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1. INTRODUCTION TO INTERNATIONAL TRADE ………

International trade is the exchange of capital, goods and services across international borders or territories. Without international trade nations would be limited to the goods and services produced within their own borders. Industrialization, advanced transportation, globalization, multinational corporations and outsourcing are all having a major impact on the international trade system.

Foreign exchange is the process of trading of the currency of one country for the currency of another. This process is necessary for international trade to take place in a world of different currencies. The primary purpose of the foreign exchange market is to assist international trade and investment, by allowing businesses to convert one currency to another currency. Purchase or sale of one national currency in exchange for another nation's currency is usually conducted in a market setting. Foreign exchange makes possible international transactions such as imports and exports and the movement of capital between countries.

Features of International Trade

In every international trade transaction there must be-

a) A buyer and a seller
b) An agreed product or service
c) A sale contract
d) Shipping and delivery details
e) Required documentation
g) Insurance coverage

Principal means of payment used for cross boarder sales as declared by Extra Ordinary Gazette Notification No. 1739/3 dated 2012.01.02 issued by Import & Export Control department under provision of Import & Export (Control) Act No. 1 of 1969 are as follows:

1) Advance Payment
2) Documentary Letters of Credit
3) Documentary Collection
4) Open Account

1) Advance Payment

Advance Payment (also referred as “Cash in Advance” or “Payment in Advance”) is the most secured method of payment for exporter (seller) and also most risky for the importer (Buyer), since commodities are not shipped until payment is received in full. All risks are placed on importer under this payment method. There is no guarantee that the commodities will be delivered as and when agreed.

This method is used when importer’s credit status is doubtful and political and economical situations in importers country are unstable and also seller dominate the market due to a few substitutes available.

2) Letters of Credit (Documentary Credit)

For exporters, Documentary Credit (Letters of Credit) represents the next best payment mechanism after Advance Payment. Compared to other payment methods, the role of banks in Letters of Credit is substantial. They provide additional security (facilitation) to both the importer and the exporter. A L/C consists of a written undertaking from the importers bank (Issuing Bank) to pay at sight or at a future date up to an agreed sum to the seller/exporters (beneficiary). Banks play a larger role in documentary credit than in other trade payment methods. They give comfort to exporters that they will duly receive payment, if required shipping and other related documents are produced to the issuing bank.

3) Documentary Collection

Documentary collection is a method of payment by which an international sale transaction is settled through an exchange of documents. The importers bank (Collecting or Presenting bank) acts as collecting agent for the importers by effecting payment to exporter’s bank (Remitting Bank). Under documentary collection two payment modes are available:

3.1 Delivery Documents against Payment - DP

Payment is collected before releasing the documents to importer and effect the payment to exporter.

3.2 Delivery documents against Acceptance - DA

Documents are released upon acceptance of Bill of Exchange (draft) whereby importer agrees to pay value at a future date.

4) Open Account

The open account is the most secured payment method for importers but also most risky method for exporters. The exporter ships the commodities and payment is made at a specific date in future by importer without any negotiable instrument evidencing the importer's contractual obligations. Open account is probably the cheapest payment method of International Trade.

There is no bank contribution to the transaction at the delivery stage of transaction but will involve in payment stage at a later date (maturity date) as agreed by bother importer and exporter.

LETTERS OF CREDIT

2. LETTERS OF CREDIT

2.0 Letters of Credit (LC) Facility

Letters of Credit are most commonly used when a buyer (Applicant) purchases goods or services from a seller (Beneficiary). The seller may ask the buyer to provide a letter of credit to guarantee payment for the goods. A letter of credit is the most secure method of payment for exporters as long as they meet all the terms and conditions of LC. The risk of non-payment is transferred from the seller to the bank (or banks).When a buyer uses a letter of credit they get a guarantee that the seller will honor their side of the deal and provide documentary proof of this.

This transaction can take place locally or with supplier in a foreign country.

It further clarifies as follows;

It is an undertaking given by the LC issuing Bank on behalf of the applicant to the beneficiary to make payment on the submission of the stipulated documents in accordance with the requirements as per uniform rules of International Trade and Terms and Condition of the LC itself.

2.1 Types of Letters of Credit Available

2.1.1 Sight payment

At sight means that the payment is available immediately against presentation of shipping documents as per LC terms.

2.1.2 Deferred / Usance Payment

The payment to the seller is not made immediately at the time of documents are submitted to the bank. Payment is available at a future date (At Maturity) as defined in the letter of credit.

