



EXPORT FINANCE

DO I GET PAID OR NOT?

- ▶ In which currency do I want to be paid?
- ▶ Remember currencies rates of exchange vary all the time, sometimes by the minute
- ▶ If you are invoicing out in a foreign currency, what protection do you have in place should there be a variance in the ROE

- ▶ Different types of export financial payment options
 - ▶ Letter of credit
 - ▶ Draft
 - ▶ Payment in advance
 - ▶ On consignment
 - ▶ Open account

Letter of credit

- ▶ Has the highest level of security for seller and buyer
- ▶ It is a promise to pay a certain amount of money to the seller from the buyer's bank
- ▶ Conditional on the seller fulfilling ALL requirements including documentation
- ▶ Controlled by a set of rules on the issuance and use
 - ▶ Uniform Customs and Practice for Documentary Credits (UCP600)

- ▶ The UCP is a set of rules compiled by the ICC in Paris
- ▶ Latest version is the UCP 600 which came into effect 1st July 2007
- ▶ Utilised in more than 175 countries
- ▶ Between 11-15% of international trade makes use of the UCP 600

- ▶ Banks deal in the required documentation only - have nothing to do with quality, quantity etc. of the cargo or any other part of the transaction
- ▶ Only obliged to pay when all required documents have been presented and then without any errors!
- ▶ Remember the time limits particularly for last ship out date and date for presentation of documents

- ▶ The importance of the Pro-Forma invoice when the buyer draws up the Letter of Credit
- ▶ If at all possible obtain a draft copy of the LC to check spelling and other conditions
 - ▶ Is your company name spelt correctly, the commodity and quantities.
 - ▶ Value should be at least 110% of the pro-forma invoice value

- ▶ Have as few requirements as possible set out in the LC
 - ▶ Try to avoid “No Transhipments!”
 - ▶ Ensure that the product is described on your standardised invoice exactly the same as on the LC
 - ▶ Let your forwarding agent have a copy of the LC so that they can ensure all shipping documents comply with the LC

- ▶ Watch the last ship out date
 - ▶ Things which can cause a problem with this
 - ▶ Strikes at production factory plus lack of production material
 - ▶ Delay with the ship due to late arrival and weather and of course the possibility of strike action in the harbour
 - ▶ Congestion in the port of loading

- ▶ Collect all documents from the freight forwarding company and check them to ensure that they in accordance with the instructions to the freight forwarder which will be in accordance with the LC
- ▶ Sort and deliver required documents to the bank within the time limits set in the LC

Remember at all times when dealing with an LC

- ▶ Keep it simple - too many conditions make it easier to have a mistake in documentation and then they can be rejected by the bank

Documentary Letters of Credit

IRREVOCABLE AT SIGHT

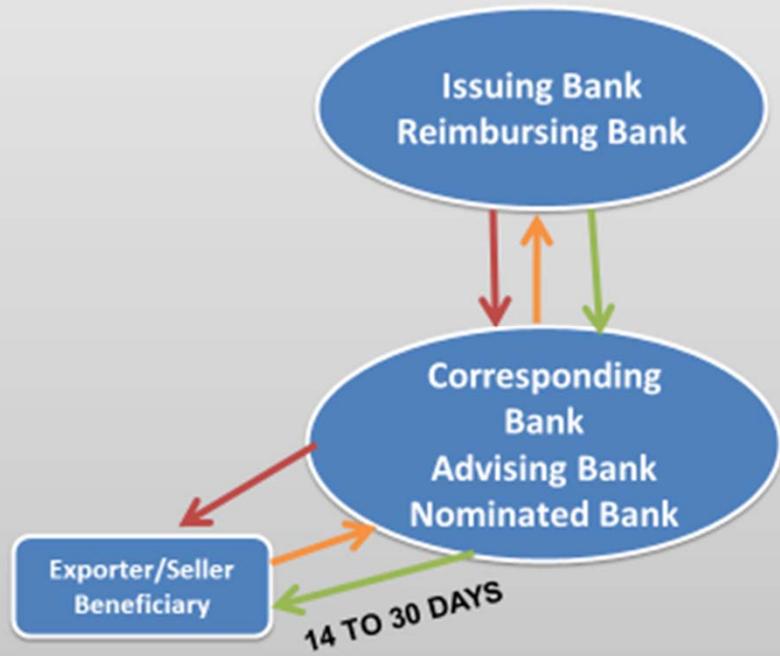
- Usually 2 banks involved with the negotiation of documents, the Issuing Bank (Buyers Bank) who is also the Reimbursing bank and their Corresponding Bank who is the Advising Bank and under instructions from the Reimbursing Bank will also be the Nominated Bank
- At Sight means that when the Issuing Bank receives the documents with NO discrepancies it will instruct the Nominated Bank to immediately pay the beneficiary
- The Advising Bank checks the documents prior to courier to the Issuing Bank and if any discrepancies, will forward the documents for acceptance

