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FOREIGN CREDITS AND COLLECTIONS

FOREIGN CREDITS AND COLLECTIONS

By
J. Rodríguez Sánchez

1947
Prentice-Hall, Inc.
New York

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PRINTED IN THE UNITED STATES OF AMERICA

TO MY PEOPLE

PREFACE

The purpose of this book is to deal with the problem of foreign credits from a practical point of view. I have, however, presented some of the basic principles of international trade, without which it would be impossible to reveal the essential characteristics and the mechanics of foreign credits.

Before 1929, export business was accustomed to following simple mechanical procedures that had been tested and approved by long years of experience. As soon as the exporter received an order from abroad, he shipped the goods; and within a reasonable length of time the importer would call at the bank, change his own currency into dollars, and pay for the goods received. Neither the exporter nor the importer had to overcome any obstacles. They were free to deal with each other. In a word, the process of foreign selling and buying was a matter of routine.

Shortly after 1929 this mechanism, which took so many years of effort to establish, crumbled. The whole process of doing business abroad had to be revamped. The foreign credit man naturally had to revise his attitude about granting credits abroad. He was forced to improvise and to create practical ways of overcoming the obstacles in his path, and to analyze more closely the factors affecting the credit of the importer.

It has become extremely important, therefore, not to consider the granting of foreign credits as an isolated function, since it involves three closely related risks: the market, the currency of the country, and the credit of the importer. These three hazards must be examined simultaneously. It is logical to add too that, because of these complexities, export financing becomes the most important aspect of foreign commerce.

Since export trade practices change frequently, it is essential for the foreign credit man continually to revise and adjust his ideas to the new ways of doing business. Above all, he must avoid the risk of falling into a mechanical formula in granting foreign credits. It should be mentioned also that export trade is not the sort of business that can be developed over night. It requires long-range planning and courage. It must be cultivated with care and patience. There is no longer an El Dorado beyond our shores. Each foreign market is highly competitive,

demanding individual initiative in the field of distribution and financing.

Finally, in spite of the frequent changes that take place in foreign trade, its basic principles remain unchanged. Hence, the aim of this book is to deal with the problem of foreign credits from a practical point of view, but without neglecting to present its basic principles.

For the benefit of those who wish to explore further the various phases of foreign business, which, incidentally, are closely related to foreign credit, I have brought out throughout the text and in the bibliography a list of recommended books, articles, and pamphlets, dealing with the whole problem of international trade.

I take this opportunity to express my deep gratitude to Mr. Jarvis Cromwell, who not only read the part of the book dealing with Factoring but also made valuable suggestions; to Mr. David E. Golieb, who so kindly consented to read the manuscript and recommended the publisher; to Mr. DeWitt A. Stern for his critical comments on Marine Insurance; to the American Arbitration Association, which granted permission to publish the Rules of Procedure of the Inter-American Commercial Arbitration Commission; to the American Overseas Airlines; American Foreign Credit Underwriters' Corp.; A. H. Bull & Company; the Central Hanover Bank and Trust Company; Dun & Bradstreet, Inc.; Howard G. Godfrey & Co., Inc.; William Iselin & Company, Inc.; Iselin Jefferson Company, Inc.; and the Pan American World Airways System, who allowed the reprinting of some of their forms.

I also wish to acknowledge my debt to Mr. Phillip J. Gray for the material he so graciously supplied dealing with the Foreign Credit Interchange Bureau, and to Mr. M. Adamsky for permitting the reproduction of some of D. C. Andrews & Company, Inc.'s forms.

J. RODRÍGUEZ SÁNCHEZ

TABLE OF CONTENTS

Part 1. The Principles and Practices of Foreign Credits

CHAPTER PAGE

I. FOREIGN TRADE 3
International Trade. Free Traders, Protectionists, and Planners. Commercial Treaties. Domestic and International Trade. Foreign Credits. Instruments of Credit. Foreign Orders. The Meaning of Delivery Date.

II. THE UNITED STATES AND INTERNATIONAL TRADE 48
International Trade and the United States. The Nineteen Thirties. The Problem. The International Monetary Fund. Exchange Restrictions. Charges. Scarce Currency. Withdrawal from the Fund. International Bank for Reconstruction and Development—Its Aim. The Capital of the Bank. Charges. Organization and Management. The Export-Import Bank of Washington. The Three Patterns in World Trade. Customs Union. The International Trade Organization: Employment, General commercial policy, Commody arrangements, Membership. An Inter-American Bank (A Possibility). The Stock Exchange and Foreign Trade.

III. THE FOREIGN CREDIT MAN 68
Why the Foreign Credit Man? The Objective of the Foreign Credit Man. Qualifications of the Foreign Credit Man.

IV. THE METHODS OF THE FOREIGN CREDIT DEPARTMENT . . . 77
Responsibilities of the Foreign Credit Man: Orders held, The credit card, Control of shipments, The credit file, The draft book, The duplicate draft file, Payments received, Duplicate documents file, Drawback.

V. THE FOREIGN AGENT 86
Functions of the Agent. Qualifications of the Agent. Agent's Monthly Report. Report on the Market. Agent's Credit Recommendation. Agent's Report on New Accounts. Foreign Agent's Power. Developing the Agent. Agent's Contract. The Foreign Agent and the Foreign Credit Man.

Part 2. Analyzing the Risks

VI. FACTORS AFFECTING THE MARKET RISK 95
The Five C's of Foreign Trade. The Resources of the Market. The Pattern of the Market. The Importance and Risk of the Market. The Currency of the Country. Trade Centers. Marketing Areas. Free

CHAPTER PAGE

VI. FACTORS AFFECTING THE MARKET RISK (*Cont.*):
Zones. Banking Facilities. Transportation Facilities. Facilities for Communication. Political Conditions. Population. External Debt. The Balance of Trade. Foreign Investments: Types of foreign loans, The purpose of foreign investments, The tying clause, Factors affecting foreign investments, Hot money, The political aspects of foreign loans.

VII. THE RISKS 113
The Other Risks. Marine Risk: Insurance broker, General average, Open policy, The certificate. War Risk. Policies Covering a Single Shipment. Warehouse to Warehouse. Collecting Insurance Claims. Price Risk. The Transfer Risk. The Merchandise Risk. The Credit Risk and the Policy of the Exporter.
GENERAL POLICIES TO BE CONSIDERED: Credit Policies. Bank's Policy Toward the Importers. Is the Merchandise Suitable for the Market? The Trend of the Market. The Market Credit Limit. The Credit Department and the Merchandise Department.

VIII. ANALYZING THE CREDIT RISK 134
The Specific Information That It Is Possible to Obtain. The Nationality of the Importer. The Basis of Credit: Character, Capacity, Capital. Financial Statements: Analyzing the financial statement. Credit Limit.

IX. SOURCES OF INFORMATION—THE MARKET 144
Information Required. Care in Selecting Sources of Information. Department of Commerce: Publications. The National Association of Credit Men. Bank Publications. The Department of State. National Foreign Trade Council. Foreign and Domestic Newspapers. Local Chambers of Commerce. The International Trade and Service Association. Other Sources of Information. Barometer of International Trade.
GENERAL SURVEY OF THE MARKET: Establishing the Export Department. The Survey: The size of the market, The purchasing power, The marketing areas, Competition, The attitude of the market toward American exporters, Exchange conditions, Political conditions, financial facilities for the exporter-to-be, The credit standing of the importers, Conclusion.

X. SOURCES OF INFORMATION—THE IMPORTER 155
When to Start the Investigation. Information Required: Causes of errors, Verifying the information. Dun & Bradstreet's Foreign Credit Services: "The Latin America Sales Index," "Trade Index of United States Manufacturers," Sales index rating and the agency report, The report, Analysis of the Dun & Bradstreet foreign report, Publications, Miscellaneous services. American Foreign Credit Underwriters Corporation. Foreign Credit Interchange Bureau: The foreign credit interchange report, The weekly bulletin, Round table conferences, Trade groups, Consultation service, Moral suasion service, Membership.

CHAPTER PAGE

X. SOURCES OF INFORMATION—THE IMPORTER (*Cont.*):
Credit Agencies Abroad. Department of Commerce Report. Another Source of Information. Bank Information and Services: Bank reports and their interpretation, Information from banks located abroad. Trade Groups. Letters of Inquiry. The Agent's Report. The Personal Interveiw.

XI. TRADE ROUTES AND FOREIGN CREDITS 186
Ocean Trade: Ocean routes, Ocean traffic. Air Trade: Air routes, Advantages in using air routes, Charges, Specific commodity rates, Insurance, Documents required for foreign air express of air freight, Documents required by the United States Government, Documents issued by the exporter, Documents issued by the insurance company, The document issued by the air lines; The airway bill, Documents required at the point of destination.

XII. FOREIGN EXCHANGE 214
International Trade in Raw Materials and Other Commodities. The Settlement of Foreign Debt. Sources of Supply of Foreign Exchange. Foreign Exchange Defined. Exchange Stabilization. The Balance of International Payments. Factors Affecting the Rate of Exchange. Gold Standard. Gold Exchange Standard. Bimetalism or Double Standard. Silver Standard. Future Contracts. The Currencies of the World. The Sterling Bloc. The Sterling Area. Exchange Control: Free market, Blocked or frozen accounts. Certain Conditions and Some Possible Remedies. Foreign Trade under Government Restrictions. Releasing Documents to Obtain Exchange. Exchange Clearing and Payment Agreements: Clearing agreement, Payment agreement, Compensation or barter agreement, Reciprocal trade agreement. The Future. The Exporter as an Importer: Organizing for imports, The arrival of the goods.

Part 3. Financing Export Business

XIII. EXPORTS FINANCED BY THE SELLER 237
Five Methods of Financing Export Business. Factors Affecting the Terms of Sale. Extra Cash Discount. Mail Time, Bank Charges, and Interest. Terms to Be Extended by the Seller to the Buyer: Payment against draft, Payment on presentation of sight draft with documents attached, Clean and documentary draft, Endorsing the drafts, Sending the draft for collection, Instructions to the collecting bank, Collection charges, In case of need, Interest, Protest, Sales made in foreign currency, Notices to the customer, Accepting the draft. The Practice in the Far East.
EXPORT BUSINESS FINANCED BY THE EXPORTER WITH THE ASSISTANCE OF HIS BANK: Discounting the Foreign Bill: Letter of hypothecation, The bank discounts the bill. Export Sales Financed by Investment Houses. Banker's Acceptance.

XIV. EXPORTS FINANCED BY THE IMPORTER 258
The Buyer Finances His Foreign Purchases: Payment against delivery

CHAPTER PAGE

XIV. EXPORTS FINANCED BY THE IMPORTER (*Cont.*):
of dock receipt. The Buyer Finances His Foreign Purchases with the Aid of His Bank: Method A, Method B, Method C, Method D. Commercial Letters of Credit: Advantages of letters of credit, types of letters of credit. Authority to Pay. Authority to Purchase: The difference between a letter of credit and an authority to purchase. Recourse. Care to Be Exercised before Accepting Business Against a Letter of Credit. Routine to Be Followed in Handling Orders Against Letters of Credit. Financing Goods while Waiting for them to Be Shipped. Assignable Letters of Credit. Raising a Loan against a Nonassignable Letter of Credit. Trust Receipt. Credit Held by the Bank and Issued in Favor of Various Firms. Payment against Trust Receipt Issued by a Forwarding Agent. Special Types of Credit. The Red Clause. To the Beneficiary of a Letter of Credit. Customs and Practice for Commercial Documentary Letters of Credit: General provisions, Guiding provisions. Presentation of Documents. Commerce with Nations Engaged in Armed Conflict. Shipping Documents: The Intervening Parties: Commercial invoice, Ocean bill of lading, Marine insurance, Other documents, Examining the documents. Discrepancies in Documents under a Letter of Credit. Guarantees Issued to the Bank by the Beneficiary of a Letter of Credit. The Bank Honors the Credit. The Trust Receipt Abroad: Trust receipts in the Far East, The trust receipt in Latin America (receipt in trust), The trust receipt in Europe. The Warrant.

XV. EXPORT BUSINESS FINANCED BY THE FACTOR. FOREIGN CREDIT INSURANCE GUARANTEES 311
Factoring Export Business: The Functions of the Factor in Domestic Trade: The Factor, the Exporter, and the Risks, Method of operation, Rate, The contract, Form of contract. Foreign Bills Discounting Houses. Foreign Credit Insurance—Private Companies: Rate. Self-Insurance System. Guarantees: Buyer's guarantees, Foreign agent's guarantees, Other forms of guarantee. Doing Business with Russia.

Part 4. The Collection of Foreign Accounts

XVI. RETAIL CREDITS AND OTHER PROBLEMS 329
Retail Credits: Advantage of retail credit, Method used in extending credit to retailers. Consignment Accounts: The control of credits under consignment accounts, The collection of consignment accounts. Installment Selling: The contracts, Foreign branches. Government Contracts.

XVII. COLLECTIONS 339
The Importance of Prompt Collection. Factors to Consider in the Collection of Accounts. Consider Facilities. Classify the Accounts. Reasons for Delay. Some Causes and Some Possible Remedies. Over Extended. Individual Treatment.

XVIII. COLLECTIONS (CONTINUED) 344
Methods of Collection: Follow-up systems, The statement, Reminder,

CHAPTER PAGE

XVIII. COLLECTIONS (CONTINUED) (*Cont.*):
Collection letter, Language, Threats, Cables, Moral suasion service, Using the bank, Legal action, The agent as a collector, When to draw a draft against an open account, Invoices to the agent, The merchandise department as a collector, The export manager as collector. Trade Abuses.

XIX. THE LEGAL ASPECTS OF FOREIGN CREDIT 353
Considering the Problem. Common Law and Codes of Law. Registration. Set of Books Required. Notary. Commercial Organization: Partnership, Limited partnership, Corporation. Industrial Partners. Incorporating the Business Abroad. Bills of Exchange or Drafts. *Pagaré* or Promissory Note. Protesting the Draft. Power of Attorney. The Endorsement as a Collection Weapon. Sales Contract. Indent. Trade Disputes: Disputes in foreign trade, The Causes of Controversies, Measures and remedies to avoid disputes and controversies, The mediator, Arbitration, The method of arbitration. Trade-Marks: Protecting trade-marks. Patents. Copyrights. American Foreign Trade Definitions.

APPENDIX 381
Table of Foreign Terms. Overseas Branches of American Banks. Foreign Banks with Offices in the United States. Notes to Documentary Requirements for Freight Shipments to Latin America. Notes to Documentary Requirements for Air Express Shipments to Latin America. Notes to Documentary Requirements for Parcel Post Shipments to Latin America. Rules of Procedure of the Inter-American Commercial Arbitration Commission.

BIBLIOGRAPHY 406

INDEX 409

PART I

THE PRINCIPLES AND PRACTICES OF FOREIGN CREDITS

CHAPTER I

FOREIGN TRADE

International Trade

Trade among nations has existed since the early days of history. Imperial Rome had trading posts in India. The Spanish merchants of the sixteenth century extended their commercial ventures beyond their peninsula. England, from the seventeenth century onward, bought and sold her merchandise throughout the world; and today the United States ships her products to the far corners of the earth.

It is noticeable that the prestige of these nations increased as their foreign trade developed. Indeed, to hold their prominence in international trade, nations have quarreled and gone to war. In a peaceful way they have also negotiated commercial treaties aiming to develop their mutual commerce.

To stimulate and increase the nation's foreign business, wealthy countries have encouraged investors to lend their idle capital in developing the resources of other lands. Furthermore, the governments have also extended direct financial assistance to exporters in the form of bounties and have guaranteed their foreign sales against the insolvency of the buyers.

International trade is defined as the exchange of goods and service of one nation for the goods and service of another nation. The definition holds good whether the trade is a direct exchange of one commodity for another—such as wheat for cotton—or if money is used to facilitate the transaction. When one commodity is directly exchanged for another, we call such an exchange *barter.* When money is used as the medium of exchange, we say that the transaction is *financed.*

International trade is carried on freely among individuals located in various countries for the purpose of mutual gain. The free exchange of goods is made possible through the service of oceanic transportation, and the assistance of banking houses that facilitate the financing of the transactions.

An accepted principle of international trade is that a nation which exports must import. If, for example, the United States intends to sell textile machinery to Colombia, the latter must raise sufficient dollars to

November 11, 19

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- ✓ COMMERCIAL INVOICE
- ✓ CONSULAR INVOICE
- ✓ INSURANCE CERTIFICATE
- DELIVERY ORDER
- LETTER
- DECLARATION
- WEIGHT NOTE
- CERTIFICATE OF INSPECTION
- ~~CERTIFICATE OF ORIGIN~~ ------

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[redacted]

ACCEPTED No. 1951 NEW YORK, NOV. 11, 19 THE EXPORT NATIONAL BANK

Gorman

FIRST VICE PRESIDENT

H. G. GODFREY & CO., INC.

President.

Illustration 1. BANKER'S ACCEPTANCE. This bill of exchange is accepted by the bank after the bank has received, examined, and approved the documents delivered by the exporter, as listed in the margin of the draft; and as required by the letter of credit.

pay for the purchase; but Colombia can obtain the required dollars only if the United States in turn buys her products.

Free Traders, Protectionists, and Planners

Within the field of international trade there are three outstanding schools of thought as to its conduct. They are:

The Free Traders, who consider business as composed of private enterprises working independently and free of any interference from the government, except when such interference is necessary to regulate its conduct. The free traders also defend the right of capital to move beyond national frontiers to organize economic relationships with other countries. They denounce the tariff, because to them it hampers international trade and helps business only in an artificial way. It also raises the cost of living, since the seller of imported goods must add to the price of these articles whatever duties he pays. This has the tendency to increase the price of similar domestic articles, so that the consumer is even forced to pay more for products produced in his own back yard.

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ORDER OF *William Iselin & Co., Inc.* - - - - - - - - - - - - - - - -$700.00

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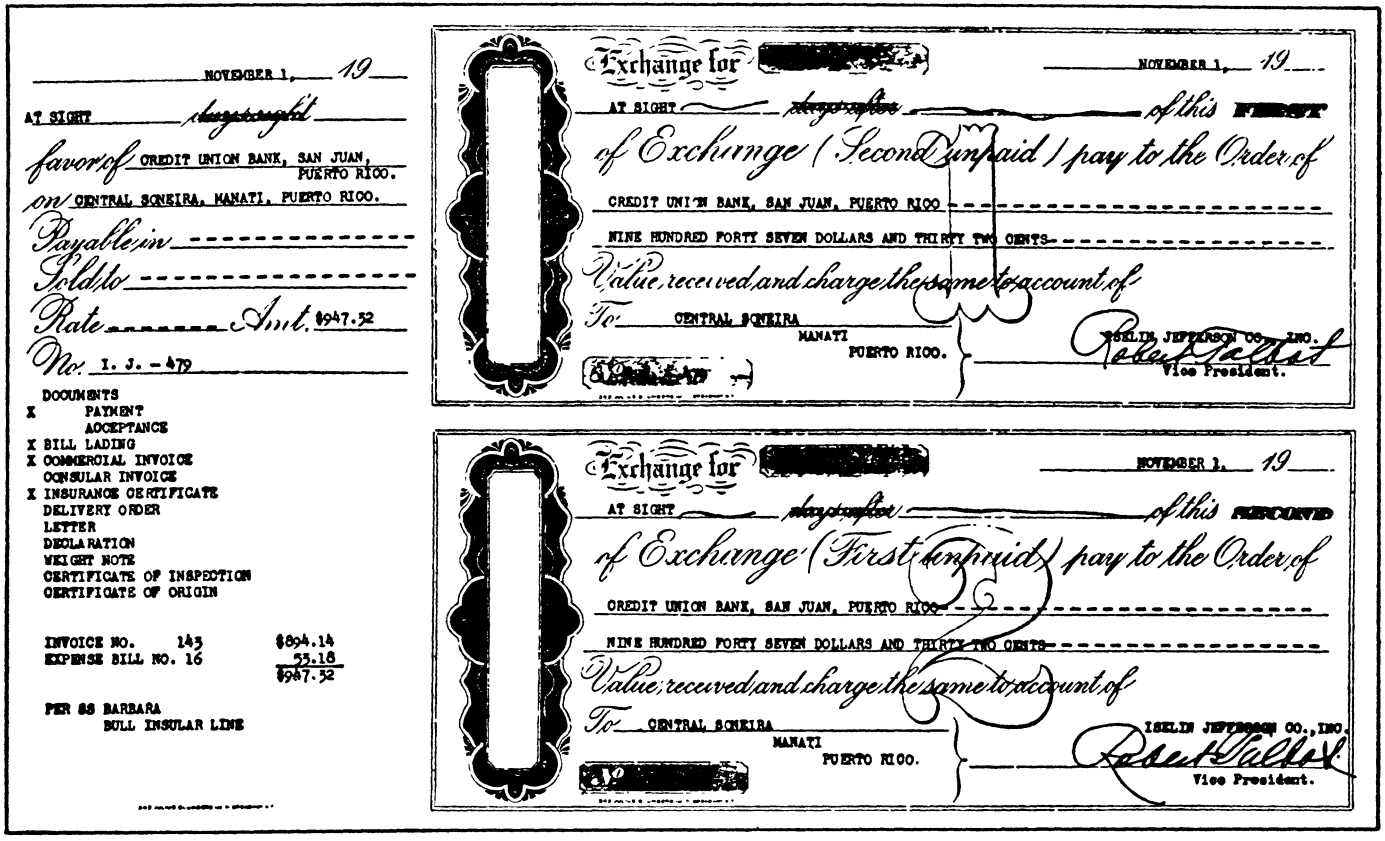
_____ authorized signature

_____ authorized signature

Illustration 2. BANKER'S DRAFT.

For example, let us assume that the United States does not produce enough sugar to meet the demand of the people, and that she imports five million pounds of this commodity from different parts of the world at 6 cents a pound, on which there is a duty of 1 cent per pound. This sugar when sold to the consumer will be priced at 6 cents plus 1 cent duty, or 7 cents a pound. Naturally the domestic producer will also charge 7 cents per pound for the sugar he produces in this country, instead of less. In other words, protective tariffs obviously increase the cost of living by raising the prices of domestically produced commodities.

The free trader further argues that as soon as tariff protection is given to one article other producing enterprises will demand similar protection.



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Payable in

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ACCEPTANCE
X BILL LADING
X COMMERCIAL INVOICE
CONSULAR INVOICE
X INSURANCE CERTIFICATE
DELIVERY ORDER
LETTER
DECLARATION
WEIGHT NOTE
CERTIFICATE OF INSPECTION
CERTIFICATE OF ORIGIN

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Vice President.

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Illustration 3. BILL OF EXCHANGE OR DRAFT.

The natural result will be a general increase in the cost of living.

The damaging effect that protective tariff has on business in general is further illustrated by considering what will happen to the commerce of the nation that follows such a policy.

For example: it is a fact that, say, Italy can buy from us only if we buy from her. In other words, the proceeds of her sales will pay for her purchases here. It follows then that, if we impose a duty on the straw coming from Italy, she will not be able to sell this article in this country, and naturally Italy will not be able to build dollar balances in this country to pay for the wheat her people need.

The result will be that some of our ships will remain idle and the farmers of the Middle West, who grow wheat, will not be able to dispose of their crops. In other words, there will be idle ships, idle seamen, and idle farmers, who will not be able to buy what they need, thus affecting the welfare of others.

The Protectionists consider business an integral part of the nation, subject to regulations, and functioning, primarily, to serve the interests of the country and its welfare. To them tariffs foster home industry, stimulate business, help both labor and capital, and create a strong economic unity, which in turn develops nationalism. The protectionists argue that free international trade is bound to ruin the country's economy, and thus imperil the existence and security of the nation. They uphold, against this concept, the idea that it is the duty of the government to establish a national industry, strong enough to withstand foreign competition and possible aggression.

If the nations of the world follow the doctrines of the free traders to allow each nation to produce what it is especially capable of producing, what will happen in the case of national conflicts? Obviously there will be quite a few countries unable to obtain the basic requirements of life.

Let us assume, for example, that Argentina, the United States, and Russia, are allowed to produce wheat to satisfy the needs of other countries, since they grow it far more economically than France and England can, and for some reason or other, one of these countries is unable to deliver to France or England the needed share of wheat. The results will be ruinous to these two countries.

Finally, the protectionists repudiate the desire to suppress international trade entirely for the sake of destroying or eliminating foreign competition; they merely defend the right to restore equality in competition. For example, if Russia, with its vast natural resources, the fertility of the land, and the cheapness of labor, produces cotton at 3 cents per pound while the farmers in the United States must spend 5 cents to grow a pound of cotton, the protectionists argue that this handicap can be overcome by means of a tariff imposing a duty of 2 cents per pound on imported cotton.

The United States has adhered for many decades to the theory of protection. Its people contended that they could not develop their industries against the aggressive European competition, which in the last quarter of the nineteenth century could, because of low labor costs, manufacture most articles cheaper than American factories.

CREDIT DEPARTMENT

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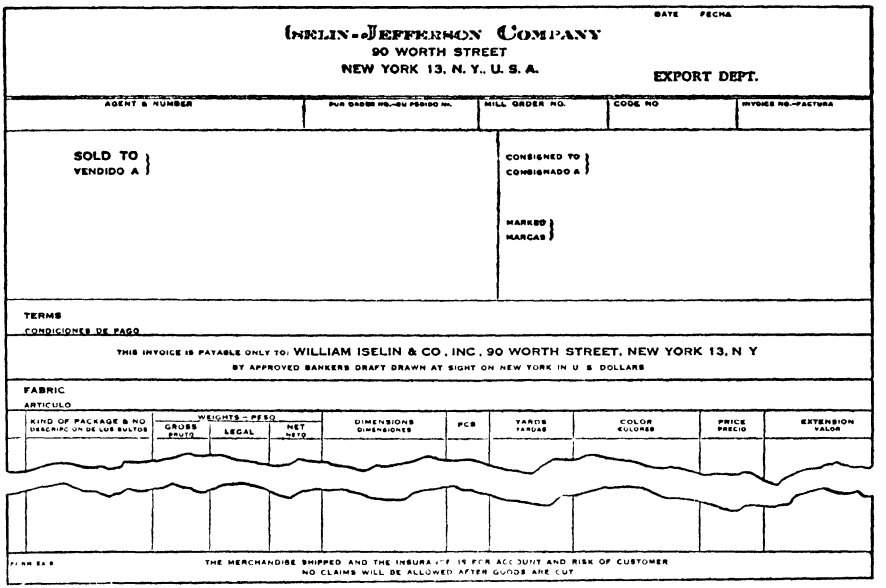
WILLIAM ISELIN & CO., INC.

Signed by: _____

Illustration 4. CERTIFICATE OF MANUFACTURE.



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THE MERCHANDISE SHIPPED AND THE INSURANCE IS FOR ACCOUNT AND RISK OF CUSTOMER
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Illustration 5. COMMERCIAL INVOICE.

On the other hand, Holland, before the last war, accepted and put into practice the theory of free trade. It was necessary for her economy, since industries in that country were in need of raw materials that they could not produce locally and were forced to import.

Against these two tendencies a rival school appears, *the planners*, whose theories challenge the concepts just expanded. This third group advocates a planned economic system, controlled by the State, which, among other things, regulates the nation's purchases abroad in such a manner as to equal the foreign sales.

This policy naturally leads to a system of barter, whereby one commodity, or several commodities, are exchanged for one or more commodities, thus doing away with export financing and the problem of transferring international payments.

In summary, we can say that every nation has created its own system for the development of its international trade. Each one of these plans has been designed to meet the country's own special needs, and it conforms to the economic and political ideas and development of the nation. Furthermore, each country has also established intricate methods for the regulation of its foreign commerce. The most important methods of control are:

1. The State monopolizes its foreign trade. Under this scheme the government, through its own agencies, acts as importer and exporter. In Russia, for example, its international commerce is a state monopoly, managed by a Commissariat for Foreign Trade.

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				NOT NEGOTIABLE												

In case the shipment or any part are to be delivered to the steamship or to pier or lighters or other craft, Steamship Company shall not be liable for any delay of lighters or other craft resulting from riots, strikes, lockouts, stoppage of labor and like disturbances, or from extraordinary weather conditions, or other causes of whatever nature beyond the control of the Company.

Said goods are received subject to delay and default in shipment, or nonshipment, caused by change of governmental order or authority as to the assignment of the vessel, cargo to be carried, or the use thereof in any respect, conditions of war, accumulation of other goods, riots, strikes, labor disturbances, lack of conveyances, room or facilities of any sort and the like. The Carrier's regular bill of lading in use by it for similar shipments (upon the basis of which freight rates are fixed) shall be issued for said goods to the above named shipper The Carrier shall not become responsible for the goods as carrier until the goods are actually loaded on steamer, until such loading it shall be liable only for loss or damage occasioned by its fault, such as an ordinary bailee is liable for, but subject also to the conditions, exceptions and limitations of liability and value contained in said regular bill of lading, with which shippers are understood to have acquainted themselves and to assent to. If the value of any of the goods exceeds the valuation limit per package specified in Carrier's bill of lading, a rate of freight based thereon must be arranged before tender of the goods for shipment, and value of the goods to be declared on delivery at the dock, inserted herein, and also on the bill of lading, failing which the goods will be conclusively deemed received subject to the Carrier's bill of lading limitations of value and liability.

Shipper's weights as inserted herein will be relied on in handling the goods, and, if incorrect, shipper and/or consignee shall be responsible for any loss or damage to Carrier or others resulting therefrom.

IMPORTANT! All Packages of Different Sizes, Cases, Crates, Boxes, Barrels, Bales, Bags, Bundles, Pieces, Etc., Must be Specified Separately.

Packages must be marked on one side.

By_____
Receiving Clerk

Illustration 6. DOCK RECEIPT.

2. The State allows individuals to sell and buy products in the markets of the world, but subject to licenses issued by the government. Totalitarian states follow this procedure. It is also found in countries where the exchange transactions are strictly regulated. The classical example under this system was Germany before the last war.

3. International trade is carried on through executive orders. This method is mainly used by governments as a weapon, or for bargaining, and is rarely employed during normal peaceful times. Hitler used this procedure rather effectively on the trade with the Balkan States.

DATE FECHA

ISELIN-JEFFERSON COMPANY
90 WORTH STREET
NEW YORK 13, N Y, U S A.

EXPORT DEPT.

INVOICE FOR SHIPPING EXPENSES
FACTURA DE GASTOS

AGENT & NUMBER	PUR ORDER NO -SU PEDIDO N°	MILL ORDER NO	CODE NO	INVOICE NO -FACTURA

SOLD TO
VENDIDO A

CASE NO.

SHIPPED FROM
EMBARCADO EN

VIA

TERMS
CONDICIONES DE PAGO

COVERING
COMPRENDIENDO:

THIS INVOICE IS PAYABLE ONLY TO WILLIAM ISELIN & CO., INC., 90 WORTH STREET NEW YORK 13, N Y
BY APPROVED BANKERS DRAFT DRAWN AT SIGHT ON NEW YORK IN U S DOLLARS

INLAND FREIGHT FLETE TERRESTRE	
TRUCKING ACARREOS	
OCEAN FREIGHT FLETE MARITIMO	
CONSULAR FEES DERECHOS CONSULARES	
CONSULAR BLANKS IMPRESOS CONSULARES	
CERTIFICATE OF ORIGIN CERTIFICADO DE ORIGEN	
SERVICE FEE PREPARACION DE DOCUMENTOS	
INSURANCE ASEGURO	
SUNDRIES VARIOS	
COLLECTION CHARGES GASTOS DE COBRO	

THE MERCHANDISE SHIPPED AND THE INSURANCE IS FOR ACCOUNT AND RISK OF CUSTOMER
NO CLAIMS WILL BE ALLOWED AFTER GOODS ARE OUT

FORM NO. 0

Illustration 7. EXPENSE BILL.

4. Control exerted by tariffs or similar regulations, intended principally for obtaining revenue, protecting the nation's industries, and safeguarding the currency of the country. This is the policy followed by England, to a certain extent, after she gave up free trade ideas.

Commercial Treaties

The ideal relation that should exist among nations is one of cooperation. Under this concept of international relationship, the idea of self-sufficiency and isolation is ignored and condemned.

In international commerce this ideal is put into practice by means of a system of commercial treaties. Their main purpose is to overcome the damaging results of an anarchical free trade system, or the ruinous policy of isolation and nationalistic self-sufficient doctrines of the protectionists.

In other words, the aim of commercial treaties is to try to curb the extreme tendency of both the free traders and the protectionists.

The free traders advocate commercial treaties since they aim to eliminate a system of tariffs subject to frequent changes. They prefer a tariff fixed over a period of time, thus facilitating commercial operations.

They believe that commercial treaties create mutual understanding among nations, which leads them to establish better relations and more liberal commercial connections.

Finally, commercial treaties not only establish, but also develop, friendly relations among nations, and diminish the possibilities of war.

For the protectionists, commercial treaties justify their philosophy of protection, since they advocate establishing a system of tariffs among nations. Therefore in their estimation commercial treaties protect the nation's industries.

In summary, commercial treaties not only eliminate the antagonism prevailing between those supporting free trade and those advocating protection, but also establish and develop mutual understanding and strengthen friendly relations among nations. A treaty of commerce is a peacemaker, an alliance.

Domestic and International Trade

Although the fundamental principles governing international and domestic trade are identical, in practice their methods and functions vary.

First we have the difference in money. In this country we use the the dollar as the medium of exchange, in Colombia they use the peso, in England the pound sterling, and in France, the franc. When we sell goods to Colombia, the importer must buy U. S. dollars with his pesos in order to pay for the goods. Hence, the importer as well as the ex-

Form IT 419

Budget Bureau No. 41-R725.3.
Expires June 30, 1946.

United States of America
DEPARTMENT OF COMMERCE
OFFICE OF INTERNATIONAL TRADE
REQUIREMENTS AND SUPPLY BRANCH

IT Case No. (License number when validated):

APPLICATION FOR EXPORT LICENSE AND PRIORITY ASSISTANCE FOR ARTICLES AND MATERIALS
(Other Than Arms, Ammunition, and Implements of War, Tinplate Scrap, and Helium)

License is hereby granted to the applicant named herein to export from the United States to the purchaser and consignee in the destination stated herein the articles and materials described, in the quantity given, for a consideration not in excess of that permissible by the Revised Maximum Export Price Regulation, as amended, issued by the Office of Price Administration. If the consideration is in excess of such maximum price, the issuance of this license shall not be construed as an approval of such price nor as relieving the applicant of liability for any violation of such Price Regulations. THIS LICENSE IS EXPRESSLY SUBJECT TO ALL RULES AND REGULATIONS ISSUED BY THE OFFICE OF INTERNATIONAL TRADE. Unless otherwise stated, it is valid for a period of ONE YEAR from the date of issuance. It is not transferable without official authority and is subject to revocation without notice.

IMPORTANT.—Applicant's signature required on DUPLICATE and QUADRUPLICATE when filed. See INSTRUCTIONS for filling in this form on the reverse side of TRIPLICATE. If there is insufficient space for fully answering any question, supplemental typewritten sheets should be attached to EACH copy of the application.

TO BE FILLED IN BY APPLICANT

1. Send license to (type or print plainly):
NAME
STREET
CITY AND STATE

2. Date of application

3. Country of ultimate destination

4. (a) Applicant's Reference No.:
(b) Last previous IT or FEA Case No. (if any):

5. Number of import license

6. APPLICANT:
(a) Name
Address
Citizenship

(b) Consignor in United States (if same as applicant or affiliate thereof, state "same"):
Name
Address

7. Give name and address (Street, City, State) of the following concerned with this shipment:
(a) Purchaser in foreign country:
Name
Address

(b) Consignee in foreign country (if same as purchaser, state "same"):
Name
Address

8. If the applicant in 6 (a) is exporting for other than own account, explain fully.

9. (a) Item No.	(b) Quantity to be shipped (see instruction B5)	(c) Description of commodities in sufficient detail to permit accurate identification; include applicant's purchase order description in full, also show Schedule B number and processing code	(d) Total selling price and point of delivery; also unit value, if possible (see instruction B5)	
			Unit value	Total price

10. Describe fully the ultimate use of the item(s) to be exported. (Include what will be produced or manufactured, or what service will be rendered with the item(s) requested as described herein; also include a statement of the type of business in which items are to be used. State if for purchaser's own use or for resale.)

11. If the applicant is not the manufacturer, or affiliate thereof, of the commodities to be exported, state that item(s) will be (1) shipped from own stock ☐, or (2) secured from (Name) _____ (Address) _____, who is a producer ☐, wholesaler/distributor ☐, retailer ☐; other (specify) _____

12. Answer either (a) or (b)
(a) If the applicant has filed statement of export prices with OPA for commodities listed in 9, indicate date such prices were filed

(b) To show conformity with the Revised Maximum Price Regulations, state with regard to each article or material (per unit when possible):
(i) Basic domestic price, $ Delivery point:
Check applicable basic domestic price used: ☐ Maximum price applicable to current sale to export seller by his supplier, ☐ Maximum price applicable to domestic sale by export seller; (ii) Premium (if any) $
(iii) If premium or price is affected by terms of payment, state terms.

13. To the best of your knowledge will any person receive any consideration in addition to that shown in 9 (d) above
Yes ☐ No ☐ If "Yes," explain.

FOR OFFICIAL USE ONLY

NOT VALID WITHOUT OFFICIAL CERTIFICATION

2 DUPLICATE
(OIT File Copy)

(OVER)

Under authority of the Civilian Production Administration, delivery of the material referred to in section 9 is hereby assigned preference rating(s) as indicated. Application and extension of rating shall be made in accordance with Priorities Regulation No. 3.

16—47330-1

3 TRIPLICATE
(Applicant's File Copy)

(OVER)

Under authority of the Civilian Production Administration, delivery of the material referred to in section 9 is hereby assigned preference rating(s) as indicated. Application and extension of rating shall be made in accordance with Priorities Regulation No. 3.

16—47330-1

Illustration 8. EXPORT LICENSE.

ship may call at any port for the purposes of the current voyage or of a prior or subsequent voyage. The ship may omit calling at any port or ports whether scheduled or not, and may call at the same port more than once, may for matters occurring before loading the goods, known or unknown at the time of such loading and matters occurring after such loading, either with or without the goods or passengers on board, and before or after proceeding toward the port of discharge, adjust compasses, dry dock, with or without cargo aboard go on ways or to repair yards, shift berths, make trial trips or tests, take fuel or stores, remain in port, sail with or without pilots, tow and be towed, and save or attempt to save life or property; and all of the foregoing are included in the contract voyage.

4. In any situation whatsoever and wheresoever occurring and whether existing or anticipated before commencement of or during the voyage, which in the judgment of the Carrier or the Master is likely to give rise to risk of capture, seizure, detention, damage, delay or disadvantage to or loss of the ship or any part of her cargo, to make it unsafe, imprudent, or unlawful for any reason to commence or proceed on or continue the voyage or to enter or discharge the goods at the port of discharge, or to give rise to delay or difficulty in arriving, discharging at or leaving the port of discharge or the usual or agreed place of discharge in such port, the Carrier may before loading or before the commencement of the voyage, require the shipper or other person entitled thereto to take delivery of the goods at port of shipment and upon failure to do so, may warehouse the goods at the risk and expense of the goods; or the Carrier or the Master, whether or not proceeding toward or entering or attempting to enter the port of discharge or reaching or attempting to reach the usual place of discharge therein or attempting to discharge the goods there, may discharge the goods into depot, lazaretto, craft, or other place, or the ship may proceed or return, directly or indirectly, to or stop at any port or place whatsoever as the Master or the Carrier may consider safe or advisable under the circumstances, and discharge the goods, or any part thereof, at any such port or place, or the Carrier or the Master may retain the cargo on board until the return trip or until such time as the Carrier or the Master thinks advisable and discharge the goods at any place whatsoever as herein provided; or the Carrier or the Master may discharge and forward the goods by any means, rail, water, land, or air at the risk and expense of the goods. The Carrier or the Master is not required to give notice of discharge of the goods or the forwarding thereof as herein provided. When the goods are discharged from the ship, as herein provided, they shall be at their own risk and expense, such discharge shall constitute complete delivery and performance under this contract and the Carrier shall be freed from any further responsibility. For any services rendered to the goods as hereinabove provided, the Carrier shall be entitled to a reasonable extra compensation.

