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FACILITATING TRADE

DRAFT GUIDELINES ON BETTER TRADE PRACTICES

Report prepared by

SITPRO, the Simpler Trade Procedures Board of the United Kingdom *

* **SITPRO** is the United Kingdom's trade facilitation body. It was established by H.M. Government in 1970 to "guide, stimulate and assist the rationalisation of international trade procedures and documentation and the information flows associated with them". The views expressed in this report are those of the authors and do not necessarily reflect the views of UNCTAD or any other part of the United Nations system. The report is reproduced as received and the designations are those of the authors. The designations used do not imply the expression of any opinion whatsoever on the part of the UNCTAD secretariat concerning the legal status of any country, area or territory, or of its authorities, or concerning the delimitations of its frontiers.

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DRAFT GUIDELINES ON BETTER TRADE PRACTICES

For technical reasons, the document is issued in two parts:

PART I: (enclosed)

Executive summary

A. Strategic overview
B. Best practice for traders

PART II: (to be issued later)

C. Best practice for governments and their agencies
D. Best practice for international trade services
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SITPRO
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EXECUTIVE SUMMARY

1. This paper sets out guidelines on the best business practices to be used in all aspects of international trade. It covers three broad areas:-

   - governments and their agencies
   - traders
   - international trade services.

2. It identifies that achieving growth in foreign trade and obtaining new market opportunities requires not only the maintenance of free trade principles, but also substantial improvements in the efficiency of the overall trading process. Trade efficiency can be achieved as a result of combined three activities; trade facilitation, improving access to better marketing information and the adoption of new business concepts such as "just-in-time" purchasing and production.

3. Significant benefits can be expected from these improvements. They might go furthe than the estimate of 75 billion USD savings initially made.

4. In the context of this report "better practices" encompass any information processing in the international trade process, using the latest techniques and international standards.

5. Besides best practices being necessary for each component of international trade, the individual components needs to be co-ordinated so that the trade practice operates as a cohesive whole. This is true both at the level of countries and individual companies.

6. Guidelines have therefore concentrated on how to achieve effective co-ordination; at the national, local and company level; as well as setting out individual guidelines for governments, traders and international trade services.

7. The benefits of using best practice are broadly the same for countries and companies, namely:-

   - greater trading efficiency
   - better management control
   - lower costs
   - better customer service
   - the ability to introduce new business strategies

PART A : STRATEGIC OVERVIEW

1 Trade policy and the role of trade efficiency

1.1 Developing foreign trade, and the identification of new market opportunities are amongst the highest priorities in all countries.

1.2 Achieving this growth not only requires the maintenance of the principles of free trade, but also a substantial improvement in the efficiency of the overall trading process.

1.3 For individual countries and enterprises to compete successfully in the global market place they need to:-

- ensure an open and efficient trading process
- exploit it to their advantage and to strengthen their relationships with their trading partners
- co-ordinate all aspects of the trade transaction use best practice, especially international standards
- reduce costs

1.4 Significant reductions in procedures, time and costs can be achieved. UNCTAD estimates potential savings of up to 75 billion USD per year. But it can go further than that; new practices, properly harnessing both modern transport links and information technology can mean that new markets can be supplied.

1.5 At the level of the individual company savings can be 2-3% of the arrived price of the goods, (perhaps a 20-30% increase in the exporter's profit). Conversely bad practice, especially for smaller traders with low value consignments, can wipe away profits at a stroke.

1.6 Historically, unlike manufacturing cost, international trade administration was widely perceived as a relatively unimportant low cost activity. By definition it was not of interest to senior management. This perception remained although it was never true, however, four recent developments are beginning to change this situation. In-house integration of company business applications, global sourcing of components and materials, the advent of electronic trading techniques and the changing role of governments (from excessive control to recognising the national need to facilitate trade).

1.7 These developments are leading to a review of the total trading process. Both commercial and administrative management are becoming more aware of the increased efficiency, reduced costs and better customer service that can be obtained from adopting common, integrated internal and external practices using international standards.

2 TRADE EFFICIENCY

2.1 The objective in any country must be to help local enterprises compete successfully in the global market place and improve their profitability and customer service by-:

- working for an open and efficient trading process
- assisting them to exploit it to their advantage
- encouraging them to use best practice

2.2 For this objective to be achieved there has to be:-

- understanding of the key elements of the international trade and payment process by the analysis and identification of constraints
- knowledge of the opportunities available to improve business practice including how to harness relevant information technology
- a balanced view of all parties to the trade transaction represented in the appropriate national, regional and international negotiations

2.6 Once work has started, the question "when is the trading process efficient" has to be answered. Standards and guidelines exist as targets for most of the elements; overall however there is no set norm. However, at the company level, it will be possible to see if relationships with trading partners have been strengthened and the quality of customer support improved Other measures are whether the transaction is being completed as effectively as a domestic one and that all the participants have the information they require, at the time when they need it.

