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EXTERNAL TRADE COUNSELLING AND INDIVIDUAL COUNSELLING RELATED TO THE DEMANDS IN THE PARTICIPANTS' COUNTRIES

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Introduction

Silk-Road-Consulting offers international consultancy in the area of foreign trade in many regions worldwide and has associations with partners and affiliates in the following countries: China, Hong Kong, Indonesia, Lebanon, Malaysia, Malta, Myanmar, Slovenia, Thailand, United Arab Emirates, United States of America and Viet Nam. These Associates are highly qualified with vast experience in their specialized fields, i.e.: Diploma -Sinologist; Diploma-Japanologist; specialists for international payment systems; specialists for custom and forwarding; lawyers; chartered accountants and tax counselors specializing in international commercial and fiscal law and joint-ventures; specialist in building-up manufacturing industries; specialists in production and drive control.

The company also advises on questions about technology and know-how-transfer, technical corporations, the international exploitation of patents, joint ventures, export/import activities, development of new business fields and subsidized EEC-Programs. The company works hand-in-hand with Ministries of Trade and Investment, Chambers of Commerce and Industry and international banks worldwide.

Silk-Road-Consulting also works with renowned patent lawyers and buyers. Unfortunately, it can often happen because of lack and contact with the right buyers, developments and technical improvements which can be left aside and forgotten about. We support the search for the license buyer and represent one’s interest in contract negotiations.

Other services offered are foreign-trade-consultancy, organization of international trade fairs, development of new regional business fields, export and export promotion (foreign agency, international settlement, direct export/import), joint ventures, contract and equity joint ventures, from letter of intent to the feasibility study, relocation of capacity, direct investment, sale of enterprises and used (second hand) technical equipment, international exploitation of patents and subsidized EEC Programs for EEC enterprises and non-EEC enterprises.

The last time I spoke about the “magic” of technology was one year ago. Since then, I’ve come to appreciate more that the “magic” of technology only happens through hard work, lots of brain power, and the creativity of individual groups like yourself.

I. Reasons that the patent got left aside by the prospective buyers:

1) that it may endanger their own patents;
2) loss of jobs;
3) threat from econonical power(energy, oil-multi-nationals);
4) threat from political interests.

Personal experience in the last years has shown that above all, Asia and the USA are interested in innovations and technology from Germany.

Alarmingly, we find that especially in Germany, inventors of new technology methods. As with the saying “The prophet in his own Land” has to go to neighboring European countries, Asia or the USA, to have their products judged.

Over the last 7 years, we have helped and marketed approximately 30 German inventions.

Only one German company was found to be the ideal buyer. That does not mean to say that there was no interest from other German companies. The negotiations failed because we could not reach agreement about the price or worth.

In one case we agreed to 30,000 German marks (DM), only because the owner of the patents was pressing for a fast deal (wanted to make further developments, but could not afford to pay for them). Most of our patents were sold in Malaysia, PR. of China, Japan and USA.

2) Our experience with German companies (multinations) is that, they always say:

   1) they have their own laboratories, their own "Inventor Studios;"
   2) that they only judge internal new technology methods;
   3) that they have a similar methods in use or process.

3) Multinations treat external inventions/innovations:

   1) with disregard;
   2) as a bargain market (almost a present).

4) What I should avoid as an intelligent carrier of a new invention:

   The most important rule:

   - Do not tell anyone - if you disclose your idea before applying for a patent, you will have problems;
   - Patents start cheap but get expensive;
   - Do not send any documents, patent specification during the patent examination to anybody;
   - At which time should I start my new invention?

   My personal experience:

   - 3 months after the grant (issuance) of a national patent in Germany;
   - 9 months after granting (issuance) of an international patent.

     Result: during that time, it can be or you must expect with an patent infringement (action).

   Example: CD-ROM labels writeable for mp3-files.

   German big manufacturer enforced the action of restraint interference.

5) License Agreement - Profitable or not for Private Inventors????

   My personnel experience:

   No;
   loss-leader pricing from licensee (sales volume is not real);
   often a third party production anywhere through licensee.

FINANCING EXPORT TRANSACTION

Exporters naturally want to get paid as quickly as possible, and importers usually prefer delaying payment at least until they have received and resold the goods. Because of the intense competition for export markets, being able to offer good payment terms is often necessary to make a sale. Exporters should be aware of the many financing options open to them so that they may choose the one that is most favorable for both the buyer and the seller.

An exporter may need (1) preshipment financing to produce or purchase the product or to provide a service or (2) postshipment financing of the resulting account or accounts receivable, or both. The following factors are important to consider in making decisions about financing:

- **The need for financing to make the sale.** In some cases, favorable payment terms make a product more competitive. If the competition offers better terms and has a similar product, a sale can be lost. In other cases, the exporter may need financing to produce the goods that have been ordered or to finance other aspects of a sale, such as promotion and selling expenses, engineering modifications, and shipping costs. Various financing sources are available to exporters, depending on the specifics of the transaction and the exporter's overall financing needs.

