Export & Import Trade

International trade is growing faster than the global GDP, so what does that mean? All the economic regions of the world add to the global GDP, but what is happening in the manufacturing industry worldwide is that if a local manufacturer is not getting into exports and thus creating imports for another economic region, then their commercial value as a local business is not increasing as much as if they exported and by the trends that are showing, they could go out of business.

To put it another way, let's say that the average rate of GDP growth in an economic region is 3% P/A and the average rate of international trade growth in that same economic region is 4% P/A, to break this down, maybe imports increased by 1% and exports increased by 3%, what would that tell us? That maybe 1% of the GDP growth is coming from the domestic economic activity and 2% of the GDP growth is coming from those that are exporting.

That would tell us that growth is coming from international trade, more manufactures are now exporting. This means that the international trade profession is continually becoming more important, many companies are now making more money on the international markets than their local markets, and it is just some extra knowledge to cover, like having to fix your own car, with some guidance anybody could replace a part to get the car going.

A Japanese car is sold in every country in the world. If the Japanese company just tried to make the best car for Japan, then they would have not have had the worldwide revenue to stay competitive in the car manufacturing industry, they would have become history.

The Japanese people would not have bought an out of date techno car just to support their local manufacturer, you either stay in the top half in the world business game or you may be on your way out of the market.

When you operate internationally, you start to reap the benefits of international finance, knowledge, skills labour, markets (buying power) and costing.

In poor countries the food bill is the individual person's major cost and in rich countries food is their minor cost, so rich countries can take big mark-ups on food, like eating out or getting takeaways.

The poor counties can manufacture anything that rich countries want to spend their money on; they don't even need to have the resources, the trader just needs to ship that in.

Sweden made the SAAB car which started as an aeroplane company in 1945 and brought out their first car in 1949. SAAB were the first car manufactures to bring out a Turbo Charger, but because of strong competition in the international trade game, SAAB is now history, good car but didn't have the international market to stay in the game. People living in Sweden don't have to buy the SAAB.

The poorer countries, just to survive are forced to work with exporting, but the richer countries with large unemployment could absorb those people if the manufactures started to play professionally in the international trade market.

What made Johannesburg the financial strong house of South Africa was the Gold mining industry. The men flocked from all around the country to JHB to get a job, but the mines could only employ a certain amount of people.

The men, to ashamed to go home and tell their wives that they could not get a job on the mines, the wife might say, "you must be bad if you can't even get a job on in the mine", so these men offered themselves as cheap labour in the manufacturing industry, that is why JHB grew, cheap labour helps us produce cheaper products.

What you see on the shelf in your local store is more and more being produced by an international trader, either from a local manufacturer involved in exports or a distributor involved with imports, thus forming this global village of trade. The largest organization in the world to help you <u>into</u> this arena is the Chamber of Commerce, by the end of this reading, you will see why.

Today international trade accounts for about 60% of the value of everything produced in the world. In 1960 that figure was only just above 20%, and the economists forecast that the percentage of international trade will reach just below 80% by 2030, which should be almost at its maximum if you take the 80/20 rule (Pareto Principle) into account.

For the young people working today, 2030 is not far off, considering that it takes us on average about 10 years to become competent in an industry.

When you look at the things around you, cars, houses or an airline jet flying over you, all these things are built with knowledge and then to use those things requires a different knowledge.

You could get the most brilliant engineer that could have built an airline jet but then this engineer may not be able to fly the thing. You could get the best kitchen designer in the world but maybe that designer can't cook anything.

The world is divided up into those that make things and those that make things happen. The project manager at the aeroplane factory makes things happen, in the fast food sector there is somebody flipping the burger (making things) and someone else giving you a big smile taking your money (making things happen). International trade is the making things happen side of the game, an industry all on its own.

You may have to be a very bright person to build a bridge, but you don't need to be so bright to drive over the bridge, you just need to be careful, a bridge is the wrong place to lose control of your car, motor bike or truck and trailer.

I have visited over the years, companies that used to manufacture, but today they only sell the product internationally, they have completely outsourced the manufacturing part and are now a much more financially stable company.

You may have to be very bright person to stay ahead in the competition of manufacturing products, but you don't need to be so bright to move cargo over the international trade bridge, moving Products and Payments is not a competition, you just need to be careful and know what you are doing, an international trade bridge is the wrong place to lose control of Products & Payments (PP).

Products continue to develop and are shown up as an improved model, but trade is a skill, like a medical surgeon is a skill, yes the tools we are using medically continually advance but the skill is the same it was a generation ago, doctors just needed to learn more about the body, the same with international trade, we just need to learn more on how international trade works and use all the modern tools, like people are now trading internationally over Skype.

What I am saying here is that any organization that does not get into international trade will be a small company by 2030. How old will you be in 2030? We generally take 20 years to grow up, and then the next 20 years we use to learn how things work and the last 20 years we work for money.

A small business only makes small money; they could not afford to employ an MBA, today we need good educated expensive people to keep our business in the business game.

To manufacture something in one country brilliantly is not the same knowledge that is required to make that thing land up in a store and get sold in another country.

The knowledge of international trade is a profession on its own, and as with any profession, it becomes more professional. Professional, would be classified as to how the top 20% of people do something, making good money from something and able to afford good staff, like the top 20% of soccer players in the world, if your club can't afford them then you need a brilliant trainer.

Trade Principle

The basic principle in any form of trade is "Know your sellers and find your buyers", what does this mean? You need to know a good supplier, best reliable quality for the price range, or you must have a business in place that knows how to find good suppliers.