3. TRADE EFFICIENCY AND TRADE FACILITATION

3.1 Background

3.1.1 The main objective of the UNCTAD Special Programme for Trade Efficiency (UNCTAD SPTE) initiative is to open international trade to new participants, especially smaller countries and enterprises, by simplifying and harmonising trade procedures worldwide and giving governments and traders access to advanced technologies and information networks.

3.1.2 Trade efficiency can be achieved as a result of combining three activities; trade facilitation, improving access to better market information and the adoption of new business concepts such as 'just-in-time' purchasing and production.

3.1.3 Trade facilitation is the systematic rationalisation of procedures, information flows and documentation.

3.1.4 Trade procedures are activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods and associated payment.

3.1.5 The main objectives of the facilitation of trade procedures may be summarised as to:-

- ease the information flow
- eliminate errors
- relate procedures more fully to current requirements
- limit information requirements to essential data, and
- minimise the delays caused by unavoidable official controls

3.1.6 In respect of trade facilitation the key international organisations are the United Nations (UN) and the International Organisation for Standardisation (ISO). The UN facilitation work is focused through the UN Economic Commission for Europe's Working Party on the Facilitation of International Trade Procedures (UN/ECE WP4) and its procedural and EDI technical groups.

3.1.7 Market intelligence on markets, trade contacts and goods/services is provided both the public and private sectors. At an international level work is undertaken by the UNCTAD/GATT International Trade Centre.

3.1.8 New business concepts are, naturally, primarily developed in the private sector, but are equally applicable to the public sector when it carries out "business", eg the purchase of goods and services.

3.2 The Problem

3.2.1 Lord Thorneycroft, the first Chairman of SITPRO said in his introduction to the 1970 SITPRO Report, "Looked at as a problem, there is nothing inherently too complicated in the systems and procedures for selling goods from one country to another. The difficulties arise in part from the sheer scale of the operations and in part from the vast number of people, interests, nations and languages involved. What may appear as a most elegant solution in one part of this network can often create havoc in another".

3.2.2 Those not closely involved in international trade tend to think only of its physical aspects - the movement of goods, containers, vehicles, ships and aircraft. Underlying, controlling and regulating the whole of this movement, however, is an invisible infrastructure of information handling and exchange manifested by a great variety of documents or their electronic equivalents.

3.2.3 The purpose of the information flow is not merely to provide essential data. There is the associated and vital element of timing. The best quality information in the world, which arrives days after the cargo, will still cause acute problems.

3.2.4 Such delays can be caused by poorly designed documents, by complex processing or bad management "up-stream" (no one told the clerk holding up the documents what impact this might have), or by poor or badly managed communications.

3.2.5 Paper has been the main medium for carrying business information for over 2500 years. Unquestionably, as many authoritative surveys have shown, today's paper world is inefficient and costly. The costs arise because of the fundamental inefficiency of the system and through error rates and associated delays in the movement of goods and payment for them.

3.2.6 The problem is serious in national trade; it is acute in international trade. A minimum of 12 participants are involved in the simplest international trade transaction. All want information about what is being moved or paid for and the core of that information is the same. Vast amounts of time and resources are spent transferring the information from one document to another. Errors occur frequently; for example 123 becomes 213, 'car parts' becomes 'car ports'. Error rates in excess of 50% have been consistently recorded in Letters of Credit. Error rates of 30% are not uncommon in manual processing of Customs entries. (123 to 213 sounds a small problem. However, if a ship or aircraft manifest, based on an inaccurate waybill, contains wrong information, time and money would be spent looking for the missing 90 packages; probably claims letters and repudiations would have been sent before the mistake was realised).

3.2.7 Computers can help. They have already streamlined internal processing within many enterprises and public sector agencies. However, when it comes to communicating with external parties or suppliers, paper documents are still the main medium, even if the computer has originally produced them. We then often seriously compound the problem of information transfer by normally relying on the traditional postal system as transfer medium. 5-7 days between despatch and receipt for international mail is the norm - 2 days is normal domestically.

3.2.8 Then after the document carrying vital business data is received at its destination it is often in-put straight into another computer for processing, giving further opportunities for errors and delay. Digital, the US computer company, estimates that 70% of the output of one computer is immediately in-put into another computer.

3.2.9 So whilst computers help improve internal efficiency they have not yet radically altered inter or intra-company communications. Until electronic trading techniques are used (see Appendix 2) the costs and inefficiencies associated with the paper world will remain.

