Export Terms, Documentation, & Payment Methods
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## EXPORT TERMS, DOCUMENTATION & PAYMENT METHODS IN DETAIL

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INTRODUCTION

The information in this Bulletin is provided to assist the potential KSA Producer/Exporter to be aware of the criteria for: (a) export documentation, (b) payment methods, and (c) to understand the meanings and implications of the various exporting terms used in daily international business operations.

The Bulletin is intended to assist the KSA company to better understand how to address legal documentary factors and understand the various payment mechanisms - were it to expand its sphere of operations into international markets. These factors could positively or negatively affect the company’s business overall prospects and operations. In this respect, before taking the decision to enter an export market, it is essential that local companies work out how best to meet the legal documentary requirements of their targeted markets, as this could affect their future export viability.

It is, therefore, hoped that this Bulletin will assist local companies who are looking at export markets as the next stage in their expansion and business development programme. The Bulletin provides basic information on several key aspects of export documentary requirements and payment mechanisms, which it is hoped will provide some assistance to the KSA Producer/Exporter endeavours to export.

LOGISTICS OF EXPORTING

When preparing to ship a product overseas, the KSA Producer/Exporter needs to be fully aware of all the relevant requirements pertaining to export logistics which need to be addressed and relate to things such as packing, labelling, documentation, and insurance. As the product will be transported by external shippers to overseas customers, the company must follow all the appropriate shipping requirements and regulations to ensure that the product is:-

- Documented correctly to meet local legal requirements as well as those that are relevant in the target country.
Insured against any damage, loss, pilfering, and/or any possible delays that may arise during the period that the product is in transit.

Packed in an appropriate manner, so that it arrives at its destination in a good condition.

Labelled correctly to ensure that the product is handled properly and arrive on time and at its desired destination.

Due to the variety of things that need to be considered in the process of physically exporting a product, in most cases it probably better for the Producer/Exporter to rely on securing the services of an experienced international freight forwarder.

Before shipping, the KSA Company should check with their export customer regarding the required destination for the products. Customers often want the purchased products to be shipped to a free-trade zone or a free port where goods are exempt from import duties in their country. Finally, when deciding on the best method of international shipping, the KSA company may find it useful to consult with its freight forwarder in order to ascertain the cost of shipment, delivery schedule, and accessibility to the shipped product by their export customer. Since shipping vessels are often used for large and bulky shipments, the Producer/Exporter should reserve space on the required shipping carrier well before actual shipment date - this reservation is called the booking contract.

**Types of Export Documentation**

As there is a profusion of documentary requirements for exporting, the Producer/Exporter's should seriously consider having the freight forwarder handle the considerable amount of documentation that exporting requires, since the freight forwarders are specialists in this area. In this respect, the documents listed below are commonly used in exporting. However, not all of them will be required for every export sale and the freight forwarder can, therefore, advise which of them specifically are required in any individual circumstances - the type of documents required are dependent upon the local legal requirements as well as the regulations of the country of destination. The following is a list of the various legal documentation that can be used for exporting - their descriptions and respective details are provided in APPENDIX 3:-

- Certificate of Origin
- Dock & Warehouse Receipts
- Commercial Invoice
- Insurance Certificate
- Bill of Lading
- Export Packing List
- Certificate of Inspection
All documentation must be precise as slight discrepancies or omissions could prevent the product being exported, which would result in the Producer/Exporter not getting paid for it - in certain circumstances this could also result in the seizure of the company’s products by Customs authorities in the importing country. It should be noted that collection documents (e.g. letters of credit) are subject to precise time limits and may not be honoured by the nominated bank if it is not submitted within the stipulated time period - as they will become out of date.

The number of documents the Producer/Exporter must deal with varies depending on the destination country of the shipment, because each country has different import regulations, so the company must be careful to provide proper documentation. If the KSA exporter does not rely on the services of a freight forwarder, then there are several methods of obtaining information on foreign import regulations from, amongst others, the following sample sources:

- Embassies of foreign government and consulates can often provide information on import regulations.
- The 'Air Cargo Tariff Guidebook' lists country-by-country regulations affecting air shipments and includes other information on tariff rules and rates, transportation charges, air waybill information, and special carrier regulations. The guidebook can be obtained from Air Cargo Tariff, P. O. Box 7627, 1117 ZJ Schiphol Airport, The Netherlands.
- The National Council on International Trade Documentation (NCITD) provide publications that contain information on specific documentation commonly used in international trade. NCITD can be contacted at, National Council, International Trade Documentation, 350 Broadway, Suite 1200, New York, NY 10013, USA - Telephone No: +001-212-925-1400.
- Internet searches can often provide information in certain specific search areas relating to shipping/export documentation.
- Contacting the specific land, sea or air shipping/haulage company which provides the required services to the destination country in question.

Export Packing

Packing for export is different from domestic packing as the packaging needs to be designed to be more robust. The following points should be kept in mind when designing the shipping case for the products:

- **Breakage** - designing a export package to be strong is essential as it should be borne in mind that while most general cargo is carried in
containers, some is still shipped as bulk cargo. Besides the normal handling encountered in domestic transportation, a bulk shipment moving by ocean freight may be loaded aboard vessels using various methods (in a net, by a sling, conveyor, chute, etc.), which can put added strain on the package. Once in a ship's hold, the package may also be stacked one on top of the other, or come into violent contact with other goods during the voyage. Also handling facilities overseas may be less sophisticated than in the KSA and the cargo could end up being dragged, pushed, rolled, or dropped during unloading, or while moving through customs, or in transit to the final in-shore destination.

- **Moisture** - can also be a problem because a ship's cargo is subject to condensation even in the hold - which may be equipped with air conditioning and a dehumidifier.
- **Weight** - the packing case and materials need for packing must take into account the weight that will be carried within it and be designed accordingly - to protect the product during the period of shipping and during transit.
- **Pilferage** - possibilities for pilferage exist during the shipping period and the packaging needs to be designed to minimise the risk of loss or damage to the product.

