

IMPORTING? EXPORTING? YOUR QUESTIONS ANSWERED

TradeGuide



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- the level of revenue they generate; and
- reaching individual sales portfolio targets.

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Preface

Seventh edition 2005

With the volatile economic and market conditions prevalent in the international financial markets in recent years, banking techniques, through necessity, have undergone considerable change. This is no less the case in financing of import and export transactions.

Factors such as the deregulation of the Australian financial markets have resulted in the development of innovative financing techniques suitable to both importers and exporters. Availability of appropriate financing can be integral to a trader's ability to quote a competitive price for goods and to minimise the total cost of any goods purchased.

Accordingly, this publication has been written as a guide for new and inexperienced traders who are seeking an overview of international trade and appropriate financing tools. We have endeavoured to structure the publication to be read from cover to cover and so to build upon the information included in previous chapters.

The publication should not be regarded as a textbook nor as the sole source of reference for international trade enquiries.

Requests to reproduce any part of this publication are to be referred to:

Commonwealth Bank of Australia
International Trade Products
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First edition:	1986
Reprinted:	1987
Second edition:	1988
Third edition:	1991
Fourth edition:	1992
Fifth edition:	1993
Sixth edition:	1997
Seventh edition:	2005

Full terms and conditions for the accounts/facilities mentioned in this book are available on application. Bank and Government charges may apply. Applications for finance are subject to the Bank's normal credit approval.

About the Commonwealth Bank of Australia



The Commonwealth Bank of Australia was established by an Act of Parliament in 1911 to conduct banking business and opened for business on 15 July 1912.

The Bank's functions were later expanded to encompass those of a central bank. Subsequent legislative amendment in 1959 created a separate Reserve Bank of Australia to take over the central bank functions.

Since then the Bank has progressed to the point where it is one of Australia's largest financial institutions.

In recent times the Bank has undergone significant restructuring to meet the challenges of a rapidly evolving financial market place.

These challenges are being presented through substantial breakthroughs in technology, emergence of other 'niche' financial providers and increased expectations from consumers of financial products.

The international trade arena is not isolated from these challenges.

The Bank has been, and continues to be, active in catering for the requirements of importers and exporters. We have resources available for use by traders including flexible finance packages, access to global payment systems and, of course, appropriate skilled personnel to help and assist customers in their import and export transactions.

The assistance available from our personnel will assist a trader in determining the most efficient financing structure, identifying risks, methods of mitigating some of these risks and to determine the most appropriate payment method in light of the individual transaction.

To contact one of our experts to discuss your individual trade finance requirements, simply call **1800 657 151** or visit commbank.com.au

Introduction



Since earliest times, people have been trading surplus goods for profit or in exchange for other goods or services. This basic principle continues to guide international trade today. Certainly, today's mechanisms for payment, shipment methods, and the global economy make for a far more sophisticated market place than those of historical times, however, the 'raison d'être' remains.

This sophistication has been accompanied by growth in the variety of goods available, numbers of buyers and sellers, channels of delivery and methods of payment. Inevitably, the risks encountered by both buyers and sellers have increased also.

Today's traders need to have access to information and specialist services to ensure that all payment, finance and risk mitigation options are explored and all risks are evaluated before committing to a deal.

The Commonwealth Bank assists traders on many of these issues. The areas of expertise for the banking industry are finance, method of payment and management of credit, transfer and foreign exchange risks. The international banking system also provides a complete means of settling trade debts between buyer and seller.

The Commonwealth Bank provides both exporters and importers with strong support through a range of services specifically tailored to meet the requirements of each individual trader.

As the proceeds from export sales are integral to Australia's income, the support offered by the Commonwealth Bank to Australian exporters brings benefits to all Australians. The income derived from export sales leads to improved balance of trade figures, lower interest rates, more business investment and employment, etc.

In the following chapters we examine some of the more common risks found in international trade, and the methods of payment available to traders. We also explain the processes of the different methods of payment through the banking system and focus on the risks that each of these methods of payment brings. Additional chapters discuss the documentation and financing aspects of trade. To further assist traders we have included a separate section on complementary services available from the Commonwealth Bank and other organisations.

Risks in international trade

Dealing with buyers and/or sellers in other countries brings with it complexity that is unlikely to be found in local trading. The diversity of trade opportunities and the constant changes in economic circumstances make it impossible to generalise which is the most significant risk faced by traders. This chapter describes the more common commercial risks that a trader will encounter and also includes a brief commentary on the prevalence of fraudulent activity in international trade.

For new or inexperienced traders, it is strongly recommended that you discuss any transactions with your bankers prior to entering into negotiations with unknown parties.

Fraudulent activity

Trading goods has been a regular process throughout the ages. As with other endeavours, this has come to the attention of unscrupulous persons. There is an almost infinite variety of frauds that are practiced on inexperienced and experienced traders alike. A key rule of thumb is to transact deals only with reputable parties that have a proven record in trading the particular goods in question.

The modern age, despite the ease of communications and the improvement in technology, has not seen any reduction in fraudulent trade and accordingly all traders are cautioned against immediately accepting offers that seem 'too good to be true', because, more often than not, they are.

Some of the common attributes of recent frauds are very large amounts, lack of any substantial evidence of the existence of the goods, a plethora of official looking documents and lack of a track history for the buyers and sellers in their international trade dealings.

Any negotiations with unknown suppliers, buyers or third party agents should always be treated with care and diligence and no commitment given until the bona fides of all parties are established.

Any reservations that traders may have about any deal should be discussed with their bankers. Banks by the nature of their role in facilitating payment for trade transactions are in a position to view many of the frauds that are attempted and perpetrated. Accordingly, a discussion with your bankers may bring to light any risks that may have been overlooked at the time of negotiation.

Commercial risks

There are a variety of commercial risks in international trade and the following describes some of the more common of these risks and their mitigants that should be considered during your negotiations. When, how and to what extent these risks apply is discussed more fully in the chapter 'Methods of payment, risks' (page 35).

Exchange risk

All traders should evaluate the profitability of sales and purchases prior to agreeing to a contract.

Transactions which are to be denominated in currencies other than the trader's local currency (being the currency in which costs, etc. are incurred), will require the foreign currency amount that is to be paid or received to be converted to local currency equivalent.

Exchange Risk, sometimes also referred to as Currency Risk, describes the risk that after exchange of the foreign currency amount the resultant local currency equivalent will vary from the local currency amount that was calculated before agreeing to the contract.

Exchange Risk arises due to variations in exchange rates for the currencies concerned and the delay between the time of entering into the contract and making or receiving the payment.

Given the constantly fluctuating nature of exchange rates, management of foreign exchange exposures is vitally important to the profitability of any trader.

Mitigants

Exchange Risk plays a very large role in international trade. Accordingly, a separate chapter, 'Foreign exchange' (page 8), has been devoted to discuss the many and varied methods of mitigating this risk.

Non-delivery/performance

When dealing with suppliers there is a risk that they may not be able to perform in accordance with the sales contract.

Non-performance may be an inability to deliver the requested goods, delivering inferior goods or simply being unable to deliver on time. Such non-performance may or may not be as a result of events outside the supplier's control. However, the result of non-performance by the supplier will have an impact on the ability of the buyer to meet their commitments or to maintain their manufacturing output.

The adage 'caveat emptor' ('let the buyer beware') is especially true in international trade.

For an exporter, this risk may manifest itself in the importer not honouring the sales contract and wilfully not making payment. Any subsequent efforts made by the exporter to enforce the contract will represent costs that will detract from the profit originally forecast.

Mitigants

There are no guaranteed methods of eliminating this risk. It may, however, be mitigated by making enquiries and seeking trade references prior to dealing with any new trading partners.

A secondary source of quality goods should always be available to limit economic damage caused by non-performance of the supplier.

For exporters, the risk of repudiation of the sales contract may be insured through export insurance entities such as Atradius Credit Insurance NV or QBE Trade Indemnity (page 52).

Credit risk

The creditworthiness (being the ability and willingness to make payment) of the buyer should be of paramount importance for any exporter. Obviously, contracts should not be entered into and shipments should not be made unless payment is reasonably assured of being received.

Therefore, at a minimum, credit and trade references should be obtained before committing to any sale. For exporters who have agreed to extended credit terms with the buyer, it may be prudent for the

exporter to obtain updated credit references on a regular basis or to examine the buyer's annual reports to ensure their ongoing creditworthiness.

Credit Risk should not be considered solely as the risk of insolvency of the buyer. Any party involved in the payment chain, including banks, must be included when considering this risk.

For an importer, the risk of insolvency of the seller needs consideration. If payment is made and the seller becomes insolvent, the importer may find that their payment will not be returned. Similarly, if the seller is unable to effect shipment due to their insolvency the importer will need to quickly locate a new supplier.

The method of payment chosen may support the extension of some credit terms to the buyer.

Traders should also consider the impact of any default in relation to any exchange risk mitigant arrangements that may have been made.

Mitigants

For an exporter, these risks may be insured through entities such as Atradius Credit Insurance NV and QBE Trade Indemnity (refer page 52). Further options for mitigation of this risk are discussed in the section 'Without Recourse Export Finance (WREF)' (refer page 45).

An importer will need to be confident that the supplier is and will be able to fulfill their side of the sales contract before committing themselves to the transaction.

Transfer risk

Payment Transfer Risk is the risk that due to a change in governmental regulations, the importer is prohibited or restricted in making payment or obtaining foreign currency to settle debts. Conversely an exporter may also be restricted in receiving payments from certain sources or exchanging foreign currency.

Many countries have laws and regulations relating to the outward transfer of money and the conversion of foreign currency receipts. Where these regulations are suddenly or unexpectedly changed, import and export transactions previously agreed to and not yet settled may suddenly be thwarted.

Accordingly, the ability of an importer or exporter to fulfill their obligations is subject to stable political environments. Equally, the broader political climate in the trader's counterpart's country may be impacted by international actions such as economic embargoes and sanctions which may preclude settlement of transactions.

These changes may be brought about by war, natural events, etc. or a change in political power and a consequent change in governmental regulations.

Mitigants

For an exporter, some of these risks may be insured through entities such as Atradius Credit Insurance NV and QBE Trade Indemnity (refer page 52).

Country risk

Most countries have regulations that govern the import and export of goods. Where these regulations are suddenly and unexpectedly changed, import and export transactions already agreed to and not completed may suddenly become invalid.

Additionally, an exporter should consider the integrity of business laws and the legal system in the country they are selling to as well as the level of compatibility of these laws with Australian laws.

Accordingly, the ability of an importer or exporter to fulfill their obligations is subject to stable political environments.

Any change in the relevant governmental regulations may have an effect on either the payment and receipt of money or the acceptability of the goods for import or export. These changes may be brought about by war, natural events, etc. or more generally a change in political power and a consequent change in governmental regulations.

Country Risk is the risk that, due to a change in governmental regulations, the importer is prohibited or restricted from receiving the shipment. Conversely, an exporter may be restricted in effecting the shipment due to cancellation of export licences, permits, etc.

Mitigants

For an exporter, some of these risks may be insured through entities such as Atradius Credit Insurance NV and QBE Trade Indemnity (refer page 52).

Transport risks

Transport risks include the risks of theft, pilferage and damage to the goods whilst in transit from the seller to the buyer.

Additional losses over and above the cost of the goods may also be incurred as a result of damage to the goods. These additional costs and losses will range from freight costs, to the loss of any profit that would have been made on the onselling of the goods, etc.

Mitigants

These risks are normally insured through commercial marine insurance agencies.

Foreign exchange – introduction

The buying and selling of goods internationally will usually mean that one party will be either receiving or paying a foreign currency, that is, a currency other than the currency used domestically. In some cases, it may be that both parties will be dealing in a foreign currency.

Accordingly, the issue of foreign exchange is of prime importance to both importers and exporters who are making or receiving payments in a foreign currency.

In this chapter, we discuss some background to exchange rates and in the following chapter, Foreign exchange (risk management), a commentary is provided on the various methods available to traders to manage their exposure to movements in exchange rates.

What is an exchange rate?

The simple answer is that it is the price expressed in one currency to exchange that currency for another. The way a rate, or price, is quoted in Australia is the amount of foreign currency that will be received or provided by the customer for one Australian Dollar (AUD).

The exchange rate is determined by a number of factors including the amount of currency for sale or purchase, comparative interest rates, the number of buyers and sellers and their expectations on the future worth of the currency, which in turn is determined by the perceived economic health of the country.

Exchange rates are always quoted from the perspective of the bank. Therefore, when a bank quotes a selling rate, it is the rate at which the bank is prepared to offer the foreign currency in exchange for AUD. The foreign currency will be paid to the customer in accordance with their instructions, e.g. includes remittances to suppliers and payments due under documentary collections and documentary credits, etc. Conversely, in the case where a buying rate is quoted, the customer will pay the foreign currency to the bank and receive an appropriate amount of Australian Dollars in return.

For example...

A bank selling rate is quoted for United States Dollars (USD) at 0.7108.

Therefore, as this exchange rate is in terms of one Australian Dollar, the importer will receive 71.08 US cents for each Australian Dollar.

Accordingly, if a payment due to an overseas supplier is USD10,000, this amount is to be divided by the exchange rate to calculate the amount in Australian Dollars that is required to be paid by the importer to the bank:

USD10,000 divided by 0.7108 = AUD14,068.66

On the other hand, a bank buying rate is quoted for United States Dollars at 0.7198 that is an exporter will receive one Australian Dollar for each 71.98 US cents.

Accordingly, if the payment received by the exporter is USD15,000, this amount is to be divided by the exchange rate to calculate the amount of Australian Dollars that will be received from the bank:

USD15,000 divided by 0.7198 = AUD20,839.12

The use of rates and the difference between buying and selling rates may sometimes be confusing. However, two simple rules will help traders to use quoted rates correctly. These rules are:

- If the customer pays AUD to the bank, the bank will use the selling rate. If the customer receives AUD from the bank, the bank will use a buying rate, and;
- To arrive at an AUD equivalent, divide the foreign currency amount by the rate quoted. To arrive at a foreign currency equivalent multiply the AUD amount by the rate quoted.

Excesses and shortfalls of those currencies bought and sold by banks are cleared through domestic and international financial markets. The Commonwealth Bank participates actively in these markets in order to provide up to the moment rates to its customers.

Exchange rates fall into two main categories:

- spot or value today exchange rates (buying and selling), and;
- forward exchange rates (buying and selling).

Spot and value today exchange rates

In the international financial markets, foreign exchange deals agreed today will generally be settled two working days hence. Two day settlement is referred to as 'spot value'. As Australian banks settle their excess or shortfall of foreign currencies in financial markets, Australian banks encourage their major foreign exchange customers to conform to this practice and fix exchange rates two days ahead of when the funds are required or expected.

Traditionally, however, Australian traders have usually sought 'value today' transactions, where the currencies are exchanged that same day. Accordingly, the rates available in the international market are adjusted to reflect the timing difference between the internationally accepted two day 'spot value' transactions and the Australian practice of 'value today' transactions.

A sample Daily Exchange Rates schedule is shown on page 61. Although all these rates are quoted on a 'value today' basis, further timing differences can intrude in the calculation of a buying rate. Therefore there will be up to 3 buying rates quoted for each currency whilst only one selling rate.

There is only one rate quoted for the selling of each currency as there is not a timing difference for selling rates. This is because the bank will receive AUD immediately from its customer whilst simultaneously delivering the foreign currency in accordance with the customer's instructions.

Foreign exchange buying rates

In calculating a buying rate of exchange, the Bank takes into account any lapse in time between the date of purchasing the foreign currency from a customer and the date on which the foreign currency concerned is actually received by the bank in an immediately tradable form. It should be noted that foreign cash is not viewed as immediately tradable.

As can be seen from the Daily Exchange Rates schedule on page 61, the Bank quotes three buying rates. These are T/T (Telegraphic Transfer), O/D Air Cheques and Notes (cash).

The T/T rate is used in those cases where the bank buying the currency has received the foreign currency in one of its foreign currency accounts conducted with banks overseas.

Where the bank has received foreign currency to such an account before it pays the AUD equivalent to the customer, the bank is able to immediately use those funds in its foreign currency dealings. Accordingly, the bank is able to pass on that benefit to the customer by way of an exchange rate which will generate more AUD for the customer than would be the case if the O/D or Note buying rates had been used.

The O/D rate is used where the bank buying the currency has not yet received the foreign currency, however is able to set about claiming the amount due by clearance of a cheque, etc.

For example, where a customer presents a cheque in a foreign currency and requests that it be immediately exchanged for AUD, and if the bank (negotiating bank) agrees to do so, it will generally use the O/D rate to calculate the amount of AUD due to the customer.

However, the bank has not received the foreign currency, it has simply received a cheque in that foreign currency. The cheque gives the negotiating bank the right to receive the foreign currency, however the cheque must first be presented to the bank that it is drawn on (drawee bank) for payment. As the drawee bank is generally overseas, there will be a considerable delay until the foreign currency amount is actually received by the negotiating bank. Accordingly the O/D rate includes an interest factor for the period that the negotiating bank expects it will be out of pocket. Accordingly the rate is not as favourable to the customer as the T/T rate as it generates less AUD per unit of foreign currency.

The note buying rate is used where the bank purchases foreign currency presented in the form of cash. This rate attempts to recompense the bank for the holding costs, the risk of holding foreign cash, the value of which is subject to exchange rate fluctuations, the small transaction amounts involved and the fact that the bank is out of pocket until a buyer is found, if at all. Therefore, of the three buying rates, the note buying rate will yield the least amount of AUD to the customer per unit of foreign currency.

Forward exchange rates

A forward exchange rate is a rate that is quoted to buy or sell a particular currency at a future date. The date will generally be between 3 and 185 days in the future.

In International trade, as soon as an Australian exporter or importer agrees to a sale or purchase of goods in a foreign currency, an exchange risk arises. If the exchange rate moves, the amount of Australian currency to be received or paid will be affected.

Accordingly, if an exporter or importer knows the exchange rate at which these transactions will be converted when payment is received or made, they will be able to trade with confidence knowing that the amount of local currency received or paid will ensure the transaction is profitable. A forward exchange rate meets this requirement. Forward exchange rates are not estimates of what the exchange rate for the currency will be at the future date. Rather they are rates that are based on current exchange rates adjusted to reflect the differences between the interest rates for the two currencies concerned for the period nominated. This aspect is explained more fully in the following chapter.

Forward exchanges rates may also be quoted between two foreign currencies, e.g. a bank agrees to buy Japanese Yen from a customer in exchange for USD.

Foreign exchange – risk management

We briefly discussed exchange risk in the earlier chapter, 'Risks in international trade'. In this chapter, we will discuss mechanisms by which this risk can be managed.

Exchange risk can, of course, be avoided by importers and exporters simply contracting for purchases and sales in their local currency only. Such an approach, however, is likely to lead to a loss of trade opportunities due to a more flexible approach being adopted by their competitors. For exporters, they may also be denying themselves the opportunity of financing their export contracts in lower interest rate currencies.

It has become commonplace, since the deregulation of the Australian financial markets in the early 1980s, that financial news, both press and television, make mention of foreign currency exchange rates. This has certainly raised the consciousness of the Australian public and, of course importers and exporters, to the volatility of exchange rates.

Any movement in the exchange rate will affect the amount of domestic currency that an exporter receives, or an importer pays. For an exporter there are costs to be met from domestic currency, e.g. wages, rents, utilities, and therefore the profitability or otherwise of any sale where payment is received in a foreign currency is contingent upon a favourable exchange rate. On the other hand, an importer who purchases goods where payment is effected in a foreign currency, will generally receive payment from local buyers in their domestic currency, thus also creating an exposure to exchange rate movements.

Accordingly, a trader needs to be acquainted with the many and varied methods available to manage the risk of adverse movements in exchange rates.

The Commonwealth Bank offers a number of methods of managing these risks.

These methods include Forward Exchange Contracts, Flexible Forward Exchange Contracts, 24 Hour Market Watch, Foreign Currency Accounts, Foreign Currency Overdrafts and Foreign Currency Options.

It is sound practice for all traders to consider their exposure to foreign exchange movements and to develop a policy for the management of such risks. As movements in exchange rates are continual and have the potential to have a profound and wide ranging effect on a trader's financial viability, it is important to have a set policy so that these movements do not encourage speculation or complacency.

Each of the risk management methods discussed in the following pages have different features and meet different needs and market conditions. Accordingly, some methods may not be appropriate to a trader's particular circumstance. The features vary from nullifying any exposure to exchange rate movements to allowing for some movements both adverse or beneficial or to simply covering a worst case scenario. Of course, the cost of each of the options available will vary along with the complexity of the risk management strategy agreed upon.

Due to the complex and volatile nature of some of the risk management methods, it is recommended that discussions are sought with your bankers prior to committing to any transaction that will involve an exchange of foreign currency.

Forward exchange contracts

As discussed in the previous chapter (Foreign exchange, introduction) a customer may request the bank to quote a forward exchange rate. If the bank agrees to do so, a rate will be agreed and a forward exchange contract will be signed by both the bank and the customer. A forward exchange contract simply documents the agreement to buy or sell a foreign currency at a fixed rate upon or within certain dates. Traders wishing to arrange facilities for the dealing of forward exchange contracts should discuss their requirements with their bankers.

A sample of the Commonwealth Bank's Standard Forward Exchange Contract is shown on page 72.

The forward exchange contract will stipulate whether the bank is to buy or sell the foreign currency, the amount of foreign currency involved, the agreed exchange rate and the date or period of time on or during which delivery of the currencies is to take place.

A forward exchange contract may be arranged so that delivery of the currencies at the agreed exchange rate is to occur on one particular, fixed date. This is known as a 'fixed' forward exchange contract. Alternatively, delivery of the currencies at the agreed exchange rate may be agreed to take place between two dates. The period between these two dates is known as an 'optional period'. These contracts are known as 'optional' forward exchange contracts.

Optional forward exchange contracts are primarily used where the customer is not sure of the shipping timetable of the goods and thus the subsequent date of payment or receipt of the foreign currency amount.