3.2.10 Finally, there is an assumption that "controls" are only carried out by governments. Everyone has controls to operate, however, and most relate - in the end - to money. For example, in a port the customs authorities operate controls to protect state and collect the taxes; the port authority/stevedore to manage the cargo movement and ensure they are paid for their services; the carrier to manage the shipping operation and ensure they are paid freight charges etc.

3.2.11 There is no reason for public sector controls to be more "bureaucratic" then those of anyone else, nor should governments use anything other than sound commercial best practice when operating as a business (such as when buying goods! see section 8).

3.2.12 After all it doesn't matter to the traders who gets their procedures out of phase. The result will be the same; the customer will not get the goods when expected - at least without excessive additional charges that were not built in to either the buyer's or seller's price calculations.

3.3 **The Result of Inefficiencies**

3.3.1 The most frequent result of inefficiencies in international trade is delay, which can be critical. Heavy investment in logistical systems is wasted if goods sit idle waiting for the right piece of paper or information. Ports may spend money on new physical facilities if the existing ones are congested - when to change practice to cut delays would have more far -reaching effect.

3.3.2 Payments get delayed. UK research has indicated that over 50% of the documents lodged in respect of documentary credits contained errors which delayed settlement by at least two weeks, with the result that exporters lost £70 million per annum. Research in other countries shows a similar situation.

3.3.3 There is no more irate customer than the one who knows that the goods he has ordered are nearby, but the paperwork isn't. In fact, with the growing trend towards purchasing "just-in-time", delays are likely to mean lost business. If 'local' suppliers can make goods and deliver in a certain time, the 'remote' supplier must compete - or have significant advantages on price, quality or uniqueness.

3.3.4 So trade procedures and related information handling have a decisive effect on the speed, efficiency and reliability of delivery of goods to the buyer and payment to the seller. Complexities and inefficiencies in them create a formidable "invisible barrier" to improved export performance. This problem is seriously under-estimated in most countries and requires more attention by traders, service industries and governments.

3.3.5 Constant additional costs on transactions to represent the buyer (and their national economies) higher 'arrived' prices of goods; to the seller, at the least, repeated arguments with his customer and loss of profit; in the end probably loss of business.

3.4 **How to Facilitate International Trade**

3.4.1 The concept of trade facilitation is very simple. You will not get the right goods in the contracted place at the correct time unless you have the right information FIRST.

3.4.2 Then it has to be recognised that the whole transaction has to be managed as a whole; an import is just an arrived export not another separate activity. This means, even if a trader sells FOB (and the clerk says our responsibility ends when the goods are loaded) that although legal responsibility has ended, a supplier needs to ensure he has a satisfied customer.

3.4.3 Each party to each part of the transaction has responsibilities - this is true for both public and private participants. The essence of the technical task is to move the minimum information with maximum efficiency and process it rapidly. The criterion is the minimum information necessary to service the transaction, and not the maximum that people would like to collect for other purposes.

3.4.4 Traders have always sought to have standard and simple procedures to follow in dealing with administrations and service suppliers such as carriers, banks and insurers. This would allow traders to have to train staff and install systems to deal with common procedures only, not a different set of procedures for each port, carrier, bank or government agency used. But they also have the responsibility of providing all concerned with accurate timely information.

3.4.5 To improve the trading process, and each public or private participants' interaction with it, requires a series of actions to identify problems, develop solutions and achieve use of the new 'best practices'. The use of effective best practices can only be achieved by co-ordination between the relevant participants at company, national or international level. These actions are to:-

- identify constraints in the trading and payment process

- identify solutions including the use of latest technology

- develop best practice in the simplification and integration of the total trading process

- promote the benefits to traders (especially small and medium sized enterprises), government agencies and business service suppliers

4 BETTTER BUSINESS PRACTICE

4.1 The Need

4.1.1 "Better business practice" is any technique that proves to be beneficial to the users. In the context of this report it covers any information processing by governments and their agencies, traders and the trade and transport service industries. Identifying and using best practice is not just a question of what data and what information technology, but also when to process and - most importantly - do you need to do it at all.

4.1.2 Using the simplest practices is necessary for each individual component of the trading process. A number has been developed in recent years; for example:-

- internationally recognised terms of trade
- traders doing away with detailed invoices (and the need to check each manually against purchase orders)
- central banks simplifying exchange control rules
- ports co-ordinating all the port activities
- shipowner, cargo handling, inland carriers, customs and other formalities, into a single co-ordinated process and;
- customs getting rid of consignment based clearance documents.

International standards for all trade documents and their electronic equivalents are readily available.

4.1.3 Furthermore the individual elements needed to be co-ordinated so that the trade practice operates as a cohesive whole.

4.1.4 One point has to be stressed; facilitating trade is NOT the enemy of control. All of the above examples have at least maintained the quality of the controls required by that participant - in many cases the quality has been improved.