Since proper packing is essential in exporting, it is often the case that the customer specifies his packing requirements. If he does not specify the type of packing require, then the Producer/Exporter needs to ensure that his products are packed with the following points in mind:

- Packing in strong containers, adequately sealed, and with adequate filler material to prevent damage to the product.
- To provide proper bracing in the container, regardless of size, making sure the product weight is evenly distributed within the case.
- For ocean shipments, products should be packed in ocean-going containers, if possible, or on pallets to ensure greater ease in handling at both ends. Packages and packing filler should be made of moisture-resistant material.
- Pilferage can be avoided/minimised by having the case strapped, sealed, and/or shrink-wrapped, as this is an effective means of deterring theft. Apart from legally meeting the packages labelling requirements, mentioning anything on the cases that could identify it to pilferers should be avoided.
Normally, air shipments require less heavy packing than ocean shipments, but it must still be adequately protected. In many instances, standard domestic packing is acceptable, especially if the product is durable and there is no concern for display packaging. In most other instances, high-test (at least 250 lbs/sq.in.) cardboard or tri-wall construction boxes should be adequate.

For both ocean and air shipments, freight forwarders and shipment carriers can advise on the optimum packaging requirements - marine insurance companies can also be sometimes contacted for advice. The best advice that can be given to a Producer/Exporter is for the company to hire a professional organisation to provide package services for export, if the exporter is not equipped to undertake this task. In many cases the freight forwarder can also provide this service, which is usually provided at a moderate cost.

Finally, because transportation costs are determined by volume and weight, special reinforced and lightweight packing materials have been devised for exporting. Care in packing goods to minimise volume and weight while giving strength may well save money while ensuring that goods are properly packed.

**Export Labelling & Shipping Marks**

To ease the despatch of exported products, and their receipt in the country of destination, specific labelling and marking are used on the export packages in order:-

- To meet shipping regulations.
- To ensure proper handling of the packages.
- To conceal the identity of the contents.
- To help receivers (freight forwarders) to identify shipments.

Importing countries may require many different types of markings to be on the shipment package. To meet these requirements Producers/Exporter's may need to put some or all of the following markings on their export packaging: -

- Shipper’s mark.
- Country of origin (Producer/Exporters’ country).
- Weight marking (e.g. in kilograms/tonnes, etc.).
- Number of packages and size of cases (e.g. in inches and centimetres).
- Handling marks (international pictorial symbols).
- Cautionary markings, such as "This Side Up" or "Use No Hooks" (in English and in the language of the country of destination).
- Name of the port of entry.
Labels for hazardous materials (i.e. universal symbols adapted by the International Maritime Organisation - IMO).

It is also worth noting that export marking should be added to the standard information provided on a domestic bill of lading, which should show the name of the exporting shipping carrier and the latest allowed arrival date at the port of export. The Producer/Exporter should also include instructions for the inland carrier to notify the international freight forwarder by telephone on arrival of the products at the port.

Legibility of markings on the export packages is extremely important to prevent misunderstandings and delays in shipment. Letters are generally stencilled onto packages and containers in waterproof ink. Markings should appear on three faces of the container, preferably on the top and on the two ends or the two sides. Any old markings, if any, must be completely removed from the packages.

In addition to the port marks, customer identification code, and indication of origin, the shipping marks should also include the package number, gross/net weights, and dimensions. If more than one package is being shipped, then the total number of packages in the shipment should be included in the markings. The Producer/Exporter should also include any special handling instructions on the packages. It is always a good idea to repeat these instructions in the language of the country of destination. Standard international shipping and handling symbols should also be used in an appropriate manner.

KSA companies may find that Customs regulations regarding freight labelling are strictly enforced in many export countries. If requested, most freight forwarders and export packing specialists can supply necessary information regarding specific regulations.

Export Insurance

Export shipments are usually insured against loss, damage, and delay in transit by cargo insurance. For international shipments, the carrier’s liability is frequently limited by international agreements and the coverage is substantially different from domestic coverage. Damaging weather conditions, rough handling by carriers, and other common hazards to cargo make marine insurance important protection for exporting companies. The KSA Producers/Exporters are advised to consult with international insurance carriers or freight forwarders for more detailed and specific information on this subject.
Freight Forwarders

International freight forwarders can assist in the exporting process by advising the company on various aspects of shipping, such as:-

- Freighting costs to target country.
- Relevant port charges in country of destination.
- Any consular fees.
- The cost of any special documentation.
- Any insurance costs.
- The freight forwarder’s handling fees.

All of this information will assist the Producer/Exporter in preparing the price quotations/pro-forma invoices for the export customer. In this instance, the freight forwarder will be acting as an agent of the company in moving its products to an overseas destination. It should be noted that the freight forwarder’s prices are a genuine export cost that should be included in the overall product price being charged to the export customer.

Additionally, when the company’s export order is ready for shipment, the selected freight forwarder will be able to review the relevant export documentation, such as the letter of credit, commercial invoices, packing list, etc. - this is to ensure that all documentation is in order for exporting. Thereafter, the freight forwarder will also be able to reserve the necessary cargo space on board the most suitable means of transport – sea, air or land. In the case of land transportation, the Producer/Exporter can either use his own road transport vehicles or arrange this though a road haulage company.

METHODS OF PAYMENT

Several basic methods of securing payment are available, that can be used in international trade to receive overseas payments for products sold into the export market. A major factor that determines the method of payment to be used, is the financial standing of the export customer and the level of trust in his ability and willingness to pay. Determining the right payment option is, therefore, dependent upon this and several other factors. Listed below and ranked in order from most secure for the Producer/Exporter to least secure, are the basic (most commonly used) methods of payments:-

- Cash in advance.
- Letter of credit.
- Documentary collection or draft.
Details on the above payment options are provided in the section below. Suffice to say, getting paid in full and on time should be of paramount concern to local Producers/Exporters. In all export transactions 'risk' is a major consideration which needs to be minimised in all business dealings. There are many factors that make exporting 'riskier' than domestic sales, however, there are also several methods of reducing 'risks', especially in relation to payments. One of the most important factors in reducing 'risks' is to know what 'risks' exist - not just at a financial level, but also in relation to commercial and technical aspects of the export business.

Payment Mechanisms

A. **Cash in Advance**

Cash in advance before shipment, is probably the most desirable method of all. In this case the Producer/Exporter is relieved of collection problems and has immediate use of the money if a telegraphic transfer (TT) is used. Payments by cheque, even before shipment, may result in a collection delay of four to six weeks and, therefore, frustrate the original intention of receiving payment before shipment has been undertaken. While this method of payment provides early positive cashflow for the Producer/Exporter, however, conversely advance payment could create cashflow problems for the export customer and increases his level of 'risk'. Generally, cash in advance lacks competitiveness and could, in some circumstances, indicate to the customer that there is a lack of trust on the part of the Producer/Exporter. It is also possible that the export customer may refuse to pay until such time as he has received the products ordered from the KSA company.

