Guide to International Trade
Supporting your global ambitions

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Foreword

The current economic environment has certainly presented UK businesses with some challenges, but it has also offered immense opportunity as well. The appeal of overseas markets has never been greater and, for British companies looking to buy or sell outside the UK, now is undoubtedly the time to explore that opportunity.

That’s why I’m delighted to share this Guide to International Trade with you. It contains a wealth of useful information about how to trade internationally, including insights into research we have conducted among UK businesses, and informative articles from prominent trade bodies such as UK Trade & Investment, the British Chambers of Commerce and the British Exporters Association.

Our recent research conducted among 500 UK companies has told us that many businesses believe now is a good time to increase overseas trading. However, they’re not fully realising these ambitions. In fact, 50% of the businesses questioned believed that UK organisations were not sufficiently aware of the opportunities out there.

This guide is designed to help you realise those overseas opportunities fully and set you on the path to international success. I hope that the information, tips and articles here will provide the support you need and help inspire you to seek out new markets beyond our UK borders.

Aidene Walsh,
Head of Global Transaction Services UK and Ireland
Section 1:
RBS: Supporting your business
Our commitment to your business

Many UK companies look to international markets as a way to drive growth, build new revenue streams, or even cut costs through finding alternative suppliers. At RBS we always aim to give our customers the extra help and support they need when contemplating entering new markets or expanding overseas.

Whether you’re a small business looking to take your first steps abroad, or are one of the world’s top multinational companies looking to expand your international operations, we can help.

We take the time to understand your business, and then work with you towards your goals and aspirations for the future – becoming a trusted adviser for the long-term and delivering real value for your business.

Global presence
RBS is one of the world’s leading financial service companies, providing a range of retail, corporate and institutional banking services. For UK customers with local cash management and trade finance processing needs, we offer the full range of solutions and accounts in multiple currencies. With an on-the-ground presence in 37 countries, our international solutions operate around the world, servicing some of the largest global organisations in the Americas, Europe, the Middle East and Asia Pacific. We also operate in an additional 22 countries via partner banks which, together with our network, bring the capability and expertise that your company will need.

Our trade advisers and experts at home and abroad look forward to serving you and your customers in your local language and time zone.
How we can help

We can play a significant role in helping UK businesses trade internationally. Highly tailored solutions are designed to facilitate smooth and efficient foreign trade, whilst minimising risk. We offer a full range of solutions to help your business make and receive payments and manage payment risk across borders, all outlined in the Payment Methods section of this guide (pg. 28).

Managing your cash flow

When it comes to cash flow and international trade, analysing your transaction timelines is essential. We can help you plan ahead and positively structure your finances. You can manage all of this using our online channels, such as Bankline, our internet-based banking service for business. Bankline gives you control of your business finances with real-time account updates and lets you make UK and international payments and track transfers on a single, secure platform – whenever, or wherever you are.

Additionally our commercial card solutions enable you to quickly and effectively streamline your finances with little upfront cost or infrastructure development.

Our supply chain finance solutions help both buyers and sellers to optimise their working capital strategies. We also offer a document preparation service which saves you time and reduces potential errors in your transaction documentation, helping you to finalise your sales more promptly.

RBS Global Scale

RBS on-the-ground and partner bank presence
Section 2:
Research insights
Trading overseas – what the statistics say

With many UK companies now looking towards expansion into foreign markets, RBS has been researching the main trends in international trade over the past year. The findings have made interesting reading for anyone thinking of trading abroad, and may help improve your trading strategies.

In research conducted amongst 518 key decision makers within UK companies, it was found that over two-thirds of UK businesses believed that now was a good time to increase overseas trade and that export activity would be key to the growth of the UK economy. In fact, the survey showed that over one third of businesses have now been prompted by the weak pound to consider exporting.

- Over two-thirds of businesses believe that now is a good time to increase overseas trading, and that export activity will be key to the growth and success of the UK economy.
- Over 50% believe that UK organisations are not sufficiently aware of the opportunities for exporting, or indeed are realising the potential value to be had from such activity.
- Just over one-third of businesses have been prompted by the weak pound to consider exporting.
Barriers to international trade
There will always be barriers to exploring new markets, however the research has shown that difficulty finding international customers and lack of knowledge are seen by almost half as the main barriers to trade. Furthermore between a half and two thirds have concerns about not getting paid, operating in markets they don’t understand, controlling risks and a general lack of knowledge about international trade.

- Whilst 57% of all businesses believe their product or service would sell abroad, over two-thirds believe that some businesses will be put off by the complexity and risk of exporting (particularly outside of Europe and North America). Over two-thirds believe that there is a need for specialist export knowledge, and over half that businesses are ill informed in respect of funding.

- 74% are confident about their organisation’s domestic trade activity. Confidence declines to 52% in relation to trade with Europe and North America, and to 32% for emerging markets in general and 30% for Asia.
- Not surprisingly, exporters have higher confidence in their organisation’s trade markets excluding the domestic market.
- Larger and global businesses are significantly more likely to be confident in exporting to Asia. Those in the engineering sector are significantly more likely to be confident regarding export activity in Europe and/or North America and Asia.
Exploring new markets
If you’re considering expansion overseas, and don’t feel fully confident about the prospect of success, don’t worry – you are not alone. 74% of companies are confident about their organisation’s domestic trade activity, but that confidence declines to 52% for trade with Europe and North America, and to 32% for emerging markets. While this lack of confidence is present among UK businesses, it need not be. Help and support is available to assist in making the leap overseas.

Although Western Europe is the best understood export market, Asia is perceived to present the most opportunity for UK businesses. Approximately two thirds of businesses agree that Asia represents a new market opportunity.

Surveys show that over one third of businesses have now been prompted by the weak pound to consider exporting.

RBS – here to support your business’ expansion ambitions
What these research results clearly confirm is that there is a great opportunity overseas, and while there is still some apprehension about exploring new markets, with the support of partners such as trade organisations or banks such as RBS, UK businesses should not let this opportunity slip through their fingers.
Western Europe is viewed as the most important area for current export activity, and Latin America and Africa the least.

Research findings part of RBS annual study. Research findings reflect survey results of research conducted among 518 UK companies in October 2010.
Section 3:
Overview to trade
International trade explained

International trade of any kind can be complex, especially without the right knowledge and guidance. This section of the guide aims to provide you with a thorough overview of the terminology and logistical challenges of trading in foreign markets. You will find information on the risks involved and how to manage them, required trade documentation, transportation and payment methods.

An international trade transaction: What is involved?
As an exporter or importer, once you’re convinced that you’ve matched a product to a suitable market, there is a general order of events that you can expect to follow for an international transaction.

All trade involves some element of risk, but international trade introduces some additional elements and complications. There are several ways to manage these risks, but you first need to be aware of what you may be facing. Risks may be related to:

• the country you are trading with
• foreign exchange
• choice of trading partners
• terms of trade
• payment
• fraud
• customs, national controls and licences.

Importer and exporter trading timeline

*Payment format will be agreed at the sales contract stage.*
The country you are trading with

Some countries are generally regarded as unstable or have poor credit ratings. It would clearly be unwise for a company to trade with such countries on terms that put goods and payments at risk. Risks may be minimised by the use of Documentary Letters of Credit (L/Cs), which should ideally be confirmed by an independent bank (see page 30).

Additional complications can arise if a country suddenly introduces currency controls, restricting the importer’s ability to pay the exporter; it is sometimes possible to insure against this risk, but this is often not cost-effective.

Foreign exchange

Exchange rates are volatile. If they move in an unfavourable manner, they can have a negative impact on your finances, the cost of imports and the value gained from exporting goods and services. For many businesses, the main issue is the uncertainty of exchange rate movements and the adverse knock-on effects this may have on profitability and cash flow. This is a large concern for companies doing business abroad.

In The Economist Intelligence Unit’s (EIU) report, titled ‘Risk Radar 2011 – How firms are navigating risk’, currency fluctuations are rated as respondents No. 1 risk for the year ahead.

Financial institutions, such as RBS and other banks, can help organisations of all types and sizes with their foreign exchange requirements. From day-to-day currency needs, such as helping to move money between different currencies at competitive rates, or guaranteeing known exchange rates for future transactions, to helping identify the longer-term foreign exchange risks faced. Specialists can work with organisations to help them quantify and manage these risks, leaving them to focus on what they do best – running their business. RBS was ranked number one for foreign exchange among UK corporates in the Euromoney FX poll, 2011.