Both these types of forward exchange contracts are available for buying and selling foreign currencies. Where a forward exchange contract is entered into for the bank to buy a foreign currency, the rate quoted is on the basis that the foreign currency is provided to the bank on a 'T/T' basis. That is, the foreign currency must be received by the bank in one of its foreign currency accounts conducted with banks overseas on the date or within the optional period nominated in the forward exchange contract. Therefore, if a cheque is presented to the bank for conversion at the forward exchange contract rate, the contract rate will be adjusted to take into account the time delay that will be encountered in receiving payment from the bank that the cheque is drawn on. (See comments in the previous chapter under 'Foreign exchange buying rates' on page 9.)

Calculation of forward exchange rates

A forward exchange rate does not represent a forecast by the bank of what the buying or selling rate of exchange for the relative currency will be in the future. Instead, the bank will calculate the forward exchange rate based on the differential between the respective interest rates of the two currencies involved.

It may seem unusual to base exchange rates around interest rates, however by way of example, consider an importer with a commitment to pay USD25,000 in 90 days time.

The importer may eliminate the risk of exchange rate movements by simply buying USD25,000 at the time

of commitment to purchase the goods and investing this amount for 90 days until the payment is due. To buy the USD, the importer will spend AUD and accordingly will need to borrow or recall from an investment the appropriate amount. Therefore, the net exchange rate received at the end of 90 days will be the total USD available (USD25,000 plus interest earned) divided by the total AUD expended (the principal amount plus interest paid or foregone).

Although this example is simplified, banks will calculate forward exchange rates using much the same rationale.

24 Hour Market Watch Service

The 24 Hour Market Watch Service allows a trader the flexibility of protecting a minimum acceptable foreign exchange rate whilst allowing for possible beneficial movements in the relevant foreign exchange rate.

The mechanics of its operation are as follows.

A trader will agree with the Commonwealth Bank a minimum exchange rate that is acceptable to the trader. This rate is known as the 'Stop Loss Rate'. From that time, the Bank will monitor exchange rate movements 24 hours a day through its international network of foreign exchange dealing rooms. If the market rate reaches the Stop Loss Rate, the Bank will buy or sell the relevant currency in accordance with the customer's instructions.

If the foreign exchange rate moves materially in favour of the customer, the Bank will contact the customer to discuss the possibility of adjusting the Stop Loss Rate to take advantage of favourable movements in the exchange rate.

In currencies where the exchange rate is trending in favour of the customer, a 24 Hour Market Watch may prove more beneficial to the customer than locking into a forward exchange contract where the exchange rate is fixed.

Due to the complexity and variety of methods available to a trader to manage their exposure to movements in exchange rates, it is suggested that discussions be held with the Bank's foreign exchange personnel prior to undertaking any foreign exchange dealings.

Foreign Currency Options

A Foreign Currency Option (FCO) is available to exporters and importers as another mechanism to manage their foreign exchange risks.

A customer, in buying an option from the Commonwealth Bank, acquires the right but not the obligation to buy or sell an agreed amount of foreign currency at a predetermined exchange rate on, or up to, the specified expiry date of the option.

In entering into an option contract, only the seller (generally the bank) of the contract is obliged to perform, and then only if the buyer exercises their right, or option, to buy or sell the foreign currency.

This contrasts to the forward exchange contract where both parties have an obligation to receive or deliver against the contract.

In purchasing an option, a customer will pay a premium to the seller of the option. The amount of the premium is determined by the seller considering a number of factors. These factors include the current exchange rate, the required option rate (or strike rate), volatility of the two currencies involved, the term of the option contract and whether the option may be called at maturity only or at any time during its term.

Flexible forward contracts

In a competitive environment, traders will want to be able to take advantage of favourable movements in exchange rates. While a forward exchange contract allows importers and exporters to protect themselves against adverse exchange rate movements, it does not allow a trader to benefit from any potential favourable exchange rate movements.

A flexible forward contract combines the protection of a forward exchange contract with the flexibility of a foreign currency option. By utilising the appropriate flexible forward contract, importers and exporters will have:

- the security of knowing that whatever happens to the currency rate, their foreign exchange exposure remains protected. Importers and exporters are able to choose the level of required protection at the start, so the worst case is always known,
- the **potential to benefit** from favourable currency rate movements.

Strategies that help traders manage their foreign exchange exposures will need to take into consideration three elements:

- the exchange rate level that needs to be protected;
- how long the exposure needs to be covered;
- the customer's exchange rate outlook, that is their perception of the direction or trend of the relevant currency's exchange rate and that currency's volatility.

The Commonwealth Bank offers many variations of a flexible forward contract, and each of these caters to different market conditions and customers' individual strategies.

The three flexible forward contracts are described as:

- Flexible Forward Collar;
- Flexible Forward Convertible, and;
- Flexible Forward Bonus.

The most suitable contract will depend on the market conditions at the time of setting the contract and the customer's strategy or policy of managing foreign currency exposures.

Flexible Forward Collar is designed for those customers who have a view that exchange rate movements will not be significant. They do, however, wish to benefit from potentially favourable exchange rate movements within a defined range. The Collar provides the customer with the comfort of knowing their worst case while enabling the customer to take some advantage of any favourable exchange rate movements.

The Collar is structured by setting two rates at the start of the contract – a floor rate and a ceiling rate.

The customer will select a level of required protection (for an importer a floor rate and for an exporter a ceiling rate) and the Bank will set a corresponding ceiling or floor rate.

At maturity of the Collar, there are three possible scenarios that will determine the exchange rate used by the customer at such a time. These are:

- The prevailing spot rate is at or below the floor rate – the customer is obliged to deal at the agreed floor rate;
- The prevailing spot rate is at or above the ceiling rate – the customer is obliged to deal at the agreed ceiling rate, or;
- The prevailing spot rate is between the floor and ceiling rate – the customer may deal at that prevailing spot rate.

As can be seen, the exchange rate used by the customer at maturity of the Collar will always be within the range that was agreed upon at commencement of the Collar, even if the prevailing spot rate at maturity falls outside the agreed range.

Flexible Forward Convertible is designed for those customers who require short term exchange rate protection and anticipate low exchange rate volatility. The Convertible is structured by setting two rates at the start of the Convertible, a contract rate and a Trigger rate. The contract rate is the guaranteed rate at which the customer's foreign exchange exposure will remain protected. The customer will select the level of protection required, (contract rate) and the Bank will set the corresponding Trigger rate.

If the prevailing spot exchange rate reaches the Trigger rate at any time during the Convertible, the Convertible reverts to a forward exchange contract where the customer is locked in to dealing at the contract rate, and the Bank will issue a Trigger notice. If the Trigger rate is not reached during the period of the Convertible and the prevailing spot rate at maturity of the Convertible is more favourable than the contract rate, there is no obligation to deal under the Convertible. Note: The customer is obliged to deal at the contract rate if the prevailing spot exchange rate reaches the Trigger rate at any time over the period of the Convertible.

Accordingly, at maturity of the Convertible there are two possible scenarios that will determine the exchange rate used by the customer at such a time. These are:

- The Trigger rate **has not** been reached during the term of the Convertible. In such a case the customer may deal at the more favourable of the following rates:
 - the prevailing spot exchange rate; or
 - The Convertible contract rate.
- The Trigger rate has been reached during the term of the Convertible. In such a case the customer is obliged to deal at the contract rate, regardless of the prevailing spot exchange rate at maturity.

The worst case for the customer is that the Trigger rate is reached during the term of the Convertible. However if the Trigger rate is not reached then the customer is able to take advantage of any favourable movements in the exchange rate.

Flexible Forward Bonus is designed for those customers who require longer term exchange rate protection and anticipate exchange rate volatility. The Bonus is structured through the setting of two exchange rates at the start of the contract; a contract rate and a Trigger rate.

The contract rate is the guaranteed rate at which the customer's exposure will remain protected.

The customer will select the level of protection required, (contract rate), and the Bank will set the corresponding Trigger rate.

At maturity of the Bonus, there are two possible scenarios that will determine the exchange rate used by the customer. These are:

- The Trigger rate **has** been reached during the term of the Bonus. In such event, the customer may deal at the more favourable of the following rates:
 - The prevailing spot exchange rate; or
 - The Bonus contract rate.
- The Trigger rate **has not** been reached during the term of the Bonus. In such a case, the customer is obliged to deal at the contract rate, regardless of the prevailing spot exchange rate at maturity.

In effect, the Bonus starts life as a forward exchange contract at the contract rate. The Trigger rate defines the level of the exchange rate at which the customer is no longer required to deal at the contract rate. If at

any time over the life of the Bonus the exchange rate reaches the Trigger rate, the Bank will notify the customer who immediately has the potential to benefit from exchange rate movements below or above the contract rate. Note: the customer is obliged to deal at the contract rate unless the exchange rate reaches the Trigger rate at any time over the contract period.

Key features of all of the flexible forward variants:

- Minimum transaction amount of the foreign currency equivalent of AUD25,000;
- Maturity periods from 1 week to 2 years. Other periods will be considered on request;
- Contracts are available against both the Australian Dollar and US Dollar for:
 - Japanese Yen, Great British Pounds, Swiss Franc and Euros;
 - Hong Kong Dollars, Singapore Dollars and New Zealand Dollars;
 - Other currency pairs will be considered on request.

Foreign currency account

A foreign currency account is an account conducted in a currency other than Australian dollars.

The trader who receives and makes payments in the same foreign currency may choose to use this account as a method of minimising their exposure to exchange rate movements.

Simply, a trader may lodge foreign currency receipts into the account, hold them in that currency, and then use those funds to meet payments for their import commitments as they fall due.

The Commonwealth Bank offers foreign currency accounts in most freely negotiable currencies. As these accounts are domiciled within Australia, traders are able to manage the account in a more efficient manner than would be the case in attempting to manage an account conducted with a financial institution overseas.

Foreign currency overdraft


A foreign currency overdraft operates on a foreign currency account with the added flexibility of allowing overdrawings up to an agreed limit. It allows a trader another option in managing their foreign exchange risk by enabling them to manage foreign currency cash flows.

Consider an exporter who requires some working capital to manufacture goods for export.

As the payment, when received, for the exported goods will be in a foreign currency, the exporter may elect to borrow that same currency to finance the manufacture of the goods. Accordingly, by converting the foreign currency to pay wages and local suppliers the exporter now has a debt in the same currency as that of the payment to be received. Therefore, provided the buyer makes payment, the exporter is no longer exposed to movements in exchange rates.

Foreign currency overdrafts are especially useful to customers when short term accommodation in foreign currency is required.

Documentation of shipment – bills of exchange



A primary document used in the settlement of many trade transactions is a 'bill of exchange', commonly referred to as a 'draft'.

Bills of exchange have been used for many years and have reached an almost universal acceptability in the financing and settlement of trade transactions.

A bill of exchange is simply a demand for payment issued by one party, generally the seller, on another party, generally the buyer. It is a legal document, governed in Australia by the Australian Bills of Exchange Act 1909. International conventions also support the basic rights and obligations of the various parties to a bill.

The Act defines a bill of exchange as *'...an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a sum certain in money to or to the order of a specified person, or to bearer.'*

A valid bill of exchange facilitates payment of trade transactions and, perhaps more importantly, provides a more straightforward means of undertaking recovery action in the event of default than relying on the underlying commercial contract.

Two of the more usual of bills of exchange used in international trade are illustrated on the following page.

The party issuing, or drawing, the bill of exchange is referred to as the 'drawer' or 'principal'. This is the party to whom payment is owed, i.e. the exporter. The person to whom the bill of exchange is addressed, or drawn on, is the 'drawee'. The drawee is the party who is required to make payment, i.e. the importer.

The examples show the Commonwealth Bank of Australia as the payee. The Bank will be the payee in those cases where bills are drawn under documentary credits or documentary collections.

In these circumstances, the Bank acts on the instructions of the exporter, and the documentary credit as appropriate, to receive and process payments. This is necessary as the importer will not be paying the exporter direct, but the intermediary banks.

Bills of exchange will be a demand for either immediate payment, 'at sight', or for future payment on a determinable date. The means of determining the maturity date of a bill of exchange is called 'Tenor' or 'Usance' of the draft, e.g. 90 days after shipment or some other defined event. The tenor is determined during negotiations between buyer and seller as it stipulates when payment is to be made.

The drawee becomes legally liable for payment only after they have 'accepted' the bill of exchange, i.e. agreed to make payment according to the tenor of the bill. This agreement is evidenced by the drawee's endorsement of the bill of exchange. Once accepted, the drawee is legally obliged to make payment in accordance with the tenor of the bill of exchange.

It should be noted that although a legal obligation is in place, the bill of exchange is not the same as a guarantee of payment. Instead, it allows for legal recourse against the acceptor of the bill if payment is not forthcoming.

The section 'Methods of payment' (page 22), illustrates the role of the bill of exchange in the settlement of trade transactions. Methods of using a bill of exchange as a financing medium are discussed in the chapters 'Finance for importers and exporters' (page 40).

Tenor of bill, in this case "On Demand" that is, sight. Amount and currency due.

Commonwealth Bank
Commonwealth Bank of Australia
ABN 48 123 123 124

Drawn under documentary credit _____ Issue date _____
by _____
Exchange for _____ (_____ Currency). Date _____

On Demand pay this **first** of Exchange (second of the same tenor and date not paid) to the order of the
Commonwealth Bank of Australia the sum of _____

To _____
Address _____
City _____
Country _____

Signature/s _____
ABN _____

000-269 0102

Drawer, the party to whom the payment is owed. Payee, the party to receive payment if not the drawer. Drawee, the party who is to make the payment.

Tenor of bill, that is a number of days after a determinable event that payment is due. Amount and currency due.

Commonwealth Bank
Commonwealth Bank of Australia
ABN 48 123 123 124

Drawn under documentary credit _____ Issue date _____
by _____
Exchange for _____ (_____ Currency). Date _____
_____ after _____ pay this **first**

of Exchange (second of the same tenor and date not paid) to the order of the **Commonwealth Bank of Australia**
the sum of _____

To _____
Address _____
City _____
Country _____

Signature/s _____
ABN _____

000-270 0102

Drawer, the party to whom the payment is owed. Payee, the party to receive payment if not the drawer. Drawee, the party who is to make the payment.

Documentation of shipments

As documentation of a shipment plays a role in protecting the interests of all parties to a shipment it behoves a trader to have a basic understanding of the many documents that will be encountered.

In international trade, shipments traverse national boundaries, encountering varying legal, customs and other governmental requirements. Failure to comply with these regulations will delay shipments or payment and could prove costly to traders. Compliance with many of these regulations usually requires presentation of certain documents.

It is therefore wise for the importer to clarify with various authorities exactly what documentation is necessary to quickly clear a shipment, and to convey these requirements clearly to the exporter.

It is also prudent for the exporter to clarify these details independently to ensure that there are no avoidable delays. In Australia, this information may be obtained from the Australian Customs Service, Australian Quarantine and Inspection Service or through the services of a customs agent.

Generally, there are four types of documents used in international trade, namely:

- commercial;
- transport;
- insurance; and
- official.

Commercial documents

Commercial invoices

A commercial invoice is a document that describes the transaction between the buyer and seller. While it primarily concerns these two parties, a third party such as a bank, customs or an insurance company may be interested in the document.

Invoices should contain data that is correct in all respects. While sellers may consider buyers' requirements for detail on invoices as onerous, it should be remembered that these details may be

required to comply with exchange control, import licence or customs duties legislation in the buyer's country.

Invoices should include a full and accurate description of the transaction, these are:

- the full names and addresses of all parties to the transaction;
- any reference/invoice/order/sale numbers;
- transport details – departure date and time, point of dispatch and destination, shipping marks, mode of transport;
- a clear and accurate description of the goods;
- details of weight and measurement of packages;
- the total and unit value of the goods;
- the appropriate Incoterm (CIF, FOB etc.); and
- the method of payment.

An example of a commercial invoice is shown on page 66.

Other invoices

Exchange control and import/export regulations in many countries are such that, what may appear to be excessive demands by the buyer for documentation, may in fact be forced by these regulations.

Accordingly, the following variants to a commercial invoice may be required by the buyer.

Invoices combined with a certificate of origin and value are sometimes required for differing tariffs and customs duty based on the country of origin.

Consular invoices are invoices attested, in the country of dispatch, by the consulate of the importing country.

Commercial invoices certified by a Chamber of Commerce or Chamber of Manufacturers.

These particular requirements will be determined by the customs or laws of the trading nations. They will vary between countries and, very often, between products.

Packing list

This document is usually required by the buyer when the shipment consists of a large number of cartons or packages. The packing list will itemise the items that are to be found in each of the cartons or packages

and will assist the buyer to quickly locate required stock lines. It will also assist the seller in ensuring that the shipment is as ordered.

Bill of exchange

The bill of exchange is discussed in detail in a separate chapter (page 16).

A bill of exchange or draft is used when payment is to be made by either a documentary collection or a documentary credit.

An example of a bill of exchange is shown on page 17.

Transport documents

To assist traders understand transport documents the following terms should be kept in mind:

Consignee	The party shown on the transport document as the recipient of the goods (buyer, importer).
Consignor or shipper	The party shown on the transport document as the sender of the goods (seller, exporter).
Carrier	The party who operates the carrying vessel or aircraft.
Freight Forwarder	The party who acts as an agent for the consignor in arranging shipment through a carrier.

Bill of lading

Where shipment is effected by sea, a document called a 'bill of lading' would normally be issued.

A commonly used transport document, its importance lies in three of its characteristics.

Firstly, it is a contract of carriage. Secondly, it is a receipt for goods and, thirdly, it is a transferable document of title. It is this third characteristic that enables exporters to ship goods without payment but continue to control the goods through control of the bill of lading until payment is received or a promise to pay is obtained.

As a contract of carriage, the bill of lading sets out the conditions of transport. Many of these clauses, particularly those common to most goods, have been standardised by international agreements. A bill of lading may also be subject to various laws depending on the countries that are involved. While the clauses on the reverse of a bill of lading may be considered lengthy and detailed, it is nevertheless worth a trader's time to read through these clauses to ensure that there is nothing contrary to their particular interests.

At many major ports, goods will only be released upon presentation of an original bill of lading. Therefore, they are usually issued in three or more originals to guard against loss through mail or courier services.

Bills of lading should include the following details:

- a description of the goods including identifying marks and numbers;
- the name of the carrying vessel;
- the place of departure and destination;
- the names of shipper and consignee and, if required, the party to be notified on arrival of carrying vessel at the port of destination;
- the terms of shipment – i.e. whether freight has been paid prior to dispatch or if it is to be collected at the port of destination;
- the date that the goods were loaded on board;
- the number of original bills of lading issued, and;
- the date the bill of lading is issued.

An example of a bill of lading is shown on pages 70-71.

There are a number of varying types of bills of lading that are commonly referred to in international trade. Some of the more common are detailed below:

Short bill of lading

Short bills of lading are generally used by shippers when they are required to issue bills of lading due to specific arrangements with the carrier at the port of dispatch.

It is an abbreviated bill of lading and in its standard form has the approval of the Council of Shipping.

On board or shipped bill of lading

These bills of lading simply carry an additional specific statement that the goods have been shipped on board a particular vessel.

Received for shipment bill of lading

A received for shipment bill of lading does not provide the additional assurance that the relative goods have actually been shipped. As its name suggests, it simply acknowledges that the relative goods have been 'received for shipment' by the carrier.

Claused bill of lading

When goods are received for shipment and the merchandise or the packaging is obviously defective, the carrier will, for their own protection, include or superimpose a clause on the bill of lading advising of the defect.

Charter party bill of lading

A charter party bill of lading is used in those situations where a shipper will hire/lease a vessel for a particular shipment. These situations are normally for the shipment of bulk materials e.g. grains, oil, livestock, etc.

The 'charter party' is a document setting out the full leasing details of the vessel leased for specific voyages or periods. Any bill of lading issued in these circumstances is subject to the specific individual conditions of that charter.

Freight forwarders bill of lading

This is simply a bill of lading that has been issued by a freight forwarder and not the actual carrier of the shipment. It is common practice for shippers to have a freight forwarder arrange shipment with the carrier and accept the freight forwarder's bill of lading in lieu of that of the carrier's.

A trader should seek advice as to the different rights that they may have under a freight forwarder's bill of lading to those available under a bill of lading issued by the carrier.

Combined transport document

A combined transport document allows the shipper to arrange shipment through the one carrier for a number of different modes of transport without the additional problems of arranging a different transport document for each differing transport mode.

Through transport document

A through transport document completes the same function as the combined transport document, however the carrier does not act as the principal through the entire journey. In the portions of the voyage where carriage is completed using other than the carrier's vessels, the carrier acts only as an agent and not the principal. Accordingly, traders will need to examine the terms and conditions of such a document to ascertain their rights.

Sea waybill

A sea waybill is a transport document used for sea shipments. It differs to a bill of lading in that it does not act as a document of title but is a receipt for goods and a contract for carriage. Additionally, different rights and obligations are accorded to all parties for shipments under sea waybills as compared to the rights and obligations due under bills of lading. Advice should be sought from your shipping agent to ensure that your interests are protected.

As the sea waybill is not a document of title, the goods may be released without presentation of an original sea waybill. In this respect the sea waybill operates in a similar fashion to that for air waybills in that the goods are released to the consignee, as shown on the waybill, without the need for the provision of an original transport document.

Accordingly, this particular document would not be appropriate in those situations where the exporter wishes to retain control of the goods by a document of title which in turn would only be made available to the importer upon payment, or promise to pay, for the shipment.

Air waybill

In the case of an air shipment an air waybill is the relative transport document that will be required.

An air waybill, like a bill of lading, is a document issued by the carrier acknowledging receipt of the goods. Similar to a sea waybill, an air waybill does not convey title to the goods, instead the shipment is consigned to a particular party. The consignee may obtain access to the goods without presentation of an air waybill.

Accordingly, as the shipper does not control the goods after the goods have been tendered to the carrier for shipment, this can present problems when a bill of exchange is involved and the exporter wishes to retain control of the shipment until payment is made.

To overcome this the goods may be consigned by the shipper to a trusted third party who will release the goods after payment or a promise of payment has been made. However, there is no standard practice to meet the requirements of the shipper in this situation.

It will be up to the shipper in each case to satisfy themselves as to the creditworthiness of the consignee before agreeing to a sale where possession of the goods will be obtained by the buyer prior to payment.

Insurance documents

Depending on when payment is to be made, either the importer or the exporter will have a financial interest in the safe arrival of the goods. Accordingly, the goods should be insured against damage or loss whilst in transit.

