

Trade Finance and Payment Terms

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A copy of the slides of this presentation will be available on the web
to all participants in this teleconference/webinar

Introduction



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Introduction



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Agenda

- Terms and Conditions of Sale – Best Practices
- Payment Terms
 - Domestic
 - International
- International Trade Finance
- Resources in Trade Finance

Terms and Conditions of Sale Best Practices

- Know who is buying
- Proposal Accuracy
- Price x Value
- Order Accuracy
- How will it be paid?
- Cradle to Grave

Know Who Is Buying

- To Whom Are You Quoting?
 - Who Decides?
 - Technical
 - Financial
 - Who Orders?
 - Who Pays?
 - To Whom Do You Ship?
 - Who Accepts/Approves?
 - Who Owns?
 - Who Services?
-

Proposal Accuracy

- Description of what is being quoted, will be sold
- Your terminology may not be the same as the one of your customer
- How is it priced?
- Where will it be delivered? INCOTERMS
- How do you expect to get paid?
- Warranties
- Taxes

INCOTERMS 2000

- **EXW** - Ex-Works, named place where shipment is available to the buyer, not loaded.
The seller will not contract for any transportation.
 - **FOB** - Free On Board vessel, named ocean port of shipment.
This term is used for ocean shipments only where it is important that the goods pass the ship's rail.
 - **FAS** - Free Alongside Ship, named ocean port of shipment.
Ocean shipments that are NOT containerized.
 - **CIF** - Cost, Insurance and Freight, named ocean port of destination.
This term is used for ocean shipments that are not containerized.
 - **DDU** - Delivered Duty Unpaid, named place of destination, not unloaded, not cleared.
This term is used for any mode of transportation.
-

Incoterms 2000

	EXW	FCA	FAS	FOB	CFR	CIF	CPT	CIP	DAF	DES	DEQ	DDU	DDP
SERVICES	Ex Works	Free Carrier	Free Alongside Ship	Free Onboard Vessel	Cost & Freight	Cost Insurance & Freight	Carriage Paid To	Carriage Insurance Paid To	Delivered At Frontier	Delivered Ex Ship	Delivered Ex Quay Duty Unpaid	Delivered Duty Unpaid	Delivered Duty Paid
Warehouse Storage	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Warehouse Labor	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Export Packing	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Loading Charges	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Inland Freight	Buyer	Buyer/ Seller*	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Terminal Charges	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Forwarder's Fees	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Loading On Vessel	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Ocean/Air Freight	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Charges On Arrival At Destination	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Buyer	Buyer	Seller	Seller	Seller
Duty, Taxes & Customs Clearance	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller
Delivery To Destination	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller

Price x Value

- Price: Cost + Margin?
- Value: What is your customer willing to pay?
- Negotiating discounts

Order Accuracy

- Who is who?
 - Description of what is being bought
 - Watch terminology (may not be the same as yours)
 - What is the price they are going to pay? What is included/excluded?
 - Where are you delivering it to? What are your obligations? INCOTERMS
 - What are the terms? Are they compatible with the INCOTERMS?
 - Warranties
 - Taxes
 - Watch for the back of the order form and the fine print
 - Jurisdiction of contract
-

How Will It Be Paid?

- Payment Terms
 - What are they? Partial Payment
 - Triggering events
 - Who is policing payment?
 - Pre-Conditions For Payment
 - Domestic x Export
 - Collection
 - Insuring Receivables
 - Bankruptcy and Defaults
-

Cradle to Grave

- Terms and conditions are part of the quality-relationship with the customer

Terms & Conditions of Sale - Summary

- Scope of Supply
- Prices, Taxes and Quotations
- Delivery Terms
 - Risk of Loss (INCOTERMS)
 - Liability for Late Delivery
- Installation Terms
- Cost Increases
- Payment Terms (Regular, Progress & Late Payments)
- Non-Conforming Delivery, Warranties and Product Liabilities
- Patents
- Confidential Information. Non-Disclosure
- Force Majeure
- Export Regulations
- Import Regulations
- Assignment and Subcontracting
- Indemnity/Remedy
- Order Cancellation
- Working Drawings
- Place of Contract (State/Country of Contract)
- Applicable Law
- No Modification Clause
- Arbitration Clause