2.2 Documents Required to Open a Letter of Credit

- Letter of Credit Application
- Request Letter
- Proforma Invoice/Indent
- Any other documents required on case by case from time to time.

2.3 Tariff

Commission	Sight LCs	Usance LCs
First Quarter	0.25% of LC value	0.375% of LC value
Additional Month or Part thereof	0.15% of LC value (Min Rs.5000)	0.15% of LC value (Min Rs.5000)

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SHIPPING GUARANTEE

3. SHIPPING GUARANTEE

3.1. What is a Shipping Guarantee?

A Shipping Guarantee is issued when a vessel carrying goods arrives before receipt of Original Shipping Documents. This enables the buyer to take possession of the goods from Shipping Line/Air Line without submission of Original Transport Document.

It is an indemnity given to the shipping company jointly by the importer and his bank in consideration of the delivery of goods shipped for which the original bill of lading is not furnished. It is an unconditional indemnity for an amount without expiry.

3.2. Required documents for the issuance of Shipping Guarantee

- Shipping company's guarantee/ indemnity duly signed by the importer.
- Counter indemnity issued by the importer to the bank in duplicate. (Form No: 1465)
- Undertaking by the importer to honor the documents despite discrepancies if any if payment is by LC.
- Commercial invoice – three copies
- Two Copies of Original Bill of Lading.
- Authority to debit the customer's account with margin deposit for the issue of shipping guarantees (usually 110%).
- If margin deposit is in the form of loan, the loan documents duly signed.
- Bill of Exchange (Form No.1468) in case of Usance LC.

In case of Air-shipment;

A letter of request by importer along with copy air-way bill and invoice copies to be produced.

3.3 Tariff

3.5.1. Guarantees issued under LC/DP/DA terms
(Irrespective of Payment Terms):-

Commission	-	0.3%
Minimum	-	Rs.5,000/- (USD 35/-)

3.5.2. Endorsing invoices for customs purposes:-

When 1/3 set of originals have been received /delivery order issued	-	0.3%
Minimum	-	Rs. 4, 000/- (USD 25/-)
Maximum	-	Rs.50, 000/- (USD 200/-)

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IMPORT BILLS

4. IMPORT BILLS

4.1. Import Bills under LC (Sight/Usance)

Documents which are received under Letters of Credit are called Import Bills under Letter of Credit. Those Import Bills can be drawn under Sight or Usance Basis.

Under Sight, the payment is available immediately to the seller on submission of original shipping documents.

Usance payment is available after latter period of time as defined in the LC.

Original Document required under LC may differ according to the nature of the commodity and the regulations of the Import / Export country. Generally the commonly required documents may consist of the following:-

- Bill of Exchange (for Usance LC)
- Commercial Invoice
- Packing List
- Certificate of Origin
- Beneficiary Certificate
- Insurance Certificate
- Transport document (Original Bill of Lading/ Airway Bill /Goods Received Note/ Delivery Note)

Note: Shipping Guarantee/Indemnity needs to be obtained in the absence of Original Transport Document.

4.1.2. Release of Import Bills under LC

(a)	**Sight Bills**	**-**	Upon full payment by the importer to the bank.
(b)	**Usance Bills**	**-**	Signing of Bill of Exchange (Form No.1468) by the importer undertaking to make the payment at maturity to the bank, as per the credit period given by the supplier.

4.1.3. Tariff

Import Bills under LC

Sight Bills

Handling Fee (Commission)	-	0.75% on bill value Minimum Rs.3,500/- (USD25/-)
SWIFT Charge	-	Rs.4,000/- +VAT
Postage	-	Rs.200/- +VAT

Usance Bills

At Acceptance

Handling Fee (Commission)	-	Rs.2,500/- (USD 25/-)
Acceptance Commission	-	Rs.4,000/-(USD 30/-) or 0.15% per month and part thereof for the Usance period whichever is higher
SWIFT Charge	-	Rs.6,000/-+VAT
Postage	-	Rs.200/- +VAT

At settlement

Settlement Commission	-	0.75% on bill value Minimum Rs.3,500/- (USD25/-)

Sight/Usance Bills

Examination fee for bills more than one set	-	Rs.2,500/- per set (USD 20/- per set)
Discrepancy handling charges	-	USD 80/- (or equivalent to other currencies)

4.2. Import Bills under Collection Basis (DP/DA Terms)

Under this payment mode the seller will forward the import documents to the buyer's bank through their bank with the instructions how to collect the payment and release the documents.

