term means that the seller has fulfilled its delivery obligation when the goods are delivered to the carrier that has been nominated by the buyer. However, in addition to paying the freight costs to that point, the seller must also pay the costs of carriage necessary to bring the goods to the named destination. The buyer bears the risks of loss or damage occurring after delivery. The CPT term requires the seller to clear the goods for export. This term may be used regardless of the mode of transport including multimodal transport.

CIP: Carriage and Insurance Paid To (Named Place of Destination): Identical to CTP except with CIP the seller also has to obtain insurance against the buyer's risk of loss or damage to the goods during the carriage. The seller contracts and pays the insurance premium. As with CIF, the seller is only required to obtain the minimum cover and anything in

Figure 14-5 Incoterms® 2010

Incoterms® 2010

First National Bank Omaha

Responsibility Matrix - Obligations of Importer (Buyer) and Exporter (Seller)

	"E"	"F"			"C"				"D"		
Terms of Sale	EXW Ex-Works (named place)	FAS Free Alongside Ship (named port) of shipment)	FOB Free on Board (named port) of shipment)	FCA Free Carrier (named place of shipment)	CFR Cost and freight (named port of destination)	CIF Cost, Ins,. & Freight (named port of destination)	CPT Carriage Paid To (named place of destination)	CIP Carriage & Ins. Paid to (named place) of destination)	DAT Delivered at Terminal (named terminal at port or place of destination)	DAP Delivered at Place (named place of destination)	DDP Delivered Duty Paid (named place (of destination)
OBLIGATIONS AND CHARGES											
Warehouse Services (Seller's Country)	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Export Packing	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Documentation/Handling fees	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Forwarder Fees	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Loading	Buyer	Buyer	Seller	Seller/Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Pre-Carriage	Buyer	Seller	Seller	Seller/Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Export Clearance	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Main Carriage	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Insurance Charges	No Responsibility	No Responsibility	No Responsibility	No Responsibility	No Responsibility	Seller	No Responsibility	Seller	No Responsibility	No Responsibility	No Responsibility
Charges in Foreign Port	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller/Buyer	Seller/Buyer	Seller/Buyer	Seller/Buyer	Seller
Unloading in Foreign Port	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Buyer	Buyer
Custom Clearance	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller
Customs Duties and Taxes	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller
Delivery Charges (On-Carriage)	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller/Buyer	Seller/Buyer	Seller/Buyer	Seller/Buyer	Seller
"RISK OF LOSS" TRANSFERS FROM SELLER TO BUYER WHEN THE SELLER DELIVERS GOODS UNDER THESE RULES:	At the seller's premises, factory, or warehouse	Alongside the vessel (designated by the buyer) at the *port (in seller's* country) of shipment (designated by the buyer)	Loaded on board the vessel (designated by the buyer) at the port (in seller's country) of shipment (designated by the buyer) (or procured goods already so delivered)	At the named place (in the seller's country) into the custody of the carrier named by the buyer	Loaded on board the vessel (designated by the seller) at the port of shipment (or procedured goods already so delivered)	Loaded on board the vessel (designated by the seller) at the port of shipment (or procured goods already so delivered)	Into the custody of the first carrier (assumed to be at the ***seller's place*** unless noted differently) in the seller's country	Into the custody of first carrier (assumed to be at the ***seller's place*** unless noted differently) in the seller's country	At the Terminal (quay, warehouse, container yard, road, rail, or air cargo terminal a the port or place of destination) in the buyer's country	On arriving means of transport, not unloaded, **at** named place of destination in the buyer's country	On arriving means of transport, not unloaded, **at** named place of destination in the the buyer's country
MODE OF TRANSPORTATION	Any	Ocean	Ocean	Any	Ocean	Ocean	Any	Any	Any	Any	Any

Remember Title does not pass under Incoterms - make sure you address the issue of where title passes in your Contract, Purchase Order, or Proforma Invoice

Remember with the four "C" Rules, risks and costs are transferred at two different points (risks pass in the seller's country, costs pass in the buyer's country at the place of destination)

excess should be expressed to the seller or arranged for by the buyer. The CIP term requires the seller to clear the goods for export. This term may be used regardless of the mode of transport, to include multimodal transport.

DAT: Delivered At Terminal (Named Place of Destination): The delivery occurs at the buyer's disposal unloaded from the arriving vehicle (as under the former DEQ rule). This new rule, like its predecessor, is delivered, with the seller bearing all the costs (other than those related to import clearance, where applicable) and risks involved in bringing the goods to the named place of destination.

