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Getting Paid for Exports

The opportunity for Northern Ontario businesses to sell their products to overseas markets has never been greater. A businessman beginning to do business outside of North America will find that he must adapt to export procedures that are very different from domestic sales to which he is accustomed. In protecting his interest, his main priority will be receiving timely payment for the goods and services provided.

The purpose of this article is to explore in general terms:

- **Export Letter of Credit -** method of payment for goods between the seller (exporter) and buyer (importer)

- **Accounts Receivable Insurance -**
  a) Export Development Corp - (EDC)
  b) Euler American Credit Indemnity - (EULER ACI)

- **Export Financing -**
  a) Canadian Commercial Corporation (CCC)
  b) Northstar Trade Finance Inc.

Export Letter of Credit

The **Letter of Credit** (L/C) is the most widely used method of export payment for overseas trading. In general terms, the L/C is a negotiated financial payment mechanism between seller and buyer, but arranged on a bank to bank basis. It represents the issuing bank's promise to pay the seller provided documentation is submitted in accordance with the documentary credit. It clearly describes the goods to be purchased, the price, the documentation required and a time limit for completion of the transaction.

How an export Letter of Credit operates to finance a foreign sale transaction is best illustrated below:

- Seller and buyer agree on an amount, price, method of payment etc. for the goods.
- Buyer applies to his issuing bank for a letter of credit in favour of the seller.
- Issuing bank receives letter of credit application and forwards to letter of credit dept.
- Letter of credit dept. prepares L/C and forwards it to the seller (beneficiary) through an advising bank in domicile of the seller.
- Advising bank forwards credit to seller in manner instructed by issuing bank.
- Seller/exporter prepares shipment & documentation. Goods delivered to carrier.
- Drafts and documents are presented to the negotiating bank or to the paying bank.
- Draft and documents sent by negotiating bank to issuing bank.
- Draft and documents examined for compliance with credit terms. Seller's draft honoured.
- Shipping documents given to buyer.
- Buyer/importer picks up goods from carrier upon delivery of shipping documents.

It must be understood when dealing with letters of credit that they are financial documents to facilitate the financing of the movement of goods only.

Most major Canadian Banks have International and Letters of Credit departments to provide guidance and literature on Letters of Credit and international finance.

Accounts Receivable Insurance

Accounts receivable can be one of the largest assets on a company's balance sheet and often overlooked when it comes to insurance.
A companies accounts receivable is a critical component of a balance sheet and can directly affect a company's cash flow and profitability.

Both the **Export Development Corporation** (EDC) and **Euler American Credit Indemnity** (EULER ACI) offer accounts receivable insurance to protect Canadian exporters for coverage up to 90% of U.S., domestic and international export sales. Both offer a wide range of coverage to minimize your risk when exporting. For additional information on the EDC's and EULER ACI's service - contact:

EDC
Tel: 1-800-850-9626 or Fax: (613) 598-6871
E-mail: export@edc4.edc.ca
Internet website: http://www.edc.ca

EULER ACI
Mr. Doug Wade @ tel: 1-800-853-6447,
(905) 615-9030 ext. 307 or fax: (905) 615-9123
E-mail: dougwade@aciins.com
Internet website - http://www.aciins.com

Export Financing

Exporters should also be aware of pre-shipment export financing called the **"Progress Payment Program"** offered by Canadian financial institutions in partnership with the **Canadian Commercial Corporation** (CCC). As a federal agency, CCC's mandate is to help Canadian companies export their goods and services around the world.

For more information:
Tel: 1 800-748-8181 Fax: (613) 995-2121
Internet: www.ccc.ca E-mail: ppp@ccc.ca

Two innovative financing options are available through **Northstar Trade Finance Inc.,** to help small and medium-sized businesses expand into global markets.

Term Financing (from 1-5 years) and Floor Plan Financing (short-term) are available to your foreign buyer. Under both options, loans are secured by a registered lien on the equipment being financed.

For additional information:
Tel: 1-800 663-9288 - (416) 861-8222
Fax: (416) 861-8233 (Eastern Canada)
Internet: www.northstar.ca

In conclusion, the purpose of this article was to review in very general terms the payment aspect of exporting. It is recommended that every Ontario business engaged in exporting become fully conversant with L/C documentation, practices and procedures.

The Canadian Council for International Business has various publications on International Banking and Finance and International Trade. These publications are available at a reasonable cost by contacting:

The Canadian Council for International Business, 501-30 Sparks Street, Ottawa, ON. K1R 7S8
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or visit their website @ http://www.ccib.org