5. The Carrier, Master and ship shall have liberty to comply with any orders or directions as to loading, departure, arrival, routes, ports of call, stoppages, discharge, destination, delivery or otherwise howsoever given by the government of any nation or department thereof or any person acting or purporting to act with the authority of such government or of any department thereof, or by any committee or person having, under the terms of the war risk insurance on the ship, the right to give such orders or directions. Delivery or other disposition of the goods in accordance with such orders or directions shall be a fulfillment of the contract voyage. The ship may carry contraband, explosives, munitions, warlike stores, hazardous cargo, and may sail armed or unarmed and with or without convoy.

In addition to all other liberties herein the Carrier shall have the right to withhold delivery of, reship to, deposit or discharge the goods at any place whatsoever, surrender or dispose of the goods in accordance with any direction, condition or agreement imposed upon or exacted from the Carrier by any government or department thereof or any person purporting to act with the authority of either of them. In any of the above circumstances the goods shall be solely at their risk and expense and all expenses and charges so incurred shall be payable by the owner or consignee thereof and shall be a lien on the goods.

6. Unless otherwise stated herein, the description of the goods and the particulars of the packages mentioned herein are those furnished in writing by the shipper and the Carrier shall not be concluded as to the correctness of marks, number, quantity, weight, gauge, measurement, contents, nature, quality or value. Single pieces or packages exceeding 4480 lbs. in weight shall be liable to pay extra charges in accordance with tariff rates in effect at time of shipment for loading, handling, transshipping or discharging and the weight of each such piece or package shall be declared in writing by the shipper on shipment and clearly and durably marked on the outside of the piece or package. The shipper and the goods shall also be liable for, and shall indemnify the Carrier in respect of any injury, loss or damage arising from shipper's failure to declare and mark the weight of any such piece or package or from inadequate or improper description of the goods or from the incorrect weight of any such piece or package having been declared or marked thereon, or from failure fully to disclose the nature and character of the goods.

lighterage and use of craft in discharging shall be at the risk and expense of the goods. Landing and delivery charges and pier dues shall be at the expense of the goods unless included in the freight herein provided for. If the goods are not taken away by the consignee by the expiration of the next working day after the goods are at his disposal, the goods may at Carrier's option and subject to Carrier's lien, be sent to store or warehouse or be permitted to lie where landed, but always at the expense and risk of the goods. The responsibility of the Carrier in any capacity shall altogether cease and the goods shall be considered to be delivered and at their own risk and expense in every respect when taken into the custody of customs or other authorities. The Carrier shall not be required to give any notification of disposition of the goods.

13. The Carrier shall not be liable for failure to deliver in accordance with marks unless such marks shall have been clearly and durably stamped or marked by the shipper before shipment upon the goods or packages, in letters and numbers not less than two inches high, together with name of the port of discharge. Goods that cannot be identified as to marks or numbers, cargo sweepings, liquid residue and any unclaimed goods not otherwise accounted for shall be allocated for completing delivery to the various consignees of goods of like character, in proportion to any apparent shortage, loss of weight or damage. Loss or damage to goods in bulk stowed without separation from other goods in bulk of like quality, shipped by either the same or another shipper, shall be divided in proportion among the several shipments.

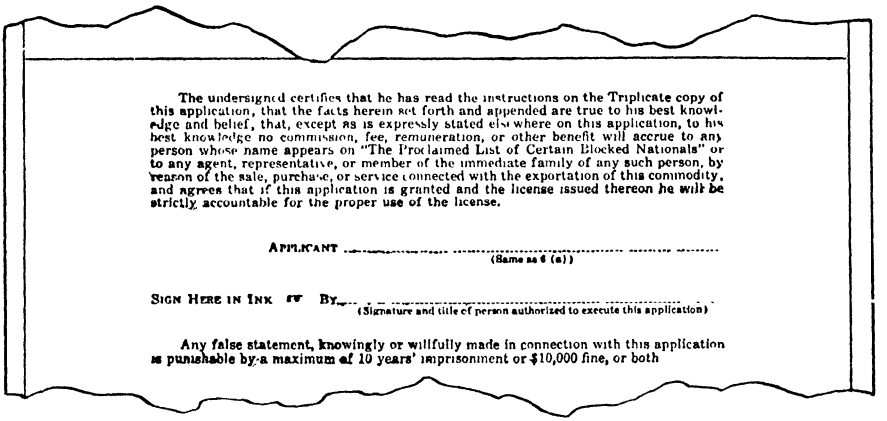
14. The goods shall be liable for all expense of mending, cooperage, baling or reconditioning of the goods or packages and gathering of loose contents of packages; also for any payment expense, fine, dues, duty, tax, impost, loss, damage or detention sustained or incurred by or levied upon the Carrier or the ship in connection with the goods, howsoever caused, including any action or requirement of any government or governmental authority or person purporting to act under the authority thereof, seizure under legal process or attempted seizure, incorrect or insufficient marking, numbering or addressing of packages or description of the contents, failure of the shipper to procure consular, Board of Health or other certificates to accompany the goods or to comply with laws or regulations of any kind imposed with respect to the goods by the authorities at any port or place or any act or omission of the shipper or consignee.

15. Freight shall be payable on actual gross intake weight or measurement or, at Carrier's option, on actual gross discharged weight or measurement. Freight may be calculated on the basis of the particulars of the goods furnished by the shipper herein but the Carrier may at any time open the packages and examine, weigh, measure and value the goods. In case shipper's particulars are found to be erroneous and additional freight is payable, the goods shall be liable for any expense incurred for examining, weighing, measuring and valuing the goods. Full freight shall be paid on damaged or unsound goods. Full freight hereunder to port of discharge named herein shall be considered completely earned on shipment whether the freight be stated or intended to be prepaid or to be collected at destination, and the Carrier shall be entitled to all freight and charges due hereunder, whether actually paid or not and to receive and retain them irrevocably under all circumstances whatsoever ship and/or cargo lost or not lost or the voyage broken up or abandoned. If there shall be a forced interruption or abandonment of the voyage at the port of shipment or elsewhere any forwarding of the goods or any part thereof shall be at the risk and expense of the goods. All unpaid charges shall be paid in full and without any offset, counterclaim or deduction in the currency of the port of shipment or, at Carrier's option, in the currency of the port of discharge at the demand rate of New York exchange as quoted on the day of the ship's entry at the Custom House of her port of discharge. The Carrier shall have a lien on the goods, which shall survive delivery, for all charges due hereunder and may enforce this lien by public or private sale and without notice. The shipper and the consignee shall be jointly and severally liable to the Carrier for the payment of all charges and for the performance of the obligation of each of them hereunder.

16. Neither the Carrier nor any corporation owned by, subsidiary to or associated or affiliated with the Carrier shall be liable to answer for or make good any loss or damage to the goods occurring at any time and even though before loading on or after discharge from the ship, by reason or by means of any fire whatsoever, unless such fire shall be caused by its design or neglect.

17. In case of any loss or damage to or in connection with goods exceeding in actual value $500 lawful money of the United States, per package, or, in case of goods not shipped in packages, per customary freight unit, the value of the goods shall be deemed to be $500 per package or per unit, on which basis the freight is adjusted and the Carrier's liability, if any, shall be determined on the basis of a value of $500 per package or per customary freight unit, or pro rata in case of partial loss or damage, unless the nature of the goods and a valuation higher than $500 shall have been declared in writing by the shipper upon delivery to the Carrier and inserted in this bill of lading and extra freight paid if required and in such case if the actual

Illustration 15. STRAIGHT BILL OF LADING (*Continued*).



The undersigned certifies that he has read the instructions on the Triplicate copy of this application, that the facts herein set forth and appended are true to his best knowledge and belief, that, except as is expressly stated elsewhere on this application, to his best knowledge no commission, fee, remuneration, or other benefit will accrue to any person whose name appears on "The Proclaimed List of Certain Blocked Nationals" or to any agent, representative, or member of the immediate family of any such person, by reason of the sale, purchase, or service connected with the exportation of this commodity, and agrees that if this application is granted and the license issued thereon he will be strictly accountable for the proper use of the license.

APPLICANT .....
(Same as 6 (a))

SIGN HERE IN INK BY .....
(Signature and title of person authorized to execute this application)

Any false statement, knowingly or willfully made in connection with this application is punishable by a maximum of 10 years' imprisonment or $10,000 fine, or both

Illustration 8. EXPORT LICENSE (*Continued*).

porter becomes interested in knowing whether the value of the dollar will increase or decrease at the time the draft falls due. If it increases, the importer will have to pay more for the goods, a circumstance that may impel the buyer to withhold payment of the bill until the value of the dollar falls.

In countries having what is called a *free economy,* that is, where there are no exchange controls, the buyer can protect himself against exchange fluctuations by making a contract with a bank to buy, for delivery at some future date, a specified sum of dollars at a fixed rate of exchange. These dollars, covered by the contract, the importer will use to liquidate the draft falling due on the very same date that the bank delivers the dollars to him. For a more detailed discussion of this problem, see page 222.

Although trade is carried on rather freely among individuals and nations, nevertheless it is directly affected by the customs, habits, and laws of the people with whom we trade. When we deal with Peru, we do not follow the same practices as when we deal with Maryland. In fact, when we deal with Peru, we do not follow the same course as when we deal with Puerto Rico, Mexico, Brazil, or England. The tariff, customs procedure, and exchange regulations that we encounter in foreign trade do not exist in domestic business.

Another dissimilarity we meet is the difference in the system of weights and measures used here and in foreign countries. The unit of measure in the United States is linear, whereas a number of foreign lands use the metric system. We weigh things in pounds; abroad they use the kilo or stone.

When we make a shipment from one point in the United States to another, all that is needed is an invoice and the receipt of the common

carrier. In foreign trade each transaction requires the evidence of several documents.

These various differences bring about specific complications which must be valued when considering the extension of credits to a foreign buyer.

Foreign Credits

In our present economic era, the bulk of the trade, whether domestic or foreign, is done on credit, a facility that enables the buyers to use the capital of others. Certain commodities are sold abroad on a cash basis or the equivalent of cash, but by far the major portion of foreign trade, executed under normal conditions, is transacted on credit.

The fundamentals governing all credit transactions are the same. No matter where the borrower is located, we discern in all credit dealings the same common characteristics, namely:

1. The transfer of goods, services, or money,
2. Postponement of the obligation,
3. Promise to pay,
4. The creation of a commercial relationship,
5. The element of trust.

It would be erroneous, however, to continue drawing a parallel between domestic and foreign credits, since each and every one of the characteristics listed above are directly or indirectly affected by the same factor or conditions that render domestic and foreign trade different. For example, the first characteristic concerns the transfer of goods, service, or money; but this transfer is affected by the customs, habits, and laws of the country where the seeker of credit resides. The promise to pay is almost entirely dependent on the supply of dollars available to the importer at the time the bill falls due; the postponement of the obligation is exposed to the vagaries of political conflicts, and so on.

We can therefore say that, although the fundamentals of domestic and foreign credits are the same, there is a striking difference between the two functions, a difference brought about by:

1. The risk of the market, as revealed in the habits, commercial practices, customs, laws, and the political situation of the country,
2. The transfer or the exchange risk, which rests on the supply of dollars available to the importers,
3. The terms of sale, which vary from country to country,
4. Transportation facilities—delays in obtaining shipping space will tie up the exporter's capital,
5. The question of insurance. If for any reason insurance companies refuse to insure a shipment of goods, the action will render the extension of credit difficult, if not impossible.

No. _____

ESTABLISHED 1884

327 SO. LA SALLE ST.
CHICAGO, ILL.
131 STATE ST.
BOSTON, MASS.
203 STEWART BLDG.
BALTIMORE, MD.

LONDON, ENGLAND
10 LLOYD'S AVE. E.C.3

BUENOS AIRES, ARGENTINA
RIVADAVIA 409

RIO DE JANEIRO, BR.
CAIXA POSTAL 3417

SAO PAULO BR.
CAIXA POSTAL 5418

D. C. ANDREWS & COMPANY, Inc.

27 & 29 WATER STREET, NEW YORK

FOREIGN FREIGHT FORWARDERS
CUSTOM HOUSE BROKERS

Received on behalf of the shipper and/or owner and/or consignee named here-on (hereinafter referred to as the sender), bill of lading or receipt of Railroad Company, Steamship Company or other carrier and/or other documents, subject to all the contracts, clauses, rules, regulations and conditions (printed, written or stamped) appearing in the tariffs, bills of lading or receipts of the American or Foreign inland and/or ocean carriers; said to control the packages described here-on for the purposes, hereinafter set forth and subject to the terms, provisions and conditions printed, written or stamped on the face and back hereof, said packages being in apparent good order and conditions except as noted, said to contain merchandise, the contents, value, weight, quantity, conditions of contents or the marks on said packages not being known to the person, firm or corporation named in the heading hereof hereinafter designated as the Company, to be forwarded to the port of destination named here-on

SHIPPED BY _____

_____

TO BE FORWARDED FROM _____

PER S/S _____ AND/OR OTHER VESSEL OR VESSELS

BOUND FOR _____

FOR DELIVERY UNTO ORDER _____

_____

PARTY WHO MAY BE NOTIFIED _____

_____

Illustration 9. FORWARDER'S BILL OF LADING.

FOR DELIVERY APPLY TO_____

WHO HAVE BEEN INSTRUCTED TO REQUIRE SURRENDER OF THIS CONTRACT OR AN ORIGINAL COPY OF SAME PROPERLY ENDORSED BEFORE DELIVERY

SENDERS MARKS AND NUMBERS	SENDERS DESCRIPTION OF CONTENTS	WEIGHT	MEASUREMENTS

SUBJECT ALWAYS TO THE TERMS, CONDITIONS AND EXCEPTIONS OF THIS CONTRACT AND WHICH ARE HEREBY MUTUALLY AGREED AS FOLLOWS:

1. The company assumes no liability as a carrier, and undertakes only to use reasonable care in the selection of carriers, truckmen, forwarders, lightermen, warehousemen, agents and others to whom it may entrust the goods for transportation, handling and/or delivery and/or storage or otherwise.

2. The Company is authorized to select and engage carriers, truckmen, lightermen, forwarders, agents, warehousemen and others, to transport, store, deal with and deliver the goods, all of whom shall be considered the agents of the Sender, and the goods may be entrusted to such agencies subject to all conditions as to limitation of liability for loss or damage, and to all rules, regulations, requirements and conditions whether printed, written or stamped, appearing in bills of lading, receipts or tariffs issued by such carriers, truckmen, lightermen, forwarders, agents, warehousemen and others.

3. Inasmuch as carriers limit their liability to a nominal sum for loss or damage, unless a freight rate based on valuation is made with said carriers,—the Company must receive at the time when forwarding instructions are given, special written instructions from the Sender to pay such higher freight rate based on valuation, otherwise the valuation placed by the Sender on the goods shall be considered as solely for customs and insurance purposes, and the goods will be delivered to the carriers, subject to all their limitations of liability. Such special written instructions indicating value do not in any manner relate to insurance.

4 The Sender has the option of paying a special compensation to the Company based upon a value in excess of $50.00 per package, in case of any loss or damage from causes which would make the Company liable, but such option can be exercised only by special written agreement made with the Company, prior to shipment, which agreement shall indicate the limit of the Company's liability and the special compensation for the particular risks by it to be assumed, and be attached hereto or endorsed hereon by a duly authorized officer of the Company;—otherwise the Sender agrees that the Company's liability for any loss or damage to the goods for any cause which would make the Company liable, shall not exceed the sum of $50 00 for each package (or the invoice value thereof, if less) and any partial loss or damage for which the Company might be liable, shall be adjusted pro-rata on the basis of the valuation of $50.00 per package, or the invoice value thereof if less.

5. In no event shall the Company be liable for any act, omission or default in connection with the within shipment, unless a written claim therefor shall be

13. Charges do not include charges in foreign countries for duties, customs or revenue items, service for customs clearance, port or terminal charges, or expenses or cartage to consignee's local address, none of which expenses are required to be advanced by the Company.

14. The Company shall be under no obligation to arrange for any insurance on the packages herein described on behalf of the Sender or holder hereof, and any insurance to be effected by the Company shall be provided by special written agreement; but, insofar as the Company may be responsible to the Shipper, the Company shall be entitled to the benefit of any insurance effected on the goods and to any payments or loans made by the insurer thereon in any manner whatsoever.

15. It is further agreed that, since neither the carriers which will transport and handle this shipment, nor the Company, will have any control over the shipment while in custody of government officials, a full and complete delivery shall be deemed to be made when the goods have been delivered to custom house, government or other authorities as required by the law or customs regulations then and there in force.

16. The Company may cause the goods to be stored at the expense and risk of the Shipper, and/or of the goods, if unusual delay occurs enroute, or delivery is prevented by causes beyond the Company's control, and if acceptance is refused, or the goods unclaimed, at destination, the Company shall not be obligated to arrange for disposition or return of the goods, but the goods shall be at sole risk of Shipper, consignee and/or owner thereof.

17. In the event that this shipment originates at an interior point in the United States or Canada, the Company shall be under no obligation to take any action until a reasonable time after the Company has received a notice from the railroad company, express company or other carrier of the arrival of such shipment at the port of exportation.

18. The Shipper undertakes to mark plainly the contents of all packages containing explosives or other dangerous articles, and assumes all responsibility for failure to do so; also, for not conforming with customs, quarantine or other laws, regulations or requirements, and for undervaluation or misdescription of the goods; and the Shipper agrees to pay and reimburse the Company for all fines and expenses incurred by non-compliance with any of the laws and regulations aforesaid, and to hold the Company harmless therein; and the Company may direct the stoppage, storage, sale, or any other disposition of the goods necessitated by the Shipper's defaults therein.

presented to it at its office in New York within six (6) months from date of shipment of the goods to the Company, in a statement to which sworn proof of claim shall be attached No suit to recover for any claim or demand hereunder shall in any event be maintained against the Company unless instituted within three (3) months after presentation of the said claim as above provided The provisions of any and all Statutes of Limitations are hereby expressly waived

6. It is agreed that any claim or demand for loss, damage or delay, or any other cause, shall be only against the carriers, truckmen, lightermen, forwarders, agents, warehousemen or others in whose actual custody the goods may be at the time of such loss, damage or delay, and that the Company shall not be liable or responsible for any claim or demand from any cause whatsoever, unless in each case the damages alleged to have been suffered be proven to be caused by the negligence of the Company, its officers or employees, in which event the limitation of liability set forth in paragraph number 4 hereof shall apply.

7 The Company shall not be obliged to incur any expenses or advance any money in connection with the forwarding of the goods, unless the same is previously advanced to the Company by the Sender on demand.

8 The Company shall have a general lien on any property of the Sender in its possession, for all claims for charges and expenses incurred in connection with any shipments of the Sender, and if such claim remains unsatisfied for thirty (30) days after demand for its payment is made, the Company is given the right to sell at public auction or private sale, without notice to the Sender, the goods, or so much thereof as may be necessary to satisfy such lien, and apply the net proceeds, less the expenses of such sale, to the payment of its charges.

9. The seizure of the goods by any Government, or by legal process, shall not affect the liability of the Sender to the Company in respect to the payment of all charges.

10 If the forwarding of the goods from the seaboard is, or in the opinion of the Company is likely to be prevented or delayed beyond the usual time thereof, either directly or indirectly by war, civil commotion, insurrection, blockade or other hostilities, or by strikes, labor disturbances or stoppage of labor of carriers, employees, or others, or by lockout by the carriers or others, the Company may at its discretion but at the risk and expense of the Sender store the goods, and charge all expenses and services incurred thereby to the Sender, and the Company shall be entitled to and have a lien upon the goods for such services and expenses.

11 It is agreed that the shipper of the goods is, and shall remain, primarily responsible to the Company for all charges and expenses incurred by the Company in connection with the forwarding of the goods In the event the goods are refused at destination or acceptance thereof is delayed or they remain unclaimed at destination or any transhipping point in the course of transit or are returned for any reason or under any circumstances, the said shipper shall nevertheless pay the Company for all charges and expenses in connection therewith, including those incurred in storing or rerouting the goods or in arranging transportation back to the original shipping point, if the Company so undertakes on behalf of the shipper Nothing herein contained, however, shall obligate the Company to arrange for the return or storage of the goods Nor shall anything herein contained effect any rights which the Company may also have against the consignee or the owner of the goods

12 The compensation of the Company for its services shall be included with and is in addition to the rates and charges of all carriers and other agencies selected by the Company to transport and deal with the goods. The Company's compensation shall also include all brokerages, commissions, and sums received by the Company from carriers, insurers, and others in connection with the shipment.

19. If specifically stated in the place reserved on this contract, the Company will make reasonable effort to select and arrange with forwarders, carriers or other agencies for the reforwarding of the packages hereinafter described, beyond the port of discharge of the steamship transporting the same. In selecting such agencies, carriers, truckmen, lightermen, forwarders, warehousemen and others to reforward, transport, store, deal with or deliver the packages, the Company only undertakes to use reasonable care in their selection, and may entrust to the foregoing agencies or any of them the said packages, subject to all conditions as to limitation of liability for loss or damage, and to all rules, regulations, requirements, whether printed, written or stamped, appearing on bills of lading, receipts, or in tariffs issued by such agencies, carriers, truckmen, lightermen, forwarders, warehousemen and others, and subject likewise to local and general customs affecting the same and to the terms of this agreement

20. The sender, holder or transferee hereof agrees to accept from the Company, or from carriers, truckmen, lightermen, forwarders, warehousemen and others who may be selected by the Company to transport, store, deal with and deliver the goods at the port of discharge or other places, a bill of lading, delivery order or other document entitling such sender, transferee or holder to receive delivery of the goods from the carrier, truckman, lighterman, forwarder and other agencies to whom the goods may be entrusted, in whose possession the said goods may be at the port of discharge or destination, and the delivery of such bill of lading, delivery order or other document to the sender, transferee or holder hereof, shall be full performance of all the Company's obligations hereunder with respect to the forwarding and reforwarding of said goods.

21. If a carrying vessel, because of blockade, interdict, war, insurrection, internal disturbance, mistake, or for any other similar reason, shall land the goods at any port other than the port of discharge, such landing shall be deemed a full and complete delivery at the said port of discharge and the Company shall in no way be held responsible therefor or be obligated in respect thereof. If the Company shall have previously undertaken to arrange for the reforwarding of the goods to a destination beyond the aforementioned port of discharge, the Company, in such event, upon cancellation or refund of that portion of its charges covering shipment of the goods from the port of discharge to the said destination beyond, shall be deemed to have completed its undertaking and shall in no way be obligated in respect thereof

22. If the packages herein are consigned to "ORDER," the surrender of this contract duly endorsed shall be required before the delivery of the packages at destination, and if so consigned the Company is hereby authorized by the Sender or holder hereof to effect delivery of said packages to any person presenting this contract so endorsed, and, the effecting of such delivery to any person presenting this contract so endorsed, shall be a full performance of the duty of the Company hereunder The Company shall not owe any duty to notify the consignee or others of the arrival or disposition of the packages nor be liable for any loss or damage arising from failing so to do If the packages herein are NOT consigned to "ORDER," then said packages may be delivered without requiring the production or presentation of this contract

23 All disputes and suits hereunder shall be determined in accordance with the laws of the State of New York

24 No agent or employee of the Company shall have authority to alter or to waive any of the provisions of this contract.

25 In accepting this contract the Sender and the holder of this contract expressly ratify and agree to be bound by all its stipulations, exceptions and conditions whether written, printed or stamped hereon or affixed hereto, as fully as if they were all signed by such Sender and holder and to expressly waive any right to prior inspection of bill of lading or receipt of any carrier or others to whom the packages are or may be entrusted for transportation, or for any other purpose.

ISSUED AT____________________IN (   ) ONE OF WHICH BEING ACCOMPLISHED THE OTHERS STAND VOID.

D. C. ANDREWS & CO., Inc.,

Per____________________

Date____________________

15M-3-46-PPC

Illustration 9. FORWARDER'S BILL OF LADING (*Continued*).

PESOS	REPUBLICA DE CUBA	CUPON DEL GIRO POSTAL
	No. 383370	No. 383370
1	GIRO POSTAL ADMINISTRACION DE CORREOS DE	ADMINISTRACION DE CORREOS DE
2	*21 SET 1946* $ *6* CTS. *77*	*Seis* --
3	FECHA PAGUESE A LA ORDEN DE: *William Iselin & Co.*	-- PESOS *77* CTS DEST. *William Iselin & Co.*
4	EN *New York* PROV. *N. Y.*	RMTE. *J. C*------
5	RECIBI EL IMPORTE	DIRECCION *Bermuda 242*
6		E.C.R.
7	..... ADMINISTRADOR DE CORREOS.	
	..... FIRMA DEL QUE LO COBRA	NUMERO

Illustration 10. INTERNATIONAL MONEY ORDER.

In other words, when we extend credit to a foreign buyer, we must not only explore the capacity of the importer to command credit, but we must also establish the effect that any of the factors previously mentioned might exert on the credit of the buyer.

In subsequent chapters we shall deal with this problem in detail.

Instruments of Credit

Definition: For our purpose we can say that foreign credit instruments include any commercial paper designated to facilitate international transactions, and in some cases to take the place of money. They can be used for the payment of a debt or the establishment of credit. In reality they are contracts in condensed form, and each word and phrase has acquired a definite meaning in the world of business.

The use of these instruments is universally accepted: they circulate freely from country to country and from individual to individual. Most instruments of foreign credit are negotiable; otherwise, they could not circulate so freely.

A commercial paper is negotiated when it is transferred from one person to another by means of an endorsement. The holder of a draft, check, bill of lading, or any other negotiable instrument endorses it either in blank or in full. In the first case, the holder of the negotiable instrument merely writes his name on the instrument, usually on the back. Under the second form of endorsement, which is called "in full," or special endorsement, the holder of the negotiable instrument writes on the back of the paper: "Pay to the order of Jones & Company," and then signs his name below.

If the endorser of a negotiable paper wishes to avoid being liable, should the maker default, he should add above his signature the words: *"Without Recourse."*

Authority to purchase. This document is used mainly by merchants in the Far East to finance their imports. It is similar to the letter of

Date_____

FROM_____ ADDRESS_____

TO Central Hanover Bank and Trust Company, 70 Broadway, New York 15, N. Y.

GENTLEMEN We enclose the following item for collection for our account under negotiation credit when paid

Date of Draft_____ Draft Number_____ Tenor_____ Amount_____

Drawee_____ Address_____

The following documents are attached to the draft and enclosed herein·

DRAFTS		BILLS OF LADING			CONSULAR INVOICE	CERTIFICATE OF ORIGIN	INSURANCE CTF		INVOICES			VARIOUS
ORIGINAL	DUPLICATE	ORIGINAL	DUPLICATE	TRIPLICATE			ORIGINAL	DUPLICATE	ORIGINAL	DUPLICATE	TRIPLICATE	

Please follow instructions marked (X)

	Documents against payment		Documents against acceptance
	Protest Non-acceptance/Non-payment		No Protest
	Cable Non-acceptance/Non-payment giving reasons		Approve Non acceptance/Non-payment until arrival of goods
	Permit drawee to inspect merchandise		Allow rebate for prepayment @ % p a.
	Collect from drawee stamps and collection charges including your charges		If not paid collect interest at % p a from to
	Collection and stamp charges for our account		Payable at collecting Bank's selling rate for cable/air mail check on New York
	Cable advice of payment		Proceeds to be remitted by cable/air mail
	Forward documents via Air Mail		Cable/air mail charges and difference in cost between check and cable/air mail rates are for our account.
	Forward documents for collection through		

Unless we advise you to the contrary, acceptance and/or payment of our bills on Latin America may be deferred until the arrival of the carrying vessel.

In case of need notify_____ Address_____

	Who has/have complete authority		Who has/have advisory powers only.
	Out of proceeds pay $_____ to in case of need party, remitting balance to us		

Special instructions are_____

You may at your discretion instruct the collecting bank in case of need to warehouse and insure the merchandise against fire. Any expense so incurred is to be for our account.

If this bill is given you for negotiation it is understood that you may in your discretion arrange for cable advice of non-acceptance and non-payment, notwithstanding any instructions contained herein to the contrary, and it is understood that the expense of such cable advice will be for our account.

In settlement of the above draft please Issue check / Credit our account

(DO NOT FILL IN - FOR BANK'S USE ONLY)

B/L	INV	INS.	CERT OF WT	CERT OF INSP	CERT OF ORIG.	CONS INV	VARIOUS

Yours very truly,

_____

Illustration 11. LETTER OF INSTRUCTIONS,

Bull Lines

(CONTINUED FROM OVERPAGE)

alloat at any time of tide, and only if such dock or wharf is available to the ship immediately the ship is ready to discharge the goods and, that otherwise, the ship shall discharge the goods in accordance with Clause 12 of this bill of lading, whereupon Carrier's responsibility shall cease.

27. All agreements or freight engagements for the shipment of the goods are superseded by this bill of lading, and all its terms, whether written, typed, stamped, or printed, are accepted and agreed by the shipper to be binding as fully as if signed by the shipper, any local customs or privileges to the contrary notwithstanding. Nothing in this bill of lading shall operate to limit or deprive the Carrier of any statutory protection or exemption from or limitation of liability. If required by the Carrier, one signed bill of lading duly endorsed must be surrendered to the agent of the ship at the port of discharge in exchange for delivery order.

28 The Carrier does not undertake to lighter the goods from or to shore at any port. Lighterage at all ports, whether or not necessary or customary, shall be at the risk of the shipper, goods' owner and consignee, and any lighterage charges, whether separately stated or included in the steamship freight, are received for disbursement, for account of shipper, consignee or goods' owner, to the lighterage concern performing the lighterage. In receiving and disbursing lighterage charges, and in employing or appointing the lightermen and/or contractors, the Carrier acts solely as agent for shipper, consignee or goods' owner and is not responsible for the character, condition or seaworthiness of the lighters, or any fault or negligence of the lightermen, the Carrier's responsibility being strictly limited to its own line, and ceasing absolutely, in all cases and under all circumstances, when the goods are free of ship's tackle.

SHIP: S.S._____ VOYAGE NO._____

PORT OF LOADING:_____

SHIPPER:_____

CONSIGNEE:_____

IF CONSIGNED TO ORDER ARRIVAL NOTICE TO BE ADDRESSED TO_____

(Without liability to carrier, see Clause 12 hereof)

PORT OF DISCHARGE FROM SHIP:_____

The scope of the voyage is described in Clause 3 hereof.

PARTICULARS FURNISHED BY SHIPPER OF GOODS

MARKS	NUMBERS	NUMBER OF PACKAGES	DESCRIPTION OF GOODS	SHPR'S WT. LBS.	CUBIC FEET	RATE	STEAMSHIP FREIGHT

IN ACCEPTING THIS BILL OF LADING the shipper, consignee and owner of the goods agree to be bound by all of its stipulations, exceptions, and conditions, whether written, printed, or stamped on the front or back hereof, any local customs or privileges to the contrary notwithstanding.

.....			
Insurance Premium			
Inland Freight			
Cartage			
Attendance Fee			
Landing Charges			
.....*Lbs. @ 5¢ 100*			
.....*Ft. @ 2¢ cu. ft.*			
.....*Ft. @ 2½¢ cu. ft.*			
Total **PREPAYABLE** U.S. Currency	$		

IN WITNESS WHEREOF, BULL-INSULAR LINE, Inc., by its agent, has signed this bill of lading.

Dated at New York, N. Y. .....

BULL-INSULAR LINE, Inc.

B/L No. .....

By .....

Form 691-A

Illustration 12. OCEAN BILL OF LADING—NEGOTIABLE.

BULL-INSULAR LINE, Inc.

A. H. BULL & CO., Inc., General Agents

115 Broad Street, New York 4, N. Y.

PUERTO RICO
VIRGIN ISLANDS
SERVICE

BILL OF LADING

Received from the Shipper hereinafter named, the goods or packages said to contain goods hereinafter mentioned, in apparent good order and condition, unless otherwise indicated in this bill of lading, to be transported subject to all the terms of this bill of lading with liberty to proceed via any port or ports within the scope of the voyage described herein, to the port of discharge or so near thereunto as the ship can always safely get and leave, always afloat at all stages and conditions of water and weather, and there to be delivered or transshipped on payment of the charges thereon. If the goods in whole or in part are shut out from the ship named herein for any cause, the Carrier shall have liberty to forward them under the terms of this bill of lading on the next available ship.

It is agreed that the custody and carriage of the goods are subject to the following terms on the face and back hereof which shall govern the relations, whatsoever they may be, between the shipper, consignee, and the Carrier, Master and ship in every contingency, wheresoever and whensoever occurring, and also in the event of deviation, or of unseaworthiness of the ship at the time of loading or inception of the voyage or subsequently, and none of the terms of this bill of lading shall be deemed to have been waived by the Carrier unless by express waiver signed by a duly authorized agent of the Carrier:

1. This bill of lading shall have effect subject to the provisions of the Carriage of Goods by Sea Act of the United States of America, approved April 16, 1936, which shall be deemed to be incorporated herein, and nothing herein contained shall be deemed a surrender by the Carrier of any of its rights or immunities or an increase of any of its responsibilities or liabilities under said Act The provisions stated in said Act (except as may be otherwise specifically provided herein) shall govern before the goods are loaded on and after they are discharged from the ship and throughout the entire time the goods are in the custody of the Carrier. The Carrier shall not be liable in any capacity whatsoever for any delay, non-delivery or mis-delivery, or loss of or damage to the goods occurring while the goods are not in the actual custody of the Carrier. If this bill of lading is issued in a locality where there is in force a Carriage of Goods by Sea Act or Ordinance or Statute of a similar nature to the International Convention for the Unification of Certain Rules Relating to Bills of Lading at Brussels of August 25, 1924, it is subject to the provisions stated in such Act, Ordinance and rules thereto annexed which may be in effect where this bill of lading is issued.

(a) The Carrier shall be entitled to the full benefit of, and right to, all limitations of, or exemptions from, liability authorized by any provisions of Sections 4281 to 4286 of the Revised Statutes of the United States and amendments thereto and of any other provisions of the laws of the United States or of any other country whose laws shall apply.

2. In this bill of lading the word "ship" shall include any substituted vessel, and any craft, lighter or other means of conveyance owned, chartered or operated by the Carrier used in the performance of this contract, the word "Carrier" shall include the ship, her owner, master, operator, demise charterer, and if bound hereby the time charterer, and any substituted carrier, whether the owner, operator, charterer, or master shall be acting as carrier or bailee, the word "shipper" shall include the person named as such in this bill of lading and the person for whose account the goods are shipped; the word "consignee" shall include the holder of the bill of lading, properly endorsed, and the receiver and the owner of the goods, the word "charges" shall include freight and all expenses and money obligations incurred and payable by the goods, shipper, consignee, or any of them.

3. The scope of voyage herein contracted for shall include usual or customary or advertised ports of call whether named in this contract or not, also ports in or out of the advertised, geographical, usual or ordinary route or order, even though in proceeding thereto the ship may sail beyond the port of discharge or in a direction contrary thereto or return to the original port, or depart from the direct or customary route, and includes all canals, straits and other waters. The goods. If a salving ship is owned or operated by the Carrier, salvage shall be paid for as fully and in the same manner as if such salving ship or ships belong to strangers.

11. Whenever the Carrier or the Master may deem it advisable or in any case where the goods are consigned to a point where the ship does not expect to discharge, the Carrier or Master may, without notice, forward the whole or any part of the goods before or after loading at the original port of shipment, or any other place or places even though outside the scope of the voyage or the route to or beyond the port of discharge or the destination of the goods, by any vessel, vessels or other means of transportation by water or by land or by air or by any such means, whether operated by the Carrier or by others and whether departing or arriving or scheduled to depart or arrive before or after the ship expected to be used for the transportation of the goods. This Carrier, in making arrangements for any transshipping or forwarding vessel or means of transportation not operated by this Carrier shall be considered solely the forwarding agent of the shipper and without any other responsibility whatsoever.

The carriage by any transshipping or forwarding carrier and all transshipment or forwarding shall be subject to all the terms whatsoever in the regular form of bill of lading, freight note, contract or other shipping document used at the time by such carrier, whether issued for the goods or not, and even though such terms may be less favorable to the shipper or consignee than the terms of this bill of lading and may contain more stringent requirements as to notice of claim or commencement of suit and may exempt the on-carrier from liability for negligence. The shipper expressly authorizes the Carrier to arrange with any such transshipping or forwarding carrier that the lowest valuation of the goods or limitation of liability contained in the bill of lading or shipping document of such carrier shall apply even though lower than the valuation or limitation herein, provided that the shipper shall not be compelled to pay a rate higher than that applicable to the valuation contained in such bill of lading. Pending or during transshipment the goods may be stored ashore or afloat at their risk and expense and the Carrier shall not be liable for detention.

12. The port authorities are hereby authorized to grant a general order for discharging immediately upon arrival of the ship and the Carrier without giving notice either of arrival or discharge, may discharge the goods directly they come to hand, at or onto any wharf, craft or place that the Carrier may select, and continuously Sundays and holidays included, at all such hours by day or by night as the Carrier may determine no matter what the state of the weather or custom of the port may be. The Carrier shall not be liable in any respect whatsoever if heat or refrigeration or special cooling facilities shall not be furnished during loading or discharge or any part of the time that the goods are upon the wharf, craft, or other loading or discharging place. All

ship may call at any port for the purposes of the current voyage or of a prior or subsequent voyage. The ship may omit calling at any port or ports whether scheduled or not, and may call at the same port more than once, may for matters occurring before loading the goods, known or unknown at the time of such loading and matters occurring after such loading, either with or without the goods or passengers on board, and before or after proceeding toward the port of discharge, adjust compasses, dry dock, with or without cargo aboard go on ways or to repair yards, shift berths, make trial trips or tests, take fuel or stores, remain in port, sail with or without pilots, tow and be towed, and save or attempt to save life or property; and all of the foregoing are included in the contract voyage.

4. In any situation whatsoever and wheresoever occurring and whether existing or anticipated before commencement of or during the voyage, which in the judgment of the Carrier or the Master is likely to give rise to risk of capture, seizure, detention, damage, delay or disadvantage to or loss of the ship or any part of her cargo, to make it unsafe, imprudent, or unlawful for any reason to commence or proceed on or continue the voyage or to enter or discharge the goods at the port of discharge, or to give rise to delay or difficulty in arriving, discharging at or leaving the port of discharge or the usual or agreed place of discharge in such port, the Carrier may before loading or before the commencement of the voyage, require the shipper or other person entitled thereto to take delivery of the goods at port of shipment and upon failure to do so, may warehouse the goods at the risk and expense of the goods, or the Carrier or the Master, whether or not proceeding toward or entering or attempting to enter the port of discharge or reaching or attempting to reach the usual place of discharge therein or attempting to discharge the goods there, may discharge the goods into depot, lazaretto, craft, or other place, or the ship may proceed or return, directly or indirectly, to or stop at any port or place whatsoever as the Master or the Carrier may consider safe or advisable under the circumstances, and discharge the goods, or any part thereof, at any such port or place, or the Carrier or the Master may retain the cargo on board until the return trip or until such time as the Carrier or the Master thinks advisable and discharge the goods at any place whatsoever as herein provided, or the Carrier or the Master may discharge and forward the goods by any means, rail, water, land, or air at the risk and expense of the goods. The Carrier or the Master is not required to give notice of discharge of the goods or the forwarding thereof as herein provided. When the goods are discharged from the ship, as herein provided, they shall be at their own risk and expense, such discharge shall constitute complete delivery and performance under this contract and the Carrier shall be freed from any further responsibility. For any services rendered to the goods as hereinabove provided, the Carrier shall be entitled to a reasonable extra compensation.

5. The Carrier, Master and ship shall have liberty to comply with any orders or directions as to loading, departure, arrival, routes, ports of call, stoppages, discharge, destination, delivery or otherwise howsoever given by the government of any nation or department thereof or any person acting or purporting to act with the authority of such government or of any department thereof, or by any committee or person having, under the terms of the war risk insurance on the ship, the right to give such orders or directions. Delivery or other disposition of the goods in accordance with such orders or directions shall be a fulfillment of the contract voyage. The ship may carry contraband, explosives, munitions, warlike stores, hazardous cargo, and may sail armed or unarmed and with or without convoy.

In addition to all other liberties herein the Carrier shall have the right to withhold delivery of, reship to, deposit or discharge the goods at any place whatsoever, surrender or dispose of the goods in accordance with any direction, condition or agreement imposed upon or exacted from the Carrier by any government or department thereof or any person purporting to act with the authority of either of them. In any of the above circumstances the goods shall be solely at their risk and expense and all expenses and charges so incurred shall be payable by the owner or consignee thereof and shall be a lien on the goods.