- **The cost of different methods of financing.** Interest rates and fees vary. The total costs and their effect on price and profit should be well understood before a pro forma invoice is submitted to the buyer.

- **The length of time financing is required.** Costs increase with the length of terms. Different methods of financing are available for short, medium, and long terms. However, exporters also need to be fully aware of financing limitations so that they can obtain the financing required to complete the transaction.

- **The risks associated with financing the transaction.** The greater the risks associated with the transaction - whether they actually exist or are only perceived by the lender the greater the costs to the exporter as well as the more difficult financing will be to obtain. Financing will also be more costly.

The creditworthiness of the buyer directly affects the probability of payment to the exporter, but it is not the only factor of concern to a potential lender. The political and economic stability of the buyer's country also can be of concern. To provide financing for either accounts receivable or the production or purchase of the product for sale, the lender may require the most secure methods of payment, a letter of credit (possibly confirmed), or export credit insurance. If a lender is uncertain about the exporter's ability to perform, or if additional credit capacity is needed, a government guarantee program may enable the lender to provide additional financing.

- **The availability of the exporter's own financial resources.** The company may be able to extend credit without seeking outside financing, or the company may have sufficient financial strength to establish a commercial line of credit. If neither of these alternatives is possible or desirable, other options may exist, but the exporter should fully explore the available options before issuing the pro forma invoice.

For assistance in determining which financing options may be available, the following sources may be consulted:

- The exporter's international or domestic banker.
- The exporter's state export promotion or export finance office.

EXTENDING CREDIT TO FOREIGN BUYERS

Exporters need to weigh carefully the credit or financing they extend to foreign customers. Exporters should follow the same careful credit principles they follow for domestic customers. An important reason for controlling the credit period is the cost incurred, either through use of working capital or through interest and fees paid. If the buyer is not responsible for paying these costs, then the exporter should factor them into the selling price.

A useful guide for determining the appropriate credit period is the normal commercial terms in the exporter's industry for internationally traded products. Buyers generally expect to receive the benefits of such terms. With few exceptions, normal commercial terms range from 30 to 180 days for off-the-shelf items like consumer goods, chemicals, and other industrial raw materials, agricultural commodities, and spare parts and components. Custom-made or higher-value capital equipment, on the other hand, may warrant longer repayment periods. An allowance may have to be made for longer shipment times than are found in domestic trade, because foreign buyers are often unwilling to have the credit period start before receiving the goods.

Foreign buyers often press exporters for longer payment periods, and it is true that liberal financing is a means of enhancing export competitiveness. The exporter should recognize, however, that longer credit periods increase any risk of default for which the exporter may be liable.

Thus, the exporter must exercise judgment in balancing competitiveness against considerations of cost and safety. Also, credit terms once extended to a buyer tend to set the precedent for future sales, so the exporter should carefully consider any credit terms extended to first-time buyers.

Customers are frequently charged interest on credit periods of a year or longer but infrequently on short-term credit (up to 180 days). Most exporters absorb interest charges for short-term credit unless the customer pays after the due date.

Obtaining cash immediately is usually a high priority with exporters. One way they do so is by converting their export receivables to cash at a discount with a bank. Another way is to expand working capital resources. A third approach, suitable when the purchase involves capital goods and the repayment period extends a year or longer, is to arrange for project financing. In this case, a lender makes a loan directly to the buyer for the project and the exporter is paid immediately from the loan proceeds while the bank waits for payment and earns interest. A fourth method, when financing is difficult to obtain for a buyer or market, is to engage in counter trade to afford the customer an opportunity to generate earnings with which to pay for the purchase.

The options that have been mentioned normally involve the payment of interest, fees, or other costs. Some options are more feasible when the amounts are in larger denominations. Exporters should also determine whether they incur financial liability should the buyer default.

COMMERCIAL BANKS

The same type of commercial loans that finance domestic activities - including loans for working capital and revolving lines of credit - are often sought to finance export sales until payment is received. However, banks do not usually extend credit solely on the basis of an order.

A logical first step in obtaining financing is for an exporter to approach its local commercial bank. If the exporter already has a loan for domestic needs, then the lender already has experience with the exporter's ability to perform. Many exporters have very similar, if not identical, pre-shipment needs for both their international and their domestic transactions. Many lenders, therefore, would be willing to provide financing for export transactions if there were a reasonable certainty of repayment. By using letters of credit or export credit insurance, an exporter can reduce the lender's risk.

When a lender wishes greater assurance than is afforded by the transaction, a government guarantee program (see the "Government Assistance Programs" section of this chapter) may enable a lender to extend credit to the exporter.

For a company that is new to exporting or is a small or medium-sized business, it is important to select a bank that is sincerely interested in serving businesses of similar types or size. If the exporter's bank lacks an international department, it will refer the exporter to a correspondent bank that has one. The exporter may want to visit the international department of the exporter's own bank or a correspondent bank to discuss its export plans, available banking facilities, and applicable fees.

