



Managing risk in exports and imports

Whether it's expanding sales to overseas buyers or purchasing from vendors in other countries, many U.S. agribusiness companies are reaping the benefits of foreign trade. International commerce subjects companies to risks as well as opportunities, and requires businesses to understand their exposures and take steps to mitigate them. Fortunately, financial tools and resources are available to help you deal with these challenges and turn foreign business opportunities into profitable outcomes.

International trade risks

While foreign trade offers opportunities, it also introduces challenges. Doing business internationally presents a wide range of risks to businesses, creating uncertainty over receipt of payments and delivery of goods and services between both exporters and importers.

Major international trade risks

Commercial Failure to meet product quality and quantity expectations, insolvency or nonpayment.

Compliance Adherence to U.S. and foreign government trade agreements and Office of Foreign Assets Control (OFAC) restrictions for countries subject to trade and economic sanctions.

Currency Exposure to unanticipated changes in currency exchange rates, diminished access to currencies, and government actions that affect currency convertibility.

Documentary Discrepant documents or nonconformance with contract or agreement requirements, resulting in transaction failure or payment delays.

Economic Unfavorable economic conditions which may adversely impact a buyer's ability to accept the goods—including lack of financing or insolvency—or a seller's ability to deliver goods.

Political Complications due to political developments that may impact the transaction, including war, riots, terrorism and embargoes.

Transportation Loss, theft, or damage to goods while in transit from exporter to importer.

Key takeaways



Foreign trade presents enterprises with risks above and beyond those encountered in domestic markets.



Importers and exporters must understand the different buyer/seller obligations for international payment methods.



The right bank plays a key role in connecting businesses to a wide range of resources that will allow them to take advantage of global opportunities.

International trade payment types



There are four primary methods of payment for foreign transactions: cash in advance, letters of credit, documentary collections and open account. The exporter and importer have opposing motivations in preferring one payment method over the others: the exporter wants the payment vehicle that results in receiving funds quickly—ideally before goods are sent to the importing company—while the importer prefers the payment type that enables it to get rapid delivery of the goods but delays disbursement as long as possible.

Cash in advance

In a cash-in-advance transaction, the importing buyer pays in advance of shipment of goods. Since payment is received prior to delivery of goods and services, cash-in-advance payment eliminates the possibility of nonpayment and the exporter avoids commercial credit risk of the buyer.

Requiring upfront payment is the least attractive option for an importer, however. Cash-in-advance payment creates cash flow problems for buyers, since they pay cash before they receive goods or services. In addition, importers run the risk that goods may not be sent if payment is made in advance. As a result, exporters that insist on using this method could be at a competitive disadvantage if rival firms offer more attractive payment terms.

Cash-in-advance payment is recommended for use in high-risk trade relationships or export markets, and it can be the preferred method for Internet-based businesses. Companies often use cash in advance as their payment method when they are new to foreign trade.

Letter of credit

Among the most secure instruments available for foreign transactions, a letter of credit (LC) is a financial instrument issued by a bank that guarantees payment for a shipment of goods or services from one party to another. The LC commits the bank to pay an exporter on behalf of the importer if all terms and conditions have been satisfied. The bank's obligation to pay is solely conditioned upon the exporter's compliance with the LC's terms and conditions.

With an LC, risk is more evenly spread between importer and exporter when compared with the cash-in-advance payment method. LCs are often used in new or less-established trade relationships when an importer's credit rating is low or credit information is difficult to obtain. In these circumstances, the exporter gains comfort via the creditworthiness of the buyer's bank.

An LC also protects the buyer since goods must have been shipped or delivered before any payment obligation arises. However, preparation of LCs involves some complexity and specialized expertise to avoid discrepancies in documents that could negate payment obligations. The costs for an LC are paid by both the exporter and the importer.

Documentary collections



In a documentary collection, funds are received from the importer and paid to the exporter through banks involved in the transaction.

The exporter's bank sends documents, including instructions for payment, to the importer's bank. The exporter retains possession of the goods until payment is made or the draft is accepted by the importer for payment at a specified date in the future.