You need to find buyers; these are the people that can **afford** to pay you. Most people are open to a bargain or a perceived bargain as it is not much work to resell a bargain, but not many buyers can work on market competitive mark-ups, only the true buyers can do that.

Products & Payments

Every business today is involved with a network of businesses to make things happen. If one of the suppliers to the end producer fails in their quality of their product (like the good restaurant got in some bad meat from a supplier) to make up the end product for the seller, then that deal could be at a loss.

If the importer is not paid by a local buyer (like the person eating in the restaurant who's credit card did not work) then the importer may not be able to pay the exporter (the supplier), so good products for the buyer and good payments for the seller are the main things to look at.

Now with just these 2 words, Products and Payments stretched across this international trade bridge from one country to another country would go through 3 international trade type risks that start with the letter "C". In the local market we only have one "C" but with the international market we have 2 extra C's making a total of 3C's to understand international trade risks.

Chamber of Commerce

The local market the "C", are Companies, not company to consumer but company to company. With international trade it is more difficult to know where the good or bad companies are.

A bad company is not going to belong to the Chamber of Commerce, as a worldwide rule, the Chamber of Commerce (CoC) runs on one rule, "**if the company is caught out, they get kicked out**", bad business people don't like to get the lights thrown onto themselves, to get "black listed" by the CoC, would be a difficult one to recover from.

Before we get into the other 2 C's let's just deal with this word "Companies" and the role of the CoC. If you wanted to minimize your risks in business, then the CoC is the first place to start.

The CoC is like a worldwide government for businesses with a head office in Paris (ICC) and branches all over the world to facilitate business in a standard way, good standards. It would be like appointing a referee between business transactions.

The first CoC started in 1599 in France. There are 2 things that spread fast around the world, one is **bad** news and the other is **good** ideas; today the CoC is a worldwide non-profit organization (good idea), run by boards, another good idea.

When you watch people watching sport, you can see that many people become very emotional, why is that? In the words of Joseph Cubby "Games is a serious business and business is a serious game, one is measured in points and the other in profits", we all become emotional when someone messes up our profits. A good referee (CoC) just adds some vital importance to any game.

The CoC works at all levels with businesses and authorities locally, nationally and internationally (ICC). So all the CoCs are like a BBB, Business Buddy Body, keeping professionalism in the game of business.

You only need to belong to one CoC in the world to get world-wide credibility. You get people going around the world pretending to be some lawyer, doctor or priest, working for a Non-Profit organization, looking for people to work in another country, only to land up as part of the human trafficking of sex slaves, it is far safer to deal with a foreigner if they are members of the CoC in their own country.

Arbitration

Imagine every time we have a disagreement that we ran to our lawyers, what would the situation be? Imagine every time a couple had an argument, that they would then each contact their own lawyer; that relationship would not last.

But if they had an arbitrator, who's main function is fairness and keep things together, then there is hope of building a long term relationship, that is what the CoC does, it helps build good long-term relationships.

Nothing runs smoothly all the time, so to have a mutual friend (CoC) in a disagreement would keep things together. The simple rule in economics is that when you pay, you need to look after your power to punish (pay/punish), like paying for your meal after you have eaten in a restaurant, and then when you sell you need to look after your own financial safety(sell/safe).

It is this balance of fair value, punishment on one side and safety on the other side that gives business its value of long term Relationships and Rewards.

The seller invented T’s & C’s in 1855, which does not mean tea & coffee included, but Terms & Conditions.

These sellers in 1855 were shipping companies that sold a service to move cargo around the world. It was a great idea as the shipping companies no longer need to insure the cargo which was always worth more that the ship itself, with T’s & C’s, they now only needed to pay out a limited amount per package, say $10 per package. T’s & C’s today have spread into every kind of industry in the world (good idea).

This then forced the buyer to the drawing board and they came up with SLA, which means Service Level Agreements.

Only someone who sells something will design and hold onto T’s & C’s and only some that pays for something will design and hold onto a SLA to play in the business game.

Why was this necessary? Well the main purpose of T’s & C’s is to limit liability, if the seller makes a big mistake that causes the buyer a huge loss, then the seller may not want to be held liable for the full amount that they caused their client to lose, the seller may just go out of business and the insurance to cover negligence is just too expensive.

The purpose then under SLA is that the buyer sets the agreed performance for the seller and also the agreed punishment if that is not done, to override the T’s & C’s.

With any trade local or international, as a business you could ask if your trade partaker belongs to their local CoC, and if not, then to ask if they mind joining their local CoC, so that you both could be on the same page in any misunderstanding as far as fairness goes.

If they say “no” to some small fee to belong to their local CoC, then, take that as your first warning bell to the next bell that may ring in the business boxing match with a very expensive referee called a judge in a court of law.

As I sometimes sing to the students in the classroom when some of them start to intellectually wonder off, **"only some people learn in a classroom, but everybody learns in a courtroom"** and then I ask the students, "where do you want to learn", one lost court-case can end your career with a big company, which gives you so much opportunity for your promotion internationally.

Any arbitration runs on 3 steps, first, which party is to blame for some loss or perceived broken promise, and is the blame singular or proportional to the parties. 2nd, what needs to be done to bring this relationship back on tract, and finally, what can we (CoC) suggest, that this does not happen again.

To enjoy this "play by the rules" game, all you need to do is put the following words into your correspondence and/or trading conditions, "as members of the Chamber of commerce we accept the ICC arbitration rules regarding any disputes in our business transactions". You could still go to court if you don't like the arbitration outcome, but it is very unlikely if you know what fair business practice is.

On this topic of CoC, what else do they do besides arbitration between businesses and between business and government, yes they will tackle the government as well?