B. **Letters of Credit & Drafts**

Letters of credit (L/C) and drafts are used in cases where export customers are concerned that their product order may not be sent if the payment is made on a cash in advance basis. This payment mechanism protects the interests of both Producer/Exporter and his export customer. Under this method of payment, documents are required to be presented to a nominated and agreed bank in the KSA (confirming bank), before payment is made. Both L/C and documentary drafts may be paid immediately, at sight, or at a later date. Drafts that are to be paid when presented for payment are called sight drafts. Normally, the
Producer/Exporter expects the export customer to pay the charges for the L/C or documentary draft, but it is possible that some customers may not accept terms that require this added cost. In such cases the KSA company must either absorb the L/C/draft costs or possibly lose the potential sale.

Since payment under these two methods is made on the basis of documents, all terms of sale should be clearly specified and agreed to avoid confusion and delay in payment. In the same manner, the currency of payment should also be specified - if payment is to be made in Saudi Rials or U.S. dollars. International banks can often offer other suggestions if terms cannot be agreed between the two parties to the sales contract.

Essentially, the KSA company is usually not paid until the 'advising' or 'confirming' bank (KSA bank that pays the local company) receives the funds from the 'issuing' bank (customer's bank in his home country). It may be possible for the Producers/Exporter to be able to receive his funds earlier by discounting the L/C through a bank - this involves paying a fee to the bank for this service.

To undertake this type of transaction, banks (both issuing and confirming banks) will charge a fee for handling letters of credit and drafts (usually a small percentage of the total amount of payment). If fees for both the foreign and local bank's collection services are to be charged to the account of the Producer/Exporter (or the export customer), then this point should be explicitly stated in the KSA company's quotation/pro-forma, and eventually in any documentary L/C's or draft's that will be raised.

In essence, a L/C adds a bank's 'promise' to pay the Producer/Exporter (on behalf of the export customer) when the KSA company has complied with all the agreed 'terms and conditions' of the L/C that has been raised. Payment under a documentary L/C is based on the presentation of specifically agreed documents to the bank, and not on the Producer/Exporter's 'terms and condition of sale' for the products sold. Therefore, before any payment is made, the bank responsible for making the payment verifies that all the presented documents are exactly as required by the terms of the L/C. When they are not as required, a 'discrepancy' exists, which must be corrected before the payment can be made. The banks role in corroborating documentary requirements is a mechanism which is mandatory to ensure the full compliance of submitted documents with those specified in the L/C.

A L/C may be either 'irrevocable' (this signifies that it cannot be changed unless both the Producer/Exporter and the export customer agree to make the change) or 'revocable' (meaning that either concerned party may unilaterally make changes,
without seeking approval from the other). A *revocable* L/C is inadvisable as changes can be made to it without first agreeing them with the KSA company. Additionally, the L/C may be at ‘sight’, which means immediate payment upon presentation of documents to the confirming bank, or it may be a ‘time or date’ L/C with payment to be made at a specified date/time in the future – further details are in the ‘Drafts’ section on the following pages.

Any changes made to a L/C after it has been issued is called an ‘amendment’ – this may arise, for example, if the Producer/Exporter is delayed, for some reason, in presenting the L/C documents to the bank or if the customer wishes to change his purchase order. The fees charged by the banks involved in amending the L/C may be paid by either the KSA company or the export customer - but who is to pay particular charges should be specified in the original L/C. Since changes can be time-consuming and expensive, every effort should be made to ensure that the L/C is correctly issued the first time.

Details of a typical L/C transaction are show in the attached APPENDIX 1, while information on how a L/C can be used is provided in APPENDIX 2.

C. **Drafts or Bill of Exchange**

A draft, sometimes also called a 'bill of exchange', is similar to receiving the export customer's cheque, issued by a bank in his country (i.e. receiving a cheque from a foreign bank). Like all cheques, drafts sometimes carry the risk that they may not be honoured by the bank - e.g. due to lack of funds in the customer’s account.

D. **Sight Drafts**

A sight draft is used when the seller wishes to retain title to the shipment until it reaches its destination and is then paid for by the customer. In this case, before the product shipment can be released, the original ‘ocean bill of lading’ must be properly endorsed by the export customer and surrendered to the shipping carrier, since it is a document that evidences title.

Air waybills (AWB) of lading, on the other hand, do not need to be presented in order for the export customer to claim the goods. For this reason, there is a greater 'risk' when a sight draft is being used with an air shipment.

In actual practice, the bill of lading or an AWB is endorsed by the shipper and sent via the shipper's bank to the export customer's bank or to another intermediary along with a sight draft, invoices, and other supporting documents specified by either the customer or required by his country's trade regulations (e.g., packing
lists, consular invoices, insurance certificates, etc.). In this case, the bank notifies the customer when it has received these documents, and as soon as the amount of the draft is paid, the bank releases the bill of lading, enabling the export customer to obtain the product shipment.

When a sight draft is being used to control the transfer of title of a product shipment, some risk remains because the customer’s ability or willingness to pay may change between the time the goods are shipped and the time the drafts are presented for payment. Also, the policies of the importing country may change. If the customer cannot or will not pay for and claim the shipped products, then returning or disposing of them becomes the problem of the local Producer/Exporter.

In this respect, Producers/Exporters should also consider which foreign bank should negotiate the sight draft for payment. If the negotiating bank is also the customer’s bank, the bank may favour its customer’s position, thereby putting the KSA company at a disadvantage. For this reason Producers/Exporters should consult their local international bankers to determine an appropriate strategy for negotiating drafts.

E. Time & Date Drafts

If the Producer/Exporter wishes to extend credit to his customer, a ‘time draft’ can be used to stipulate that the payment is due within a certain time after the customer accepts the draft and receives the goods – e.g. 60 days after acceptance. By signing and writing ‘accepted’ on the draft, the customer is formally obligated to pay within the stated time agreed. When this is done the draft is called a ‘trade acceptance’ and can be either kept by the Producer/Exporter until the maturity date, or sold to a bank at a discount for immediate payment.