Choosing a trading partner

Locating a prospective trading partner may be daunting. Some useful sources of information can be found through the following channels:

- Chambers of Commerce, which may be able to point to a relevant source
- trade consulates of foreign embassies, which are often useful avenues of information in finding buyers
- trade fairs, which offer opportunities to meet potential trading partners: informal contact is sometimes more valuable than formal enquiry
- the UK Government, through UK Trade & Investment, has enormous resources and experience.

Successful international trade requires partners who are trustworthy and solvent, as well as willing, so it is absolutely essential that the trader makes all necessary enquiries about a prospective partner. The precise nature of the enquiries depends on the expected value of trade and on the relationship envisaged, but the enquiries should cover the central issues:

- the partner’s integrity, trustworthiness, and reputation
- the length of time the trader has been in business
- whether your trading partner may be considered good for the amount of money involved and the terms of payment.

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- the length of time the trader has been in business
- whether your trading partner may be considered good for the amount of money involved and the terms of payment.
Terms of trade (Incoterms® 2010)
Trade terms set out the rights and obligations of the parties to a sales contract with respect to the delivery of goods. They define, amongst other things, whether the importer or the exporter will be responsible for arranging the transport and insurance necessary for the delivery of goods. The most commonly used terms, accepted by international practice since 1936, are published by the International Chamber of Commerce (ICC) as “Incoterms®”. The current edition is Incoterms® 2010. Incoterms® are not law and have no direct force of law, but by incorporating them in sales contracts exporters and importers give them legal effect. More can be found on Incoterms®, 2010 on page 19 of this guide.

Four main payment methods are used in export trade. They overcome these problems to varying degrees and in different ways, and each has implications for the movement of:
- goods and services
- documents connected with the goods or services
- the money due on the sale of goods or services.

The four main methods are:
- advance payment
- open account trading
- documentary collections (or collections)
- Documentary Credits or Letters of Credit.

For each of these four methods, advantages (in terms of mitigating risk) accrue either to the exporter or to the importer. Documentary Credits offer the best balance for both sides of the transaction – for more information on this see page 28.

Beware fraud
Losses as a result of fraud may potentially harm your business if you are duped into transactions based on fraudulent commercial Letters of Credit and Standby Credits (see Standby Credits on page 33).

Fraudsters are always plausible and often seem to come from impeccable backgrounds. You should therefore always be wary about offers of large amounts of business from unknown parties, especially when presented as urgent enquiries requiring instant agreement or lose a once-in-a-lifetime chance of an enormous return. The International Chamber of Commerce’s Commercial Crime Bureau is actively involved in combating this type of fraud and has issued many warnings and publications.

At a transactional level, traders should take advice from their banks and should ensure that the authenticity of L/Cs is verified. All unusual business offers should also be referred to the bank, which should have up-to-date information on such activities.
Customs, national controls and licences

Customs monitor the passage of goods across international borders for a number of reasons, including:

• controlling payment, repayment and remission of any duties or taxes, such as VAT
• checking on licensable, prohibited or restricted goods
• making sure that requirements for transit documentation are met, and
• compiling national and international trade statistics.

Customs also administer special duty schemes, e.g. several countries give preferential treatment to exports of certain goods that originate in the EU, so that an exporter’s customers can pay less import duty or none at all.

Some transactions are controlled in line with the exporting country’s national and strategic interests, and with commitments entered into with the UN and the international community. Controlled goods typically include military goods and equipment, nuclear materials, artefacts that are important to the national heritage, animals and animal products and goods that are subject to international sanctions and embargoes.

A large category of controlled goods in the UK and the EU is goods which have dual uses, i.e. goods that are meant for civil use but that could also be used in developing weapons of mass destruction and missiles to deliver such weapons. The use to which exported goods will (or can) be put, heavily influences the need to control them. For UK exports, all goods linked to weapons of mass destruction programmes are subject to the end-use control, which has a very broad scope. In some cases, exports are also controlled because specific destinations are involved.

Export controls may completely forbid the export of certain goods, or may permit them in defined circumstances, subject to licence. There are different kinds of licences available:

• some licences must be applied for and are subject to individual detailed consideration and to a specific decision that permits or forbids the intended export
• other licences are general permits that allow exporters, in circumstances that the licences prescribe, to make the intended export. For most licences of this kind, exporters must register in advance their intention to use the licence.

On the whole, exports to other EU Member States of highly sensitive dual-use goods are likely to require a specific individual licence. Exports to other Member States of most dual-use goods are likely to be covered by a general licence, for which the exporter must register in advance and keep prescribed records.

UK Government Support

Supported by the UK government, the following schemes can help to add value to your export requirements:

Letters of Credit Guarantee Scheme (provided by ECGD) – When a foreign buyer pays a UK exporter via a Letter Of Credit, the exporter may ask a local bank to ‘Confirm’ (effectively guarantee) the payment. In certain circumstances the bank may not be happy to accept the full risk. Under the Letter of Credit Guarantee Scheme, ECGD will consider guaranteeing up to 90% of the risk, enabling the bank to provide the Confirmation.
Supplier Credit Financing Facility (provided by ECGD) – Under this scheme, the Export Credits Guarantee Department provides a bank with a guarantee against credit or political risks when exporters are required to provide a buyer with an extended period of credit. This could make it easier to obtain credit and may have a positive effect on credit pricing.

Buyer Credit Facility (provided by ECGD) – The Buyer Credit facility is aimed at exporters of capital goods or services. ECGD provides a guarantee to cover a loan issued by a bank to an overseas buyer to finance their UK capital goods/services purchase. The minimum contract value should usually be £5m.

Bonds Support Scheme (provided by ECGD) – Export Credits Guarantee Department assists here by providing a guarantee up to 50% of the value of the bond and up to 80% for advance payment and progress payment bonds.

Export Working Capital Scheme (provided by ECGD) – This scheme is meant to facilitate exporters’ access to working capital finance for specific export contracts by sharing risks with the banks on loans above £1 million.

Enterprise Finance Guarantee Scheme (provided by the Department for Business, Innovation and Skills) – This provides over half of the £1.1 billion paid out nationally. The scheme is designed to provide a government-backed guarantee for up to 75% of a bank loan, but has up until recently excluded loans for export related activity. This has now changed, and will assist exporters by providing a partial guarantee on certain trade finance products.

Export Enterprise Finance Guarantee Scheme (provided by the Department for Business, Innovation and Skills) – The ExEFG is a new loan guarantee scheme, based on the above EFG, but aimed specifically at viable SMEs seeking short term export finance facilities. ExEFG is available to viable SMEs that lack the security to obtain normal commercial export facilities.

These are just some examples of support schemes offered by the government, and you can find out more about government support by contacting either the Export Credits Guarantee Department or the Department for Business, Innovation, and Skills. These schemes are subject to certain conditions.

The UK Government offers several support schemes to help add value to your export requirements.
A guide to transportation

Modes of transport
All the principal modes of transport figure in international trade.

Land transport includes road and rail. In the latter case, either the cargo may be carried by rail or the vehicle carrying the cargo may be carried.

Water-borne transport includes deep-sea voyages, short-sea transportation (in which goods are carried short distances along a coastline, usually for further transportation to another destination) and carriage by inland waterways. Short-sea and inland-waterway carriage are usually alternatives to land transport methods.

Air transport includes both long and short-haul journeys but is usually an alternative to deep-sea voyages.

Cargo may be carried by a mixture of modes, e.g. by road, then by deep-sea voyage, then by rail and finally by road again. This is known as intermodal transport. Although these definitions may seem obvious and trite, they play a part in the selection of the terms, specifically Incoterms® 2010, that should govern a transaction.

Freight forwarders
The exporter or importer may choose not to make the transport arrangements for a consignment directly but to employ a freight forwarder – a transportation expert who has the specialised resources to handle the carriage and the associated documentation. Freight forwarders can achieve economies of scale by consolidating individual consignments into whole containers which are then consigned to clearance depots for disaggregation. For the importer, the freight forwarder offers the vital service of providing a necessary physical presence at the point of arrival. Depending on the goods and their destination, postal or courier services may be the most effective means of arranging transport. They work in the same way as freight forwarding.