Each economical region would have a CoC, so whether I am looking locally or internationally, as a buyer, I could ask any CoC in the world to inform their members that I am looking to buy this particular product. They will in turn pass that on to their members to contact me.

Same if I was a seller, I could contact any CoC in the world and ask them to send my information as the contact person selling this product. The CoC can even set up meetings between you and their members that are interested.

CoC & Payments

In 1933 the CoC standardised methods of payment, first called the UCP 100, the Letter of Credit (LC), today we are on the 6th update UCP 600 which came out in July 2007. Why was this so important? Business relationships go through 3 stages just like any romantic relationship.

First we have the dating **game**, then the engagement **test**, and finally the marriage **commitment**.

The dream of every seller is to find buyers that are willing to pay in advance and the dream of every buyer is to find sellers that would give them open accounts, first get the stuff and then pay if you are happy with it, but that is just the dream world, we are here in the real world.

So to facilitate trade, step one, the dating game, the CoC standardized the letter of credit which is a contract of payment between the buyer's bank and the seller, not between the buyer and seller, but between the buyer's back and the seller.

The LC is like a bank guaranteed cheque, but the international "bank trade teller" must first look at the buyer's requirements listed at the back of the cheque to see if all the documents are presented with the check, then they can pay out.

The seller could technically get paid as the ship is sailing out the port. The CoC standardized those rules for all the banks involved in the transactions.

The buyer's bank would only require 3 documents to make things happen and these documents start with the letter "C". The Commercial Invoice, the Carrier's Receipt (Bill of Lading or Airway Bill) and finally the Cargo insurance. These are the minimum documents required to make a Letter of Credit pay out.

It would be up to the buyer for their own power to punish, to ask the seller to supply more documents, so the bank is then instructed only to pay out if all the documents required by the buyer are submitted to the bank and are completed correctly.

The next step in the business relationship process is a relaxation on the payment standards; this is the Documentary collections, the trade relationship "engagement test", more trust.

This is where the seller hands in the documents to the bank and then the bank acts like a courier service, the banks do not look at the documents; they just deliver, and then the bank gets the buyer to sign for the documents, which allows the buyer's bank to pay the seller, like cash against documents (COD).

The final step in the trade relationship is like the marriage commitment, with total trust comes total risks, this is the open account. This is not totally in favour of the buyer as if the seller is getting good orders and regular payments with decent profits to cover the cost of waiting for the money, then that is a win-win situation.

Some people that have disciplined cost controls would rather make more money out of the bigger profits than the interest they could gain if they were paid earlier. You could get the UCP600 book through your CoC.

Incoterm Codes

What else did the CoC do for us with international trade, well they said to themselves "we did a good job on standardizing the world payment system, lets tackle the world cargo delivery codes system" and 3 years later, in 1936, they did the same for Incoterm codes, meaning International Commercial Terms.

This is a little 3 letter code with a proper address attached to it for the hand-over point of the cargo, which will be either in the seller's premises or in the buyer's premises or somewhere in-between. You could get the Incoterm codes 2010 book through your CoC.

Certificates of Origin

Another important point to note is what the CoC starting doing in the late 1900's, it started to issuing certificates of origin (CoO) which was developed for the manufacturing industry, the buyer wanted to know if something was a genuine German product, or did the wine come from France, or was the leather jacket made in Italy, if it was important for the buyer to know that, then the seller had to get a CoO from their local CoC purely for business creditability reasons.

On the subject of CoO's, there is another type that developed later for governmental reasons. This was because governments started to make friends with each other and offer discounts on import taxes and then to claim that tax discount, the buyer had to produce a certificate of origin from the seller's country issued by some statutory authority, a good example is the EUR1 certificate, which is used between the European Union and a number of countries around the world.

As an importer you are going to be paying some good money to your seller to supply you with this “government” certificate, so you will need to check what it cost, if the discount on the import taxes is less than the cost of the certificate, then you are just wasting your money on getting the certificate.

Rather give the money to your own government for importing the thing without the discount and pay the higher taxes, which may be less than the cost of the certificate, than giving a bigger amount to the export country just to get the certificate, if that is the case then just forget about the certificate.

Certified Documents

Due to white collar crime among staff between companies, the owners of companies often require all the transactional documents to be stamped by the CoC so that they could track and trace the original documents if they suspect that a new set of documents was created to hide anything.

ATA Carnet

Another breakthrough with the CoC was the agreement with Customs (Cargo Cops) to issue the ATA Carnet which allows us to send products to a country without paying any form of taxes as long as the products are re-exported within one year; this is used when we send samples to our buyers. This ATA is normally controlled by the national CoC in every country.

For example, in 2010, about 160 000 Carnets were issued internationally covering the value of over $20 billion worth of cargo, on which no import taxes were paid. The International Chamber of Commerce (ICC) administers the international guarantee chain of national guarantee organizations which are made up from that country’s CoC’s.

Letter of Introduction

For traders and service providers travelling abroad or to another province of your own country, for the purpose of doing business, a

"Letter of Introduction" can be issued by the CoC, of which you are a member, detailing your line of business.

This letter is very useful in dealing with people that don't know you as it will give you some credibility. This letter would only be valid for a limited time, in case your CoC gets a complaint about your business practice; the letter valid for say 6 months, then makes the letter outdated if the CoC does not renew it.

International business crime bureaus

Combating crime internationally by the CoC started with something that happened in South Africa. On the 17 January 1980 a 214 000 ton Supertanker, the *Salem,* sank off the coast of Senegal.