A ‘date draft’ differs slightly from a ‘time draft’ in that it specifies a date on which payment is due (e.g. December 30, 2004), rather than a time period after the draft is accepted. It should be noted that when a ‘sight draft’ or ‘time draft’ is used, the export customer can delay payment by delaying acceptance of the draft. A date draft can prevent this delay in payment but still must be ‘accepted’ by the customer.

When a bank accepts a draft, it becomes an obligation of the bank and a negotiable investment known as a ‘banker’s acceptance’ is created. A banker’s acceptance can also be sold to a bank at a discount for immediate payment.
F. **Open Account**

In a foreign sales transaction, an open account is a convenient method of payment and may be satisfactory if the export customer is well established, has demonstrated a long and favourable payment record, and/or has been thoroughly checked for creditworthiness. Under an open account, the Producer/Exporter invoices his export customer, who is expected to pay, under agreed terms and within a specified and agreed timeframe in the future.

Open account sales do, however, pose some levels of risk, since the absence of documents and banking channels may make legal enforcement of claims difficult to pursue. In this situation, the KSA company may have to pursue collection of payment abroad, which can be difficult and costly.

Before issuing a quotation/pro-forma invoice to an export customer, any KSA company considering an export sale on an open account basis, should thoroughly examine the political, economic, and commercial risks and consult with their bankers if financing is needed to undertake the transaction.

G. **Other Payment Options**

There are a number of other export payment methods that are used less often, but they could be utilised by the Producer/Exporter in certain specific circumstance. However, in all cases the levels of risk should be assessed before agreeing on a specific mechanism. Details on these other payment options are provided below:-

1. **Consignment Sales**

In international consignment sales, the product is shipped to a foreign distributor to be sold on behalf of the local KSA company. The Producer/Exporter retains title to the products until such time that they are sold by the distributor. Once the products are sold, payment is sent to the KSA company by the distributor. With this method of payment, the Producer/Exporter has the greatest risk and least control over his products and it is possible that he may have to wait quite a while to obtain payment from the distributor.

When this type of sale is contemplated, it may be wise to consider some form of risk insurance. In addition, it may also be necessary to conduct a credit check on the foreign distributor. For further security for the KSA company, the contract between the two parties should establish who is
responsible for property risk insurance covering the products until they are sold and payment for them is received by the Producer/Exporter.

2. **Foreign Currency**

One of the worries relating to exporting is the uncertainty of the future exchange rates between currencies. The relative value between the Saudi Rial and the export customer’s currency may change between the time the sales contract is made and the time payment is received for it. If the Producer/Exporter is not properly protected, a devaluation in the foreign currency could cause him to lose money in the business deal.

One of the simplest ways for a KSA company to avoid this type of risk is to quote prices and require payment in either Saudi Rials or in US Dollars (as both the currencies are 'pegged' to each other). Then the burden and risk of currency exchange is placed on the export customer to arrange the currency conversion. In some countries, the Producers/Exporters should also be aware of the problems relating to currency convertibility, as not all currencies are freely, easily or quickly convertible, due to government regulations in that country.

In the event that the export customer requests to make payment in a foreign currency, the KSA company should consult its international banker before negotiating the final sales contract. Banks can offer advice on the foreign exchange risks that exist and how to mitigate against them. Additionally, some international banks can also help the Producer/Exporter to 'hedge' against such a risk if necessary, by agreeing to purchase the foreign currency at a fixed price regardless of the value of the currency when the customer pays. For this service the bank charges a fee or discount on the transaction. If this payment option is used, then the fee should be included in the Producer/Exporters price quotation/pro-forma invoice.

3. **Counter Trade & Barter**

Counter trade can be a risky venture and should be undertaken only when the Producer/Exporter has a clear understanding of the obligations and risks involved. In essence, counter trade is a trading mechanism by which a Producer/Exporter (to generate sales) contractually commits to undertaking agreed and specified initiatives that compensate and benefit another party - as a condition of sales. The resulting linked trade fulfils certain specific financial, commercial and/or policy objectives of both the trading parties.
Many Producers/Exporters consider counter trade a necessary cost of doing business in markets where exports would otherwise not be possible - due to some level of financial problems in the target market, such as the potential export customer and/or the importing country is lacking foreign exchange or does not readily have availability to funds, or some similar/related problem.

In these circumstances, the Producers/Exporters can take advantage of counter trade opportunities by trading through an intermediary with counter trade expertise - i.e. an international broker, an international bank, or an export management company (some export management companies offer specialised counter trade services). Ultimately before taking on counter trade commitments, the KSA company should bear in mind that counter trade often involves higher transaction costs and greater risks than just simple export transactions.

In its simplest form, a barter transaction is the direct exchange of goods or services between two parties - where no money changes hands. Pure barter arrangements in international trade are rare. The main reason for this is because one trading party's needs for the goods of the other party seldom coincide. The other important factor is that the need for the two participating parties to agree on the financial valuation of the goods to be purchased - which may pose problems. For this reason the most common form of compensatory trade practiced today involves contractually linked, parallel trade transactions each of which involves a separate financial settlement. To ensure a profitable conclusion to such trade, it is imperative to have a reliable third party who is a specialist in the product sector(s) and who can act as both a buying and selling intermediary in the parallel transactions.

4. Credit Cards

Many Producers/Exporters of consumer and other products (generally of low value) that are sold directly to the end-user accept Visa, or MasterCard, or another known credit card in payment for export sales. International credit card transactions are typically placed by telephone or fax or over the internet - methods that can facilitate fraudulent transactions. In all cases the Producer/Exporter should determine the validity of transactions and obtain proper credit authorisations from the card issuing authority before shipping the concerned products.
Credit Risks

Generally, it is always a good idea to check an export customer’s credit rating even if credit risk insurance or relatively safe payment methods are employed. Banks are often able to provide credit reports on foreign companies, either through their own foreign branches or through their correspondent bank. Private credit reporting services also are available - e.g. Dunn & Bradstreet. Several such service companies compile financial information on foreign firms (particularly larger firms) and make it available to their subscribers. Reliable evaluations can, therefore, be obtained from a range of foreign credit reporting services, many of which are listed in The Exporter's Guide to Foreign Sources for Credit Information, published by Trade Data Reports, 6 West 37th Street, New York, NY 10018, USA.