Transport and Incoterms® 2010
Trade terms set out the rights and obligations of the parties to a sales contract with respect to the delivery of goods. Issued by the International Chamber of Commerce (ICC), there are eleven internationally recognised Incoterms®. These terms are the most commonly used and should be used in any international sales contract as they make clear:

- whether the exporter or importer is responsible for organising and paying for the delivery
- where delivery actually takes place
- at which point the risks associated with the delivery pass from the exporter to the importer.

Incoterms® are recognised globally and used worldwide. They minimise confusion regarding each party’s obligations and costs which protect both the seller and the buyer.
What are the Incoterms®?
Each term is a three letter abbreviation, and refers to who is responsible for each part of an international transaction.

For example, if you are selling 100 boxes of apples to your buyer in Italy and your agreed contract with them stipulates the Incoterms® ‘FOB’, this means:

- you (as the seller) are responsible for arranging and paying for the transportation of the goods from the point of manufacture to the port
- you (as the seller) are responsible for the welfare of the goods to that point including buying any insurances as needed
- from the moment the goods are loaded on to the ship/plane, the above responsibilities for payment of transport and insurance become the buyer’s (the importers).
The 11 internationally recognised Incoterms®

The following table lists the 11 Incoterms® for any mode of transport and shows who is responsible for arranging transport, paying all associated costs and the risk/welfare of the goods.

<table>
<thead>
<tr>
<th>Incoterm</th>
<th>Exporter's responsibility</th>
<th>Importer's responsibility</th>
<th>To port-airport from seller</th>
<th>Main transportation</th>
<th>From port airport to buyer</th>
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<tr>
<td>EXW – EX WORKS</td>
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<tr>
<td>FCA – FREE CARRIER</td>
<td>Exporter</td>
<td>Importer</td>
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<tr>
<td>CPT – CARRIAGE PAID</td>
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<tr>
<td>CIP – CARRIAGE &amp; INSURANCE PAID</td>
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<tr>
<td>DAT – DELIVERED AT TERMINAL</td>
<td>Exporter</td>
<td>Importer</td>
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<tr>
<td>DAP – DELIVERED AT PLACE</td>
<td>Exporter</td>
<td>Importer</td>
<td></td>
<td></td>
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<tr>
<td>DDP – DELIVERED DUTY PAID</td>
<td>Exporter</td>
<td>Importer</td>
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<tr>
<td>FAS - FREE ALONGSIDE SHIP</td>
<td>The Exporter</td>
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<tr>
<td>FOB - FREE ON BOARD</td>
<td>The Exporter</td>
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<tr>
<td>CFR - COST &amp; FREIGHT</td>
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<tr>
<td>CIF - COST, INSURANCE &amp; FREIGHT</td>
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</tbody>
</table>

Notes:
a) The modes of transportation referred to in this guide are for illustrative purposes only. Shipping ports and airports could be substituted for other terminals used by trains or road-going vehicles.
b) This Incoterms® Guide is for illustrative purposes only. For full details please refer to "Incoterms® 2010" from the International Chamber of Commerce.
A guide to trade documentation

It’s vital that importers and exporters understand the importance of the documentation associated with an international trade transaction.

Whether it’s in its traditional paper form or in its modern, automated e-commerce equivalent. This section of our guide explains the purpose and significance of the main documents.

Correct completion and use of all the required trade documents is essential to successful exporting and importing. Some documents are specified as required by the commercial contract, and others may be required during transportation or to meet government requirements. All of these documents must be completed correctly and consistently in order to ensure that the goods are not delayed, because of incorrect or inadequate paperwork, and that payments are promptly and properly made. Institutions offering trade finance will often want to see documents that relate to legal as well as contract requirements.

Both exporters and importers are responsible for making sure that the commercial contract stipulates appropriate documents that each can reasonably be expected to provide. (For instance, if the contract stipulates that the exporter must present a document that the importer holds, trouble will certainly follow.)

The exporter will normally provide the commercial invoice and the packing list, and (if they make the transport arrangements) will also provide transportation documents. Some importing countries also require certain goods to be accompanied by special certificates, which the exporter will have to provide or obtain.

The importer will normally complete the documents required to license imports and clear them inwards through Customs.

Either side may be responsible for arranging insurance and providing the appropriate documents.

Financial documents
The two main financial instruments are bills of exchange and promissory notes. Both are negotiable, so that they can be used to raise finance.

Bill of exchange
A bill of exchange (also known as a draft or bill) is an unconditional written order drawn up and signed by the exporter (the drawer) requiring the person to whom it is addressed (the drawee) to pay a specified sum at a specified time to – or “to the order of” – a named payee. It is effectively a demand for payment in a form that is recognised and understood by banks, traders and courts throughout the world (although, in some countries, there may be fiscal restraints on the issue of bills). As such, it carries certain legal rights. Special forms are available, but the bill can simply be computer-printed on plain paper or a company letterhead.
The drawee will be specified in any Documentary Letters of Credit involved in the transaction. The Documentary Letters of Credit may also specify that the bill be marked “Drawn under Documentary Credit number…” of (the issuing bank). These details must be adhered to in order not to prejudice payment.

A sight bill is payable on demand. A term bill is payable on a given date ("at a fixed time") or at a given interval (e.g. 60 days) after it is presented ("a determinable future time").

The exporter can have payment made to their own order, i.e. the payee is "ourselves". In this case, the exporter must sign the document on the back, endorsing it either “in blank” or in favour of another party, e.g. the bank.

Additional documents you may need to be familiar with:

Commercial invoice
The invoice is the starting point for the production of all the documentation an exporter must produce, and other documents will use information shown on the invoice. For importers, the invoice comes at the end of the chain and reflects the goods you will have received. The invoice must be produced by the exporter and must carry authoritative information. Depending on the goods and destination, certain information must be included on the invoice, e.g. the customer’s VAT details (if the destination is in the EU), or special declarations required by authorities during transit or in the destination country. The invoice must sometimes be certified or legalised by a third party.

The invoice also has several functions over and above requesting payment:
- it is required to accompany the shipment, even when the goods are being sent free of charge (e.g. as with trial samples)
- it is a master document that helps to identify the shipment and its contents
- it is the exporter’s declaration of the value of the goods.

A pro-forma invoice is sometimes needed in advance of shipment. It acts as a quotation, and enables the customer to apply for an import licence, draw up a Letter of Credit, or get foreign exchange to pay for the goods. It looks essentially the same as a commercial invoice. The pro-forma represents an offer that can be legally binding in most countries: acceptance by your customer makes you party to a valid contract. It is advisable to state it clearly that the offer has a defined expiry date and/or that prices are subject to change without notice. Prices quoted should also be according to agreed terms of shipment, ideally Incoterms® 2010. The terms of payment should also be specified.

Promissory note
A promissory note is written by the importer (the maker) in favour of the exporter (the payee or beneficiary) or the bearer. It is an unconditional promise to pay a specified sum at a specified time to – or “to the order of” – a named payee or the bearer. The drawer may specify a given date (“at a fixed time”) or one that can clearly be calculated (“a determinable future time”).
Some destination countries require completion of a consular invoice or certificate (a standard form prepared by the destination country) – usually in addition to your standard commercial invoice. You must normally present the consular invoice to the destination country’s UK embassy before shipping the goods, however, your local Chamber of Commerce can help advise. Consular invoices involve important factors of time and cost: the procedure will usually take at least five working days, and the embassy will charge for its services – either a flat fee or one proportional to the value of the invoice. The charges can make an impact on your margins, so you should check their cost before quoting your customer.

Ideally, you should use the customer’s own language on his invoice, but this is not always practical. English is used increasingly throughout the world, and invoices written in English alone will be accepted in many countries. However, the destination country’s culture must guide your decision, and for some destination countries the invoice must be produced in that country’s own language.

Cargo insurance is normally subject to standard clauses known as “Institute Cargo Clauses”, a standard set of provisions recognised throughout the UK insurance industry, and, in fact, throughout the world. (Some countries use them “as is”, while others follow them very closely.) The English Institute Cargo Clauses are subject to English Law and jurisdiction.