4.2 Benefits

4.2.1 The benefits of using best practice are broadly the same for countries and companies

- greater trading efficiency

- better management control
- lower costs
- better customer service
- the ability to introduce new business strategies

4.2.2 At the national level it means the opportunity to increase one's share of world trade; for the company, greater efficiency, improved customer service and profitability.

4.3 **Achieving Best Practice**

4.3.1 In achieving the use of best practice it is not only necessary to identify constraints in the current trading process, develop solutions and simplified practice, but it is also necessary to promote the benefits to participation - both public and private sector - especially small and medium sized traders.

PART B : BEST PRACTICE FOR TRADERS

5 THE ROLE OF TRADERS

5.1 In a domestic transaction the buyer will expect that goods purchased will be delivered to his factory or warehouse. The supplier is responsible for delivering the goods and the buyer for receiving them and paying for them.

5.2 A straightforward operation has both parties responsibilities and obligations clearly defined. An uncomplicated transaction with transport often owned by the supplier, insurance based on annual premiums, payment arranged in local currency on open account, no customs frontiers to cross and, the same legal jurisdiction if things go wrong.

5.3 International trade is more complex in two ways. Firstly there are more parties to each transactions, (see 3.4) some 12-15 in most transactions. Secondly the delivery of the goods can be at factory or customer's gate **or at 11 intermediate points.**

5.4 This added layer of complexity increases the responsibilities on both the seller (exporter) and buyer (importer).

5.5 The seller now has two responsibilities:-

- to deliver the goods to the buyer in good condition at the contracted place, at the right time and for the correct price

- to supply accurate, timely information to all of the other parties in the transaction in order for the goods to be transported and payment to be returned by the due date.

5.6 The buyer also has two responsibilities, even if he buys on terms "Delivered Duty Paid" (see Section 12).

- to complete the obligations required in international trade practice

- to pay for the goods

5.7 These additional responsibilities highlight why trade terms are so important; they tell traders what to do with respect to:-

- carriage of the goods from the seller to buyer, and

- export and import clearance

They also explain the division of costs and risks between the parties, according to the terms used.

5.8 Since 1936 the most widely recognised trade terms have been INCOTERMS, issued by the International Chamber of Commerce (ICC). The latest version, INCOTERMS 1990, came into force on 1 July 1990 to cope with changes in trade practice and the growing trend to replace documents by electronic messages or, as it is known, electronic data interchange (EDI).

5.9 To meet both responsibilities the exporter must plan his export operations carefully. An export strategy is required. This should cover:-

- researching the markets
- arranging the contract
- getting the goods to the market
- documentation and export administration getting paid, and
- customer service

5.10 The importer must also play his part, especially if the goods are sold on trade terms where "delivery" is short of the ultimate destination, for example INCOTERMS 1990, CIF (Cost, Insurance, Freight), named port of destination. In this example the importer must accept delivery of the goods upon shipment and receive the goods from the carrier at the named port of destination. The importer will have to obtain import clearance from customs, pay port charges not included in the freight and collect the goods.

5.11 General principles of international trade best practice are therefore common to exporters and importers in all countries, whatever their economic structure. This is also true of the basic documents.

5.12 The detail of procedures, who does what and the terminology used, can, however, vary greatly. The following six sections therefore set out broad guidelines to best practice for traders.

6 EXPORT STRATEGY

6.1 When preparing to export it is important, no matter how large or small the company, to have a strategy. The following strategy is a guide for small, medium or large enterprises.

- **Research** countries to which you may be interested in exporting. If you already export successfully, look at other areas. For the new exporter, plan to export to one country at a time.
- **Do not** generalise or try to penetrate several markets at once.
- **Assess** the markets. Take account of a country's cultural needs and how your product and its packaging may have to be adapted, for instance to avoid politically sensitive

colours or religiously sensitive animal products. Also investigate technical standards as your product may have to be adapted at the production stage. It is also important at this stage to begin to evaluate costs.

- **Develop** the presentation and marketing material for your product. For example, if exporting to France, ensure that any literature is translated into French. If this material includes pictures, ensure that the buyer can relate to them.

- **Consider** how you intend to get the goods to the market, whether you intend organising everything yourself, including transport and documentation, or using a freight forwarder. Consider what terms of payment you would like to use and how flexible you can be with these with the buyer.

- **Train** staff who will be involved in the everyday export operation and ideally employ someone with a previous knowledge of export documentation and methods of payment. (Or use an export administration company).

- Co-ordinate export operations closely with production sales and finance to plan and to meet timescales and product/service quality. In exporting this area is far more critical than when selling at home and should be carefully considered.