4.2.1. Documents Against Payment (DP)

The bank will release the import documents to the buyer after obtaining the full payment.

4.2.2. Documents Against Acceptance (DA)

The buyer receives a credit period to make the payment from the supplier. The import documents are released to the buyer after obtaining an acceptance by the buyer either on Bills of Exchange or on a Letter of Undertaking.

4.2.3. Tariff

Settlement of bills where LKR to FCY conversion involved

Commission (DP/DA) 0.5% on bill value, Minimum Rs.5,000/-

For bills where no foreign currency conversion involved

Commission	-	DP - 0.3% on Bill Value DA -0.4% on Bill Value (Min. Rs: 5,000/- Max. Rs: 100,000/-)		
Acceptance Fee	-	Rs: 3,000/-		
SWIFT Charge	-	DP Bills	-	Rs: 4,500/- + VAT
		DA Bills	-	Rs: 6,000/- + VAT
Postage	-	Rs: 200/- + VAT		

*** Payment for Import Documents can be made either by loan proceeds (As per available line of credit) or Margin held/Using importer's own funds.***

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IMPORT FINANCING

5.1 IMPORT FINANCING

An importer can request for a credit line from the Bank to cover;

(i) the payment for the Import Bills
(ii) the payment of Customs Duty
(iii) Local Purchases
(iv) Working Capital

5.1.1 Types of Import Financing

a) **Short Term Loan-Import**

This facility is available for an importer to settle the import bills received under Letter of Credit or Collection Basis.

b) **Short Term Loan-Local**

This facility is considered mainly to pay the Customs Duty, to Purchase Goods from the Local Market and to meet with the Working Capital requirements of the Importer.

c) **Import Trust Receipt Loan**

Import Trust Receipt Loans are also considered to facilitate the same purpose as stated under 5.1.1 (a). This type of facilities are mainly provided for only well established, trust worthy customers where no sufficient co-lateral available for advance.

The relevant Trust Receipt to be registered with the respective District Land Registry within 21 days from the date of issuance of the respective loan.

5.1.2 Tenor

Generally for 30 days to 180 days deferred as per cycle of manufacturing or trading.

5.2 TERM LOANS (BLOCK LOANS)

5.2.1. Purpose

These loans are granted to meet middle and long-term capital requirements of the business such as, acquiring fixed assets, machinery, vehicles, etc.

5.2.2. Tenor

These loans can be paid either in short, medium or long-term and payment can be made in installment basis monthly, quarterly, bi-annually or annually.

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EXPORT FINANCING

6. EXPORT FINANCING

6.1. Pre-Shipment Financing for Exporters

In addition to enabling Post Shipment Financing under 5.2, Export Letters of Credit can be used by the exporter to raise Pre-Shipment Financing. The amount of financing would be a percentage of the expected export sale proceeds.

Even without support of Letters of Credit, exporters may obtain Pre Shipment lines of credit at competitive rates to finance their marketing cycles supported by export orders.

6.1.1. Types of Pre Shipment Financing

a) Short Term Loan – Export (in LKR and foreign currency)
b) Export Trust Receipt Loan (in LKR and foreign currency)
c) Pledge Loan

6.1.2. Tenor

From 30 days to 120/180 days

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6.2. Post Shipment Financing for Exporters

Post Shipment financing is essentially an advance against receivables which will be available against shipping documents (Commercial Invoice, Transport Document, Insurance Certificate, Certificate of Origin, etc). Central Bank of Sri Lanka is monitoring the realization of full proceeds of the individual shipments.

6.2.1 Types of Post Shipment Financing/Advance

a) Negotiation of Export Bills under L/Cs (Clean Bills) *
b) Negotiation of Export Bills with Indemnity (Discrepant Bills) **
c) Purchasing Export Bills under DA/DP terms. **

** Negotiation of LCs (under bank's liability) are subject to Uniform Rules of International Trade (UCP 600)*

***b) and c) requires approved line of credit.*

6.2.2 Tenor

From 14 days to 120/180 days

6.2.3 Tariff/Interest rate

If bills negotiate /purchase

Interest rate will be charged at prevailing discounted rate up to maturity/until proceeds are received. If proceeds are not received on maturity prevailing penal interest rate will be charged until recovery.