Bad Debts

In international trade, problems involving bad debts are more easily avoided than rectified after they occur. Credit checks and the other methods that have been identified can help to minimise the risks involved but can never fully cover them. However, KSA companies will occasionally encounter problems with their export customers who default on payments. When these problems occur in international trade, obtaining payment can be both difficult and expensive. Even when the Producer/Exporter has insurance cover for commercial credit risks, a default by a export customer will still requires time, effort, and cost to sort out appropriately. In such cases, the KSA company will need to exhaust all reasonable means of obtaining payment before an insurance claim is honoured, and there can often be a significant delay before the insurance payment is finally made.

The simplest (and least costly) solution to a payment problem is to contact and negotiate with the export customer and with patience, understanding, and flexibility, the Producer/Exporter can often resolve conflicts to the mutual satisfaction of both parties. This is especially true when a simple misunderstanding or technical problem is to blame and there is no question of bad faith. Even though the KSA company may be required to compromise on certain points, the company may save a valuable customer and some level of profit in the long run. If, however, negotiations fail and the sum involved is large enough to warrant the effort, the KSA company should obtain the assistance and advice of its bank, legal counsel, and other qualified experts. If both parties can agree to take their dispute to an arbitration agency, this step is preferable to legal action, since arbitration is often faster and less costly. The International Chamber of Commerce handles the vast majority of international arbitrations and is usually acceptable to foreign companies because it is not affiliated with any single country.
COMMONLY USED EXPORT TERMINOLOGY

In any industry it is important that a common understanding exists, regarding the technical terminology (jargon) used specifically in that sector by all concerned parties. In this way business transactions can be undertaken without any misunderstandings or costly errors being enacted. International trade also has its own set of 'jargon' and some of the more commonly used terms and their descriptions are provided in the attached APPENDIX 3.

LESSONS TO BE LEARNT

The most important lesson to be learnt is the need for the KSA company to ensure that the correct payment mechanism is used to mitigate against any risk factors that may exist in the specific export market. However, there may be a level of negotiations needed with the export customer to agree on a payment method which is mutually acceptable to both parties.

Once a method of payment is agreed, it is important for the Producer/Exporter to ensure that all the terms and documentary requirements to secure the payment are properly undertaken and met to minimise any possible delays. In this respect the KSA company can seek advice and assistance from both his local bank and/or his freight forwarder - depending upon whether clarification is required in terms of payment and/or shipping procedures.

SUMMARY

In the context of the information provided in this Bulletin, it is hoped that the Producer/Exporter has a better understanding of the range of payment methods available to him and their corresponding documentary requirements. Understanding how to utilise the various mechanisms available for securing payment for products sold will enable the KSA company to profitably establish and sustain its targeted export market penetration.

It must be stressed here that there is considerably more details that a KSA company needs to be aware of when exporting and it is suggested that the Producer/Exporter should spend adequate time to familiarise himself with all the different and varied facets of exporting before fully committing the company and its resources to the export markets. Future Bulletins will endeavour to provide additional information to assist local exporters to become more aware of other aspects of exporting.
On a general basis, the following notes may be of assistance to the KSA Producer/Exporter, once the company decides to enter export markets:-

- To assist with export planning, a booklet has been prepared by the Export Consulting Unit (ECU) of the Saudi Industrial Development Fund (SIDF). This booklet is available from the ECU and has been designed to assist KSA companies who are seeking to develop their export opportunities. It is an aid to exporters and highlights a range of critical subjects that should be addressed by exporters in readiness for finalising their export plan - which forms part of their overall corporate marketing plan.

- As export business develops, the KSA producers are encouraged to contact local export insurance and credit institutions in order to utilise the available facilities for export credit and the insurance programmes that can provide cover for higher risk countries. Additionally, the Saudi Export Program (SEP), operated by the Saudi Fund for Development (SFD) in Riyadh, is in a position to assist potential KSA exporters to expand their export activities and assist them to increase their sales volumes to more countries, while trying to minimise risk factors.
A Typical Letter of Credit (L/C) Transaction

To assist the KSA company to understand a L/C transaction, the following is what typically happens when payment is made by an irrevocable L/C, that is confirmed by a local bank:-

- After the KSA Producer/Exporter and his export customer agree on the terms of a sale, the customer arranges for its bank (in the target export country) to open a L/C.
- The export customer’s bank prepares an irrevocable L/C, including all instructions to the KSA company regarding product requirements, delivery schedule, and shipment details.
- The customer’s bank then sends the irrevocable L/C to a local KSA bank, requesting its confirmation. The Producer/Exporter may request that a particular bank be the confirming bank, or the foreign bank selects one of its local correspondent banks in the KSA.
- The local KSA bank prepares a letter of confirmation to forward to the Producer/Exporter along with the irrevocable L/C.
- The KSA company reviews very carefully all conditions in the L/C. At this point, the Producer/Exporter’s freight forwarder should be contacted to make sure that the shipping date can be met. If the KSA company cannot comply with one or more of the conditions, the export customer should be advised immediately, so that any agreed amendments to the L/C can be authorised and issued quickly.
- The KSA company arranges with his freight forwarder to deliver the goods to the appropriate port or airport.
- When the goods are loaded, the freight forwarder completes all the necessary documentary processes.
- The Producer/Exporter (or his freight forwarder) presents to the local KSA bank, the necessary documents indicating full compliance to L/C terms.
- The KSA bank reviews the documents and if they are in order, the documents are airmailed to the export customer’s bank for review. Upon acceptance, the KSA bank is advised to make payment to the Producer/Exporter, while the documents are then passed to the export customer.
- The export customer (or his agent) now has the documents that will be needed to claim the products when they arrive in the destination country.
- A money draft, which accompanies the L/C to the KSA, is then paid by the KSA bank to the Producer/Exporter at the time specified or the KSA company may have arranged for it to be discounted at an earlier date.
APPENDIX 2

How to use a Letter of Credit (L/C)

When preparing quotations or pro-forma invoices for prospective export customers, local Producers/Exporters should keep in mind that banks pay only the amount specified in the L/C - even if higher charges for shipping, insurance, or other factors are incurred and documented.