- **Cost** all the above and any other 'outgoings' which may be incurred. These include bank charges, which for certain methods of payment can be quite high, transportation and shipping costs, credit insurance and insurance of the goods in transit. All these costs should be included in the sale price or should clearly be shown as for the buyer's account and should not unexpectedly reduce an exporter's profits.

Guidelines: Prepare a suitable export strategy.

7 RESEARCHING AND ENTERING MARKETS

7.1 The decision to enter a new market cannot be taken lightly. Does the product need amendment? Are packaging and pricing policies correct? What extra demands will the new business impose on production capacity? Can the existing sales force cover the new outlets?

7.2 No company would expect to win business in its home market without properly understanding its customers' needs and then setting out to meet those needs more effectively than its competitors. Commitment from top management is essential for success. There must be a realistic appreciation of the level of investment required and the length of time which will elapse before results are achieved. The benefits to be derived from exporting should include:

1 Increased profitability in the longer term;

2 Better utilisation of production capacity;

3 A wider customer base;

4 Increased security by spreading risk over a variety of markets;

5 Sharper marketing skills through exposure to competition in international markets.

7.3 For the company new to export, the first question must be 'Where do we start?' Even companies which have been exporting for some years should carry out a regular appraisal of the markets in which they are currently working, as well as those which may offer even more attractive possibilities. However, very few exporters would claim that they have entered every one of their markets as the result of careful research and logical reasoning. Often, it is chance events which create opportunities.

7.4 For most new exporters, drawing up a short-list of overseas markets is largely a matter of common sense. They are likely to avoid countries which are politically unstable, or where there is considerable risk that one will not be paid. There are also markets with a high level of discrimination against imports which may manifest itself in embargoes, quotas, tariffs, technical approval and health certificates and excessive labelling requirements. The willingness and ability to overcome such problems often distinguishes the successful exporter from its competitors, as does persistence and a determination to succeed.

7.5 Positive market attributes would include the frequency and regularity of shipping links, remembering that distance increases cost in every aspect of exporting. The ability to conduct business in the language of the country will also be a significant advantage.

7.6 Companies providing products or services which are highly specialised may find it necessary to generate sales in a number of market simultaneously, since no one market would be large enough to sustain the necessary investment. This may also be true if a company is at the leading edge of technology, with innovative products which quickly become outdated.

7.7 With these exceptions, it is always better to short-list two or three markets where the product is likely to find acceptance and then select one market in which to concentrate effort and resources. In arriving at the short-list, ask the following questions:

- Which industries currently use your products?

- In which countries are these industries to be found?

- Which countries have significant imports of this product?

- To what international standards does your product conform?
- Which countries accept these standards?
- What restrictions are placed on imports?
- Is the business environment likely to remain stable?
- Are there adequate shipping facilities?
- Do social or business customs differ greatly from yours?
- Which languages are used for business?

7.8 Having made an initial selection, compare one market with another. This can be done, initially, by desk research. At a later stage, it will be necessary to undertake field research in which each market is visited so as to check out the facts and examine the current situation at first hand.

Guidelines:

1 Don't spend time examining too many markets; concentrate on a few.

2 Select a market which has sufficient potential.

3 Remember, a small market may still have a significant niche and less competition.

4 Select a market where your product has some competitive advantage, for example; design, performance, quality or price - but do not rely exclusively on price.

5 Visit the market yourself before commissioning a detailed field study. Talking to leading buyers or visiting an exhibition can help you to identify key questions.

6 Use the services of export promotion, facilitation body, banks, Chambers of Commerce, trade associations and any other contacts you may have.

7.9 One mistake which many companies make is to underestimate the total cost necessary to enter a new market. Research expenditure is only the first small step. The real costs start when products and packaging have to be changed to meet customer requirements, and samples and sales aids provided to the selected distributor who then looks to the exporter for continuous marketing and service support.

7.10 When the research has been completed and the market offering the greatest immediate potential identified, it will be essential to secure commitment from top management and allocate production capacity, based on the anticipated level of demand - with a built-in safety margin so as to be able to support success. It is also essential that, at the outset, a marketing plan is drawn up and a budget made available; not just for the first year but for the first three years. A large part of the research will have been concerned with identifying how best to enter the market by looking at the available channels of distribution. Only when this decision has been made, will it be possible to assess the financial viability of the project and carry out pricing calculations.

7.11 For each market it will be necessary to set specific objectives. Since every company has finite resources, it must define these objectives clearly and realistically. A written marketing plan encourages systematic thinking and provides the means by which performance can be evaluated. It should include sales forecasts for each product and market segment, together with the costs necessary to achieve these sales and the required contribution to profit.