There are many types of risks that may be insured against and each of these should be considered at time of shipment. These risks may include strikes, war, riots, civil commotion, theft, pilferage, etc. Other risks pertinent to a particular shipment should also be considered, e.g. if goods are frozen food stuffs, insurance against the malfunction of a refrigerated container will be appropriate.

Responsibility for insurance

The responsibility for arranging insurance will largely depend on the terms agreed to between the buyer and the seller. Either party may arrange the insurance. However, depending on the timing of the payment, the party not arranging the insurance may require evidence that goods are insured prior to making shipment or payment. This aspect is further discussed in 'Methods of payment, risks' (page 36).

Official documents

A variety of official documents may be required to meet both the exporting and importing countries' customs and or foreign exchange regulations.

Documents relating to origin, quality, fumigation, phytosanitary, Halal, health, weight, inspection and import and export licences, are some examples of official documents that may be required. The documentation required to ensure prompt clearance through customs will vary between country, buyer and goods traded. Traders should, therefore, familiarise themselves with the respective import/export regulations in their country.

Methods of payment – operations

The matter of payment for goods is, appropriately, a point of focus for both importers and exporters.

The two parties involved in negotiations will have conflicting cash flow and risk management issues arising from the timing of the proposed payment.

Exporters will seek to receive the highest price for their goods and to receive payment as soon as possible, preferably before the manufacture and shipment of those goods. Importers, on the other hand, will seek the lowest overall costs and deferment of payment for as long as possible, preferably until the goods have been consumed or on-sold.

To further complicate negotiations, exporters will prefer to have control over the goods until after payment is received while importers will prefer to have received, examined and even on sold the goods before making payment.

The negotiations will, therefore, need to balance these conflicting demands to arrive at an acceptable outcome for all parties. Each party's ability to access finance, their preparedness to accept some commercial risk, the trading relationship between the two parties, market forces and exchange control regulations in each party's country will all play a part in determining the relative strengths of each party in negotiating the timing and method of payment.

To achieve an agreement, both the buyer and seller will need to accept some commercial risk. It is up to each party to determine what are acceptable commercial risks in the overall transaction and thereby come to an agreement on the timing and method of payment to be used.

As each of the methods of payment, discussed in the following pages, have different types and gradations of risk for both buyer and seller, the risks may be shared between the buyer and seller in a variety of ways. Thus the available methods of payment allow for most negotiations to reach an acceptable compromise.

The methods of payment that are available are as follows:

- clean payment/open account;
- documentary collection; and
- documentary credit.

The following pages examine these three methods of payment. Firstly we define each method of payment and then discuss the initiation of such a payment and the mechanics of its operation within the banking system.

It is important to understand the processes used so that the risks inherent in each payment method are better understood. The more common risks, as defined in the earlier chapter, 'risks in international trade', are then discussed as they pertain to an importer or exporter for each payment method.

Clean payment/open account

Definition

A 'clean' payment is a remittance made through a bank by International Money Transfer (i.e. telegraphically) or by the purchase from a bank of a bank draft. (A bank draft should not be confused with a bill of exchange; a bank draft is a cheque issued by a bank usually drawn on an overseas bank. It may be described as an 'international bank cheque'.)

The International Money Transfer is more frequently used to settle trade debts than bank draft due to its speed of transmission, reliability and that funds, when received by the exporter, are immediately available.

The primary benefit of a clean payment is that it is a relatively cheap and uncomplicated method of payment for both importers and exporters alike.

Open account is not so much a method of payment as an agreement between the importer and exporter as to the timing of payments.

Open account terms provide simplicity for both buyer and seller in that the buyer is able to place orders for any number of shipments up to an agreed value during an agreed period of time, say USD250,000 per month. The terms of the open account arrangement will also specify when payment for the shipments will be made, e.g. at end of month. A variation on this

may be that the importer is allowed say, 30 days after month's end to make the payment. As you will appreciate, the existence of a long trouble-free trading history and relationship is an essential requirement for such terms.

Open account transactions are generally settled by a clean payment.

Similarly, prepayments describe the situation where the importer is required to make a clean payment to the exporter prior to the goods/services being shipped or received.

Initiation/implementation

A clean payment is initiated by a request from the importer to their bank. The request, if for an International Money Transfer, will include the seller's name and bank account details, amount and currency of payment. The importer will also authorise the bank to debit their account for the payment. The importer's bank will then telegraphically remit the payment to the seller in accordance with the details provided previously by the seller.

The purchase of a bank draft requires a request from the buyer including the exporter's name and amount and currency of the payment. The importer will also authorise the bank to debit their account for the payment.

The bank draft is then provided to the buyer who will forward it to the seller.

Process within the banking system

In those cases where funds are to be remitted by International Money Transfer, the importer's bank will remit the funds through its correspondent banks overseas for credit, as clear funds, to the exporter's account. The exporter, as beneficiary of the payment, will, in the normal course of business, receive the payment in their account some 2 to 3 days later. However, as the transit time is dependent on the currency remitted, time zones in the relevant countries, the Remitting Bank's correspondent arrangements, sophistication of communications in the exporters country and the domicile of the exporter's account, e.g. at a capital office or at a remote branch, delays beyond this period may be encountered.

If the importer requests a Bank Draft, the Bank Draft is prepared by the bank and given to the importer who may post or otherwise arrange for the item to be forwarded to the exporter. The exporter will then be

required to deposit the draft into their account and, unless otherwise allowed by their bank, await an appropriate clearance time before being allowed to draw against the item.

Documentary collection

Definition

A documentary collection allows the shipping documents to be presented to the buyer through the banking system against the buyer's payment, or their promise to pay at a future date, before such shipping documents are released to them.

A documentary collection consists of a bill of exchange and a variety of shipping documents. The shipping documents will usually consist of an invoice, a transport document, possibly an insurance policy, and any other documents required by the buyer or other parties to aid clearance of the goods

If shipping documents are to be released to the buyer against their payment, this is called a sight documentary collection, or documents against payment (D/P).

If shipping documents are to be released to the buyer against their promise of future payment, this is called a term documentary collection, or documents against acceptance (D/A). In these cases, the date for payment is determined by the tenor of the bill of exchange, e.g. 90 days after bill of lading date, and should agree with the terms of sale previously agreed between the buyer and seller.

The promise by the buyer to pay at a future date is obtained by the buyer accepting the bill of exchange upon presentation. The acceptance is evidenced by the buyer endorsing the bill of exchange.

An accepted bill of exchange does not guarantee payment. The buyer may refuse, or be unable, to make payment at maturity. Accordingly, the creditworthiness of the buyer and the country/transfer risks are points for consideration by the exporter before agreeing to such payment terms.

Documentary collections are a widely used payment method and have gained almost universal acceptance. The operations of a documentary collection are governed by the Uniform Rules for Collections (URC) which have been published by the International Chamber of Commerce (ICC). The URC establish the various parties' rights and obligations

under documentary collections and provide a framework for resolving some problems which may arise. The Commonwealth Bank recommends that traders become familiar with the requirements of the URC before transacting business under documentary collections.

The ICC may be contacted on (03) 8608 2261.

Initiation/implementation

A documentary collection whether it be sight or term is initiated by the exporter.

After the buyer and seller have agreed that payment is to be effected by documentary collection, the exporter dispatches the shipment in accordance with the sales contract.

The relative shipping documents accompanied by a completed bill of exchange are lodged by the exporter with their bank. A suitable authority is also submitted with the documents to the bank detailing the exporter's wishes in regards to the forwarding and release of shipping documents and where proceeds, if received, are to be credited (Fig. 1 page 25).

A copy of the Bank's standard lodgement authority for documentary collections is shown on pages 73-74.

Importers will await an advice from their bank as to the arrival of the relative documentary collection containing the shipping documents and will respond at that time.

Process within the banking system

After receipt of the shipping documents and the exporter's instructions by the exporter's bank (the 'remitting bank'), they are forwarded to the buyer's bank (the 'presenting bank') in accordance with the exporter's instructions.

Upon receipt, the presenting bank will act in accordance with the remitting bank's instructions contained in the schedule prepared by the remitting bank that accompanies the shipping documents.

Accordingly, if the documentary collection is to be paid at sight (D/P), the documents will be presented to the importer for their acceptance and payment

(see Fig. 2 page 25). If payment is made, the presenting bank will remit the funds to the remitting bank for final payment to the exporter whilst the shipping documents are released to the importer (see Fig. 3 page 26).

If payment is refused by the importer, the presenting bank will retain the documents and act in accordance with the instructions received from the remitting bank. The remitting bank will in turn seek instructions from the exporter as to what action is to be taken to collect the amount due. Instructions regarding the storage, insurance, etc. of the goods may also be obtained.

In the case where the documentary collection is term (D/A), the shipping documents will be released to the importer upon their acceptance of the bill of exchange. Acceptance of the bill of exchange serves as an acknowledgment of the debt owing by the importer to the exporter and an undertaking to make payment at the relative maturity date of the bill of exchange. Advice of acceptance, and the maturity date for payment, will be conveyed by the presenting bank to the remitting bank who, in turn, will convey this information to the exporter.

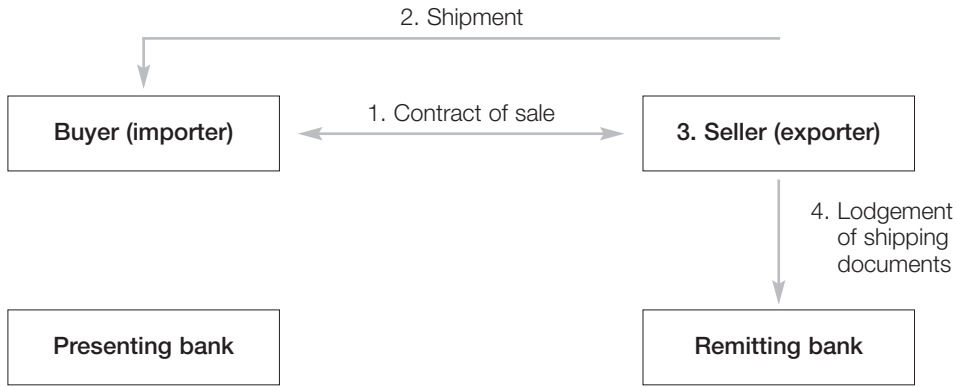
If the importer refuses to accept the bill of exchange the presenting bank will retain the documents and act in accordance with the instructions received from the remitting bank.

At maturity date the presenting bank will re-present the bill of exchange to the importer for payment.

If payment is made, the presenting bank will remit the funds to the remitting bank for payment to the exporter.

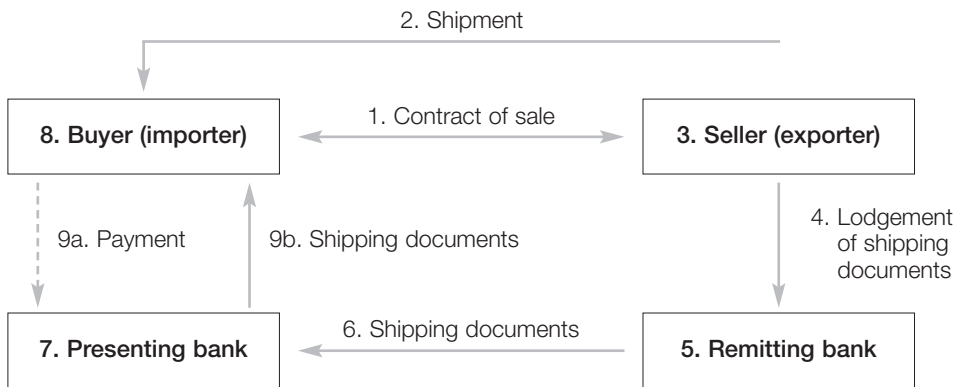
If the importer refuses to make payment the presenting bank will retain the bill of exchange and act in accordance with the instructions received from the remitting bank.

1. LODGEMENT OF SHIPPING DOCUMENTS



1. Contract of sale as negotiated between the buyer and seller to determine price, quantity, shipment (how, when and where), trading terms, method of payment etc.
2. Method of payment has been agreed as a documentary collection. Accordingly shipment is effected prior to payment being received.
3. The exporter prepares the shipping documents, a bill of exchange and suitable instructions.
4. The documents are lodged with the remitting bank who will act in accordance with the instructions given to them by the exporter.

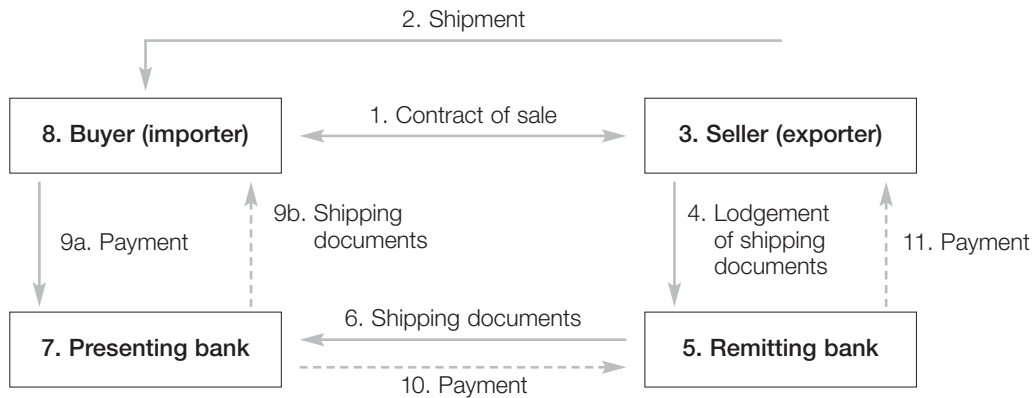
2. PRESENTATION OF A DOCUMENTARY COLLECTION



5. The remitting bank will endorse the bill of exchange if payable to itself, and prepare a schedule of instructions to be attached to the shipping documents prior to dispatch to the presenting bank.
6. The documents are dispatched to the presenting bank, usually by courier.
7. Upon receipt of the shipping documents the presenting bank will present the bill of exchange to the importer.
8. The importer will either agree to make payment or refuse to make payment.
- 9a*&b. If the importer agrees to make payment, the shipping documents are released to the importer whilst the presenting bank simultaneously receives payment.

* If the documentary collection is term, 9a would represent the acceptance of the Bill of Exchange by the buyer.

3. PAYMENT TO EXPORTER



10. The presenting bank makes payment to the remitting bank according to the instructions previously received.
11. The remitting bank makes payment to the exporter in accordance with the instructions received from the exporter.

Documentary credit

Definition

A documentary credit is a conditional guarantee of payment. It is issued by a bank at the request of the buyer in favour of the supplier and stipulates the conditions and requirements that are to be satisfied before payment will be made. The requirements will be for the presentation of certain documents in compliance with the conditions of the documentary credit.

The documents required and the terms and conditions stipulated in the documentary credit will be a reflection of the requirements of all parties determined during the negotiation process.

Before continuing this chapter, it would be appropriate to define the main parties in a documentary credit transaction. These are:

- Applicant – the party making application for a documentary credit, generally the buyer or importer;
- Issuing bank – the bank that issues the documentary credit on behalf the applicant;
- Advising bank – the bank that receives the documentary credit from the issuing bank;
- Beneficiary – the party that the documentary credit is issued in favour of, generally the seller or exporter;
- Negotiating bank – the bank to which the beneficiary presents the required shipping documents for payment;
- Reimbursing bank – the bank from which the negotiating bank will claim payment.

It is important to note that, before payment is made, all terms and conditions and documentation stated in the documentary credit are to be complied with by the exporter (beneficiary). Provided all the conditions are met, the beneficiary has the comfort of a guarantee of payment from a bank.

The bank that issues the documentary credit effectively substitutes its creditworthiness for that of the buyer (applicant). This will provide some additional comfort to the exporter that payment will be made.

As the issuing bank, in agreeing to issue the documentary credit, is guaranteeing payment, albeit conditionally, it will generally require some security from the applicant.

In a similar fashion to documentary collections, payment terms may be sight or term. However, under a documentary credit the exporter has the security of a guarantee of payment issued by a bank.

Documentary credits are a widely used payment method. The operations of a documentary credit are most frequently governed by the Uniform Customs and Practice for Documentary Credits (UCP) which have been published by the International Chamber of Commerce (ICC). The UCP establishes the rights and obligations of the various parties to documentary credit operations and provides a framework for resolving disputes that arise from time to time. The Commonwealth Bank recommends that traders become familiar with the requirements of the UCP before transacting business under documentary credits

The ICC may be contacted on (03) 8608 2261.

A key principle in documentary credit operations is that banks deal only in documents, as they are not in a position to examine shipments and do not have the expertise to determine the acceptability or otherwise of the goods involved.

There a number of possible variants to a documentary credit and these are briefly described in the following paragraphs.

Irrevocable/revocable

A documentary credit may be either revocable or irrevocable.

In the majority of cases a documentary credit is irrevocable. That is, it cannot be amended, altered or cancelled without the consent of all parties to the documentary credit. These parties are the beneficiary (seller or exporter), applicant (buyer or importer), the issuing bank (the applicant's bank) and in some cases the advising bank (the bank who receives the documentary credit from the issuing bank).

On the other hand, revocable documentary credits are able to be amended or cancelled at any time without notice to the beneficiary. Therefore, extreme care should

be exercised by exporters who are beneficiaries of revocable documentary credits as they provide little certainty that payment will be received.

Note that any documentary credits issued subject to UCP (ICC publication no. 500) will be regarded as irrevocable unless the credit specifies otherwise.

Transferable

A documentary credit may be issued as a transferable documentary credit.

This type of documentary credit enables the beneficiary of the documentary credit to transfer their rights under the documentary credit to a second beneficiary, on the same terms and conditions as the original documentary credit.

This enables the first beneficiary to act as a 'middle man' between the supplier (second beneficiary) and the ultimate buyer (the applicant).

As the terms and conditions remain relatively unchanged, (refer uniform customs and practice for documentary credits), the second beneficiary is to present all documents required under the documentary credit and meet all other terms and conditions as stipulated.

The mechanics of a transferable documentary credit are essentially the same from transaction to transaction. However, some complicating issues such as protecting the first beneficiary's profit margin and the identity of the ultimate supplier need to be addressed.

For these and other reasons we recommend that discussions are sought with your bankers prior to entering into transactions of this nature.

Confirmed

Although a documentary credit is a guarantee of payment issued by a bank, as with any guarantee the creditworthiness of the party that issues the undertaking requires consideration.

The exporter is generally not in a position to assess the creditworthiness of the issuing bank. Therefore the exporter may request that the documentary credit, when issued, be 'confirmed' by a local bank. That is the local bank may, subject to their own internal credit assessments of the issuing bank, add their guarantee of payment to the documentary credit. Having a domestic bank guarantee payment will generally give the exporter some additional comfort. This aspect is discussed more fully in Finance for importers/exporters, page 40.

Revolving

A Revolving documentary credit varies from a simple documentary credit by the addition of clauses allowing for the automatic reinstatement of amounts paid under the documentary credit.

Accordingly, once the applicant has reimbursed the issuing bank for a particular shipment the issuing bank may, if it continues to be comfortable with the transaction and the applicant's liability to the bank, authorise the advising bank to reinstate the amount paid to the amount available under the documentary credit.

This has the effect of allowing further shipments under the documentary credit without the applicant having to arrange for issuance of a new documentary credit or for amendments to be made to a current documentary credit.

Stand by

Where traders are long standing they may agree to move to open account terms. The exporter may, however, still require some form of security of payment to support the giving of credit terms to the buyer. A stand by documentary credit provides this security.

A stand by documentary credit by its very name indicates that it is an instrument for use in a contingency. The contingency is that the buyer may default in making payment in accordance with the previously agreed sales terms.

Accordingly, the stand by documentary credit will need to specify what terms and conditions are to be met and what documents are to be supplied by the beneficiary before payment can be made.

Back-to-back/complementary

Generally, an issuing bank will require some security to be offered by the applicant to support the issue of a documentary credit. Some traders may consider the provision of another documentary credit which they are the beneficiary of, to be adequate 'security' for the issuance of another documentary credit. This process is referred to as 'back to back'.

A major concern for the issuing bank is to ensure its exposure is precisely matched in terms of amount,

currency and payment period by the supporting documentary credit whilst ensuring that the documentation required under that supporting documentary credit is in its control. Further issues are the creditworthiness of the bank issuing the supporting documentary credit and the bona fides of other parties to the transaction.

The 'raison d'être' for back to back transactions is simply that the applicant does not have, or chooses not to risk, the normal acceptable security to support the issuance of a documentary credit.

We strongly recommend that discussions are sought with your bankers prior to considering transactions of this nature.

Red Clause

Although infrequently used in recent times, the Red Clause documentary credit still has a role to play in today's trading world.

A Red Clause documentary credit allows the exporter to borrow against the 'security' of the documentary credit for monies required to effect the purchase of goods or, more usually, raw materials prior to manufacture and shipment of the final product.

Before today's more sophisticated financial markets, this was a useful and efficient form of pre-shipment finance. The term 'red clause' came about simply because of the colour of the relative clause in the body of the documentary credit that historically was issued by airmail.

The Red Clause generally allows the beneficiary to borrow a nominated percentage of the documentary credit value prior to shipment. The borrowings, plus interest, are to be repaid from the payment received for shipment once documents are presented.

If for some unforeseen reason the shipment does not eventuate, the red clause in the documentary credit allows the exporter's bank to claim repayment of the borrowing plus interest from the issuing bank, who in turn will claim payment from the applicant.

Accordingly, in the latter scenario the importer has to make payment of the borrowed amount in addition to the interest due however has not received any of the promised goods. Therefore, care should be exercised by importers if they are requested by a supplier to arrange for issuance of a Red Clause documentary credit.

Initiation/implementation

When negotiations between the buyer and seller determine that a documentary credit is to be the method of payment, the buyer will make application to their bank for the issuance of a documentary credit (Fig. 1 page 29).

A copy of the Commonwealth Bank's standard application for issuance of an irrevocable documentary credit is shown on pages 62-63.

The application for documentary credit is to specify the documents that are required and their content. Other terms and conditions as agreed in the sales negotiations will also need to be specified within the application. These other terms and conditions may relate to shipping dates, port of arrival, amount of payment, when payment may be made (sight or term), whether partial shipments are allowed, and so on.