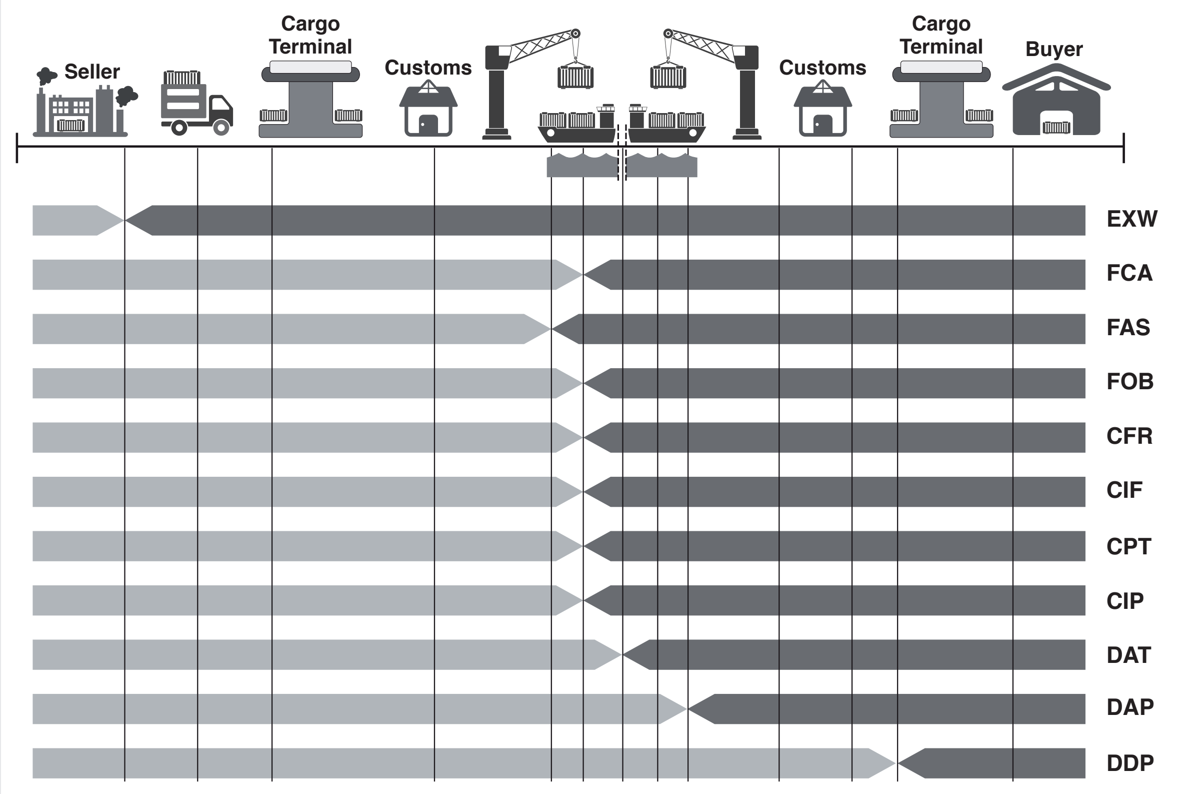
DAP: Delivered At Place (Named Place of Destination): The delivery occurs at the buyer's disposal unloaded from the arriving vehicle, but ready for unloading (as under the former DAF, DES and DDU rules). This new rule, like its predecessor, is delivered, with the seller bearing all the costs (other than those related to import clearance, where applicable) and risks involved in bringing the goods to the named place of destination.

DDP: Delivered Duty Paid (Named Place of Destination): The seller has fulfilled its obligation when the goods have been delivered to the buyer, cleared for import, but not unloaded from the means of transport at the named place of destination. The seller must pay all the costs and risks involved in bringing the goods to that named place of destination including any applicable duties, taxes, customs formalities and carrying out of the customs formalities for the import of the goods into the country of destination. If the parties wish to leave out certain import costs that would be the obligation of the seller, then this should be made very clear in the contract of sale by adding that specific wording. This term should not be used if the seller cannot obtain the import license directly or indirectly, if applicable. This term can be used regardless of the mode of transport.