6. Unless otherwise stated herein, the description of the goods and the particulars of the packages mentioned herein are those furnished in writing by the shipper and the Carrier shall not be concluded as to the correctness of marks, number, quantity, weight, gauge, measurement, contents, nature, quality or value. Single pieces or packages exceeding 4480 lbs in weight shall be liable to pay extra charges in accordance with tariff rates in effect at time of shipment for loading, handling, transshipping or discharging and the weight of each such piece or package shall be declared in writing by the shipper on shipment and clearly and durably marked on the outside of the piece or package. The shipper and the goods shall also be liable for, and shall indemnify the Carrier in respect of any injury, loss or damage arising from shipper's failure to declare and mark the weight of any such piece or package or from inadequate or improper description of the goods or from the incorrect weight of any such piece or package having been declared or marked thereon, or from failure fully to disclose the nature and character of the goods.

lighterage and use of craft in discharging shall be at the risk and expense of the goods. Landing and delivery charges and pier dues shall be at the expense of the goods unless included in the freight herein provided for. If the goods are not taken away by the consignee by the expiration of the next working day after the goods are at his disposal, the goods may at Carrier's option and subject to Carrier's lien, be sent to store or warehouse or be permitted to lie where landed, but always at the expense and risk of the goods. The responsibility of the Carrier in any capacity shall altogether cease and the goods shall be considered to be delivered and at their own risk and expense in every respect when taken into the custody of customs or other authorities. The Carrier shall not be required to give any notification of disposition of the goods.

13. The Carrier shall not be liable for failure to deliver in accordance with marks unless such marks shall have been clearly and durably stamped or marked by the shipper before shipment upon the goods or packages, in letters and numbers not less than two inches high, together with name of the port of discharge. Goods that cannot be identified as to marks or numbers, cargo sweepings, liquid residue and any unclaimed goods not otherwise accounted for shall be allocated for completing delivery to the various consignees of goods of like character, in proportion to any apparent shortage, loss of weight or damage. Loss or damage to goods in bulk stowed without separation from other goods in bulk of like quality, shipped by either the same or another shipper, shall be divided in proportion among the several shipments.

14. The goods shall be liable for all expense of mending, cooperage, baling or reconditioning of the goods or packages and gathering of loose contents of packages, also for any payment, expense, fine, dues, duty, tax, impost, loss, damage or detention sustained or incurred by or levied upon the Carrier or the ship in connection with the goods, howsoever caused, including any action or requirement of any government or governmental authority or person purporting to act under the authority thereof, seizure under legal process or attempted seizure, incorrect or insufficient marking, numbering or addressing of packages or description of the contents, failure of the shipper to procure consular, Board of Health or other certificates to accompany the goods or to comply with laws or regulations of any kind imposed with respect to the goods by the authorities at any port or place or any act or omission of the shipper or consignee.

15. Freight shall be payable on actual gross intake weight or measurement or, at Carrier's option, on actual gross discharged weight or measurement. Freight may be calculated on the basis of the particulars of the goods furnished by the shipper herein but the Carrier may at any time open the packages and examine, weigh, measure and value the goods. In case shipper's particulars are found to be erroneous and additional freight is payable, the goods shall be liable for any expense incurred for examining, weighing, measuring and valuing the goods. Full freight shall be paid on damaged or unsound goods. Full freight hereunder to port of discharge named herein shall be considered completely earned on shipment whether the freight be stated or intended to be prepaid or to be collected at destination, and the Carrier shall be entitled to all freight and charges due hereunder, whether actually paid or not, and to receive and retain them irrevocably under all circumstances whatsoever ship and/or cargo lost or not lost or the voyage broken up or abandoned. If there shall be a forced interruption or abandonment of the voyage at the port of shipment or elsewhere any forwarding of the goods or any part thereof shall be at the risk and expense of the goods. All unpaid charges shall be paid in full and without any offset, counterclaim or deduction in the currency of the port of shipment, or, at Carrier's option, in the currency of the port of discharge at the demand rate of New York exchange as quoted on the day of the ship's entry at the Custom House of her port of discharge. The Carrier shall have a lien on the goods, which shall survive delivery, for all charges due hereunder and may enforce this lien by public or private sale and without notice. The shipper and the consignee shall be jointly and severally liable to the Carrier for the payment of all charges and for the performance of the obligation of each of them hereunder.

16. Neither the Carrier nor any corporation owned by, subsidiary to or associated or affiliated with the Carrier shall be liable to answer for or make good any loss or damage to the goods occurring at any time and even though before loading on or after discharge from the ship, by reason or by means of any fire whatsoever, unless such fire shall be caused by its design or neglect.

17. In case of any loss or damage to or in connection with goods exceeding in actual value $500 lawful money of the United States, per package, or, in case of goods not shipped in packages, per customary freight unit, the value of the goods shall be deemed to be $500 per package or per unit, on which basis the freight is adjusted and the Carrier's liability, if any, shall be determined on the basis of a value of $500 per package or per customary freight unit, or pro rata in case of partial loss or damage, unless the nature of the goods and a valuation higher than $500 shall have been declared in writing by the shipper upon delivery to the Carrier and inserted in this bill of lading and extra freight paid if required and in such case if the actual

Illustration 12. OCEAN BILL OF LADING—NEGOTIABLE *(Continued)*.

7. Goods may be stowed in poop, forecastle, deck house, shelter deck, passenger space or any other covered in space commonly used in the trade and suitable for the carriage of goods, and when so stowed shall be deemed for all purposes to be stowed under deck. In respect of goods carried on deck all risks of loss or damage by perils inherent in such carriage shall be borne by the shipper or the consignee but in all other respects the custody and carriage of such goods shall be governed by the terms of this bill of lading and the provisions stated in said Carriage of Goods by Sea Act "notwithstanding Sec. 1 (c) thereof, or the corresponding provision of any Carriage of Goods by Sea Act that may be applicable. Specially heated or specially cooled stowage is not to be furnished unless contracted for at an increased freight rate. Goods or articles carried in any such compartment are at the sole risk of the owner thereof and subject to all the conditions, exceptions and limitations as to the Carrier's liability and other provisions of this bill of lading and further the Carrier shall not be liable for any loss or damage occasioned by the temperature, risks of refrigeration, defects or insufficiency in or accidents to or explosion, breakage, derangement or failure of any refrigerator plant or part thereof, or by or in any material or the supply or use thereof used in the process of refrigeration unless shown to have been caused by negligence of the Carrier from liability for which the Carrier is not by law entitled to exemption.

8. Live animals, birds, reptiles and fish are received and carried at shipper's risk of accident or mortality, and the Carrier shall not be liable for any loss or damage thereto arising or resulting from any matters mentioned in Section 4, Sub-section 2 a to p inclusive of said Carriage of Goods by Sea Act or similar sections of any Carriage of Goods by Sea Act that may be applicable, or from any other cause whatsoever not due to the fault of the Carrier, any warranty of seaworthiness in the premises being hereby waived by the shipper. Except as provided above such shipments shall be deemed goods, and shall be subject to all terms and provisions in this bill of lading relating to goods.

9. If the ship comes into collision with another ship as a result of the negligence of the other ship and any act, neglect or default of the Master, mariner, pilot or the servants of the Carrier in the navigation or in the management of the ship, the owners of the goods carried hereunder will indemnify the Carrier against all loss or liability to the other or non-carrying ship or her owners in so far as such loss or liability represents loss of, or damage to, or any claim whatsoever of the owners of said goods, paid or payable by the other or non-carrying ship or her owners to the owners of said goods and set-off, recouped or recovered by the other or non-carrying ship or her owners as part of their claim against the carrying ship or Carrier.

The foregoing provisions shall also apply where the owners, operators or those in charge of any ship or ships or objects other than, or in addition to, the colliding ships or objects are at fault in respect of a collision or contact.

10. General average shall be adjusted, stated and settled, according to Rules 1 to 15, inclusive, 17 to 22, inclusive, and Rule F of York-Antwerp Rules 1924, at such port or place in the United States as may be selected by the Carrier, and as to matters not provided for by these Rules, according to the laws and usages at the port of New York. In such adjustment disbursements in foreign currencies shall be exchanged into United States money at the rate prevailing on the dates made and allowances for damage to cargo claimed in foreign currency shall be converted at the rate prevailing on the last day of discharge at the port or place of final discharge of such damaged cargo from the ship. Average agreement or bond and such additional security, as may be required by the Carrier, must be furnished before delivery of the goods. Such cash deposit as the Carrier or his agents may deem sufficient as additional security for the contribution of the goods and for any salvage and special charges thereon, shall, if required, be made by the goods, shippers, consignees or owners of the goods to the Carrier before delivery. Such deposit shall, at the option of the Carrier, be payable in United States money and be remitted to the adjuster. When so remitted the deposit shall be held in a special account at the place of adjustment in the name of the adjuster pending settlement of the General Average and refunds or credit balances, if any, shall be paid in United States money.

In the event of accident, danger, damage, or disaster, before or after commencement of the voyage resulting from any cause whatsoever, whether due to negligence or not, for which, or for the consequence of which, the Carrier is not responsible, by statute, contract, or otherwise, the goods, the shipper and the consignee, jointly and severally, shall contribute with the Carrier in general average to the payment of any sacrifices, losses, or expenses of a general average nature that may be made or incurred, and shall pay salvage and special charges incurred in respect of value of the goods per package or per customary freight unit shall exceed such declared value, the value shall nevertheless be deemed to be the declared value and the Carrier's liability, if any, shall not exceed the declared value and any partial loss or damage shall be adjusted pro rata on the basis of such declared value.

Whenever the value of the goods is less than $500 per package or other freight unit, their value in the calculation and adjustment of claims for which the Carrier may be liable shall for the purpose of avoiding uncertainties and difficulties in fixing value be deemed to be the invoice value plus freight, insurance and duties, if paid, and not recovered or recoverable, irrespective of whether any other value is greater or less.

18. Unless notice of loss or damage and the general nature of such loss or damage be given in writing to the Carrier or his agent at the port of discharge before or at the time of the removal of the goods into the custody of the person entitled to delivery thereof under the contract of carriage, such removal shall be prima facie evidence of the delivery by the Carrier of the goods as described in the bill of lading. If the loss or damage is not apparent the notice must be given within three days of the delivery. The Carrier shall not be liable upon any claim for loss or damage unless written particulars of such claim shall be received by the Carrier within thirty days after receipt of the notice herein provided for.

19. In any event the Carrier and the ship shall be discharged from all liability in respect of loss or damage unless suit is brought within one year after the delivery of the goods or the date when the goods should have been delivered. Suit shall not be deemed brought until jurisdiction shall have been obtained over the Carrier and/or the ship by service of process or by an agreement to appear.

20. To avoid or alleviate preventions or delays in prosecution or completion of the voyage incident to the existence of hostilities, the Carrier has liberty and is authorized by the shipper and the owner of the goods to agree with the representatives of any government to submit the goods to examination at any place or places whatsoever and to delay delivery of the same until any restriction asserted by any governmental authority shall have been removed. The Carrier may put the goods in store ashore or afloat at the risk and expense of the owner of the same pending examination; and thereupon the Carrier's responsibility shall end. Any damage or deterioration occasioned by such examination or by delay and other risks of whatsoever nature shall be solely for account of the owner of the goods. All expenses incurred by the Carrier in relation to such detention of the goods shall be paid by the shipper or consignee or owner of the goods.

21. This Bill of Lading shall be construed and the rights of the parties thereunder determined according to the law of the United States.

22. Cargo skids and labor on quay are to be provided by ship's agent for account of consignee at current rates, and any cargo which may be ordered for delivery into fiscal deposits, must be taken by an official cartman, appointed by the agent of the ship, at current rates for account and risk of consignee.

23. If any bagged or baled goods are landed slack or torn, receiver and/or consignee shall accept its proportion of the sweepings. Ship not responsible for loss of weight in bags or bales torn, mended or with sample holes.

24. Cotton. Description of the condition of the cotton does not relate to the insufficiency of or torn condition of the covering, nor to any damage resulting therefrom and Carrier shall not be responsible for damage of such nature.

25. Specie: Specie will not be shipped or landed by the Carrier; it must be put on board by the shipper, and will only be delivered on board on presentation of the bills of lading properly endorsed, it may be carried on at consignee's risk if delivery is not taken during the ship's stay in port, and in every case the liability of the Carrier shall cease when the specie leaves the ship's deck.

26. SPECIFIED DOCK DISCHARGE. If the Carrier makes a special agreement, whether by stamp hereon or otherwise, to deliver the goods hereby receipted for at a specified dock or wharf at the port of discharge, it is mutually agreed that such agreement shall be construed to mean that the Carrier is to make such delivery only if, in the sole judgment of the Master, the ship can safely under her own power, proceed to, lie at, and return from said dock or wharf, always

(CONTINUED OVERPAGE)

Illustration 12. OCEAN BILL OF LADING—NEGOTIABLE (*Continued*).

credit in so far as it provides the beneficiary (the exporter) a place in the United States (a bank) to negotiate his drafts upon delivery of shipping documents. It is not a bankers' credit, and it is nonnegotiable. Illustration 65 represents an authority to purchase.

Bank acceptance is a time draft drawn on a bank and accepted by the bank. See Illustration 1.

Banker's draft is an order from one bank to another to pay to a named person a specified sum of money on demand. It is generally accepted in liquidating foreign sales. Illustration 2 is that of a banker's draft.

Bill of exchange or draft. This is the most widely known of all instruments used in foreign trade. It is acceptable in every civilized country in the world. It is a document indicating that the seller of goods (the drawer) is calling upon the buyer (the drawee) for the payment of a certain amount of money, or to accept it for payment at some definite future time. A draft drawn by a commercial house is called a *commercial bill of exchange.* A draft payable on its presentation is called a *sight draft.* A bill of exchange payable at some future date is called a *time draft.* For a detailed discussion of time drafts, see page 242 and Illustration 3.

Certificate of manufacture is a letter written and signed by the exporter or beneficiary of a letter of credit, declaring that the goods ordered by the importer are ready for shipment in accordance with the credit, and have been set apart for the account and risk of the importer. This document is nonnegotiable and is used only when shipping facilities are restricted. See Illustration 4.

Commercial invoice is a bill listing the quality, quantity, and price of the goods ordered by a buyer. It is a nonnegotiable instrument. See Illustration 5.

Check is an order on a bank or banker to pay on demand a specified sum of money to a specific person.

Dock receipt is a nonnegotiable paper issued by the steamship company to a shipper on delivery of goods at the dock or warehouse of the steamship company. It is later exchanged for an ocean bill of lading. See Illustration 6.

Expense bill. In export business, an expense bill is an invoice rendered to a foreign buyer covering only the charges the seller incurred for shipping the goods abroad. It does not include the cost of the merchandise (see *Commercial invoice* above), but only the freight charges, insurance premiums, consular fees, and any other expenses incurred. Illustration 7 shows the various items usually collected from the foreign buyer for shipping the goods to him.

Export license. A certificate issued by the government allowing an exporter to ship specified products to a foreign market. As a rule it is

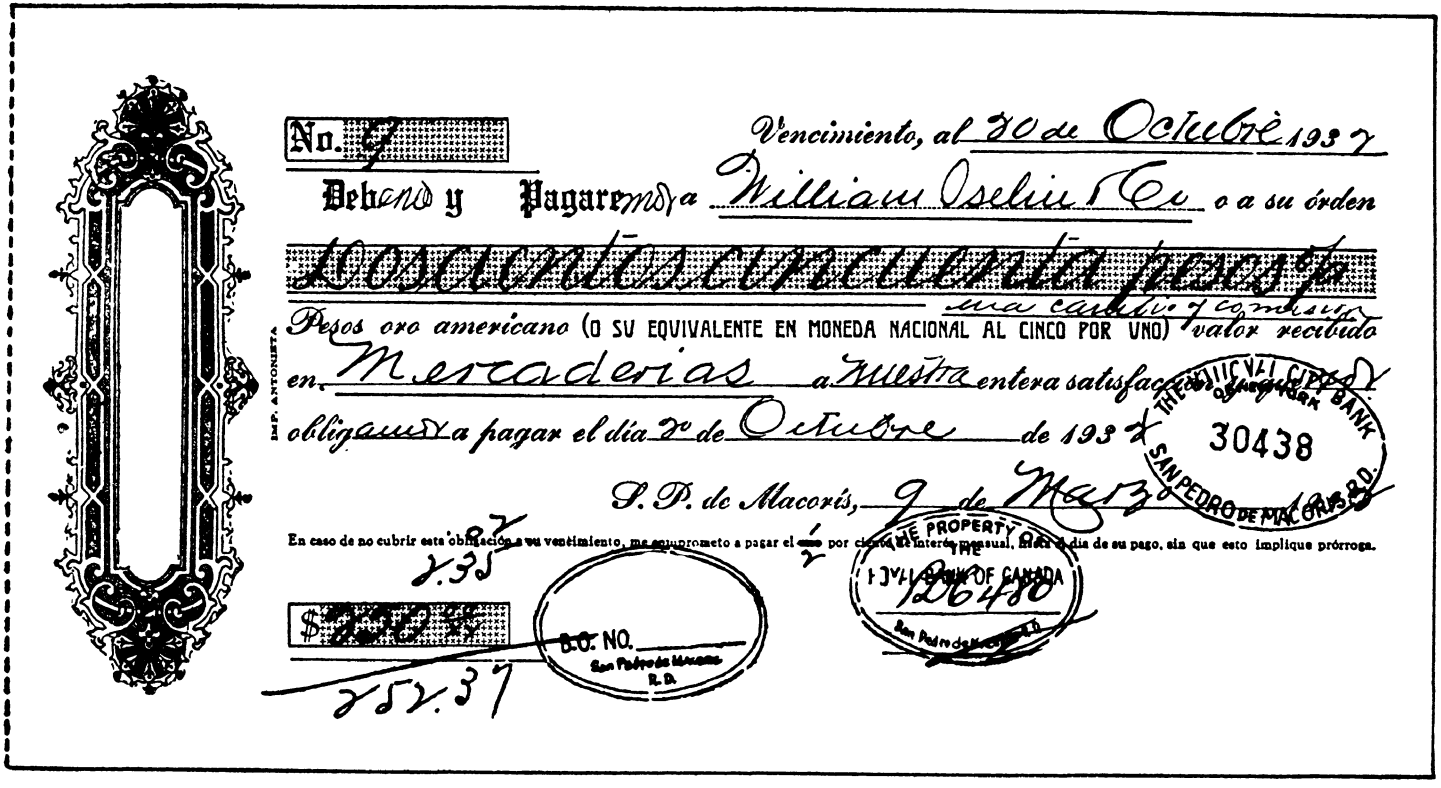


Illustration 13. PAGARÉ.

MONTANTE $_____U S Cy Vencimiento_____194____

Pagaré _____al CREDIT UNION BANK,

o a su orden, en el local de su establecimiento, el____de_____ mil novecientos_____

la suma de_____ Dollars

valor recibido en prestamo En caso de demora dicha suma devengara interes de __ ____por ciento anual

Para garantizar el pago de la deuda, entreg_____al Banco en prenda los valores siguientes

_____

_____

_____

_____

Si dichos valores sufrieren depreciación en el mercado a juicio del Banco este podra reclamar aumento de garantia y si en termino del segundo dia, dicha garantia no es reforzada a satisfaccion del Banco, la deuda se considerara vencida Tanto en este caso como en el del termino del plazo de este prestamo sin que sea satisfecha la deuda, el Banco podra enagenar los valores dados en prenda con arreglo a lo que dispone el articulo 1,773 del vigente Codigo Civil

_____somet____ __ expresamente a la competencia de los Tribunales Insulares de la Ciudad de San Juan y___ _ __ oblig_____a satisfacer las costas y gastos que ocasione al Banco el cobro de esta deuda, incluso los honorarios del Abogado de que el Banco se valga en su reclamacion, para cuyo fin se fija la cantidad de_____dollars

Consentimos expresamente en la renovacion o prorroga que se conceda a instancia de cualquiera de los firmantes quedando mancomunada y solidariamente responsables del balance prorrogado con igual fuerza que la obligacion primitiva y renunciamos al derecho de aviso, presentacion y protesto

Es expresamente entendido y convenido que dicho Banco puede a su opcion en cualquier tiempo apropiar y aplicar al pago y extincion total o parcial de la presente obligacion cualquiera suma de dinero en deposito o en cualquier otra forma en dicho Banco, perteneciente a todos o a cualesquiera de los firmantes

San Juan, P R ____de_____ de 19_____

_____ _____

AFFIDAVIT No _____

Suscrito y jurado ante mí por_____

mayor de edad,_____y vecino de_____a quien doy fe de conocer personalmente En_____a_____de_____194____

NOTARIO PUBLICO

Illustration 13. PAGARÉ *(Continued).*

nontransferable. It is extended for special reasons; or for the good, safety, and health of the nation. See Illustration 8.

Forwarder's bill of lading. As the name implies, this is a bill of lading issued by a forwarding agent, and is not binding as far as the carrier is concerned. It is nonnegotiable, intended to be a receipt issued by a forwarding concern on receiving goods to be transported to its agent abroad. Refer to Illustration 9.

Indent has been accepted as meaning an export purchase order. It is essentially, however, an offer from an importer addressed to an exporter to buy certain goods at a named price; as soon as the exporter accepts the offer in writing or by cable, then the indent becomes an export order. Indents are primarily used in the Far East, Africa, and in most of the English possessions. See page 359. See Illustration 72.

International money order is an order to collect a specified sum of money at the local Post Office. Illustration 10.

Letter of credit is an authority issued by a bank in favor of a seller,

the beneficiary, allowing him to draw on the bank in accordance with the stipulations stated in the document. For various types of letters of credit see Chapter XIV.

$\$$..... ....

Promissory note is a promise by the drawer to pay a certain sum of money at a certain date to another person. The essential elements in a promissory note are that it must be an unconditional promise in writing, made by one person to another, signed by the maker, who engages to pay on demand, or on a fixed date, a definite sum to order or bearer. See Illustration No. 14.

Straight bill of lading is always made out in the name of a specified person, the foreign buyer, and consequently is nonnegotiable. See page 301 and Illustration 15.

Trust receipt is a document signed by a buyer against which the bank agrees to release merchandise to him as trustee. See Illustration 16.

Warehouse receipt is a negotiable or nonnegotiable document indicating that a named warehouseman has received certain goods in trust, which he agrees to deliver on presentation of the document. It may be made to a specified person or "to order," and generally contains: (1) the location of the warehouse; (2) the date of receipt of goods; (3) a statement to the effect that the goods were received for custody, and will be delivered upon presentation of the document; (4) a statement of charges to be collected; (5) the signature of the warehouseman or his authorized agent; (6) a statement showing whether there is any lien on the goods. See Illustration 17.

Warrant is a combination warehouse and trust receipt. It is a negotiable paper.

Up to this point we have limited ourselves to defining the various instruments used in foreign credits. In Chapter XIV, dealing with the financing of export trade, we shall discuss their functions in detail.

Foreign Orders

An order is a written request from a buyer addressed to a seller, an agent, or a commission house to supply or purchase one, or more than one commodity, under certain conditions. If the request is accepted by the supplier or the commission house, it becomes a contract.

Often an order is preceeded by, what is generally called in export business, an *inquiry*. As the term implies, it is a letter written by a foreign merchant to an exporter seeking information about the possible purchase of some product. As a rule the inquiry specifies the name of the commodity, the quality and quantity desired, and at the same time requests the price, the delivery date, and terms of sale.

When an exporter addresses a communication to a foreign buyer stating that he, the vendor, can supply certain products under certain conditions, it is called an *offer*. If the offer is accepted by the importer, it becomes a *contract*. Offers or inquiries made by cable, telephone, or radiogram, should be immediately confirmed by letter.

If, for example, Godfrey & Company of New York, offers Young Pong

Bull Lines

(CONTINUED FROM OVERPAGE)

afloat at any time of tide, and only if such dock or wharf is available to the ship immediately the ship is ready to discharge the goods and, that otherwise, the ship shall discharge the goods in accordance with Clause 12 of this bill of lading, whereupon Carrier's responsibility shall cease.

27. All agreements or freight engagements for the shipment of the goods are superseded by his bill of lading, and all its terms, whether written, typed, stamped, or printed, are accepted and agreed by the shipper to be binding as fully as if signed by the shipper, any local customs or privileges to the contrary notwithstanding. Nothing in this bill of lading shall operate to limit or deprive the Carrier of any statutory protection or exemption from or limitation of liability. If required by the Carrier, one signed bill of lading duly endorsed must be surrendered to the agent of the ship at the port of discharge in exchange for delivery order.

28. The Carrier does not undertake to lighter the goods from or to shore at any port. Lighterage at all ports, whether or not necessary or customary, shall be at the risk of the shipper, goods' owner and consignee, and any lighterage charges, whether separately stated or included in the steamship freight, are received for disbursement, for account of shipper, consignee or goods' owner, to the lighterage concern performing the lighterage. In receiving and disbursing lighterage charges, and in employing or appointing the lightermen and/or contractors, the Carrier acts solely as agent for shipper, consignee or goods' owner and is not responsible for the character, condition or seaworthiness of the lighters, or any fault or negligence of the lightermen, the Carrier's responsibility being strictly limited to its own line, and ceasing absolutely, in all cases and under all circumstances, when the goods are free of ship's tackle.

SHIP: S.S.....VOYAGE NO.....

PORT OF LOADING:.....

SHIPPER:.....

CONSIGNEE:.....

.....

PORT OF DISCHARGE FROM SHIP:.....

The scope of the voyage is described in Clause 3 hereof.

PARTICULARS FURNISHED BY SHIPPER OF GOODS

MARKS	NUMBERS	NUMBER OF PACKAGES	DESCRIPTION OF GOODS	Shipper's Gross Weight		CUBIC FEET	RATE	STEAMSHIP FREIGHT
				Kilos	Pounds			

STRAIGHT BILL OF LADING — NON-NEGOTIABLE

IN ACCEPTING THIS BILL OF LADING the shipper, consignee and owner of the goods agree to be bound by all of its stipulations, exceptions, and conditions, whether written, printed, or stamped on the front or back hereof, any local customs or privileges to the contrary notwithstanding.

IN WITNESS WHEREOF, BULL-INSULAR LINE, Inc., by its agent, has signed this bill of lading.

Dated at New York, N. Y. .....

.....			
Insurance Premium			
Inland Freight			
Cartage			
Attendance Fee			
.....			
Wharfage Dues $2.50 per 1000 Kilos			
Arrimo Charges $1.00 per 1000 Kilos			
.....			
Total **PREPAYABLE** U. S. Currency	$		

B/L No. .....

BULL-INSULAR LINE, Inc.

By .....

Form 693A

Illustration 15. STRAIGHT BILL OF LADING.

BULL-INSULAR LINE, Inc.
A. H. BULL & CO., Inc., General Agents
115 Broad Street, New York 4, N. Y.

DOMINICAN
REPUBLIC
SERVICE

STRAIGHT BILL OF LADING — NON-NEGOTIABLE

Received from the Shipper hereinafter named, the goods or packages said to contain goods hereinafter mentioned, in apparent good order and condition, unless otherwise indicated in this bill of lading, to be transported subject to all the terms of this bill of lading with liberty to proceed via any port or ports within the scope of the voyage described herein, to the port of discharge or as near thereunto as the ship can always safely get and leave, always afloat at all stages and conditions of water and weather, and there to be delivered or, transshipped on payment of the charges thereon. If the goods in whole or in part are shut out from the ship named herein for any cause, the Carrier shall have liberty to forward them under the terms of this bill of lading on the next available ship.

It is agreed that the custody and carriage of the goods are subject to the following terms on the face and back hereof which shall govern the relations, whatsoever they may be, between the shipper, consignee, and the Carrier, Master and ship in every contingency, wheresoever and whensoever occurring, and also in the event of deviation, or of unseaworthiness of the ship at the time of loading or inception of the voyage or subsequently, and none of the terms of this bill of lading shall be deemed to have been waived by the Carrier unless by express waiver signed by a duly authorized agent of the Carrier:

1. This bill of lading shall have effect subject to the provisions of the Carriage of Goods by Sea Act of the United States of America, approved April 16, 1936, which shall be deemed to be incorporated herein, and nothing herein contained shall be deemed a surrender by the Carrier of any of its rights or immunities or an increase of any of its responsibilities or liabilities under said Act. The provisions stated in said Act (except as may be otherwise specifically provided herein) shall govern before the goods are loaded on and after they are discharged from the ship and throughout the entire time the goods are in the custody of the Carrier. The Carrier shall not be liable in any capacity whatsoever for any delay, non-delivery or mis-delivery, or loss of or damage to the goods occurring while the goods are not in the actual custody of the Carrier. If this bill of lading is issued in a locality where there is in force a Carriage of Goods by Sea Act or Ordinance or Statute of a similar nature to the International Convention for the Unification of Certain Rules Relating to Bills of Lading at Brussels of August 25, 1924, it is subject to the provisions stated in such Act, Ordinance and rules thereto annexed which may be in effect where this bill of lading is issued.

(a) The Carrier shall be entitled to the full benefit of, and right to, all limitations of, or exemptions from, liability authorized by any provisions of Sections 4281 to 4286 of the Revised Statutes of the United States and amendments thereto and of any other provisions of the laws of the United States or of any other country whose laws shall apply.

2. In this bill of lading the word "ship" shall include any substituted vessel, and any craft, lighter or other means of conveyance owned, chartered or operated by the Carrier used in the performance of this contract; the word "Carrier" shall include the ship, her owner, master, operator, demise charterer, and if bound hereby the time charterer, and any substituted carrier, whether the owner, operator, charterer, or master shall be acting as carrier or bailee, the word "shipper" shall include the person named as such in this bill of lading and the person for whose account the goods are shipped; the word "consignee" shall include the holder of the bill of lading, properly endorsed, and the receiver and the owner of the goods; the word "charges" shall include freight and all expenses and money obligations incurred and payable by the goods, shipper, consignee, or any of them.

3. The scope of voyage herein contracted for shall include usual or customary or advertised ports of call whether named in this contract or not, also ports in or out of the advertised, geographical, usual or ordinary route or order, even though in proceeding thereto the ship may sail beyond the port of discharge or in a direction contrary thereto or return to the original port, or depart from the direct or customary route, and includes all canals, straits and other waters. The the goods. If a salving ship is owned or operated by the Carrier, salvage shall be paid for as fully and in the same manner as if such salving ship or ships belong to strangers.

11. Whenever the Carrier or the Master may deem it advisable or in any case where the goods are consigned to a point where the ship does not expect to discharge, the Carrier or Master may, without notice, forward the whole or any part of the goods before or after loading at the original port of shipment, or any other place or places even though outside the scope of the voyage or the route to or beyond the port of discharge or the destination of the goods, by any vessel, vessels or other means of transportation by water or by land or by air or by any such means, whether operated by the Carrier or by others and whether departing or arriving or scheduled to depart or arrive before or after the ship expected to be used for the transportation of the goods. This Carrier, in making arrangements for any transshipping or forwarding vessel or means of transportation not operated by this Carrier shall be considered solely the forwarding agent of the shipper and without any other responsibility whatsoever.

The carriage by any transshipping or forwarding carrier and all transshipment or forwarding shall be subject to all the terms whatsoever in the regular form of bill of lading, freight note, contract or other shipping document used at the time by such carrier, whether issued for the goods or not, and even though such terms may be less favorable to the shipper or consignee than the terms of this bill of lading and may contain more stringent requirements as to notice of claim or commencement of suit and may exempt the on-carrier from liability for negligence. The shipper expressly authorizes the Carrier to arrange with any such transshipping or forwarding carrier that the lowest valuation of the goods or limitation of liability contained in the bill of lading or shipping document of such carrier shall apply even though lower than the valuation or limitation herein, provided that the shipper shall not be compelled to pay a rate higher than that applicable to the valuation contained in such bill of lading. Pending or during transshipment the goods may be stored ashore or afloat at their risk and expense and the Carrier shall not be liable for detention.

12. The port authorities are hereby authorized to grant a general order for discharging immediately upon arrival of the ship and the Carrier without giving notice either of arrival or discharge, may discharge the goods directly they come to hand, at or onto any wharf, craft or place that the Carrier may select, and continuously Sundays and holidays included, at all such hours by day or by night as the Carrier may determine no matter what the state of the weather or custom of the port may be. The Carrier shall not be liable in any respect whatsoever if heat or refrigeration or special cooling facilities shall not be furnished during loading or discharge or any part of the time that the goods are upon the wharf, craft, or other loading or discharging place. All

ship may call at any port for the purposes of the current voyage or of a prior or subsequent voyage. The ship may omit calling at any port or ports whether scheduled or not, and may call at the same port more than once, may for matters occurring before loading the goods, known or unknown at the time of such loading and matters occurring after such loading, either with or without the goods or passengers on board, and before or after proceeding toward the port of discharge, adjust compasses, dry dock, with or without cargo aboard go on ways or to repair yards, shift berths, make trial trips or tests, take fuel or stores, remain in port, sail with or without pilots, tow and be towed, and save or attempt to save life or property; and all of the foregoing are included in the contract voyage.

4. In any situation whatsoever and wheresoever occurring and whether existing or anticipated before commencement of or during the voyage, which in the judgment of the Carrier or the Master is likely to give rise to risk of capture, seizure, detention, damage, delay or disadvantage to or loss of the ship or any part of her cargo, to make it unsafe, imprudent, or unlawful for any reason to commence or proceed on or continue the voyage or to enter or discharge the goods at the port of discharge, or to give rise to delay or difficulty in arriving, discharging at or leaving the port of discharge or the usual or agreed place of discharge in such port, the Carrier may before loading or before the commencement of the voyage, require the shipper or other person entitled thereto to take delivery of the goods at port of shipment and upon failure to do so, may warehouse the goods at the risk and expense of the goods; or the Carrier or the Master, whether or not proceeding toward or entering or attempting to enter the port of discharge or reaching or attempting to reach the usual place of discharge therein or attempting to discharge the goods there, may discharge the goods into depot, lazaretto, craft, or other place, or the ship may proceed or return, directly or indirectly, to or stop at any port or place whatsoever as the Master or the Carrier may consider safe or advisable under the circumstances, and discharge the goods, or any part thereof, at any such port or place, or the Carrier or the Master may retain the cargo on board until the return trip or until such time as the Carrier or the Master thinks advisable and discharge the goods at any place whatsoever as herein provided; or the Carrier or the Master may discharge and forward the goods by any means, rail, water, land, or air at the risk and expense of the goods. The Carrier or the Master is not required to give notice of discharge of the goods or the forwarding thereof as herein provided. When the goods are discharged from the ship, as herein provided, they shall be at their own risk and expense; such discharge shall constitute complete delivery and performance under this contract and the Carrier shall be freed from any further responsibility. For any services rendered to the goods as hereinabove provided, the Carrier shall be entitled to a reasonable extra compensation.

5. The Carrier, Master and ship shall have liberty to comply with any orders or directions as to loading, departure, arrival, routes, ports of call, stoppages, discharge, destination, delivery or otherwise howsoever given by the government of any nation or department thereof or any person acting or purporting to act with the authority of such government or of any department thereof, or by any committee or person having, under the terms of the war risk insurance on the ship, the right to give such orders or directions. Delivery or other disposition of the goods in accordance with such orders or directions shall be a fulfillment of the contract voyage. The ship may carry contraband, explosives, munitions, warlike stores, hazardous cargo, and may sail armed or unarmed and with or without convoy.

In addition to all other liberties herein the Carrier shall have the right to withhold delivery of, reship to, deposit or discharge the goods at any place whatsoever, surrender or dispose of the goods in accordance with any direction, condition or agreement imposed upon or exacted from the Carrier by any government or department thereof or any person purporting to act with the authority of either of them. In any of the above circumstances the goods shall be solely at their risk and expense and all expenses and charges so incurred shall be payable by the owner or consignee thereof and shall be a lien on the goods.

6. Unless otherwise stated herein, the description of the goods and the particulars of the packages mentioned herein are those furnished in writing by the shipper and the Carrier shall not be concluded as to the correctness of marks, number, quantity, weight, gauge, measurement, contents, nature, quality or value. Single pieces or packages exceeding 4480 lbs in weight shall be liable to pay extra charges in accordance with tariff rates in effect at time of shipment for loading handling transshipping or discharging and the weight of each such piece or package shall be declared in writing by the shipper on shipment and clearly and durably marked on the outside of the piece or package. The shipper and the goods shall also be liable for, and shall indemnify the Carrier in respect of any injury, loss or damage arising from shipper's failure to declare and mark the weight of any such piece or package or from inadequate or improper description of the goods or from the incorrect weight of any such piece or package having been declared or marked thereon, or from failure fully to disclose the nature and character of the goods.

lighterage and use of craft in discharging shall be at the risk and expense of the goods. Landing and delivery charges and pier dues shall be at the expense of the goods unless included in the freight herein provided for. If the goods are not taken away by the consignee by the expiration of the next working day after the goods are at his disposal, the goods may at Carrier's option and subject to Carrier's lien, be sent to store or warehouse or be permitted to lie where landed, but always at the expense and risk of the goods. The responsibility of the Carrier in any capacity shall altogether cease and the goods shall be considered to be delivered and at their own risk and expense in every respect when taken into the custody of customs or other authorities. The Carrier shall not be required to give any notification of disposition of the goods.

13. The Carrier shall not be liable for failure to deliver in accordance with marks unless such marks shall have been clearly and durably stamped or marked by the shipper before shipment upon the goods or packages, in letters and numbers not less than two inches high, together with name of the port of discharge. Goods that cannot be identified as to marks or numbers, cargo sweepings, liquid residue and any unclaimed goods not otherwise accounted for shall be allocated for completing delivery to the various consignees of goods of like character, in proportion to any apparent shortage, loss of weight or damage. Loss or damage to goods in bulk stowed without separation from other goods in bulk of like quality, shipped by either the same or another shipper, shall be divided in proportion among the several shipments.

14. The goods shall be liable for all expense of mending, cooperage, baling or reconditioning of the goods or packages and gathering of loose contents of packages; also for any payment expense, fine, dues, duty, tax, impost, loss, damage or detention sustained or incurred by or levied upon the Carrier or the ship in connection with the goods, howsoever caused, including any action or requirement of any government or governmental authority or person purporting to act under the authority thereof, seizure under legal process or attempted seizure, incorrect or insufficient marking, numbering or addressing of packages or description of the contents, failure of the shipper to procure consular, Board of Health or other certificates to accompany the goods or to comply with laws or regulations of any kind imposed with respect to the goods by the authorities at any port or place or any act or omission of the shipper or consignee.

15. Freight shall be payable on actual gross intake weight or measurement or, at Carrier's option, on actual gross discharged weight or measurement. Freight may be calculated on the basis of the particulars of the goods furnished by the shipper herein but the Carrier may at any time open the packages and examine, weigh, measure and value the goods. In case shipper's particulars are found to be erroneous and additional freight is payable, the goods shall be liable for any expense incurred for examining, weighing, measuring and valuing the goods. Full freight shall be paid on damaged or unsound goods. Full freight hereunder to port of discharge named herein shall be considered completely earned on shipment whether the freight be stated or intended to be prepaid or to be collected at destination, and the Carrier shall be entitled to all freight and charges due hereunder, whether actually paid or not and to receive and retain them irrevocably under all circumstances whatsoever ship and/or cargo lost or not lost or the voyage broken up or abandoned. If there shall be a forced interruption or abandonment of the voyage at the port of shipment or elsewhere any forwarding of the goods or any part thereof shall be at the risk and expense of the goods. All unpaid charges shall be paid in full and without any offset, counterclaim or deduction in the currency of the port of shipment, or, at Carrier's option, in the currency of the port of discharge at the demand rate of New York exchange as quoted on the day of the ship's entry at the Custom House of her port of discharge. The Carrier shall have a lien on the goods, which shall survive delivery for all charges due hereunder and may enforce this lien by public or private sale and without notice. The shipper and the consignee shall be jointly and severally liable to the Carrier for the payment of all charges and for the performance of the obligation of each of them hereunder.

16. Neither the Carrier nor any corporation owned by, subsidiary to or associated or affiliated with the Carrier shall be liable to answer for or make good any loss or damage to the goods occurring at any time and even though before loading on or after discharge from the ship, by reason or by means of any fire whatsoever, unless such fire shall be caused by its design or neglect.