DOCUMENTARY CREDITS DRAWN AT SIGHT

Issuance

Documents

Payment



Documentary Letters of Credit CONFIRMATION

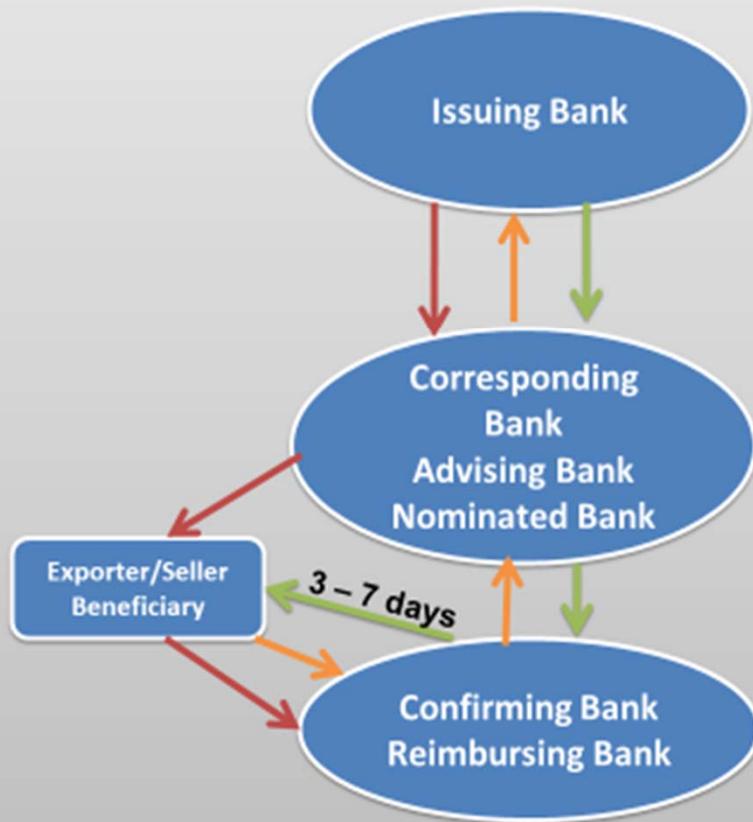
- The Confirming Bank will call for Amendments as it will reduce its "Risks"
- The main risk is that, once having paid the beneficiary, it may not be able to obtain reimbursement from the Issuing Bank or refusal from the Issuing Bank to reimburse due to a dispute
- The amendment may state that the Advising Bank be "nominated" as the Reimbursing Bank to reimburse the Confirming Bank
- The Confirming Bank will assist the beneficiary to ensure that there are NO discrepancies, and if unavoidable will call for an amendment

CONFIRMED DOCUMENTARY CREDITS DRAWN AT SIGHT

Issuance

Documents

Payment



Things to consider when it is agreed that payment will be through an LC

- ▶ Who pays the charges for the issuing, possible confirming, all charges which you in the beneficial country may become liable
- ▶ Is it in a foreign currency - who pays the commission to convert into local currency
- ▶ The type of LC and its terms
- ▶ If in doubt about anything, **ASK YOUR BANKER!!!**

At a later date

When is an LC payable?

- ▶ “at sight” - when all required documents have been presented to the paying bank within the time allowed
- ▶ At a later date - for example, 90 days after date of shipment date as reflected on the bill of lading and then on provision that the documentation is correct and presented within the prescribed period

Where is the LC payable?

- ▶ According to the UCP 600 rules credit can be made with any bank
- ▶ The LC must state either the bank with which it is available or if available at any bank, there are special provisions allowing this such as a transferable LC

- ▶ Ensure that you have sufficient time to produce/procure the product ordered before the last ship out date
- ▶ Ensure the expiry date of the LC and the last ship out date are not too close to enable you to collect all documents from the freight forwarder, sort, and delivery required documents to your bank

Remember!

- ▶ To check that the delivery terms are stated correctly including the appropriate Incoterms rule
- ▶ To check documents match to the delivery terms particularly when it comes to “freight prepaid” / “collect” and ensure that the calling for insurance is not included unless the appropriate Incoterms rule stipulates that it must be taken out by you the seller

Things to avoid

- ▶ Check whether the required information is already on the invoice, e.g. a packing list
- ▶ Avoid insisting on a policy of insurance but rather provide a certificate of insurance
- ▶ Care must be taken in the type of insurance cover taken out.
 - ▶ State if the cover must be All Risks or if a lesser cover can be taken out

- ▶ Avoid “photocopies not permitted”
- ▶ Avoid at all costs “On deck shipment not permitted”
- ▶ “Claused” transport documents are never accepted. They must be clean not declaring the goods or packaging being defective in any way
- ▶ Take into consideration that most shipments by air or in a shipping container will be transhipped at some stage

Draft/Bills of Exchange

- ▶ Widely used in international trade
- ▶ Can be compared with a cheque in local trading
- ▶ No tie up of cash or bank facilities on the part of the buyer
- ▶ Has security for the seller

Payment in advance

- ▶ This is not a recommended payment method
- ▶ If the order is for capital goods or equipment which are non-standard specifications it is in order for the seller to insist upon a deposit. Not unusual for banks foreign exchange departments having to obtain approval from exchange control authorities

On Consignment

- ▶ Not unusual between a supplier of branded products to its local distribution agents
- ▶ Need for complete trust

Open Account

- ▶ It is an undertaking by the buyer to pay the seller at an agreed future date
- ▶ Complete confidence between the parties

But what if???

- ▶ Even with the best care being taken,
“Ship Happens” © cargolaw.com

- ▶ Different credit insurance is available

- ▶ Export Credit Insurance Corporation of South Africa SOC Limited

- ▶ ECIC was established in 2001 under the Export Credit and Foreign Investments Insurance Act, 1957 (as amended), to provide political and commercial risk insurance to South African exporters of capital goods and related services. ECIC is a self-sustained, state-owned national export credit agency. The Corporation is a registered financial service provider and regulated by the Financial Services Board (FSB).

- ▶ Credit Guarantee Insurance Corporation of Africa Limited
 - ▶ Provides commercial risk cover which basically is insuring your debtors book

Thank You!

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