Rules for sea and inland water transport:

FAS: Free Alongside Ship (Named Port of Shipment): The seller has fulfilled its obligation (for delivery, freight costs and risk of loss) when the goods are placed alongside the vessel at the named port of shipment. The buyer then has to bear all costs and risks of loss or damage to the goods from that point. This term requires the seller to

Figure 14-6 Transfer of Risk and Cost from Seller to Buyer by Incoterm®



clear the goods for export; however, if both parties wish that the buyer perform clearance that intent should be made clear in the contract of sale. This term can only be used for sea or inland waterway transport.

An example of FAS is a seller of iron who may load its ore onto a river barge in order to move its ore to the outbound commercial vessel at a shipping terminal or port. The ore is available for loading onto the cargo ship from the river barge, which is parked alongside the cargo ship for loading. The ore is free alongside the cargo ship on a river barge. FAS is commonly used when shipping to grain by river barge to the outbound shipping port.

FOB: Free On Board (Named Port or Shipment): The seller has fulfilled its obligation (for delivery, freight costs and risk of loss) when the goods have passed over the ship's rail at the named port of shipment. The buyer then bears all costs and risks of loss or damage to the goods from that point forward. This term requires the seller to clear the goods for export. This term can be used for sea or inland waterway transport only.

U.S.-based sellers are cautioned not to confuse the term, FOB Factory, with the Incoterm®, FOB. Under the Uniform Commercial Code, the terms FOB shipping point and FOB destination point are used to describe delivery terms. FOB Factory is not an Incoterm®; this GAAP term is equivalent to the Incoterm®, EXW or ExWorks.

CFR: Cost and Freight (Named Port of Destination): The seller must pay the costs and freight necessary to bring the goods to the named port of destination. However, delivery occurs when the goods pass over the ship's rail in the port of shipment. The risk of loss or damage to the goods, as well as any other additional costs incurred after delivery, are transferred from the seller to the buyer at that point. This term requires the seller to clear the goods for export. This term can be used for sea and inland water transport only.

CIF: Cost, Insurance and Freight (Named Port of Destination): Identical to CFR except with CIF the seller must obtain marine insurance against the buyer's risk of loss of or damage to the goods during the main carriage. The seller contracts for insurance and pays the insurance premium, and is only required to obtain minimum cover. If the buyer requires more protection, then that should be expressed to the seller in the contract or it may make its own extra arrangements. The CIF term requires the seller to clear the goods for export, and only can be used with sea and inland waterway transport.

Other Considerations

It is important to recognize that international sales encompass an entirely different set of rules. The typical sale is not governed by the Uniform Commercial Code (UCC), which is the foundation of commercial transaction in the United States. Many international sales are governed by the Convention for the International Sale of Goods (CISG), which may have a completely different interpretation of the UCC. Unless the contract of sale specifically rejects the CISG or the customer resides in a country that has not adopted the CISG, the seller will be bound by the conditions of the agreement. A copy of the Convention can be obtained from the International Chamber of Commerce (ICC) and should be reviewed by counsel to determine the differences between the UCC and CISG.

Documentation is another important consideration in any export transaction. Since the freight forwarder may be preparing much of the export documentation, it is important that they become involved in the transaction as early as possible. The improper preparation of an Ocean Bill of Lading, for example, can be a very expensive mistake, in the event of a claim, if the forwarder does not know or understand the seller's business.

Freight Forwarders

Freight forwarders can be excellent third-party resources to assist with international trade. Forwarders can supply an array of services to assist in export business. The following services are examples of some of the services forwarders provide:

- Letter of credit documentation preparation.
- Air freight or ocean freight service.
- Consolidation service.
- Inland transportation service.
- Customs clearance handling.
- Warehousing and distribution service.
- Packing and crating service.

Since the forwarder can provide such valuable assistance to the exporter, it is important to carefully evaluate and choose which forwarder will be contracted to provide the services. Although foreign customers may specify the use of a freight forwarder they would prefer to handle the services, exporters should use their chosen freight forwarder, in order to have more control over the quality of services to be provided.

Mitigating Risk with Trade Financing Options

There are a number of programs available that will help to mitigate the risk of an export transaction.

Credit Insurance

Export credit insurance provides protection against commercial losses, (such as default, insolvency and bankruptcy) and political losses (such as war, nationalization and currency inconvertibility). It allows exporters to increase sales by offering more liberal open account terms to new and existing customers. Insurance also provides security for banks that are providing working capital and are financing exports. Credit insurance policies include:

- **Multi-Buyer Comprehensive Insurance** is normally used for transactions having a maturity of 180 days or less. The principal amount covered will be an agreed percentage of the transaction and a maximum annual deductible will apply. This insurance can be considered much like the typical automobile insurance policy. There is a fixed annual premium based on risk, a maximum amount of coverage in each category and a deductible for each occurrence. Typically the insurance company will require that the credit file contain current information, including bank references, trade references and a current credit report.