Not all-inclusive. Make Sure to Consult Your Legal Advisor

Payment Terms

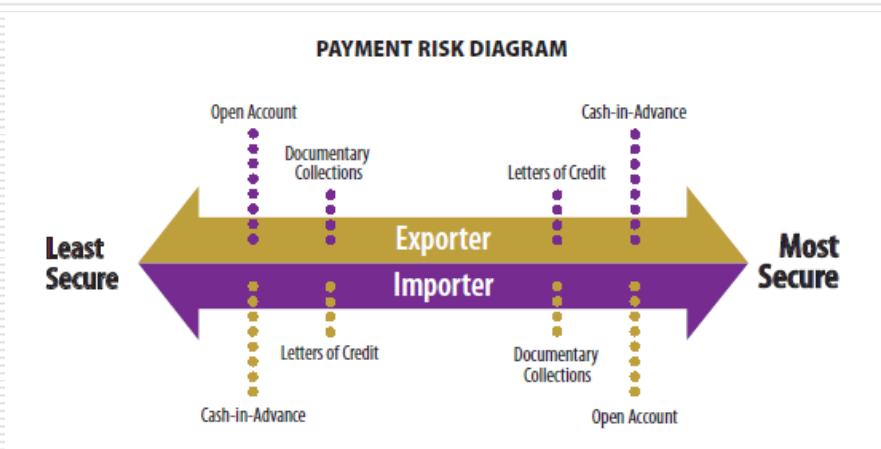
Domestic

- Best Practices
- Checking Credit
- Ensuring Payment

International

- Best Practices
 - Checking Credit
 - Ensuring Payment
-

Methods of Payment in International Trade



International Trade Finance

Payment Methods in International Trade

- ❑ Cash in Advance (High Risk Transactions)
 - ❑ Pros: Eliminates Risk
 - ❑ Lose Customers

- ❑ Letters of Credit (New Customers)
 - ❑ Pros: Limited Risk. Mitigating Options.
 - ❑ Cons: Complex, Expensive

- ❑ Documentary Collections (Established Trade Relations and Stable Markets)
 - ❑ Pros: Payment Through Banking System
 - ❑ Cons: No guarantee of payment. Bank does not verify accuracy of documents

- ❑ C.O.D. (?) – Difficult to enforce

- ❑ Open Account (Low Risk Relationships and Markets)
 - ❑ Pros: Boosts competitiveness
 - ❑ Cons: Significant exposure. Additional cost for risk mitigation.



UPS CapitalSM

- ❑ Export Credit Insurance
- ❑ Government-Assisted Foreign Buyer Financing (Medium Term)
- ❑ Government-Assisted Foreign Buyer Financing (Short Term)
- ❑ Export Working Capital

Sam Paul
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UPS Capital Business Credit

Export Credit Insurance

What is it?

- ❑ Insurance policies offered by private commercial risk insurance companies as well as Export Credit Agencies (ex. Ex-Im Bank, Hermes, Coface).

Features include:

- ❑ 90-95% coverage against buyer payment default for commercial and political risk.
- ❑ Commercial risk coverage includes non-payment due to buyer insolvency, bankruptcy or protracted defaults (i.e. slow payments).
- ❑ Political risk coverage includes non-payment due to war, terrorism, riots and revolution.

Benefits include:

- ❑ Allows exporters to offer competitive open account terms to buyers while minimizing risk of non-payment.
- ❑ Lenders are more willing to lend against receivables backed by export credit insurance. For example, the eligibility period for export-related receivables securing the Ex-Im Bank working capital line of credit is extended by 30 days if backed by export credit insurance.
- ❑ Ex-Im Bank also provides a 25% discount on its short-term multi-buyer export credit insurance to U.S. exports who have an Ex-Im Bank working capital line of credit.

Government-Assisted Foreign Buyer Financing (Medium Term)

Features include:

- Direct U.S. dollar loans to foreign entities to finance the purchase of capital equipment.
- Up to 85% of the contract value or eligible U.S. content, whichever is lower contract value.
- Loan amounts range from \$150M to \$10 million and repayment terms typically range from three (3) to seven (7) years, depending on contract amount and type of equipment.

Benefits include:

- Serves as a sales tool to help win deals.
 - Helps level the playing field with your foreign competitors.
 - Allows U.S. exporters to get out of the financing business and enables it to eliminate repayment risk.
-

Government-Assisted Foreign Buyer Financing (Short Term)

□ Features include:

- U.S. dollar loans to foreign companies to finance the purchase of raw materials, spare parts or inventory items made in the U.S.
- 100% of contract value can be financed for eligible products.
- Repayment terms for each advance generally range from 90 - 180 days but can go as long as 360 days.

□ Benefits include:

- Provides working capital financing to foreign buyers at attractive rates that can help them purchase more inventory and win more business.
- Eliminates repayment risk for the U.S. exporter and frees up working capital to support sales growth.
- Helps achieve repetitive sales to both new and existing clients that can lead to growth in revenue volume over time.