When selecting a bank, the exporter should ask the following questions:

- What are the charges for confirming a letter of credit, processing drafts, and collecting payment?
- Does the bank have foreign branches or correspondent banks? Where are they located?
- Can the bank provide buyer credit reports? At what cost?
- Does it have experience with state government financing programs that support small business export transactions? If not, is it willing to consider participating in these programs?
- What other services such as trade leads, can it provide?

<u>Banker's acceptances and discounting</u>

A time draft under an irrevocable letter of credit confirmed by a prime U.S. bank presents relatively little risk of default. Also, some banks or other lenders may be willing to buy time drafts that a creditworthy foreign buyer has accepted or agreed to pay at a specified future date. In some cases, banks agree to accept the obligations of paying a draft, usually of a customer, for a fee; this is called a banker's acceptance.

However, to convert these instruments to cash immediately, an exporter must obtain a loan using the draft as collateral or sell the draft to an investor or a bank for a fee. When the draft is sold to an investor or bank, it is sold at a discount. The exporter receives an amount less than the face value of the draft so that when the draft is paid at its face value at the specified future date, the investor or bank receives more than it paid to the exporter. The difference between the amount paid to the exporter and the face amount paid at maturity is called a discount and represents the fees or interest (or both) the investor or bank receives for holding the draft until maturity. Some drafts are discounted by the investor or bank without recourse to the exporter in case the party that is obligated to pay the draft defaults; others may be discounted with recourse to the exporter, in which case the exporter must reimburse the investor or bank if the party obligated to pay the draft defaults. The exporter should be certain of the terms and conditions of any financing arrangement of this nature.

Project finance

Some export sales, especially sales of capital equipment, may sometimes require financing terms tailored to the buyer's cash flow and may involve payments over several years. Often the buyer obtains a loan from its own bank or arranges for other financing to enable it to pay cash to the exporter. If other project financing is required, either the exporter or the foreign buyer can initiate the proposal.

OTHER PRIVATE SOURCES

Factoring is the discounting of a foreign account receivable that does not involve a draft. The exporter transfers title to its foreign accounts receivable to a factoring house (an organization that specializes in the financing of accounts receivable) for cash at a discount from the face value. Although factoring is often done without recourse to the exporter, the specific arrangements should be verified by the exporter. Factoring of foreign accounts receivable is less common than factoring of domestic receivables.

Forfeiting is the selling, at a discount, of longer-term accounts receivable or promissory notes of the foreign buyer. These instruments may also carry the guarantee of the foreign government. Because forfeiting may be done either with or without recourse to the exporter, the specific arrangements should be verified by the exporter.

Confirming is a financial service in which an independent company confirms an export order in the seller's country and makes payment for the goods in the currency of that country. among the items eligible for confirmation (and thereby eligible for credit terms) are the goods themselves; inland, air, and ocean transportation costs; forwarding fees; custom brokerage fees; and duties. For the exporter, confirming means that the entire export transaction from plant to end user can be fully coordinated and paid for over time. Although confirming is common in Europe, it is still in its infancy in the United States of America.

Export intermediaries

In addition to acting as export representatives, many export intermediaries, such as ETCs and EMCs, can help finance export sales. Some of these companies may provide short-term financing or may simply purchase the goods to be exported directly from the manufacturer, thus eliminating any risks associated with the export transaction as well as the need for financing. Some of the larger companies may make counter trade arrangements that substitute for financing in some cases.

Buyers and suppliers as sources of financing

Foreign buyers may make down payments that reduce the need for financing from other sources. In addition, buyers may make progress payments as the goods are completed, which also reduce other financing requirements. Letters of credit that allow for progress payments upon inspection by the buyer's agent or receipt of a statement of the exporter that a certain percentage of the product has been completed are not uncommon.

In addition, suppliers may be willing to offer terms to the exporter if they are comfortable that they will receive payment. Suppliers may be willing to accept assignment of a part of the proceeds of a letter of credit or a partial transfer of a transferable letter of credit. However, some banks allow only a single transfer or assignment of a letter of credit. Therefore, the exporter should investigate the policy of the bank that will be advising or confirming the letter of credit.

GOVERNMENT ASSISTANCE PROGRAMS

Several federal government agencies, as well as a number of state and local ones, offer programs to assist exporters with their financing needs. Some are guarantee programs that require the participation of an approved lender; others provide loans or grants to the exporter or a foreign government.

Government programs generally aim to improve exporters' access to credit rather than to subsidize the cost at below-market levels. With few exceptions, banks are allowed to charge market interest rates and fees; part of those fees is paid to the government agencies to cover the agencies' administrative costs and default risks.

Government guarantee and insurance programs are used by commercial banks to reduce the risk associated with loans to exporters. Lenders concerned with an exporter's ability to perform under the terms of sale, and with an exporter's ability to be paid, often use government programs to reduce the risks that would otherwise prevent them from providing financing.

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