17. In case of any loss or damage to or in connection with goods exceeding in actual value $500 lawful money of the United States, per package, or, in case of goods not shipped in packages, per customary freight unit, the value of the goods shall be deemed to be $500 per package or per unit, on which basis the freight is adjusted and the Carrier's liability, if any, shall be determined on the basis of a value of $500 per package or per customary freight unit, or pro rata in case of partial loss or damage, unless the nature of the goods and a valuation higher than $500 shall have been declared in writing by the shipper upon delivery to the Carrier and inserted in this bill of lading and extra freight paid if required and in such case if the actual

Illustration 15. STRAIGHT BILL OF LADING (*Continued*).

7. Goods may be stowed in poop, forecastle, deck house, shelter deck, passenger space or any other covered in space commonly used in the trade and suitable for the carriage of goods, and when so stowed shall be deemed for all purposes to be stowed under deck. In respect of goods carried on deck all risks of loss or damage by perils inherent in such carriage shall be borne by the shipper or the consignee but in all other respects the custody and carriage of such goods shall be governed by the terms of this bill of lading and the provisions stated in said Carriage of Goods by Sea Act notwithstanding Sec. 1 (c) thereof, or the corresponding provision of any Carriage of Goods by Sea Act that may be applicable. Specially heated or specially cooled stowage is not to be furnished unless contracted for at an increased freight rate. Goods or articles carried in any such compartment are at the sole risk of the owner thereof and subject to all the conditions, exceptions and limitations as to the Carrier's liability and other provisions of this bill of lading; and further the Carrier shall not be liable for any loss or damage occasioned by the temperature, risks of refrigeration, defects or insufficiency in or accidents to or explosion, breakage, derangement or failure of any refrigerator plant or part thereof, or by or in any material or the supply or use thereof used in the process of refrigeration unless shown to have been caused by negligence of the Carrier from liability for which the Carrier is not by law entitled to exemption.

8. Live animals, birds, reptiles and fish are received and carried at shipper's risk of accident or mortality, and the Carrier shall not be liable for any loss or damage thereto arising or resulting from any matters mentioned in Section 4, Sub-section 2, a to p inclusive of said Carriage of Goods by Sea Act or similar sections of any Carriage of Goods by Sea Act that may be applicable, or from any other cause whatsoever not due to the fault of the Carrier, any warranty of seaworthiness in the premises being hereby waived by the shipper. Except as provided above such shipments shall be deemed goods, and shall be subject to all terms and provisions in this bill of lading relating to goods.

9. If the ship comes into collision with another ship as a result of the negligence of the other ship and any act, neglect or default of the Master, mariner, pilot or the servants of the Carrier in the navigation or in the management of the ship, the owners of the goods carried hereunder will indemnify the Carrier against all loss or liability to the other or non-carrying ship or her owners in so far as such loss or liability represents loss of, or damage to, or any claim whatsoever of the owners of said goods, paid or payable by the other or non-carrying ship or her owners to the owners of said goods and set-off, recouped or recovered by the other or non-carrying ship or her owners as part of their claim against the carrying ship or Carrier.

The foregoing provisions shall also apply where the owners, operators or those in charge of any ship or ships or objects other than, or in addition to, the colliding ships or objects are at fault in respect of a collision or contact.

10. General average shall be adjusted, stated and settled, according to Rules 1 to 15, inclusive, 17 to 22, inclusive, and Rule F of York-Antwerp Rules 1924, at such port or place in the United States as may be selected by the Carrier, and as to matters not provided for by these Rules, according to the laws and usages at the port of New York. In such adjustment disbursements in foreign currencies shall be exchanged into United States money at the rate prevailing on the dates made and allowances for damage to cargo claimed in foreign currency shall be converted at the rate prevailing on the last day of discharge at the port or place of final discharge of such damaged cargo from the ship. Average agreement or bond and such additional security, as may be required by the Carrier, must be furnished before delivery of the goods. Such cash deposit as the Carrier or his agents may deem sufficient as additional security for the contribution of the goods and for any salvage and special charges thereon, shall, if required, be made by the goods, shippers, consignees or owners of the goods to the Carrier before delivery. Such deposit shall, at the option of the Carrier, be payable in United States money and be remitted to the adjuster. When so remitted the deposit shall be held in a special account at the place of adjustment in the name of the adjuster pending settlement of the General Average and refunds or credit balances, if any, shall be paid in United States money.

In the event of accident, danger, damage, or disaster, before or after commencement of the voyage resulting from any cause whatsoever, whether due to negligence or not, for which, or for the consequence of which, the Carrier is not responsible, by statute, contract, or otherwise, the goods, the shipper and the consignee, jointly and severally, shall contribute with the Carrier in general average to the payment of any sacrifices, losses, or expenses of a general average nature that may be made or incurred, and shall pay salvage and special charges incurred in respect of value of the goods per package or per customary freight unit shall exceed such declared value, the value shall nevertheless be deemed to be the declared value and the Carrier's liability, if any, shall not exceed the declared value and any partial loss or damage shall be adjusted pro rata on the basis of such declared value.

Whenever the value of the goods is less than $500 per package or other freight unit, their value in the calculation and adjustment of claims for which the Carrier may be liable shall for the purpose of avoiding uncertainties and difficulties in fixing value be deemed to be the invoice value, plus freight, insurance and duties, if paid, and not recovered or recoverable, irrespective of whether any other value is greater or less.

18. Unless notice of loss or damage and the general nature of such loss or damage be given in writing to the Carrier or his agent at the port of discharge before or at the time of the removal of the goods into the custody of the person entitled to delivery thereof under the contract of carriage, such removal shall be prima facie evidence of the delivery by the Carrier of the goods as described in the bill of lading. If the loss or damage is not apparent the notice must be given within three days of the delivery. The Carrier shall not be liable upon any claim for loss or damage unless written particulars of such claim shall be received by the Carrier within thirty days after receipt of the notice herein provided for.

19. In any event the Carrier and the ship shall be discharged from all liability in respect of loss or damage unless suit is brought within one year after the delivery of the goods or the date when the goods should have been delivered. Suit shall not be deemed brought until jurisdiction shall have been obtained over the Carrier and/or the ship by service of process or by an agreement to appear.

20. To avoid or alleviate preventions or delays in prosecution or completion of the voyage incident to the existence of hostilities the Carrier has liberty and is authorized by the shipper and the owner of the goods to agree with the representatives of any government to submit the goods to examination at any place or places whatsoever and to delay delivery of the same until any restriction asserted by any governmental authority shall have been removed. The Carrier may put the goods in store ashore or afloat at the risk and expense of the owner of the same pending examination, and thereupon the Carrier's responsibility shall end. Any damage or deterioration occasioned by such examination or by delay and other risks of whatsoever nature shall be solely for account of the owner of the goods. All expenses incurred by the Carrier in relation to such detention of the goods shall be paid by the shipper or consignee or owner of the goods.

21. This Bill of Lading shall be construed and the rights of the parties thereunder determined according to the law of the United States.

22. Cargo skids and labor on quay are to be provided by ship's agent for account of consignee at current rates, and any cargo which may be ordered for delivery into fiscal deposits, must be taken by an official cartman appointed by the agent of the ship, at current rates for account and risk of consignee.

23. If any bagged or baled goods are landed slack or torn, receiver and/or consignee shall accept its proportion of the sweepings. Ship not responsible for loss of weight in bags or bales torn, mended or with sample holes.

24. Cotton: Description of the condition of the cotton does not relate to the insufficiency of or torn condition of the covering, nor to any damage resulting therefrom and Carrier shall not be responsible for damage of such nature.

25. Specie: Specie will not be shipped or landed by the Carrier; it must be put on board by the shipper, and will only be delivered on board on presentation of the bills of lading properly endorsed, it may be carried on at consignee's risk if delivery is not taken during the ship's stay in port, and in every case the liability of the Carrier shall cease when the specie leaves the ship's deck

26. SPECIFIED DOCK DISCHARGE: If the Carrier makes a special agreement, whether by stamp hereon or otherwise to deliver the goods hereby receipted for at a specified dock or wharf at the port of discharge, it is mutually agreed that such agreement shall be construed to mean that the Carrier is to make such delivery only if, in the sole judgment of the Master, the ship can safely under her own power, proceed to, lie at, and return from said dock or wharf, always

(CONTINUED OVERPAGE)

Illustration 15. STRAIGHT BILL OF LADING *(Continued)*.

Lee of Shanghai, China, a certain type of textile machinery, and Young Pong Lee accepts by cable and confirms the acceptance by letter, the offer then becomes a contract.

In practice, however, the theoretical ideas and the procedure just expanded are disregarded. The reason is simple. Every exporter is, as a rule, represented abroad by a foreign agent, who calls on the trade and

TRUST RECEIPT.

New York, November 6, 1944

Received from the Bank of the merchandise specified in the Warehouse Receipt per Lewis Warehouses, Inc. dated in New York, Nov. 6/44 as follows.

No. B-142 - 45 bales Nos. 6940/42-6944-6946/52-6954/57, 6959/64, 6966/68-6971/77-6973-7038/39-7041/42-7044/45-7047/48-7050/54.-

L/C 264/44

and in consideration thereof hereby agree to hold said merchandise in trust, subject at all times to orders of the said Bank, with liberty to sell the same until otherwise directed, and, but in case of sale, to hand the specific avails thereof, as soon as received, to the Agency of the Bank in the City of New York, as security for the due provision for acceptance, due in on for $, and further pledge to the said Bank of Nova Scotia said merchandise and the proceeds thereof, as security for the payment of any indebtedness of to the said Bank of Nova Scotia, and to and further agree to keep the said merchandise insured against fire, payable in case of loss to the said Agency, with the understanding that the said Bank is not to be chargeable with any expenses incurred thereon, the intention of this agreement being to protect and preserve unimpaired the lien of the Bank of Nova Scotia and of on said merchandise, and on the proceeds and avails thereof. All sales hereby guaranteed by us

Lee Peterson Company

CANCELLED

1500-7-43 S. W. & B.

Illustration 16. TRUST RECEIPT.

THIS FORM OF WAREHOUSE RECEIPT APPROVED BY THE AMERICAN WAREHOUSEMEN'S ASSOCIATION AND THE DEPARTMENT OF COMMERCE OF THE UNITED STATES

STORAGE ORDER No. _____ CONSECUTIVE No. B 0000

BUSH TERMINAL

INDEPENDENT STORES

FOOT OF 40TH TO 51ST STS., BROOKLYN, N.Y.

EXECUTIVE OFFICES
100 BROAD STREET

New York, _____ 19____

This is to Certify that this Company has received in Storage Warehouse No. _____ in the Borough of Brooklyn, New York, for the account of _____

Ex _____, in apparent good order, except as noted hereon, (contents, weight, condition and quality unknown) the following described property subject to all the terms and conditions contained herein and on the reverse hereof such property to be delivered to _____, upon the payment of all storage, handling and other charges, and compliance with the United States Customs Regulations and presentation of Custom House Permit.

NUMBER	PACKAGES	SAID TO BE OR CONTAIN	MARKS
		NON-NEGOTIABLE	

THIS RECEIPT IS VALID ONLY WHEN SIGNED BY ONE OF THE FOLLOWING OFFICERS OF THIS COMPANY: THE PRESIDENT, A VICE PRESIDENT, THE TREASURER, THE SECRETARY, AN ASSISTANT TREASURER OR AN ASSISTANT SECRETARY.

STORAGE _____ PER _____ PER MONTH FROM _____ 19__
HANDLING _____ PER _____ IN AND OUT INCLUSIVE.
ADVANCES HAVE BEEN MADE AND LIABILITY INCURRED ON SUCH GOODS AS FOLLOWS:
COOPERING _____
CARTAGE _____ FREIGHT _____
WEIGHING _____ MISC'L. ADVANCES _____

BUSH TERMINAL COMPANY

CLAIMS A LIEN FOR ALL LAWFUL CHARGES FOR STORAGE AND PRESERVATION OF THE GOODS, ALSO FOR ALL LAWFUL CLAIMS FOR MONEY ADVANCED, INTEREST, INSURANCE, TRANSPORTATION, LABOR, WEIGHING, COOPERING AND OTHER CHARGES AND EXPENSES IN RELATION TO SUCH GOODS

Bush Terminal Company
By SPECIMEN
ASSISTANT SECRETARY

GOODS IN BOND

Illustration 17. WAREHOUSE RECEIPT.

STANDARD CONTRACT TERMS AND CONDITIONS

TENDER FOR STORAGE—Sec 1 (a) All goods for storage shall be delivered at the warehouse properly marked and packed for handling The storer shall furnish at or prior to such delivery a manifest showing marks, brands or sizes to be kept and accounted for separately and the class of storage desired otherwise the goods may be stored in bulk or assorted lots, in freezer cooler or general storage at the discretion of the warehouseman and will be charged for accordingly

(b) The word lot ' as used herein means the unit or units of goods for which a separate account is to be kept by the warehouseman Delivery of all or any units of a lot shall be made without subsequent sorting except by special arrangement and subject to a charge

(c) The warehouseman undertakes to store and deliver goods only in the packages in which they are originally received

STORAGE PERIOD—Sec 2 (a) All goods are stored on a month to month basis, unless otherwise provided A storage month shall extend from a date in one calendar month to but not including the same date of the next and all succeeding calendar months but if there be no corresponding date in the next succeeding calendar month it shall extend to and include the last day of that month When the last day of a final storage month falls on Sunday or a legal holiday the storage month shall be deemed to expire on the next succeeding business day

(b) Except where other procedure is provided by the warehouse receipts act, the warehouseman may upon written notice to the storer of record and to any other person known by the warehouseman to claim an interest in the goods require the removal of any goods by the end of the next succeeding storage month Such notice shall be given by delivery in person or by registered letter addressed to the last known place of business or abode of the person to be notified

INSURANCE, STORAGE RATES, EXPIRATION AND TRANSFERS—Sec 3 (a) All charges for storage are on a month to month basis unless otherwise provided Charges for any particular lot shall begin at the receipt of the first unit of that particular lot in store and shall continue and include the storage month during which the last unit of the particular lot is delivered. Charges shall be made on the basis of the maximum number of units in any particular lot in store during a storage month All charges for storage are due on the first day of a storage month and all other charges are due when incurred.

(b) Instructions to transfer goods on the books of the warehouseman are not effective until delivered to and accepted by him, and all charges up to the time transfer is made are chargeable to the storer of record If a transfer involves rehandling the goods it will be subject to a charge

(c) The warehouseman reserves the right to move at his own expense of transfer and upon notice sent by registered mail to the storer of record and to the last known holder of the negotiable warehouse receipt any goods in storage from any room of the warehouse in which they may be stored to any other of his rooms or warehouses but if such storer or holder takes delivery of his goods in lieu of transfer no storage charges shall be made for the current storage month

(d) When rates are quoted by weight they will unless otherwise specified be computed on gross weight and 2 000 pounds shall constitute a ton

(e) Goods are not insured nor do storage rates include insurance unless so specified in writing (Adopted with the understanding that in any state requiring insurance by statute the words or required by statute ' would be considered a part of the standard terms and conditions)

HANDLING—Sec 4 (a) Handling charges cover the ordinary labor and duties incidental to receiving goods at warehouse door, stowing and delivering to warehouse door but do not include unloading or loading of cars vehicles or vessels unless so specified Handling charges will be billed with the storage for the first month

(b) Goods at the request of a storer received or delivered during other than usual business hours will be subject to an additional charge.

CAR UNLOADING AND LOADING—Sec 5 (a) Charges for unloading or loading of cars include use of switch track labor required to or from warehouse door and billing of car

(b) Dunnage and fastenings supplied by the warehouseman and used in loading out cars are chargeable to the storer

(c) Any additional costs incurred by the warehouseman in unloading cars containing damaged goods are chargeable to the storer

(d) The warehouseman, unless he has failed to exercise due care and diligence shall not be responsible for demurrage nor for delays in unloading inbound cars, nor for delays in obtaining cars for outbound shipments

DELIVERY REQUIREMENTS—Sec 6 (a) No goods shall be delivered or transferred except upon receipt by the warehouseman of complete instructions properly signed by the storer

(b) When a negotiable receipt has been issued no goods covered by that receipt shall be delivered or transferred on the books of the warehouseman unless the receipt, properly indorsed, is surrendered for cancellation, or for indorsement of partial delivery thereon

(c) When goods are ordered out a reasonable time shall be given the warehouseman to carry out instructions, and if he is unable, due to causes beyond his control to effect delivery before expiring storage dates, the goods will be subject to charges for another storage month, except when the warehouseman has given notice in accordance with the provisions of Sec 2b or because of fire, acts of God, war, public enemies, seizure under legal process strikes, or lockouts, riots and civil commotions, if he is unable, due to causes beyond his control to effect delivery before the expiring storage date, the goods shall be subject to storage charges only for that part of the month during which the goods remain in store.

BONDED STORES—Sec. 7 A charge in addition to regular rates will be made for merchandise in bond.

MINIMUM CHARGES—Sec. 8. A minimum charge will be assessed for storage, handling and other services

EXTRA SERVICE—Sec. 9 (a) Extra services in the interest of the storer such as special warehouse space, material, drayage, repairing, cooperage sampling, weighing, repiling, inspection, physical warehouse checking, compiling stock statements, collections, revenue stamps, reporting marked weights or numbers, handling railroad expense bills, etc., are chargeable to the storer

(b) Stock statements submitted in duplicate by the storer will be checked with the books of the warehouseman without charge

(c) Shipping includes marking tagging billing, procuring and forwarding bills of lading and is chargeable to the storer

(d) Freight and other disbursements made on behalf of the storer are due and payable on demand and subject to interest from date billed by the warehouseman

(e) Storers, including holders of negotiable receipts, may subject to insurance regulations and reasonable limitations have access to their goods in store when accompanied by a warehouse employee whose time is chargeable to the storer

LIABILITY—Sec 10 (a) The responsibility of a warehouseman, in the absence of written provisions, is the reasonable care and diligence required by law

(b) Perishable goods, or goods which are susceptible to damage through temperature changes or other causes incident to general storage, are accepted in general storage only at owner s risk for such damages as might result from general storage conditions.

SCHEDULE OF CHARGES—Sec 11 Whenever provision is made in these Standard Contract Terms and Conditions for a charge or charges by the warehouseman such charge or charges will conform to the warehouseman s tariff in effect at the time the charge accrues or the service is performed except that no increase in charges within the direct control of the warehouseman will be made on goods that are in storage without a thirty-day notice mailed to the storer of record or the last known holder of a negotiable warehouse receipt.

Illustration 17. WAREHOUSE RECEIPT *(Continued)*.

makes offers. If an offer is accepted by the buyer, the agent fills out an order blank specifying the various articles desired, and the conditions upon which the sale will be made. Since such orders are subject to the approval of the head office, they do not constitute contracts until they have been confirmed by the head office in writing.

The order, as stated before, as far as the foreign credit man is concerned, must be drawn in such a way that it becomes a valid contract. In ordinary parlance it is called a "Firm Order." It should accomplish three things: (1) bind the buyer to accept the goods; (2) bind the buyer to pay for the goods; (3) stipulate the terms and prices in accordance with which payment must be made.

The order itself will contain the following information:

1. The date of the order.
2. The number of the order.
3. Full name and address of the buyer.
4. The material or equipment ordered.
5. The quantity ordered.
6. Description of the product.
7. Quality of the material.
8. The price of the article.
9. The terms of sale; that is, 30 or 60 days date or whatever the terms may be.
10. Date on which the goods will be delivered.
11. Shipping marks that will go on the cases.
12. The type of marine insurance desired.
13. A clause stating that the order is subject to the approval of, and final acceptance by, the main office of the seller.
14. Stipulation of any other conditions of the sale.
15. Signatures of the buyer and of the agent.

Every contract can be divided into three different parts, which are:

1. What might be called, for want of a better name, the order itself, which includes:

(a) The name and address of the exporter.
(b) The date on which the order was taken.
(c) The number of the order.
(d) The buyer's date or reference number, or both.
(e) Customer's name and address.
(f) A description of the material ordered, its quantity, quality, price, terms of sale, and delivery date.
(g) A blank space for the signatures of the buyer and the agent, or the supplier.

2. The instructions; that is, the shipping marks to be placed on the cases or packages, customs declaration, number of copies of invoices, and any other additional information.

3. The clauses of the contract, which as a rule are printed on the reverse side of the contract form.

Illustrations 18, 19, and 20 represent three different forms of contract commonly used in export business.

Illustration 18 is a sample type of contract used by an exporter in handling standard manufactured goods distributed through foreign department stores and retailers.

Illustration 19 is the type of contract used by a textile commission house.

(FRONT)

HOWARD G. GODFREY & COMPANY, Inc.

CONTRACT NO.

Telephone: MUrray Hill 4-4000

Your Reference:

Cable Address: New York.

NEW YORK 10, N. Y.
357 Fourth Avenue

Subject to the conditions on the reverse hereof:
SOLD TO:
FOR ACCOUNT OF:

QUANTITY About

ARTICLE

DESCRIPTION

PRICE

TERMS AND PAYMENT

SHIPMENT

INSURANCE

WEIGHTS

REMARKS

Please sign this contract in duplicate, in the name of the firm or corporation, by a member of the firm or an officer of the corporation and return one copy promptly to seller.

ACCEPTED

_____ (Buyers)

Howard G. Godfrey & Co., Inc.

(BACK)

DUTIES AND TAXES	Export duty, if any, for account of Sellers. Import duty, if any, for account of Buyers. Sales taxes and/or other taxes, if any, for account of Buyers. Any change in the U. S. Customs and/or inland freight tariffs after date hereof for account of Buyers.
ARBITRATION	Any controversy or claim arising out of or relating to this contract or to the breach thereof shall be settled by arbitration, in accordance to the Rules, then obtaining, or the American Arbitration Association, respectively the Inter-American Commercial Arbitration Commission. This agreement shall be enforceable and judgment upon any award rendered by all or a majority of the arbitrators may be entered in any court having jurisdiction. The arbitration shall be held in New York or wherever jurisdiction may be obtained over the parties.
TENDERS	Each delivery tendered under this contract is to be considered as a separate transaction and is not to affect the balance in any way.
LICENSE	Buyers undertake to provide the Sellers with a valid import license if required. In the event an export license is required from the country of origin, this contract to be subject to export license being obtainable.
INSURANCE	Where the terms of this contract specify that insurance is for Sellers' account, the rates in force at date of this contract to govern; any change in insurance rates at time of shipment to be for Buyers' account.
FREIGHT	The price specified in this contract is based on the rate of ocean freight prevailing at date of this contract; any change thereof at time of shipment to be for Buyers' account.
CLAIMS	Any claim shall be made within ten (10) business days after the goods are available for inspection on the dock and also not less than 10% of the original unopened packages are available for inspection.
FORCE MAJEURE	Sellers shall not be held responsible for delays and/or non-delivery resulting from War, Riots, Strikes, Embargoes, Floods, Ice, Accidents, Failure of Machinery, Fire, Acts of God and/or other cause whatsoever that is unavoidable and beyond their control.

Illustration 18. ONE FORM OF CONTRACT, SHOWING FRONT AND BACK.

Illustration 20 is a contract generally used by houses doing an active business in raw silk with Canada. The Raw Silk Rules to which the contract refers are the standard regulations accepted and governing all raw silk transactions between United States traders and Canadian importers. They have been in use for many years, and are available in booklet form. The booklet is distributed by the Raw Silk Importers, Inc., New York City. The rules cannot be enforced outside the United States and Canada.

Beside these forms of contract, there are others more complicated. They are used especially by vendors of raw materials, such as fats, oils, coffee, and other commodities. They are drawn, in all respects, subject to the by-laws, rules, and regulations that have been established by the various trade associations.

The order forms used by these trade associations are similar to the one shown in the cited Illustration 20. The clauses of the contract, however, are quite different, since the conditions of the contract must conform to the requirements and trade practices peculiar to each commodity.

There are *three* main reasons why an exporter can cancel an order:

1. One of them is always inserted as a clause in the contract, and is usually called "Force Majeure," which releases the seller from responsibility for delays and/or nondelivery resulting from war, riots, strikes, embargoes, floods, ice, accidents, fires, failure of machinery, acts of God, and/or other causes whatsoever that are unavoidable and beyond control.

(FRONT)

HOWARD G. GODFREY & COMPANY, INC.
357 Fourth Avenue
New York 10
U. S. A.

Date .....

ACKNOWLEDGEMENT OF ORDER

Order: { Your No. ....
Our No. .....

Gentlemen:

We wish to acknowledge and thank you for this order transmitted to us by: ..... which we will forward to the mill for final approval and acceptance under conditions as stipulated below and printed on the back of this sheet.

CUSTOMER:

MATERIAL:

QUANTITY:

DESCRIPTION:

QUALITY:

PRICE:

TERMS:

SHIPMENT:

SHIPPING MARKS:

REMARKS:

Howard G. Godfrey & Co., Inc.

(Over)

(BACK)

GENERAL CONDITIONS OF SALE.

The seller referred to in these Conditions of Sale is understood to be Howard G. Godfrey & Co., Inc.

1. All orders and contracts are subject to approval and final acceptance by the New York Office of the seller.

F.A.S., C.I.F., and C.&F. Sales

2. On F.A.S. sales the seller agrees to deliver the goods alongside steamer on lighter or on the receiving pier of the steamship company in proper condition. All subsequent risks and expenses are for account of the buyer.

3. On F.O.B., C.I.F., and C.&F. sales the seller accepts no responsibility for the arrival of goods at destination or for loss or damage in transit. The purchaser assumes all risks of transportation except such as are covered by the legal responsibility of the carriers (or, on C.I.F. sales, by the insurance), and accepts and agrees to all usual and customary clauses in the bills of lading as well as such additional clauses and stipulations as may be lawfully imposed by the carriers as a condition of their accepting the goods for transportation. The tender to the purchaser or his authorized agent, of shipping documents, consisting of proper bills of lading or dock or ship receipts (and, in the case of C.I.F. sales, negotiable insurance certificate), constitutes full and final delivery on the part of the seller, and entitles it to immediate payment in full for goods shipped, without prejudice to the subsequent adjustment and just claims on the part of the purchaser.

Unless otherwise agreed in writing, the purchaser will receive the goods at destination ex ship's tackles as fast as vessel can discharge, or according to terms of ocean bill of lading. The seller is entitled to select the route, port of shipment, and vessel, with privilege of stopping in transit at port or ports. Unless otherwise agreed in writing, any charges at destination, including lighterage, wharfage, or landing charges, dues, duties, etc., are not included in seller's price.

Insurance

4. Unless otherwise agreed, the insurance on C.I.F. sales is understood to be marine insurance only to destination covered by sales price, free of particular average, English conditions, for a sum equal to the amount of the invoice plus ten per cent. Other forms of insurance, if obtainable, must be agreed upon prior to acceptance of order, the additional cost to be for the account of the purchaser, but no form of insurance will protect against rust or other damage unless caused by a peril of the sea.

Consular Invoices

5. All consular fees for legalizing invoices, stamping bills of lading or other documents required by the laws of the countries of destination, are payable by the purchaser and are not included in the seller's prices. If not otherwise arranged, the seller is authorized to pay same for purchaser's account, and add the cost to the invoice. Seller will take out consular documents as agent for the purchaser, who must state how the goods are to be declared, and, if the purchaser does not furnish the necessary instructions, seller will make declarations according to its best judgment, but will not in any case be responsible for any fines or other charges due to errors or incorrect declarations.

Execution of Orders or

6 a. The seller shall not be liable for failure to perform this contract, in whole or in part, if such failure is due to fires,

Shipment of Goods

strikes, disputes with workmen, war, civil commotion, epidemics, floods, accidents, delays in transportation, shortage of cars, or other causes beyond the reasonable control of the seller or of the manufacturer; nor shall these exemptions be limited or waived by any other terms of this contract, whether printed or written; such contingencies shall not release the purchaser from his obligations to pay for the goods in accordance with the terms of sale. Provided, however, that in the event of such unavoidable delay the purchaser may, subject to previously obtaining the consent of the seller, cancel such portion of the order as is not manufactured or produced nor in process of manufacture or production at the time his request to cancel reaches the manufacturer or producer.

6 b. The seller may ship any portion of the goods as soon as completed by the manufacturer or producer, and payment for that portion of the goods shipped shall become due in accordance with the terms of payment herein specified. Insistence upon suspension of manufacture or production or suspension of any shipment if not acquiesced in by the seller may be treated by the seller as a wrongful termination of the contract on the part of the purchaser; and the purchaser shall thereupon be liable for all damages arising out of such termination.

Specifications and Shipping Instructions

7. In the event of the purchaser failing to furnish complete specifications and instructions within the time specified in the contract, the seller shall be entitled, at its option, to cancel such portion of the contract as may remain unexecuted, or to make shipments in accordance with the specifications and instructions which the purchaser may have furnished for previous shipments on account of the same or a previous contract.

Inspection

8. If the purchaser requires inspection, it must be made at place of manufacture, production, or storage and at purchaser's expense, and such inspection and acceptance shall be final. Reasonable facilities will be afforded to inspectors representing the purchaser to inspect material and to apply, previous to shipment from the point of origin, tests to which the seller has previously agreed.

Claims

9. Claims will be considered by the seller only when made promptly after receipt of the goods and due opportunity has been given for investigation by seller's own representatives. No claims for labor nor involving inconsequential damages will be recognized. Goods must not be returned except by permission of seller.

Damage in Transit

10. The seller agrees that the goods shall leave the manufacturer or producer in good condition, and the purchaser assumes all risks of rust or any other damage thereafter.

General

11. The goods are to be exported to the destination stated by the purchaser at the time the inquiry is made, and the purchaser guarantees that the goods will be shipped to that destination, and agrees to furnish, if required by the seller, a Landing Certificate duly signed by the Customs Authorities at the port of destination, certifying that the goods have been landed and entered at that port. The seller reserves the right, even after partial payment on account of any contract with the purchaser, to require from the purchaser satisfactory security for the due performance of his obligations, and refusal to furnish such satisfactory security or the failure of the purchaser to execute any of his obligations under this or any other existing contract will entitle the seller, upon notice to the pur-

chaser, to suspend shipments or cancel the contract, or so much of it as may remain unexecuted, without prejudice to any claim for damages the seller may be entitled to make.

Terms

12. Unless otherwise stated in quotation, seller's terms are understood to be net cash at point of shipment in exchange for relative documents mentioned herein.

13. Every quotation is based on the understanding that, if accepted and the seller should elect, formal contract satisfactory to the seller will be signed by the purchaser.

14. It is understood that all orders placed are irrevocable, and no cancellation will be considered.

Illustration 19. ANOTHER FORM OF CONTRACT, SHOWING FRONT AND BACK.

2. For financial reasons; that is, when the importer becomes financially embarrased, the vendor has the right to withhold the extension of credit.

3. Political and social disturbances in the buyer's country, or any other acts such as an embargo or moratorium.

When the foreign credit man receives an order which stipulates that it will be paid by a confirming house, he should receive a corresponding confirmation from the confirming house. The form used is similar to the one shown in Illustration 57.

The Meaning of Delivery Date

In the forms of contracts illustrated, each one indicates when the merchandise is to be delivered. The time is often given somewhat specifically, as when delivery is promised for a certain month, say July, or a definite date in July, say July 17. In other cases, however, the instructions read: "immediate," "prompt," or "as soon as possible."

In practice, when an exporter indicates that delivery is to be made in July, he specifically says that the ocean bill of lading, proving that the goods have been shipped, must be dated any day during the month of July. If the buyer requests that the delivery be made July 15, the ocean bill of lading should be dated July 15, or before, but not later than a day or two thereafter.

By "immediate delivery" is understood that the exporter will obtain the ocean bill of lading two or three days after the exporter receives the shipping instructions.

"Prompt delivery" is accepted as meaning that the merchandise will be on a vessel sailing three weeks after the instructions have been received.

When unfavorable conditions prevail, because of the lack of shipping space, or because of national conflicts, or when a state of war exists, the exporters do not accept any order specifying a definite shipping date.

To be sure, all contracts are accepted with the stipulation that the goods will be shipped "as soon as possible." This permits the seller to defer shipment until the date he is able to obtain shipping space.

(FRONT)

HOWARD G. GODFREY & CO., INC.
357 Fourth Avenue
New York 10
N. Y.

Telephone Bogardus 4-4000

CONTRACT NO. .....
New York

Howard G. Godfrey & Co., Inc., hereby sell and

(Purchaser's Name)

(Purchaser's Address)

hereby purchase the raw silk hereinafter described upon the following terms and conditions:—

Rate of discount 3% per annum. Interest on deferred deliveries 6% per annum.

If at any time the financial responsibility of the purchaser, or the credit risk involved, shall become unsatisfactory to the Seller, or his factor, the Seller or his factor may require cash, or security satisfactory to the Seller, or his factor, upon subsequent deliveries of silk hereunder; the election by the Seller or his factor to require such cash or security shall not impair the obligations of the purchaser to take delivery of and pay for the silk contracted for.

All of the terms and provisions of the Raw Silk Rules of the Raw Silk Importers, Inc., approved and adopted by its Board of Directors December 10th, 1935 and all subsequent amendments thereto, not inconsistent herewith, are incorporated as a part of this contract.

Every dispute, of whatever character, arising out of this contract must be settled by arbitration in New York City, to be conducted in the manner provided by the Arbitration Rules of the National Federation of Textiles, Inc.

BALES	DESCRIPTION	SIZE	PRICE PER LB.

(BACK)

WEIGHT
TERMS OF PAYMENT, subject to foregoing provisions,

DELIVERY

Please sign this contract in duplicate, in the name of the firm or corporation, by a member of the firm or an officer of the corporation and return one copy promptly to the seller.

HOWARD G. GODFREY & CO., Inc.

By _____

_____
Purchaser

By _____

Illustration 20. A THIRD FORM OF CONTRACT, SHOWING FRONT AND BACK.

CHAPTER II

THE UNITED STATES AND INTERNATIONAL TRADE

International Trade and the United States

Since the early days of the republic, this country has shown great interest in its foreign trade. For decades it sent its products to China, whence it obtained silks and tea. The sales it made to the West Indies permitted this country to buy molasses, sugar, and rum for its own use. To England went the raw materials that were later returned as finished products. All through these many years the United States has had its ups and downs in foreign trade, but always managed to recuperate, and was able to create new plans aiming to invigorate and develop further the free movement of goods and services with other nations of the world. The present era sees this country once again, as in the past, planning and conceiving new methods to overcome the terrible devastation brought about by the last two wars.[1]

To understand the significance of this blueprint, it is necessary to review what took place during and after 1930.

The Nineteen Thirties

Within the memory of man, never before had he experienced the tragic events that led to the utter collapse of a highly developed system of international trade—a system that took him generations to build. For decades this system functioned like a perfect machine. Goods and services moved from one market to another without any difficulties. Prices were kept at a fairly normal level, further assisting the interchange of commodities among the nations of the world. The money of one country was freely exchanged for the money of another country, without adhering to any regulations or quotas. Argentina sold wheat to Europe and with the proceeds bought finished goods in the United States. There were no bilateral arrangements forcing Argentina to buy only from those countries which purchased from it. The funds

[1] For a thorough and authoritative discussion of the role the United States should play in the world economy, the reader should consult Mr. Alvin H. Hansen's *America's Role in the World Economy*, originally published by W. W. Norton & Co., Inc., New York, and reprinted by Penguin Books, Inc.

created from the sale of goods abroad could cross national boundaries to buy other goods or services. There was no interruption in the free exchange of goods and services.

The first world war changed to some extent this system of international exchange; but by 1920 the countries of the world had enacted new measures and policies that enabled them to stabilize their currencies. They followed a nonco-operative method, however, each country establishing its own parity without consulting other nations, and aiming primarily to gain some financial advantage. Yet international trade, to become effective and to be of mutual advantage, must follow a policy of mutual understanding. No one nation can travel alone the road of international commerce; all must move in harmony or all will suffer. Unilateral action further delayed the commercial recovery of the world, and, although the dollar remained strong at its normal value, other currencies were overvalued or undervalued. To adjust these differences took time, but eventually foreign exchange became fairly well stabilized.

Then came the depression. As has been shown, international trade in the past reacted mechanically to individual decisions, and automatically moved with few difficulties and in accordance with set policies and routine that had proven sound and workable for so many decades. The depression of 1930 disturbed, nay, destroyed that harmony, and the mutual interdependence that governed international relationship among the nations of the world felt the strain and blows of the recession. The links that joined one country to another began to give way. Many reasons have been advanced for the rapid dislocation of foreign trade. Some are political, others are within the realm of economics, still others blame the gold standard, the concentration of capital in the hands of few nations, the enactment of tariffs, and so on.

Suffice it to say that the problem is extremely complicated, and, although no one can give factual explanations clearly pointing out one primary reason for the debacle, the fact remains that the collapse occurred, and once again currencies began to fluctuate. In 1928, for instance, there were 44 countries using gold as their standard; by 1931 twenty of these nations had discarded gold. Two years later the United States went off gold, and by 1938 only eight nations remained on the gold standard.

Naturally when these countries overthrew gold as the standard, they also depreciated their currencies. In some cases they were deliberately undervalued, drastic regulations were imposed, and foreign trade started to decline. During the years of 1928 and 1929, the United States exported more than five billion dollars worth of goods; in 1932 exports fell to one and a half billion—reduction of more than 70 per cent. The total imports and exports for all countries in 1929 amounted to sixty-five billion dollars, and in 1932 that amount was reduced to twenty-six

billion. This decrease was brought about by the widespread use of bilateral trade agreements, exchange controls, import quotas, multiple currency devices, and other restrictive measures that obstructed the movement of goods among nations.

In 1937 a world-wide recovery in business took place, which, added to the improvement in the exchange, served to promote foreign trade, but United States exports gained only slightly. In that year this country sold abroad about three billion dollars worth of goods.

The second world conflict smashed to pieces whatever progress had been made for establishing international trade on a world-wide scale. Peace found the world with most of the means for foreign commercial relationship pretty well destroyed and the network that made possible the exchange of goods and services among nations almost entirely shattered.

The Problem

The problem is, obviously, how to reconstruct that mechanism which can once again serve mankind in general. This problem leads to a consideration of the economic ailments that men encountered after the fighting ceased and, generally speaking, resolves itself into another question: "What measures must be taken to alleviate the economic needs of the world?"

The first step, of course, is to create a means of permitting short-term financing that in turn will facilitate the exchange of goods.

The second is to reconstruct the means of production of other countries. This can only be accomplished through long-term financing.

The International Monetary Fund

In the previous discussion, it was brought out that monetary disorders, restrictions, exchange controls, and quotas hamper the flow of international trade. Obviously, by establishing some machinery that will permit the elimination of these obstacles, nations will be able to discard whatever barriers they have erected in the last few years and will again be able to trade freely all over the world.

The machinery that aims to bring about the exclusion of all restrictions in foreign trade, is the International Monetary Fund.

The purposes of the Monetary Fund, as stated in *International Monetary Fund, Articles of Agreement between the United States and Other Powers,* issued by the Department of State, Publication 2512, U. S. Government Printing Office, are:

i. To promote international monetary co-operation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

ii. To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

iii. To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

iv. To assist in the establishment of a multilateral system of payments in respect to current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

v. To give confidence to members by making the Fund's resources available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

vi. In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

In order to accomplish these aims it is essential to bear in mind that the Monetary Fund is not a business venture, but a co-operative movement in which all the members will strive to help one another in an effort to re-establish conditions favorable to international trade.

No matter how noble the aims, however, they will never bring any effective benefits unless some practical methods are established for extending adequate aid to member countries that will permit them to maintain stable exchange rates, and thus avoid harmful restrictions to international trade. To accomplish this objective, the Monetary Fund has created a pool of resources contributed by all members of the Fund. The total subscription by the 44 countries will amount to 8.8 billions of dollars, and the quotas assigned to the members are as follows: [1]

Country	*Quota* (In Millions of United States Dollars)	*Country*	*Quota* (In Millions of United States Dollars
Australia	200	Iran	25
Belgium	225	Iraq	8
Bolivia	10	Liberia	.5
Brazil	150	Luxembourg	10
Canada	300	Mexico	90
Chile	50	Netherlands	275
China	550	New Zealand	50
Colombia	50	Nicaragua	2
Costa Rica	5	Norway	50
Cuba	50	Panama	.5
Czechoslovakia	125	Paraguay	2
Dominican Republic	5	Peru	25
Ecuador	5	Philippine Commonwealth	15
Egypt	45	Poland	125
El Salvador	2.5	Union of South Africa	100
Ethiopia	6	Union of Soviet Socialist Republics	1,200
France	450	United Kingdom	1,300
Greece	40	United States	2,750
Guatemala	5	Uruguay	15
Haiti	5	Venezuela	15
Honduras	2.5	Yugoslavia	60
Iceland	1		
India	400		

[1] Denmark, Italy, Lebanon, Syria, and Turkey were to be admitted as members of the Fund and the Bank.