Originally bound for Italy and carrying a cargo of crude oil worth $56 million, but the *Salem* had deviated to South Africa. There the crew illegally sold Shell's Oil to the sanctioned government of South Africa.

After discharging her cargo she was replaced with sea-water. The sinking of the *Salem* had been part of an organized plot to defraud Lloyd's of London, whose syndicates had insured both the cargo and the ship for $84.2 million.

To crack this case, Eric Ellen at the time working for the International Association of Airport and Seaport Police, approached the CoC (ICC) head office and convinced them to help him set up the now International Maritime Bureau, by financing him with $20 000.

This new branch (IMB) of the International Chamber of Commerce (ICC) cracked the case and got the South African government to pay a settlement to Shell of $30.5 million. Within 10 years they were handing cases of over $200 million a year of cargo and ship fraud.

The Counterfeiting Intelligence Bureau

The ICC then formed The Counterfeiting Intelligence Bureau (CIB) to fight the companies that were making fake products that could make something look even more real than the original product.

Good companies spent so much money on creating a market for its products only to be robed by bad business people brining in fake products to that market.

By 1990, 14 aeroplane crashes had been traced to counterfeit aviation parts, without the CIB of the ICC we would have a much bigger problem on our hands than what we have today.

Commercial Crime Bureau

The ICC then went on to form the Commercial Crime Bureau (CCB) to fight money laundering and fraudulent documents in international trade.

Three international business type crime fighting bureaus came out of what started with the criminal activities of the then South African government and bad business people, while **Nelson Mandela** sat in jail, how things have changed, thanks to the CoC.

One last point on international trade is that the CoC would also be able to offer you on-going advice and training for your business as it grows and needs more staff to handle your organization.

As you go along in your business as a manager or company owner, you will learn many more things that the CoC can do for you but this is enough for now. To recap what the CoC did for you on trade.

1) Certificate of Origin.
2) UCP 600, Letter of Credit.
3) Incoterm codes, the handover point for the cargo.
4) Network of local and international good businesses.
5) Arbitration service.
6) Certify documents.
7) Advice for your business.
8) Training for your business.
9) Classify you as a member of the CoC.
10) ATA Carnet.
11) Letter of Introduction.
12) List of all the local member businesses that could help you.
13) The International Maritime Bureau.
14) The Counterfeiting Intelligence Bureau.
15) The commercial Crime Bureau.

All this starts with some company joining their local CoC, who then contribute financially towards the National CoC who then in turn contribute financially towards the ICC, making this a worldwide organization for you to use.

Businesses in International Trade

The following part will cover all the business that will be able help you with international trade. All of the following type companies are found as members of many CoC around the world, no business should be a law unto themselves.

The old golden rule was "they that made the gold, made all the rules" but the modern golden rule is "they that know the rules will make and keep the gold", because rules today are a lot more fair than in the olden days.

Judges today have a lot more reference material to refer to, to help them bring a fair judgment, which is why we have the "**scales of justice**", it is about **balancing** responsibilities.

You will realized that as a trader you are going to need 2 knowledgeable companies, one in the shipping industry for moving the **Carg**o and the other is in the bank's international trade section for moving the **Currency**, don't wait for something to go wrong and then look for friends to help you, make your cargo/currency friends from the beginning.

The Banks; Foreign Exchange & Exchange Rates.

At times when I am training the junior staff at the foreign exchange department, and I ask them what is "Foreign Exchange" to which I will get the standard answer, "when we (the bank) are changing one currency for another, like when the seller's dollars come in and we change it into our local currency for the seller, or when the buyer needs to pay a supplier overseas, we take local currency out of their account and buy some dollars to pay the overseas supplier".

I then tell them that this is not the right answer and the reason they got it wrong was that they first need to learn a little bit about local trade and then switch those local words to international trade words.

If you take expensive items to a poor domestic location in an economic region, you are not going to make any sales as those people in that location are not walking around with that amount of money in their pockets, they do not have the **purchasing power**.

If you took the same items to a rich domestic location in an economic region, you may land up selling them so fast that you decided to increase your **price** because of the good purchasing power in the area.

The international word for **purchasing power** is **foreign Exchange** and the international word for **price** becomes **exchange rates.** If you see the words foreign exchange and exchange rates in one sentence like you are reading now, then someone may just not know what they are talking about, however here what I am saying that we need to learn the difference between these two.

If I told you that I was not able to sell a product in a poor community because they did not have the purchasing power and that the price of the product was too high, that is **two** different problems, that is like saying I don't feel like eating something because I am not hungry and I don't like the taste of the thing, when you are hungry, you will eat anything, when you are full you will eat nothing, everybody has some range.

You would need to ask yourself if the product has reasonable commercial value and then ask yourself if there is purchasing power for this reasonable product.

So the first question you ask "does this importing country have purchasing power/foreign exchange", like the people in the poor community who just don't have the money, forget about the price of the product for now.

The only one way any country in the world can earn Foreign Exchange is to export something, no exports no foreign exchange to pay for imports.

Unacceptable countries and unaccepted people land up doing illegal things to make a living, like North Korea manufactured very good fake USD notes and sold them to bad people for real USD currency in order to pay for the imports they desperately needed.

Same reason people sell drugs, they are not prepared to work hard enough to afford the life style that they want.

Drug dealers are just lazy business people that hope to get away with it till they have enough, knowing the human nature, we never have enough, and they have to pay protection money to stay out of jail because the police found out about it, you will find the same principle with the Cargo Cops (Customs) and bribery.

As a seller you need to know how long are you going to wait for the buyer's country to release the payment, how long will it take for the buyer's country to get a payment from something that they exported, to pay for what they imported, your local bank can find that out for you.