- **Country Limit (Multi-Buyer) Insurance** includes the same conditions as multi-buyer comprehensive; however, it adds the limitation of a country maximum limit.
- **Political Risk (Multi-Buyer) Insurance** is used in the most extreme circumstances. Usually it is limited to sales into politically unstable countries where the risk of doing business because of political, economic or other reasons suggests a high degree of risk and possibility of default. This type of policy only covers the insured in the event of war, currency inconvertibility, political unrest, the overthrow of a government or some other specified event. This is the most expensive of the credit insurance options.

Export credit insurance policies are offered by many private commercial risk insurance companies and specialty insurance brokers as well as the Export-Import Bank of the United States (Ex-Im Bank), the government agency that assists in financing the export of U.S. goods and services to international markets.

Comprehension Check
Explain how credit insurance can be used to mitigate credit risk in international transactions.

Factoring

Factoring *is the process by which a business sells its receivables to a financial institution known as a factor.* Export factoring is offered under an agreement between the factor and exporter, in which the factor purchases the exporter's short-term foreign accounts receivable for cash at a discount from the face value, normally without recourse. The factor also assumes the risk on the ability of the foreign buyer to pay, and handles collections on the receivables. By practically eliminating the risk of non-payment by foreign buyers, factoring allows the exporter to offer open account terms, improves liquidity position, and boosts competitiveness in the global marketplace.

Comprehension Check
What is a **factor** and how can it be used in transacting international sales?

Forfaiting

The name forfaiting is derived from the French term for the technique *a forfait.* **Forfaiting** *refers to the concept that the seller forfeits the right to a future payment on a receivable in return for immediate cash.* Forfaiting allows exporters to obtain cash by selling their medium- and long-term foreign accounts receivable at a discount without recourse. A forfaiter is a specialized finance firm or a department in a bank that performs non-recourse export financing through the purchase of medium- and long-term trade receivables. **Without recourse** or **non-recourse** *means that the forfaiter assumes and accepts the risk of non-payment.* Similar to factoring, forfaiting virtually eliminates the risk of non-payment, once the goods have been delivered to the foreign buyer in accordance with the terms of sale. However, unlike factors, forfaiters typically work with exporters who sell capital goods and commodities, or engage in large projects and therefore need to offer extended credit periods from 180 days to seven years or more. In forfaiting, receivables are normally guaranteed by the importer's bank, which allows the exporter to take the transaction off the balance sheet to enhance key financial ratios. The current minimum transaction size for forfaiting is $100,000. In the United States, most users of forfaiting are large, established corporations, but small- and medium-size companies are slowly embracing forfaiting as they become more aggressive in seeking financing solutions for exports to countries considered high risk.

The cost of forfaiting to the exporter is determined by the rate of discount based on the aggregate of the London Inter Bank Offered Rates (LIBOR) for the tenor of the receivables and a margin reflecting the risk being sold. In addition, there are certain costs that are borne by the importer that the exporter should also take into consideration. The degree of risk varies based on the importing country, the length of the loan, the currency of the transaction, and the repayment structure. The higher the risk is, the higher the margin is and therefore the discount rate. However, forfaiting can be more cost-effective than traditional trade finance tools because of the many attractive benefits it offers to the exporter.

The major advantages to forfaiting are:

- **Volume.** Forfaiting can work on a one-off transaction basis, without requiring an ongoing volume of business.
- **Speed.** Commitments can be issued within hours or days depending on details and country.
- **Simplicity.** Documentation is usually simple, concise and straightforward.

Comprehension Check
What is the difference between **factoring** and **forfaiting?**

Ex-Im Bank

The **Export-Import Bank of the United States (Ex-Im Bank)** assists U.S. exporters by: (a) *providing direct loans;* or (b) *guaranteeing repayment of commercial loans* to creditworthy foreign buyers for purchases of U.S. goods and services. These loans are generally used to finance the purchase of high-value capital equipment or services or exports to large-scale projects that require medium- or long-term financing. Ex-Im Bank's foreign buyer financing is also used to finance the purchase of refurbished equipment, software, and certain banking and legal fees, as well as some local costs and expenses. There is no minimum or maximum limit to the size of the export sale that may be supported by the Bank's foreign buyer financing.