The documents required and the terms and conditions advised by the applicant in their application will form the body of the documentary credit when issued.

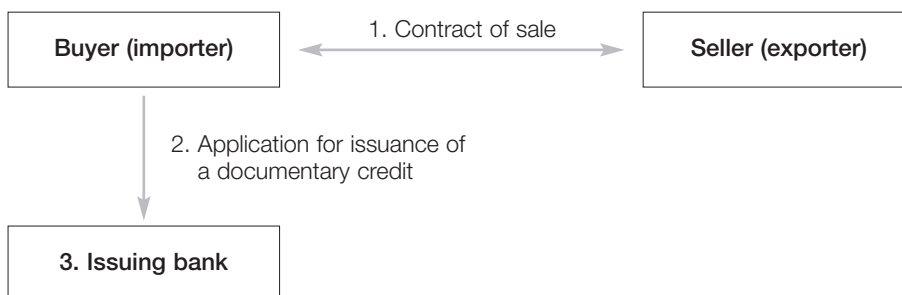
In view of the fact that the issuing bank will be guaranteeing payment, albeit conditionally, and allowing its own creditworthiness to be substituted in place of that of the applicant's, the issuing bank will conduct its own credit assessment of the applicant before agreeing to the issue of a documentary credit. As the issuing bank is bound to make payment to the beneficiary, if all conditions as stipulated in the documentary credit are met, it will need to be satisfied that the applicant has the capacity to meet the payment as and when required.

The criteria for such an assessment will differ from bank to bank and country to country.

The Commonwealth Bank will usually require security from the applicant to support the issuance of a documentary credit.

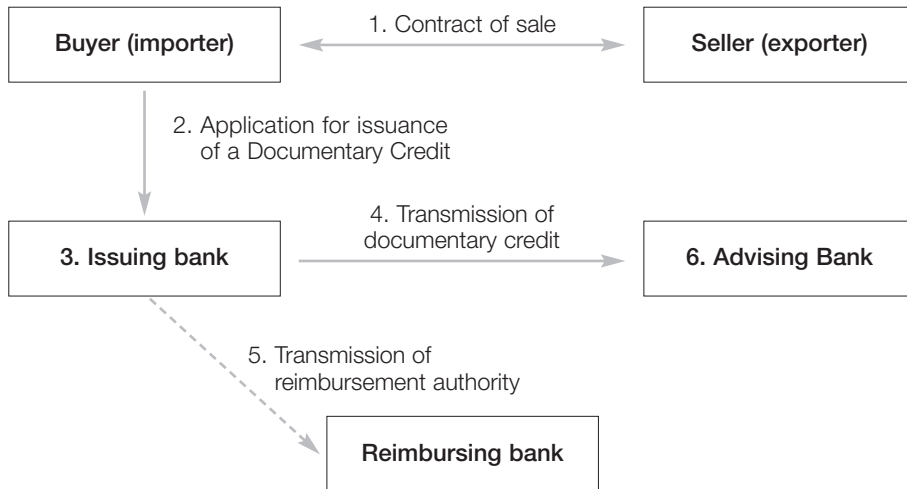
This is discussed in more detail in the chapter 'Finance for importers/exporters' (page 40).

1. APPLICATION FOR DOCUMENTARY CREDIT



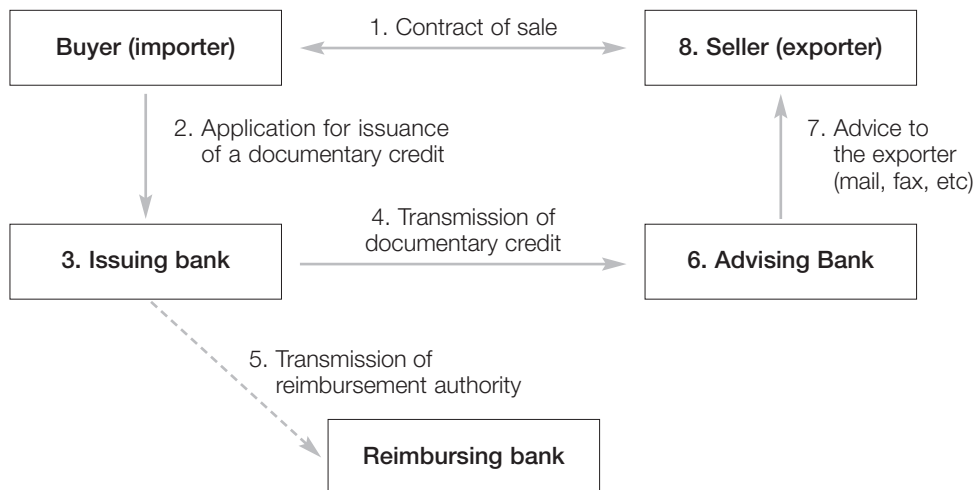
1. Contract of sale as negotiated between the buyer and seller to determine price, quantity, shipment (how, when and where), trading terms, method of payment etc.
2. Application made by the buyer to their bank for issuance of documentary credit.
3. The issuing bank will determine the creditworthiness of the importer before issuing the documentary credit.

2. ISSUANCE OF A DOCUMENTARY CREDIT



4. Documentary credit is issued by SWIFT to the advising bank for onforwarding to the exporter.
5. A reimbursement authority, if required, is simultaneously sent to the nominated reimbursing bank.
6. Upon receipt of a documentary credit, the advising bank will verify the authenticity of the documentary credit.

3. ADVISING OF A DOCUMENTARY CREDIT



7. The advising bank advises the exporter of the documentary credit. This may be by facsimile or phone advice, followed by the mailing of the original documentary credit to the beneficiary.
8. The exporter examines all terms and conditions of the documentary credit to ensure that they will be able to comply with them when shipment is effected and to ensure their rights to payment under the documentary credit.

Process within the banking system

Issuance

After receipt of the importer's documentary credit application and after satisfying themselves of the creditworthiness of the applicant, the issuing bank will issue the documentary credit (Fig. 2 page 30).

The documentary credit will generally be issued/transmitted via SWIFT/Telex to a bank in the country of the beneficiary. This second bank (the advising bank) will, after verifying that the documentary credit is genuine, advise the beneficiary of the issuance of the documentary credit (Fig. 3 page 30).

The documentary credit will stipulate the documents and terms and conditions as specified within the buyer's application.

The issuing bank will also include in the documentary credit other necessary information for the advising bank such as where shipping documents, if received, are to be dispatched and how to claim payment for the shipment.

The beneficiary should examine the documentary credit immediately upon receipt and prior to shipment to ensure that it conforms to the contract with the buyer and to determine if they will be able to comply with all the terms and conditions as stipulated, and provide the documentation as specified in the documentary credit.

If the beneficiary, after reviewing the documentary credit, considers that they will not be able to fully comply with all requirements of the documentary credit, they should immediately contact the applicant and arrange for the documentary credit to be amended.

Once the beneficiary is satisfied that they are able to meet all the requirements as specified within the documentary credit, shipment may then be effected.

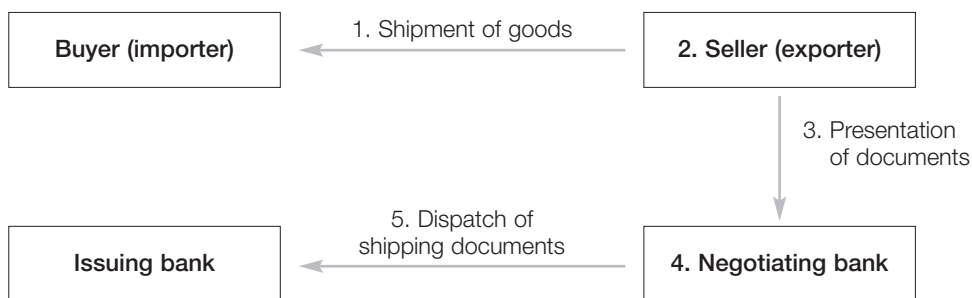
Presentation of shipping documents

Once shipment has been effected, the beneficiary, to commence the process to obtain payment, will present the documents, as specified in the documentary credit, to their bank. Along with the documents required by the documentary credit, the beneficiary will also instruct the bank as to disposal of proceeds of payment when received. That bank (negotiating bank) will examine the documents to determine their conformity or otherwise to the terms and conditions of the documentary credit.

After the negotiating bank determines that the documents conform to the documentary credit, they will then dispatch the documents in accordance with the instructions contained in the documentary credit. The instructions will, as a rule, request that the documents be dispatched to the issuing bank (Fig. 4 page 31).

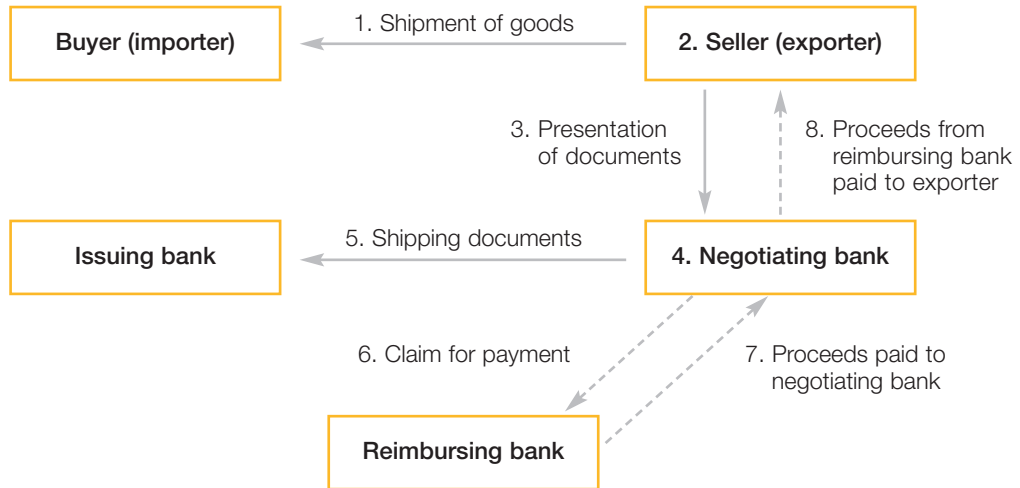
It should be understood that payments under a documentary credit are guaranteed by the bank that issues the documentary credit, not, as is sometimes believed, by the negotiating (exporter's) bank.

4. PRESENTATION OF SHIPPING DOCUMENTS UNDER A DOCUMENTARY CREDIT



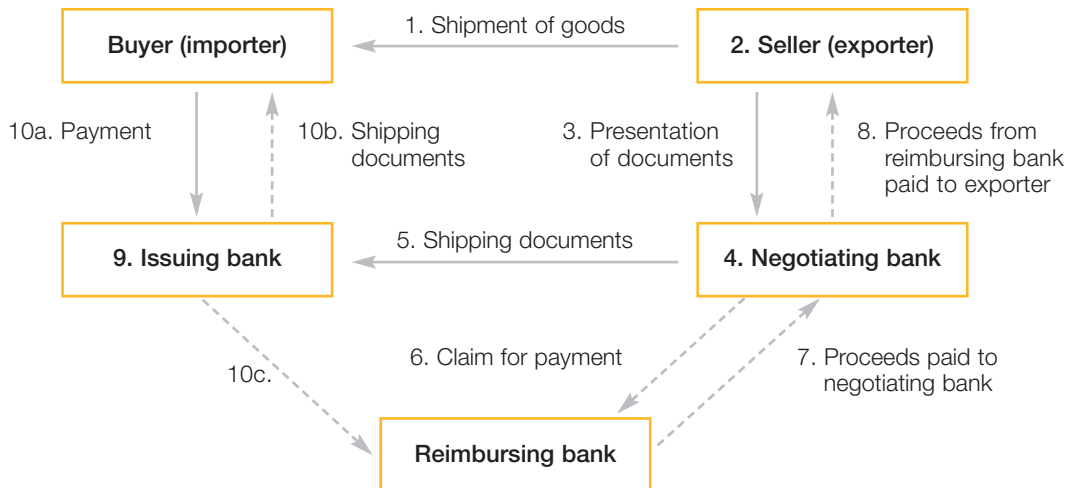
1. Exporter arranges shipment of goods in accordance with the terms of the contract of sale previously agreed.
2. Exporter compiles documents to meet all terms and conditions of the documentary credit.
3. Relative documents are then lodged by the exporter with their bank so that payment may be arranged.
4. The negotiating bank examines the documents to ensure that they comply with all the terms and conditions of the documentary credit.
5. The documents dispatched in accordance with the instructions within the documentary credit.

5. NEGOTIATION OF SHIPPING DOCUMENTS UNDER A DOCUMENTARY CREDIT



6. Request for payment is made by the negotiating bank to the reimbursing bank, or, if required under the documentary credit, direct to the issuing bank accompanied by the shipping documents at point 5.
7. The reimbursing bank will ensure that they have received a suitable authority from the issuing bank before making payment to the negotiating bank. The reimbursing bank will debit the issuing bank's account held with the reimbursing bank for the amount paid to the exporter.
8. Upon receipt by the negotiating bank of the proceeds from the reimbursing bank, the negotiating bank will then make payment to the exporter.

6. IMPORTER'S PAYMENT UNDER A DOCUMENTARY CREDIT



9. The issuing bank will examine the shipping documents to ensure that they comply with the terms and conditions of the documentary credit.
- 10a, b&c. If documents are found to be correct, the issuing bank will then demand payment from the applicant and such payment will be used to offset the payment that was made to the negotiating bank.

Accordingly, even if all terms and conditions are met by the beneficiary, the negotiating bank that handles the documents on behalf of the beneficiary is not obligated to make payment to the beneficiary until payment has been received from the issuing bank.

If the shipping documents presented by the beneficiary do not comply with the terms and conditions of the documentary credit the negotiating bank will inform the beneficiary of the irregularities detected within the documents. It will then be the responsibility of the beneficiary to have the irregularities corrected. If the irregularities cannot be corrected, the beneficiary may elect to have the negotiating bank dispatch the documents to the issuing bank on an 'approval' basis. That is, the documents will be presented to the issuing bank who will obtain the applicant's approval/rejection of the shipping documents before making payment.

In this situation, as they have not complied with the terms and conditions of the documentary credit, the beneficiary is not guaranteed payment and is reliant on the trading relationship and the willingness of the buyer to complete the transaction.

Claiming payment

The negotiating bank will act on behalf of the beneficiary in the dispatch of the request, or claim, for payment. A claim for payment is initiated by the negotiating bank when they are satisfied that the beneficiary has complied with the documentary credit terms. The reimbursement claim will consist of a document issued by the negotiating bank that will detail the transaction, request that payment be made and advise where funds are to be paid and in most cases, a bill of exchange.

There is provision in documentary credit operations to allow for extended payment terms. As a documentary credit is a guarantee of payment it allows the exporter to grant extended payment terms to the buyer without foregoing security of payment. Additionally, the importer, if refused terms by the exporter, may request the issuing bank to extend terms based on the security the importer would have lodged at time of issue of the documentary credit. These two finance methods are discussed in more detail in 'Finance for importers/ exporters, page 40'.

Documentary credits are structured in a number of different ways depending on the terms agreed by the buyer and seller, foreign exchange regulations in their relative countries and the issuing bank's arrangements with banks in exporters' countries.

Accordingly, the process used by the negotiating bank in claiming payment will need to take into account these variances.

The following describes the two most common forms of reimbursement or payment process:

■ Reimbursements on the issuing bank

Where reimbursement is to be obtained direct from the issuing bank, the issuing bank will have stipulated, within the documentary credit, that the reimbursement claim, along with the shipping documents, is to be presented to them for payment.

The issuing bank will, upon receipt, examine the shipping documents to ensure that they comply with the terms and conditions of the documentary credit.

If the shipping documents are compliant, the issuing bank is obliged to make payment consistent with the terms of its documentary credit and in accordance with the instructions received from the negotiating bank.

The issuing bank will then seek reimbursement from the applicant for such payments.

If documents are found not to comply, notification is to be immediately sent by the issuing bank to the negotiating bank. The issuing bank should then contact the applicant to determine if the irregularities uncovered within the shipping documents are acceptable to them. If the applicant agrees to accept the irregularities, the issuing bank will then act in accordance with the tenor of the bill. That is, they will make payment if sight or accept the bill of exchange if term.

Documentary credits which provide for reimbursement by the issuing bank following examination of documents are generally less favoured by experienced exporters as they provide less certainty of payment than credits which allow for reimbursement by independent banks. This arises due to the fact that the document examination and payment roles are closely linked and are carried out by the same party.

■ Reimbursements on a third party bank (Reimbursing Bank)

To facilitate prompt payments, a documentary credit may be issued in such a way that allows for payment or acceptance to be made by a third party bank, known as a reimbursing bank.

A reimbursing bank will be chosen by the issuing bank at time of issuance of the documentary credit.

The bank selected will generally be a bank with whom the issuing bank holds an account in the currency of the documentary credit, or it may be an offshore branch of the issuing bank.

The reimbursing bank will be nominated within the documentary credit. The issuing bank at time of issuance of the documentary credit will also issue a separate authority to the reimbursing bank authorising them to honour claims received from negotiating banks under the relevant documentary credit. This message or reimbursement authorisation, also includes brief details of the documentary credit.

In addition, the documentary credit will authorise the negotiating bank, provided all terms and conditions of the documentary credit have been complied with, to claim payment or acceptance directly from the reimbursing bank. The shipping documents are forwarded by the negotiating bank direct to the issuing bank.

The claim for payment by the negotiating bank to the reimbursing bank will be made either by SWIFT/Telex or by airmail, (see Fig. 5 page 32).

In any case the reimbursing bank will ensure that the terms of the reimbursement authorisation have been complied with.

For those documentary credits that allow for extended payment terms, term drafts drawn on the reimbursing bank will only be accepted by the reimbursing bank if they are comfortable that the issuing bank will reimburse them at the maturity date. By accepting a term bill, the reimbursing bank places itself in the situation of having to honour the bill at maturity, regardless of their arrangements with, or the standing of, the issuing bank at maturity.

At maturity of the draft the reimbursing bank is obliged to pay the negotiating bank in accordance with their request.

Receipt of shipping documents by the issuing bank

Upon receipt by the issuing bank of the shipping documents, the issuing bank will examine the documents to the documentary credit to ensure that all terms and conditions have been complied with. Any variances in the documents to the documentary credit will be advised to the negotiating bank and subsequently to the applicant and their acceptance or rejection obtained.

If the documents do conform and the documentary credit nominates a separate reimbursing bank for payment or acceptance of the bill of exchange, then the negotiating bank will generally have already made a claim for payment or acceptance to the reimbursing bank. If the documentary credit does not nominate a reimbursing bank then the issuing bank will arrange payment to the negotiating bank or advise acceptance of the bill of exchange (see Fig. 6 page 32).

If the documents do not conform to the documentary credit and the applicant agrees to accept the documents, the issuing bank will, depending upon whether a reimbursing bank has been nominated, either make payment to the negotiating bank or authorise the negotiating bank to claim payment from the reimbursing bank.

It is at this point that the shipping documents are made available to the applicant.

If the issuing bank uncovers irregularities in the shipping documents as against the requirements of the documentary credit and the applicant declines to accept the documents due to these irregularities, the negotiating bank is accordingly informed. Any claims for payment will be rejected and the shipping documents will then be held by the issuing bank who will seek further instructions from the negotiating bank. These instructions will be passed from the beneficiary to the negotiating bank and will be based on discussions between the beneficiary and the applicant subsequent to the non-payment of the shipment.

At maturity of term documentary credits, the reimbursing bank or issuing bank as the case may be, will effect payment to the negotiating bank against payment from the applicant.

Methods of payment – risks

A particular method of payment is not in itself a risk, it is simply that one method of payment will have different degrees of risks to another. Indeed, the same method of payment will have differing risks dependent on the timing of the payment to the exporter.

It is the timing of payment that determines a number of risks that are undertaken, who is at risk and also to what extent. There are broadly three timing periods and these are; advance payment, post-shipment where the exporter controls the shipment and post-shipment where the importer may access the shipment prior to payment.

The tables on pages 38–39 highlight the more common commercial risks (as described in ‘Risks in international trade’ page 5) within the differing payment methods. Exchange risk and transport risk have been excluded from these tables as their impact will be fairly constant in each case.

Risks in clean payments

The timing of making or receiving a clean payment and the retention of control of the goods determines the balance of risks between the buyer and the seller. As previously mentioned the timing of payments will occur in one of the following three periods.

■ Advance payment

The timing of this payment is such that the seller has received payment before they have shipped the goods. The payment will be in the form of a clean payment, such as a bank draft or an International Money Transfer.

■ Payment after shipment effected, however, the exporter controls the goods until payment is received

The seller may retain control of the shipment, by using appropriate shipping documentation and or trusted agents, until payment is received.

The use of bills of lading, one of which is usually required to collect the goods, gives the exporter some control over the ability of the buyer to access the goods. Accordingly, the exporter may ship the goods and control the bills of lading through their agent in the locale of the importer.

■ Post-shipment, where the importer is able to access the goods without payment, (open account)

The goods may be out of the seller’s control either because of the method of shipment or by the seller releasing the shipping documents/ goods to the buyer prior to receiving payment. The payment may be made immediately when the buyer is satisfied with the goods or at some later time, e.g. at end of month, etc. Where goods are shipped by air, the shipping document (air waybill), will generally be consigned to the buyer, thus allowing the buyer to collect the goods without hindrance. The seller may also allow the buyer access to the goods by sending an original bill of lading to the buyer prior to receiving payment. Obviously, allowing the buyer to access the goods prior to payment, would only be considered if the seller was satisfied as to the standing of the buyer.

Risks in documentary collections

The risks under a documentary collection are directly related to control of the goods and the timing of payment.

The differing criteria are sight documentary collection, where the seller controls the shipment, sight or term documentary collection, where the importer may access the shipment prior to payment.

The risk profile of a transaction continues to hinge upon payment and not necessarily the acceptance of a bill of exchange. This is because the acceptance of the bill of exchange by the buyer does not guarantee payment. The buyer may refuse or be unable to make payment on the maturity date of the bill of exchange previously accepted.