The second "C "risks are Country risks, the buyer's country risks and the seller's country risks, we now know that the buyer's country risks have got to do with foreign exchange (purchasing power).

If the buyer's country is exporting less than what they are importing, then the importers payment queue to the foreign sellers will just get longer and longer until people get fed-up and stop selling to that country, and then the queue will slowly get shorter if that country continues to export.

To explain this in another way, let's look at something we see all around the world; the competition between Coke and Pepsi. Take a look at the communist USSR story of pre 90's with the soft drinks market.

In the 70's, Pepsi made a deal with the USSR government to make Pepsi over there in exchange for exporting Vodka, as Pepsi would not be able to take any cash profits out the country, no foreign exchange.

This then got Coke to the party in the 80's and their exchange for bringing in the soft drink is that they used the profits to buy Russian cars and exported them to the UK.

Coca-Cola sold those cars at a loss just to be in on the competition for the soft drink market as the USSR had a big foreign exchange problem.

Now if you are a buyer and your own country has foreign exchange problems, then this is also going to concern you as when suppliers find out that there is a problem in your country, they will stop supplying you, they may not want to wait 6 months or more for their money.

This is why traders look for countries that do well in exports so that they can make good money on imports to that country because there is enough Foreign Exchange.

To protect yourself as a seller/supplier, you could get the buyer to give you an “insured” Letter of Credit, known as a “confirmed LC”. This is when a bank outside the buyer’s country guarantees the LC against the 2C’s (of the 3C’s), remember we covered the 1C, the network of companies, well the bank is a company and could bankrupt.

Imagine that the buyer’s bank before they folded, took some big payments in from the buyer’s clients. The buyer was chasing up on the money owed so that they could pay for their next shipment, but before the buyer’s bank handed it over to the seller’s bank, bad luck struck, and bankrupt goes the buyer’s bank.

You the seller have done nothing wrong and the buyer has done nothing wrong, the buyer has no more money and you the seller did not get your money, just plain bad luck, the bad bank pulled down 2 good companies.

Now technically the buyer still owes the seller the money, it is just bad luck that the buyer’s bank went bankrupt, the seller could still sue the buyer and take their assists to the value of the debt, it is just a game, remember, games is a serious business and business is a serious game.

The insured (confirmed) LC covers the company risks of the buyer’s bank liquidating and then also the country risks of the lack of foreign exchange.

If you as a seller are unable to get the LC insured by any bank, then those banks know something that you don’t know, walk away from this deal if the buyer cannot pay you upfront.

If you do want to try one last thing before you walk away from this deal, then you can approach a credit guarantee type business that will insure the seller for the payment.

These companies will check out things for you for a fee, but if you can't get this type of "credit guarantee" company to insure the trade deal, yes then walk away from it, don't be tempted by big profits; non-payments is a big loss.

Now what about Country risks for the buyer in the seller's country? That could come from political instability or natural disasters. Labour strikes fall under the Company risk category.

This is why buyers keep track of elections in exporting countries, as things could suddenly change around that time. Buyers also look at the cycle of natural disasters in an exporting country, they would know that floods could hit at a certain time and would rather increase their order beforehand just to be safe.

Currency Risks

The 3rd "C" risk with international trade is Currency risks. Currencies are not flat like the water in some small lake; they are more like the sea with waves. There are 3 waves running (bouncing) up and down between most countries that trade.

One wave is the currency of the country of **export**; they need to get in some foreign currency for what they sold, so the changeover from the foreign currency to local export currency is one wave, going up and down in value.

The prayer of every exporter around the world is "Please God, make our local currency weak against the foreign currency so that when the foreign money comes in, that the "foreign wave" can dump a lot of local currency into my bank account, Amen".

Now some governments play God and hold down their local currency to an artificially low level. This gives that country an unfair advantage to international trade.

This is why those countries that hold down their exchange rates (price), though they still do need to buy raw material, and this weak exchange rate makes the price of imports (raw material) more expensive, they are going to make most of the profits on the work of that raw material into finished products.

They can't make money on just adding little work to something, for example, they can't import car parts and just assemble the car for exports; the car would just be too expensive.

It is like the poor person that goes and buys potatoes and meat and then spends their own labour and skill to make the same dish that the richer person can afford in the restaurant.

That is what happens with countries whose governments hold down the exchange rate to an artificial low level, they are forcing their economies to bring in only raw material and work hard to make finished products.

The other wave is the foreign currency against the **importing** country, the payer of every importer around the world is "Please God, make our local currency strong against the foreign currency so that when the foreign invoice comes in, that the "foreign wave" can wash a small amount of local currency out of my bank account, Amen".

No government is playing God over on this side, as they all need to find work for their citizens which pay them taxes to spend.

The third wave is the **foreign currency** itself that goes up and down due to people gambling with the money market, some win big and some lose big.

Most of the trade in the world is handled in USD, so the USA would only be surfing on 2 waves and the rest of us have to surf on 3 waves, but that is not bad if you know how to financially surf, it could be a lot of fun if you know what you are doing.

If you wanted to take out some of the 3rd C risks (currency risks), then you could go to your bank and have the exchange rates insured, called "forward cover".

The seller, for a fee set by the bank; peg the exchange rate for when the foreign money (wave) comes in. Same with the buyer, for a fee set by the bank; peg the exchange rate for when they need to pay the supplier.

On exports, if the exchange rates got weaker than the pegged amount, then the bank would win, as the bank would only need to pay the seller the agreed exchange rate and keep the rest as profit in the bank, good for bank shareholders, but for imports, it is just the other way round.