Other organizations and agencies such as Overseas Private Investment Corporation (OPIC) and Commodity Credit Corporation (CCC) are available to assist the exporter in insuring, financing or otherwise supporting the export transaction.

Key Features of Ex-Im Bank Loan Guarantees

- Loans are made by commercial banks and repayment of these loans is guaranteed by the Ex-Im Bank.
- Guaranteed loans cover 100 percent of the principal and interest for 85 percent of the U.S. contract price.
- Interest rates are negotiable, are usually floating and lower than fixed rates.
- Guaranteed loans are fully transferable, can be securitized and are available in certain foreign currencies.
- Guaranteed loans have a faster documentation process with the assistance of commercial banks.
- There are no U.S. vessel shipping requirements for amounts less than $20 million.

Key Features of Ex-Im Bank Direct Loans

- Fixed-rate loans are provided directly to creditworthy foreign buyers.
- Direct loans support 85 percent of the U.S. contract price.
- Exporters will be paid in full upon disbursement of a loan to the foreign buyers.
- Generally, goods shipped by sea must be carried exclusively on U.S. vessels.
- Direct loans are best used when the buyer insists on a fixed rate.

Collection Techniques

Role of the Banking System

The banking system plays an important role for any exporter. It acts as the collection agent in documentary collections such as drafts and letters of credit, a source of foreign exchange and the vehicle to transfer funds from the foreign customer to the seller.

To facilitate payments in an export transaction, it is recommended that payment be made electronically through SWIFT (Society for Worldwide Interbank Telecommunications). This method will allow immediate access to the funds as soon as the seller's bank receives confirmation of funds transmittal. Allowing the foreign customer to pay by check drawn on a foreign bank will result in extensive collection delays while the check works its way through the international banking system. Foreign checks not only delay receipt of collected funds, but also potentially increase the credit exposure if there is a problem with payment and any potential loss due to foreign exchange fluctuations.

Banker's Acceptances

A **banker's acceptance** *is a time draft drawn on and accepted by a bank and payable at a fixed or determinable future date.* It can be created either from a letter of credit transaction or from time drafts drawn independently of a letter of credit.

The following is a simplified example of how a banker's acceptance is used in the United States:

1. A time draft is drawn on a U.S. bank by an exporter or importer.
2. The drawer endorses the draft and presents it to the bank for acceptance.
3. The bank accepts the draft, discounts it and pays the net proceeds to the drawer.
4. The bank has the option to hold the draft in its own portfolio as a loan or to rediscount it in the open market.
5. At the maturity of the draft, the bank pays the face amount to the holder/presenter (if it has not been rediscounted) and looks to its customer for reimbursement.

Discount Eligibility

Acceptances are generally classified as eligible for discount or ineligible for discount at the Federal Reserve. Currently, the basic criteria for eligibility are as follows:

- The term of the draft cannot exceed 180 days.
- The shipment must be current, that is, the acceptance must be created within a reasonable period of time after the shipping date of the goods (usually within 30 days).

The underlying transaction must fall into one of the following categories:

- The import or export of goods, either to or from the United States or between foreign countries.
- The domestic shipment of goods within the United States that cross state borders or travel a minimum of 25 miles from the point of origin.
- The storage of readily marketable staples in the United States or a foreign country, provided the bank possesses a warehouse receipt or other such document conveying the security title to the goods at the time of acceptance until maturity.

Acceptances that are not eligible for discount by the Federal Reserve are defined as **ineligible acceptances.** The Federal Reserve requires that, unlike eligible acceptances, ineligible acceptances are not exempted from the definition of deposit and as such, an ineligible acceptance is subject to reserve requirements.

Comprehension Check

What is a **banker's acceptance?**

Foreign Exchange

Foreign exchange *is the conversion of a freely usable or freely convertible currency of one country into the currency of another.* Foreign exchange transactions differ depending upon when they are scheduled to occur. A **spot transaction** *is for the immediate sale and delivery of a foreign currency,* normally two business days from the transaction date for Europe and Asia and one business day for Canada and Mexico. A **forward transaction** *is a contract between two parties that have agreed to exchange currencies at a fixed rate on an agreed future date.* Forward transactions can be done for any currency, for any trade date and for any amount, although there are standards for each of the variables. For instance, regular trades are in 30-day increments, with maturities that fall on weekends or holidays, for either currency's country, rescheduled to the nearest business day.