Packing list
A packing list can assist in the carriage and handling of goods, especially in larger shipments of mixed items. It will also allow Customs authorities to work faster when they need to call for physical examination of certain specific items. If part of the shipment gets lost or damaged, the packing list helps to identify quickly and accurately which goods are affected. Finally, a packing list may be a formal requirement of a Letter of Credit, in which case it should state the shipment covered.

A packing list usually shows the following information: markings; number and type (e.g. cartons, crates) of packages; contents; and gross weight and dimensions. For simple consignments, all the relevant information can usually be included on the commercial invoice.
Transport documents

Transport documents not only facilitate the movement of goods but are also, in certain cases, “documents of title”, i.e. whoever holds the document is entitled to possession of the goods. They are also usually stipulated in Documentary Letters of Credit. This means that the documents are important for not only transportation but also provide for the ability to control the goods after despatch and control over payment timelines.

Bills of Lading

In virtually all circumstances in which goods are carried by container or conventional ship, the carriers issue Bills of Lading. Bills of Lading act as receipts for goods, and are also evidence of the contract to carry the goods, detailing the terms and conditions under which it has been agreed to carry them. However, a Bill of Lading also acts as a document of title. This means that, in order to take possession of the goods, the consignee must have an original of the document. Bills of Lading therefore have an additional, quite different, function from other freight documents. It is thus essential to keep “original” Bills of Lading secure (there are usually two or more originals, plus non-negotiable copies).

Exporters can provide instructions to a freight forwarder using an Export Cargo Shipment Instruction (ECSI), which contains full details of the exporter, the consignee, the goods and packaging, and the nature of the exporter’s requirements. The freight forwarder will then arrange transport, delivery and all other transport documents.

The CMR form (Convention des Marchandises Routiers) is used for road freight between many European countries. It confirms receipt of the goods by the carrier, in good condition unless specified otherwise, and states conditions for the international carriage of goods by road. The carrier will normally complete it but the exporter is responsible for its accuracy. Although the CMR form does carry some insurance, this may not be sufficient and extra insurance may need to be arranged.

A CIM consignment note (Convention International des Marchandises par Chemin de Fer) which sets conditions for international transportation of goods by rail – can appear to look very complex. However, only the top half of the form is used for information about the goods and transportation: the bottom half is used during carriage as various railway companies enter charges and exchange rates. CIM conditions dictate that the carrier is responsible for loss and/or damage of the goods from the time he takes possession of them until they are delivered.

Air Waybills (AWBs) are consignment notes for air-freight. They act as a receipt for the goods “in apparent good order and condition” and are also evidence of a contract between the exporter and the carrier(s). The carrier completes the form. Unlike Bills of Lading, AWBs are not documents of title, so that the holder does not necessarily have ownership of the goods. The consignee can claim the goods on arrival merely by quoting the AWB number.

Sea Waybills are consignment notes for sea freight. They act as a receipt for the goods “in apparent good order and condition” and are also evidence of a contract between the exporter and the carrier(s). The carrier completes the form. Unlike Bills of Lading, Sea Waybills are not documents of title, so that the holder does not necessarily have ownership of the goods. They are increasingly used instead of Bills of Lading: they are simpler, which helps, e.g. when only short sea crossings are involved, or for regular shipments to established customers whose creditworthiness is not in doubt.
Courier Waybills are usually much shorter and simpler than Air or Sea Waybills. They do not conform to a particular standard and are issued by individual couriers to meet their own purposes.

Standard shipping notes are completed by the exporter or his representative to arrange shipments of non-hazardous goods. (A standard shipping note cannot be used for shipments of hazardous or dangerous goods). The notes act as instructions for the shipping line, and are delivered to the receiving authority at the port or freight terminal either with, or in advance of, the goods.

For the export of goods that carry a UN hazard code, a Dangerous Goods Note must always be used in place of a Standard Shipping Note. In the case of uncertainty about the hazard rating of your goods, advice could be sought from a reputable freight broker. Note that UN hazardous goods codes differ from Control of Substances Hazardous to Health (COSHH) ratings.

Certificates – origin, inspection and health
Certain destination countries require Certificates of Origin to prove the country of origin of the goods. Many countries give a preferential tariff for products imported from certain other countries. Conversely, countries that boycott goods from certain other countries will seek an undertaking that goods do not break their import restrictions.

The forms are obtained from a Chamber of Commerce and completed by the exporter. The certificates need to be authenticated by a Chamber of Commerce or by the destination country’s UK embassy or other representative, or by both. Getting Certificates of Origin authenticated may take seven working days or more. It may also be a substantial cost to the exporter, and the cost should be anticipated and reflected in quotations.

EU Certificates of Origin are internationally recognised under the terms of the International Convention relating to Simplification of Customs Authorities 1923, under which signatories have agreed to recognise the Certificates of Origin issued by official authorities or other designated organisations. Some countries also require EC certificates to be legalised by their UK embassy or other appointee in the UK.

Arab-British Chamber of Commerce
Certificates of Origin are the only certificates accepted by certain Arab countries. Certification is by the Arab-British Chamber of Commerce, and, in some cases, the certificate must also be legalised by the destination country’s UK embassy.

EUR1 Movement Certificates are used to claim preferential duty rates (either a lower rate or nil) for goods exported to a European Free Trade Area (EFTA) country, the Baltic States or Eastern Europe (Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia).

A Certificate of Conformity or inspection certificate states that goods comply with standards laid down by the destination country’s authorities in terms of (for example) physical condition, quantity, and technical specification. The goods must be inspected, before shipment, usually at the exporter’s premises, by an appointed inspection body. The exporter must pay for this service, and so should ensure that the cost is allowed for in quotations. For some destination countries, a Certificate of Conformity is a legal requirement. In other cases, a Certificate
of Conformity is a condition for payment specified in the terms of the Letter of Credit. In countries where a Certificate of Conformity is required, if a shipment does not have one, it is likely to be impounded.

Health certificates, issued by the Department of Food and Rural Affairs (DefRA), are required for all shipments of agricultural or fresh meat products. Phytosanitary and plant certificates, also issued by DefRA, are required for exports of planting materials, trees and shrubs, and for certain raw fruits and vegetables.
A crucial part of any transaction is ensuring you get paid. Different payment methods, and the risks involved whether you are an importer or exporter, are explained in this section.

**The Risk Ladder**

International trade can seem a complex activity with a long order-to-cash transaction cycle. The key to successful international trade is understanding and managing the risks you face.

For importers and exporters, the amount of risk involved in a transaction fluctuates depending on what payment method you use.

**Importers’ Risk**

As an importer, you want to ensure you receive the goods you’ve ordered. The most common option for importers is open account trading, as it poses the least risk, ensuring you receive the goods before paying for them.

**Exporters’ Risk**

For those exporting, cash in advance is always the least risky option, where you receive payment before shipping the goods. In this case, the importer is essentially funding your working capital and leaves no payment risk to you.

**Advance payment**

In an ideal world, exporters would get paid for their goods at the moment when the importer takes possession of them. Conversely, an importer should not expect to have to part with money before he has the goods to show for it. At the start of a business relationship (and even later, if there is some element of risk involved) an exporter may request advance payment. The importer may well agree to it in order to encourage the exporter to build an established relationship. In advance payment, all the advantages accrue to the exporter, and all the disadvantages accrue to the importer, who has parted with...
his money and has no assurance of receiving the goods. More usually, some element of credit will be involved.

**Open account trading**
The exporter despatches goods to the importer and at the same time sends an invoice for those goods, for payment at an agreed date or after an agreed period. Open account trading is a common payment method used for trade between established pairs of exporters and importers, both of whom operate in stable markets such as Western Europe or the USA.

The advantages all accrue to the importer. The disadvantages all accrue to the exporter. If the customer does not pay, or if he does pay but his country blocks remittance of funds to the exporter, the exporter has neither the goods nor the money, and the exporter may not be able to get his goods back.

**Collections**
Collections do not give the exporter the security of advance payment, or the relative peace of mind that comes from open account transactions with long-term customers in established relationships. They require both exporter and importer to exercise great care in agreeing the detail of the sales contract. The transaction is initiated by the exporter, who despatches the goods to the importer’s country. At the same time, he entrusts the related documents (which may include negotiable Bills of Lading) to his bank, for collection of sale proceeds and the delivery of documents to the importer according to the terms of the sales contract.