On exports, if the exchange rates got stronger than the pegged amount, then the bank must add some extra local currency to what exchange they got for the foreign currency that came in.

The seller won and the bank lost, but don't worry too much about the bank as that is just a **dated** exchange rate to pay the seller, the bank is free to leave the foreign money in their bank and wait for a more favourable exchange rate "wave" some time later, it is just a game, for imports, it is just the other way round.

The airline companies do the same thing with the price of fuel, because fuel prices move so much, up and down and it is a big cost for the airline, so for a small amount of money, they could peg (guarantee) the cost of fuel that it would never rise above a certain amount, kind of an insurance fuel price policy company. What this does is that it takes a variable cost and turns it into a known cost.

These 3C's of international trade are beyond any one trader's control, **Company risks**, **Country risks** and **Currency risks**, but this next C is in a different category and is really only a risk when you don't pay attention to detail, they are the "cargo cops" we call them Customs Officers. Corrupt Customs Officers would fall under Country Risks.

Customs (Cargo Cops)

We have to go twice past the international trade "Cargo Cops", check points, when we cross this international trade bridge, very much like an international traveller who needs a passport and maybe some other supporting documents like a visa. You get Cargo Cops at the export gate and Cargo Cops are at the import gate.

Just as the export country does not want "wanted criminals" to slip past the People Police (Department of Immigration), the department that deals with people going in and out the country, so too we have the Cargo Cops doing the same type of function, much like "Product Police", we don't want Rhino horn going out the country and we also want other countries to help us by catching the importers of Rhino horn.

Carriers

You get the word transport and the word carrier, and the easy way to learn the difference is to think of **Transport** is from **Town** to **Town**, in the domestic market, while **Carrier** is from **Country** to **Country**.

When you catch a domestic flight, and they announce over intercom "welcome aboard flight ABC123 to Bigcity", that is technically incorrect, you can only welcome someone **aboard** if the thing is going **abroad** or crossing over the **border**.

You have 3 types of **police (cops)** in the world that specialize with **carriers** (country to country), they may have different uniforms but there is no county without these type of police, and if you are getting into international trade, then you will need to know these cops.

If you sent a driver with all the correct paper work for customs on the export side and the import side, but the driver does not have a passport to get into that country, then the driver is not going to get across the border to do that delivery.

You would have to send another driver just to take the load across the border, to satisfy the People Police that work with **carriers**.

When you fly around the country domestically, your name would be on the **passenger list** but when you fly internationally they call that list a "**passenger manifest**".

It is a pity that the medical profession which took some words from the international trade profession, have a better understanding of what those words mean than many of us working in international trade.

A doctor is not going to say that someone is a cancer carrier, as cancer cannot jump from one body to another body, but the doctor could say that someone is an AIDS carrier, as there is something **manifesting** in that person's body that could endanger another body.

You do a verbal manifest when you check in for your flight; they ask you if you have any of the following items in your luggage and you answer them with a verbal **manifest,** you say "**no**", you have stated that there is no danger in your luggage, if they looked and found something dangerous, then you are in trouble.

As an international trader, you will be asking a **carrier** to take something out of the country and/or bring something into the country.

The carrier needs to hand in a list of what that took out the country and hands in another list of what they are bringing into a country, this list is called a manifest, a declaration to the cargo cops (product police) by the carrier (shipping) company.

Only a carrier company can make up a document called a manifest, like a road manifest for cargo going across the border.

So why is this important for you to know all this as a trader? Because all cargo cops in the world will get 4 declarations when cargo is moved, 2 in the export country and 2 in the import country relating to what you traded.

One declaration from the companies exporting (SAD500) and one from the carrier company (manifest) taking the goods out the country, which information, if they had the time, they would compare.

On the importing side, the cargo cops gets one declaration from the companies importing (SAD500) and one from carrier company (manifest) bringing in goods into the country, which information, if they had the time, they could compare.

When something looks suspicious, the cargo cops just open their files and start to look at what the traders said and then what the carrier said, both in the country of export and the country of import, these cops all work together on international trade.

You may get away with something for a while, just like Richard Branson did as a young business man, till he landed in jail and stopped what he was doing.

The world cargo recording system has stood the test of time, and with customs working together internationally, it would just a matter of time for someone's luck to run out (you then start paying the bribes) and be in trouble if things are not right.

Don't try and use the words "I did not know, sorry, I won't do it again", that is not going to work with the cops and here is why.

The most important word that you will learn with international trade is the word "deemed", which not many people understand its true meaning.

The opposite of this word would be "tested". When there is a possibility that with a licence to do something, like a driver's licence, that if you did not drive properly, that you could endanger someone's life or property, then someone competent needs to certify you as competent at a certain point, which may require retesting over certain times.

If you then did something wrong, then you could be classified as been negligent, as at one point you could do this correctly, but now you say "the tree just jumped right in front of me", you are going to face the consequences, you were just negligent.

However when there is no possibility of you harming someone's else's life or property, "you can only harm yourself", then you can get a licence without any testing requirements, you will be deemed to know what you are doing.

This means a "**formal recognition of understanding that you know what you are doing**", like when you got married, you were supposed to know what you are doing before you got the licence (married), you are declaring yourself as competent to do something.

This is what happens with a trader; you make application to the government to get an exporter's and/or importer's licence, and when you are signing that form, you are in fact saying that you have all the knowledge to trade correctly.

You can't say to the cargo cops that you did not know something, not knowing something may not be a good enough reason to keep you out of jail.

Richard Branson learned this the hard way. He did not learn in the classroom, he had to learn in a courtroom, he is a nice guy, he learnt his lesson, but it was an expensive session, if he had this information that you are reading, it might just have saved him a lot of money and embarrassment.