The subscriptions to the fund will be paid in gold and in the currencies of the members. The gold subscriptions will amount to 1.8 billion dollars, of which the United States will subscribe 687.5 millions. The currency subscription will amount to about 7 billion dollars, of which the United States will contribute 2.063 billions.

Members are required also to furnish information on the following matters (quoted from Department of State Publication No. 2512, U. S. Government Printing Office):

i. Official holdings at home and abroad, of (1) gold, (2) foreign exchange.

ii. Holdings at home and abroad by banking and financial agencies, other than official agencies, of (1) gold, (2) foreign exchange.

iii. Production of gold.

iv. Gold exports and imports according to countries of destination and origin.

v. Total exports and imports of merchandise, in terms of local currency values, according to countries of destination and origin.

vi. International balance of payments, including (1) trade in goods and services, (2) gold transactions, (3) known capital transactions, and (4) other items.

vii. International investment position, i.e., investments within the territories of the member owned abroad and investments abroad owned by persons in its territories so far as it is possible to furnish this information.

viii. National income.

ix. Price indices, i.e., indices of commodity prices in wholesale and retail markets and of export and import prices.

x. Buying and selling rates for foreign currencies.

xi. Exchange controls, i.e., a comprehensive statement of exchange controls in effect at the time of assuming membership in the Fund and details of subsequent changes as they occur.

xii. Where official clearing arrangements exist, details of amounts waiting clearance in respect of commercial and financial transactions, and of the length of time during which arrears have been outstanding.

But how does a member receive aid from the Monetary Fund? Let us take a practical case. Let us assume that a certain country, say Country A, is importing more than it is exporting; consequently, its *"out payments"* will exceed its *"in payments."* In other words, Country A will face a lack of foreign exchange, caused by the excess of its foreign purchases over its foreign sales. This means that it will need foreign exchange to meet the difference. At first Country A must use its own reserves of gold and exchange, but once these means have been partly exhausted it can use the facilities of the Monetary Fund to stabilize its condition. The Fund accomplishes its part by selling from its resources of foreign exchange the currency Country A needs to balance its economy.

The Monetary Fund also provides a way to alter the country's exchange rates, intended to correct a balance of payments. This depreciation will be used not as a device for gaining advantage in international trade, but to eliminate any possible ill effects on the other members of the International Monetary Fund.

One of the main features of the International Monetary Fund is that members must establish the par values of their currencies based on the prevailing exchange rates. The currency must be kept stable within one per cent of parity; and this parity cannot be changed before consulting with the Fund. Such changes when requested will be intended to correct a fundamental disequilibrium. The Fund, however, allows a member to change the parity up to ten per cent, but it is felt that such changes will be reported beforehand to the Fund.

Exchange Restrictions

Exchange controls were the natural outcome of the economic dislocations that took place in 1930 or thereabouts. In Latin America, for example, exchange controls have become an integral part of the financial systems of some countries. From their own local viewpoints, exchange controls meet their necessities and have assisted these republics to weather severe economic and social crises. From the point of view of the exporter and those who advocate free markets, exchange controls are barriers that not only obstruct the flow of goods, but often become discriminatory and unfair.

One of the main objectives of the Monetary Fund is to eliminate all exchange controls within a prescribed period. Furthermore, once these restrictions have been removed, the members undertake not to impose any contols without the approval of the Fund.

Charges

Any member that wishes to buy foreign exchange from the International Monetary Fund with its own currency must pay for each purchase a fixed service charge that will amount to three fourths of one per cent. If the charge is altered by the majority of votes, the charter of the Fund prescribes that it will never go below one half of one per cent. Whenever a member buys exchange beyond its quota, additional charges will be levied on the member.

Scarce Currency

In discussing the question of exchange in Chapter XII, it is pointed out that at times a currency, say the dollar, becomes scarce. This condition, it is explained, is due to the fact that the country, the United States, is selling larger amounts than it buys abroad, thus bringing a scarcity of dollars. Under such conditions there is the danger that the increased demand for dollars may start a scramble to obtain this needed currency. In that case, two things will be done: first, the Fund will study the conditions and issue a report; second, if the Fund's holdings of that particular currency, the dollar, are also low, the Fund will then request the member concerned, the United States, to sell dollars for gold. If the

demands on the Fund are so great that it is unable to supply the needed dollars, the Fund will then apportion the dollars to the members who have applied for them, and the members will then limit their transactions in the scarce currency, in this case, dollars.

The aim of the Fund is to avoid the development of a shortage of any currency. Whenever such a shortage occurs, it is obvious that in the end the Fund must re-establish a balance between the country's exports and imports.

Withdrawal from the Fund

Members may withdraw from the Fund any time they wish to, by giving notice in writing to the Fund.

If a member fails to perform its obligations in accordance with the agreement, it will forfeit its right to use the facilities and resources of the Fund. If the member disregards this disciplinary measure and fails to adhere to the regulations of the Fund, then the member will be required to withdraw.

The head office of the International Monetary Fund is located in the United States, and there will be agencies or branch offices established throughout the world.

International Bank for Reconstruction and Development—Its Aim

As has been stressed, the aim of the Monetary Fund is to stabilize the currencies of the world and, when necessary, permit the members of the Fund to obtain their requirements for foreign exchange to overcome any scarcity in any foreign currency. This procedure in practice represents the extension of short-term credit facilities to members who need such assistance.

The International Bank for Reconstruction and Development, on the other hand, is intended to stimulate and promote the development of long-term financing. It can be said, therefore, that these two institutions complement each other and, consequently, must grow together and direct their assistance toward the same goals: the elimination of obstacles that hinder the free flow of goods and capital all over the world, and the revival of international trade.

The natural question to ask is: how will the Bank help to accomplish these aims; and the answer is twofold:

1. By extending direct loans to the members of the Bank.
2. By guaranteeing loans extended by private institutions and investors to the members of the Bank.

The purpose of the bank, as stated in *International Bank for Reconstruction and Development*, Department of State, Publication 2511, U. S. Government Printing Office, Washington, D. C. is:

i. To assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the

restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries.

ii. To promote private foreign investment by means of guarantees or participations in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources.

iii. To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labor in their territories.

iv. To arrange the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent projects, large and small alike, will be dealt with first.

v. To conduct its operations with due regard to the effect of international investment on business conditions in the territories of members and, in the immediate post-war years, to assist in bringing about a smooth transition from a wartime to a peacetime economy.

The Capital of the Bank

The members of the Bank shall be the same members as those of the International Monetary Fund.

The authorized capital shall be 10 billion dollars in terms of the United States dollar. The capital stock is to be divided into 100,000 shares with a par value of $100,000 each. The shares will be sold only to subscribers. The subscription is divided into two parts, as follows: (1) 20 per cent to be paid as soon as called (to permit the Bank to start its operations); (2) the balance, or 80 per cent, to be paid when needed by the Bank.

The subscriptions will be paid as follows:

1. Two per cent of the price of each share shall be payable in gold or United States dollars; the balance, or 18 per cent shall be paid in the currency of the member nation.

2. The other 80 per cent, when called, will be made in gold, in United States dollars, or in the currency required to discharge the obligations of the Bank.

The quotas that the member nations must subscribe are:

Country	*Subscription* (Millions of Dollars)	*Country*	*Subscription* (Millions of Dollars)
Australia	200	India	400
Belgium	225	Iran	24
Bolivia	7	Iraq	6
Brazil	105	Liberia	.5
Canada	325	Luxembourg	10
Chile	35	Mexico	65
China	600	Netherlands	275
Colombia	35	New Zealand	50

Country	Subscription (Millions of Dollars)	Country	Subscription (Millions of Dollars)
Costa Rica	2	Nicaragua	.8
Cuba	35	Norway	50
Czechoslovakia	125	Panama	.2
Dominican Republic	2	Paraguay (Increased to 3.5)	.8
Ecuador	3.2	Peru	17.5
Egypt	40	Philippine Commonwealth	15
El Salvador	1	Poland	125
Ethiopia	3	Union of South Africa	100
France (Increased to 525)	450	Union of Soviet Socialist Rep.	1,200
Greece	25	United Kingdom	1,300
Guatemala	2	United States	3,175
Haiti	2	Uruguay	10.5
Honduras	1	Venezuela	10.5
Iceland	1	Yugoslavia	40

Loans and Guarantees Made by the Bank.

The Bank, as pointed out, is allowed to make loans or guarantee them, provided such loans or guarantees are extended to the members of the Bank. The conditions under which the loans or guarantees are to be extended are as follows: [2]

i. When the member in whose territories the project is located is not itself the borrower, the member or the central bank or some comparable agency of the member which is acceptable to the Bank, fully guarantees the repayment of the principal and the payment of interest and other charges on the loan.

ii. The Bank is satisfied that in the prevailing market conditions the borrower would be unable otherwise to obtain the loan under conditions which in the opinion of the Bank are reasonable for the borrower.

iii. A competent committee has submitted a written report recommending the project after a careful study of the merits of the proposal.

iv. In the opinion of the Bank the rate of interest and other charges are reasonable and such rate, charges and the schedule for repayment of principal are appropriate to the project.

v. In making or guaranteeing a loan, the Bank shall pay due regard to the prospects that the borrower, and if the borrower is not a member, that the guarantor, will be in position to meet its obligations under the loan; and the Bank shall act prudently in the interests both of the particular member in whose territories the project is located and of the members as a whole.

vi. In guaranteeing a loan made by other investors, the Bank receives suitable compensation for its risk.

vii. Loans made or guaranteed by the Bank shall, except in special circumstances, be for the purpose of specific projects of reconstruction or development.

All loans granted must stipulate the currency in which payment is to be made, and the Bank will insure itself that the loan is used for the

[2] Quoted from *International Bank for Reconstruction and Development,* Department of State, Publication 2511, U. S. Government Printing Office, Washington, D. C.

purpose for which it was granted. Furthermore, if the member nation finds it impossible to meet the conditions of the loan, the member is free to apply to the Bank for a relaxation of the conditions of payment.

If, for example, the loan was made in dollars, and the borrower lacks this currency, it can then be arranged to make payment in the currency of the borrower for a period of time not exceeding three years. The Bank may also modify some of the terms of the loans or extend the life of a loan.

When the borrower, whether the government, or a corporation, can obtain a loan from investors on reasonable terms, the Bank will not concern itself with such a loan. If the loan cannot be obtained, then the Bank is free to grant the loan or to guarantee it. If the borrower is not a central bank, then the loan must be guaranteed by the government or the central bank.

Requests for loans and guarantees will be investigated by a committee of the Bank, which will also make recommendations concerning the requests. The approval of a loan must rest, not only on the capacity of the borrower to pay, but on the basis of the reasons given below:

1. The loan cannot be obtained from investors in the open market.
2. The loan is intended for some specific productive project.
3. The borrowing country will be in a position to benefit by the loan.
4. The terms of the loan are reasonable and appropriate.
5. The borrower cannot obtain the loan even after the Bank agrees to guarantee it.

Once the loan is granted the Bank will take all necessary measures to see that it is properly used to meet the actual expenses of the project for which the loan was extended.

In case of default on loans granted, participated in, or guaranteed by the Bank (*International Bank for Reconstruction and Development,* Department of State, Publication 2511, U. S. Government Printing Office, Washington, D. C.),

a. The Bank shall make arrangements as may be feasible to adjust the obligations under the loans.

b. The Bank will proceed to meet its payments under continued liability.

Charges

The Bank is free to determine the interest rate, the amortization payments, the maturity, and the commission to be charged with each direct loan. The rate of commission to be charged by the Bank shall be between one and one and one-half per cent for the first ten years of the Bank's operation. After ten years the rate of commission may be reduced if the accumulated reserve justifies the reduction.

Organization and Management

The Board of Governors will consist of 44 members, one from each member nation. They will meet annually, but other meetings will be called when needed. There will be an Advisory Board of seven or more representatives drawn from the field of banking, commerce, industry, labor, and agriculture.

The head office of the Bank will be in the United States, and regional offices may be established in other countries.

The day-to-day business of the Bank will be carried on by the president, the officers, and staff, and by the loan committee appointed by the executive directors.

There will be 12 executive directors. The United States, the United Kingdom, the Union of Soviet Socialist Republics, China, and France, each appoint one. The other seven will be selected by the governors of the other 39 countries on the basis of proportionate representation.

Voting for the Board of Governors will be based mainly on the amount of subscription. Each member will have 250 votes plus one vote for each share of stock subscribed to by his country. The United States will have 32 per cent of the votes, the British Commonwealth 25 per cent, and Russia 12 per cent.

The Export-Import Bank of Washington

In the previous discussion, attention was called to the efforts this country has made to revive the world's trade. Through long months of labor, the United States brought together many nations with the aim of establishing the means to stabilize the currencies of the world, thus making possible the interchange of goods and services among nations, and created the International Bank with the purpose of helping to rehabilitate the productive capacities of the member nations of the Bank.

Not satisfied to assist in the reconstruction of trade throughout the world, the United States has also taken steps to vitalize and develop the foreign commerce of this country.

Chapter IX presents in detail the various services developed by the Department of Commerce, the Department of State, and the Department of Agriculture in the endeavor to assist the foreign trade of this country. But although these branches of the government have extended valuable help to American businessmen, they are not sufficient in themselves to enlarge in a practical form the foreign commerce of this country.

In order to fill this gap, therefore, the United States Government created a way to assist in some measure, and in a practical manner, the financing of its foreign trade, by establishing the Export-Import Bank of Washington.

The bank was originally established in 1935, and by an Act of Congress, dated 1945, it was made into a permanent agency.

The purpose of the bank is to aid "the financing and facilitating of exports and imports and the exchange of commodities between the United States or any of its Territories or insular possessions and any foreign country or the agencies or nationals thereof."

The Act of 1945 gives the bank powers to do "a general banking business and to make practically any type of loan, without limitation as to the amount of loans to any one borrower."

Its capital stock is one billion dollars, supplied by the United States. The bank is also authorized to borrow from the Secretary of the Treasury. The earnings of the bank will also provide an additional source of funds.

The bank's principal aim is to promote international trade, to assist in the development of exports and imports. To accomplish this, it guarantees or makes loans that will permit the financing of foreign trade or projects in other countries. The loans are granted for specific purposes. In other words, the bank assures itself that the funds advanced are used for the project for which the loan was accepted, the project that was originally set forth in the request. It also assures itself that the risk involved is not abnormal, and the borrower offers reasonable assurance that the loan will be liquidated as arranged.

Finally, in accordance with the wishes of Congress, the bank will not compete with private capital. The activities of the bank are entirely confined to assuming certain types of risks that private institutions do not care to absorb without the assistance of the Government.

The bank finances exports from the United States, imports into the United States, and will also assist in financing technical services in the United States that will facilitate the export of tangible commodities.

The financing of exports will include the following types:

1. Credits intended for individual United States exporters which will assist in the distribution in foreign countries of specific materials or equipment.

2. Credits extended to foreign governments, foreign commercial houses or banks to be available for a definite period of time, for the purchase in the United States of specific materials, equipment, or services.

There are certain things the bank is not allowed to do:

1. The bank must not compete with private banks. Therefore if the exporter can finance his business through his own bank, the Export-Import Bank will not extend its facilities to such exporter.

2. The bank cannot purchase stock in another corporation.

3. The bank is forbidden to make lump sum advances to be used by the borrower as he sees fit.

4. The bank is not permitted to finance business between this country and its possessions or Territories.

Those wishing to apply for credit from the Export-Import Bank may

do so by writing to it in Washington 25, D. C. It would be far more practicable, however, for the seeker of credit to address his request through his own commercial bank. The application should include the following information:

1. The type of commodity to be financed.
2. The name of the country where the service will be rendered, or to which the goods or equipment will be shipped.
3. Statement that the borrower's bank is not in a position to finance the transaction in question.
4. Amount of the credit needed and the terms required.
5. Complete trade and bank references.
6. Comparative balance sheet and profit-and-loss statement for the preceding three years.
7. Brief history and experience, as well as information about the purchaser.
8. Name of the guarantors, if a guaranty is needed.
9. Any other additional information that will assist the bank in considering the request for credit.

Requests for credit from foreign governments are not within the scope of this study. In passing, it might be said that any government wishing to borrow from the bank must apply through its embassy or legation. The applicants must submit the following information:

1. The purpose for which the credit will be used.
2. Reasons for requesting the loan.
3. The amount of credit and the terms of repayment.
4. State of the external assets of the country, such as gold and foreign exchange holdings.
5. Production of gold of the country.
6. Outstanding obligations of the country and commitments.
7. The interest and amortization that the country must meet every year against outstanding loans.
8. An analysis of the country's balance of payment.

In other words, the information submitted to the bank must be of such a favorable nature that it justifies the credit requested. Furthermore the bank must receive assurance that the country will have sufficient dollars available to meet its obligation when it falls due.

The Export-Import Bank also extends its services to small business men, by granting a revolving credit available for a limited period of time, usually a year, and upon "presentation for discount by the bank through its agent bank of drafts on approved foreign purchases." This means that if an exporter wishes to use the facilities of the Export-Import Bank, he applies through his own bank for a revolving credit which will be on the basis of discounting foreign bills of exchange up to a certain amount. The bills are discounted at the exporter's bank; however, the

Export-Import Bank guarantees the full performance of the transaction.

The Export-Import Bank agrees to such a revolving credit if the exporter's bank is not able, or does not care, to assume the risk of making advances against the exporter's foreign bills.

The arrangement might specify that the Export-Import Bank accepts for discount up to 75 per cent or less of the bills, and the exporter's bank may agree to advance the balance.

The Three Patterns in World Trade

After the second world war, three different patterns appeared to emerge, as far as foreign trade is concerned. This emergence had nothing to do with political thoughts, social trends, or high-pressured diplomacy. One is almost tempted to state that the three patterns of international commerce were the natural outcome of circumstances affecting the whole world. They represent in a general way the present tendency of thought concerning international trade.

1. The first pattern here considered is that of isolated Russia, a vast nation extending from the Balkans to the Asiatic waters, almost self-sufficient, and now pushing its way beyond its prewar boundaries to embrace, directly or indirectly, Finland, Latvia, Estonia, Lithuania, Poland, Czechoslovakia, Hungary, Rumania, Bulgaria, Yugoslavia, and Albania. Among other things, this country aims to become more self-sufficient than ever before.

It is true that previous to the last war Russia imported goods and that for some time it will continue to import; but the terms and conditions will be strictly regulated by the policies set by Moscow.

Since the establishment of its present form of government, Russia has conducted its foreign trade (as explained on page 323) through the State. To be more explicit, several agencies were created for the purpose of dealing with foreign nations. Sales made by this country to Russia are not dealings between an American exporter and a Russian importer. The American seller deals with the Russian government through its agency, which is located in this country. If Iselin Jefferson & Company, for example, wish to sell Russia a textile mill, they must deal with Amtorg, which represents the Commissariat of Foreign Trade in the United States.

The terms of sale as a rule are: (a) payment on presentation of shipping documents, which could be the commercial invoice and railroad bill of lading, or the customary papers issued by steamship companies, and the other documents required by the United States and the Russian Governments; (b) payment against letter of credit; (c) long-term transactions subject to commercial negotiations and agreements.

It will be the tendency of Russia to direct all of her future efforts to absorb as much as possible of the production of the nations that are

within its orbit, and also to satisfy their needs for foreign products. This trade must be carried on in only two ways; that is, it must be financed, or it must be conducted on the basis of barter. At any rate, one is tempted to surmise that Russia will endeavor to conduct its commerce according to some plan previously arranged in Moscow.

Whether Russia will accept the new plans for foreign trade, thus eliminating the bilateral arrangements it has concluded with other neighboring nations is quite hard to say. Nevertheless, the United States continues to seek Russia's co-operation in establishing multilateral agreements permitting the free interchange of goods and services.

2. The second pattern in world trade is represented by the United Kingdom, its Dominions and Colonies, as well as by those countries, such as Argentina, Norway, Portugal, and other nations, that are included in what is known as the *Sterling Area* (discussed on page 225).

The existence of the Sterling Area is the outcome of war conditions. Within this sphere, London stands as the guardian and manager of the economic fate of several nations. But what is there objectionable in this system? India, for example, cannot exchange into dollars any of the huge balances it has in London that would permit it to buy goods in the United States. India must ask London for the dollars it needs, in spite of the fact that the United States buys large quantities of goods from India—a situation that would, under normal conditions, permit that country to buy from us.

In other words, at the present time England is functioning under war arrangements, which control exchange transactions. It uses also the preferential arrangement made with the countries that composed her empire and the bilateral agreements that were made with Argentina before the last war.

It is true that England is giving support to the policies outlined by the United States to free world trade from all barriers, and no doubt will uphold her promise to eliminate as soon as possible the practices that represent prewar days.

3. The third world of trade, represented by the United States, holds the opposite of Russian ideas about foreign commerce. The American sphere, it can be roughly said, includes the West Indies, Mexico, Central and South America with the exception of Argentina. In the east may be included the Philippine Commonwealth, China, as well as other islands and territories located in the Pacific area. Within this sphere flows about 20 to 25 per cent of world trade.

It is the aim of the United States to remove all barriers from international trade, permitting the nations of the world to deal with each other without any interference or hindrances.

The foreign credit man, as he considers business abroad, must take into consideration these three worlds. He will, no doubt, see some sort

of struggle among them in their effort to capture the trade of those regions such as the Middle East, Australia, New Zealand, and so forth, which are more or less beyond their influence. In these circumstances, he must be alert and adopt those policies which are in accordance with the prevailing conditions. He could not very well extend credit to Egypt, for example, in the same manner that he extends credit to El Salvador or Puerto Rico. His policy with Egypt must be more conservative than with the latter two.

As these patterns began to emerge, other trends started to take shape in the minds of the officials in other countries. One of them is known as the *Customs Union.*

Customs Union

The idea of Customs Union has been discussed from time to time among small nations so situated geographically that it is possible for two or more nations to work out a plan to achieve mutual benefits. The aim of the Customs Union is to blot out state boundaries with the purpose of creating a solid, well-integrated, economic union. Back in 1922 Belgium and Luxembourg created such a unit.

The success of this union prompted the Netherlands to plan a similar understanding to serve three countries: Belgium, Luxembourg, and Holland. Their aim is to attain a well-knit economic unit that might replace the economic influence Germany exerted in Europe and the world before World War II. This plan is in its preliminary stage of formation. Several obstacles must be overcome, among which are social and religious prejudices.

The characteristics and aims of all Customs Unions are the same:

1. The elimination of tariffs between the members of the union.

2. The enactment of one common tariff system by the members of the union to replace the tariffs each one of the members had for trading with other nations.

3. The integration of their economies in order to achieve a complete economic union.

These aims must be carried into effect by stages. First the members enact tariffs that will apply only within their own territories. Then they proceed to evolve a system of tariffs for trade with other nations. Last of all the members take further steps to become a unified economic community.

The establishment of these unions will result in a lowering of duties on United States goods. It will also stimulate other adjoining countries, such as Italy and Austria, to plan similar integrations of their national financial interests. It is conceivable, too, that in South America such plans could materialize: for instance, Venezuela, Colombia, and Ecuador could readily form a Customs Union. Central America could adopt a

similar plan, which undoubtedly would not only strengthen its economic future, but also stabilize its political governments.

The International Trade Organization

It has been previously stressed that the Monetary Fund directs all its efforts toward stabilizing the currencies of the world, whereas the International Bank is concerned with the idea of reviving, by means of financial aid, the productive capacities of the nations of the world, especially those whose industries were destroyed during World War II.

There are also other agencies which deal with food and agriculture, with aviation, labor, and so forth; but there is no organization striving to avoid unemployment or working to create a practical means of eliminating trade barriers and discrimination, which are obstructing commercial expansion all over the world.

It is the aim of the International Trade Organization, put forward by the United States, to reach those goals. In fact, this country is so anxious to do away with all forms of restriction that it has already submitted for the consideration of other nations the Charter of the above-named organization.

Its general purposes are:

1. To promote the maintenance of employment.
2. To work toward the final elimination of regulations and barriers obstructing world trade, regardless of whether such barriers have been imposed by governments or private oganizations.
3. To establish, under acceptable rules, the negotiation for intergovernmental commodity agreements.
4. To create permanent international machinery for consultation and collaboration in trade matters.

Employment. The Charter realizes that it is essential for every nation of the world to achieve full employment. To that effect it advocates that each member agree not only to maintain full employment within its own state, but to avoid establishing any domestic measures that would create unemployment in other countries. The Charter also proclaims that each member of the organization collect, analyze, and exchange information on employment problems, and consult regularly on these problems with the other members.

General commercial policy. It is the aim of the Charter to reduce, and finally to eliminate when possible, governmental barriers obstructing international trade, among which are:

1. *Trade regulations.* It is the object of the Charter to establish equal treatment in trade by eliminating or regulating various administrative devices hampering foreign commerce and by publishing and giving advance notice of any regulation that is to be enacted by members aiming to restrict trade.

2. *Tariffs and preferences.* The Charter requires immediate considera-

tion of measures leading toward reciprocal negotiations for the reduction of tariffs and the elimination of import tariff preferences. The Charter permits the modification of tariffs, and is willing to grant other cases where the member's domestic producers are seriously injured. It prohibits agreements with nonmembers and prevents members from extending tariff concessions to nonmembers. It permits special advantages to promote frontier traffic and Customs Unions.

3. *Quotas.* The Charter desires the elimination of quotas and embargoes on trade; however it permits them for agreed purposes and under well-defined circumstances.

4. *Exchange restrictions.* One of the most important objectives of the Charter is to remove all exchange restrictions. Whenever they are allowed, they shall be permitted for agreed purposes and under certain defined conditions, and shall be revoked as soon as possible.

5. *Injurious subsidies.* All subsidies affecting trade in general are to be reported to the International Trade Organization, and those considered injurious to international trade will be studied with the purpose of limiting them.

6. *State monopolies.* All state trading enterprises are to be operated in a nondiscriminatory manner. When a member exerts a state monopoly on any one product, that member should agree to negotiate for the reduction of the protection extended to domestic producers. In cases where the State has complete state monopolies over all foreign trade, it agrees to maintain total imports of all products at a level to be negotiated periodically.

Commodity arrangements. The Charter, when drawn, recognized the difficulties each nation must face, among which are world surpluses of various commodities. Under such unavoidable circumstances, the Charter permits the adoption of intergovernmental commodity agreements to regulate production, trade, and prices. However, although these concessions are granted, the organization requests that such agreements be consistent with certain objectives; and asks the members that any agreement reached must also fulfill certain specific conditions.

If commodity agreements are necessary they would be acceptable only:

1. To enable countries to solve financial or other difficulties caused by surpluses. However, the agreement should not be unilateral, for such action might create embarrassment or difficulties in other countries. Whenever any commodity agreement is negotiated, it should take into consideration the interests of other nations.

2. To avoid serious distress to producers or labor caused by surpluses.

3. As a means leading toward a working arrangement, and only for a limited period. During this period of transition, however, measures will be taken by the member toward increasing consumption of the surplus product, and the member nation will also initiate a program toward creating a more varied economy.

Furthermore, it is required of the members concerned—that is, the parties to the commodity agreement—that they plan a satisfactory economic adjustment leading to the discontinuance of the agreement.

Membership. The Charter provides for two general types of member. The original members will be those nations that are represented at the initial International Conference on Trade and Employment, and that accept the Charter by a certain due date. The second type of member will be designated as "other members," and will be those accepted for membe ship in the International Trade Organization after it has been formed.

An Inter-American Bank (A Possibility)

At various times in the past, representatives from North and South America have discussed the idea of establishing an Inter-American Bank. If this bank is created, its function will be somewhat similar to the more or less defunct Bank for International Settlement. However, it will have, it is hoped, wider and more diversified powers than the latter.

In accordance with the latest suggestions, this new bank will fulfill four main functions:

1. It will facilitate the flow of investments and funds to countries that need them to develop their industries and any other valid commercial enterprises. These advances will be made to the governments or their agencies on a long-term basis.

2. The loans will be granted directly by the bank to the governments of the nations of this hemisphere. The bank will also have the authority to guarantee obligations assumed by these governments through private banks or individuals. These obligations will be in the nature of bonds sold to the public in general.

3. The bank will also aim to facilitate payments among the nations of the Western Hemisphere. This function will of course hasten the liquidation of frozen balances and will assist in discontinuing the systems of exchange controls and bilateral arrangements.

4. This institution will direct its efforts toward establishing currency stability throughout the Western Hemisphere. This will be accomplished by rediscounting commercial papers for the Central Banks of those republics facing adverse balances of payments.

The goal of this bank appears to be the same as that of the International Bank for Reconstruction and Development initiated at the Bretton Woods Conference, although the Inter-American Bank will function only within the Western Hemisphere.

The Stock Exchange and Foreign Trade

As time passes, the belief grows more and more that the permanent stabilization of trade among nations will undoubtedly be one of the

healthiest influences toward the elimination of most of the world's disturbances. In this chapter have been outlined some of the various plans and policies, advocated or defended by this country, tending to improve commercial relationships throughout the world.

It is felt also that any of the policies set forth, or any of the agencies that are functioning now, or that are to start operating in the near future, will succeed in achieving their purposes only if the United States participates wholeheartedly in these endeavors. The reason for such belief rests in the obvious fact that this country is a large economic unit possessing tremendous financial resources and any multilateral commercial arrangement could not very well function without the effective use of the economic and financial means of this nation.

It is certain that this country has directed its efforts toward the permanent establishment of free trade among all the countries of the world regardless of their political or social affiliations.

This chapter has outlined the various agencies that the United States has proposed or backed, aiming to establish a more free world trade. To assist further in achieving this goal, the New York Stock Exchange has broadened its requirements for listing foreign securities. One purpose of this policy is to encourage the industries of other countries to seek investment capital in this country and also to facilitate the flow of American capital to other countries.

It can be added, too, that this policy does not intend to obtain control of foreign industries. To be sure, foreign countries are on their guard against the excessive inflow of capital seeking to gain possession of this or that commercial endeavor. Whatever investments are made will be made in partnership with native capital.

What does this policy mean to the foreign credit man? First of all, it develops or aids in developing and enlarging the productive capacities of foreign countries. It helps to increase their national incomes, and also creates good will among nations.

Furthermore, the Stock Exchange has always been to the foreign credit man an indicator pointing to the conditions of the country. If, for example, the issues of stocks and bonds of industrials located abroad, as well as the foreign government's own bonds, register a pronounced drop in price, it may be taken as a sign that the general financial condition of that particular nation is not very encouraging. If, on the contrary, these types of issue show strength, or their prices climb, such a tendency would indicate, of course, that the financial condition of that country is in a sound condition.

CHAPTER III

THE FOREIGN CREDIT MAN

Why The Foreign Credit Man?

In the past it has been the practice among exporting houses to delegate all authority relating to credits to the Export Manager. His knowledge, it was argued, qualified him for such responsibility. Even today, the domestic credit man prefers to be relieved of the duties of checking foreign credits.

The logical conclusion seems to be that because of the striking dissimilarity between domestic and foreign credits, the person in charge of foreign credits should be especially trained to perceive and appreciate the complexity of the problem.

As already pointed out, the principles governing all credit transactions are identical; yet the application of these principles to the problem of foreign credits is affected by circumstances whose parallel does not exist in domestic credits.

It was the custom of a well-known credit manager, whenever he was approached for a decision on some foreign problem, to remark amusedly: "Let me transport myself to that foreign land." This attitude must be observed religiously. The foreign credit man must think in terms applicable to foreign credits. Briefly, he must enlarge his views to cope with the new situation.

The Objective of the Foreign Credit Man

The most important function of the credit man is to reduce losses to a minimum. This does not mean that all prospective buyers are to be refused unless they enjoy a high rating and an excellent business record. Indeed, if the credit man exists at all, it is mainly for the purpose of properly adjusting relations with the buyers who do not come within the category of first-class merchants, but who at the same time deserve some credit consideration.

The foreign credit man must also co-operate with the merchandise department in developing a sound sales policy. The first step in that direction is to estimate the purchasing power of each country where goods are to be sold.

In analyzing the market, the main objective is not to study the size of its population, but to determine its capacity to consume goods. It is worth remembering one rule: each foreign market can safely import only a certain quantity of a particular product.

The second step is to study the importer's point of view, his tastes, and his customs. The nationality of the buyer will give us an insight into his native habits.

Since each country has within its boundaries distinct population groups, it is essential to analyze the commercial potentialities of each group, and the social and economic influence each exerts on the community as a whole.

Qualifications of the Foreign Credit Man

1. **Imagination.** Not the imagination that dreams but the imagination that supplements observation, and that will permit the credit grantor to visualize reality often obscured by existing conditions. It is the ability of the mind which assists the foreign credit man to draw a conclusion from the disconnected facts he has gathered.

2. **Courage.** The quality that is responsible for the firmness of character, the strength that gives confidence, and the convictions that permit one to be fair and honest.

3. **Analytical or critical mind.** The capacity to discriminate, thus setting a scale of values. In other words, it is the faculty to arrange facts in accordance with their importance.

4. **Courtesy.** The ability to create close contacts, which will result in a feeling of understanding. It is the rare quality of dealing with the truth gracefully.

5. **Ingenuity.** The capacity to be inventive and resourceful; to possess the skill to devise methods that will overcome obstacles. Perhaps no other quality is so important in export business.

6. **Education.** This chapter was opened by stressing that, in foreign trade, the qualifications possessed by the experienced domestic credit man are not sufficient to enable him to handle foreign credits. It is not suggested that he should discard his knowledge and experience, but that he should enlarge his views by studying those subjects related to the fascinating question of international trade. The topics with which he should familiarize himself are:

Law. Although it is quite impossible to acquire any degree of proficiency in such a complicated and vast subject, nevertheless it is of paramount importance to study some of the principles regulating commercial dealings with foreign merchants.

Economics. This subject deals primarily with the question of wealth in all its manifestations. Within its confines the foreign credit man will find the meaning of balance of trade and its effect on foreign business,

the workings of foreign exchange, the meaning of credit, and the value of money. Its study will also reveal the various elements composing the financial system of a nation, and the functioning of the system. The reader will profit by spending some time studying any of the standard texts[1] dealing with the subject of economics, and also with the more important problem of foreign exchange.[2]

Languages. Nothing delights a foreign buyer more than to hear a stranger speaking his own tongue. He immediately feels confident. Through this medium of language a common ground may be reached. Besides, the trader takes this linguistic ability as a positive proof of the exporter's interest in him, his business, and his country. Such accomplishments are also accepted as a sign of a man's efficiency, which is always admired.

The foreign credit man must keep in close contact with the trend of the markets. He must follow economic developments as they take place in the countries to which he sells. The domestic and foreign periodicals, banks' reviews, and the reports rendered by foreign agents will give a wealth of information. The publications distributed by the central banks of foreign countries also contain information of unequalled importance, and are of indispensable value to the foreign credit man.

To name a few of these publications: Lloyd's Bank, Ltd., and the Barclay Bank, both in London, England, issue a monthly review; The Banco de la Republica, Bogotá, Colombia, and the Banco Central de Chile, Santiago, Chile, publish a monthly bulletin; and, in this country, the National City Bank, The Guaranty Trust Company, and the larger banks of the nation distribute without charge a monthly report dealing with the commercial situations here and abroad.

On the following page is reproduced the beginning of a report issued by the Banco Central de Chile, Santiago, Chile, dealing with the credit and the business conditions of the country.

Commercial geography. The aim of commercial geography is not only to reveal the physical aspects of the world in general, but also to disclose the distribution of the basic commodities of nations, trade routes, and the interdependence that exists among countries.

This subject will show the foreign credit man the latent or active wealth within the confines of each nation, the manner in which it exists as a commercial unit, and its economic importance.

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[1] The following texts are recommended: Deibler, F. S., *Principles of Economics*, New York: McGraw-Hill Book Company, Inc.; Fairchild, Furniss, and Buck, *Elementary Economics*, New York: Macmillan & Company; Meyers, A. L., *Elements of Modern Economics*, New York: Prentice-Hall, Inc.; Enke & Salera, *International Economics*, New York: Prentice-Hall, Inc.

[2] Escher, Franklin, *Modern Foreign Exchange*, New York: Macmillan & Company; Southhard, Swart, and Gentes, *Foreign Exchange Practice and Policy*, New York: McGraw-Hill Book Company, Inc.; Whitaker, A. C., *Foreign Exchange*, New York: D. Appleton & Company.

The map habit. Travel books could supplement the foreign credit man's knowledge of commercial geography. Through them he may learn to understand the human side of a country and its people.

To check foreign credits without knowing the market's geographical position is like mailing a letter without an address. The foreign credit man would therefore be wise to study the geographic and economic map that hangs on the wall, looking from time to time for the ports of entry, the principal cities, the country's products, and the country's imports. With these data in mind, it will be possible to visualize the market and its potentialities, which are, in reality, what interest the credit grantor.

For the credit man, his interests in maps is primarily to acquaint himself with certain geographical facts affecting foreign trade and, consequently, foreign credits.

It is confusing to pore over tables stressing the wealth, population, climate, products, communications, and other facts concerning any one nation; but if a map presents these bare facts, so important in the checking of credits, it is obvious that at a glance the foreign credit man may see the geographical facts that concern him.

The First National Bank of Boston has issued a series of maps presenting the pertinent facts that the foreign credit man must know about each market. The information given may be summarized as follows:

Name of the country
Area
Population
Climate
Principal products
Principal cities
Currency
Form of government
Income per capita
Imports yearly
  Per capita
Exports yearly
  Per capita
Ports of entry

7. Desire to co-operate. The growing exigencies of modern business, which are natural to any competitive society, have pressed the domestic credit man to study more diligently than ever the actual buying power of each account. Thus it has become advantageous to approach each customer with an open mind, willing to weigh without prejudice the facts concerning the buyer's business. Unquestionably such close contact is of mutual value. For these self-evident reasons it is of paramount importance for the foreign credit man to approach the importer with a sincere desire to co-operate with him to the utmost and develop pleasant

Banco Central de Chile

Head Office - SANTIAGO

Agencies: IQUIQUE - ANTOFAGASTA - LA SERENA - VALPARAISO - CONCEPCION - TEMUCO - VALDIVIA - PUNTA ARENAS

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Monthly Report

on Credit and Business Conditions

MINING PRODUCTION in the aggregate, as disclosed by the index compiled by the Dirección General de Estadística, dropped from March to April by 14,6 per cent, i.e., from 105,7 to 90,3. The index also disclosed a decline of 3,2 per cent compared with the figure for April, 1945. The production of NITRATE, though it showed an increase in its daily average, decreased in its total for the month, from 146.008 tons in March last to 137.627 tons in April, due to there being less working days in the latter month. Compared with April of last year there was an increase of 41.607 tons. The output of bar COPPER fell from 36.803 tons in March last to 29.416 tons in April; production in April, 1945, amounted to 35.771 tons. The price of copper produced in the United States rose again at the end of May, from 12 cts. U.S.Cy. per lb. to 14 3/8 cts. U.S.Cy. The increase applies to those mining companies which have granted salary increases, pursuant to the agreements concluded in this connection, subsequent to the 14th February last. Copper from abroad is sold freely in the New York market at more or less the same price ruling for copper produced in the United States. The production of COAL rose slightly; the total for April at 167.585 tons was greater by 2.403 tons than the figure for March last, but was 4.940 tons lower than the total for April, 1945. The output of GOLD at 401 kilogrammes dropped by 283 kilogrammes, being also lower by 66 kilogrammes than the total for April of last year.

The index of WHOLESALE PRICES for April disclosed a fresh increase amounting to 2,1 per cent compared with March last and of 8,3 per cent compared with April, 1945. All the component indices advanced, with the exception of the index of mining products. The index of the COST OF LIVING also continued to trend upwards. At 459,8 in April it was 2,1 per cent higher than in the preceding month and 9,2 per cent higher than in April, 1945.

Our FOREIGN TRADE returns for the month of February (the latest figures available up to the time of going to press) showed a heavy drop in the value of exports and a pronounced increase in imports. Exports in January, totalling 99,8 million gold pesos, fell to 70,7 millions in February, due principally to a falling off in shipments of mining products. In comparison with the corresponding month of last year there was also a small decline of 3,8 million gold pesos. Imports amounted to 80 million gold pesos, being greater by 19,7 millions than the total for January last and by 26,2 millions compared with February of last year.