Upon receiving a L/C, the KSA company should carefully compare the L/C terms with the terms of the its own pro-forma invoice send to the export customer. This point is extremely important, since the terms must be precisely met or the L/C may be invalid and the KSA company may not be paid. If meeting the terms of the L/C is impossible or if any of the information is incorrect or misspelled, the Producer/Exporter should get in touch with the export customer immediately and ask for an amendment to the L/C to correct the problem.

The Producer/Exporter must provide documentation showing that the ordered products were shipped by the date specified in the L/C or again the KSA company may not be paid. Producers/Exporters should check with their freight forwarders to ensure that no unusual conditions may arise that would delay shipment. Similarly, to ensure payment, the required documents must be presented to the bank by the date specified in the L/C. The KSA company should verify with their local international bankers that sufficient time will be available for timely presentation of the required documents to them.

It is suggested that Producers/Exporters should always request that the L/C allow partial shipments and trans-shipment. Doing so prevents unforeseen problems at the last minute.
APPENDIX 3

Export Terminology

The most commonly used export terms are given below, alphabetically, to assist KSA companies to understand some of the more common technical terms used within the international business and exporting environment:-

- **Acceptance** - this term has several related meanings, which include the following:
  - A time draft (or bill of exchange) that the drawee has accepted and is unconditionally obligated to pay at maturity. The draft must be presented first for acceptance - the drawee becomes the "acceptor" - then for payment. The word "accepted" and the date and place of payment must be written on the face of the draft.
  - The drawee’s act of receiving the draft, confers on him the obligation to pay its value at maturity.
  - An agreement to purchase goods at a stated price and under stated terms.
  - Generally this covers any agreement reached to purchase goods under specified terms.

- **Ad valorem** - according to value. Refer also to Duty.

- **Advance against documents** - a loan made on the security of the documents covering the shipment.

- **Advising bank** - a bank, operating in the KSA (Producer/Exporter's country), that handles letters of credit for a foreign bank by notifying the Producer/Exporter that the credit has been opened in its favour. The advising bank fully informs the KSA exporter of the conditions of the letter of credit without necessarily bearing responsibility for payment.

- **Advisory capacity** - a term indicating that a shipper's agent or representative is not empowered to make definitive decisions or adjustments without approval of the group or individual represented.

- **Agent (Foreign Sales Agent, Representative)** - an individual or firm that serves as the foreign representative of a domestic supplier and seeks sales abroad for the supplier.

- **Air waybill (AWB)** - a bill of lading that covers both domestic and international flights transporting goods to a specified destination. This is a non-negotiable instrument of air transport that serves as a receipt for the shipper, indicating that the carrier has accepted the goods listed and obligates itself to carry the consignment to the airport of destination according to specified conditions.
- **Alongside** - the side of a ship. Goods to be delivered 'alongside' are to be placed on the dock or barge within reach of the transport ship's tackle so that they can be loaded aboard the ship.
- **Arbitrage** - the process of buying foreign exchange, stocks, bonds, and other commodities in one market and immediately selling them in another market at higher prices.

**B**

- **Balance of trade** - the difference between a country's total imports and exports. If exports exceed imports, a positive balance of trade exists, if not, then a trade deficit is said to exist.
- **Barter** - trade in which goods are exchanged directly for other goods without use/exchange of money. Barter is an important means of trade with countries using currency that is not readily convertible.
- **Beneficiary** - the company in whose favour a letter of credit is issued or a draft is drawn.
- **Bill of exchange (Draft)** - an unconditional order in writing from one company (the drawer) to another (the drawee), directing the drawee to pay a specified amount to a named drawer at a fixed or determinable future date. Refer also to date draft, sight draft, and time draft.
- **Bill of lading** - a document that establishes the terms of a contract between a shipper and a transportation company under which freight is to be moved between specified points for a specified charge. Usually prepared by the shipper on forms issued by the carrier, it serves as a document of title, a contract of carriage, and a receipt for goods. The customer usually needs the original or a copy as proof of ownership to take possession of the goods. In this respect, there are two types, namely:-
  - A straight bill of lading which is non-negotiable.
  - A negotiable bill of lading (or shipper's order) can be bought, sold, or traded while goods are in transit and is used for 'Letter of Credit' transactions.
- **Bonded warehouse** - a warehouse authorised by a country's Customs authorities for storage of goods on which payment of duties is deferred until the goods are removed.
- **Booking** - an arrangement with a shipping company for the acceptance and carriage of freight.
- **Buying agent (Commission agent, Purchasing agent)** - an agent who purchases goods in their own country on behalf of foreign importers such as government agencies and private concerns.