Remember my song to the students "**Some people learn in a classroom but everybody learns in the courtroom**", maybe you are going through this information in and then are discussing it in your boardroom to keep you out or the courtroom, that's good.

We have covered two types of carrier (country to country) police, the People Police (the department of immigration) and Product Police (Customs). The third type it's the Pest Police (e.g. Port Health), they cover all the health issues, like fumigation and health certificates, stating that something is fit for humans and animals to eat. We don't want germs coming in from another country and damaging the importing country, like mad cow disease.

Clearing & Forwarding Companies.

Customs (cargo cops) know all the certificates that the traders (exporter & importer) need, and it is their job to make sure that the traders have all those required certificates.

Today Customs operate electronically, much like someone getting an email and when the sender asks for confirmation from the receiver, it is just a click for the receiver to acknowledge this.

So too with customs, on export or import trade, customs receive like an email with all the information and they can just click "Ok" to release, but they do need to check on some percentage of declarations and call for backup documents from the trader, and if things look a little off, they would examine the cargo. If things are not 100% correct, the trader may be in some trouble.

Cargo Delivery Codes : CDC's (Incoterm codes)

On the **CDC** side, we have 4 codes specifically designed to handle this "Cargo Cops challenge". On exports the seller can sell something with an export customs clearance or without exports customs clearance.

The code EXW means the seller is not doing export customs clearance; here the buyer is going to do two customs clearance, the export and import customs clearance.

With the code DDP the buyer in receiving cargo on which import clearance was already done by the seller, the seller here is doing both the export and import clearance, the buyer has nothing to do with customs. So EXW and DDP are just the opposite ends of each other.

With the code FCA the seller is supplying the cargo with the export customs clearance and with the code DAP the buyer is buying the cargo without the import customs clearance, in other words, except for EXW and DDP, with all the other codes, each trader would be doing one customs clearance.

If you see any code except EXW & DDP, then the seller would always be doing the export customs clearance and the buyer would always be doing the import customs clearance. In EXW, the buyer is doing 2 clearances and the seller is doing nothing. In DDP the seller is doing 2 clearances and the buyer is doing nothing.

Costing

The next C to cover is for Costing, here again the **CDC** codes are a great help in understanding international trade costing. The best people to help you here with the **Cargo Cops** and **Costing** are the **Clearing & Forwarding** companies (another C). The easiest way to learn this is look at the following 5 letters **B-I-B-I-B**, and the next time you hear and ambulance making that sound B-I-B-I-B; you will remember what you are going to learn about costing.

When someone is “terminally” ill, we say it is just a matter of time and that person would have passed on, no possibility of recovering.

Now look at the word airport “terminal” or seaport “terminal”, the cargo is going on a foreign journey, so too the terminally sick is going of a foreign journey.

This is now when the B-I-B-I-B comes in to play with the codes. The letters mean **B**efore, **I**n, **B**etween, **I**n, and **B**eyond.

Each of these five words has 2 cost steps, making up the 10 steps of international trade costing. These 10 steps are always done, if the seller does 4 of the costs, then the buyer has to do 6 of the costs, if the seller does 2 of the costs then the buyer needs to do 8 of the costs.

Before

You get 2 cost codes at a place **Before** the export terminal, one code without customs clearance included in the price (EXW) and one code with customs clearance inn the price (FCA).

In

You get 2 cost codes at a place **Inside** the export terminal, one code is when cargo is just placed in the terminal on the ground or handed over at the counter, and one code as cargo loaded onto the carrier inside the export terminal, these are the F codes.

Between

You get 2 cost codes **Between** the export and import terminals, one code without cargo insurance and one code with cargo insurance, these are the C codes.

The reason why we say between is that with the C codes, as long as the cargo has left the export terminal, the delivery is legally done, if the cargo does not arrive at the import terminal, that's is just the buyer's bad luck, game over. As long as the seller got a receipt from the carrier that the cargo was on board (going abroad), the delivery is technically completed.

In

You get 2 cost codes at a place **Inside** the import terminal, one code when the cargo is still on the carrier at the import terminal and one code when the cargo is off-loaded at the import terminal, these are 2 of the D codes.

Beyond

You get 2 cost codes at a place **Beyond** the import terminal, one code with an import customs clearance cost built into the price and one without an import customs clearance; these are also 2 of the D codes.

The new 2010 Incoterm code DAP (check the book which you could get through your CoC) has a double meaning and you have to the read the address next to the code carefully to see if it means **In** or **Beyond** the import terminal. Pre 2010 we had the code DES as in the terminal and DDU for beyond the import terminal, these 2 codes are replaced with one code as DAP.

To summarise what we have covered with the letter C's, they are as follows.

Company type risks; Local or international, a network of companies.

Country type risks; Foreign Exchange in importing country and stability in exporting country.

Currency type risks; the exchange rates of currencies and forward cover (insurance) for export and import country currencies.

Cargo Cops; the export and import customs clearance.

C&F, Clearing and Forwarding companies; they are the cargo delivery services.

Costing; Incoterm codes; the Clearing and Forwarding companies can help you put this together.

Worries

This final part is coving the basic worries of the seller and the buyer.

When we know what our risks are, then we can do something about them, but when we don't know, and things go wrong, it comes as a surprise. These surprises always cost money when not done correctly.

The seller's worry start with the letter "**P**" and the buyer's worry start with the letter "**W**".

The seller's worries are Packing, Papers and Payment.

Packing.