There are three types of collection:
- clean collection
- documentary collection: documents against acceptance (D/A)
- documentary collection: documents against payment (D/P).

For a **clean collection**, the exporter despatches the goods and the related documents directly to the importer and then sends his bank the bill of exchange for the value of the goods drawn according to the sales contract, so that his bank can begin to collect the due amount from the importer. All the advantages lie with the importer and against the exporter. If the importer does not pay, or if he does pay but his country blocks remittance of funds to the exporter, the exporter has neither the goods nor the money, and he may not get his goods back.

For a **documentary collection D/A**, the exporter does not authorise release of the transport documents (needed to obtain delivery of the goods) until the importer accepts the bill of exchange for payment at a definite future date. Once the importer accepts the bill of exchange, the importer’s bank releases the transport documents needed to obtain delivery of the goods and any other remaining documents. The importer can then take possession of the goods for which he has agreed to pay in terms of the accepted bill at a definite date in the future. Again, all the advantages lie with the importer and against the exporter. If the importer does not pay on the due date, or if he does pay but his country blocks remittance of funds to the exporter, the exporter has neither the goods nor the money, and he may not get his goods back.

Depending on the nature of transport and the terms of the collection, even this level of control may not be readily available (e.g. where Air Waybills are used).

The essential word in **documentary collection D/P** collections is “payment”. There are two types of D/P collection – D/P with payment at sight and D/P with payment at an agreed
period after sight. The two differ according to when payment is made, but in both types the documents that give title to the goods are released to the importer only upon payment. Unlike collections on D/A terms, collections on D/P terms can leave the exporter in effective control of the goods until payment, where the nature of transport and collection order permit.

Documentary Letters of Credit

Documentary Letters of Credit, or as they are more commonly referred to as Letters of Credit (L/C), can help minimise risk. With other payment methods (advance payments, open account trading and collections) the exporter and the importer each depend on the other for proper performance in order to ensure a trouble-free exchange of goods for payment. In Documentary Letters of Credit, however, the exporter and the importer both have the additional independent assurance of the bank that issues the L/C (the Issuing Bank).

In issuing a L/C in favour of an exporter (or “beneficiary” – the exporter is the beneficiary of any L/C discussed here) an Issuing Bank undertakes to pay the exporter, provided that:

- the documents stipulated in the L/C are in order, and
- the terms and conditions of the L/C are complied with

An importer (as the applicant for the L/C issued by his bank) has the assurance that his bank will ensure that all the documents he specifies (including any transport and insurance documents stipulated in the L/C) are received in order and that all the terms and conditions of the L/C are complied with before any payment is made to the exporter.

The advantages are shared by the exporter and importer: both have independent assurance that goods and money will be exchanged according to the terms of the sales contract, as long as the terms of the Letter of Credit reflect the sales contract. However, the exporter is still at some risk of non-payment. If the exporter is unable to meet terms and conditions of the L/C, there is no guarantee of payment, even if the goods have already been shipped. If the Issuing Bank finds discrepancies not previously found by either the exporter or the Paying Bank, there is also no guarantee of payment. Only in the case of a confirmed L/C does the exporter have the additional assurance of payment by a second bank (the Confirming Bank).

Additional methods

Credit Insurance

Credit Insurance mainly covers the following risks to an exporter:

- non-acceptance of the goods by the importer
- insolvency of the importer
- unacceptable delays by the importer in effecting payment (e.g. delays of over six months from due date for payment of goods accepted by the importer)
- blocking of the transfer of payments made by importer
- inability to convert local currency payments into the required foreign currency
- wars and civil disturbances outside the UK that prevent completion of the sale.

Insurers offer a variety of services, combining trade finance facilities and Credit Insurance. Information is provided on existing and potential buyers and on political and economic conditions, together with short and long-term forecasts. Terms and conditions vary from policy to policy, but an exporter’s individual requirements will be accommodated wherever possible. The terms of most policies would require the exporter to comply with specific provisions, varying from the observance of agreed buyer limits and margins to the need for
insisting on protest action in the event of the importer’s non-acceptance or non-payment.

Credit Insurance benefits the exporter by allowing him to price competitively while still pursuing business in areas where there may be a high risk of non-payment. The cost of Credit Insurance should be weighed against the risk of complete loss on the whole transaction. There are other incidental benefits for the exporter, some of which are as follows:

- importers are keen to avoid being known as defaulters in international markets, since default will be noted by the exporter’s insurers and possibly be made known to other insurers too
- so far as bankers and suppliers are concerned, the exporter’s Credit rating may be improved.
A guide to bonds and guarantees

In today’s competitive global trading environment, overseas importers are increasingly insistent that UK exporters underpin their contractual obligations by means of Bonds and Guarantees. A Bond or Guarantee – which can be treated as synonymous for the purposes of this guide – give the importer the security of a financial guarantee in the event of the exporter’s failure to meet the obligations of a contract. It is issued by the guarantor – usually a bank – on behalf of the exporter.

If you, the exporter, fail to deliver the goods or services as described in the contract with the importer, the latter can “call” the Bond and receive financial compensation from the bank. Under a counter indemnity, the bank has recourse to you for the full amount including costs and interest.

Types of Bonds and Guarantees
- Bid or Tender Bonds
- Performance Bonds
- Advance Payment and Progress Payment Guarantees
- Retention Bonds
- Warranty Bonds
- Overdraft Guarantees
- Standby Letters of Credit.

Bonds and Guarantees fall into two classes:

On Demand
This is often the only class of Bond acceptable to an overseas buyer. It can be called at the buyer’s sole discretion without contest, even if called “unfairly”. Banks cannot enter into contractual disputes between trading partners.

Conditional
A Bond of this class gives greater protection to exporters, as it requires substantiation, e.g. a certificate of award from an independent arbitrator. However, it is unacceptable to many overseas buyers.

Within this two-fold classification are several different forms of Bond or Guarantee. Here are the types you are most likely to encounter:

Bid or Tender Bonds
These are given in support of customers’ tenders for the supply of goods and services, and are required by the beneficiaries as indications that; the bidders are serious in their intent, will not withdraw their tenders before adjudication, will sign contracts if awarded to them and will provide any subsequent bonding. Bid Bonds usually cover 2% to 5% of the value of the tender (so that if the Bond is called, the importer is paid 2% to 5% of the contract value). Bid Bonds frequently remain valid for three months after the bid closure date.

Performance Bonds
These guarantee that if the exporter or contractor fails to carry out the terms of the contract, the importer will be paid a sum in compensation – typically around 10% of the contract price. The Bonds are purely financial guarantees and carry no warranty.
that the bank will complete the contract if its customer fails to do so. Note that when a tender proves successful, a Performance Bond is usually required.

**Advance Payment and Progress Payment Guarantees**

These give protection to the buyer who has made an advance or progress payment to the exporter before the contract has been completed. They guarantee that any such amounts are refunded to the buyer if the exporter fails to complete a contract. It is advisable for the Guarantee to contain an operative clause making it effective only upon receipt by the exporter of an advance payment, and a reduction clause so that the Guarantee value is written down as the contract progresses.

**Retention Bonds**

These enable retention monies, which would otherwise be held by the buyer beyond completion of the contract, to be released early. The guarantee ensures refund to the buyer of released retention monies in the event of subsequent non-performance of equipment supplied. Inclusion of an operative clause is advisable.

**Warranty Bonds**

These provide a financial guarantee to cover the satisfactory performance of equipment supplied during a specified maintenance or warranty period.

**Overdraft Guarantees**

These guarantee the borrowing requirements of UK exporters or contractors who need finance in the importer’s country. The Guarantee covers the local bank against the exporter defaulting. Without such security, the local bank would be unwilling to lend monies where the UK exporter is unknown to them.

**Standby Credits**

An exporter and his customer may arrange that goods will be paid for in an agreed manner after they have been despatched. But if payment in the agreed manner is not forthcoming, the exporter will need another way of getting paid. A Standby Credit can provide this security backup. The importer’s bank issues the Standby Credit, under which the exporter can claim for the amount unpaid simply by (for example) submitting a certificate stating the value of shipments made in respect of which no payment has been received from the importer. Since the Standby Credit becomes active only if the importer fails to perform his obligations, the paperwork required to draw on a Standby Credit is minimal. In the event that the importer does not pay, therefore, Standby Credits provide the exporter with security similar to a bank guarantee. In some marketplaces (e.g. the USA), they are preferred to bank guarantees.