DEPOSITS in Chilean currency placed with the commercial banks registered in April the largest increase ever recorded in any one month. The rise, amounting to 289,6 million pesos, brought the total up to 5.471,1 million pesos, a figure higher by 1.338 millions than the total for the correspondig month of last year.

The National Savings Bank also showed an important increase under the heading of deposits, amounting to 181,6 million pesos, which caused the total to rise to 4.051,6 millions. Deposits in

Illustration 21. MONTHLY REPORT (Banco Central de Chile).

April, 1945, amounted to only 3.099,6 million pesos.

Approximately one-half of the increases registered in April figured under the heading of deposits made by the public. The totals of these deposits in the commercial banks and the National Savings Bank were 3.953,3 and 2.905,8 million pesos respectively.

The increase in ADVANCES in Chilean currency granted by the commercial banks in April was almost as great as that recorded in the previous month, i.e., 165,8 million pesos, and also arose from increased facilities accorded directly to the public. At the end of April the grand total of advances was 5.691,2 million pesos, which exceeded by 1.240 millions the figure for the corresponding month of last year.

Advances by the National Savings Bank, owing to increased operations carried out with the public, rose during April by 42,1 million pesos, to a total of 2.140,5 millions. In April, 1945, they amounted to only 1.873,2 million pesos.

Statistics on the CASH HOLDING of the commercial banks reveal that during the fortnight which terminated the 28th April the total cash holding of these institutions attained the highest level ever recorded, of 967 million pesos (including 192 millions in credit documents), a figure which exceeded the minimum legal cash holding by 64,3 millions. The total for the second half of March last was 921,1 million pesos (180,7 millions in credit documents) with an excess reserve of 55 millions.

Between the same fortnights the total cash holding of the National Savings Bank and the Caja de Crédito Popular increased by 11,4 million pesos, to 915,4 millions (including 211,7 millions in credit documents and 555,6 millions deposited with the commercial banks). The excess reserve over the minimum legal cash holding in turn rose slightly by 3,5 million pesos, to 277,8 millions.

The CIRCULATING MEDIUM ISSUED BY THE BANCO CENTRAL recorded a fresh increase. It rose from a daily average of 3.704,9 million pesos during the second half of March to 3.791,9 millions during the corresponding period of April. A year ago its total was 3.209,4 million pesos. As regards its distribution, increases were registered both in the part representing funds held by the public, which rose to 2.879,4 million pesos (75,9 per cent of the total) and in the amount held by the banks, which reached 912,5 millions.

On the other hand, current account deposits increased between the abovementioned fortnights by 150,9 million pesos, and also notes and coin in free circulation, by 62,5 millions, the respective totals rising to 5.499,3 and 2.667,1 million pesos. Consequently, the TOTAL AMOUNT OF CIRCULATING MONEY, composed of these items, for the fortnight which ended the 28th April, was 8.166,4 million pesos, compared with only 6.631,1 million for the corresponding period of last year.

According to the weekly statement of the BANCO CENTRAL dated 28th May, the total of note emissions and Chilean currency deposits placed with that institution (liabilities) rose to 3.819,4 million pesos, from 3.751 millions at the end of April. The increase arose principally from the new discounts of bills for sugar importers, which reached the limit authorised during the first half of the year, of 225 million pesos.

With an increase of nearly 10 per cent between March and April, the daily average of BANK DEBITS rose to 488,7 million pesos, and the average of documents passed through the clearing advanced to 281,8 million pesos.

Transactions in shares on the STOCK EXCHANGES again increased in value in April, totalling 128 million pesos as against 100,5 millions in March last and 101 millions in April of last year. Operations in bonds, which had declined to a total of 66,9 million pesos in March, increased again to 73,6 million pesos in April; compared with the total for the corresponding month of 1945 there was an increase of 15,7 million pesos. The general index of share quotations rose by 0,6 per cent in comparison with March last and by 5,7 per cent compared with April, 1945.

BANCO CENTRAL DE CHILE.

IMP. UNIVERSITARIA-ESTADO 63 - SANTIAGO DE CHILE

Illustration 21. (*Continued.*)

and mutually beneficial business relations. Daily the credit executive will be confronted with problems that would be beyond solution if from the very beginning of commercial relations a close contact with the buyers is not made effective.

In addition to this close relationship between buyer and seller, foreign business requires a similar intimacy among credit executives. The moral effect is unquestionable and avoids useless effort. In addition, the foreign credit men among themselves can eliminate unnecessary rivalry by agreeing to limit the terms and discounts to be extended to each market, by fixing the rate of interest to be collected from importers who do not pay their obligations at maturity, and by settling any other questions that may arise from time to time.

For self-protection every foreign credit man should co-operate with his colleagues in an intimate and friendly manner. A practical instance of this necessity is found when shrewd customers take advantage of some technicality and proceed to suspend payments. Such practices can be avoided only through concerted action reached through co-operation.

8. *Good Will.* No one will dispute the desirability of an immediate move toward creating and maintaining friendly relations with foreign buyers, especially with South American importers. It is a characteristic of South Americans to feel grateful for any consideration shown. In fact, they consider it a moral duty to reciprocate for any kindness or distinction extended to them. Whenever the opportunity arises, therefore, it will be most helpful to cultivate this valuable asset of friendliness. Sooner or later it will develop into a profitable business asset.

No one will contradict the fact that each nationality possesses certain native qualities that must be respected and accepted when dealing with it. It should be the foreign credit man's aim to understand and adjust his policies to conform to those characteristics. Finally, he should accept the principle that no single people have a monopoly on good or bad qualities.

9. Knowledge of the market. Although the foreign credit man should have a fair knowledge of the commercial geography of a nation, it would be unreasonable to expect him to be thoroughly acquainted with the prevailing conditions in some remote province or district in Ecuador or Bolivia, far away from the commercial center. On the other hand, it is his duty to know the general conditions of each nation, especially of the one with which he is dealing actively. The reports marshaled in this respect should be reliable and diverse. Thus he will learn that countries enjoying bountiful crops and profitable prices possess the means to take care of their commercial obligations. The opposite situations will logically affect the traders adversely. In fact, the effect that local conditions have on the business of a community is of such significance that it is quite impossible to form an opinion of an importer's responsibility without giving due consideration to this problem. It is worth repeating

that foreign credits cannot be considered independently of the market's conditions, but must be judged, as it were, against the background represented by the economic forces affecting the commerce of the nation.

10. Knowledge of accounts. It is an axiom that the credit man should avail himself of all opportunities and should go out of his way to obtain any information that will enrich his knowledge of the foreign buyer. Such accumulation of facts will permit the credit executive to render intelligent decisions on problems that may arise concerning any of his accounts.

It should be the duty of every foreign credit man to know the customers' seasonal buying, their activities with European houses, the firms' relations with the local trade as well as with other exporters, the habits of the members of the firms, and their hobbies. In fact, he should welcome any detail that will throw light on the personal reputations and financial positions of the buyers. Furthermore, this intimacy will give the foreign credit man the necessary confidence to deal with his accounts in an efficient manner.

11. Ability to follow developments. The most important duty of a foreign credit man is to follow the trends of his accounts. In practice this means that he should become sensitive to any indication or act on the part of the importer that might lead him to believe that the account requires his personal attention. For example, if he notices some questionable action on the part of the debtor, such as unjustified merchandise claims, unreasonable delays in meeting his obligations, requests to defer or cancels orders, abnormal or unwise purchases, it would be logical for him to conclude that any one of these actions is sufficient to demand an explanation from the importer. The best course to follow in such circumstances is to acquaint the agent with the facts and await his report. From the agent's comments and the facts gathered from other sources, the foreign credit man should decide what action he should take in regard to the account.

The market should also come within his scrutiny, especially when he sees any sign of disturbance. It might be a heated political campaign, unsettled economic conditions, or similar conflicts, but, whatever the sign is, he should always fathom it with the purpose of deciding whether he should or should not grant further credits to that market.

Responsibility for new accounts. The general tendency among exporters is to consider the agent's recommendation as a sufficient guarantee for the opening of a new account. The exporter has the perfect right to follow this procedure. It is advisable, however, that in no circumstances should the credit department accept this practice and at the same time be held responsible for credit losses.

The credit man should not be obliged to check an order from any concern unless he is convinced that the firm is sufficiently responsible to command the credit requested. The responsibility relating to credits

rests solely with the credit department, and there is not a single reason to justify the credit executive in evading this responsibility. Furthermore, it is the moral duty of every credit man to justify the extension of credit on the basis of his information.

This formality, if it may be called such, should be fulfilled even if the policy of the house is to accept the agent's recommendations on accounts. The possibility always exists that such private investigation may refute the agent's opinion.

There is no question that the agent's report should form the basis of the investigation, and proper consideration be given to his recommendation. But to accept his opinion just because he knows the concern very well, or is right on the ground, or because the agent deals only with first-rate houses and is quite sure the firm is all right, is as wise as signing a blank check. If the representative is convinced the importer is entitled to the line of credit recommended by him, he should have no trouble in conveying his conviction by means of facts.

CHAPTER IV

THE METHODS OF THE FOREIGN CREDIT DEPARTMENT

Responsibilities of the Foreign Credit Man

For the proper management of the foreign credit department, it is essential to accomplish two things: (1) to place full control and responsibility of the department in the hands of a competent man; (2) to take care immediately of the most minute details.

The first condition is a matter of selection, of obtaining the right man who possesses a sound knowledge of foreign credits and collections. He will be held accountable for the following duties: (1) accepting or rejecting new accounts; (2) gathering the necessary credit information to justify the credit extended; (3) collecting the accounts.

To accomplish the second requisite, attending to the details, is very important in export business. A practical system should be installed which will tend to diminish the possibilities of errors. There must be a practical procedure for: (a) the handling of the orders; (b) the answering of mail; (c) revision of the credit files; (d) installation of files, such as "duplicate document" files and correspondence; (e) the collection of accounts.

Orders held. The first obligation of the foreign credit man is to dispose of the orders received. Those accepted are immediately referred to the merchandise department. Those held temporarily are set aside for further consideration. Rejected orders should be returned to the merchandise department or referred to the foreign agent. In either case the credit department should explain why the order was refused.

Every order should be shipped on delivery date. If an order is held too long awaiting the necessary credit reports, the foreign credit man should obtain the consent of the buyer or agent to postpone the shipment of the goods. If this authority is not received from either source, the order should be considered canceled and the corresponding notification sent to the agent.

When an order is held, the first step is to inform the Export Manager. The report should recite the reason for holding the order. It may be that the account is overdue, or is owing too much, or the credit file has

FORM

ORDER HELD

Name .....Export Manager
Address .....Initials

CREDIT DEPARTMENT

1. Account Overdue
2. Investigating
3. Revising Credit File
4. Unsatisfactory in the past
5. Wrong terms

REMARKS .....

.....

.....

.....

HAVE YOU ANY INFORMATION? .....

.....

.....

.....

Illustration 22. ORDER HELD FORM.

to be revised, or wrong terms have been reported; whatever the reason may be, it must be relayed to the proper parties.

By establishing this practice of stating why the order was not accepted, the foreign credit man creates, as it were, a problem that he can proceed to solve. From time to time he should consult the Export Manager to discuss the unaccepted orders. To simplify this work, a form should be filled in, similar to the one shown in Illustration 22.

The blank should be prepared in duplicate. The original is sent to the merchandise department or the Export Manager, where it should be initialed and returned to the foreign credit department. The duplicate is mailed to the agent as an indication that one of his orders is held temporarily for the reason detailed in the notice. This will invariably bring a prompt report from abroad, from which the credit man may be able to make a final decision.

If credit is refused to an importer, the proper notation should be made in his credit file as a permanent record for future reference.

The credit card. The purpose of this card is to enable the foreign credit man to see at a glance the condition of the account. Each column is designated to contain specific information, such as the total amount of orders accepted for a particular buyer, shipments made, drafts outstanding, the paying record of the importer; in fact, by means of this card it is possible to get a complete history of the account. Illustration 23 reproduces the credit card used by textile commission houses.

Control of shipments. As soon as the order is ready for shipment, it

Name _____

Address _____

Terms and Limit

Card No.

Rating

Business

Capital

Origin of Investigation

ORDERS					SHIPMENTS					Remarks
Date	No.	Description	Est. Amt.	Delivery	Inv.	Date	Amount	Due	Paid	

Illustration 23. CREDIT CARD.

should be referred to the credit department, where it will be decided whether the goods are to be delivered to the pier for transportation overseas.

To keep control over an order before it is shipped, an arrangement should be made with the shipping department not to allow any goods to be delivered to the steamship company unless previously released by the foreign credit man.

To accomplish this control, it is advisable to design a shipping card, or "shipping instructions sheet," similar to that shown in Illustration 25. It should be divided into two sections, one intended for the credit department and the other for the shipping department. The card is made up as soon as the order is accepted, and is kept by the shipping clerk. When he receives notice that the goods are ready for shipment, he will refer the card to the foreign credit man, whose signature on the card will be an authorization permitting the factory or mill to release the goods for shipment abroad.

NAME	Gustave Stahle	CABLE ADDRESS Bolat
ADDRESS	P.O. Box 715, Stockholm 7, Sweden	
TERMS	Sight Draft Documents Attached	BANK Central Hanover Bank and Trust Co., New York City.
CREDIT LIMIT	Not more than one shipment of $2,000.00 outstanding at one time.	
DATE 2/4/46	Instruct Bank to remit proceeds by Air Mail	

Illustration 24. FRONT SHEET, ATTACHED TO CREDIT FILE.

The credit file. The value of the credit file depends on the scope and nature of the information gathered, and on the fact that reports are kept current.

Adequacy of scope demands that the facts marshaled cover not only the fundamental facts revealing the character, capacity, and capital of the importer, but also details giving unity to the whole report. By unity is meant, briefly, that the information should bring out conclusively the value of the account, its standing or rating. The reports gathered should also contain sufficient information to justify the decision reached on the request for credit.

To keep the reports current, it is important to follow any changes taking place within the firm, such as the withdrawal of partners, increase or decrease of capital, or any alteration in the financial structure of the concern. The foreign credit man should track down every rumor, or

bit of information bearing on the buyers. It should be remembered that apparently insignificant details in export business are always significant.

The information obtained will be so arranged that on reading the

SHIPPING CARD

CREDIT DEPARTMENT	APPROVED:
Name:	Mejia & Cia S en C, 57 Fortaleza, San Juan, P. R.
Order No.:	1757 for $7,000.00
Documents:	Attached to draft
Bank:	Credit Union Bank, San Juan, Puerto Rico.
Draft Discounted:	No
For Collection:	Yes
TERMS:	60 d.d. against acceptance

SHIPPING DEPARTMENT	APPROVED:	
Bill/Lading:	Order	Packing: Heavy Cases
Commercial Invoice:	5 copies	Marks: M 57 / P. R.
Consular Invoice:	None	
Certificate of Origin:	None	
Certificate of Inspection:	None	
Export License:	None	
Import License:	None	
Insurance:	Marine Risk	
Weight Note:		

MERCHANDISE DEPARTMENT	APPROVED:
Merchandise:	10,000 yds. Drill Tiburon
Price:	27¢ per yard
Declaration:	None

Illustration 25. SHIPPING INSTRUCTION SHEET.

reports it will be easy to trace the development of the concern. A practical method in arranging the information is as follows:

1. Have a separate folder for each account;

2. On plain white paper, called the "Front Sheet," insert the following information:

(a) Full name and address of the importer,
(b) Cable address,
(c) Terms granted,
(d) Credit limit,
(e) Agent's recommendation,
(f) Name of the collecting bank,
(g) Any other information of importance.

3. Then add:

(a) The agent's report,
(b) The importer's financial statement,
(c) Credit agencies' reports,
(d) Banks' and trade investigation reports,
(e) Miscellaneous information, such as trade group reports and information obtained from the Department of Commerce.

These reports are arranged in chronological order, fastened together, and filed alphabetically. Incidentally, the ledger should be arranged by countries, which in turn are listed alphabetically.

The draft book. In the draft book are entered all drafts drawn on foreign accounts. They are listed numerically, and complete information is added regarding the name of the drawee, the date of the draft, the full address of the importer, terms, and maturity date. Illustration 26 gives an accurate idea of the form of book that could be used.

As a complement to this book, it is advisable to keep a separate record listing the banks to which drafts have been sent for collection. Illustration 27 gives an illustration of the form commonly used.

The drafts are listed in numerical order. It is also practical to record the collecting bank's number. As soon as a draft is paid, it is marked accordingly.

The duplicate draft file. It is well to repeat that the credit department will keep for its own record a copy of every draft sent out for collection. This duplicate copy is referred to the collection department. It would be practicable to place it in an envelope similar to the one shown in Illustration 28. On the outside are noted the name of the buyer, the number of the collection, the due date, and other data.

Whenever a cable is sent to the buyer about a draft, or a letter is written, or a communication is received relative to a particular draft, it is placed inside the envelope.

Under "remarks" is noted whatever action has been taken to effect the collection of the bill. Thus at a glance the credit man knows the

FOREIGN DRAFTS

DATE 1947	No.	Folio	FOR WHOSE ACCOUNT	NOTE OR DRAFT	WHERE PAYABLE: BANK	WHERE PAYABLE: PLACE
Mar 1	019	A	Juan Custo y Hnos	Draft	Natl City Bank	Bogota, Col
✓ 1	020	D	Jorge Trak	✓	✓ ✓	San Cristobal, Ven
✓ 2	021	B	Juan Custo y Hnos	✓	Central Hanover	Cali, Col
✓ 2	022	W	Santiago, Crespo y Cia	✓	First Natl Bk of Boston	Habana, Cuba
✓ 3	023	W	Larach y Cia S A	✓	Credit Union Bank	San Juan, P R
✓ 3	024	D	Bakerjian y Cia	✓	Natl City Bank	Montevideo, Uru
✓ 3	025	W	Mohamad Saghir Jabeck	✓	Std Bk of South Af	Salisbury, Sou Rhod
✓ 4	026	A	Ali Ben Mohamed	✓	Barclays Bank	Beira, P E A
✓ 5	027	A	Benatar Fils	✓	Natl City Bank	Aux Cayes, Haiti
✓ 5	028	B	Lopez, Garcia y Hnos	✓	✓ ✓	San Jose, C R.
✓ 6	029	A	Almacenes Ultra S A	✓	✓ ✓	Habana, Cuba
✓ 6	030	A	Sanchez y Cia	✓	✓ ✓	S P Macoris, D R
✓ 7	031	D	Cie Française Senegalaise	✓	French Barking Corp	Dakar, F W A
✓ 8	032	D	R Hanna & Sons	✓	Bank of Nova Scotia	Kingston, B W I
✓ 8	033	D	Harrods Ltd (B A) S A	✓	Chase Natl Bk	Buenos Aires, Arg
✓ 9	034	W	Rodriguez, Mola y Cia	✓	✓ ✓	S Pedro Sula, Hond
✓ 10	035	W	A. Maluenda y Cia	✓	First Natl Bk of Boston	Habana, Cuba
✓ 10	036	W	Paco Bueso Inc	✓	✓ ✓	✓ ✓
✓ 10	037	B	Astaburuaga y Hno	✓	Natl City Bank	San Jose, C R.

RECEIVABLE

WHEN ACCEPTED	TIME: Months	TIME: Days	WHEN DUE: Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	AMOUNT	Int and Dis: Rate	Int and Dis: Amount	REMARKS
Mar 17							17									530 40			60 days sight
✓ 15								15								354 05			90 days sight
✓ 18								2								1 147 32			90 days date
✓ 12								2								837 47			✓ ✓
✓ 11								3								1 187 64			✓ ✓
Apr 2							2									873 46			30 days sight
Mar 29							29									674 57			60 days sight
Apr 3								1								941 62			90 days sight
Mar 11							5									2 176 3			60 days sight
Sight																1 095 31			Sight
Mar 19								4								982 17			90 days date
✓ 17							5									783 42			60 days date
✓ 25								5								886 43			90 days date
✓ 14								6								348 92			90 days date
✓ 19								17								1 052 67			90 days sight
✓ 20							19									431 62			60 days sight
✓ 20						9										653 47			30 days date
Sight																514 23			Sight
Sight																321 78			Sight

Illustration 26. RECORD DRAFT BOOK.

BANK RECORD BOOK

Page 17

THE NATIONAL CITY BANK OF NEW YORK

Number:	Bank Number:	NAME:	Amount	Due
4792	137357	Barkigia & Cia, Uruguay	$772.27	1/15
4793	167377	Luis Cueto, Puerto Rico	178.94	1/23
4794	174432	Diaz & Cia, Venezuela	972.77	5/27
4795	17923	Yong Pon Lee, Manila	1724.32	5/29

Page 21

CENTRAL HANOVER BANK AND TRUST COMPANY

0 37	423	Central Juana, Bogota	$741.01	1/14
0 41	451	Mohamad Taghi Ipachi, Liberia	921.53	1/17
0 47	772	Bentar Fils, Peira	641.27	1/26

Illustration 27. BANK RECORD BOOK.

status of the transaction. The envelopes may be filed numerically, or by due date.

Payments received. Payments made directly by the customer or through the agent should be acknowledged without delay. A form letter may be used, but at times it is advisable to write a personal letter addressed to one of the principals. It is beneficial to take advantage of any opportunity favoring the development of friendly relations with the importer; and perhaps there is not a more opportune moment to address him in an appreciative manner than in acknowledging receipt of his payment. The action is natural and devoid of any appearance of artificiality.

Duplicate documents file. In export business each transaction must be considered by itself. The logical thing to do, therefore, is to keep together the duplicate papers covering each shipment. They should be fastened together and filed under the customer's name. This permanent record is composed of the following documents:

1. The copy of the letter addressed to the importer notifying him that the goods have been shipped,
2. The copy of the order sent to the factory,

3. Request for insurance,
4. Commercial invoice (copy),
5. Expense bill,
6. Copies of bill of lading,
7. Copy of the consular invoice,
8. Any other papers related to the shipment.

Drawback. Whenever an importer brings into this country raw material or any other product, he must pay customs duties.

If the raw material is to be used for the manufacture of some article, or if the product imported is to be processed in this country, and then exported, the importer or manufacturer has the right to apply to the United States Treasury Department for a refund of 99 per cent of the duties he paid when the raw material was brought in. This refund is called a *drawback*.

With the application sent to the Treasury Department, the manufacturer must include a statement describing the process of manufacturing the goods, and where it was manufactured, or processed, and any other information that the government officials may require.

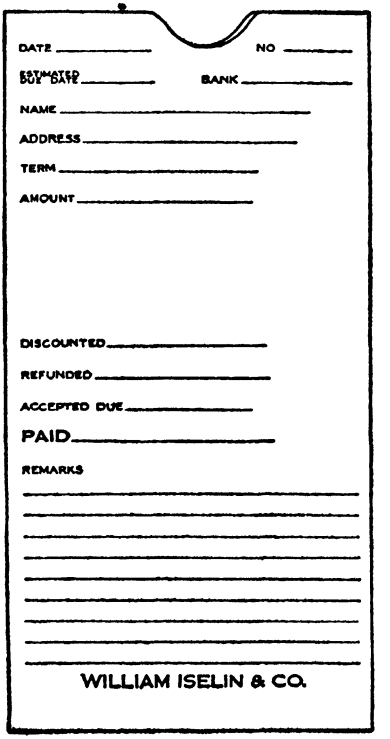

Illustration 28. DUPLICATE DRAFT FILE.

Since it is always a rather complicated operation to get money back from the government, it is better for the exporter to use the services of a competent man who knows the law relative to drawback and is also acquainted with the methods of obtaining such refund from the government.

CHAPTER V

THE FOREIGN AGENT

Functions of the Agent

The main function of the foreign agent is to sell goods. This, however, does not mean that as soon as he has booked enough business his duties cease. Far from that—as agent he will be called upon to perform many other services.

He will fulfill for the foreign credit department several duties, which are as follows:

1. Submit a monthly report on the conditions of the market;
2. Bring to the attention of the credit department any new information he may gather about the accounts, such as their European purchases, their monthly or yearly sales, and the situation of the exchange;
3. Help in the collection of delinquent accounts;
4. Submit information concerning any change in the commercial laws of the country;
5. Select legal advisers to represent the foreign credit department in bankruptcy cases or at meetings of creditors, and accept shipments in transit intended for concerns which have failed.

Qualifications of the Agent

From the preceding discussion, it is obvious that the agent must possess certain essential qualities appealing to the foreign credit man, and it seems that the most important one is the capacity to observe or sense any change in the trend of business. The ideal agent is one who is capable of feeling the pulse of the trade, and who watches and reports promptly on his own accounts, as well as on the general movement of the political and commercial life of the nation. He must be tactful, active, very businesslike in his methods, and honest beyond reproach.

Agent's Monthly Report

It is true that trade papers and banks' publications give a very accurate description of conditions abroad, but their comments are general and never specific. The agent's report, therefore, should limit itself

to questions affecting his particular line of business. His advice must be more intimate and current. His outlook and data should be in harmony with the policy of the home office. He should discuss topics of a confidential nature, giving a digest of the trends in the market as they affect the house he represents.

Roughly, the scope of his discussion should embrace the following topics:

1. The harvest—was it as expected? What benefit has been derived from it? Is the country selling its products abroad at a profitable price?
2. Future crops—what are the prospects? Will the return be sufficient to stimulate business?
3. Prices in general—are they steady or demoralized?
4. Exchange situation.
5. Are failures increasing?
6. Possible trend of business.
7. Political situation.

From such general topics, the agent can then direct his comments to more specific subjects—for example: the requirements of his customers during the coming season; the profits reported by some importers; the opinions given by prominent businessmen. In fact, he should present any data that will permit the home office to visualize the condition of his market. Following is a report by the agent on his market.

Report on the Market

Here the problems of inflation, social unrest, and political disturbances affecting other countries in South America, exist to a comparatively small extent.

As in the rest of the world, prices and the cost of living here have gone up, but the situation is under control and it is not nearly as serious as in a number of other countries.

This nation has the advantage over many others of producing a diversity of commodities for which there are at present a continued large demand and excellent prices in world markets.

Social conditions here do not compare in any way with the acute situation in several other countries. While social problems do exist and from time to time strikes are threatened, the demands of labor unions are moderate and agreements are easily made in most cases.

As to the political situation, the present government was elected to power in a most straightforward and free election. The government has consolidated its position by giving the opposition party important cabinet posts, which has thus acquired a strong voice in the direction of the affairs of the country.

The exports in 1945 amounted to over $100,000,000 of which 75 per cent was accounted for by four products: sugar, cotton, oil, and copper. This country also exports a number of minor products, such as lead, zinc, wool, gold and silver, rotenone, rubber, fish, coffee, bismuth, vanadium, tungsten, antimony, arsenic, paper and paper products, quinine, beans, coal, and others. Some of these are rapidly increasing in importance; for instance, zinc and lead may in the course of the next few years reach the importance of copper; and the fish canning industry, whose products are beginning to attain great demand abroad,

may over a longer period of time be numbered among the four or five leading exports of the country.

The total foreign trade for the last three years is as follows:

	Exports	*Imports*	*Favorable Balance*
	(In Thousands of Pesos) *		(In Thousands of Pesos)
1945	674,530	549,886	124,644
1944	547,335	514,424	32,911
1943	460,318	449,366	10,952

Exports of the Four Principal Products
(In Thousands of Pesos)

	Sugar	Cotton	Copper	Oil
1945 (11 mos.)	195,872	112,620	55,583	80,307
1944	167,157	60,165	67,538	91,784
1943	74,520	69,420	75,967	104,091

* One Peso approximately U. S. $0.16.

For the first eleven months of 1945, the United States continued to occupy first place as the best customer.

Sugar continues to occupy first place among the exports from this country, being in great demand in world markets and commanding high prices. As an idea of the level at which their sugar is being sold abroad, the present quotation f.o.b. local port for raw sugar 96 degrees polarization is $8.50 per hundred pounds and for the refined product $11 per hundred pounds. The sugar producers, however, do not reap the full benefit for the reason that the government has approved a bill establishing a progressive export tax. It is estimated that this tax will yield the government in 1946 about 100,000,000 pesos, thereby constituting a most important source of revenue.

Cotton: The outlook for cotton for the coming year can be considered good. Below are official figures and estimates on production and area planted for the last two years:

	Estimated Production (Quintals)	*Area Planted* (Hectares)
Crop 1943/44	1,400,000	132,000
Crop 1944/45	1,400,000	131,000
5-year average prior to war	1,800,000	170,000

It is estimated that the 1945/46 crop year will show a total of 1,600,000 to 1,800,000 quintals. A large portion of this will be exported.

Oil: This country's oil production has been declining in the last three years. Estimated figures are given as follows:

1944	14,000,000 barrels
1945	10,000,000 barrels
Est. 1946	9,000,000 barrels

Of the above, between 25 and 28 per cent is consumed within the country.

The government has named a committee to study and propose an oil law. It is expected that the bill will be submitted at the present session. Provided the legislation is approved, it is the opinion of business that it will be instrumental in attracting foreign capital for the exploitation of oil potentialities. In fact, representatives of American and British companies are ready to apply for rights as soon as adequate legislative protection is passed. While very

little is known as to the potential oil resources in the north, preliminary reports are very encouraging. An expert consulted gave the opinion that, should these fields prove productive of oil in commercial quantities, it would pay to build a pipe line. The whole scheme is still in the blueprint stage, but if it comes up to present expectations, a new source of wealth is in prospect for the country.

A large foreign oil company is considering the expenditure of about $18,000,000 during the next five years, which will benefit the country greatly.

Copper: Copper production in this country, which amounted to 40,000 tons in 1944, and 30,000 tons in the first 11 months of 1945, is not expected to reach more than 30,000 tons in 1946. The main reason seems to be an exhaustion of the richer ores. Unless new deposits are found, copper, as an important product, may fall below both zinc and lead.

Coal: During 1945, 50,000 tons of coal were exported from the Northern Districts, and it is estimated that in 1946 this figure will be more than doubled.

Exchange: Control of imports by means of licenses was established in 1939, at a time when exchange held in the central bank reached one of the lowest levels in history. The holdings in gold and foreign exchange, excluding statutory or fixed gold reserve, were under $12,000,000. Supplementary to this measure, there was also established control of exchange transactions, requiring banks to apply for exchange permits on any transfer of funds abroad. This control creates no inconvenience to business as all legitimate demands for dollars are usually met within two days. Exchange is refused only in exceptional cases, representing flight of capital or when natives traveling abroad seek excessive amounts for their expenses.

In one year, under these regulations, the Central Bank increased its exchange holdings to about $20,000,000. Due to the fact that $5,000,000 was paid on lend lease account to the United States, the amount now stands at about $15,000,000, including blocked Sterling amounting to £500,000.

The Central Bank Reserves as of February 20th were as follows:

Permanent Gold Reserve about	$17,500,000
Gold in country and abroad, plus foreign exchange	20,000,000
	$37,500,000
To the above is to be added:	
Dollars held by private banks	$15,000,000
Estimate of dollars held abroad by corporations and private individuals	40,000,000
Estimated Total of Gold and Exchange Holdings	$92,500,000

It is expected that the reserve bank exchange holdings may increase somewhat in 1946 due to better prices and larger exports of sugar and cotton as well as the prospect of some exchange coming into the country from the oil exploration project. On the other hand, while there is a tight control of imports, foreign exchange holdings may be somewhat affected if the country is able to import certain products such as trucks and machinery, previously unobtainable.

Gold Production: The country produces an average of 7 thousand kilos of gold a year; in 1942 gold production amounted to 8 thousand kilos, and in 1943 to 6 thousand kilos, while in 1944 it amounted to 6 thousand kilos. There are no figures available as yet on the 1945 production of gold.

Conclusion

The political condition is stable, both parties are working harmoniously, and possible disturbances have been eliminated. The critical social conditions that existed a few years back have been ironed out and the people themselves appear to be satisfied and happy. Businessmen feel that such an understanding has had a healthy effect on the commercial life of the nation.

The abnormal inflationary conditions that prevail in other countries are almost nonexistent here. Prices are stable. The nation's principal export products are very much in demand. It is expected that this country's industries will continue to develop, more so as soon as they are able to import badly needed machinery.

This report was gathered from several sources, such as local banks, the government agencies, and through the information marshaled by the firm's agent in X country.

Agent's Credit Recommendation

Judgments are bound to differ. The foreign credit man will often disagree with the agent's recommendations about new accounts. To settle the matter, or to impress the department, the agent will sometimes propose to guarantee an account personally. Such procedure, however, should not be accepted. If the agent is so positive about the importer's credit, it will be far more practical and businesslike to report the facts on which he bases his judgment.

It should be the fixed policy of the foreign credit department to give full consideration to the lines of credit recommended by the agent. Such advice, however, is not to be accepted as final. The foreign credit man should make the customary investigation and render his decision on the facts he has marshaled.

Agent's Report on New Accounts

The foreign agent's main duty, as has been noted, is to sell; but he cannot sell unless the buyer is entitled to receive credit. He should have no difficulty, however, in disclosing the capacity of the importer to receive such benefit. He is on the ground, knows the customer, his requirements, his position, his standing in the trade, and his past history. By recounting these facts, he consequently provides the information needed to justify the credit he recommends.

Furthermore, the agent is in position to present details that escape the banks' or the agencies' attention. These institutions rarely divulge confidential matters or give out personal comments. They cannot speak freely in regard to an importer's stock, its quality and value, or the facilities the concern possesses to dispose of its goods. This information is of extreme importance and should be available to the agent.

REPORT TO BE SENT WITH THE ORIGINAL ORDER.

Date: _____

NAME _____

TRADE NAME _____ CABLE ADDRESS_____

ADDRESS _____ (Street and number)_____ (City)

TYPE OF BUSINESS _____

CABLE CODE USED _____

LANGUAGE _____

CORPORATION PARTNERSHIP INDIVIDUAL

ESTABLISHED _____ BRANCHES _____

INSURANCE _____ SALES _____

REFERENCES IN THE UNITED STATES:

BANKS:

TRADE OPINION

BANKS' OPINION

BUSINESS ABILITY

REPUTATION

NATIONALITY

FINANCIAL STATEMENT (Use reverse side)

IMPORTING FROM (Name countries)

REMARKS:

_____
(Agent's Signature)

Illustration 29. AGENT'S CREDIT REPORT, TO BE SENT WITH ORIGINAL ORDER.

Foreign Agent's Power

How much authority should be given an agent depends to a large extent on the importance of the market. In countries where a large

volume of business is transacted and where importers receive substantial credits, the agent should have full authority to act immediately in case of financial trouble. Naturally a great deal of discrimination must be used in selecting the man who will receive such power.

Developing the Agent

It is worth while to repeat that the agent must be thoroughly acquainted with the policies and practices of the house he represents. Preferably the man should be selected from the personnel of the organization; if not, he should have the necessary training and possess a thorough knowledge of the market he will represent.

The next step is to acquaint him with the policies of the firm. From the start he should receive the impression that he is an integral part of the company. In order to accomplish this, one or both of two methods may be used: (1) have the agent spend a period of time at the head office working in the various departments, familiarizing himself with the routine of the business; (2) instruct him by letter in the procedure of each department.

He should get a definite idea of what is expected of him, and he should be made to understand that he represents the firm's interests. The aim should also be to inculcate in him the idea that by helping the firm he is helping himself. The instructions to be given would fall into three separate headings: (1) Merchandising; (2) Credits; (3) Shipping.

The question of credits should be presented in detail, and the comments pertaining to this field will deal with the following topics:

1. A complete digest of the credit policy of the establishment.
2. Terms of sale to be granted in that particular market.
3. The information that the agent must submit to the credit department concerning: (a) new accounts; (b) conditions of the market; (c) recommendations as to credit policies to be followed in his territory.
4. The power that the agent will have to settle disputes.

Agent's Contract

It is clear that the exporter must delegate to each of his foreign agents a certain amount of power to permit him to act in the name of the house represented. Obviously, then, the exporter should not be too hasty when choosing a foreign agent. On the contrary he should not only exercise discretion and caution when selecting a man for such a position, but he should also exert a great deal of care in investigating the character, the ability, and the reputation of the person under consideration.

Once the agent has been named, the exporter will proceed to draw a contract defining the responsibilities of the parties concerned. This contract might be a complicated legal document prepared by a com-

petent lawyer fully acquainted with the law of the country where the agent is to reside, or it could be a letter like the one presented in illustration No. 30.

Dear Mr. ————

Confirming conversations, we hereby appoint you our sole selling agent for the island of Cuba for all the fabrics controlled by us and which do not conflict with fabrics which you offer for sale for others. All prices shall be fixed by us from time to time.

We understand that you maintain permanent headquarters in Havana, Cuba, and, that at your own expense, you or your salesmen and representatives will cover this territory, soliciting business for the merchandise which we have to offer, as often as may be necessary. All orders are to be taken subject to our approval in New York, and of course, we both understand that in all our business transactions we will have to be governed by the controls and regulations of our respective governments. Cabling expenses to be borne by us. Merchandise sold hereunder shall be payable only with sight banker's draft drawn in New York in United States dollars or the equivalent.

In order to promote harmony in our relationship and facilitate the transaction of business between us, you agree also to submit information from time to time to enable our Credit Department to pass fair judgment upon the credit risk involved; assist us where necessary in securing payment of invoices and actively aid in the adjustment of any disputes which may arise in connection with the fulfillment of the mutual obligations springing from the business coming from your territory.

For all your services you are to be compensated at the rates of commission on all Cuban business, as indicated in the attached list.

It is understood that on all business which may be placed in New York by Cuban customers alone or accompanied by brokers, or placed by the broker personally, a full commission shall be credited to you.

Commissions shall be due and payable on receipt of payment for the goods from the customers and are to be figured on the net sales. Returns and allowances are to be debited at the same rate of commission as the original credit. Remittances to you to be made at or about the end of each month for the preceding period ending on the 23rd of each month.

This relationship may be canceled by either party at any time upon 60 days written notice to the other.

We look forward with a great deal of pleasure to a long and mutually profitable association.

The conditions of this contract are retroactive to ———————— (date).

Very truly yours,

Signed: _____

AGREED TO:

_____
(Agent)

Illustration 30. AGENT'S CONTRACT.

The Foreign Agent and the Foreign Credit Man

It is of the utmost importance, as soon as the agent has been selected, that the foreign credit man write him requesting a complete list of the accounts in his territory to whom he intends to sell, and his recommendations as to the credit each one should receive.

As a rule foreign agents always submit this list with added comments reflecting on the reputations of the firms, the amount the accounts will purchase each year of the articles sold by the exporter, their estimated capital, and the line of credit he recommends.

As soon as the list is received, the foreign credit man will proceed to investigate all of these names through the trade groups, the commercial banks with offices abroad, and by direct inquiries made to other foreign credit men. It would be advisable to draw an agency report and build up a complete credit file on each account that, in the estimation of the agent, will buy actively and require a fair line of credit.

If the credit department does not agree with the recommendations made by the agent, he should be notified immediately. Although the foreign credit man will of course make his own line of credit, he should not neglect to give full consideration to the recommendations made by the foreign agent.

When considering the list of accounts submitted by the agent, if he has not rendered information concerning the importer's purchases from other countries, it would be advisable to request such a report, and to keep it current.

PART 2

ANALYZING THE RISKS

CHAPTER VI

FACTORS AFFECTING THE MARKET RISK

The Five C's of Foreign Trade

Risk, in business, is defined as the possibility of economic loss brought about by unforeseen circumstances. In foreign trade, businessmen encounter hazards and unforeseen circumstances unknown in domestic business. Furthermore, in international commerce the risks inherent to the trade (the market, merchandise, transportation, exchange, and credit), are so interlocked that the weakness of one promptly affects the others, and every one of these risks must be appraised in relation to the others. For example, in evaluating the credit of an importer it is essential to consider first the general conditions of the market, its economic development, and the soundness of its currency, since these three factors affect directly the credit standing of the importer. If the general political and economic conditions of the market are not sound, and if the currency is unstable, no matter how financially strong the importer may be he cannot be considered a safe risk.

In summary, although in domestic credit it is an accepted fact that the credit of a merchant rests on the value of the three *C's* (character, capacity, and capital), in foreign credit it is of prime importance to consider *first* two other *C's:* the Conditions of the Country, and the Condition of its Currency. Then, and only then, should the foreign credit man evaluate the credit of the importer.

The Resources of the Market

The resources of a market are determined by the material and human wealth possessed by each nation.