**C**

- **Carnet** - a Customs document permitting the holder to carry or send goods temporarily into certain foreign countries (for display, demonstration, or similar purposes) without paying duties or posting bonds.
- **Cash against documents (CAD)** - payment for goods in which a commission house or other intermediary transfers title documents to the buyer upon payment in cash.
- **Cash in advance (CIA)** - payment for goods in which the price is paid in full before shipment is made. This method is usually used only for small purchases or when the goods are built to order.
- **Cash with order (CWO)** - payment for goods in which the buyer pays when ordering and in which the transaction is binding on both parties.
- **Certificate of inspection** - a document certifying that goods were correct and in good order, immediately prior to their shipment. Some countries and customers require this certificate which attests the specification level of the product being shipped. The inspection is usually performed by a third party, which is an independent testing organisation. These inspections can be stipulated in the country of the product, or the country of import, or both.
- **Certificate of manufacture** - a statement (often notarised) in which a producer of goods certifies that manufacture has been completed and that the goods are now at the disposal of the buyer.
- **Certificate of origin** - a document, required by certain foreign countries for tariff purposes, certifying the country of origin of specified goods.
- **Cost and freight (CFR)** - a pricing term indicating that the cost of the goods and freight charges are included in the quoted price - where the buyer arranges for and pays insurance.
- **Charter party** - a written contract, usually on a special form, between the owner of a vessel and a 'charterer' who rents use of the vessel or a part of its freight space. The contract generally includes the freight rates and the ports involved in the transportation.
- **Cost, insurance, freight (CIF)** - a pricing term indicating that the cost of the goods, insurance, and freight are included in the quoted price.
- **Clean bill of lading** - a receipt for goods issued by a carrier that indicates that the goods were received in 'apparent good order and condition', without damages or other irregularities.
- **Clean draft** - a draft to which no documents have been attached.
- **Collection papers** - all documents (commercial invoices, bills of lading, etc.) submitted to a buyer for the purpose of receiving payment for a shipment.
- **Commercial invoice** - an itemised list of goods shipped, usually included among an exporter's collection papers. This is a mechanism that is used by the local company to sell its products to its customers. The commercial invoice should include basic information about the transaction being enacted - including a description of the products being sold, the address of the shipper and Producer/Exporter, the delivery terms and payment requirements. The export customer needs the invoice to prove ownership and to arrange payment, while Customs & Excise authorities in the importing country can use the commercial invoice to assess the tariffs/duties and taxes payable on the imports.
- **Common carrier** - an individual, partnership, or corporation that transports persons or goods for compensation.
- **Confirmed letter of credit** - a letter of credit, issued by a foreign bank, the validity of which has been confirmed by a domestic bank. An exporter whose payment terms are a confirmed letter of credit is assured of payment by the domestic bank even if the foreign buyer or the foreign bank defaults. Refer also to Letter of credit.
- **Consignment** - delivery of goods from an exporter (the consignor) to an agent (the consignee) under agreement that the agent sell the goods for the account of the exporter. The consignor retains title to the goods until the consignee has sold them. The consignee sells the goods for commission and remits the net proceeds to the consignor.
- **Consular declaration** - a formal statement, made to the consul of a foreign country, describing the goods to be shipped.
- **Consular invoice** - a document, required by some foreign countries, describing a shipment of goods and showing information such as the consignor, consignee, and value of the shipment. Certified by a consular official of the foreign country, it is used by the country’s Customs officials to verify the value, quantity, and nature of the shipment.
- **Convertible currency** - a currency that can be bought and sold for other currencies at will - e.g. US Dollars, Saudi Rials, etc.
- **Correspondent bank** - a bank that, in its own country, handles the business of a foreign bank.
- **Counter trade** - the sale of goods or services that are paid for in whole or in part by the transfer of goods or services from a foreign country.
- **Carriage paid to (CPT) & Carriage and insurance paid to (CIP)** - pricing terms indicating that carriage, or carriage and insurance, are paid to the named place of destination. They apply in place of CFR and CIF, respectively, for shipment by modes other than water.
- **Credit risk insurance** - insurance designed to cover risks of non-payment for delivered goods.
- **Customhouse broker** - an individual or firm licensed to enter and clear goods through Customs.
- **Customs** - the authorities designated to collect duties levied by a country on imports and exports. The term also applies to the procedures involved in such collection.

- **Date draft** - a draft that matures in a specified number of days after the date it is issued, without regard to the date of acceptance.
- **Deferred payment credit** - type of letter of credit providing for payment some time after presentation of shipping documents by exporter.
- **Demand draft (Sight draft – S/D)** - a draft that is payable upon presentation to the drawee.
- **Devaluation** - the official lowering of the value of a country’s currency in terms of one or more foreign currencies - e.g. if the Euro is devalued in relation to the Saudi Rial, then one Euro will 'buy' fewer Saudi Rials than before.

- **Discrepancy - Letter of credit** - when documents presented do not conform to the letter of credit, it is referred to as a discrepancy.

- **Dispatch** - an amount paid by a vessel’s operator to a charterer if loading or unloading is completed in less time than stipulated by the charter party.

- **Distributor** - a foreign agent who sells for a supplier directly and maintains an inventory of the supplier’s products.

- **Dock receipt** - a receipt issued by an ocean carrier to acknowledge receipt of a shipment at the carrier’s dock or warehouse facilities. The receipt is used to transfer accountability when the export product is moved by the domestic freight forwarder to the port of embarkation and left with the international shipping carrier for export.

- **Documentary draft** - a draft to which documents are attached.

- **Documents against acceptance (D/A)** - instructions given by a shipper to a bank indicating that documents transferring title to goods should be delivered to the buyer (or drawee) only upon the buyer’s acceptance of the attached draft.

- **Drawee** - the company on who a draft is drawn and who owes the stated amount.

- **Drawer** - the individual or firm that issues or signs a draft and thus stands to receive payment of the stated amount from the drawee.

- **Dumping** - selling goods in another country at a price below the price at which the same goods are sold in the home market or selling such goods below the costs incurred in production and shipment.

- **Duty** - a tax imposed on imports by the Customs authority of a country. Duties are generally based on the value of the goods (ad valorem duties), some other factor such as weight or quantity (specific duties), or a combination of value and other factors (compound duties).

- **Ex-From** - when used in pricing terms such as 'ex-factory' or 'ex-dock', it signifies that the price quoted applies only at the point of origin (e.g. at the seller's factory or a dock at the import point). In practice, this kind of quotation indicates that the seller agrees to place the goods at the disposal of the buyer at the specified place within a fixed period of time.

- **Exchange permit** - a government permit sometimes required by the importer’s government to enable the import firm to convert its own country’s currency into foreign currency with which to pay a seller in another country.

- **Exchange rate** - the price of one currency in terms of another, that is, the number of units of one currency that may be exchanged for one unit of another currency.

- **Export broker** - a company that brings together buyers and sellers for a fee but does not take part in actual sales transactions.
- **Export commission house** - an organisation which, for a commission, acts as a purchasing agent for a foreign buyer.

- **Export management company** (Export trading company) - a private company that serves as the export 'outlet' for several producers of goods or services, either by taking title or by soliciting and transacting export business on behalf of its customers, in return for a commission, salary, or retainer plus commission.

- **Free alongside ship (FAS)** - a pricing term indicating that the quoted price includes the cost of delivering the goods alongside a designated vessel.

- **Free carrier (FCA) to named place** - replaces the former term 'FOB named inland port' to designate the seller's responsibility for the cost of loading goods at the named shipping point. May be used for all types of transporting methods.

- **Free in (FI)** - a pricing term indicating that the charterer of a vessel is responsible for the cost of loading and unloading goods from the vessel.

- **Floating policy** (Open insurance policy) - a marine insurance policy that applies to all shipments made by an exporter over a period of time rather than to one shipment only.

- **Free out (FO)** - a pricing term indicating that the charterer of a vessel is responsible for the cost of loading goods from the vessel.

- **Free on board at named port of export (FOB)** - a pricing term indicating that the quoted price covers all expenses up to and including delivery of goods upon an overseas vessel provided by or for the buyer.