Similarly, Standby Credits can be used to support performance obligations in a trade relationship. For example, they can fulfil the same purpose as a performance guarantee.
A guide to foreign exchange

International trade can present businesses with new opportunities, but buying and selling goods in another country introduces additional risks. This section highlights some of those risks and introduces some of the steps your business could take to offset them.

**Foreign currencies – the risks and how to mitigate them**

With growth in non-Japan Asia growing by 9.5% in 2010, the three largest economies in Latin America by 7% and Brazil by 7.5%, (compared to the UK and Eurozone’s 1.7% and US 2.8%) it’s no surprise that an ever-growing number of UK businesses are looking beyond our shores.

Such currency fluctuations can, of course, cause your costs to increase or your revenues to fall. The chart below demonstrates the extent to which the Pound has fluctuated against the US Dollar over the longer-term. For example, in July 2008 one GBP would buy over 2.00 USD. Within 6 months, by January 2009, one GBP was only worth little more than 1.35 USD – a huge change for any UK business with dollar exposure.

But it’s important for businesses to recognise the foreign exchange risks involved in dealing in any foreign currency, even the so-called ‘majors’. For example, recent global events have shown us that the Pound can fluctuate dramatically against more familiar currencies such as the Euro and US Dollar – and will likely continue to do so.

**Managing foreign currency fluctuations**

The good news is that your business doesn’t have to be exposed to currency risks like these, unless you take a conscious decision that you want to. You can work with your bank to help provide greater certainty for cash flow planning and budgeting, or a degree of protection against a critical level of exchange rates, beyond which profitability becomes threatened.

We understand that no two businesses, or their attitudes towards foreign exchange risk, are the same – which means that flexibility and creativity are crucial in building an appropriate range of potential risk management solutions.
Example 2
In this example we look at how a business might mitigate foreign currency exchange risk. We’ll look at a UK based travel operator specialising in coach tours and holidays in the UK, with a European customer base (primarily Germany, France, Italy and Holland). Their income is in Euros and their costs in Pounds, putting them at risk if the Pound strengthens against the Euro (each Euro of income would cover fewer pence of cost).

With tight profit margins, the business cannot risk the exchange rate moving too far against them, so needs to guarantee a known ‘worst case’ rate at which they can exchange EUR for GBP. However, having experienced a weaker Pound against the Euro in recent years, they know the boost to their business that an even lower Pound to Euro exchange rate would provide.

The relative rigidity of a forward exchange contract wasn’t right for their business. Understanding their client’s industry and taking into account their attitude to risk, critical budget rates and other factors, the best solution was to use a combination of foreign exchange options and forwards – the most common building blocks of any foreign exchange strategy.

This approach to foreign exchange risk management gives them their ideal blend of protection and the potential to steal a march on their competitors, should exchange rates move in their favour.

Example 1
Here we examine how currency risks affect a business. Take the example of a UK-based fashion wholesaler, arranging to sell the summer 2009 lines mid 2008.

They take orders at GBP list prices from their UK customers in July 2008 and enter into an agreement to buy the merchandise from various suppliers in China for a pre-agreed USD amount (say $500,000 in total) for payment on delivery in early 2009.

At the point of entering into the agreement with their Chinese suppliers in July 2008 at a GBPUSD exchange rate of 2.00, they would have expected to have to pay £250,000 for the finished goods. However, at the point of having to pay the invoice in January 2009, to buy $500,000 will cost them approximately £370,000.

It may not be possible for the wholesaler to pass all (or indeed any) of this increase on to their customers, meaning this almost 50% hike in their costs has a direct impact on their bottom line.

It’s no surprise that, with such a big potential impact on businesses’ bottom line, foreign exchange risk was highlighted by exporters as the number one risk concern in the The Economist Intelligence Unit’s (EIU) report titled ‘Risk Radar 2011 – How firms are navigating risk’.

Businesses should prepare themselves for a changing landscape in foreign exchange markets; one where businesses are dealing in more countries and in more currencies than they have in the past. Combined with the increasing economic and political uncertainty that can drive currency fluctuations, it’s likely to become ever more important that businesses work with a trusted and experienced partner to develop an integrated, relevant and flexible risk management strategy.
Section 4:
What the experts say
A series of informative articles focusing on global opportunities for UK business.

From leading government bodies to the team at RBS, the following articles offer a broad spectrum of trade guidance from a wide variety of expert sources.

The following articles can help to give your business the edge and ensure you are as prepared as you can be for the various demands of global trade.

Article contributors include:

• **International trade team at RBS** – founded in 1727, RBS is one of the leading global financial services groups, supporting and promoting global trade in over 37 countries.

• **UK Trade & Investment (UKTI)** – the government department that helps UK based companies succeed in the global economy and assists overseas companies to bring their high-quality investment to the UK. UKTI also has partnership agreements with the Federation of International Trade Associations, under which they contribute market research and other global trade reports.

• **The British Chambers of Commerce (BCC)** – this organisation is a powerful and influential network of Accredited Chambers of Commerce across the UK. Helping businesses for over 150 years, the BCC sits at the very heart of its local business community providing representation, services, information and guidance to its members.

• **The British Exporters Association (BExA)** – the international trade association that has been representing all sectors of the export community since 1940.
Overcoming the barriers to foreign trade: top tips from RBS

As the British economy continues to emerge from recession, the appeal of overseas markets remains an attractive opportunity for UK businesses.

Organisations, now more than ever, are hoping to capitalise on the immense opportunity that expansion offers, especially given the appeal of emerging markets. Recent research* shows that over two thirds of businesses believe now is a good time to increase overseas trading. However, an equivalent number also believe that businesses will be put off exporting by the perceived complexity and risk.

It is true that as UK companies look to find new international markets for their products and services, they are confronted with the very real challenges that go hand-in-hand with overseas expansion. These challenges include managing cash flow, but also being aware of the risks. There is, however, much that can be done to manage those threats, and businesses should not fear the unknown as long as they are prepared and equipped with the proper tools and information.

Financial institutions and banks can be extremely helpful in providing trade solutions. The key is to manage your cash flow, lessen the risk by guaranteeing payments, and be smart and efficient with the management of your funds. Following such guidance will allow you to be more successful when trading overseas.

*Research conducted by RBS in October 2010 among 518 UK companies

Whether you are an importer or an exporter, to find success, careful planning is of course essential. Here are our top tips for doing business abroad:

1. Know your overseas markets
   Just as you would domestically, take the time to understand your potential overseas markets. Is the product or service you offer relevant to a particular market, and what do you need to do to make it accessible to potential customers? A very simple example: most Chinese households own a rice cooker and most UK kitchens contain a potato masher, but not the other way round.

   Once you decide your product is relevant, then it’s time to find out if it would need to be adapted for export and what regulations have to be complied with for each specific market. Identifying likely prospects as well as competitors will probably mean visiting each market. It is also crucial to understand all the risks involved, both political and financial. Individual country risk profiles are as diverse as their economies and, when developing a new business, it is important to be mindful of gaps in corporate governance, risks related to the lack of the rule of law, and incomplete institutions governing goods and capital markets.

   Above all, remember you need to be confident of the demand for your goods. Understanding the potential for growth and being knowledgeable about the competition will help.
2. Develop your business plan
Expanding into new markets is a major undertaking, it is important to move at the right pace.

Don’t stretch yourself too thinly: concentrate your time, efforts and money into the one market you’re confident you can succeed in.

If you are an exporter, you can also often sell your goods to overseas markets in a number of different ways.

Particularly when starting out, it may be easier to look for a partner who already understands the market, rather than going it alone. For example:

- you can sell to a distributor who then sells your products locally
- you can use a sales agent who sells products on your behalf, or puts you in contact with potential customers on a commission basis
- you can enter into a joint venture with a local business
- if you want complete control over sales, you can set up your own local office.

3. Research all likely costs
Understand all the costs that you are likely to incur including shipping costs, banking costs and fluctuations in exchange rates (if applicable). Consider how customers will want to pay you, and what payment terms will be expected, and how that will affect your working capital and cash flow.