The material worth is primarily represented by the raw materials found within the country, and grouped as agricultural, mineral, forests, and fisheries. They not only provide a means of livelihood for the people, but when sold abroad as raw materials or as manufactured products they become a source of income for the nation.

By human wealth is meant the ability of the people of a country to produce economic goods and services that not only serve to satisfy their wants but also increase their purchasing power.

The total of the material and human wealth of a nation represents the resources of the market.

The Pattern of the Market

In a general way the nations of the world may be divided into four main groups:

1. Highly industrialized countries, like England, which purchase abroad large quantities of raw materials used in manufacturing all sorts of products that they sell all over the world.

2. Countries partially industrialized, or in the process of becoming industrialized. Under this division come most of the South American republics. Their efforts to create their own industries are hindered by the lack of natural resources such as iron, coal, and oil, which are so essential in the development of modern industry. They are hampered also by the scarcity of human resources required for the proper functioning of an industrial plant. To these deficiencies may be added the dearth of population and its meager income, both of them insufficient to support the full development of the countries' industries. These difficulties will naturally limit their efforts to possess a well balanced economy.

3. Nations that, on account of their small size or for other reasons, will not be able to build their industrial plants. They are, as a rule, great producers of raw materials.

4. Well-integrated countries, such as the United States, which produce enough food and manufacture sufficient products to satisfy their needs.

As already indicated, the first group will purchase abroad raw materials to feed the industrial plants, and will export all varieties of manufactured goods. These countries possess many facilities and can control and manage their commercial lives. Their economy is complex and their credit is strong.

The second group will import the products they cannot produce. They must also buy abroad essential articles needed to support their industries. Their economy is not well integrated. The foreign credit man, therefore, should watch the business trends in these countries and appraise their conditions from time to time.

The third group exports raw materials or prime commodities. Their economic life depends on the commercial activities of other countries to which they must sell their products. Since they cannot determine the fate of their economic lives, their currency is vulnerable and bound to fluctuate as soon as the prices of their products fall. From a credit point of view this group of countries must be observed diligently, and in dealing with them the foreign credit man must be cautious and alert.

The countries in the fourth group possess tremendous resources, and their credit is sound.

It is worth observing that nations like Mexico and Russia, which a few years ago were designated as having an agricultural economy, today rank among the industrialized countries; and it is expected that before long Russia will have a well-integrated economy. By observing and following these changes, the foreign credit man witnesses or becomes aware of the economic life of a nation.

The Importance and Risk of the Market

No matter how insignificant the business the exporter intends to do, the foreign credit man should determine for his own satisfaction and information the potentiality and risk of the market, the general reputation of its merchants, the losses experienced by other exporters, the characteristics of the nation's traders, and the antagonism that may exist toward the American exporters. In other words, from the reports marshaled about the nation involved, the foreign credit man should visualize the commercial possibilities of the market and its risks.

It is customary, in banking institutions actively engaged in international trade, to assign an officer to each foreign market whose mission it is to acquaint himself with the commercial and financial activities of his particular territory. Unquestionably this man can speak with authority on the manner in which the nation has protected its credit—that is, whether it has discharged or defaulted its foreign loans—the business practices adaptable to that country, the credit policies to be adopted, and the legal procedure to be followed before engaging in active business there.

It is important also to study the character and habits of the people, and above all to try to understand their idiosyncracies and shortcomings, as well as the reputation of the merchants in general, laying great stress on determining what nationality controls the business of the territory.

The Currency of the Country

It is superfluous to mention that each nation has its own system of currency. Some countries, such as Cuba and Santo Domingo, use the U. S. dollar as a medium of exchange; others use their own currency and also allow the dollar to circulate freely within the country. Some use silver as standard, whereas others prefer to have paper or to manage their own currency.

The value of the currency based on the silver standard is determined by the price of silver in terms of gold. Naturally, when the price of silver drops, the buying power of the currency is reduced accordingly.

Paper money may be notes issued against reserves of gold or silver held by the government or central banks; or it may be a promise to pay a certain sum of money on demand. The worth of the latter type of paper money depends solely on the solvency of the nation.

The foreign credit man is primarily interested in knowing the value of the currency in terms of dollars, as well as its stability. A stable currency means stable prices, which means prompt payments and few business failures may be expected.

Trade Centers

For the foreign credit man, a trade center is any city that serves as a distributing center for incoming and outgoing commerce. San Juan, Puerto Rico, for example, is strategically located and serves as a distributing center for goods coming from abroad to be dispatched along the northern portions of the island. From the interior of the island it receives citrus fruits, food, and sugar, which are exported to various countries.

The trade center, as a rule, is located on the coast or at some inland point close to the trade routes. It may be a city close to a harbor, which also has transportation facilities that would permit the distribution of goods rapidly and profitably. Or it may be a town located in a mining or a farming district with trade routes leading to other parts of the country to facilitate the distribution of the products that the district produces. The importance of this center rests mainly on its ability to distribute rapidly and economically goods and services.

Here the foreign credit man will find wholesalers, manufacturers, and general distributors of all sorts of merchandise. Frequently he will find that these centers import abnormally large quantities of goods for the size of the cities themselves, since, as has been hinted, such cities import not only for their own consumption, but also for the needs of the whole district or section of the country.

From time to time these centers become renowned for their trade fairs, where products are exchanged and all sorts of commodities, machinery, samples, and so forth are exhibited. Businessmen from all over the world meet to buy and exchange goods and ideas at such fairs.

Marketing Areas

When considering the importance of the market as a credit risk (see *The Importance and Risk of the Market,* page 97), the foreign credit man found it essential to determine the characteristics of the market as represented by the past credit record of the merchants, the losses suffered by other exporting houses, and other similar attributes reflecting the hazards of the territory. These inquiries would be made, of course, solely from the point of view of the man responsible for extending credit to foreign buyers.

The task now is to examine the marketing areas of the nation with the purpose of selecting those sections of the country which represent the most favorable conditions as credit risks. It does not need any explanation to state that the economics of almost every country of the

world are largely concentrated in certain regions. For example: in the United States the East is highly industrialized; in the South, although it possesses large industrial centers, agricultural products nevertheless hold a certain prominence in the economic life of that section of the country; and so on. The credit grantor of a firm selling agricultural machinery will therefore be more interested to know the conditions prevailing in the South and Middle West than in the East.

The foreign credit man, for reasons quite obvious already, will naturally endeavor to acquaint himself with the marketing areas within

Illustration 31. MAP OF MARKETING AREAS OF COLOMBIA.

each nation, and with this goal in mind he will proceed to determine:

1. The sections in the country representing the commercial activities of the nation. That information he can obtain from any of the most important texts on economic geography.[1]

[1] The following books are recommended. Smith, J. R., *Industrial and Commercial Geography*, Henry Holt & Co., N. Y.; Huntington, Ellsworth and Cushing, Sumner W., *Principles of Human Geography*, John Wiley & Sons, N. Y.; Van Cleef B., *Geography*

2. General geographical characteristics of the areas, population, transportation facilities, and availability of ports.
3. Production facilities of the region:
   (a) Agricultural
   (b) Industrial.
4. Foreign trade activities of the region:
   (a) Export
   (b) Import.
5. Commercial centers of the region.

Let us take a practical case: Colombia in South America. It comprises an area of over 439,800 square miles, has a population of more than 8,700,000 people.[2] Commercially this country may be divided into four marketing areas [3] (see Illustration 31): (1) The Caribbean, (2) The Antioquia, (3) The Cauca Valley, (4) The Bogotá.

The Caribbean area has an area of about 60,000 square miles and a population of over two million people. It is a hot, humid region. The principal cities are Barranquilla, Cartagena, Santa Marta, and Cienaga. This region produces cotton, rice, sugar, tobacco, hides, and coffee. Barranquilla might be considered the industrial center of the region. It produces the bulk of low-priced textiles, rayons, vegetable fats, hats, and shoes. Cartagena is the next city in industrial importance. The largest sugar plantations and refineries of Colombia are located here. The city also manufactures lard, candles, soap, shoes, leather, knit goods, pharmaceuticals, and wood products.

The foreign trade of the region in 1943 was valued at over twenty-one million dollars. It imported over $18,300,000, and these purchases consisted mainly of chemicals, paraffin, wheat, cotton, rayon, and woolen yarns; some textiles and woolen goods, rubber articles, machinery primarily for textile mills, hardware, and construction materials.

The exports amounted to $3,900,000, represented by butter, cheese, cattle hides, perillo gum, onions, corn, coffee, lumber, balsam, and pharmaceuticals.

The most important center, as stated before, is Barranquilla, with a population of over 150,000. It is the leading port of entry and departure for Colombia. The second important center is Cartagena, with a population of about 85,000 people. It is connected with the Magdalena River by a canal and railway, and possesses a good harbor. Two petroleum pipe line companies have maritime terminals near Cartagena.

The third city is Santa Marta, the oldest city of Colombia. It has a

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for the Business Man, Harper Bros., N. Y.; Whitbeck, R. H. and Williams, F. E., *Economic Geography of South America*, McGraw-Hill Book Co., Inc., N. Y.; U. S. Department of Commerce, *The Commercial Year Book*, U. S. Government Printing Office.

[2] *Foreign Commerce Year Book*, U. S. Department of Commerce.

[3] International Reference Service, U. S. Department of Commerce, Bureau of Foreign and Domestic Commerce, September 1945.

population of over 33,000 inhabitants. Santa Marta depends mostly on its banana production, and has restricted commercial advantages.

A similar study could be made of the other areas, and the composite of these inquiries would give the foreign credit man a clear picture of the country of Colombia as a whole, as well as an understanding of the marketing possibilities of each of the areas.

Free Zones

It is surprising to see nations establishing tariffs, trade control, exchange regulations, and what not, primarily intended to regulate foreign trade. Yet at the same time these same nations develop plans and schemes such as bilateral trade agreements and free ports or zones designed to stimulate international trade.

The present development of free zones started back in 1920 when the nations of the world began to conceive five-year plans, and set up barriers to keep certain goods from their shores. It was the time when each country wanted to be self-sufficient.

A free zone is a place near a port of entry, where goods may be discharged, repacked if necessary, and then reshipped to some other country or countries, without any restriction and without the necessity of going through customs and paying the customary duties. It is a point of redistribution, and it facilitates the re-exportation of goods.

It does away with government inspection, and in such a zone goods move freely in and out of the country.

A practical case will illustrate the purpose of a free zone. Let us assume that an importer brings in goods from France, but that he intends to bring into this country only half of the quantity ordered. He proceeds to have the shipment discharged at the free zone, where he will unpack the merchandise and redistribute the goods. Those intended for this market are set aside, and the others are properly repacked and re-exported, say to Venezuela or Peru.

The portion of the shipment that is to be sold here must be cleared through customs; in other words, the importer will pay duty on those goods. The other portion of the goods intended for foreign markets will be reshipped without clearing them through customs.

The New York Free Zone has served as a transshipment area for products going from Europe to Central America, or vice versa, and from Europe to Asia.

Free zones are operated in the following manner:

1. By direct government administration. Before the war, Danzig was operated in this way.

2. By co-operation between government and private capital. An example of this type is the free port of Copenhagen, Denmark.

3. By consortium. Before the war the free port of Hamburg was operated in this manner.

4. By private operation, in which the entire management of the free port is let to private capital. (Staten Island)

5. By operation under international agreement. An example of this type was Gdynia before the war.

Free ports are important in foreign trade. They permit the buyer to sort, grade, and repack goods bought in foreign markets. Free ports also permit combining shipments; that is, goods coming from England and France can reach this country at the free zone, be repacked with domestic products, and then be re-exported to some other country. Free zones are also used as transshipment points. Honduran mahogany, for example, intended for Europe, can be brought to the free zone in this country, then reshipped to its point of destination without going through customs.

A bonded warehouse is somewhat similar to a free zone in so far as it also permits the importer to bring in goods from abroad and place them in a bonded warehouse without fulfilling the customary procedure of paying duties. It differs from a free zone in that the importer must put up a bond and the goods remain in the custody of the government. In other words, the owner of the merchandise must make out what is called a "warehouse entry."

If the importer desires to withdraw the merchandise from the warehouse to be brought into this country, he will then have to file a warehouse withdrawal for consumption entry, and pay the corresponding duties. In case the importer wishes to sell the goods in Colombia or Costa Rica, he does not have to pay duties, but proceeds to fulfill the requirements for sending the goods to either of these countries.

Banking Facilities

A strong banking system proclaims a country's financial situation. Without an international banking system, trade would be carried on a barter basis. The services banks render to the foreign credit man are numerous, and among the most important are:

1. Collection of bills of exchange,
2. Transferring collected funds,
3. Obtaining credit information,
4. Protesting drafts when necessary,
5. Recommending attorneys and agents,
6. Safeguarding delivery of shipping documents,
7. Issuing letters of credit and other documents which facilitate the financing of export business.

Transportation Facilities

The facilities for transportation possessed by a nation reflect to a large extent the economic, governmental, and social progress that na-

tion has reached. A country that has reliable, efficient, and rapid transportation by land, by water, and by air, has one of the most important means to make the nation's government and business life strong and sound. Such a country can transport its products promptly and swiftly from far away in the hinterland, where such products might be valueless, to other points where the products are needed, thus adding to their utility value, which in turn serves to enrich the nation.

The mahogany that Honduras produces, the sugar of Puerto Rico, the wheat of Canada, and the oil of Venezuela, without the proper means to transport these commodities to the various markets of the world, would have only a local value and bring a limited income to these countries. But with the beneficial assistance of railroads, water carriers, and pipe lines, as well as highways, the value of these products increases tremendously, and with the income derived from the sale of the products, these countries are able to purchase the necessities and comforts that enrich their lives.

A well-integrated nation, like the United States, depends enormously upon its transportation facilities to develop and sustain its economic life as well as the well being of its people. To be sure, the government itself would hardly function if the means of communication were disrupted.

An industrial nation also depends on its transportation system to feed its factories, which in turn depend on the same means of transportation to distribute the manufactured articles.

The country that produces raw material, or the mining community that sells ores, also looks to the railroads, highways, and sea lanes to transport its goods, which in turn brings it a livelihood.

Transportation not only takes the raw product from the hinterland to the manufacturing centers; it also distributes the finished product of the factory to the consumer.

There are five ways to transport goods:

1. Highways
2. Railroads
3. Waterways
4. Airways
5. Pipe lines used in the transportation of oil.

The foreign credit man is primarily interested, when surveying a market, in knowing what facilities the country has to bring in the imported products—that is, the ocean routes leading to the market—plus what facilities the country has to distribute, within the country, its domestic production as well as the goods it buys in foreign markets.

He will also give further consideration to what are called in foreign trade the "ports of entry" the country possesses. Mr. Frank Henius defines it in his *Dictionary of Foreign Trade* as any place from which

merchandise can be shipped for exportation, or at which merchandise can be imported. These points are the means of communication for the incoming and outgoing ships that connect the sea lanes and bind one country to another.

Landlocked communities like Bolivia in South America, or Switzerland in Europe, depend for their port facilities on their neighboring nations, who under normal conditions permit these two countries to export their goods and import whatever they need from abroad.

Facilities for Communication

When a market lacks proper routes for the internal transportation of commodities, its business breaks up into several units found around cities strategically located near seaports or close to large mining or agricultural districts. This condition is found in many of the South American republics and in Asia, as well as in Africa. In such cases, export dealings should be transacted with merchants located in these commercial centers; and it would be safer and more advantageous to deal primarily with wholesalers of importance. The small concerns can be left to obtain their merchandise requirements from other local merchants.

In estimating the arrival of payments from abroad, it is well to consider the communication facilities of the country.

Political Conditions

Unsettled political conditions tend to restrict the natural flow of commerce. The first unfavorable sign is the outward movement of capital toward more fortunate and less risky centers of trade. The second is that the buying power of the nation is reduced and confidence disappears. The third is the lack of initiative on the part of the businessmen.

Because of adverse warnings, bankers restrict their loans, and consequently the commercial activity of the nation is undermined. In such circumstances it would be impossible for the foreign credit man to be anything but conservative and vigilant, and even though first-rate houses continue to meet their obligations without interruption, nevertheless caution should be the watchword.

Population

The population of a country, considered only from the point of view of numbers, is not a deciding factor in the extension of foreign credit. If it were, China would be a more important market than the United States.

From a practical, or business point of view, what actually determines the importance of a market is the education, honesty, energy, intelligence, and capacity of the people to produce goods and service that

enable them to satisfy their wants. These qualities will transform a poor land into an industrious community, and bring to it sufficient purchasing power to meet its needs.

Religion and habit exert more influence on the economic fate of a nation than the number of its people. A handful of industrious New England Puritans did much to change this country from an agricultural community into a powerful economic nation. The spiritual idealism of the East, to a certain extent, has kept China, with its four hundred million people, from becoming a prosperous commercial center. The type of people in a country, therefore, and not its numbers, determines its economic fate.

External Debt

Little consideration need be given the external debt of a country if it possesses ample capital. If, on the other hand, the country has limited resources, the external debt becomes very significant. First of all, the yearly payments for interest only will represent a drain on the nation's foreign exchange holdings. To satisfy this prime obligation, often a debtor country must resort to regulating its exchange dealings. Under these regulations the government will have a preferential claim on the available foreign currency. The traders would then receive what is left, if any, to meet their international obligations.

During the year of 1930, and in the following years, many governments had heavy foreign commitments to liquidate. Their foreign balances were not sufficient to satisfy the maturing debts. To protect their national credit, measures were enacted compelling the banks to set aside their foreign exchange to pay the governments' obligations. Under this arrangement the needs of local merchants took a secondary position. This meant, of course, that the importers were compelled to postpone paying their foreign bills, since the local banks could not supply the demand for foreign exchange.

In some cases the consequences were fatal to exporters, for their accounts receivable became more or less frozen. Many foreign merchants, in order to protect their own credit, bought exchange from bootleggers at exorbitant rates. When analyzing the market risk, therefore, appropriate consideration must be given to the outstanding foreign loans and commitments the nation may have, and the resources it possesses to liquidate its debts.

The Balance of Trade

A somewhat analogous situation to the one just mentioned is encountered when a nation is importing more goods than it exports. These circumstances create what is called a debit balance of trade. This ex-

cess can be liquidated only through an improvement of the country's export trade, or by doing one or more of the following things:

1. Restricting imports,
2. Shipping enough gold to meet the debit balance of trade,
3. Raising a loan abroad sufficient to liquidate the unfavorable trade balance,
4. If the country has foreign investments in its portfolios, selling them, and applying the proceeds to liquidate the debit balance of trade.

A nation facing an adverse balance of trade that it cannot overcome must by necessity regulate its exchange transactions and restrict its imports.

Foreign Investments

It has already been stated that there is a direct relationship between foreign investment and foreign trade. Since the early days of modern history, nations have invested portions of their excess capital to develop commercial enterprises of other countries. For example, during the Renaissance, Italy served as banker and factor throughout most of Europe; later, the Fugger family spread their financial holdings beyond their native Germany. Spain, at the peak of her golden age, helped to finance European enterprise; and other nations have lent similar assistance until the present era, when the United States satisfies the most varied demands for money all over the world.

It can be said that foreign investment is the capital transplanted from one country to another with the intention of developing some commercial enterprise.

This type of investment, like any other investment, is primarily interested in profit. It is also equally true that capital under normal conditions flows wherever there is:

1. A certain amount of financial safety.
2. Larger return.

Normally capital moves, say, from this country to foreign nations when there is an excess of money in the hands of the people, as well as a lack of opportunities to invest that excess capital profitably. It follows, too, that nations with limited financial resources cannot and do not invest their funds abroad for the obvious reason that they lack the excess capital required for such ventures. In fact, countries that have not developed their own economy to its full capacity look abroad for the needed capital to enable them to create or develop further their commercial life. These regions present commercial opportunities and usually offer larger returns on the invested capital than more progressive or better-developed countries. To these centers foreign capital flows.

As a rule, before the bankers float a foreign loan, they consult the State Department. The consent of the State Department to grant the

loan, however, is not to be construed as a proof that the government is recommending that the public purchase the bonds.

When abnormal conditions exist in any country, capital also tends to escape for safety. The fear of great losses, confiscation, and uncertainty, which usually are created by political upheavals, the possibility of war, or social disintegration, force capital to leave a country in search of safety, regardless of possible returns. Before World War II started, huge sums of money moved out of Europe, not in search of greater returns, but in search of safety.

It can be said then that capital investment in a foreign country takes place primarily because there is an excess of capital in the country which looks to other lands for safety and profits. On the other hand, when capital is forced to escape for some reason or other (commonly called the flight of capital), it does so in search of safety only.

As far as the foreign credit man is concerned, the advantages derived from foreign loans are the following:

1. Creation of dollars, which will permit the borrower to pay for the purchases made in this country;
2. Putting to work the surplus capital of the lender nation;
3. Bringing needed capital to the borrower to develop the nation's resources, which in turn creates political confidence, and also increases the purchasing power of the people.

Foreign loans, when properly extended, can be considered a great force in stabilizing business at home and abroad.

Types of foreign loans. Foreign borrowing is made either in the name of a foreign country, or in the name of a foreign firm.

Loans extended to foreign nations are of two categories: (1) those extended by international bankers; (2) those extended by one government to another government. The latter are supplied by the government after exhaustive consultations and lengthy study by the two interested nations. An example of this type of loan is the one granted by the United States to England for nearly four billion dollars. It was made after prolonged discussion on both sides of the Atlantic. A somewhat different type of loan was extended to France: in this case the money was supplied by the Export-Import Bank.

The loans granted by one government to another are known as Government Foreign Loans, whereas those granted by bankers to foreign governments are called Public Foreign Loans.

Any loan raised by a nation in foreign currency is called an External loan, and, obviously, the borrower assumes the exchange risk.

A loan floated by a nation in its own currency is called an Internal loan, and, consequently, the exchange risk is absorbed by the lender. A government raises the money represented by this type of loan by selling its own bonds to the public. A typical case is the loan raised by

this government during the war, subscribed to by the public.

A further classification of foreign investments leads to grouping them into:

1. Direct Loans, which are represented by investments made by an American firm in foreign countries for the purpose of:
   (a) Erecting a factory for the manufacture of some product.
   (b) Developing some agricultural enterprise, like a coffee plantation or a sugar mill.
   (c) Establishing a bank, insurance company, or similar enterprise.
   (d) Developing a mining concession.
2. Indirect Investments, which are represented by stocks and bonds issued by foreign companies and which are bought by American investors with the purpose of getting a return on their money.

The purpose of foreign investments. The foreign credit man is primarily interested in knowing the answer to this question: How do these various investments affect the foreign borrower? The answer to this question leads to dividing all types of foreign investments into two main classifications:

1. Productive or Self-Liquidating Loans.
2. Nonproductive Loans.

If the loan is used to develop the resources of the country, which will naturally increase its facilities to produce goods and services, the borrower will naturally be in a position to liquidate or pay whatever money was borrowed, and the loan will be self-liquidating. In other words, it accomplishes two things: it increases the nation's income, and it also yields enough returns to pay back what money was borrowed.

On the other hand, if the loan is used to sustain a large and unnecessary armed force, to build some project that does not stimulate or increase the income of the nation, such a loan is used in an unproductive manner, and will never yield enough return even to pay its yearly interest charges.

The first type of loan is beneficial to the country: it invigorates the commercial life of the nation, creates work, employs people, and the whole economy of the country profits by it.

The nonproductive loan merely creates additional obligations on the nation and hampers its economic life.

The tying clause. Today more often than in the past, whenever our government or a banking house grants a loan to a foreign nation, it usually stipulates in the contract that the loan be spent in this country. In some cases it even goes further than that by requesting that if any portion of the loan is used outside the United States such purchases must be made in dollars. This clause is called the "tying clause," and the loan is said to be "earmarked."

Factors affecting foreign investments. The questions involved in the granting of loans by one nation to another are beyond the scope of

this book. Suffice it to say, however, they are primarily a matter of national interest, and as such they are fully considered by the various governmental agencies interested in the problem.

The case of the four-billion-dollar loan to England will illustrate the importance attached to such questions. Long before the official discussions started, the public was informed of the loan. After the officials of both countries had agreed on terms, Congress took a hand; and finally after a lengthy discussion, the loan was granted to England. It took more than a year of constant discussion before the loan was granted.

It can be said, then, that before a loan is extended, it goes through four different stages:

1. Request for the loan,
2. Consideration given to the request,
3. Discussion,
4. Approval or rejection of the loan.

The *request* is merely the formality fulfilled by the borrower of asking the lender for the dollars needed and at the same time presenting enough facts to justify the proposal for a loan.

The *consideration,* as the word implies, means to analyze critically not only the information submitted by the borrower, but also the data marshaled from various sources. It also means passing judgment on the nation's capacity to borrow and to repay, the judgment being based mainly on:

(a) The ability to raise money by taxes,

(b) The integrity of the nation judged from past performances as a borrower,

(c) The political and social conditions of the country,

(d) Its balance of trade,

(e) How the loan is going to be used,

(f) The nation's gold reserves, its gold and silver productivity, and the balances it holds abroad.

Once these facts have been assimilated, the next step is the *discussion* as to the terms of the loan, which leads to the final step: *accepting* or *rejecting* it.

Hot money. To the foreign credit man this is one of the important factors affecting the economy of a nation. By "hot money" is meant any security that is liquidated to be transferred abroad, or balances withdrawn rapidly from one country to another. During critical times such funds move quickly from one nation to the other. This rapid withdrawal of funds very often disrupts the currency of the country, upsets its exchange transactions, and even affects the internal conditions of the nation.

Of late, foreign nations have regulated the withdrawal of funds, and have even barred the abnormal influx of money. Their aim is to avoid

the ill effects of the rapid movement of what is called "hot money."

The political aspects of foreign loans. Early in this chapter it was stated that as a rule, before bankers decide to float a foreign loan, they first consult the State Department. It is logical to deduce, therefore, that in such transactions there must be some facts, political or otherwise, that should receive the government's careful attention. Furthermore, once it is considered that the foreign loans extended to Germany after the first world war did help to build her aggressive policies that culminated in World War II; and in view of the historical certainty that new political relationships will be created in the near future, it is not excessive to say that before floating a foreign loan it should be the interest and the duty of the United States to ascertain whether:

1. The foreign nation which will receive the loan is willing to give this country a fair opportunity to do business with its people.
2. The money is going to be used for commercial purposes, and not to strengthen the foreign nation's military position.
3. The beneficiary of the loan is willing to co-operate with other countries to uphold the international order.
4. The government of the country receiving the loan does not uphold a political attitude antagonistic to our own democratic form of government.

These four points represent political issues beyond the realm or interest of financiers. They are entirely within the confines of our State Department, which is better prepared and more able to appraise the political and social consequences that a foreign loan may have, and not only on the borrowing nation, but also on the other nations of the world.

CHAPTER VII

THE RISKS

The Other Risks

When the domestic credit man is confronted with a request for credit, his efforts are directed toward determining the credit soundness of the buyer. Little or no attention will be paid to the general conditions of the community where the merchant is located. If the information gathered warrants the credit requested, the order is shipped without hesitation.

Such practice is not to be followed when considering the extention of credit to a foreign buyer. In fact, before the credit man investigates the buyer's responsibility, it is absolutely essential for him to study the conditions in the country where the importer is located as well as the hazard involved in the transaction itself.

This requisite takes us back to the previous discussion presented in Chapter VI relative to the underlying factors affecting the market. In passing, it would be worth repeating that, should the country where the importer is located suffer from general business upsets caused by political upheavals, business stagnation, or other unfortunate maladies, the attitude of the foreign credit man should be extremely conservative.

Besides the risk of the market, there are other hazards inherent in every foreign credit transaction, namely:

1. Marine,
2. Price,
3. Exchange,
4. Merchandise,
5. Credit.

Marine Risk

The origin of marine insurance cannot be determined with any certainty. There are evidences, however, that it has existed for over 700 years, and was introduced to commercial use at different times in different places.

The present form of policy can be traced back to the policy that prevailed in England in the early seventeenth century. In short, for over

B.

No.............

CARGO

PLEASE READ YOUR POLICY

INSURANCE COMPANY OF NORTH AMERICA

PHILADELPHIA, PA.

FOUNDED 1792

1.—All risks to be reported as soon as known and amounts declared as soon as ascertained.
2.—Proofs of loss to be authenticated by the Agent of this Company if there be one where such proofs are taken, otherwise by a Correspondent of the Board of Underwriters of New York if there be one where such proofs are taken, but if neither is represented, then by some other recognized Insurance Authority.
3.—The Company to be entitled to premium on all the risks covered hereby whether reported or not but should assured fail to report any such risks or to pay premium or premium note when due, then the policy as to all subsequent risks shall at the option of the Company become null and void.

.... *ON ACCOUNT OF* ....

In case of loss to be paid in funds current in the United States, to ....

Do make Insurance, and cause .... **to be insured, lost or not lost, at and from**

upon all kinds of lawful goods and merchandises, laden or to be laden on board the good

whereof is master for this present voyage **or whoever else shall go as master in the said vessel or by whatever other name or names the said vessel, or the master thereof, is or shall be named or called.**

Beginning the adventure upon the said goods and merchandises, from and immediately following the loading thereof on board of the said vessel, as aforesaid, and so shall continue and endure until the said goods and merchandises shall be safely landed as aforesaid. AND it shall and may be lawful for the said vessel, in her voyage, to proceed and sail to, touch and stay at, any ports or places, if thereunto obliged by stress of weather, or other unavoidable accident, without prejudice to this insurance. The said goods and merchandises, hereby insured, are valued (premium included) at

Touching the adventures and perils which the said INSURANCE COMPANY OF NORTH AMERICA is contented to bear, and takes upon itself in this voyage, they are of the *seas, fires, assailing thieves, jettisons, barratry of the master and mariners,* unless the assured on cargo be in part owner of the vessel, and all other perils, losses and misfortunes (illicit or contraband trade excepted in all cases), that have or shall come to the hurt, detriment or damage of the said goods and merchandises, or any part thereof. AND in case of any loss or misfortune, it shall be lawful and necessary to and for the assured, his or their factors, servants and assigns, to sue, labor and travel for, in and about the defence, safeguard and recovery of the said goods and merchandises, or any part thereof, without prejudice to this insurance, nor shall the acts of the assured or insurers, in recovering, saving and preserving the property insured, in case of disaster, be considered a waiver or an acceptance of abandonment, to the charges whereof, the said Insurance Company will contribute according to the rate and quantity of the sum herein insured having been paid the consideration for this insurance by the assured, or his or their assigns, at and after the rate of

And in case of loss, such loss to be paid in thirty days after proof of loss, proof of interest, and adjustment thereof (the amount of the Note given for the premium, if unpaid, and all sums due to the Company from the assured when such loss becomes due being first deducted, and all sums coming due being first paid or secured to the satisfaction of the insurers), but no partial loss or particular average shall in any case be paid, unless amounting to *five per cent* PROVIDED ALWAYS, and it is hereby further agreed, that if the said assured shall have made any other insurance upon the property aforesaid, prior in day of date to this Policy, then the said INSURANCE COMPANY OF NORTH AMERICA shall be answerable only for so much as the amount of such prior insurance may be deficient towards fully covering the property hereby insured And the said INSURANCE COMPANY OF NORTH AMERICA shall return the premium upon so much of the sum by them insured as they shall be by such prior insurance exonerated from And in case of any insurance upon the said property subsequent in day of date to this policy, the said INSURANCE COMPANY OF NORTH AMERICA shall nevertheless be answerable for the full extent of the sum by them subscribed hereto without right to claim contribution from such subsequent insurers And shall accordingly be entitled to retain the premium by them received in the same manner as if no such subsequent insurance had been made Other insurance upon the property aforesaid, of date the same day as this policy, shall be deemed simultaneous herewith, and the said INSURANCE COMPANY OF NORTH AMERICA shall not be liable for more than a ratable contribution in the proportion of the sum by them insured to the aggregate of such simultaneous insurance.

Notwithstanding anything herein contained to the contrary, this insurance is warranted free from capture, seizure, arrest, restraint, detainment, confiscation, preemption, requisition or nationalization and the consequences thereof or of any attempt thereat, whether in time of peace or war and whether lawful or otherwise, also warranted free from all consequences of hostilities or warlike operations (whether there be a declaration of war or not), piracy, civil war, revolution, rebellion or insurrection, or civil strife arising therefrom Also warranted free of loss or damage caused by or resulting from strikes, lockouts, labor disturbances, riots, civil commotions or the acts of any person or persons taking part in any such occurrence or disorder.

MEMORANDUM It is also agreed, that bar, bundle, rod, hoop and sheet iron, wire of all kinds, tin plates, steel, madder, sumac, brooms, wicker-ware and willow (manufactured or otherwise), straw goods, salt, grain of all kinds, rice, tobacco, Indian meal, fruits (whether preserved or otherwise), cheese, dry fish, hay, vegetables and roots, paper, rags, hempen yarn, bags, cotton bagging, and other articles used for bags or bagging, pleasure carriages, household furniture, skins and hides, musical instruments, looking-glasses, and all other articles that are perishable in their own nature, are warranted by the assured free from average, unless general, hemp, tobacco stems, matting and cassia, except in boxes, free from average under *twenty per cent*, unless general, and sugar, flax, flax-seed and bread, are warranted by the assured free from average under *seven per cent*, unless general, and coffee, in bags or bulk, pepper, in bags or bulk, free from average under *ten per cent*, unless general Profits warranted free from claim for general average, but subject to the same per centum of partial loss as if the insurance were on goods In case a total loss of profits be claimed, the Company to be entitled to a credit of the same per centum of salvage as if the insurance were on goods, and in case of contribution in General Average for any portion of the goods at the customary sound value, this Company to be free from claim for loss on such portion. Not liable for loss of or damage to any goods shipped on deck

Warranted by the assured free from damage or injury from dampness, change of flavor, or being spotted, discolored, musty or mouldy, unless caused by actual contact of sea water with the articles damaged, occasioned by sea perils. In case of partial loss by perils insured against to dry goods, cutlery, or other hardware, the loss shall be ascertained by a separation and sale of the portion only of the contents of the packages so damaged, and not otherwise, and the same practice shall obtain as to all other merchandise as far as practicable Not liable for loss or damage to any merchandise resulting from breakage or leakage unless occasioned by stranding, sinking, fire, or collision with another vessel.

Warranted by the assured that this insurance shall not enure directly or indirectly to the benefit of the carrier or other bailee, by stipulation in bill of lading or otherwise, and any breach of this warranty, and any act or agreement by the assured, prior or subsequent hereto, whereby any carrier or party liable for or on account of loss of or damage to any property insured hereunder, is given the benefit of any insurance effected thereon, shall render this policy of insurance null and void.

In case of any agreement by the assured, prior or subsequent hereto, whereby any right of recovery of the assured for loss of or damage to any property insured hereunder, against any person or corporation, is released, impaired or lost, which would on acceptance of abandonment or payment of a loss by this Company, have enured to its benefit, but for such agreement or act, this Company shall not be bound to pay any loss, but its right to retain or recover the premium shall not be affected.

Warranted by the assured, that the assignment of this policy or of any insurable interest therein, as also that the subrogation of any right thereunder to any party, without the consent of this Company, shall render the insurance affected by such assignment or subrogation, void.

In Witness Whereof, the INSURANCE COMPANY OF NORTH AMERICA has caused these presents to be signed by its President and attested by its Secretary in the City of Philadelphia, Pennsylvania; but this policy shall not be valid unless countersigned by a duly authorized Agent of the Company.

Secretary *President*

Countersigned at............ **this**........ **day of**............ **19**....

............**Agent**

F 222 2M 11-30-41

Illustration 32. MARINE INSURANCE POLICY.

.... (NAME OF ASSURED) ....

Payee 1. For account of whom it may concern—loss, if any, payable to ....

Goods Insured 2. This policy insures all shipments of lawful goods and/or merchandise of every kind and description, consisting principally of ....

Insurable Interest 3. The insurance provided by this policy shall attach and cover all shipments in which the assured has an insurable interest, whether made by or to the assured, for their own account as principals or as agents for others or for the account of others from whom written instructions to insure have been received prior to sailing of vessel and before any known or reported loss, damage or accident.

Average Terms 4. (a) AVERAGE TERMS AND CONDITIONS EXCEPT WHILE ON DECK.

(b) ON DECK·
Merchandise and/or goods while On Deck (which must be so declared by the assured) are insured—
Free of Particular Average unless caused by the vessel being stranded, sunk, burnt, on fire, or in collision, but including jettison and/or washing overboard irrespective of percentage

Shore Risk 5. Where this policy by its terms covers while on docks, wharves, or elsewhere on shore and/or during land transportation, such coverage shall include the risks of collision, derailment or overturning of the conveyance, fire, sprinkler leakage, cyclones, hurricanes, earthquakes, floods (meaning the rising of navigable waters), and/or collapse or subsidence of docks, piers or other structures, and to pay loss or damage caused thereby, even though the insurance be otherwise F P. A.

Voyages Covered 6. AT AND FROM:

Valuation 7. Valued at amount of invoice including all charges therein, plus any prepaid and/or advanced and/or guaranteed freight not included in the invoice, plus %, to which shall be added, as part of the valuation, any marine and war risk premiums, payable by the assured on the foregoing items and not included in the invoice, foreign currency to be converted into dollars at bankers' sight rate of exchange applicable to each invoice and/or credit and/or draft

Vessels 8. Per iron or steel steamers, iron or steel motor vessels (but excluding all auxiliary-engined vessels) and connecting conveyances.

Warehouse to Warehouse 9. This insurance attaches from the time the goods leave the Warehouse and/or Store at the place named in the declaration, certificate or special policy for the commencement of the transit and continues during the ordinary course of transit, including customary transhipment, if any, until the goods are discharged overside from the overseas vessel at the final port Thereafter the insurance continues whilst the goods are in transit and/or awaiting transit until delivered to final warehouse at the destination named in the declaration, certificate or special policy or until the expiry of 15 days (or 30 days if the destination to which the goods are insured is outside the limits of the port) whichever shall first occur The time limits referred to above to be reckoned from midnight of the day on which the discharge overside of the goods hereby insured from the overseas vessel is completed Held covered at a premium to be arranged in the event of transhipment, if any, other than as above and/or in the event of delay in excess of the above time limits arising from circumstances beyond the control of the assured
NOTE It is necessary for the assured to give prompt notice to Underwriters when he becomes aware of an event for which he is "held covered" under this policy, and the right to such cover is dependent on compliance with this obligation

Special Continuation 10. Provided prompt notice be given the insurers when such facts are known to the assured and additional premium be paid if required, it is understood and agreed that in case of short shipment in whole or in part by the vessel reported for insurance hereunder, or if the goods be transhipped by another vessel or vessels, or be carried beyond or discharged short of destination, or in the event of deviation, or change of voyage, or any interruption or other variation of the voyage or risk beyond the control of the assured, this insurance shall nevertheless cover the goods until arrival at the final destination named in the declaration, certificate or special policy or until the subject matter insured is no longer at the risk of the assured, whichever may first occur No additional risks (whether of delay or of any other description) are insured under this clause, which is intended merely to continue the insurance in force against the same risks named elsewhere in this policy, and if the risks of War, Strikes, Riots or Civil Commotions, or any of these risks, shall be insured against by endorsement hereon, the insurance against such risks shall not be extended by this clause to cover contrary to any express provision of such insurance

Explosion 11 The risks covered by this policy are to include damage to or destruction of the goods hereby insured, resulting from explosion howsoever or wheresoever occurring, provided same is shown not to have been caused by or attributable to any of the risks excluded by the terms of the "Free of Capture & Seizure" or "Strikes, Riots & Civil Commotions" clauses in this policy

Machinery 12 When the property insured under this policy includes a machine consisting when complete for sale or use of several parts, then in case of loss or damage covered by this insurance to any part of such machine this Company shall be liable only for the insured value of the part lost or damaged, or at the assured's option for the cost and expense, including labor and forwarding charges, of replacing the lost or damaged part, but in no event shall this Company be liable for more than the insured value of the complete machine

Labels 13 In case of damage from perils insured against affecting labels, capsules or wrappers, this Company, if liable therefor under the terms of this policy, shall be liable only for an amount sufficient to pay the cost of new labels, capsules or wrappers and the cost of relabelling the goods, but in no event shall this Company be liable for more than the insured value of the damaged merchandise

Attachment & Cancellation 14 This policy to be deemed continuous and to cover and attach on all goods shipped on and after , and is to continue in force thereafter until cancelled by either party giving the other 30 days' written notice, such cancelment, however, not to prejudice any risk in transit at the termination of that period

Limits of Liability 15 This Company shall not be liable for more than $ by any one vessel or conveyance or in any one place at any one time, unless otherwise agreed upon in writing, but in respect of shipments on deck it is understood and agreed that this insurance shall not attach or be liable for more than $ while stowed on board any one vessel

Accumulation 16 Should there be an accumulation of interests beyond the limits expressed in this policy by reason of any interruption of transit or occurrence beyond the control of the assured, or by reason of any casualty or at a transhipping point or on a connecting steamer or conveyance, this Company shall, provided notice be given to this Company as soon as known to the Assured, hold covered such excess interest and shall be liable for the full amount at risk, but in no event to exceed twice the policy limit

Error in Description 17 This insurance shall not be vitiated by any unintentional error in description of vessel, voyage or interest, but any such error must be reported to this Company as soon as known to the assured, and additional premium paid if required

Lighterage 18. Including (subject to all the terms herein) risks of craft to and from the vessel, each lighter, craft or conveyance to be considered as if separately insured, and to pay for total loss of any package or packages whilst loading, transhipping or discharging Also to cover any special or supplementary lighterage to take the goods to or from the warehouse, subject to an additional premium, if required. The assured are not to be prejudiced by any agreement exempting lightermen from liability

Bill of Lading Clauses 19. The assured are not to be prejudiced by the presence of the Negligence Clause and/or Latent Defect Clause in the Bills of Lading and/or Charter Party The seaworthiness of the vessel as between the assured and the insurers is hereby admitted

General Average 20 Including General Average and Salvage Charges according to United States law and usage and/or as per Foreign Statement and/or as per York-Antwerp Rules (as prescribed in whole or part), if in accordance with the Contract of Affreightment

Contributory Value 21. This Company shall be liable for only such proportion of General Average and Salvage Charges as the sum hereby insured (less Particular Average for which this Company is liable hereunder, if any) bears to the Contributory Value of the property hereby insured

Both-to-Blame 22. It is understood and agreed that where goods are shipped under a bill of lading containing the so-called "Both-to-Blame" Collision Clause this Company agrees, as to all losses covered by this insurance, to indemnify the assured for an amount (up to the amount insured) which the assured may be legally bound to pay to the shipowners under such clause In the event that such liability is asserted, the assured agree to notify the Company, who shall have the right at its own cost and expense, to defend the assured against such claim.