Forward transactions are important because they allow a creditor who sells in a foreign currency to hedge its risk of exchange loss. To understand this, visualize a creditor in the United States who sells on open credit terms to an overseas customer, with invoices valued in the customer's currency. If the exchange rate at time of sale is, for example, 1.8 units of the customer's currency in exchange for one dollar, but at time of payment becomes two units per dollar, the creditor will experience an exchange loss. Conversely, overseas customers who pay creditors in dollars may avoid exchange loss by using forward contracts to fix the conversion rate at date of payment.

Real World Perspectives

RWP 14-2

SHOW ME THE MONEY?

Several years ago, I worked in the credit department of an outdoor power equipment manufacturer. Our customer base ranged from Mom and Pop fix it shops to international distributors. There was one distributor I will never forget.

The gentleman, who we will call Rafael, was having difficulty paying his bills on time. It didn't take long before his credit limit was removed and prepayment was required for all orders. In order to get his first prepaid order, Rafael had to bring his account current. It was obvious that the distributorship was struggling when he had to give me two different credit cards (his and his brother's) to cover the low four figure balance. But payment was received so the parts shipped as promised.

Then one day, I received an email from Rafael stating that he would be in town to pick up his parts order in person. He wanted to be sure I would be there to take his prepayment. Did I mention that Rafael was the owner of an outdoor power equipment distributorship in Brazil? I emailed him back to verify that I would be in the office. In my email, I questioned the fact that he was really coming to pick up the parts himself since the order consisted of several thousand dollars worth of parts and accessories. In his reply, he explained that it was less expensive for him to fly to the United States and coordinate purchases from several suppliers into one container load for shipping purposes than it was to order from each individual supplier and have the orders shipped separately. He also admitted that it was like a vacation for him.

So, the day arrived that I would meet my Brazilian friend. We proceeded to the office of the VP of International Sales. That is when I learned my first lesson about taking prepayment in person.

Rafael had a schedule to keep, so it wasn't long before the conversation turned to the amount due for the parts and accessories order. When I showed him the total, he politely asked where the men's room was. It seemed strange to me that he needed to use the men's room so urgently that he interrupted our conversation about the order. But I quickly showed him where it was and returned to the office. When I returned, the VP of International Sales was laughing and asked if I wanted to know why. I was afraid to ask, but did. He finally explained that in Brazil, many people keep their money on their bodies rather than using a wallet. That way, the money is safer from the pick-pockets. Rafael promptly returned from the men's room with a fist full of cash.

Has your mother ever told you not to put money in your mouth because you never know where it has been? Well, believe her.

Jill Westrich , CCE, CICP

Other risks of foreign exchange include **currency convertibility,** *which involves the availability or unavailability of dollars in the banking system of the overseas customer.* In other words, despite the customer's creditworthiness, IT may not be able to pay an invoice rendered in dollars due to unavailability of dollars in his local banking system for the purpose of foreign exchange. In publications on country risk issues this is called FX/Bank Delays, with the delay stated in the amount of time a creditor might expect to wait for dollars to become available. Possible solutions to this include: (a) billing in the customer's currency with a forward contract; (b) having the customer establish an account with a U.S. bank, in dollars, with which to pay the invoice; and (c) in extreme cases, barter. Other political factors, such as embargos, might result in the outright freezing of payments by overseas customers.

Rules Governing Collections

International collections are usually governed by the International Chamber of Commerce (ICC), Uniform Rules for Collections (URC 522). The general provisions of this ICC publication are binding on all parties to a collection unless otherwise expressly agreed or unless contrary to the provisions of a national, state or local law and/or regulation from which no departure may be made.

Collecting Overdue Accounts

Like domestic collections, it is important to have uniform collection procedures and systems to ensure timely recognition of potential problems of international accounts. Collection efforts should begin when the account becomes due for payment plus a reasonable processing time.

Depending on the country, routine collection efforts may become the responsibility of the agent representing the company. It is not uncommon for the local agent to pick up payment for the previous shipment while writing a new order. Caution needs to be exercised in accepting checks drawn on a foreign bank.

As a last resort, legal remedies may become necessary to collect the debt. If the receivable has been insured or factored, it becomes the responsibility of the insurance or factoring company. If the seller is carrying the receivable on its own, it will be necessary to locate a collection agency proficient in international collections or a foreign attorney to represent its interests. Many of the better known collection agencies advertise their international expertise and can represent a seller quite well, however, at a fee which is usually higher than domestic collections. Foreign attorneys should come recommended by a reliable source, because in most situations, up-front fees will be required to represent a seller's position. FCIB may be able to assist with an attorney referral.