If you are an importer, it may be wise to also look into the following:

- Transportation costs
- Port/warehouse costs
- Import duties
- Inspection charges
- Agent’s fees.

4. Arrange for any financing requirements
Use this information to talk to your bank about how best to fund your business needs.

For exporters, receiving payment on open account (i.e. a simple payment against an invoice) at the end of the sale is the most usual way of doing business, especially in home markets. But it leaves the seller carrying credit risk on the transaction, as well as covering what may well be a protracted payment cycle while goods are shipped and received.

This is where trade finance can help. For example, an export Letter of Credit (L/C) will ensure your buyer’s bank guarantees that payment will be made, underpinning the transaction. It is also possible for your own bank to assume the payment risk by confirming the Letter of Credit with your customer’s bank. If financing is also required to fund manufacture or cover the shipping period, this may then be negotiated with your bank, based on the Letter of Credit.

Where documentary trade instruments such as L/Cs are used, efficient administration (preparation, collation and tracking) will help to reduce costs and minimise delays on both sides of the transaction. Your trade bank should be able to assist with document preparation and online management information systems.

A range of other trade finance instruments, including Documentary Collections, bonds and guarantees is available to support companies appropriately across the risk spectrum.

If open account trading is preferred, your bank will be able to advise on the best
payment methods and account structures. In this case, export invoice discounting is another option to ensure funding is available when you need it to support your supply chain.

**For companies looking to import,** if your supplier wants payment or a percentage of payment before shipment of the goods, ask them to accept an Import Letter of Credit which can help to reduce your payment risk.

**5. Think long term and build effective relationships**

Developing a market won’t happen overnight, so it makes sense to invest time and care in building effective relationships. This approach will be appreciated and pay dividends in markets that place greater emphasis on relationships, such as those in Asia and certain emerging markets.

Once a relationship develops and a greater degree of trust exists between buying and selling parties, then the cost of doing business can also be reduced (for example, moving from L/Cs to Documentary Collections, which are a simpler and less expensive option).

Be sensitive to language and cultural differences in your target markets. What is considered good manners in the UK isn’t necessarily true overseas. You’ll also need to be ready to translate your packaging, instructions and manuals, and the costs of this also need to be factored in.

Make sure you understand the commercial imperatives your trading partners work under. Regularly liaise with your customers, agents or partners. Importers should look to build a strong, healthy relationship with suppliers’ key staff and management. Visiting your suppliers is often an essential part of assessing their suitability and building your relationship with them. If you are importing, you should also ensure that your supplier is able to supply your goods consistently, on a regular basis and to the required quality.

**6. Finalise any paperwork**

Be prepared for different documentary requirements. Different countries often require different types of documentations over and above the standard ones usually demanded.

Secure any export certificates and other documentation required as soon as possible.

Also, check the copyright on your products. Patents and trademarks are only recognised and protected in their country of origin, so you will need to secure additional protection in each you intend to export to.

Finally, ensure any goods imported comply with all government regulations of the destination country. Failure to do so can delay the customs clearing process and incur significant taxes.
UK Trade & Investment (UKTI) – why businesses should look to export

It's time to export

Exporting will play a major role in helping UK businesses survive and thrive as the country continues its economic recovery.

There's never been a better time to trade internationally. Despite intense global competition, UK products, services and expertise continue to be in demand across the world. Opportunities are more plentiful than ever before – both in traditional markets such as Europe and the US, and the high growth economies of countries such as China, Brazil, India and Russia.

Exports contribute significantly to the UK's economy, accounting for nearly 30% of GDP. In addition, UK companies that export are responsible for 60% of national productivity growth and more than 70% of UK business research and development. This helps to give the country a technical competitive advantage, which leads to more sales and opens new markets.

As well as opening access to new sources of revenue, conducting business overseas is also a catalyst for innovation, with companies developing new and modified products as they strive to meet the needs of international customers. This, in turn, helps businesses to gain and retain a competitive advantage at home.

Academic research confirms that exporting companies are more productive than non-exporters, are more resilient to an economic downturn, achieve stronger financial performance and are more likely to stay in business. Companies also report that exporting improves their profile and credibility. All of this supports the wider UK economy.

With the clock now ticking to the opening of the 2012 Olympic and Paralympics Games in London, the eyes of the world are firmly on the UK. This provides a perfect platform for UK companies to showcase their expertise and do business in overseas markets.

Springboard to success

UKTI aims to help companies take advantage of these opportunities and provide a springboard for their international success.

UKTI is the Government department that helps UK-based companies succeed in global markets and assists overseas companies in bringing their high-quality investment to the UK’s dynamic economy.

Combining the resources of the Department for Business, Innovation and Skills (BIS) and the Foreign and Commonwealth Office (FCO), UKTI has a global network of 2,400 staff in 96 markets based in British embassies and other diplomatic offices around the world.
UKTI has helped thousands of businesses achieve international success by providing tailored services with specialist support covering a wide range of industries. Its clients consistently cite the importance of UKTI support in helping them to overcome barriers to new overseas business and improve their business performance.

Whether you are venturing into selling overseas for the first time or are an experienced exporter trying to break into new markets, UKTI’s unique services are invaluable. They range from support for participation at selected trade fairs and outward missions, to advice on communicating overseas and bespoke market intelligence. With this type of support UKTI aim to make trading internationally as easy as doing business in the UK.

UKTI’s services can also assist companies with tailored training, planning and support to help them prepare to succeed overseas. Getting started in international trade can be tough – there’s a lot to learn and often a lot at stake. That’s why it helps to have top-quality, cost-effective advice and support.

UKTI can provide:
- access to an experienced International trade adviser who can provide support as you grow your business internationally
- entry into its highly regarded support schemes for exporters, Passport to Export and Gateway for Global Growth
- an export health check to assess your company’s trade development needs and help develop a strategy and plan of action
- specialist help with tackling cultural, language and communications issues when dealing with overseas customers and partners
- advice on how to obtain market research and other valuable support from UKTI’s global offices and the possibility of a grant towards approved self-conducted market research projects
- ongoing support to help your business continue to develop overseas trade and investigate dealing with more sophisticated markets.

Once the initial homework has been done, UKTI assists new and experienced exporters with information, help and advice on entering overseas markets. To be a successful exporter you need to travel to your target markets and build lasting commercial relationships with your clients and partners. This is not always easy, but UKTI can help you with practical assistance before you go, and ongoing help while you’re there.

Services include:
- information, contacts, advice, mentoring and support from UKTI staff at home and overseas
- support to participate in trade fairs and exhibitions overseas
- opportunities to participate in sector-based trade missions and seminars
- access to major buyers, governments and supply chains in overseas markets
- advice on forming international joint ventures and partnerships
- exploratory visits to new markets, and alerts to the latest and best business opportunities
- Key Foreign Office reports on emerging markets via the FCO Country Updates service
- information relating to security-related risks which UK companies face when doing business overseas.

World-beating network
In England, UKTI services are accessed and delivered through local UKTI International Trade Teams located in each of the nine English regions. In Scotland, Wales and Northern Ireland, they are delivered in co-operation with the respective national development agencies (Scottish Development

UKTI, which as well as offering its own services also helps to fund a number of export programmes run by partner organisations, has world-beating knowledge and expertise across key markets and industry sectors. It has in-depth strategies in place for priority areas such as ICT, energy, life sciences, advanced engineering, financial services, healthcare and the creative industries.

Whatever your size and level of experience and wherever in the world you want to sell, talking to UKTI is one of the best moves your company can make. It will help you research overseas markets, gain the necessary trade skills, identify opportunities and turn them into real business – business that will help you stay ahead of the competition in the months and years to come.

Why export?
• Achieve levels of growth not possible domestically
• Increase the resilience of revenues and profits
• Achieve economies of scale not possible domestically
• Increase the commercial lifespan of products and services
• Increase the returns on investment in R&D
• Improve financial performance
• Improve productivity.

Making a difference
UKTI services have helped its customers to:
• understand how to do business overseas
• identify opportunities and open doors
• reach customers/business partners not otherwise accessible
• raise their profile and credibility overseas
• overcome barriers to entry or expansion
• improve overseas marketing strategy
• gain access to information not otherwise available
• understand the competition
• access powerful research to inform management decisions
• have the confidence to explore or expand in overseas markets
Getting ready for international trade
There are two compelling reasons why businesses offering value-added products or services should consider international trade.