Sight documentary collection where the exporter controls the shipment

An exporter will use sight documentary collections in those cases where control of the goods is to be retained until the buyer’s payment is received. This is achieved by the banking system acting as a ‘trustee’ for the shipping documents. The buyer’s bank will present the bill of exchange for payment. However the shipping documents will not be made available to the buyer until the collection is paid.

The goods may be controlled in a similar fashion to that used for clean payments, that is through the use

of bills of lading. Where goods are shipped by air, or one of the original bills of lading is sent direct to the buyer, the seller loses control of the goods.

Documentary collection (sight or term) where the importer may access the shipment prior to payment

In the situation where the goods have been shipped by air and are consigned to the buyer, or the seller has forwarded an original bill of lading to the importer separate from the collection, control of the goods will be lost.

The exporter before allowing the buyer access to the goods prior to payment would need to be satisfied as to the buyer's ability and willingness to make payment as and when required.

A term documentary collection allows the shipping documents to be released to the buyer against their promise to pay at a future date. This promise is evidenced by acceptance of a bill of exchange, or other similar undertaking.

The exporter would need to be satisfied that the buyer will be both able and willing to make payment when called upon to do so at maturity of the bill of exchange.

Risks in documentary credits

A number of the risks in documentary credits are similar to those in documentary collections. However, as the bank that issued the documentary credit has conditionally guaranteed payment, and has substituted their creditworthiness for that of the importer, the quality of risk is somewhat different.

As mentioned previously, a documentary credit is a conditional guarantee of payment. It is the responsibility of the exporter, when first receiving the documentary credit to ensure that the documentary credit is consistent with the sales contract and that they will be able to comply with the terms of the documentary credit when shipment is effected. It is also their responsibility to ensure that their actions and shipping documents comply with all terms and conditions stipulated in the documentary credit. As a result, if the exporter ships and is unable to comply with the terms and conditions of the documentary credit, they will be relying on the willingness of the importer and the issuing bank to make payment.

If the buyer fails to have a documentary credit issued, the exporter, unless they have committed resources to manufacture or preparations for shipment of the goods, is not in a position of loss.

Consistent with other methods of payment, the risk profile changes in those cases where the buyer is allowed to access the goods prior to making payment.

Therefore there are three key payment scenarios that need to be considered. These are; sight documentary credit where the exporter controls the shipment; sight documentary credit where the importer has access to the goods and; term documentary credit.

The following table illustrates the risks undertaken when dealing on documentary credit terms.

Sight documentary credit where the exporter controls the shipment

The question may be asked, If the exporter is guaranteed payment by a bank, why would they require control of the shipment? Simply, there are risks that the exporter needs to consider, despite having a bank guarantee of payment. After all, a guarantee is only as good as the party giving that guarantee, for example, the issuing bank may refuse, or be unable to honour its obligations.

Documentary credit (sight/term) where the importer has access to the shipment prior to payment or acceptance

The exporter may allow the buyer access to the shipment prior to payment by providing the buyer with an original bill of lading or consigning the goods direct to them.

Despite the buyer having access to the shipment, the issuing bank is obligated to meet a demand for payment that meets the terms and conditions of the documentary credit without regard for the existence or acceptability of the goods.

However in those cases where the exporter is unable to comply with the terms and conditions of the documentary credit, they are reliant for their payment on the importer authorising payment or acceptance.

Term documentary credits, where the exporter controls the shipment until acceptance

In term documentary credits the importer will have access to the shipment prior to payment. However unlike a documentary collection the payment at maturity is guaranteed by the issuing bank and not the buyer.

Risks in clean payments

	RISK FOR THE EXPORTER (UNTIL PAYMENT IS RECEIVED)	RISK FOR THE IMPORTER (UNTIL SHIPMENT IS RECEIVED IN GOOD ORDER)
Non Performance	Any costs incurred in preparing or effecting the shipment are at risk of the buyer repudiating the contract or refusing to make payment. If the goods have been shipped previously, retaining control of the goods will mitigate this risk.	The risk that the seller may ship inferior goods or otherwise repudiating the contract puts at risk any amounts spent in relation to the sales contract.
Credit	Any costs incurred in preparing or effecting the shipment are at risk of insolvency of the buyer. If the goods have been shipped previously, retaining control of the goods will mitigate this risk.	Any amounts expended by the importer are at risk of the exporter becoming insolvent prior to them making shipment or releasing control of the goods.
Transfer	Any costs incurred in preparing or effecting the shipment are at risk if restrictions prevent the buyer from making, or the seller from receiving payment. If the goods have been shipped previously, retaining control of the goods will mitigate this risk.	Any amounts expended by the importer are at risk if the payment, because of restrictions, is unable to be received by the exporter and as a consequence the exporter will not release control of the goods to the importer.
Country	Any costs incurred by the exporter in preparing or effecting the shipment are at risk if, because of altered import or export regulations, the shipment is not able to be dispatched or received.	Any payments made by the importer are at risk if, because of altered import or export regulations, the shipment is not able to be dispatched or received.

Risks in documentary collections

	RISK FOR THE EXPORTER (UNTIL PAYMENT IS RECEIVED)	RISK FOR THE IMPORTER (UNTIL SHIPMENT IS RECEIVED IN GOOD ORDER)
Non Performance	Any costs incurred in preparing or effecting the shipment are at risk of the buyer repudiating the contract or refusing to make payment. If the goods have been shipped previously, retaining control of the goods will mitigate this risk.	The risk that the seller may ship inferior goods or otherwise repudiating the contract puts at risk any amounts spent in relation to the sales contract.
Credit	Any costs incurred in preparing or effecting the shipment are at risk of insolvency of the buyer. If the goods have been shipped previously, retaining control of the goods will mitigate this risk.	Not applicable as the importer will only make payment against evidence of shipment.
Transfer	Any costs incurred in preparing or effecting the shipment are at risk if restrictions prevent the buyer from making, or the exporter from receiving payment. If the goods have been shipped previously, retaining control of the goods will mitigate this risk.	Not applicable as the importer will only make payment against evidence of shipment and receipt of the relative shipping documents.
Country	Any costs incurred in preparing or effecting the shipment are at risk if, because of altered import or export regulations, the shipment is not able to be dispatched or received.	Any payments made by the importer are at risk if, because of altered import regulations, the shipment is not able to be received.

Risks in documentary credits

	RISK FOR THE EXPORTER (UNTIL PAYMENT IS RECEIVED)	RISK FOR THE IMPORTER (UNTIL SHIPMENT IS RECEIVED IN GOOD ORDER)
Non Performance	Any costs incurred in preparing or effecting the shipment are at risk of the buyer repudiating the contract or refusing to make arrangements for the issuance of an acceptable documentary credit.	The amount of the documentary credit issued is at risk of the exporter shipping inferior goods.
Credit	Any costs in preparing or effecting the shipment are at risk of insolvency of the importer or subsequent to the issuance of a documentary credit, insolvency of the issuing bank.	
Transfer	Any costs in preparing or effecting the shipment are at risk if restrictions prevent the issuance of the documentary credit or restrict or prohibit the receipt of payment under the documentary credit.	
Country	Any costs incurred in preparing or effecting the shipment are at risk if, because of altered import or export regulations, the shipment is not able to be dispatched or received. If a documentary credit has been issued the exporter need only be concerned with a change in export regulations.	The value of a documentary credit is at risk of altered import regulations prohibiting the import of the goods.

Finance for importers and exporters



Finance for importers and exporters is fundamental to their business. For example, an exporter will generally need to make payments for the purchase of raw materials, wages, and other inputs to manufactured goods, etc., prior to receiving payment from the buyer. Similarly, an importer, who may be a distributor/wholesaler or manufacturer, will be required to make payment to their suppliers prior to receipt of payment from the ultimate buyers. Accordingly, both exporters and importers have a need for finance to meet this mismatch in cash flows. Exporters have two distinct finance periods that are differentiated by the shipment. These are the finance required to prepare the goods for shipment which is known as pre-shipment. The second period is known as post-shipment and covers the period following shipment of the goods, including any terms extended to the buyer.

Both importers and exporters, in seeking to balance out the mismatch in cash flows, will use a mix of two broad approaches.

The first of these is to seek finance through negotiation of trading terms with suppliers and buyers that will more closely match the timing of payments against expected receipts. The second is to seek financing from financial institutions.

This latter approach requires the financing methods to be flexible enough to enable all payment methods, debtor and creditor terms, varying currencies, small to large shipment values and shipment transit periods to be catered for.

It follows that the methods of financing that are available to importers are also available to exporters to meet their raw material purchases. Additional financing options are available to exporters in the post-shipment phase of the transaction.

Finance through trading terms

Trading terms with suppliers will often allow a period of time until payment is required. Similar to the negotiations to determine the method of payment, the period agreed will greatly depend on the negotiating position of both parties. For example, if the buyer is in a strong negotiating position due to their good credit record, a small number of competing buyers, etc., it may be that they will be able to demand and receive extended payment terms. Conversely, if the supplier is in a strong bargaining position due to a large number of buyers, a unique product, readiness to ship, etc., they may demand that payment be made in advance.

Accordingly, the trading terms agreed will be a consequence of each party's bargaining position. The ability of any trader to utilise trading terms for finance is limited by factors that are, for the most part, out of their direct control.

There may be benefits in using trading terms to shorten the financing period required. These include reduced costs of finance and a focus by the trader on the performance of their debtor book.

It is important that when terms are granted by suppliers that the buyer determines that the price quoted is economic. That is, the price quoted is likely to include an interest cost for the deferred payment period proposed. This interest cost may be calculated by comparing the price offered by the supplier for advance payment or cash on delivery to that offered for deferred payment. This interest cost should then be compared to financing options available from financial institutions. Of course, a buyer may only take advantage of any cheaper financing costs from financial institutions if they have the necessary credit lines available to them.



Finance from financial institutions

Financial institutions have a range of finance methods available to assist buyers with their cashflow requirements varying from standard Australian dollar overdraft facilities through to short term foreign currency finance.

The Commonwealth Bank has developed financing tools to meet the varying time lags, payment methods used, creditor and supplier terms given and received and the individual transaction amounts. These financing tools have now become an integral part of a trader's business.

The Commonwealth Bank's range of trade finance options for importers and exporters include the following:

- Australian Dollar Overdraft;
- Australian Dollar Trade Advance;
- Foreign Currency Trade Advance;
- Foreign Currency Overdraft;
- AUD Commercial Bill Discount;
- Import Documentary Credit.

Other financing options are available for exporters subsequent to their shipment, Post Shipment Finance. These options are discussed in the following chapter.

It should be noted that although the above options may be used to meet an exporter's pre-shipment finance requirements they are not restricted to this period and may also be used to meet post-shipment requirements.

Although the alternative financing mechanisms may appear bewildering at first, the variety enables customers to select the appropriate financing method to suit the amount, currency and term of their financing requirements.

Each of these options has particular features and benefits. These include easy access to finance, finance in Australian dollars as well as foreign currencies, fixed term, fixed interest rates, variable term and variable interest rates.

Subject to satisfactory credit assessment, customers of the Commonwealth Bank may avail themselves of the above options. The Bank will generally incorporate one or more of the above options into the one overall facility, a Trade Finance Facility.

Trade finance facility

A trade finance facility (TFF) is a lending facility offered by the Commonwealth Bank that provides customers with flexibility in managing their cash flows. The Bank may establish a TFF for a customer, subject to its normal credit assessment criteria, which will allocate a total dollar limit under which any or all of the above financing options may be used. The choice of the mix of borrowings may rest entirely with the customer, provided the total outstanding under all financing options does not exceed the TFF limit.

A description of each of the options and their features, benefits and uses appears below.

Australian Dollar overdraft

An overdraft will allow payments to be made from a cheque account for a total amount that is greater than the available credit balance of the account. The extent to which the account may become overdrawn will be agreed between the customer and the Bank by way of an overdraft limit. Alternatively, a customer's overdraft may be included in a trade finance facility.

The features of overdraft include, easy access to finance, variable terms and interest rates. Any monies received can immediately be used to reduce the debt and consequently the amount of interest that will be paid.

Due to the 'on demand' nature of the finance provided, the interest rate levied will generally be higher than that charged for fixed term finance.

Access to funds is completed by writing a cheque drawn on the account. Payments may be made to domestic suppliers direct by cheque in the normal course or clean payments may be arranged through the Commonwealth Bank to be sent to overseas suppliers and paid for from the overdraft account.

Interest is calculated on the daily balance of the overdraft and is charged to the account by the Bank at regular intervals (usually monthly).

Overdraft is best suited to short term, say, less than 30 days and small value, say less than AUD20,000, cash flow requirements.

Australian Dollar Trade Advance

The Australian Dollar Trade Advance (ATA) is a fixed term, fixed interest rate loan available in Australian dollars. It is used to meet identifiable commitments, e.g. payment of documentary credit drawings, documentary bills for collection and clean remittances.

The interest rate applicable to an ATA is fixed for the term of the loan and is set at the commencement of the loan.

A minimum amount of AUD20,000 and terms of 30 days up to 185 days apply.

Although the loan is denominated in AUD, the amount paid to the supplier may be either in foreign currency or AUD. If in foreign currency, the Bank will sell the required amount of currency to the borrower against the proceeds generated by the ATA.

Appropriate documentation confirming amount, term, interest rate and disposal of funds is required upon drawdown of each ATA.

The ATA is best suited to medium value transactions that will be able to be cleared in the short term.

Commercial Bills Discounted

The Commercial Bill Discounted (sometimes known as a bills acceptance/discount) is a fixed term, fixed interest rate loan denominated in AUD.

A Commercial Bill is a bill of exchange drawn on the Bank by the borrower and accepted by the Bank.

It is available for amounts of AUD100,000 and over and for periods from 30 days up to 185 days.

The interest rate applicable is fixed at the commencement of the loan. As the term and interest rates are fixed, early repayments are not usually accepted. The Bank will make funds available to the customer for an amount less than the face value of the bill of exchange. The deduction from the face value represents interest ('discount') calculated from the date of payment of funds to the maturity date of the bill.

As the amounts for these transactions are frequently larger and as banks trade in bills, the interest rates applicable will generally be slightly lower than those for similar Australian Dollar Trade Advances (ATA). ATAs may, however, be arranged to fall due for repayment on any business day whereas, on some occasions, bills may not.

Foreign Currency Trade Advance

A Foreign Currency Trade Advance (FCTA) is similar to an Australian Dollar Trade Advance (ATA) except that the finance is provided in a foreign currency. The currency borrowed will generally be the same as the currency that is either due to a supplier or payable by a buyer.

Of course, borrowing in a foreign currency extends the period that the borrower is exposed to movements in exchange rates. Accordingly, the cost or benefit of exercising some form of exchange rate protection strategy needs to be factored into the decision to use this particular form of finance.

The interest applicable to an FCTA will be a rate that is relevant to the amount, currency and term of the borrowing. The interest rate will be fixed for the term of the loan and is set at the commencement of the loan.

A minimum amount of the equivalent of AUD20,000 and terms of 30 days up to 185 days apply.

Appropriate documentation confirming currency, amount, term, interest rate and disposal of funds is required for each drawdown.

USD overdraft

The Commonwealth Bank can provide exporters and importers with a USD denominated overdraft account. Its operation is similar to that of an AUD overdraft although cheque book facilities are not available.

This facility would suit very short term borrowing requirements and allows a customer to take advantage of favourable exchange rates as they occur. For example, an exporter may be awaiting a payment from their overseas buyer however the exchange rate is showing a trend against the exporter. The exporter may then choose to borrow the amount due from their overdraft account and convert it now and repay the overdraft from the payment when it is received. Therefore the exporter is bringing forward the conversion of their foreign currency receivables. The overdraft account allows an importer to defer their conversion of foreign currency commitments, however this should not be undertaken without some management of the resultant exposure to exchange rate movements.

Import documentary credit

As discussed in the chapter 'Methods of payment', a documentary credit is a guarantee of payment in which the issuing bank's creditworthiness is substituted for that of the buyer. Accordingly, the Commonwealth Bank will only issue a documentary credit if it is satisfied as to the buyer's ability to make the necessary payments under the documentary credit when due.

As previously discussed, a documentary credit may be issued at either sight or term. That is, the payment from the buyer is either due on receipt of the shipping documents or at some predetermined future date.

A term documentary credit either gives security of payment to the supplier for any deferred payment trading terms negotiated or enables the finance of sight payments to the supplier for the term set in the documentary credit. Put in other words, the payment terms that are negotiated with the supplier may be sight, however, the documentary credit may be issued at term and the supplier still receives payment at sight.

In this situation, the issuing bank will pay the supplier at sight and finance the debt for the period allowed under the documentary credit. At maturity, the buyer will pay the issuing bank to retire the debt held. Interest charges and other fees applicable for this type of transaction will be for the account of the buyer.



Post-shipment finance for exporters

Post-shipment finance for exporters

As discussed previously, there are additional financing methods available to exporters which may be used to finance the post-shipment portion of a transaction. The following options may be used instead of or in conjunction with the aforementioned pre-shipment finance methods.

The Commonwealth Bank's range of post-shipment trade finance options for exporters include the following:

- Foreign Bills Negotiated;
- negotiation of export documentary credits;
- Without Recourse Export Finance.

Foreign Bills Negotiated

The Foreign Bills Negotiated (FBN) option is available to exporters under a trade finance facility.

The FBN option is available to exporters who use the documentary collection process as a method of payment.

The operation of an FBN is fairly straightforward. The processes are the same as for documentary collections. However, the Commonwealth Bank will, upon receipt of the shipping documents from the exporter, advance the value of the shipment to the exporter. Accordingly, this allows the exporter access to short term finance in the currency of the shipment. The payment when received from the buyer is used to retire the advance.

Interest costs will be for the account of the exporter for the period between the date of advancing proceeds and the date proceeds of the buyer's payment are received by the Bank. The interest rate applicable will be as appropriate to that currency taking into account the amount and anticipated term of the borrowing. As with other forms of foreign currency finance, benefits may be obtained when the interest rate for the relative currency is less than that able to be obtained for borrowings in domestic currency.

There is no minimum amount or term for these transactions. However, it is expected that a term not exceeding 185 days would apply.

By borrowing the foreign currency amount payable and converting that amount to the exporter's local currency, the exporter mitigates their foreign exchange risk by crystallising the local currency amount received. This is, of course, provided the buyer makes payment in accordance with the sales contract.

Negotiation of export documentary credits

If an exporter is not in a position to wait for the payment due to them under a documentary credit, there is the possibility of finance being made available for the amount due under the documentary credit.

A negotiating bank will consider a number of issues prior to agreeing to advance funds to the exporter against the shipping documents presented under a documentary credit.

A documentary credit is a guarantee of payment, subject to certain conditions being met. Accordingly, the exporter's bank will need to satisfy themselves that all the conditions as stipulated in the documentary credit have been met. Finance under a documentary credit will only be possible from the time that the exporter lodges, with their bank, the shipping documents drawn under the documentary credit.

The exporter's bank, the 'negotiating bank', will then examine the documents to ascertain if they comply with the terms and conditions as set out in the documentary credit. If the documents comply, the negotiating bank will then consider the creditworthiness of the issuing bank and the exporter.

The assessment of the issuing bank and its country of location will give the negotiating bank some indication as to the ability of the issuing bank to honour its guarantee. The assessment on the exporter considers whether the exporter would be able to repay the advance in the case of the issuing bank failing to honour its obligations. These two assessments will usually be considered in the light of the term of the transaction, that is whether payment is to be made at sight or on extended payment terms.

Subject to satisfactory evaluation of the above, a negotiating bank may agree to advance the value of the drawing under the documentary credit.

The terms of any advance will be largely determined by the terms and conditions of the underlying documentary credit. The advance will be denominated in the currency of the documentary credit and interest rates will reflect the currency as well as the amount and term of the loan. Interest costs will be for the account of the exporter for the period between the date of advancing proceeds and the date proceeds of the issuing bank's payment are received by Bank. The interest rate applicable will be as appropriate to that currency taking into account the amount and expected duration of the borrowing.

Negotiating banks will hold recourse to the exporter if payment from the issuing bank is not forthcoming.

The transaction proceeds in the same way as discussed in 'Methods of payment, operations'. However, the exporter receives an advance on the payment at time of lodgement of documents. The subsequent payment from the issuing or reimbursing bank is used by the negotiating bank to retire the advance.

If for whatever reason the issuing bank cannot or refuses to make payment, the negotiating bank will seek repayment of the advance from the exporter.

In a similar fashion to Foreign Bills Negotiated, the exporter, by converting the foreign currency mitigates the foreign exchange risk by crystallising the local currency amount received. This is, of course, provided the issuing bank makes payment in accordance with the documentary credit.

Without Recourse Export Finance

Without Recourse Export Finance (WREF) offers exporters a service that combines the existing financing tool of negotiating documents with the assumption of the risks of the issuing bank/buyer and its country of location. WREF may be provided for export transactions where the method of payment is either export documentary collection or export documentary credit.

The main feature of WREF is that the negotiating bank, subject to its agreement, may advance the payment to the exporter 'without recourse'. That is, the exporter receives full and final payment for their shipment, irrespective of whether the issuing bank or the buyer makes payment.

This has the effect of supplementing an exporter's cash flows, freeing up an exporter's other loan facilities and removing debtors from their balance sheet.

In effect WREF is similar to a combination of post-shipment finance facilities from financial institutions and export credit insurance from insurance companies. Its advantages over this combination are:

- reduced overhead as exporters' dealings with regard to sales are with one party only; and
- in the normal course, the exporter is indemnified against loss for the full transaction amount in a WREF transaction. Export credit insurance policies usually restrict indemnity to a percentage of the transaction amount (usually a maximum of 90%).

The negotiating bank in agreeing to grant finance on a without recourse basis will assume the following risks that are ordinarily assumed by the exporter. These risks are as follows:

■ **Credit risk**

For WREF transactions pertaining to export documentary credits, the Bank will assume the credit risks of the bank that issued the documentary credit. Although a documentary credit is a guarantee of payment the issuing bank may not be able to make payment when due. This may be as a result of a worsening in the financial standing of the issuing bank or other reasons since the time the documentary credit was issued.

For those transactions where the method of payment is export documentary collection, the Bank will assume the credit risk of the buyer. Often, however, the WREF facility provided to the exporter will exclude non-payments due to commercial disputes between the buyer and the exporter and other force majeure events.