- If proceeds credit to FCY Accounts interest rate is to agree under the approved credit limit
- If proceeds credit to LKR A/Cs interest rate will be quoted by Treasury Unit/as per approved limit.
- Flat rate of commission 0.5% for D/P Bills. Minimum Rs. 3,000/- , Maximum Rs. 8,000/-
- Flat rate of commission 0.6% for D/A Bills. Minimum Rs. 5,000/-, Maximum Rs. 10,000/-
- Flat rate of commission 0.10% for L/C Bills Minimum Rs. 4.000/- Maximum Rs. 25,000/-

- If discrepancy Bill 1-3 Discrepancy Rs. 1,500/-
  four or more discrepancy each Rs. 2,500/-)
  Bill examination fee – Rs.7,500/-

If Bills Sent on Collection Basis

- Commission for collection bills 0.25% Minimum Rs. 2,000/-, Maximum Rs. 10,000/-

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ADVISING

OF

EXPORT LETTERS OF

CREDIT

7. ADVISING OF EXPORT LETTERS OF CREDIT

This facilitates advising of letters of credit received from foreign banks (Local Bank in case of Domestic Letters of Credit) to particular beneficiary domicile in Sri Lanka to execute Export Orders.

Tariff

Advising of Letters of Credit	- Rs.3,500/- to Rs.6,000/- (Customer to Non-customer through other Bank)
Advising of LC Amendments	- Rs.2,500/- to Rs.4,500/- (Customer to Non-customer through other Bank)

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REMITTANCES

8.1.Outward Remittances

8.1.1. Definition

Process of sending money via Telegraphic Transfer (TT) or Demand Draft locally or Internationally mainly under

1) Advance Payments
2) Open Account Basis
3) Travel and other services. (Medical, Education etc.)

- SWIFT messages are being used for transmission (MT 103, MT 202)
- Advance Payment can be made out of Sri Lankan Rupee Account up to USD50,000/- or equivalent of any other designated currency. No such limit is applicable where funds are remitted from foreign currency accounts. No limit applicable for the Outward Remittance for Open Account and Service Payments.

8.1.2. Tariff

- By debiting Dollar Account

Advance Payment	0.25%	
Minimum		- Rs. 4,000.00
Maximum		- Rs.100,000.00
Open Account Payment	0.25%	
Minimum		- Rs. 5,000.00
Maximum		- Rs.100,000.00

- By debiting LKR Account

Advance Payment	- 0.5%
Min	- Rs.5,000.00
Max	- Rs.200,000.00
Open Account	- 0.75%
Min	- Rs.5,000.00
Max	- Rs.200,000.00

- Education Purpose

Commission	- 0.5%
Minimum	- Rs.3,000.00
Maximum	- Rs.15,000.00
(SWIFT 2000+VAT+SSCL)	

- Fund TRF via TT

*To Local Bank	-0.125%	
Minimum		-Rs.2,000.00
Maximum		-Rs.5,000.00
(SWIFT 3000+VAT+SSCL)		
*Draft	-0.125%	
Minimum		-2,000.00
Maximum		-5,000.00
(SWIFT 1,000+VAT+SSCL)		

All outward remittances are subject to SWIFT charges + VAT

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BANK GUARANTEES

9. BANK GUARANTEES

Guarantees are issued to back-up performance& payment obligations on a wide range of contracts. These guarantees constitute an undertaking by the issuer (bank) to pay specific sum of money on demand. Payment is available upon simple demand and it is independent from the underlying contract.

- A Surety or Guarantee that Bank is giving in favour of the beneficiary, on behalf of the applicant.
- Guarantee will be issued both locally and internationally.
- Most Guarantees are payable on demand.

As per Exchange Controller's Direction No.06/04/09/2012, following form of Guarantees can be issued in favour of a Person resident outside of Sri Lanka without limit;

(i) Bid Bond
(ii) Advance Bond
(iii) Performance Bond

And any other Guarantees other than those referred above, up to a value of USD1.0 Million or its equivalent of other convertible currencies can be issued without obtaining prior approval from the Director, Foreign Exchange.

9.1. Parties Involved in a Bank Guarantee

- Applicant - is the party who makes a request to issue a guarantee.
- Beneficiary - is the party who gets benefits under the guarantee when contractual obligation is breached.
- Guarantor (Issuing Bank) - is the bank or financial institution who issues the Guarantee on behalf of the applicant.
- Counter Guarantor (Instructing Bank) - is the bank who requests another bank (Guarantor) to issue their own guarantee on behalf of the requesting party.