First, the internet and better transportation have shrunk the world, creating huge opportunities for UK businesses. Second, these forces have opened the UK market to overseas competitors, who may have cost or quality advantages. This means that UK businesses can no longer view their market in isolation.

In addition, an international trade strategy can be a two-way process. Your business could gain from importing as well as exporting.

What sort of international trader are you?
When it comes to exporting, businesses fall into four categories:

- those that have never exported
- passive exporters, who respond to overseas enquiries
- adaptive exporters, who are open to exporting but do not include it as part of their strategic plan, and
- strategic exporters, who are targeting higher international sales.

Are you ready for international trade?
Questions to ask yourself include:

- What products or services can we offer?
- Do we have the infrastructure and capacity for overseas sales?
- Do we have enough time and financial resources?
- Does our business culture allow us to take risks?
- Do we have any talents, such as language skills or cultural knowledge?

If your assessment is positive, the next step is to find the right market.

Finding international markets
Identifying the right market for you is a detailed process and the precise steps will depend on your circumstances. However, there are some general issues that all businesses will face and these are outlined below.

Where is the demand?
You will need to estimate the size of potential markets, so you know which ones to investigate more fully.

Indicators such as gross domestic product (GDP), GDP per capita and income distribution...
may be relevant for consumer products. For business-to-business markets, you may be able to estimate the number and size of potential customers, their geographical locations and their industries, and hence their demand for what you sell.

Trends are important – what is happening to market sizes, the level of competition, pricing and so on. You should also consider political and economic stability. All of these factors affect a market’s attractiveness.

What do the customers want?
Ideally, your potential customers will want the product or service you already provide. However, there may be local needs you will have to adapt to. Customers may need a simpler product, for example, which sells for a lower price.

You need to know the criteria customers use to select a product or service, how they perceive what is currently available and whether their needs are being met. You should assess their willingness to buy from a UK supplier and their expectations for service, delivery and support.

What is our route to market?
You may be able to supply overseas customers directly from the UK. Or you might have to establish a local presence, whether that is through an agent, distributor, reseller, partner or your own people. What is right for you will depend on what you are selling and the size of the market.

An understanding of the complete supply chain in your proposed market is useful. This includes detailed knowledge of the relationships between producers, importers, distributors and customers.

What are the cultural and language barriers?
Cultural and language barriers should not be underestimated. Ways of doing business vary widely from country to country and can be heavily influenced by local and religious customs. Understanding the nuances of your market is essential. You may also need to translate your marketing material into the local language and to set up language training for your employees.

Some countries present ethical problems, such as corruption. If you are contemplating one of these markets, you need to ensure you can trade there with confidence.

What regulations are relevant?
Your products and the countries you sell to will determine the export documentation you need. Some products, such as those usable for military purposes, require export licences.

You should also be aware of legislation and regulations in your target market. This includes factors such as health and safety and environmental and technical requirements. Conversely, you may find that the market has a weak legal system, which makes it difficult to enforce contracts or to protect your intellectual property.

What are the financial implications?
Exporting can put pressure on your cash flow. You may have to pay your suppliers after 30 days but it can take much longer for your customers to pay you, because of the time it takes for goods to arrive and because longer credit terms are customary in some countries.
This also means that it is rarely a good idea for a struggling business to consider exporting. The additional financial pressure may make a difficult situation worse.

Protecting yourself against non-payment is another factor to consider. Credit insurance is one answer here.

**What is the outcome?**
Companies often find that this assessment points them to markets close to the UK. They are easier to understand, cheaper to reach and service, have excellent infrastructure and well-established laws and regulations.

Markets such as Asia offer huge potential but are best tackled by experienced exporters. The distance, cost and time required are greater and the language and cultural barriers are higher. Of course you should not rule out these markets if they make sense for you, but they do require more effort and care to get right.

**Importing: the other side of your trade strategy**
As with exporting, importing needs to be carefully planned to get the most from it, and you should use a similar assessment to determine whether it is right for you. This involves answering questions such as:
- Can we gain a competitive advantage, for example through reduced costs or better quality?
- Do we have sufficient knowledge of what we want to buy?
- Do we have the resources to do it effectively?
- Where do we add value in this process?

If you conclude that you can benefit from importing, you will need to find the right suppliers, understand their objectives in selling to you, and create an effective relationship with them. Getting the technical issues right is also crucial. This means understanding factors such as import regulations, tariffs, the customs regime, currency controls and conditions of purchase.

**How BCC can help**
We have real expertise in helping businesses realise their international ambitions, from planning and documentation to accessing support. And – crucially – we can make international connections on your behalf.

Our links with Chambers of Commerce and their business communities around the world give us knowledge of all the major markets and can bring you together with people who want to trade with you. We can also draw on the experience of the individual chambers in the UK and their membership of more than 100,000 businesses.

Together, our expertise and network can unlock new markets and new opportunities for you.
How to win export orders: a starter’s guide
The Government has recently released a white paper “Trade and investment for growth” – and we know we must all export more. But how do you set about finding customers? And how can you make sure that your export becomes a profit-earner for your company, not a loss?

How to find customers:
• Don’t cold call. Letters or phone calls will probably be intercepted long before reaching their target. Instead, get out and meet potential customers.
• Join a trade association or attend a relevant trade fair or exhibition. You don’t need to exhibit, but go there and meet people and understand what works abroad and what doesn’t.
• Before you set off, establish who will be there and arrange to meet them at specific times and places. Take a target list with you and arrange more meetings while you are there. This is a much more efficient use of your time and travel budget than making individual visits to potential customers.

Understanding the risks and finding the funds:
Of course, making the right contacts is only the first part of the story. You also need to understand and manage your risks and finance the exports. The critical phase is how you make an offer. This is when you need to really understand the whole process – from pricing, contract wordings and credit risk, to taking account of packaging, delivery terms, finance needs and customs. Much of this varies greatly from domestic sales, and is different for each export market.

Help and support with all export processes can be found in The British Export Association’s practical guides. They are written from a practical perspective by exporters, for exporters – with support from their banking, risk, legal and compliance advisers. They also include plenty of examples, both good and bad, for would-be exporters to analyse.

BExA Guide to Successful Exporting:
This guide will lead you through the process of exporting, from establishing your company’s strategy and choosing local representatives, through to building long-term relationships with customers and keeping your company’s management on side at the same time.

Winning the export is one thing. Financing it will be another. The cash issues relating to the order have the potential to cause severe...
headaches in relation to your company’s financial management. BExA’s 2009 Guide to Financing Exports describes and compares the various ways you can finance exports, including financing without using banks, finance of a single contract, a portfolio of receivables and a valuable guide to medium-term finance.

**BExA Guide to Export Compliance (2011):**
This guide helps with the red tape of exporting, enabling you to get the detail right so you don’t fall into the gulf between aspiration and delivery.

The guides are downloadable from The British Export Association’s website [www.bexa.co.uk](http://www.bexa.co.uk). Hard copies are provided free to BExA members and can be sent to non-members for a small charge to cover administration and postage.

_Susan Ross, Chairman of The British Exporters Association and Director of Aon Trade Credit._
Section 5: Key contacts
Supporting your international trade ambitions, whatever your business

We hope you will find the information in this guide helpful. We’ve aimed to include a broad range of material from a variety of sources. So, whether you’re just starting to look towards trade abroad, or you need support with existing import or export operations, you’ll be able to refer to this guide for useful advice on everything from risk management to payment methods and logistics.

For more information on any of the topics covered in this guide, you can contact us by:

• speaking with your Relationship Manager or one of our international specialists

• call our International Trade Hotline on 0800 210 0235 or Typetalk 18001 0800 138 4419. Lines are open 9am–5pm.

• visit www.rbs.co.uk/newmarkets
Additional advice and support to help you find new markets and offer international trade support is available via the following organisations:

- UK Trade & Investment – www.ukti.gov.uk
- Department of Business, Innovation and Skills – www.bis.gov.uk
- Exports Credit Guarantee Department – www.ecgd.gov.uk
- British Chambers of Commerce – www.britishchambers.org.uk
- Institute of Export (IOE) – www.export.org.uk
- The British Exporters Association (BExA) – www.bexa.co.uk
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Guide to International Trade

Supporting your global ambitions