■ Transfer risk

A change in governmental regulations or natural or man made disasters may prohibit or restrict an issuing bank's or a buyer's ability to make payment. Similarly, the bank or the buyer may not be able to acquire sufficient foreign exchange to effect the payment that is due.

Requests for WREF under documentary credits may be made in one of two ways. In the first case, the issuing bank upon issuing the documentary credit may request that the advising bank add its 'confirmation' to the documentary credit. The issuing bank would only include this if requested to do so by the importer at the time of their application for issuance of the documentary credit. This would, in turn, be a result of the agreed terms of sale between the buyer and the seller.

Secondly, the exporter may make a request to the negotiating bank for without recourse finance without the issuing bank requesting that confirmation be offered.

The bank, in assessing requests for WREF will usually consider the creditworthiness of the issuing bank and the buyer, the political and economic outlook of the country concerned, the commodity shipped, payment performance on previous transactions, term of payment, amount, and so on.

Requests for without recourse finance under documentary collections will operate in a similar fashion to that utilised for Foreign Bills Negotiated. However without recourse finance for such transactions will usually only be considered for ongoing high value and high volume trading relationships. The mechanics of these facilities are frequently tailored to suit the individual requirements of the commercial arrangements that are agreed between the buyer and the seller.

If the negotiating bank considers the risks to be acceptable, then a fee commensurate with the perceived risks will be sought. Interest for the period until payment is received, or until a predetermined date, will be for the account of the exporter. The interest rate applied will be based upon the currency, amount and anticipated term of the transaction.

Associated financial instruments

Associated financial services for traders

There are a number of other finance services required by traders in their international dealings. These services relate to guarantees issued for purposes other than to meet the payment for a particular shipment or series of shipments.

The following describes some of the more common guarantees required by traders.

Bid bond

A frequent condition of tendering for large capital works or other large contracts is provision of a bid bond.

Bid bonds seek to provide buyers with a mechanism of recouping costs incurred in tendering for the relevant contract.

The bid bond is normally a small percentage (e.g. 5%) of the total contract value and is used to ensure that only genuine tenderers bid for the contract. The bid bond is usually a bank guarantee in favour of the party calling for tenders (the 'beneficiary'). The format of the bond should allow the beneficiary to claim payment under the guarantee only if the relevant tenderer fails to accept the contract if offered.

In seeking establishment of a bid bond, exporters should consider the reputation of the buyer and the form of the bond required. Unethical buyers have claimed under bid bonds and other similar instruments notwithstanding that the exporter has not failed to meet their obligations.

Where a bid bond has been issued, the successful tenderer will usually be required to provide an acceptable performance bond. Traders should take care to ensure that their liability under a bid bond is coordinated to reduce simultaneously with the issuance of any performance bond that may be required. If this is not considered, a trader's capacity to obtain adequate finance may be unnecessarily constrained.

Performance bond

A performance bond is usually a bank guarantee of an exporter's ability to perform to the terms of the contract. Usually, these bonds are for a nominated percentage of the relevant contract (e.g. 20%) and will provide for achievement of certain performance milestones during the contract within nominated timeframes.

If the contract terms are not fulfilled, the beneficiary will seek payment due under such a bond. The money obtained may then be used to commission another party to bring the project to completion.

Again, exporters should consider the reputation of the buyer and the form of the bond required. Unethical buyers have claimed under performance bonds and other similar instruments notwithstanding that the exporter has not failed to meet their obligations.

Warranty bonds

A warranty bond is usually a guarantee issued by a bank in favour of the buyer (the 'beneficiary'). It will provide some protection to a buyer against poor standard of work and/or defective goods.

A warranty bond differs from a performance bond in that it covers the risks following fulfillment of the contract while a performance bond usually covers the risks of failure to complete the contract.

Like bid and performance bonds, there tends to be no standard format for these types of guarantees. The agreed content is usually negotiated and agreed between the buyer and the seller.

Advance payment bonds

An advance payment bond is often required in those situations where a buyer makes progress payments to the supplier prior to completion of the contract.

An advance payment bond is usually issued by a bank in favour of the buyer and will undertake to repay monies received by the supplier in the event of failure to complete the relevant contract.

Missing bill of lading guarantees

As discussed in 'Documentation of Shipments' on page 18, an original bill of lading is generally required to be presented to have a shipment of goods released.

In those cases where all original bills of lading are lost, banks may issue a missing bill of lading guarantee to the carrier which will allow the importer to receive the goods without an original bill of lading. The bank undertakes that the importer is rightful owner of the goods and, if another claimant presents an original bill of lading, to meet all financial claims that the presenter of the bill of lading may make. Accordingly, the issue of such a guarantee will generally be made against security offered by the importer.

Complementary trade information

Assistance for traders ranging from information and education to financial assistance is available from a number of different sources. The following chapter briefly discusses some of the complementary services and products offered to traders by the Commonwealth Bank and other sources.

Commonwealth Bank of Australia services

The Commonwealth Bank has a number of services to offer customers that will assist them in their dealings with the Bank.

ecommmcorporate

ecommmcorporate is a secure and convenient way for businesses to transact foreign exchange, make payments and invest via the Internet. It is ideal for importing and exporting businesses and investors, allowing you to save time and money as well as cutting down on paperwork. This Internet based system provides you with the tools to buy and sell spot and forward foreign exchange online, in all major currencies. You are able to keep track of your foreign currency payments and outstanding deals and conveniently export your data into spreadsheets. You can also deposit and withdraw from your cash deposit account and invest in bank bills and term deposits online.

Foreign exchange

- Spot and forward foreign exchange for all major currency pairs, as well as pre-deliver and extend contracts,
- transact using forward FX contracts with optional delivery dates,
- view a trade blotter showing all outstanding trades, including those dealt over the phone with the Bank,
- create standard settlement templates for all regular settlements and use these templates to settle your trades online,
- access records of trades settled in the past three months,

- save time through online storage of the appropriate settlement instruction template.

Payments

- Initiate payment instructions from any Commonwealth Bank account to any other domestic or overseas bank account,
- control a whole range of details electronically without adding to the paper chase,
- search your records electronically by date, currency or status; review all your business' payment instructions,
- create and save regular payment instructions; copy information into other files with a few keystrokes.

Money market

- Access to 11am or 24-hour fund investment with real-time quotes,
- access to fixed term deposits and Investment bill purchases,
- instant review of available and book balances, transactional history and interest details relative to the above products,
- sorting by account, product type, balance or nil balances for an immediate report of activity,
- export data directly to your own systems.

ecommmcorporate has a dedicated client and technical support team. The Help Desk is available to assist you with your queries during business hours. ecommmcorporate uses 128 bit encryption, so that the integrity of the information you send to the Bank is maintained at all times. This means that you can transact online with confidence. There are no fees to access the ecommmcorporate modules. Fees apply on a transaction basis only.

Full terms and conditions are available upon application. Please consult your Relationship Manager for further details.

Skilled trade finance personnel

The Commonwealth Bank has personnel who are experienced in import and export transactions and are well equipped to discuss a trader's individual requirements. They will provide assistance on the most appropriate way to structure a transaction, making the best use of a trader's financial resources

whilst at the same time providing information on mitigating the risks that are likely to be encountered.

To be placed in contact with one of our trade specialists, please telephone the Commonwealth Bank's Business Line, **1800 657 151** (8am–8pm Monday to Friday) or visit our web site commbank.com.au

Foreign currency accounts

Once opened, you can deposit or withdraw funds to or from your foreign currency account as required. Withdrawals can be paid in the form of an International Monetary Transfer, overseas draft or used to settle payments due under documentary credits and documentary collections. Cheques cannot currently be issued on these accounts. Amounts withdrawn are retained in the foreign currency and at no stage does a currency conversion occur providing, of course, the payment request is in the same currency as the account. Use of this facility can help a trader manage foreign exchange exposures more effectively (see chapter foreign exchange risk management, page 11).

Some of the advantages of conducting a foreign currency account with the Commonwealth Bank are:

- The mechanism provides a natural hedge for foreign currency inflows and outgoings and removes the need to exchange in and out of Australian currency.
- The FX Infoline service is an automatic telephone service that will provide you with the balance of your foreign currency account, and the last six (6) transactions made on your account.

Foreign currency account features

- Available in most freely negotiable currencies.
- Interest is paid on the total account balance at the prevailing interest rate for the currency concerned, providing a minimum balance equivalent to greater than AUD5,000 is maintained.
- Interest is calculated daily and credited to your account on the first business day of each month.
- There are no account keeping fees.

Foreign currency account overdrafts provide traders with a flexible lending facility to manage lags in foreign currency cash flows. It is particularly attractive for short term borrowings. Retaining expenses in foreign currency pending foreign currency receipts avoids the need for unnecessary currency conversions and may reduce a trader's total costs.

Full terms and conditions are available upon application. Bank fees and Government charges may apply. Applications for finance are subject to the Commonwealth Bank's normal credit approval.

Other services and products

Austrade

The Australian Trade Commission (Austrade) is Australia's national export and investment facilitation agency.

Austrade was established in 1986 as a commercially-focused statutory authority which actively assists exporters to win business overseas and promotes direct investment into Australia from international markets. It pursues markets for Australian goods and services and captures market opportunities for Australian companies.

Austrade also promotes export opportunities through seminars and international trade forums.

Austrade assists firms in establishing off-shore to expand their international business programs and bases investment commissioners overseas to promote Australia as an attractive place to invest.

To assist small and medium-sized Australian businesses to enter and develop overseas markets, Austrade administers the Australian Government's Export Market Development Grant (EMDG) scheme which provides financial support especially to small and medium sized companies.

With 98 offices in 67 countries, Austrade provides a distinctive range of services, either free-of-charge or on a fee-for-service basis, using its unique knowledge of overseas markets and government status. The services are tailored to meet the particular needs of each client and cover:

- export counseling and planning,
- marketing information and intelligence,

- assistance to find the right overseas partners,
- practical assistance in overseas markets,
- advocacy and access through Austrade's official status.

Austrade is accessible from anywhere in Australia through the Export Hotline – 13 28 78 or by visiting www.austrade.gov.au – which can put any Australian, anywhere, in touch with international business.

Export Finance and Insurance Corporation (EFIC)

Export Finance and Insurance Corporation (EFIC), Australia's export credit agency, is a self-funding statutory corporation wholly-owned and guaranteed by the Commonwealth of Australia.

EFIC assists Australian exporters and investors to compete internationally by providing finance and insurance facilities to support their overseas contracts and investments.

As an export credit agency, EFIC's products and services are typically focused in the 'market gap', where, because of country or industry risk, there is insufficient commercial market capacity.

Export Finance

EFIC provides a range of medium to long-term finance facilities (generally over two years) to Australian companies exporting or investing overseas. These products include Direct Loans Export Finance Guarantees, Bonds and Documentary Credit Guarantees and Finance.

Insurance

Australian companies investing overseas are concerned with political and commercial risks involved in their exports and investments. The following insurance products can help mitigate these risks: Political Risk Insurance; Medium Term Payments Insurance; and Unfair Bond Calling Insurance.

EFIC partners with Australian exporters and investors, international buyers, banks and other financiers to provide tailored finance packages in both emerging and mature markets.

For Smaller Exporters

EFIC can assist smaller exporters secure working capital finance from financial institutions through the Export Working Capital Guarantee (EWCG) facility or provide the bonding often required for export contracts.

- **Export Working Capital Guarantee** – exporters can face a working capital shortage when fulfilling export contracts where there is a mismatch between the timing of costs and revenues.

The Export Working Capital Guarantee facility assists small businesses to obtain unsecured pre-shipment finance where they do not have sufficient security to obtain additional bank finance. EFIC provides a guarantee to the exporter's bank, which then provides the necessary working capital funds.

- **Bonds** – if you are involved in an export project, your bank limit has been reached, and if you meet EFIC's eligibility requirements, EFIC may provide the following bonds in connection with export contract:
 - Advance Payment Bonds – should you fail to meet your obligations under the export contract, the buyer can call on the bond to recover advance payments made to you; and
 - Performance Bonds – allow your buyer to receive a payment, should you fail to perform your obligations under the export contract.

EFIC issues bonds directly to buyers or provides guarantees to banks issuing bonds.

For further information, please contact EFIC or visit www.efic.gov.au

Level 10
Export House
22 Pitt Street
Sydney NSW 2000

Email info@efic.gov.au
Tel 61 2 9201 2111 or tollfree 1800 887 588
Fax 61 2 9251 3851

QBE Trade Credit

QBE Trade Credit specialises in:

1. Export Credit Insurance – covering payment risks on overseas sales by exporters based in Australia, New Zealand, Asia and Europe; and
2. Domestic Trade Debtor Insurance – insuring against insolvency of domestic buyers and other trade risks.

Cover for political and commercial risk

QBE Trade Credit's export credit insurance covers both commercial and political causes of loss:

1. Commercial risks include buyer insolvency, protracted default on payment and repudiation of contract.
2. Political risks include inconvertibility of currency, cancellation of import or export licences, contract frustration due to war, civil war, riots and commotions that prevent payment being made. It also includes default by a government owned enterprise.

The level of indemnity for all risks is generally 90% (but can vary higher or lower depending on individual markets and policy structure).

QBE Trade Credit provides cover for both commercial risks and political risks in appropriate markets or commercial risk only cover. The option rests with the exporter.

It is also possible for the exporter's interest in a trade credit export policy to be assigned to a financier as part of the security package for export lending. In addition, where the bank has a financial interest in export transactions, such as under a non-recourse facility, then a policy can be issued jointly to the exporter and their bank.

For many exporters, goods are manufactured or sourced offshore and then dispatched from their point of origin to buyers in another foreign market. We are readily able to underwrite these transactions, irrespective of where the goods are manufactured.

Further information on QBE Trade Credit can be found at www.qbe.com or contact Greg Brereton, Head of International Risk Underwriting, QBE Trade Credit by phone on (61 2) 9375 4199 or fax (61 2) 9375 4646 or email Greg.Brereton@qbe.com

Australian Institute of Export

The Australian Institute of Export was established in 1956 to foster, promote and develop an export culture within Australia.

As the professional association representing exporters, the Institute's activities cover four significant areas.

- Hands on training in export practice,
- continuing post-graduate education,
- net-working through Institute membership and activities,
- providing independent advice to government on export policy.

The Institute is dedicated to improving the professional status of exporters by providing practical training and continuing education for members and graduates.

The Institute has representative offices in all states and cooperates actively with state and federal departments and agencies in promoting international trade.

Conferences and seminars are organised to address issues of contemporary relevance and to raise community awareness of the importance of international trade to the Australian economy.

College of International Business

The primary aim of the College is to offer top quality export-related training programmes for a growing community of exporters in NSW.

The College, established by the Australian Institute of Export NSW in 1991, is an independent, not-for-profit export education provider. It took over all export educational activities formerly offered by the Institute, which now concentrates on industry association matters.

The College maintains its position as the premier provider of practical training by closely monitoring education developments, methods and innovations in Australia and overseas. This process ensures that the College is able to assist exporters in acquiring management and operational skills, the latest methods and technologies in all relevant areas – e.g. international marketing and characteristics of foreign business cultures, practical aspects of financing, freight forwarding, documentation, and so on.

The College is able to structure special 'in-house' courses for companies on request.

International Chamber of Commerce (ICC)

Objectives of the ICC

The International Chamber of Commerce (ICC) serves world business by promoting trade and investment and open markets for goods and services, as well as the free flow of capital. It defends the private enterprise system and encourages self-regulation by business.

Founded in 1919, the ICC is a non-governmental organisation of thousands of companies and business associations in 139 countries. National committees throughout the world present ICC views to their governments and alert Paris headquarters to national business concerns.

Special status

The ICC has top-level consultative status with the United Nations where it puts forward the views of business in industrialised and developing countries. It also maintains close relations with the World Trade Organisation (WTO), the Organisation of Economic Co-operation and Development (OECD), the European Union and other inter-governmental and non-governmental bodies. ICC's permanent representatives at the UN in New York and Geneva monitor developments affecting business within the UN and its specialised agencies.

ICC services

One of the ICC's main activities is the harmonisation of trade practices. ICC rules on documentary credits are used by banks throughout the world, and Incoterms – international commercial terms defined by the ICC – are applied by importers and exporters worldwide.

Specialist ICC commissions meet regularly to review issues affecting business. They cover a wide range of sectors, including banking, competition, the environment, financial services, insurance, taxation and trade and investment policy.

Banking technique and practice

The ICC Commission on Banking Technique and Practice adapts international banking practices to automatic data-processing techniques, prepares new uniform rules, and modifies existing rules to take account of changes in working practices in the use of documentary credits, demand guarantees and other trading instruments.

The Banking Commission works closely with other ICC commissions, in particular the Commission on International Commercial Practices, as well as the other international organisations. It also organises conferences and seminars to inform members of trends and new techniques in banking.

Major publications of particular significance to international trade produced by this Commission are:

- Uniform Customs and Practice for Documentary Credits;
- Uniform Rules for Collections;
- Case Studies in Documentary Credits;
- DCInsight.

Freight brokers/forwarders

A freight forwarder, very simply, arranges shipment of the goods. The freight forwarder acts on behalf of the consignee in arranging shipment of the goods by the actual carrier.

This will be done at the instruction of the consignor.

The freight forwarder's specialisation is to structure a transport route and mode that ensures the goods are transported as efficiently as possible. This will include assessing the appropriateness of sea or air freight and the route that will be taken. The factors that will determine the best shipment method and route are taken from a number of aspects which will include the following:

- are goods required urgently?
- are the goods subject to special transport arrangements, e.g. frozen goods, livestock?
- availability of capacity;
- frequency of sailings or flights;
- cost of each available transport method and route;
- import or export restrictions in the countries of dispatch and receipt, and possibly transit; and
- weight and volume of goods.

Upon determining the most appropriate method of transport and the most efficient route, the freight forwarder will book the necessary cargo space with the carrier and finalise all other shipping details, e.g. preparation of shipping documents, payment of freight to the carrier and ensuring that the freight forwarders counterpart at the port of arrival is properly instructed as to the onforwarding or handling of the goods when received.

Freight forwarders are also able to arrange clearance of the goods upon arrival and effect delivery in accordance with the consignee's instructions.

Many freight forwarders over the past few years have diversified from their core functions and are able to assist exporters in the preparation of documents to meet export requirements.

Government regulations

Government regulations (exports)

Government regulations both in Australia and abroad are of concern to exporters and it is important to be conversant with the various requirements.

Australian government controls

The Australian Customs Service, through the Customs and Export Control Acts, administer controls over exports. These controls are in place for many reasons, some of which are:

- revenue;
- trade statistics;
- trade embargoes;
- international agreements;
- monetary controls;
- conservation of resources;
- defence considerations;
- retention of cultural property, and;
- conservation of animals and plants.

Many of these pertain to commodity controls which in broad terms provide a means to:

- orderly marketing of primary products and meet commitments under marketing agreements e.g. wheat and meat;
- monitor the quality of Australian goods generally;
- market Australia's mineral resources;
- regulate the exporting of atomic materials, drugs of dependence (under international agreements);
- monitor items of cultural or historical significance, and;
- protect Australian resources such as the export of merino sheep.

While it is prudent to utilise the experience of a customs agent or freight forwarder to prepare documentation and arrange the necessary clearances, it is in the exporter's interest to understand the required formalities. This information is available from the Australian Customs Service, Austrade, Australian Quarantine and Inspection Service and the Department of Primary Industry.

Overseas government regulations

Australian exporters, appraising the market potential of particular countries, need to consider the possible effects of import licensing or payment restrictions.

These vary from country to country and often depend on the state of that country's foreign exchange reserves. Payment controls on imports may deem it necessary to ship only against establishment of an acceptable documentary credit, a payment medium generally accepted as implying an approval to transfer funds from the importer's country.

Import licence conditions may also affect the terms of sale for goods. Exporters should therefore endeavour to familiarise themselves with the appropriate requirements.

Exporters essentially rely on importers' assurances that import licensing and exchange control formalities of the particular country have been met. Failure to comply may result in the exporter incurring heavy expenses or in some situations the goods may be impounded. This highlights the need to ensure that the overseas importer, as well as being financially secure, is experienced and reputable in their dealings.

Government regulations (imports)

Australia maintains import regulations for the purposes of protecting the environment, its people and their lifestyle. It does this essentially through quarantine, consumer protection and tariff legislation.

Quarantine regulations

These provide a means to protect our livestock and agricultural sectors, forests, flora and fauna and are the reason that Australia today is devoid of many of the pests and diseases plaguing some overseas countries.

Prohibited imports include soil and cereal straw, plants (living or dead) and all animals and parts thereof are subject to varying quarantine periods. Wooden crates/artefacts must be inspected for borers etc. and treated where necessary.

Further information is available from the Commonwealth Department of Health, Australian Customs Service and the Australian Quarantine and Inspection Service.

Tariffs

A tariff is a financial levy applied to imports as a percentage of their value. Its purpose essentially is to minimise any disruptive effects to Australian industry that could occur as a result of the cheaper manufacturing costs of some developing countries and dumping practices of others.

Rates vary between countries as well as commodities and concessions apply to certain countries.

The Australia/New Zealand CER (Closer Economic Relations) agreement is a good example, this additionally providing for gradual liberalisation of the two way trade. Goods originating from developing countries may also attract special rates.

Tariffs are subject to periodic review, usually on the advice of the Industries Assistance Commission. Further information is available from the Australian Customs Service.

Consumer protection

In line with worldwide trends, Australia is becoming increasingly consumer protection conscious.

Both the Commonwealth and various state governments have legislated in this regard and importers should be aware of the various requirements.

Intending importers should approach the respective Consumer Affairs Departments for further information.

Checklist for exporters

To acquire the rights to payment under a documentary credit, exporters must ensure that the shipping documentation will conform with the terms and conditions of the credit when presented to the negotiating bank.

The matter of preparing documents to meet the various terms and conditions of the documentary credit is one that many exporters find difficulty with.

Accordingly the following guide has been prepared to assist exporters check their documentation to the credit prior to presentation to the bank for payment. The list has been compiled from our experience in dealing with documentation presented by exporters in attempting to meet the requirements of documentary credits. It is not intended to be an exhaustive list of all potential problems and, for that reason, it should be read in conjunction with the ICC's Uniform Customs and Practice for Documentary Credits.