While the banks control the flow of documents and facilitate collections, they do not verify the documents and offer limited recourse in the event of failure to complete the transaction. In a documentary collection payment method, banks act as facilitators for their clients under documentary collections and provide assistance in obtaining payment. The exporter is exposed to more risk using a documentary collection method compared with an LC.

Generally simpler and less expensive than LCs, documentary collections are most commonly used in established trade relationships and in stable foreign markets.

Open account

In an open account transaction, the exporter ships the goods in advance of payment and relies on the importer to pay after goods are received. An open account relationship is the most favorable transaction

type for the importer in terms of cost and cash flow. It is the highest-risk alternative for an exporter, who is subject to nonpayment risk if the buyer defaults on payment after goods have been shipped.

Open account payment methods are used most often in secure trading relationships and in competitive environments with the use of trade finance solutions.

Demand for open account relationships is greatest in highly competitive markets where extension of trade credit is expected. In these circumstances, exporters may lose sales if they don't make credit available to buyers and their competitors do.

An exporter can mitigate nonpayment risk and optimize cash flow and working capital through a variety of trade finance mechanisms, including export credit insurance, export working capital financing, insured receivables purchases and government-guaranteed working capital programs.

Sources of information

Businesses interested in expanding their foreign trade have access to a wide range of information from several sources.

Banks	Credit references, financing tools, foreign exchange vehicles.
Export-Import Bank	Reports and Country Limitation Schedule (special conditions on bank loan and guarantee programs, export credit insurance and working capital guarantees).
U.S. Commercial Services (U.S. Department of Commerce)	Trade promotion opportunities through U.S. Commercial Services, a unit of the U.S. Department of Commerce's International Trade Administration.
Credit agencies	Credit reports on foreign companies from credit-rating agencies such as Graydon, D&B, Veritas and Coface.
Credit insurance	Country reports, information on accounts receivable coverage options.
International Trade Administration (U.S. Department of Commerce)	Trade references and statistics from the U.S. government, select trade and economic data published by other countries, country reports and analyses, and similar trade resources.
International Chamber of Commerce	International Commercial Terms (Incoterms), a series of predefined commercial terms that are widely used in international commercial transactions and the only universally accepted terms recognized in most of international law.

Finding the right bank

International trade presents agribusiness companies with vast opportunities—and risks. That makes it absolutely critical that you find the right bank to help you make the most of your foreign trade potential.

Businesses seeking to take advantage of agriculture import and export possibilities should get the right answers to some tough questions from a prospective bank.

Top U.S. trade partners

Export	Import
Canada	China
Mexico	Canada
China	Mexico
Japan	Japan
United Kingdom	Germany

Source: U.S. Department of Commerce, Census Bureau, Economic Indicators Division, Ranked by 2015 U.S. Total Value

 Questions to ask a prospective bank:	 You should expect your bank to provide:
What types of financing and foreign exchange capabilities does the bank provide?	<ul style="list-style-type: none"> Working capital facilities to help you fill new orders from foreign buyers, including facilities supported by the Export-Import Bank. Trade financing that allows you to borrow against foreign accounts receivable and extend short-term credit to foreign buyers. Competitive medium-term financing for buyers in emerging markets. Foreign exchange hedging vehicles, including options and swaps.
What advisory resources are available to help the importer or exporter?	<ul style="list-style-type: none"> A dedicated team of advisors willing to take the time to understand your business and explain your alternatives. An operations center to assist with documentary transactions and other processing steps.
How does the bank analyze foreign country and bank risk?	<ul style="list-style-type: none"> Connections with Export Trade Assistance Centers, credit insurance brokers, and credit rating agencies to evaluate country and foreign bank risk.
Does the bank have strong correspondent banking relationships abroad?	<ul style="list-style-type: none"> A well-established network of high-quality correspondent banks that provide access to financial transactions in foreign countries and cross-border payment services.

KeyBank offers international trade services with a global network of over 1,200 foreign correspondent banking relationships and a dedicated team of professionals that provide client-driven, state-of-the-art products and services to help you compete globally.

Let's talk about your business

For more information on KeyBank's capabilities, contact or schedule an appointment with a KeyBank Relationship Manager.

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