Local consulates, Chambers of Commerce, Departments of Commerce and other governmental organizations may be helpful resources.

Comprehension Check

There are several special challenges associated with collecting international accounts. Discuss these.

Real World Perspectives

RWP 14-3

CHILEAN ADVENTURES

One of my first international credit problems involved a distributor in Chile. This particular distributor purchased product from the company I was working for in the amount of $250,000. The terms offered were D/P (documents against payment) through his bank in Chile.

We shipped the cargo and presented documents through our bank in the U.S. Our bank in turn communicated with the customer's bank in Chile as to status of the paperwork. After a period of time, we were advised by our bank that the customer had not sighted the documents for the cargo we shipped. However, after investigation by our logistics department, we discovered that the customer did have control of the cargo. Not a good thing.

I placed a phone call to the distributor and inquired if he really had the cargo as we had not received the draft. He indicated that he did and there must be some mistake at the bank; he would find out what it was. While this was going on, we were performing our inquiries in the U.S. to determine what actually happened. We were able to determine, after much effort, that our customer bribed the port official and obtained the cargo without the documents. The customer finally admitted to me that he had done just that and also stated that if we pressed the issue, he could end up in jail as it was a serious problem in Chile.

At the time this order was a major portion of our export A/R and we wanted to do whatever it took to get our money as soon as possible. The receivable was deemed a risk and we needed to do something.

The customer had no money to pay for the product, and he also was pleading for time. We finally settled on a time payment but with security. The security was his mother's house. I inquired as to what the house was worth and was told it was worth more than $250,000 and was lien free. I was also told his mother would not object to the transaction. We agreed to at least look at this potential solution as an answer to our problem. I of course spoke to the mother and she reiterated her agreement with the scheme and also indicated that her son had problems but was honorable.

In my previous employment, I had made several mortgage loans and my first call was always to my local title company. Well, guess what? Chile does not have title companies (at least not at the time), but it requires attorneys to do lien searches that go back 50 years on a property. I could tell this scheme was getting complicated (hire attorney, appraise property, inspect property, generate loan papers, record lien, etc.). I booked my flight to Santiago, Chile.

The customer picked me up at the airport in Conception and offered to drive me to Los Angeles (the location of the property). I took him up on the offer as it was 200 kilometers. Los Angeles is up in the Andes; part of the road was gravel and quite desolate. It was beautiful country though.

Upon arrival I was able to hire a local English-speaking attorney who agreed to handle the transaction at a reasonable rate. I was also able to inspect the property and arrange for a representative from a local bank to provide me a value. That value met my needs, and we agreed to go forward with the transaction. It does take time to do a lien search on the property as it is all done by hand by an attorney at the local recorder's office. Therefore, the closing of the loan could not occur while I was in country and would need to be done after I had left.

I did, however, want to meet my customer's mother. She did not live in the house we agreed to mortgage but lived on a farm higher up in the mountains. I traveled to see her and over lunch we discussed the issues that brought me to Chile. She reiterated her belief that her son would repay the loan and agreed, again, to pledge her property so we could complete the deal. I thanked her for the lunch (it was at her home) and advised that our attorney would draw up the paperwork and get it to her for her signature. I also indicated that I would keep in contact so she would know the status of the loan.

I did communicate with our customer's mother a couple of times since I was in her home (once by Christmas card), and the dialogue occurred both ways. The loan was made and repaid with interest, and all of our attorney's fees were paid by our customer as well.

Success stories are not unusual in international business. This one though was very early on in my company's sales dealings in the global arena. If the outcome had been different, we might have changed sales strategy, but as it worked out, we all learned from our experiences and moved forward in a more educated manner. Knowing your customer is very important for credit managers; prior to this situation, I had not traveled. Afterwards though, I made regular trips into the marketplace, met customers, understood their business, joined FCIB and have not had any problems since.

Jay Miller, Trident Seafoods Inc.

Key Terms and Concepts

Comprehension Check

1. Define **country credit risk** and list resources that can be used to analyze the risk.
2. Discuss the purpose of **letters of credit** and list the types available.
3. What are the types of international methods of payment?
4. Explain how credit insurance can be used to mitigate credit risk in international transactions.
5. What is a **factor** and how can it be used in transacting international sales?
6. What is the difference between **factoring** and **forfaiting?**
7. What is a **banker's acceptance?**
8. There are several special challenges associated with collecting international accounts. Discuss these.