The documentary credit

Ensure that:

- documents are presented to the bank prior to the credit's expiry date and within the required number of days following shipment (if not specified, 21 days), and;
- the amount is not greater than that allowed in the credit.

The bill of exchange (draft)

Ensure that:

- it is drawn in a regular manner, includes any specified clauses and is signed correctly without any erasures;
- it is drawn for the correct tenor – i.e. at sight or at usance as required;
- it is dated within the validity of the credit and is dated on or immediately before the date of presentation;
- its value – amount and currency – agrees with the invoice value (unless the credit stipulates otherwise) and words and figures agree, and;

- it is drawn on the correct party – i.e. the opening bank, etc.

Commercial invoices

Ensure that:

- the correct number of invoices is submitted;
- they are addressed correctly – i.e. to the buyer unless the credit stipulates otherwise;
- they show the exact description of the goods as specified in the credit and that prices, price basis (e.g. FOB, CIF) quantities and specifications are as called for;
- the invoices are signed (original signature not carbon or photocopy) and is certified or notarised if required, and;
- marked original as required.

Insurance documents

If required in terms of the credit, ensure that:

- the policy (or certificate if permitted) is signed, dated and stamped as appropriate, (Broker's cover notes are not acceptable unless authorised in the credit);
- the documents are in negotiable form (if drawn to the order of shipper, all copies must be properly endorsed in blank) unless the credit specifies otherwise;
- cover is for at least the amount specified in the documentary credit (including any percentage excess) or, if the credit does not specify an amount, the minimum amount of insurance to be CIF value of goods plus 10 per cent or, if this is indeterminable from the documents, the amount of the credit drawing or the commercial invoice whichever is the greater plus 10 per cent;
- insurance cover is effective at least from date of loading on board or dispatch, and;
- all risks specified in the credit are covered by the policy/certificate for the complete journey.

Transport documents

Ensure that:

- the mode of transport is in accordance with the credit's requirement;
- the documents have been issued by a steamship

company (a named carrier for air waybills) or its agent and that a full set of signed negotiable copies is tendered (unless the credit instructs otherwise). These are to be accompanied by any required non-negotiable copies;

- if required by the credit, the 'Notify Party' is shown;
- they are made out to the order of the party specified – if required to be to the order of shipper that they have been suitably endorsed in blank by the shipper (exporter);
- bills of lading, if applicable, indicate 'shipped' or 'on board' (unless the credit allows otherwise), port of shipment and destination and if called for, name of carrying vessel and 'notify party';
- the description of the goods is consistent with the description specified in the documentary credit;
- if trans-shipment is indicated, that the credit does not specifically prohibit it and the entire voyage is covered by one and the same bill of lading;
- goods are not shown shipped 'on deck' unless the credit terms permit it. If the credit specifically calls for shipment 'under deck', then the bill of lading must specifically state same;
- bills of lading are 'clean', i.e. they bear no superimposed clause or notation which expressly declares a defective condition of the goods and/or the packaging, unless the credit specifies clauses which may be accepted;
- they are presented to the negotiating bank within the specified period of time after date of issuance of the bills of lading (or other shipping documents), or if no such period is stipulated, not later than 21 days after date of issuance of bills of lading or other shipping documents;
- they are marked 'freight prepaid' where the credit and/or invoice indicates that shipment is CIF or CFR;
- they are dated no later than expiry date of the credit or the latest date for shipment, if specified in the credit;
- the description of the goods, the quantity, weight and marks agree with all other documents, and;
- all alterations have been authenticated by the shipping company.

Other documents

These must comply with the requirements of the credit and their details must be consistent with those of all other documents.

Documents requiring authentication or signing, e.g. certificates of origin, quality etc., are to be authorised/signed by the appropriate authority and legalised if required. This includes Chamber of Commerce certification if required.

General comments

Documents should be prepared with the following in mind:

- they bear all details specified in the documentary credit and do not include any additional or unauthorised goods even though without charge (i.e. samples etc.);
- no extra charges and/or commissions (e.g. cable costs, storage, airmail postage) are included unless authorised in the credit;
- if a partial shipment, that the credit allows this and that the amount drawn is pro rata to that quantity shipped;
- the number of containers, bales, cartons, etc., agree with the Bill of Lading and all other documents;
- quantities and weights (if any) agree with all other documents;
- the description of the merchandise, the name of the carrying vessel, marks, numbers, quantities, weights, ports of shipment and destination agree with all other documents, and;
- Bills of Lading issued by forwarding agents are not acceptable unless authorised by the credit.

Glossary

Acceptor

The party accepting a bill of exchange.

Bill of exchange

An unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a sum certain in money to or to the order of a specified person or to the bearer.

Bill of lading

A document that is issued by the carrier of the goods and acknowledges receipt of goods for shipment by sea.

CAD

Cash against documents, see D/P below.

Carrier

The party that carries the shipment, e.g. Shipping line, Airline, trucking company, etc.

CFR

Incoterm, meaning cost and freight of the goods is covered by the shipper. Other responsibilities are assumed as defined by Incoterms.

CIF

Incoterm, meaning cost, insurance and freight of the goods is covered by the shipper. Other responsibilities are assumed as defined by Incoterms.

Consignee

The party to whom the goods are to be delivered.

Consignor

See 'Shipper'.

D/A

Documents against acceptance, acceptance must be obtained before shipping documents can be released to the buyer.

D/P

Documents against payment, payment must be made before shipping documents can be released to the buyer.

Documentary collection

A method of payment that allows the exporter some control over the release of shipping documents to the buyer.

Documentary credit

A conditional guarantee of payment issued by a bank.

Draft

A term commonly used to refer to a bill of exchange (refer page 67).

Drawee

The party to pay and or accept a bill of exchange.

Drawer

The party making a bill of exchange.

FOB

Incoterm, meaning Free on Board. The shipper is responsible until goods are on board. Other responsibilities are assumed as defined by Incoterms.

Freight forwarder

The person or company charged, by the shipper, with the responsibility of arranging shipment of the goods by the carrier.

Incoterms

A set of rules formulated by the ICC determining each party's responsibilities as regards the shipment.

Payee

The party shown on the bill of exchange to whom payment is to be made.

Principal

The party who is entrusting the handling of a documentary collection to a bank.

Shipper

The party that presents the goods to be shipped.

SWIFT

Society for Worldwide Interbank Financial Telecommunication, an independent body that facilitates secure messaging between banks, 'SWIFT messages'.

Tenor

The term of a bill of exchange, e.g. sight, 30 days after shipment date. The tenor will be used to calculate when payment is due.

Trans-shipment

The situation where a shipment is offloaded from one vessel to be re-shipped on another vessel prior to arrival at the final port of unloading.

UCP

Uniform Customs and Practice for Documentary Credits, a publication issued by the ICC that provides widely accepted guidelines for the operation of documentary credits.

URC

Uniform Rules for Collections, a publication issued by the ICC that provides widely accepted guidelines for the operation of documentary collections.

URR

Uniform Rules for Bank to Bank Reimbursements Under Documentary Credits, a publication issued by the ICC that provides standard guidelines for the operation of reimbursements under documentary credits.

Usance


See 'Tenor'.

Appendices

Sample Exchange Rate Schedule

global markets		PITT & MARTIN PL. NSW			
global markets today					
Printed 30 Sep 04 8:31 AEDT					
Carded Foreign Exchange Rates 30 Sep 04					
UPDATED 30 Sep 04 7:34		T/T CBA Buys	CBA Buys O/D Air Cheques	CBA Buys Notes (Cash)	CBA Sells At
Rates Expressed as AUD1*					
US DOLLAR	USD	0.7198	0.7226	0.7400	0.7108
GREAT BRITISH POUND	GBP	0.4020	0.4036	0.4238	0.3918
CANADIAN DOLLAR	CAD	0.9192	0.9228	0.9700	0.8937
CHINESE RENMINBI	CNY	ON APPL	ON APPL		ON APPL
DANISH KRONER	DKK	4.3713	4.3886	4.7400	4.2536
EURO	EUR	0.5879	0.5938	0.6200	0.5708
FIJIAN DOLLAR	FJD	ON APPL	ON APPL	1.3559	1.2291
HONG KONG DOLLAR	HKD	5.6560	5.6784	6.1300	5.4747
INDIAN RUPEES	INR	33.4700	ON APPL		31.8680
INDONESIAN RUPIAH	IDR	ON APPL	ON APPL		ON APPL
JAPANESE YEN	JPY	80.3200	80.6400	87.0900	77.9200
KUWAITI DINAR	KWD	0.2168	ON APPL		0.2049
MALAYSIAN RINGGIT	MYR	ON APPL	ON APPL	ON APPL	ON APPL
MALTESE LIRA	MTL	0.2526	0.2536	0.2800	0.2434
NEW C/TAHITI FRANC	XPF	70.8100	71.0900	77.0000	66.8600
NEW ZEALAND DOLLAR	NZD	1.0794	1.0831	1.1600	1.0496
NORWEGIAN KRONER	NOK	4.9116	4.9310	5.3300	4.7794
OMAN RIYAL	OMR	ON APPL	ON APPL		0.2654
P.N.G. KINA	PGK	ON APPL	ON APPL	2.3626	1.8860
PAKISTAN RUPEE	PKR	ON APPL	ON APPL		ON APPL
PHILIPPINES PESO	PHP	ON APPL	ON APPL		38.5110
SAUDI RIYAL	SAR	ON APPL	ON APPL		2.6323
SINGAPORE DOLLAR	SGD	1.2254	1.2302	1.3300	1.1881
SOLOMON ISLAND DOLLAR	SBD	5.4333	ON APPL		4.9761
SOUTH AFRICAN RAND	ZAR	4.7449	4.7706		4.4695
SRI LANKA RUPEE	LKR	75.7700	ON APPL	ON APPL	69.6900
SWEDISH KRONOR	SEK	5.3199	5.3409	5.7700	5.1766
SWISS FRANC	CHF	0.9118	0.9154	0.9900	0.8873
THAI BAHT	THB	30.4700	30.5900	33.0000	27.8900
VANUATU VATU	VUV	ON APPL	ON APPL		78.6800

Sample completed application for issuance of an Import Documentary Credit

Commonwealth Bank <small>Commonwealth Bank of Australia ABN 48 123 123 124</small>		
Application for Irrevocable Documentary Credit		
Bank Use Only		
ACB Party	Doc Track no.	IDLC
I/We request you to establish an Irrevocable Documentary Credit with the following terms and conditions by SWIFT		
Applicant's Name AUSTRALIAN IMPORTING COMPANY		
Applicant's Address 123 MAIN ST, BRISBANE QLD		
Beneficiary's Name TAIWAN EXPORTING INC		
Beneficiary's Address LEVEL 6, TAIPEI BUILDING, 100 EAST ROAD, TAIPEI TAIWAN		
Beneficiary's Bank (complete only if specifically required) OVERSEAS EXPORTERS BANK TAIPEI TAIWAN		
Expiry date	30/01/05	In country of beneficiary
Currency	USD	Amount 152066.50
		Tolerance +/- 5.000 %
Available by payment, deferred payment, acceptance or negotiation		
Beneficiary's drafts drawn at _____ days <u>Sight</u>		
on your Bank or a correspondent selected by you.		
Partial shipments	<input checked="" type="checkbox"/> Allowed <input type="checkbox"/> Not allowed	Transshipments <input type="checkbox"/> Allowed <input checked="" type="checkbox"/> Not allowed
Shipment/Despatch from	TAIWAN	Transportation to BRISBANE
Latest shipment date (if applicable)	15/01/05	
Documents must be presented within	15	days from the date of issuance of transport documents
Evidencing shipment of	Terms of Trade	<input type="checkbox"/> FOB <input type="checkbox"/> CFR <input checked="" type="checkbox"/> CIF, or other <input type="checkbox"/>
100,000 (PLUS OR MINUS 5%) WIDGETS VARIOUS COLOURS AS PER ORDER NUMBER TEI 00125 BRISBANE		
Beneficiary's drafts to be accompanied by the following documents each at least in duplicate		
<input checked="" type="checkbox"/> Commercial invoice		
<input checked="" type="checkbox"/> Full set of clean 'On Board' Bills of Lading consigned to order and endorsed in blank marked		
<input checked="" type="checkbox"/> Freight Prepaid <input type="checkbox"/> Freight Collect Notify _____		
<input type="checkbox"/> Air Waybill <input type="checkbox"/> Sea Waybill _____		
<input type="checkbox"/> Freight Prepaid <input type="checkbox"/> Freight Collect Consigned to _____		
<input type="checkbox"/> Insurance arranged by applicant		
<input checked="" type="checkbox"/> Insurance policies or certificates endorsed in blank covering Institute Cargo Clauses (A) Institute War Clauses (cargo), and Institute Strikes Clauses (cargo) for not less than full commercial invoice value plus 10.000 % and including other conditions and risks as follows:		
N/A		
Other Documents PACKING LIST		
000-009 0903 (0318)		Page 1 of 2

Sample completed application for issuance of an Import Documentary Credit (continued)

Additional Conditions <div style="border: 1px solid black; height: 20px; width: 100%;"></div>															
Discount/Interest charges, if applicable, for the account of	<input type="checkbox"/> Applicant	<input type="checkbox"/> Beneficiary													
Acceptance/Delivered Payment commission for account of	<input type="checkbox"/> Applicant	<input type="checkbox"/> Beneficiary													
All other bank charges other than Issuing Banks charges for account of	<input type="checkbox"/> Applicant	<input checked="" type="checkbox"/> Beneficiary													
Confirmation of the Credit by the Advising bank	<input type="checkbox"/> Required	<input checked="" type="checkbox"/> Not Required													
Confirmation Charges (if applicable) for account of	<input type="checkbox"/> Applicant	<input type="checkbox"/> Beneficiary													
<p>In consideration of the Bank establishing this credit I/we jointly and severally agree as follows:</p> <p>1 I/We hereby undertake to provide sufficient funds to meet the amount of drafts or drawings or any other payments under the credit together with all costs, commissions, bank charges and interest for any period by which the date of payment by the Bank or your correspondent precedes the date of my/our payment to you.</p> <p>2 I/We authorise the Bank at any time after the issue of the credit whether before or after the Bank has made payments to debit my/our account with sums sufficient to meet all liabilities under the credit including costs, commissions, bank charges and interest as aforesaid.</p> <p>3 I/We agree that if such drafts or drawings or other payments are drawn in a foreign currency I/we will pay the equivalent in Australian currency at the bank's selling rate of exchange on the day of payment by me/us unless</p> <p style="margin-left: 20px;">a the foreign currency has already been provided on my/our behalf in an account with the Bank and is applied towards such drafts or drawings or other payments; or</p> <p style="margin-left: 20px;">b I/We have arranged foreign exchange cover with the Bank and I/we have notified the Bank of the foreign exchange cover.</p> <p>4 I/We acknowledge that any variation in the amount payable by me/us under this credit arising from currency fluctuations will be at my/our entire risk.</p> <p>5 I/We agree that should insurance be on the basis of 'Insurance Arranged by Applicant' I/we will insure the goods in a manner satisfactory to the Bank and I/we undertake to produce to the Bank evidence of insurance if required.</p> <p>6 I/We hereby authorise the Bank to retain as security the relative documents and goods by way of pledge and in the event of payment not being made by me/us as aforesaid I/we authorise the Bank to sell by public auction or private treaty, dispose of or otherwise deal with the relative goods as it may think fit and to collect any amounts due to or become due under the Insurance Policies and I/we undertake to pay on demand the amount of any deficiency on any sale or insurance together with all usual commission, and all costs, charges and expenses incurred by the Bank in connection therewith or otherwise.</p> <p>7 In the event that any of the relative goods (or part thereof) or any of the documents representing the goods (or part thereof) are either:</p> <p style="margin-left: 20px;">a delivered by the Bank to the Applicant (or any person authorised to receive such goods or documents on the Applicant's behalf), or</p> <p style="margin-left: 20px;">b received by the Applicant (or any person authorised to receive such goods or documents on the Applicant's behalf) direct from the beneficiary or any overseas bank pursuant to the terms of the credit,</p> <p style="margin-left: 20px;">before the Applicant has fully paid and discharged the obligations and liabilities to pay, I/We agree that</p> <p style="margin-left: 40px;">i I/we shall receive such goods/documents for the Bank and hold the same and any proceeds from the sale thereof for the Bank or at its discretion;</p> <p style="margin-left: 40px;">ii I/we shall fully insure such goods against such risks as the Bank may reasonably require and hold the proceeds of any claim on any such policy in trust for the Bank;</p> <p style="margin-left: 40px;">iii I/we shall keep this transaction separate from any other;</p> <p style="margin-left: 40px;">iv the Bank may at any time take possession of and receive such goods or proceeds wherever the same may be.</p> <p>I/We agree that notwithstanding any contrary specification by me/us the Bank may at its discretion direct a Documentary Letter of Credit to our correspondent bank for advice or negotiation or other action.</p> <p>9 This credit is to be subject to Uniform Customs and Practice for Documentary Credits and Uniform Rules for Bank-to-Bank Reimbursements under Documentary Credits as per International Chamber of Commerce publications in force at the date of issuance of the credit.</p>															
<p>Should any instructions be required for this Documentary Letter of Credit, including but not limited to acceptance of discrepancies and payment instructions, the Bank may contact the following person/s by telephone who is/are authorised to orally give and receive instructions on our behalf:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%; padding: 2px;">Name/s</td> <td style="width: 40%; padding: 2px;">Telephone No/s</td> </tr> <tr> <td style="padding: 2px;"><input type="text" value="JOE CITIZEN, IMPORT MANAGER"/></td> <td style="padding: 2px;"><input type="text" value="NNNN NNNN"/></td> </tr> <tr> <td style="padding: 2px;">For and on Behalf of</td> <td style="padding: 2px;">ABN</td> </tr> <tr> <td style="padding: 2px;"><input type="text" value="AUSTRALIAN IMPORTING COMPANY"/></td> <td style="padding: 2px;"><input type="text" value="NN NNN NNN NNN"/></td> </tr> <tr> <td style="padding: 2px;">Authorised signatures</td> <td style="padding: 2px;">Date</td> </tr> <tr> <td style="padding: 2px;"><input type="text"/></td> <td style="padding: 2px;"><input type="text" value="15/01/05"/></td> </tr> </table>				Name/s	Telephone No/s	<input type="text" value="JOE CITIZEN, IMPORT MANAGER"/>	<input type="text" value="NNNN NNNN"/>	For and on Behalf of	ABN	<input type="text" value="AUSTRALIAN IMPORTING COMPANY"/>	<input type="text" value="NN NNN NNN NNN"/>	Authorised signatures	Date	<input type="text"/>	<input type="text" value="15/01/05"/>
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Authorised signatures	Date														
<input type="text"/>	<input type="text" value="15/01/05"/>														
<p>Bank use only</p> <p>Approved within PCAA/CAA <input type="checkbox"/> Within Limits <input type="checkbox"/> FEC number is <input type="text"/></p> <p>Against full cash cover of <input type="text"/> Held in account number <input type="text"/></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; padding: 2px;">Signatures verified</td> <td style="width: 25%; padding: 2px;">Authorised signature</td> <td style="width: 25%; padding: 2px;">Name of Approving Officer</td> <td style="width: 25%; padding: 2px;">Centre number</td> </tr> <tr> <td style="padding: 2px;"><input type="checkbox"/></td> <td style="padding: 2px;"><input type="text"/></td> <td style="padding: 2px;"><input type="text"/></td> <td style="padding: 2px;"><input type="text"/></td> </tr> </table> <p style="font-size: small; margin-top: 5px;">000-099 0903 (0318) Page 2 of 2</p>				Signatures verified	Authorised signature	Name of Approving Officer	Centre number	<input type="checkbox"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>				
Signatures verified	Authorised signature	Name of Approving Officer	Centre number												
<input type="checkbox"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>												

Sample Documentary Credit transmitted by S.W.I.F.T.

ISSUE OF A DOCUMENTARY CREDIT	
TRANSMITTED TO	"OVERSEAS EXPORTERS BANK" * TAIPEI * TAIWAN
SEQUENCE OF TOTAL	*27 : 1 / 1
FORM OF DOC. CREDIT	*40 A : IRREVOCABLE
DOC. CREDIT NUMBER	*20 : IDLCXXXXXXXXXX
DATE OF ISSUE	31 C : DDMMYY
EXPIRY	*31 D : DATE 300105 PLACE TAIWAN
APPLICANT	*50 : AUSTRALIAN IMPORTING COMPANY 123 MAIN ST BRISBANE, QLD AUSTRALIA
BENEFICIARY	*59 : TAIWAN EXPORTING INC LEVEL 6, TAIPEI BUILDING 100 EAST ROAD, TAIPEI TAIWAN
AMOUNT	*32 B : CURRENCY USD AMOUNT 152,066.50
POS./NEG.TOL.(%)	39 A : 05 / 05
AVAILABLE WITH/BY	*41 D : ANY BANK BY NEGOTIATION
DRAFTS AT	42 C : SIGHT
DRAWEE	42 D : COMMONWEALTH BANK OF AUSTRALIA, SYDNEY NSW, AUSTRALIA
PARTIAL SHIPMENTS	43 P : ALLOWED
TRANSHIPMENTS	43 T : NOT ALLOWED
LOADING IN CHARGE	44 A : TAIWAN
FOR TRANSPORT TO.....	44 B : BRISBANE, AUSTRALIA
LATEST DATE OF SHIP	44 C : 150105
DESCRIPT. OF GOODS	45 A : 100,000 (PLUS OR MINUS 5%) WIDGETS. VARIOUS COLOURS AS PER ORDER NUMBER TEI 00125, CIF BRISBANE
DOCUMENTS REQUIRED	46 A : + COMMERCIAL INVOICE IN DUPLICATE + FULL SET OF CLEAN 'ON BOARD' BILLS OF LADING CONSIGNED TO ORDER AND ENDORSED IN BLANK INDICATING 'FREIGHT PREPAID' + INSURANCE POLICIES OR CERTIFICATES ENDORSED IN BLANK COVERING INSTITUTE CARGO CLAUSES (A) INSTITUTE WAR CLAUSES (CARGO), AND INSTITUTE STRIKES CLAUSES (CARGO) FOR NOT LESS THAN THE FULL COMMERCIAL INVOICE VALUE PLUS 10%. + PACKING LIST IN DUPLICATE.
ADDITIONAL COND.	47 A : DOCUMENTS MUST BE PRESENTED AT PLACE OF EXPIRATION WITHIN 15 DAYS OF ON BOARD DATE OF BILL OF LADING EACH DRAFT ACCOMPANYING DOCUMENTS MUST STATE 'DRAWN UNDER CREDIT NUMBER IDLCXXXXXXXXXX OF COMMONWEALTH BANK OF AUSTRALIA BRISBANE AUSTRALIA' THE AMOUNT OF EACH DRAFT MUST BE ENDORSED ON THE REVERSE OF THIS CREDIT BY THE NEGOTIATING BANK
DETAILS OF CHARGES	71 B : ALL BANK CHARGES OUTSIDE AUSTRALIA ARE FOR ACCOUNT OF BENEFICIARY
CONFIRMATION	*49 : WITHOUT
REIMBURSING BANK	53 D : COMMONWEALTH BANK OF AUSTRALIA SYDNEY NSW
INSTRUCTIONS	78 : DRAFTS AND DOCUMENTS ARE TO BE SENT IN ONE LOT BY COURIER TO COMMONWEALTH BANK OF AUSTRALIA TRADE SERVICES SYDNEY AUSTRALIA. WE HEREBY UNDERTAKE THAT PAYMENT WILL BE MADE IN ACCORDANCE WITH YOUR INSTRUCTIONS UPON PRESENTATION OF DRAFTS AND DOCUMENTS DRAWN IN CONFORMITY WITH THE TERMS AND CONDITIONS OF THE CREDIT.

