Business plan on exporting importing and countertrade

Finance, Investment

In such instances, the exporter should be particularly keen on the terms of payment, i. e. in installments or the whole package after the profit. The terms of credit should be considered to avoid exporter's insolvency and failure to deliver. A letter of credit serves both the importer and exporter and is fundamental in this transaction. This serves as an incorporating factor for the parties banking systems.

At first, the importer opens a letter of credit designed in goodwill of the exporter. The issuing bank will then send a letter of credit to another bank, negotiating bank, which should be in the exporter's country. The negotiating bank figures out the authenticity, accuracy and trustworthiness of the importer. The latter then sends an acceptance note to the issuing bank. The exporter should then request the negotiating bank to confirm or guarantee the letter of credit including the interest costs accruing for deferment of payment, and the selling process starts after this confirmation.

A typical documentation of the sale is required. This includes Commercial Invoice, Bill of Lading, Certificate of Origin, Inspection certificate, Insurance certificate and packing lists. The letter of credit in this case will be in the form of deferred payment letter of credit since the importer will not be paying for the goods on receipt. Payment methods may include holding the draft then presenting it to the bank or requesting the bank to discount the draft. This may not be profitable to the exporter due to the discounting and the interest rates charged by the banks. It is advisable that the exporter holds the draft to the stipulated time in the letter of credit.