Summary

- When selling internationally, businesses and credit managers must take into account the international and domestic economic environment, legal, political, cultural, financial and geographic factors that may influence a sale, because they all can amount to increased risk in a sale.
- One major risk is foreign exchange rates during a sale because the revaluation of currency can impose serious costs of business internationally.
- It is important to understand that the UCC does not govern international sales as the Convention for the International Sale of Goods (CISG) does. It is also of critical importance to adhere to export and customs compliance. Currently, there are several U.S. embargoes placed on countries like North Korea and Cuba that restrict trade. Therefore, if a seller is found shipping to those countries from the U.S., they can face penalties including sanctions and heavy fines.
- When selling internationally, the terms of sale should never be more liberal then the terms of sale in domestic transactions. The following **payment methods** are most likely used in international sales:
  - **Cash-in-advance**
  - **Consignment**
  - **Open account**
  - **Letters of credit**
  - **Documentary collections**
- Each type of payment in an international setting holds its benefits and costs to sellers and buyers due to the varying distribution of risk between the buyer and the seller.
- The three types of **letters of credit** include:
  - **Confirmed irrevocable documentary letter of credit**
  - **Irrevocable documentary letters of credit**
  - **Standby letter of credit**
- Within letters of credit there are also several **special arrangements** to consider including:
  - **Transferability**
  - **Assignment of proceeds**
  - **Back-to-back**

- **Red clause**
- **Installment credit**
- **Revolving letter of credit**
- **Deferred payment**

- When documents presented do not conform to the terms of the letters of credit there are several actions that may be taken. Such as asking the paying bank to return the documents for corrections and then resubmit the documents.
- Documents should always be examined for compliance with the terms and conditions. One aspect to ensure compliance is the correct spelling of all contents including company name, addresses and applicant names.
- Other **key terms** to consider in international trade includes:
  - **A green clause**
  - **A telegraphic transfer clause**
  - **Evergreen clause**
  - **Bill of lading**
- **Incoterms®** establish international trade rules when shipping, and establish when risk passes from the seller to the buyer. Given the globalization of today's economy, Incoterms® have been updated every ten years since 1980. Common rules for any mode of transportation include:
  - **EXW: Ex Works (Named Place)**
  - **FCA: Free ca Carrier (Named Place)**
  - **CPT: Carriage Paid To (Named Place of Destination)**
  - **CIP: Carriage and Insurance Paid To (Named Place of Destination)**
  - **DAT: Delivered At Terminal (Name Place of Destination)**
  - **DAP: Delivered At Place (Named Place of Destination)**
  - **DDP: Delivered Duty Paid (Named Place of Destination)**
- Rules for sea and land water transport include:
  - **FAS: Free Alongside Ship (Named Port of Shipment)**
  - **FOB: Free on Board (Named Port of Shipment)**
  - **CFR: Cost and Freight (Named Port of Shipment)**
  - **CIF: Cost, Insurance and Freight (Named Port of Destination)**
- Freight Forwarders can be an excellent third-party resource to assist in international trade as they have a host of services that include, but are not limited to, air or ocean freight service and warehousing and distribution service.
- Three ways to **mitigate the risk** of selling internationally include:
  - **Credit Insurance**
  - **Factoring**
  - **Forfaiting**
  - **Ex-Im Bank**
- Forfaiting normally deals with capital goods and commodities that typically have extended credit periods. The minimum U.S. transaction size is $100,000. The major advantages of forfaiting include:
  - Volume
  - Speed
  - Simplicity

- The main role of the Ex-Im Bank is to assist U.S. exporters by providing direct loans, or by guaranteeing repayment of commercial loans to creditworthy foreign buyers for purchases of U.S. goods and services. There is no maximum or minimum limit to the size of the export sale that may be supported by the Bank's foreign buyer financing.
- A bank plays the role of a collections agent for an exporter in documentary collections like drafts and letters of credit. They also serve as a vehicle to transfer funds and as a source of foreign exchange.
- International rules of collection are governed by the International Chamber of Commerce, Uniform Rules for Collections (URC 522). It is essential to have uniform collection procedures and systems to ensure timely recognition of potential problems of international accounts. As a last resort, legal remedies may become necessary to collect debts.

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