Sample Documentary Credit issued by mail

 OVERSEAS IMPORTERS BANK MAIN STREET BRANCH SHANGHAI, CHINA			
IRREVOCABLE DOCUMENTARY CREDIT	No. XXXXXXXXX	Issued: DD/MM/YY	Expires DD/MM/YY at the counter of the negotiating bank.
Applicant: China Importing Corp No. 1 Shanghai Rd Shanghai, China.		Beneficiary: Australian Exporting Corp 123 Common Rd Perth, Australia.	
Advising Bank : Commonwealth Bank of Australia Perth, Australia.		Amount: USD238,645.00	
Partial Shipments: Allowed.	Transhipments: Not Allowed.	Documentary credit available with any bank against presentation of the documents detailed herein and of your drafts at sight drawn on Overseas Importers Bank, Shanghai, China.	
Shipment from: Australian port	Shipment to: Shanghai, China		
Documents required: 4 copies of signed commercial invoice with the first marked original. Full set of insurance policy/certificate endorsed in blank for invoice value of the goods plus 10 percent covering marine and war risks including Institute Cargo Clauses (A), Institute War Clauses (Cargo) and Institute Strikes Clauses (Cargo). Full set of clean 'on board' marine bills of lading to the order of overseas importers bank marked 'freight prepaid'.			
Covering: 10,000 packs of 30 coloured pencils as per Australian Exporting Corp sales confirmation No. SC/CIC 00985, CIF Shanghai			
Additional Conditions: Reimbursement claims by telecommunications are prohibited. All banking charges outside China are for payment by the beneficiary.			
Instructions: Documents must be forwarded to issuing bank in two sets, one by courier and the other by registered airmail. The number and issue date of the credit must be quoted on all drafts. This credit is issued subject to the Uniform Customs and Practice for Documentary Credits as per International Chamber of Commerce publication in force at time of issue. We hereby undertake that drafts and shipping documents drawn under and in compliance with the terms and conditions of this credit will be duly honoured on presentation at this office and payment made in accordance with your instructions. Each presentation must be endorsed on the reverse of this advice by the negotiating bank.			
(Signed) _____		(Signed) _____	
OVERSEAS IMPORTERS BANK		ORIGINAL (For Beneficiary)	

Commercial Invoice

AUSTRALIAN EXPORTING CORP

ACN XXX XXX XXX

PENCILS FOR WHOLESALE AND EXPORT

23 COMMON ROAD
123456
PERTH, WA AUSTRALIA

TELEPHONE: 61 9
FACSIMILE: 61 9 123457

ORIGINAL

COMMERCIAL INVOICE
NUMBER: 12345
DATED: DD/MM/YY

SOLD TO: CHINA IMPORTING CORP
No. 1 SHANGHAI ROAD
SHANGHAI, CHINA

ARTICLE NUMBER	DESCRIPTION	QUANTITY	COST	TERMS
PB0099	COLOURED PENCILS (PACK OF 30)	10,000	USD23,864.50	CIF SHANGHAI

AS PER AUSTRALIAN EXPORTING CORP SALES CONFIRMATION NO SC/CIC 00985,
CIF SHANGHAI

PACKED IN 100 CARTONS, EACH 30KGS NET, 30.5KGS GROSS

SHIPPING MARKS: CIC SHANGHAI 1 - 100

SHIPPED PER: "CARRYING VESSEL" VOYAGE NUMBER N36

DATE OF DEPARTURE: DD/MM/YY

PAYMENT DUE UNDER DOCUMENTARY CREDIT NO. XXXXXXXX ISSUED BY
OVERSEAS IMPORTERS BANK SHANGHAI, DD/MM/YY.

(SIGNED)

AUSTRALIAN EXPORTING CORP

Insurance Policy



Associated
MARINE INSURERS
Agents Pty. Ltd. IACB 00 94 001

Agents for and used by
Commercial Union Assurance Company of
Australia Limited (ACB 00 47 001) and Zurich
Australian Insurance Limited (ACB 00 48 001)

Certificate of Marine Insurance

Commercial Union Assurance Company of Australia Limited, Melbourne and Zurich Australian Insurance Limited, Sydney (the Insurers, each for its own equal proportion) through their agents Associated Marine Insurers Agents Pty. Ltd. hereby agree to insure against loss (damage liability or expense in the manner hereinafter provided)

ASSURED: AUSTRALIAN EXPORTING CORP

CERTIFICATE NO. AB1256XR9		Insured value in words ONE HUNDRED AND SIXTY FIVE THOUSAND	
		UNITED STATES DOLLARS	
		CURRENCY UNITED STATES	FIGS. USD 165,000.00
Local vessel or conveyance	From (local port of place of loading)	Sea/Air port of loading	Date of sailing
		FREMANTLE, W.A.	1 JAN, 1998
Ship	Aircraft	Sea/Air port of discharge	Final destination/Transit point
CARRYING VESSEL		SHANGHAI, CHINA	
Marks and numbers	Number and kind of packages	Description of goods	
CIC SHANGHAI 1 - 500	500 CARTONS EACH CONTAINING 100 PACKS	COLOURED PENCILS	
		SPECIMEN	
CONDITIONS OF INSURANCE			
Institute Cargo Clauses (A) Institute Cargo Clauses (All) Institute Radioactive Contamination Exclusion Clause Institute Replacement Clause (Applicable only to Machinery) Institute War Clauses (Cargo) Institute War Clauses (All Cargo) Institute Strikes Clauses (Cargo) Institute Strikes Clauses (All Cargo)			

(The Institute Clauses referred to are those current at the date of this Certificate)

Claims payable by **ASSOCIATED MARINE INSURERS AGENTS PTY LTD**
21 FREMANTLE, W.A.

In the event of loss or damage which may give rise to a claim under this insurance, immediate notice of such loss or damage should be given to and a survey report obtained from

before submitting documents in accordance with the procedure as stated over:

31 DECEMBER 1997

Date _____

(SIGNED)

On behalf of the Insurers _____

Insurance Policy (continued)

IMPORTANT

**PROCEDURE IN THE EVENT OF LOSS OR DAMAGE WHICH MAY
GIVE RISE TO A CLAIM**

LIABILITY OF CARRIERS, BAILEES OR OTHER THIRD PARTIES

It is the duty of the Assured and their Agents, in all cases, to take such measures as may be reasonable for the purpose of averting or minimising a loss and to ensure that all rights against Carriers, Bailees or other third parties are properly preserved and exercised. In particular, the Assured or their Agents are required:-

1. To claim immediately on the Carriers, Port Authorities or other Bailees for any missing packages.
2. In no circumstances, except under written protest, to give clean receipts where goods are in doubtful condition.
3. When delivery is made by Container, to ensure that the Container and its seals are examined immediately by their responsible official.
If the Container is delivered damaged or with seals broken or missing or with seals other than as stated in the shipping documents, to clause the delivery receipt accordingly and retain all defective or irregular seals for subsequent identification.
4. To apply immediately for survey by Carriers' or other Bailees' Representatives if any loss or damage be apparent and claim on the Carriers or other Bailees for any actual loss or damage found at such survey.
5. To give notice in writing to the Carriers or other Bailees within 3 days of delivery if the loss or damage was not apparent at the time of taking delivery.

NOTE - The Consignees or their Agents are recommended to make themselves familiar with the Regulations of the Port Authorities at the port of discharge.

DOCUMENTATION OF CLAIMS

To enable claims to be dealt with promptly, the Assured or their Agents are advised to submit all available supporting documents without delay, including when applicable:-

1. Original policy or certificate of insurance.
2. Original or copy shipping invoices, together with shipping specification and/or weight notes.
3. Original Bill of Lading and/or other contract of carriage.
4. Survey report or other documentary evidence to show the extent of the loss or damage.
5. Landing account and weight notes at final destination.
6. Correspondence exchanged with the Carriers and other Parties regarding their liability for the loss or damage.

For and on Behalf

(Signed)

AUSTRALIAN EXPORTING CORP

Bill of Lading

BL 1 (1996)

Shipper
AUSTRALIAN EXPORTING CORP
 123 COMMON ROAD
 PERTH, W.A, AUSTRALIA.

ANL
 ANL Limited
 A.C.N. 88 04 34

BL No. **12345X**

Consignee
OVERSEAS IMPORTERS BANK
 SHANGHAI, CHINA

BILL OF LADING

RECEIVED from the Shipper in apparent good order and condition unless otherwise indicated herein, the Goods, or the contents or packages, to be carried subject to all the terms and conditions provided for on the face and back of this Bill of Lading, by the vessel named herein or by any additional or substitute vessel or means of transport chosen at the Carrier's option, from the place of receipt or the port of loading to the port of discharge or the place of delivery shown herein and there to be delivered. If required by the Carrier, this Bill of Lading duly endorsed must be surrendered in exchange for the Goods or delivery order. None of the terms of this Bill of Lading shall be waived by or for the Carrier, except by express agreement by a duly authorized agent of the Carrier.

By ACCEPTING THIS BILL OF LADING, the Merchant agrees to be bound by all the stipulations, exceptions, terms and conditions on the face and back hereof, whether written, printed, stamped or pressed, so fully as if signed by the Merchant, any local custom or privilege to the contrary notwithstanding, and agrees that all agreements or freight arrangements for or in connection with the carriage of the Goods are incorporated by this Bill of Lading.

IN WITNESS WHEREOF, the undersigned, on behalf of the Carrier, has signed the number of Bills of Lading stated below, all of this tenor and date, one of which being accomplished, the others to stand void.

Notify party

Pre-Carriage by

Place of receipt

Place of delivery

Part of discharge

Final Destination to be achieved unless otherwise indicated

Carrying Vessel, No. **FREMANTLE, W.A**

Part of discharge **SHANGHAI, CHINA**

Final Destination to be achieved unless otherwise indicated

Mark & Numbers	Number of Containers or other Packages, Pallets or Units	Description of Goods	Container Numbers	Gross Weight	Measurement
CIC SHANGHAI 1 - 500					

SHIPPERS LOAD AND COUNT
 1 X 20' CONTAINER SAID TO CONTAIN:
 "500 CARTONS EACH CONTAINING
 100 PACKS COLOURED PENCILS"
 CONTAINER NUMBER F280X234
 GROSS WEIGHT: 15,250 KGS
 NET WEIGHT: 15,000 KGS
 MEASUREMENT: 30.823 CM

ONLY SAMPLE

FREIGHT PREPAID

Total No. of Containers or Packages (in words) **ONE TWENTY FOOT CONTAINER**

Freight and Charges	Revenue Rate	Rate	Per	Prepaid	Collect

Ex. Rate

Prepaid at **FREMANTLE, W.A**

Place and date of issue **FREMANTLE, W.A**

Rate applied to this Bill of Lading **AUD\$500.00**

No. of original Bills **THREE**

FOR THE CARRIER

SHIPPED on board the Vessel

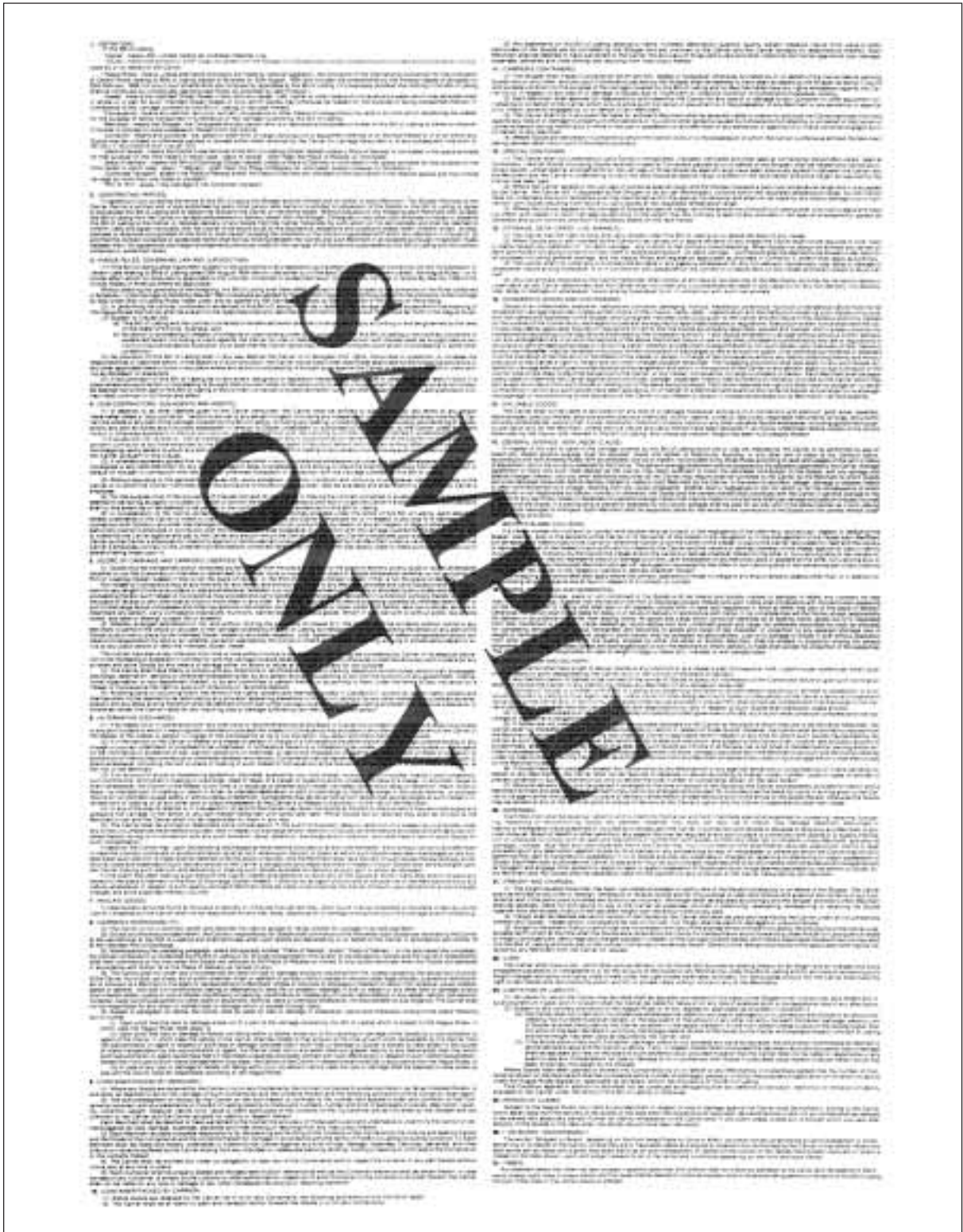
Date **1 JANUARY 1998**

(SIGNED)

(SIGNED)

SEE CONDITIONS ON REVERSE SIDE

Bill of Lading (continued)



Forward Exchange Contract

FORWARD EXCHANGE CONTRACT

Contract No: 12345657

I/We ABC Company Limited of 1 Smith Street, Sydney NSW 2000

Hereby agree to SELL U.S. DOLLARS 55,000.00 (i.e. Bank PURCHASES)

(Covering Currency)

against AUSTRALIAN DOLLARS to the Bank subject to prevailing government regulations with a contract expiry date of 19/01/2005 at a

Forward Exchange Rate of AUD 1 = 0.726000 USD

I/We agree that the rate of exchange shall be the Bank's forward exchange rate specified above or if deliveries are made by me/us on other than a Telegraphic Transfer basis (eg. by negotiation of on demand or term bills) the rate of exchange applicable to such deliveries shall be subject to such adjustment as the Bank determines.

At my/our option settlement under this contract may be effected at any time between 19/10/2004 and the contract expiry date referred to above (The Option Period).

I/We further agree that if at my/our request the Bank effects settlement prior to commencement of the Option Period specified above the rate of exchange applicable to any such settlement shall be a rate of exchange calculated by the Bank on the day such settlement is effected and not necessarily the rate referred to above.

I/We agree that any settlement hereunder shall be identified with this contract at the time of such settlement by production by me/us of a copy of this contract or other means of identification acceptable to the Bank.

I/We undertake that in the event of inability on my/our part to settle in full in terms of this contract I/we shall, if practicable, give the Bank notice in writing (eg. by letter, telex or facsimile) prior to the time for settlement and I/we agree that if any balance so remaining is to be cancelled or the time for settlement extended such cancellation or extension of time shall be made on such terms and conditions as the Bank may impose.

I/We agree that in the event of my/our failure to duly complete this contract or the Bank terminating this contract the Bank may forthwith sell/purchase the covering currency(s) as appropriate and I/we shall be liable for any loss costs and expenses incurred thereby.

I/We agree that my/our failure to observe or perform any obligation under the terms of any other forward exchange contact with the Bank or any other party shall constitute default under this contract and the Bank may thereupon terminate this contract.

For and On Behalf Of –
Commonwealth Bank of Australia
ACN 123 123 124

For and On Behalf Of -
ABC Company Limited
ACN 123 456 789


.....
Date: 19/10/2004

.....

Lodgement Authority for Export Shipping Documents

Commonwealth Bank
Commonwealth Bank of Australia
ABN 48 123 123 124

**Lodgement Authority
Overseas Documentary Bills**



Bank use only

Doc track number

Instrument number

The Manager Branch Number Branch Name
Commonwealth Bank of Australia

Dear Sir, Attached for Collection Negotiation are draft and/or documents for Currency Amount drawn at (sight or other term) on of

Bank and Branch (full address)

which are to be presented to drawee by or

under Documentary Credit Number

Bank and Branch

issued by

Proceeds are to be credited to my/our account Number Bank with Branch and, where applicable, are to be applied against

Forward Exchange Contract Number

The following documents are attached

Com		N/N		Sea/		Insurance		Certificates Regarding					Orig		Copy
Draft	Invoice	Bill of Lading	Lading	Waybill	Orig	N/N	Cert/Pol	Packing List	Telex/Fax	Origin	Weight	Analysis	Benef	Health	Health
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Other Documents

Where drafts and/or documents are presented under a Documentary Credit, no further instructions are to be given. Please sign on the reverse of the form. For documents and drafts not under a Documentary Credit please complete the instructions below:

Please tick appropriate box

Instruct your correspondent to release documents only upon payment (sight bills only) acceptance (term bills only)

Duplicates are to be forwarded with originals by airmail by separate courier

Commonwealth Bank charges are for my/our drawee's account

Other bank charges are for my/our drawee's account

Charges may may not be waived (refer ICC publication Uniform Rules for Collections)

If payment not received by DD/MM/YY, please contact the presenting bank me/us for further instructions.

000-203 0601 Page 1 of 2

Lodgement Authority for Export Shipping Documents (continued)

Other Instructions

- Protest if unaccepted or unpaid.
- Presentation may be deferred until arrival of goods.
- Re-present on arrival of goods if not honoured on first presentation.
- If documents not taken up on arrival of goods, warehouse goods if possible, and insure.
- Collect interest at a rate of % pa calculated on a 360 365 day basis from or due date to date of payment by drawee.
DD/MM/YY
- Interest may may not be waived (Refer ICC Publication Uniform Rules for Collections).

In case of need contact of
 who

- will endeavour to have draft honoured as drawn
or
 has full powers, may give instructions and take delivery of documents/goods against undertaking to account for proceeds.

I/We understand that

- the choice of presenting bank rests with the Commonwealth Bank of Australia (Bank) unless instructions are given in the panel overleaf.
- if the Bank agrees to a request to negotiate the drafts, the Bank retains recourse to the drawer, not only for the due payment of the drafts at the payment date as stated on the drafts, but also for any loss which may be incurred owing to a moratorium or currency restriction imposed, or to be imposed, in the country of payment;
- to the full extent permitted by law the Bank is not liable for loss, damage or delay, however caused, which is not directly due to the negligence or default of its own officers or servants. In the event that the law imposes on the Bank a non-excludable liability which can lawfully be limited to the resupply of the service any such liability which the Bank may incur is hereby so limited.
- any charges that are applied or deducted from proceeds by the collecting, presenting or reimbursing banks will be for my/our account.
- the Bank's standard practice for these transactions is to forward original documents by courier and to make all further communications by Telex/Cable/SWIFT. Our agent banks are also requested to communicate by Telex/Cable/SWIFT. All charges due to the Bank from these processes are for my/our account if not paid by the drawee.

Subject to Uniform Rules for Collections or Uniform Customs and Practice for Documentary Credits, as the case may be, as per International Chamber of Commerce publication currently in force.

Yours faithfully

For and on behalf of

ABN

Bank use only

Signatures verified

Approved

within PCAA/CAA within limits (if applicable)

Authorised signature

Date

Centre number

000-203 0601

Page 2 of 2