7.12 Entering a market is usually achieved in one of four ways:

- Selling direct to users;
- Appointing a commission agent;
- Appointing a distributor;
- Working with a non-competitive manufacturer.

Guidelines:

1. **Identify the appropriate market segment for the product.**
2. **Ensure that the distribution channels used match this segment.**
3. **Set specific objectives for each product and market segment.**
4. **Allocate adequate resources.**
5. **Prepare a marketing plan.**
6. **Monitor progress.**

8 ARRANGING THE CONTRACT

8.1 All buyers and sellers want to complete their business quickly and efficiently. In order to make this possible it is important that the contract is clear and leaves no doubt as to responsibility and costs. Two very important areas of a contract for consideration are trade and payment terms.

8.2 When arranging any sales contract it is very important to ensure there is no confusion over who is delivering and paying for what and what each party's responsibilities are. Confusion will only lead to delay, loss of profit and can create unnecessary problems between the trading partners.

8.3 An exporter needs to know terms of trade before preparing a contract, quotation or pro-forma invoice. "INCOTERMS 1990" is produced by the International Chamber of Commerce (ICC). There are thirteen Incoterms.

Guidelines: Train staff to use ICC's INCOTERMS 1990, e.g.

EXW - Ex Works

FCA - Free Carrier (named place)

FOB - Free on Board (named port of shipment)

CIF - Cost, Insurance and Freight (named port of destination)

DDP - Delivered Duty Paid (named place of destination)

8.4 Some transport terms get confused with INCOTERMS such as FIO - Free in and out (loading/discharging not charged to ship). If your buyer asks you to use these or any non standard terms please get professional advice (eg. forwarder, Chamber of Commerce) on what they mean. If you use them you will not have the protection of INCOTERMS.

A misuse or misunderstanding of INCOTERMS could prevent an exporter from meeting contractual obligations, or even make the exporter responsible for unexpected costs. It is, therefore, very important to understand and quote the correct INCOTERM.

8.5 Terms of payment define the conditions under which the importer (buyer) and exporter (seller) have agreed to settle the financial balance. The basic elements of the terms of payment include:

- the method of payment
- the amount
- the date of payment
- the place of payment
- remittance of funds
- costs related to the payment eg. banking commission
- security given by the creditor for due fulfilment of his obligations.

8.6 There are several basic methods of getting paid, depending on the amount of trust the exporter has in the buyer's ability to pay. Individually tailored terms of payment are sometimes arranged if certain conditions are to be met. The following basic methods are listed in order of security for the exporter.

1 Cash in advance

2 Letter of credit

3 Bank documentary collections

4 Open account

8.7 More detailed information is contained in Section 11 "Getting Paid".

8.8 Which is most appropriate to any contract depends on a number of issues including the financial standing of the buyer and custom and practice. Delays in payment are costly and bad debts more so.

Guidelines: **Investigate payment options including comparative cost and risks. Take advice of an international bank specialist.**

9. GETTING THE GOODS TO THE MARKET

9.1 The main options when considering how to get goods to the market are sea, road or combined sea/road transport, air freight, post, especially air parcel post, or express deliveries, courier services and rail freight. The decision on which of the above to use must be based on a combination of four requirements:

- product requirements
- speed
- reliability, and
- cost

9.2 For all modes, except post and possibly some express parcels or courier services, a freight forwarder will advise. Remember to include the total costs of each method in the quotation linked, where appropriate, to your responsibilities under the agreed INCOTERM including packaging, storage, inventory and, of course, freight costs.

9.3 Besides planning the movement of routine shipments, also have plans ready to cope with 'special' shipments of spare parts, goods returned for repair etc. In the latter case give customer clear instructions on how (and to whom) to consign the goods and get them to fax information once shipped so the consignment can be progress chased.

Guidelines: **For all methods except post, it is sensible to use a carefully chosen freight forwarder, or export administration company, who can obtain comparative quotations for your products and can arrange transport, insurance, official documentation and customs clearance. At a later stage, once regular**

markets are established, the exporter might deal directly with chosen transport operators.

9.4 **Sea transport** services come in many shapes and sizes and offer a range of competitive rates, so it is important to 'shop around' and obtain several quotes. These are three basic types of sea carriers, regular services carrying either containerised or break-bulk cargo (or both); regular ferry services primarily carrying road vehicles loaded with cargo and 'tramps', the latter like taxis plying for business to make individual voyages generally carrying bulk cargoes such as grain, coal and oil.

9.5 The rating of sea freight can vary between a specific commodity rate, FAK rates (freight all kinds) or a rate for a containerload. Freight is usually charged on weight or measurement, whichever is the greater. Container rates can be FCL - full container load; LCL - less than full load or groupage.