- **Force majeure** - the title of a standard clause in marine contracts exempting the parties for non-fulfilment of their obligations as a result of conditions beyond their control (acts of God), such as earthquakes, floods, or war.

- **Foreign exchange** - the currency or credit instruments of a foreign country. Also, transactions involving purchase or sale of currencies.

- **Foul bill of lading** - a receipt for goods issued by a carrier with an indication that the goods were damaged when received.

- **Free port** - an area such as a port city into which goods may legally be moved without payment of duties.

- **Free trade zone** - a port designated by the government of a country for duty-free entry of any non-prohibited goods. Goods may be stored, displayed, used for manufacturing, etc., within the zone and re-exported without duties being paid. Duties are imposed on the goods (or items manufactured from the goods) only when the goods pass from the zone into an area of the country subject to the Customs authority.

- **Freight forwarder** - an independent business that handles export shipments for compensation. NOTE: A freight forwarder is among the best sources of information and assistance on export regulations and documentation, shipping methods, and foreign import regulations.
G

- **Gross weight** - the full weight of a shipment, including goods and packaging.

I

- **Import license** - a document required and issued by some national governments authorising the importation of goods into their individual countries.
- **Inland bill of lading** - a bill of lading used in transporting goods overland to the exporter's international carrier. Although a through bill of lading can sometimes be used, it is usually necessary to prepare both an inland bill of lading and an ocean bill of lading for export shipments.
- **Insurance certificate** - if the Producer/Exporter is providing shipping insurance cover for the product (in the case of CIF shipments), then the insurance certificate identifies the type and amount of coverage and risk covered by it.
- **Irrevocable letter of credit** - a letter of credit in which the specified payment is guaranteed by the bank if all terms and conditions are met by the drawee.

L

- **Letter of credit (L/C)** - a document, issued by a bank per instructions by a buyer of goods, authorising the seller to draw a specified sum of money under specified terms, usually the receipt by the bank of certain documents within a given time.
- **Licensing** - a business arrangement in which the manufacturer of a product (or a firm with proprietary rights over certain technology, trademarks, etc.) grants permission to another company to manufacture that product (or make use of that proprietary material) in return for specified royalties or other payment.

M

- **Manifest (Ship's manifest)** - an instrument in writing, signed by the captain of a ship, that lists the individual shipments constituting the ship's cargo.
- **Marine insurance** - insurance that compensates the owners of goods transported overseas in the event of loss that cannot be legally recovered from the carrier. Also covers air shipments.
- **Marking (or marks)** - letters, numbers, and other symbols placed on cargo packages to facilitate identification.

O

- **Ocean bill of lading** - a bill of lading (B/L) indicating that the exporter consigns a shipment to an international carrier for transportation to a specified foreign market. Unlike an inland B/L, the ocean B/L also serves as a collection document. If it is a 'straight' B/L, the foreign buyer can obtain the shipment from the carrier by simply
showing proof of identity. If a ‘negotiable’ B/L is used, the buyer must first pay for the goods, post a bond, or meet other conditions agreeable to the seller.

- **On board bill of lading** - a bill of lading in which a carrier certifies that goods have been placed on board a certain vessel.
- **Open account** - a trade arrangement in which goods are shipped to a foreign buyer without guarantee of payment. The obvious risk this method poses to the supplier makes it essential that the buyer’s integrity be unquestionable.
- **Order bill of lading** - a negotiable bill of lading made out to the order of the shipper.

- **P**
  - **Packing list (Export packing list)** - a list showing the number and kinds of items being shipped, as well as other information needed for transportation purposes. Therefore, the export packing list should itemise the products in each individual package and indicates the type of package used – i.e. box, crate, drum, carton, etc. It should also identify the individual net, tare, and gross weights and measurements for each package.
  - **Parcel post receipt** - the postal authorities’ signed acknowledgment of delivery to receiver of a shipment made by parcel post.
  - **Perils of the sea** - a marine insurance term used to designate heavy weather, stranding, lightning, collision, and sea water damage.
  - **Political risk** - in export financing, the risk of loss due to such causes as currency inconvertibility, government action preventing entry of goods, expropriation or confiscation, and war.
  - **Pro-forma invoice** - an invoice provided by a supplier prior to the shipment of goods, informing the buyer of the kinds and quantities of goods to be sent, their value, and other details (weight, size, etc.).

- **Q**
  - **Quota** - the quantity of goods of a specific kind that a country permits to be imported without restriction or imposition of additional duties.
  - **Quotation** - an offer to sell goods at a stated price and under specified conditions.

- **R**
  - **Remitting bank** - the bank that sends the draft to the overseas bank for collection.
  - **Revocable letter of credit** - a letter of credit that can be cancelled or altered by the drawee (buyer) after it has been issued by the drawee’s bank.

- **S**
  - **Spot exchange** - the purchase or sale of foreign exchange for immediate delivery.
Steamship conference - a group of shipping companies that operate under mutually agreed-upon freight rates.

Straight bill of lading - a non-negotiable bill of lading in which the goods are consigned directly to a named consignee.

Tare weight - the weight of a container and packing materials without the weight of the goods it contains.

Tenor (of a draft) - designation of a payment as being due at sight, a given number of days after sight, or a given number of days after a specific date.

Through bill of lading - a single bill of lading covering both the domestic and international carriage of an export shipment - e.g. an air waybill (AWB) is essentially a through bill of lading used for air shipments. However, ocean shipments usually require two separate documents - an inland bill of lading for domestic carriage and an ocean bill of lading for international carriage. Through bills of lading are insufficient for ocean shipments.

Time draft - a draft that matures either a certain number of days after acceptance or a certain number of days after the date of the draft.

Tramp steamer - a ship not operating on regular routes or schedules.

Transaction statement - a document that defines the terms and conditions agreed upon between the importer and exporter.

Trust receipt - release of goods by a bank to a buyer in which the bank retains title to the goods. The buyer, who obtains the goods for manufacturing or sales purposes, is obligated to maintain the goods (or the proceeds from their sale) separately from the remainder of his assets and to hold them ready for repossession by the bank.

Warehouse receipt - a receipt issued by a warehouse listing goods received for storage.

Wharfage - a charge assessed by a dock owner for handling incoming or outgoing cargo.

Without reserve - a term indicating that a shipper's agent or representative is empowered to make definitive decisions and adjustments abroad without approval of the organisation represented.