When you insure the cargo, the seller insures (takes the risks) up to the Incoterm code and the buyer insures (takes the risks) from the Incoterm code (if you wanted insurance), you are both insuring on the "happening of specified events".

There are 2 events that the insurance don't cover, they are "**Insufficient packing**" and "**inherent vice**" both of these risks can only be eliminated by the seller and the buyer is never responsible for this.

It is the seller's job to find out how the cargo is going to travel, so that they could "dress" the cargo, **sufficiently packed** for the journey as some modes of carriers are more risky than others.

If something is moving by airfreight with only one flight, then that is a low risk of damage, but if something is moving with 3 connecting flights or is loaded at the back of a truck driving over a rough terrain, then the packing has to be more secure for the higher risks.

When the cargo is a "bully" or "sissy", bully is dangerous cargo and sissy would be fragile or perishable cargo, these 2 types need to have "labels", labels are for labourers, labourers most of the time can't read so a label must have a picture.

If a label was required and the seller did not put on a label, then the insurance company is going to say that the claim is rejected because of insufficient packing, no labels.

The best way to explain "**inherent vice**" is when the seller is filling up a bag of rice for export, but without noticing anything wrong, a mommy mouse and daddy mouse fell into the bag. White rice and white mice, what do you expect?

Mommy and daddy are stuck in the bag, no shopping centre and no DSTV, all they could do was eat rice and make mice. When the bag left the country of export it was something that was grown, healthy to eat, but when it arrived at the county of import, it was live animals, not what the buyer wants.

Inherent vice is to load a power, knowingly or unknowingly into the cargo, that under the right conditions, the cargo could become damaged. The most common inherent vice is water damage.

Maybe the pallets (wooden platform to handle the cargo with forklift) used in loading cargo into a container were left in the rain before it was used.

Now when that container is travelling on a ship going past the equator, all the water comes out the pallets and goes for a visit inside the container.

When the ship then goes on into a cold region, the water does not have a brain to find its way home into the pallets, and they form a squatter camp on the cargo, the name of the squatter camp is called Mould village, you can see them living there.

The insurance company is going to throw out this claim on the grounds of inherent vice. What is the last thing the insurance company want to do for you, yes to pay you out for your mistakes when you are "deemed" to know what you are doing.

Whoever makes up the invoice is going to be responsible for these 2 things we have just covered, and there is no point trying to sue your professional packing company as remember they have T's & C's, so the court may only grant you $10 per package, that may not even cover your legal fees let along the cargo.

Papers

The seller always needs to prove that the cargo was handed over to the buyer at some agreed Incoterm code point, and at this point, the seller or their agent should get a piece of paper that the cargo was handed over.

So the papers are very important to seller, as without the requested paperwork to be provided by the seller, the buyer may just cancel the deal, classified as a breach of contract.

Payment

As what we have covered earlier, payment should be the first thing on the seller's mind as it is the last thing on the buyer's mind.

Don't just give any buyer an open account; remember this is a relationship that you are building for long term rewards.

Unless the buyer is a big worldwide know company like FORD or SONY, check things out carefully.

Now the buyer's worries are What, When and Waste.

What

What the buyer is going to get is a worry that only goes away when all the cargo is unpacked and examined by the buyer's staff and confirmed that this is what they have ordered.

This is not the wrong size or the wrong colour, or the wrong shape, or the wrong model and the list goes on. The buyer can take away their worries earlier when they appoint a PSI company.

This Pre-Shipment Inspection Company can check on the **Products**, the **Packing** and the **Paperwork,** as to the buyer's requirements.

This could be a letter of credit contract and all the right papers were handed into the bank and the seller has walked off with their payment, but what if the buyer has not got what they wanted. It is better to have a PSI company for peace of mind.

When

If the valentine chocolates arrived on the 15th of February, then the buyer is early for next year, it is just unfortunately the cost of storing it for a year would wipe out any profits and creates a big debt which the buyer does not want; we play the business game for profits, not losses.

The Incoterm codes are very good as showing the seller's responsibilities up to the address next to the code, but there is no clock built into the Incoterm Code.

It would be like me telling my best friend that I am taking them with me on this all expenses paid, for one year around the world by boat tour.

When my friend calls me a month later saying he has taken leave and is waiting for me to pick him up, to which I answer, "we will go when I win the Lotto", no clock.

It is up to the buyer to stipulate the latest shipment date (clock), e.g. SOB 31/2013. With international trade we work in 52 week windows.

This SOB 31/2013 is Shipped on Board, going abroad, remember not transport but carrier, that means the cargo must be placed onto the carrier in week 31 of the year 2013, week 31 will always fall somewhere in the beginning of August every year.

When the seller gets their receipt from the carrier and the date on the receipt falls in week 30 or week 32 then that is a breach of contract.

Waste

If the cargo lands up as damaged in any way, be it by plain negligence by the shipping company, then insurance will take care of that risk, or if it was due to insufficient packing / inherent vice which the insurance do not pay for, then the PSI Company should have check on those risks.

But just remember that the PSI Company is also hiding behind T's & C's, so pick a go one. To pay for something and then not get good products it is a big waste.

You now have some understanding to play the international trade game, remember to have your 2 friends with you, one in the bank and one in the Clearing and Forwarding Company, and where should you go find them, yes you guessed correctly, through the Chamber of Commerce.

If your friend in the bank or your friend at the Clearing & Forwarding Company do not belong to a Chamber of Commerce, what should you ask them to do?

Correct again, yes ask them if they mind joining a Chamber of Commerce.

If they say no, what should you do?

Take that is as an alarm to either their lack of knowledge of what the Chamber of Commerce does in this world or they just don't care to be accountable for their actions.

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