9.6 On most major trade routes there is considerable choice for the exporters. Questions of routing, costs, selection of carriers etc are complex issues that should be dealt with by skilled staff - or by your forwarder.

9.7 As with sea transport, **road transport** rates can be agreed based on full container loads (FCL), less that full container loads (LCL), groupage etc, and the method chosen is reflected in the cost. Rates can also be based on whether a vehicle is driver accompanied for the sea leg or driver unaccompanied.

9.8 'Trailers', as they are sometimes called, are very flexible and it is important, especially when using container traffic, to request the correct type. Trailers tend to come in lengths varying between 20 to 40 feet and are constrained to a maximum legal weight. For guidance on maximum legal weights and the type of vehicle to use either consult your forwarder or contact the national road transport association.

9.9 Rates for the **air freight** industry are based on weight and volume. The size of the consignment is far more sensitive in relation to the costs than in other modes and tends to restrict air freight to smaller consignments. There are possibilities of chartering an aircraft for larger consignments but this should only be considered through an approved air freight forwarder/carrier.

9.10 Airfreight has the benefit of speed, especially for longer distances. If using a letter of credit, however, ensure that an Airway Bill is acceptable, and that transhipment (the aircraft having to refuel on route) is permitted.

9.11 This particular mode of transport is also more sensitive than most to hazardous or dangerous goods restrictions and strict compliance to the International Air Transport Association's (IATA) regulations must be carried out. (All modes have specific rules for dangerous cargoes which must be pre-booked and are usually specially documented). If in doubt consult the air forwarder or carrier at an early stage.

9.12 In some parts of the world **air parcel post** is becoming increasingly popular. It gives rapid delivery, usually door to door, for a competitive all-in rate and with simple documentation. Large parcels up to 20 kilograms (and sometimes more) can be carried to almost anywhere in the world. Other facilities such as insurance, cash on delivery (C.O.D) and prepayment of customs duty are often available. Dangerous goods cannot be carried.

9.13 **Express or Courier** services are applicable, as their name suggests, for fast and/or secure delivery services. They offer door-to-door rates and are gaining in popularity with more companies using just-in-time systems. The cost of using an express freight company is reflective of the speed and treatment of the goods and it is best to obtain several quotes before proceeding.

9.14 It is impossible to generalise on how much it will cost to deliver to the market as costs vary considerably with destination, weight, bulk, value and quality of service. Other delivery costs, including insurance and related indirect costs such as inventory costs, will vary with value. A quotation should be obtained to cover carriage, fees, and insurance up to the point at which the goods are handed over. It is the only safe way.

9.15 It is essential to find out how long delivery will take, before giving any undertaking to the importer. Remember to include the time necessary for all the steps up to the point the goods are handed over. For some markets it also depends on the frequency of sailings; the importer, however, will only be interested in the date he receives the goods - not the despatch date.

9.16 Insurance of some type will always be required, even if "sellers interest" only. Most delivery terms require the exporter to cover against damage or loss to the goods in transit, with marine insurance. Carriers do have certain levels of liability but all modes can limit their liability, usually under international convention, and these levels usually fall well below the actual value of the goods. Your forwarder or an experienced marine insurance broker can advise you.

10 DOCUMENTATION AND EXPORT ADMINISTRATION

10.1 When talking to experienced traders the first thing that they will stress is the need to make sure you have all the documentation in order. Documents are the foundation upon which the whole export transaction chain sits. If there is an error, missing data or no document at all, the consequences can be catastrophic. So ensure it is right!

10.2 Make sure to tell the customer what has been done with the documents as well as the goods; in fact ask him beforehand if he has any special documentary requirements that you can help with.

10.3 In many countries documents physically have to arrive - through the post, by courier, through the banking system or via the carrier - before clearance procedures can be completed and your customer gets the goods. There is nothing more disconcerting to an importer than seeing the goods he has paid for in the transit shed, but not be able to get them because of one or more missing documents.

Guidelines:

Documents and their electronic equivalents should follow international standards and the national aligned system. A system compatible with requirements should be installed; this can vary from multi-part sets, through the use of overlays and photocopiers/duplicators, to PC or main frame computer system. (See Appendices 1 & 2).

Careful attention should be paid to providing accurate, timely information to the customer, customs and other official bodies and to those providing services to the exporter eg. forwarders, ports, carriers, insurers and banks.

Document systems should be reviewed periodically, in order to use up-to-date technology and eliminate redundant forms and copies.

11 GETTING PAID

11.1 When considering how to get paid the exporter should take account of several factors, such as credit worthiness of the buyer, consignment value, bank charges and what method the buyer has requested (if any). It is a good rule to study how established exports get paid in your trade. (For example, up to 70% of trade from the UK is based on open account terms; but it is important to remember that 60% of UK trade is with the other European Community member states).