9.2 Types of Guarantees:

9.2.1 Bid Bond

Also known as a Tender guarantee.

Sellers are usually required to submit a Guarantee (Bid Bond) with their tender for a contract, commonly for an amount between 2% to 5% of the contract price.

The purpose of a Tender Guarantee is to indicate to the buyer that the tender is a serious offer and that party submitting it will sign the contract if tender is accepted.

A Bid Bond ensures that on acceptance of a bid by the Beneficiary, the Bidder/Contractor will proceed with the contract and will usually replace the Bid Bond with a Performance Bond.

Purpose

To support the Tenderer's obligations under the tender conditions.

9.2.2 Performance Bond

A Performance Bond (Guarantee) usually contains an undertaking to pay a certain sum if the buyer claims that seller has failed to carry out the terms of the contract, commonly this is between 5% to 10% of the contract value and remains valid until the contract is fulfilled.

A Performance Bond ensures payment of a sum (not exceeding a stated maximum) of money in case the Applicant fails in the full performance of the contract.

Purpose

To support the Applicant's Contractual Obligations. Beneficiary can claim if Non-Performance by the Applicant.

9.2.3 Advance Payment Guarantee

A Guarantee issued by a Bank, on behalf of anApplicant to a Beneficiary, in relation to any advance payment that is made by the Beneficiary to the Applicant to allow the contract to commence. This guarantee should be equal to the sum paid in advance and should expire on the date that covered performance is made. This advance is commonly between 10% to 20% of the contract value.

If the contract is not completed, the Beneficiary can claim reimbursement of the advance payment under the guarantee from the Bank.

Purpose

To secure an Advance Payment made by the Beneficiary to the Applicant in the event of Non-Performance by the Applicant.

9.2.4 Credit Guarantee

It is the Guarantee that often provides an assurance to the Creditor who extend the credit facility to a Debtor; Creditor can claim the guarantee if Debtor defaults the payment.

Purpose

To support the creditor from non settlement of debt.

9.2.5 Retention Guarantee

This Guarantee is commonly between 5% to 10% of the contract value and issue to the Beneficiary by the Bank at the request of the Applicant and purpose is to get released full amount of contract value when contract is completed.

Purpose

To secure the early release of retention money kept to meet any post completion defects.

9.2.6 Custom Guarantee

Importers are usually required to submit guarantees to release the Cargo from the Port Pending Payment of Customs Duty. These guarantees are commonly issued at following instances:-

(i) Goods imported for re-export purpose.

(ii) Equipment imported for a specific purpose to be returned after use.

Purpose

To secure the recovery of custom duty in the event of non re-exportation.

9.3.Tariff

Cash deposited on margin account	-	1.5% pro rata
Cash deposited on interest bearing deposit	-	2.0% pro rata
Immovable Property	-	2.5% pro rata
Personal Guarantee	-	3.0% pro rata.
Minimum Charges	-	LKR 5,000//-

*** Competitive Rates can be Negotiated**.*

9.4. Common documents required for a local Guarantee

- Application Form No.335/E with authorized signatories.
- Letter of Indemnity
- Request letter to issue a Bank Guarantee from the applicant (principal) with authorized signatories.

9.5. Bank Counter Guarantee

Counter Guarantee means a guarantee issued by bank at the request of overseas bank (Counter Guarantor) on behalf of Applicant (Principal/Supplier) who is resident outside Sri Lanka in favor of Person (Beneficiary) resident in Sri Lanka.

Purpose

To ensure the beneficiary from non performance of contract terms.

9.5.1. Tariff

0.75% p.a. - 4.0% p.a. on quarterly basis (Subject to credit approval)
Minimum charges – USD 200/-

*** Special Rates can be negotiated**.*

9.5.2. Common documents required for a Counter Guarantee

- Authenticated Swift message MT 760/MT 767

9.6. General Applicable rule : URDG 758

9.7. Applicable Law **:** Law in issuing bank's country

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DOMESTIC INVOICE DISCOUNTING FACILITY

10. DOMESTIC INVOICE DISCOUNTING FACILITY FOR CONTRACTORS/SERVICE PROVIDERS.

Providing advances against bills of quantity/receivables from Government Department and Corporations for construction work/services provided to them.

10.1 Interest

At discounted rate depend on market interest rate.

10.2 Tenor

From 30 days to 180 days

Depend on the agreement

10.3 Securities

a) Acceptable to the Bank

b) Invoice (BOQ)

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