Export Working Capital

Features include:

- ❑ Lines of credit to a U.S. exporter to support pre-export and post-shipment financing for small/medium companies. This includes the purchase of raw materials, supplies and labor to fulfill export sales orders and the financing of receivables generated from export sales.
- ❑ The credit facility can be project specific or set up as a revolving line of credit and is secured by export-related A/R and Inventory.

Benefits include:

- ❑ Provides U.S. exporter with access to working capital via advances against export-related inventory and receivables at attractive advance rates.
 - ❑ Gives U.S. exporter the ability to offer extended payment terms to overseas customers with minimal impact on cash flow.
 - ❑ Provides U.S. exporter the ability to borrow against work-in-progress, which most lenders will not do under their domestic working capital facilities.
 - ❑ Allows U.S. exporter the ability to issue bid, performance, and advance payment standby letters of credit at a 25% collateral rate versus the banking industry standard of 100% cash collateral.
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Financing can help you win more business!

The Situation

A US equipment manufacturer in CA has a chance to win a \$1,062,000 order from a private business located in Argentina – but needs financing solution to compete with a German supplier.



About UPSC

- Top Five U.S. ExIm Bank lender annually
- More than 830 transactions over past 13 years.
- Transactions in 40 different countries around the globe



The Solution

UPS Capital was able to provide seven year financing and UPS Logistics was able to transport the equipment from the U.S. to Buenos Aires, Argentina immediately after it leaves the production line.

The Situation

An Argentine company needed new state of the art equipment.

They needed the machinery quickly and required financing. They were speaking to several manufacturers



Each ECA has a particular focus

- ECA will focus on areas in which its exporters are major players
- **Aircraft:** ECGD & US Exim are heavily focused on supporting the aviation industry through Airbus and Boeing respectively
- **PF:** Japan and Korea lean towards commodities (oil & gas, steel etc.) and do a lot of PF deals
- **Telecoms:** EKN & Finnvera focus on supporting their respective national telecom giant
- **Hermes** is highly diversified and covers all sectors

Estimation of proportion of ECA cover per sector

Category/ Industry	Aviation	Telecoms	PF	Other
Hermes	10%	-	-	
COFACE	20%	10%	20%	50%
EKN	-	75%	-	25%
Finnvera	-	70%	-	30%
ECGD	90%	-	-	10%
SACE	Unknown	Unknown	Unknown	unknown
US EXIM	50%	10%	5%	35%
JBIC/NEXI	2%	2%	30%	66%
KEIC/K-EXIM	-	-	20%	80%
Sinosure	unknown	unknown	unknown	unknown
Approx. Market Size	\$10bn	\$5bn	\$5-10bn	\$5-10bn

International Trade Finance

Payment Methods in International Trade

❑ Other methods: Factoring & Forfeiting

❑ **Factoring:** Outsourcing Export Activity, Credit and Collection Functions

- ❑ Pros: Eliminates risk, maximize cash flows
- ❑ Cons: Costly, not available in developing countries

❑ **Forfeiting:** Ideal for exports of capital goods with high price tag and medium-term credit

- ❑ Pros: Eliminates risk of non-payment of foreign buyer
- ❑ Cons: Costs are high. Limited to medium-term transactions, exceeding \$100,000

❑ **Foreign Exchange Risk Management** (Competitive markets, trading in local currencies)

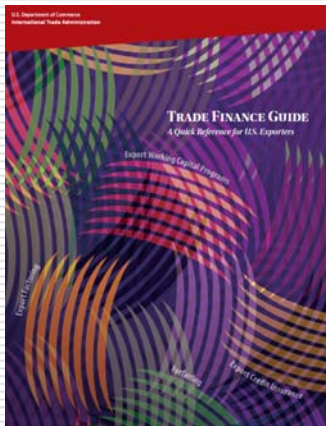
- ❑ Risk: Currency fluctuations
- ❑ Pros: Enhances competitive position, reduces no-payment risk of local currency fluctuation
- ❑ Cons: cost of Foreign Exchange techniques, burden of risk management

Leasing

- Operating Lease:
Normally at the end of an Operating Lease, the leased item is returned to the lease issuer. An Operating Lease is treated like a series of rental payments.


- Capital/Finance Lease:
The lease holder will own the leased item at the end of the term with no additional payments or by paying a predetermined price that is well below the expected fair market value of the property. A Capital Lease is recorded as an asset of the lease holder, with a corresponding liability for the full amount of the lease obligation.

Resources in Trade Finance



- EXIMBANK
www.exim.gov
- SBA
www.sba.gov
- OPIC
www.opic.gov
- EBRD
www.ebrd.com

▪ Trade Financing Session at the Global Forecasting & Marketing Conference – October 20-21, 2010 in Orlando, Florida



Trade Finance Toolbox
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Question and Answer Session

Please post your questions in the Chat Area of the Screen



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