Letters of Credit/Documentary Credit

11.1.1 A letter of credit can be described simply as a written undertaking given by a bank on behalf of the buyer, to pay the seller an amount of money within a specified time, provided the seller present documents strictly in accordance with the terms laid down in the letter of credit.

11.1.2 A more formal definition is "a conditional undertaking of the issuing bank that settlement will be made by a bank nominated in the credit (paying bank) and in the manner specified in the credit, if the seller (beneficiary) presents to that bank documents as stipulated in the credit and complies with the terms and conditions thereof. The issuing bank is ultimately responsible for settlement if the nominated bank does not honour such compliant documents".

11.1.3 If used correctly a letter of credit (L/C) provides substantial security. However, it does involve a level of expertise in the preparation of the required documents and surveys show considerable errors in documents lodged against credits.

Guidelines:

L/C transactions should be carefully managed.

With the considerable number of errors on in-coming credits a pro-forma credit should be sent to the buyer at an early stage. When the L/C is received by the exporter it should be checked thoroughly against the instructions (pro-forma) sent to the buyer to see whether it is acceptable or what amendment is required.

11.2 It is clear that the driving force for the process of managing export payments must be the exporter. It has to be recognised that the export or shipping department that controls this process has a major loss preventing function within the export company.

Guidelines:

The exporter must plan and manage the export payment process, selecting the most appropriate payment methods; maintaining close liaison with the buyer; co-ordinating internal practices and training staff to ensure the most efficient and cost effective handling of the whole transaction.

11.3 The main payment options are summarised below:-

Revocable Credits

Irrevocable Credits.

Confirmation

Bank Documentary Collection (Bills of Exchange)

and **Open Account**

Other Alternative Methods of Payment include Factoring and Invoice Discounting and Forfaiting by Banks and other Specialised Finance Houses

12 THE CUSTOMER

12.1 The prime objective of any exporter should be to ensure quality customer service. This should cover not only the product but also the necessary documents and information on progress in the despatch and delivery of the product.

12.2 Many exporters, especially those selling non-proprietary goods, such as chemicals, against local competition, have to show that they can deliver to the customer's factory as effectively as the competitor on his doorstep. Effective customer service is essential for survival.

12.3 Administration of the transaction is not often a subject of close liaison, but to be efficient it is essential for the exporter and importer to get together and identify the customer's shipping and documentation needs. These discussions would cover routing, the correct use and interpretation of trade terms, clearer and simpler shipping marks, the right type of documentation to us and what can be simplified or cut out, especially in documentary credit transactions. Many importers' or sales agents' purchasing departments are simply following tradition in calling for certain documents, shipping marks and actions. It is often evident from the wording of many, if not most, documentary credits that they are following a set pattern. Even when some documentary credit requirements stem from government regulations and not from the normal commercial considerations of credit control, much can often be done.

12.4 The customer, quite rightly, will not be too interested in hearing about the exporter's difficulties, but will almost certainly appreciate direct interest in his problems. Many exporters would be horrified to see what can happen to their goods in transit or at destination.

12.5 A few careful checks when the order is placed, or the contract drawn up, can save time-consuming problems later. Perhaps the most obvious precaution is a definite system for scrutinising documentary credits when they are first received, including a progress or diary routine to check that they are opened and received in good time.

12.6 It is also wise to arrange and check on routings as soon as orders are received. Perhaps the routing on which the original quotation was made is no longer suitable. It may be necessary to consult at the outset on the co-ordination or production, packing and despatch or shipping schedules.

12.7 On some occasions, the delivery terms quoted may be impractical, fail to include all the costs which will be incurred, or be incorrect. Examples abound of quotations specifying, say, "CIF" without stating the precise place of delivery, or "C & F" with no arrangements to cover seller's interest risks, or "Delivered" without saying where, or what costs will be paid. Extra unplanned costs, resulting from hastily quoted delivery terms, quickly erode profit margins. If these terms are put right at the earliest stage of order processing, or, preferably, quoted correctly in the first place, these costly mistakes can be avoided.

12.8 Even after the order is received, and acknowledgement made, the customer will appreciate being kept informed of progress, and especially of any foreseen delays.

12.9 It is important to keep the customer advised by fax or telex. As soon as possible the despatch advice should be sent with any documents which are available, especially the export invoice. It is most helpful to tell the customer that the goods are on their way and that the remaining documents will follow shortly. Pre-advice assists the customer to plan his own import routines to avoid delays when the goods arrive.

Guidelines:

The exporter and importer should liaise about their administrative requirements. The exporter should provide customer service before and after the despatch of the goods.

The importer needs to ensure that his purchasing practices are up-to-date and realistic and that he can carry out import clearance as soon as the goods arrive.