Delay 23 Notwithstanding anything contained herein to the contrary, this insurance is warranted free of claim for loss of market or for loss, expense, damage or deterioration arising from delay, whether such delay be caused by a peril insured against or otherwise, unless the risk of delay is specifically covered by endorsement

Declarations 24 (A) It is a condition of the liability of this Company that all risks hereunder be reported as soon as known to the assured and amounts declared as soon as ascertained, and should the assured fail to report risks covered hereby, then this policy as to all subsequent risks, shall become null and void if this Company shall so elect

Premiums (B) The Company is entitled to premiums, at rates of this Company, on all risks covered herein whether reported or not

Inspection of Records (C) This Company shall have the privilege, at any time during business hours, to inspect the records of the assured as respects shipments coming within the terms of this policy

Brokers 25. It is a condition of this policy, and it is hereby agreed, that the assured's brokers, , or any substituted brokers, shall be deemed to be exclusively the agents of the assured and not of this Company in any and all matters relating to, connected with or affecting this insurance Any notice given or mailed by or on behalf of this Company to the said brokers in connection with or affecting this insurance, or its cancellation, shall be deemed to have been delivered to the assured

Paramount Warranties 26 The following Warranties shall be paramount and shall not be modified or superseded by any other provision included herein or stamped or endorsed hereon unless such other provision refers specifically to the risks excluded by these warranties and expressly assumes the said risks.

F. C. & S. (A) Notwithstanding anything herein contained to the contrary, this insurance is warranted free from capture, seizure, arrest, restraint, detainment, confiscation, preemption, requisition or nationalization, and the consequences thereof or of any attempt thereat, whether in time of peace or war and whether lawful or otherwise; also warranted free from all consequences of hostilities or warlike operations (whether there be a declaration of war or not), piracy, civil war, revolution, rebellion or insurrection, or civil strife arising therefrom.

S. R. & C. C. (B) Warranted free of loss or damage caused by or resulting from strikes, lockouts, labor disturbances, riots, civil commotions or the acts of any person or persons taking part in any such occurrence or disorder.

Attaching to and forming part of Policy No.......................... of the ....

Date ....

B-316 5M 10-25-42

Illustration 32. MARINE INSURANCE POLICY (*Continued*).

300 years the wording of the policies has not changed to any great extent. In this fact may be found the reason for the archaic form of language used in the present-day policy, which led a well-known marine insurance broker to remark in utter bewilderment and full sincerity that a marine insurance policy is not intended to be understood by anybody. When it is read, the reader should bear in mind the many court decisions and traditions bearing so heavily on the meaning of the policy's wording. That is another way of saying that the subject of marine insurance is a highly technical subject.[1]

Marine risk is commonly known as *transportation risk,* and it might be generally defined as the danger to which merchandise is exposed while being transported by vessel from one port to another.

The responsibility assumed by the carrier for any loss or damage the goods might suffer while in transit is negligible. The carrier's liability is limited by the provisions set forth in the bill of lading, and also by statutes of law and common practice. Therefore it is of prime importance for the shipper to protect himself against possible damages to, or destruction of, the goods while being transported by an ocean carrier. He obtains this protection by transferring the risk to a marine insurance company upon the payment of a specified sum of money, which is called a *premium.*

The most common hazards faced while goods are in transit are:

1. The perils of the sea, which comprise storms, fog, lightning, icebergs, collision with other vessels, and any other peril due to the elements.
2. Fire.
3. Throwing goods overboard.
4. Theft or fraud on the part of members of the crew.
5. Robbery by force, such as pirates or rovers.
6. War risk.
7. Strikes and lockouts.
8. Pilferage.
9. Possible losses that may occur while goods are being loaded or unloaded, or while on shore.
10. Miscellaneous damages, such as breakage through carelessness in handling, or because the cargo was not properly stowed; also heavy and sudden tropical rain before the shipment could be protected from damage.

The liability of the insurance company is limited by the provisions set forth in the policy. The degree of protection extended by the under-

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[1] For those who care to obtain more detailed information on this subject, the author recommends the following books: *Marine Insurance,* by William Gow, published by Macmillan & Company, Ltd.; *Marine Insurance,* by Solomon S. Huebner, published by D. Appleton & Company; and *Marine Insurance,* by W. D. Winter, published by McGraw-Hill & Company, Inc.

writer depends on the coverage the shipper needs or desires to protect his cargo, and on the willingness of the insurance company to assume the risk or risks outlined by the shipper.

Obviously the cost of the insurance increases in direct proportion to the hazards assumed by the underwriter.

It is the practice to insure foreign shipments for the account of the importer. The type of insurance to be taken rests, therefore, primarily with the buyer. It is his duty to inform the exporter concerning the degree of protection he requires; that is, the kind of insurance he wants. If the foreign buyer intends to insure the shipment through his own company, he should pass that information on to the exporter. Under these circumstances the rule should be for the exporter to make sure that the foreign buyer will arrange for all insurance; and it might not be wasted effort to obtain the name of the insurance company the importer will use, and inquire about the financial strength and responsibility of this underwriter. Ordinarily, the buyer who insures his own shipments supplies certain blanks which are filled out and returned when the shipping documents are sent to the consignee.

At this point it will be worth mentioning that the foreign credit man should request the merchandise department, the shipping department, or whoever has charge of the insurance work, to protect the company against any possible loss. Furthermore it should be his policy not to allow any sight draft sales to be accepted unless the marine insurance, which should cover all risks, is placed with his own insurance company or through his own broker.

The explanation for this attitude rests on the fact that, should the buyer refuse to accept the shipment, the foreign credit man is fully protected in case of loss or damage sustained while the shipment is transported or remains unclaimed by the consignee at the port of entry.

If the exporter intends to discount his foreign draft at the bank, it will be necessary for him to carry full marine insurance; that is, it should cover protection against total loss of the shipment, partial loss, "general average," war risk, and even contain coverage from "warehouse to warehouse."

All Risks is the protection extended by the insurance company to a shipper against any and all losses he might sustain, brought about by external causes except war risks, strikes, or civil commotions.

Average. In marine insurance, *average* means any loss or damage caused by the peril of the sea. The word comes from the French *Avarie.*

Cargo is the merchandise carried by a vessel.

Freight. In insurance, freight represents the money paid by an exporter to a steamship company for carrying his shipment abroad.

Manifest is a document on which is listed and described all the property carried by a vessel for which bills of lading have been issued.

Particular Average represents the partial loss of some property caused by a marine peril.

Premium in marine insurance means the money paid by a shipper to protect his cargo against some specified loss.

Rider is the term for any additional wording attached to a policy by the insurance company.

Insurance broker. The purpose of the insurance broker is to serve as a guiding expert through the maze of marine insurance. Marine insurance is a very complex business, extremely technical, and surely unfamiliar to the average businessman or merchant. This complexity naturally makes the insurance broker quite indispensable to anyone engaged in foreign trade.

In other words, when an exporter obtains the services of a responsible insurance broker, he has on his own staff a man who is thoroughly conversant with sound marine insurance policies, who is an expert in this field, knows the intricacies and short cuts of the trade, and is fully familiar with the technicalities of this highly specialized business.

The foregoing statement leads to the conclusion that the broker is well suited to secure concessions from the insurance companies that the layman could never obtain. This is so, not only because of the broker's wide knowledge of insurance, but also because of his ability to bring to the underwriter a larger volume of business than the isolated exporter could offer.

The insurance broker's duties are:

1. To submit to the insurance companies proposals received from his own clients.

2. To advise his clients as to the type of insurance they should carry, and keep them informed on market regulations and changes.

3. To request and negotiate quotations for insurance policies, thus obtaining the best conditions at the best rates.

4. To protect the shipper against unreasonable demands that insurance companies may present.

5. To attend to clearing any claims the shipper may present for losses sustained.

As a final note, it is worth mentioning that all premiums for insuring goods are paid by the shipper to the broker, who in turn forwards the amount to the underwriter less his brokerage commission. Should the broker fail financially without having turned in the money to the underwriter, the insurance company will demand payment of the premium from the insured.

General average. The basic features of the principle of general average are that the ship owner as well as the cargo owners must assume a certain percentage of any loss or damage suffered by the goods while in transit.

If, for example, it becomes necessary to destroy or throw overboard part of the cargo in order to save most of it, the ship owner and the cargo owners are liable for the loss entailed. When the merchandise is insured, then the insurance company will bear the loss of the shipper.

Let us assume that several exporters ship goods abroad on the same ship, and, because of some real danger or peril, it becomes necessary to throw overboard a portion of the cargo valued at $2,000. Let us also assume that the steamer is worth $20,000, and the exporters 1, 2, and 3, each had $5,000 worth of merchandise on the ship.

The ship is valued at	$20,000
Exporter No. 1	5,000
Exporter No. 2	5,000
Exporter No. 3	5,000
Total value	$35,000

Hence, the ship owner will contribute $\frac{20.000}{35,000}$ or 4/7 of $2,000.

Exporters 1, 2, and 3 will contribute $\frac{5,000}{35,000}$ or 1/7 of $2,000, or $285.71 each.

If we also assume that the shipment was insured, then the exporter will suffer no loss, since the insurance company will pay the amount the shipper is supposed to contribute as his share.

Open policy. An open policy is a binding contract with an insurance company containing conditions of coverage, limits of liability, and usually a schedule of rates applicable to various commodities. It extends protection to all shipments made by an exporter, provided, of course, that the exporter agrees to declare all of his shipments to the insurance company, and to pay the prescribed premium. The information required by the insurance company is:

1. The name of the steamer.
2. Sailing date.
3. Bill of lading date.
4. Shipping point.
5. Point of arrival.
6. Value of the shipment.
7. Type of coverage desired.

This type of policy remains in force until canceled by either party.

Under this policy responsible exporters receive authority from the underwriters to issue their own certificates to cover their shipments of goods abroad authorized in the policy.

The certificate. The marine insurance certificate, commonly known to exporters as the insurance certificate, is issued for the purpose of replacing the marine insurance policy. It avoids the necessity for issuing copies of the policy every time a shipment is made. The certificate is issued, usually, in sets of four. The original is forwarded to the importer

Form 5813

3

CERTIFICATE OF INSURANCE No. F

[illegible] INSURANCE COMPANY

INCORPORATED UNDER THE LAWS OF NEW JERSEY

[illegible] & CO., Managers

No. [illegible] JOHN STREET, NEW YORK 7, N. Y.

NEW YORK, N. Y. .... 19...

This is to Certify, *That this Company has insured under Policy No.*

for ....

the sum of .... *Dollars*

on ....

valued at .... *shipped on board of the* ....

at and from ....

to ....

It is understood and agreed that in case of loss the same is payable to the order of

....

on surrender of this certificate, which conveys the right of collecting any such loss as fully as if the property were covered by a special policy direct to the holder hereof, and free from any liability for unpaid premiums. This certificate is subject to all the terms of the open policy provided, however, that the rights of a bona fide holder of this certificate for value shall not be prejudiced by any terms of the open policy which are in conflict with the terms of this certificate.

The following Warranties shall be paramount and shall not be modified or superseded by any other provision included herein or stamped or endorsed hereon unless such other provision refers specifically to the risks excluded by these warranties and expressly assumes the said risk.

(A) Notwithstanding anything herein contained to the contrary, this insurance is warranted free from capture, seizure, arrest, restraint, detainment, confiscation, preemption, requisition or nationalization and the consequences thereof or any attempt thereat, whether in time of peace or war and whether lawful or otherwise; also warranted free from all consequences of hostilities or warlike operations (whether there be a declaration of war or not), but this warranty shall not exclude collision, contact with any fixed or floating object (other than a mine or torpedo), stranding, heavy weather or fire unless caused directly (and independently of the nature of the voyage or service which the vessel concerned or, in the case of a collision, any other vessel involved therein, is performing) by a hostile act by or against a belligerent power; and for the purpose of this warranty "power" includes any authority maintaining naval, military or air forces in association with a power.

Further warranted free from the consequences of civil war, revolution, rebellion, insurrection, or civil strife arising therefrom, or piracy.

(B) Warranted free of loss or damage caused by or resulting from strikes, lockouts, labor disturbances, riots, civil commotions or the acts of any person or persons taking part in any such occurrence or disorder.

In case of loss or damage please follow instructions on the reverse side of this certificate.

It is hereby agreed that any loss or claim under this Certificate shall be paid at the office of the Company in New York, or at the offices of the Agents of the Company, Exchange Buildings, Liverpool, or at the Agency of the Company at port or place of destination, or, if the Company is not represented at port or place of destination, at the nearest Agency amongst those specified in the list on back hereof.

Claims to be adjusted according to the usages of Lloyds but subject to the conditions of the Policy and Contract of Insurance.

NOTICE—To conform with the Revenue Laws of Great Britain in order to collect a claim under this Certificate, it must be stamped within ten days after its receipt in the United Kingdom.

Original and Duplicate issued, one of which being accomplished the other to stand null and void.

SPECIAL CONDITIONS

Marks and Numbers

Where the words "including M. E. C." are typed in the space below at the time the certificate is issued this insurance is subject to the American Institute Marine Extension Clauses (April 1943).

Where the words "including Strike Risks" are typed in the space below at the time the certificate is issued this insurance is subject to the American Institute S. R. & C. C. Clauses form 5 A (Feb. 1941).

Where the words "including War Risk" are typed in the space below at the time the certificate is issued this insurance is subject to the American Institute War Risk Clauses, form 4 I (July 1943).

ON DECK—Merchandise and/or goods shipped on deck which must be so specified in this certificate are insured—Free of particular average unless caused by the vessel being stranded, sunk, burnt, on fire, or in collision, but including jettison and/or washing overboard, irrespective of percentage.

1. This insurance attaches from the time the goods leave the Warehouse and/or Store at the place named in the certificate or special policy for the commencement of the transit and continues during the ordinary course of transit, including customary transhipment if any, until the goods are discharged overside from the overseas vessel at the final port. Thereafter the insurance continues whilst the goods are in transit and/or awaiting transit until delivered to final warehouse at the destination named in the certificate or special policy or until the expiry of [illegible] days (or 30 days if the destination to which the goods are insured is outside the limits of the port) whichever shall first occur. The time limits referred to above to be reckoned from midnight of the day on which the discharge overside of the goods hereby insured from the overseas vessel is completed. Held covered at a premium to be arranged in the event of transhipment, if any, other than as above and/or in the event of delay in excess of the above time limits arising from circumstances beyond the control of the Assured.

2. Held covered while on craft to and from the vessel. Each lighter or craft to be considered as if separately insured. The Assured not to be prejudiced by any agreement exempting lightermen from liability.

3. This insurance shall not be vitiated by any unintentional error in description of vessel, voyage or interest, or by deviation, over carriage, change of voyage, transhipment or any other interruption of the ordinary course of transit from causes beyond the control of the Assured. It is agreed, however, that any such error, deviation or other occurrence mentioned above shall be reported to this Company as soon as known to the Assured, and additional premium paid if required.

4. Notwithstanding any average warranty contained herein, these assurers agree to pay any landing, warehousing, forwarding, or other expenses and/or particular charges for which this policy in the absence of such warranty would be liable. Also to pay the insured value of any package, piece or unit totally lost in loading, transhipping or discharge.

5. In case of loss or injury to any part of a machine consisting, when complete for sale or use, of several parts, these assurers, if liable therefor under the terms of this policy, shall only be liable for the insured value of the part lost or damaged.

6. In case of damage affecting labels, capsules or wrappers, these assurers, if liable therefor under the terms of this policy, shall be liable only for an amount sufficient to pay the cost of new labels, capsules or wrappers, and the cost of reconditioning the goods.

7. Including General Average and Salvage Charges according to United States laws and usage and/or as per Foreign Statement and/or as per York Antwerp Rules (as prescribed in whole or in part) if in accordance with the Contract of Affreightment.

8. Including the risk of explosion, howsoever or wheresoever occurring during the currency of this insurance, unless excluded by the F. C. & S. Clause or the S. R. & C. C. Clause set forth herein.

9. Where this policy by its terms covers while on docks, wharves or elsewhere on shore and/or during land transportation, such coverage shall include the risks of collision, derailment or overturning of the conveyance, fire, cyclones, hurricanes, earthquakes, floods (meaning the rising of navigable waters), and/or collapse or subsidence of docks, and to pay loss or damage caused thereby even though the insurance be otherwise F. P. A.

10. The assured are not to be prejudiced by the presence of the negligence clause and/or latent defect clause in the Bills of Lading and/or Charter Party. The seaworthiness of the vessel as between the assured and the Underwriters is hereby admitted and the wrongful act or misconduct of the shipowner or his servants causing a loss is not to defeat the recovery by an innocent assured if the loss in the absence of such wrongful act or misconduct would have been a loss recoverable on the policy. With leave to sail with or without pilots, and to tow and assist vessels or craft in all situations, and to be towed.

11. Warranted free of claim for loss of market or for loss, damage or deterioration arising from delay, whether such delay be caused by a peril insured against or otherwise, unless the risk of delay is expressly assumed in writing hereon.

12. Where goods are shipped under a Bill of Lading containing the so-called "Both to Blame Collision" Clause, these assurers agree, as to all losses covered by this insurance, to indemnify the assured for this policy's proportion of any amount (not exceeding the amount insured) which the assured may be legally bound to pay to the shipowners under such clause. In the event that such liability is asserted the assured agrees to notify the assurers who shall have the right at their own cost and expense to defend the assured against such claim.

13. Warranted that this insurance shall not inure, directly or indirectly, to the benefit of any carrier or bailee.

Not valid unless countersigned by an authorized representative of the Company

Countersigned, ...

[illegible signature] & Co., *Managers.*

Printed in U. S. A. 82151

Illustration 33. CERTIFICATE OF INSURANCE.

INSTRUCTIONS TO CLAIMANTS

Any loss or damage which may happen to the property insured under this certificate shall be reported as soon as the goods are landed or the loss is known or expected to the agent of the Insurers located at the port of discharge or disaster (see list below). If there be no such agent at or near such port, such notice shall be given to an accredited representative of the Board of Underwriters of New York. In case of loss or damage produce this certificate for said agent's or representative's inspection and request him to hold a survey and issue a certificate stating the cause and extent of the loss or damage. If there be no agent of the Insurers at the port of discharge or disaster, nor a representative of the Board of Underwriters of New York, certificate of survey should be obtained from Lloyds agent at destination.

After the foregoing formalities have been complied with the complete documents (survey report, policy, invoice, bill of lading, letter to carrier and latter's reply) should be sent to the Insurer's agents (named below) to enable them to decide as to the liability of the Insurers.

IMPORTANT NOTICE

When cargo is received from the carrier in a damaged condition, or in case of loss by theft, pilferage, non-delivery or negligence (if covered by this insurance) in order to save for yourselves or your underwriters, any rights which you may have against the carrier, it is necessary for you to file notice of claim in writing against the carrier before taking delivery of the goods. Claim in writing must be filed with the carrier as soon as the actual loss or damage is known and a copy thereof and a reply thereto must accompany any claim presented under this insurance certificate, in addition to the usual certificate of loss issued by the Underwriters Agent. Filing claim against the carrier will not affect your rights under your insurance certificate.

AGENCIES OF THE FEDERAL INSURANCE COMPANY, WHERE CLAIMS MAY BE PRESENTED FOR PAYMENT

U. S. A. AND CANADA

NEW YORK — & Son, Managers, Head Office—90 John Street
ATLANTA — & Son, Managers, Branch Office—1024 Hurt Bldg.
CHICAGO — & Son, Mgrs., Branch Office—Insurance Exchange
MONTREAL — Son, Mgrs., Branch Office—Royal Bank Bldg.
ROCHESTER — & Son, Mgrs., Branch Office—1410 Lincoln Alliance Bank Building
BOSTON — Burt, Dalton & Church, 53 Broad Street
LOS ANGELES — Seyler Day Company, 7 4 South Spring Street
SAN FRANCISCO — Raibbor [illegible] 314 Sansome Street
SEATTLE — Fowden [illegible] Building
VANCOUVER CITY — Chas Gardner Johnson [illegible] Hastings St. W.
VICTORIA, B. C. — Rithet Consolidated Ltd.

UNITED KINGDOM

BELFAST (Surveys only) — James Johnston & Son, 8 Waring Street
LIVERPOOL — Sea Insurance Co. Ltd. Exchange Buildings
LONDON (Surveys only) — E. L. Johnson's Sons & Mowat, 37 Walbrook, London, E.C. 4

EUROPE

AMSTERDAM — Bekouw & Mijnssen, Heerengracht 124/8
ANTWERP — Leon Van Peborgh (Fred Jamine—A. Verhaegen) 21 Rue Kipdorp
BARCELONA — Union Marine & General Insurance Co. Ltd. Fontanella 9
BERLIN — Willis, Faber & Hubener Agenturen G.m.b.H. Budapester Strasse 28 W. 62
BORDEAUX — Louis Berger, 25 Rue Saint Remi
BREMEN — F. Reck & Co. Postfach 619
BUCHAREST — Captain Louis L. Rakos Otthon—u 10 Budapest XI
COPENHAGEN — Heckscher & Son Successor, Amaliegade 39
DANZIG — Bergerans Shipping Co. Ltd. 3 Langer markt, Danzig
DUNKERQUE — A. Bourbonnaud & Co. 7 Rue Van Stabel
GENOA — Amministrazione Mackenzie, Casella Postale 434
GDYNIA — Bergenske Baltic Transports, Limited [illegible]
GIBRALTAR — Smith Imossi & Co.
GOTHENBURG — Lindahl & Collin, 52 Ostra Hamngatan
HAMBURG — Carstens & Schues [illegible] 27
HAVRE — Paul [illegible] 8 Place Jul [illegible]
ISTANBUL (Surveys only) — A. Gen [illegible] Galata P. [illegible] 1086
KLAIPEDA MEMEL — Dr. Michael Fratkin [illegible]
LISBON — James Rawes & Co. [illegible]
MALMO — Frick & Frick Ltd. Gust. [illegible] Torg 1
MALTA — T. C. Smith & Co. [illegible] Valetta
MARSEILLES — Stephen Gauber, 7 Rue [illegible]
NAPLES — Holme & Co. 128/A Via A. Depretis
OPORTO — Rawes & Co. Rua da Nova Alfandega
OSLO — William Shepley [illegible] 15
PARIS — Jacques [illegible]
PIRAEUS — J. A. Saunders 77 [illegible] Street and 6 [illegible] St. Athens
REVAL — E. Sporleder Ltd. [illegible]
ROTTERDAM — W. Ledeboer Wijnhaven 105
SALONICA — [illegible] & Sons
STOCKHOLM — A. B. Matthiessen & Son [illegible] 2
SWITZERLAND — Dr. Carl Ott Case Postale 1971 Neuchatel
TRIESTE — Edgar Henry Cressham P.O. Box 428, Via Della Bo[illegible] 3 (Terge[illegible])

Sub-Agents:
FIUME — Fratelli Gerbo P.O. Box [illegible]
ZARA — [illegible]
DUBROVNIK — [illegible]
VOLO — J. A. Saunders
WARSAW — Bain & Symowle SP. Zo. O. 16/10 [illegible] Przodm

ASIA

AMARAH, Kut, Khorramshahr, Ahwaz, Bahrein, Koweit, Muscat, Dibai, Bushire, Bunderabbas, and Lingah — Gray Mackenzie & Co. Ltd.
BAGDAD — Stephen Lynch & Co. Ltd.
BANGKOK — The Manager, The Borneo Co. Ltd.
BATAVIA — Maclaine Watson & Co.
BEYROUT — J. V. Delbourgo & Son, P.O. Box 104
BOMBAY — Gillanders Arbuthnot & Co., Patel House, Churchgate St. Fort
BUSHIRE — Gray Mackenzie & Co., Ltd.
BUSREH — Gray Mackenzie & Co. Ltd.
CALCUTTA — Bird & Co., P.O. Box 46
CANTON — G. E. Huygen, 11 Sai Hing Kai, P.O. Box 112
COCANADA — The Coromandel Co. Ltd.
COCHIN — Pierce Leslie & Co. Ltd.
COLOMBO — Aitken Spence & Co. Ltd. P.O. Box 5
DELHI (Surveys only) — Gillanders Arbuthnot & Co., Imperial Bank Chas.
FUSAN (Chosen) — Y. Tanaka & Co.
GENSAN (Chosen) — Bennett & Co., Nissen Kaiun Bld. No. 2, Hon Machi 4 Chome
HAIFA — J. V. Delbourgo & Son
HARBIN — Butterfield & Swire (Japan) Ltd.
FOOCHOW — Dodwell & Co. Ltd.
HANKOW — American Foreign Ins. Association
HONG KONG — J. M. Da Rocha & Co. 6 Des Voeux Road, Central P.O. Box 400, Bank of Canton Bldg.
JAFFA — J. V. Delbourgo & Son
KARACHI — Forbes Forbes, Campbell & Co. Ltd. P.O. Box 10
KERMANSHAH — Stephen Lynch & Co. Ltd.
KOBE — Dodwell & Company
LAHORE (Surveys only) — Gillanders Arbuthnot & Co. The Mall
MACASSAR — Michael Stephens & Co., Ltd.
MADRAS — Wilson & Co., P.O. Box 2, 5/8 Jehangir Street, George Town
MANGALORE — Pierce Leslie & Co. Ltd.
MANILA — Warner Barnes & Co. Ltd. P.O. Box 494
NAGASAKI — Holme Ringer & Co.
NEWCHWANG — China Navigation Co., Ltd.
PADANG — Van Houten Steffan & Co.
PENANG — G. H. Slot & Co. Ltd. 2 Weld Quay
RANGOON — Geo. Gordon & Co. (Burma) Ltd., 25 Merchant Street, P.O. Box 29
SABANG — The Sabang Bay Harbour & Coal Co. Ltd.
SAIGON — Denis Freres, P.O. Box 9
SAMARANG — McNeill & Co.
SHANGHAI — American Foreign Ins. Association, No. 3 Canton Road
SINGAPORE — G. H. Slot & Co. Ltd. 3/5 Robinson Road
SOERABAYA — Fraser Eaton & Co.
SULTANABAD — Stephen Lynch & Co. Ltd.
TEHERAN — Stephen Lynch & Co. Ltd.
TEL AVIV — J. V. Delbourgo & Son, P.O.B. 2033
TIENTSIN — American Foreign Insurance Association
TRIPOLI (SYRIA) — J. V. Delbourgo & Son
TUTICORIN — The Madura Co. Ltd.
YOKOHAMA — Dodwell & Company

SOUTH AMERICA, MEXICO, CENTRAL AMERICA & WEST INDIES

ACAJUTLA — F. A. Gutierrez, Sonsonate
ANTOFAGASTA (Surveys only) — F. Barnett, Casilla 360
BAHIA BLANCA — C. H. Echeverria, San Martin 88
BAHIA — Cory Bros. & Co. Ltd. P.O. Box 38
BARRANQUILLA — Hijos de Ricardo A. Gonzales, Comercio y Libano (Apartado Aereo No. 79)
BOGOTA — American Foreign Insurance Association, R. H. Chapman Jr., Supervisor and L. [illegible] Earle Jr. Inspector, Avenida Jiminez de Quesada No. 8-5, Telefono No. 3818
BUENOS AYRES — F. D. O'Gracy & Co., Soc. Resp. Ltd. Avenida R. Saenz Pena 567
BUCARAMANGA — Jose Puyana U. Edificio Lury (Apartado Aereo No. 48)
BUENAVENTURA — Alfonso Isaacs R. c/o Echeverri & Cia. Ltda.
CALI — Alfonso Martinez A. Edificio J.G.B. (Apartado Nacional No. 128)
CALLAO (Surveys only) — H. M. Beausire & Co.
CARACAS — The British Trading Company, Apartado 1031, Caracas
CARTAGENA — H. Bentley, Edificio Andian (Apartado Aereo No. 104)
CEARA — Casa Salgado S.A. P.O. Box No. 1
CONCEPCION (Surveys only) — Gibbs & Co. Casilla 36c
COQUIMBO (Surveys only) — J. J. MacAuliffe Casilla 6D
CORINTO — C. L. Hinckel Ltd.
DEMERARA — Booker Bros. McConnell & Co. Ltd. Georgetown
EDEN (Surveys only) — J. M. Araujo
GUATEMALA — G. W. Franklin, Lloyd's Agent
GUAYAQUIL — Soc. Comercial Anglo Ecuatoriana Ltda. P.O. Box 410
HAVANA — Dussaq & Toral S.A. Lonja Bldg. 524/527
IQUIQUE (Surveys only) — Gibbs Williamson Ltda. 344 Calle San Martin
LA GUAIRA — The British Trading Company, Apartado 1031, Caracas
LIMA (Surveys only) — H. M. Beausire & Co.
MEDELLIN — Pedro P. Restrepo e Hijo. Cra. 50 [illegible] 48-70/76
MOLLENDO (Surveys only) — Wm. J. Donnelly
MONTEVIDEO — Edward M. Cooper, Calle Piedras 369
PANAMA — D. L. Bumber, P.O. Box 11, Panama City
PERNAMBUCO — John Alfred Thom, P.O. Box 66
PORTO ALEGRE — Wilson Sons & Co., Ltd. Praca Senador Florencio
RIO DE JANEIRO — W. S. Cunningham & L. R. Zander, P.O. Box 648, Av. Rio Branco, 111 1° Andar Sala 106
ROSARIO — A. P. Ferguson
SAN JOSE DE COSTA RICA — Lyon Hnos. & Cia Sucs. Sociedad Anonyma
SAN PAULO — Brazilian Warrant Agency & Finance Coy. Ltd. P.O. Box 914, Rua Alvares Penteado 23 2. Andar
SANTOS — E. Johnston & Co. Ltd. Rua do Commercio 71
ST. THOMAS, W. I. — The West Indian Co., Ltd.
TALCAHUANO (Surveys only) — Edward Hyde, Avenida Blanco Encalada 340, Casilla 108
TOCOPILLA (Surveys only) — Charles Wesley Nicholls, Casilla 68
VALPARAISO — Hanna & Co., P.O. Box 1910
VERA CRUZ — J. H. Drake, Morelos 1, Apartado 116

AFRICA

ALEXANDRIA AND CAIRO — Rodocanachi & Co.
ALGIERS — D. Vemian, 4, Boulevard Baudin
BEIRA — Manica Trading Co. Ltd. P.O. Box 14
BLOEMFONTEIN — Parry Leon & Hayhoe Ltd., P.O. Box 709 Barclays Bank Bldg. 105 St. Andrew St., Bloemfontein
CAPE TOWN — Thomson, Watson & Co., Atlas Bld. 52 St. Georges St.
CASABLANCA — Louis Bouchet, 8 Rue Colt
DAKAR — Cie Du Niger Francais, [illegible] Rue Decernet
DURBAN AND PORT NATAL — J. T. Rennie & Sons, 331 Smith Street
EAST LONDON — Parry Leon & Hayhoe Ltd., P.O. Box 2 Marine Chambers, 31 Cambridge Street
JOHANNESBURG — Parry Leon & Hayhoe Ltd. P.O. Box 3101, 30 Kerk Street
KHARTOUM — Gellatly Hankey & Co. (Sudan) Ltd., P.O. Box 17
KILINDINI — Smith Mackenzie & Co., P.O. Box 129
LAMU — Smith Mackenzie & Co., P.O. Box 120
LOURENCO MARQUES — Parry Leon & Hayhoe Ltd. Box 790
MAURITIUS — Ireland Fraser & Co. P.O. Box 56
MOMBASA — Smith, Mackenzie & Co. P.O. Box 120
PORT ELIZABETH — Parry Leon & Hayhoe Ltd. P.O. Box 185 & [illegible] Street
PORT SUDAN — Gellatly Hankey & Co. (Sudan) Ltd., P.O. Box 11
SUAKIM — Gellatly Hankey & Co. (Sudan) Ltd., P.O. Box 17
TAMATAVE — Etab. Rollo & De Chazal B.O.P. 39
TENERIFFE — Hamilton & Co. Apartado 103
ZANZIBAR — Smith Mackenzie & Co. P.O. Box 93
WEST COAST — John Holt & Co. (Liverpool) Ltd.
NIGERIA (Lagos, Kano, Warri, Port Harcourt, Calabar), GOLD COAST (Accra, Keta, Takoradi), TOGOLAND (Lome), DAHOMEY (Cotonou), CAMEROONS (Duala, Victoria, Kribi), FERNANDO PO (Sta. Isabel), GABOON (Libreville, Port Gentil), SPANISH GUINEA (Bata)

AUSTRALIA AND TASMANIA

SYDNEY — Alliance Assurance Co. Ltd. 97 Pitt Street
MELBOURNE — Alliance Assurance Co. Ltd., 410, Collins Street
ADELAIDE — Alliance Assurance Co. Ltd. 20, Grenfell Street
BRISBANE — Alliance Assurance Co. Ltd. 70 2 Eagle Street
PERTH — Alliance Assurance Co. Ltd. 96 St. George's Terrace
HOBART — Alliance Assurance Co. Ltd., 131 Macquarie Street
LAUNCESTON — Alliance Assurance Co., Ltd., c/o C. H. Smith & Co., Resident Inspector, Pty., Ltd.

NEW ZEALAND

WELLINGTON — Alliance Assurance Co., Ltd. 23/25 Grey Street
AUCKLAND — Alliance Assurance Co. Ltd. 5 O'Connell Street
DUNEDIN — Alliance Assurance Co., Ltd., Bond Street
CHRISTCHURCH — Alliance Assurance Co., Ltd. 135 Hereford Street
TIMARU — Alliance Assurance Co. Ltd. Stafford Street
INVERCARGILL — Alliance Assurance Co. Ltd., Dee St.
NAPIER — Alliance Assurance Co., Ltd., Hawkes Bay Farmers Co-op. Assn., Ltd.
NEW PLYMOUTH — Alliance Assurance Co. Ltd. Duff & Wynyard
WANGANUI — Alliance Assurance Co., Ltd., Freeman R. Jackson & Co., Ltd.

Illustration 33. CERTIFICATE OF INSURANCE—REVERSE SIDE.

with the other shipping documents, the duplicate is retained by the exporter for his record, the triplicate goes to the insurance company, and the broker receives the quadruplicate.

This document certifies that on a certain date, and in accordance with the terms of the policy made for, say, Iselin Jefferson Company, Inc., the undersigned insured ten bales of cotton piece goods amounting to $2,000, going forward per Steamer and/or Steamers, sailing from New York to Bombay, India.

The certificate states also that the loss, if any, is payable to the order of Iselin Jefferson Company, Inc., who may endorse the document in blank or in the name of the foreign buyer. Endorsement is accomplished in the same manner as with a check.

This document may be made "to order," or "to bearer." If made "to order," it must be endorsed to somebody or in blank. When a certificate is issued in the name of "to bearer," the holder of the document can claim

the payment, provided, of course, the bearer is able to produce documentary evidence to support his claim.

All marine insurance certificates must be countersigned by some person authorized by the insurance company.

Any claim made abroad against the certificate should be accompanied by the required shipping papers, such as the commercial invoice, bill of lading, and so forth, and such claims may be collected from the subagents of the insurance company.

Illustration No. 33 shows a marine insurance certificate; and Illustration No. 33A represents the reverse side of the certificate listing the places where the claim may be filed for payment.

War Risk

The *war risk* is not considered as a marine risk. The latter covers the perils of the sea, whereas the war risk refers to dangers present when the state of war exists. Even during peacetime, however, exporters do cover themselves against war risk to avoid any possible damage caused by floating mines.

Therefore, in order to obtain the necessary protection against possible losses that might occur because of the state of war, it is necessary for the shipper to request the underwriter to issue a policy covering such hazard.

The rates charged for this type of policy vary from time to time in accordance with the prevailing conditions. For example, if the state of war actually exists, the premiums are very high; whereas in peacetime the rates are proportionately lower, at times negligible.

During World War II the United States Government extended full protection to shippers through the War Shipping Administration by issuing policies to cover war risk. There were two different types: one for imports, and the other for exports.

Policies Covering A Single Shipment

When it is not practicable for a manufacturer or a commission house doing export business to obtain an open policy, he can still insure his foreign shipments by taking a policy against individual shipments. The policy includes most of the clauses found in the regular open policy. It may also embody special clauses adaptable to the particular kind of merchandise the exporter sells abroad. The premiums of course are higher than those charged for an open policy.

Warehouse to Warehouse

Originally marine insurance covered the risk only while the goods were in transit by water. That is, the coverage started after the cargo was loaded on the ship, and it ended when the goods were unloaded at the destination. This coverage was later extended to insure the mer-

chandise while it lay on the pier waiting to be loaded, and also after it was discharged at the port of arrival. The risks covered included fire and flood, and the policy was in force for a limited period of time.

This coverage has been extended even more, and today the insurance companies agree to give further protection by adding to the policy a clause called "Warehouse to Warehouse."

The purpose of this clause is to protect the shipper against possible losses that may occur while the goods are transported from the factory or warehouse of the seller in the United States to the factory or warehouse of the foreign buyer. "Warehouse to Warehouse," however, does not give any protection against unusual delays, unless the policy specifically allows such coverage. In other words, the coverage extended is for a limited period of time beyond which the insurance company is no longer responsible.

It is worthy of mention that, when shipping goods to a foreign buyer on the basis of sight draft, the shipper should consider the advisability of extending the period of coverage of the policy as much as possible, so as to obtain full protection in case the importer refuses to accept the shipment. A similar consideration should be given when goods are to be transported from this country to a foreign port and then moved to a town located in the interior of a country.

Collecting Insurance Claims

It is logical that before proceeding to make a claim against an insurance company the foreign credit man will ascertain whether the loss sustained is covered by the policy. If so, he will then proceed to obtain a certificate to that effect from the local agent of the insurance company explaining the nature of the damage and stating the amount of the loss. This is called a "survey."

In addition to this document, the insurance company must receive a copy of the bill of lading showing that the goods damaged were owned by the exporter, and a copy of the commercial invoice covering that particular transaction, plus any other documents that the insurance company might request later on as further proof for the claim filed.

These documents, together with a letter setting forth the value of the claim and the request for payment, are forwarded to the insurance company.

Price Risk

Considered in its bare aspects, the price risk is caused primarily by an unfavorable fluctuation in the prices of commodities. At such times unscrupulous merchants will take advantage of every opportunity to request the cancellation, or refuse the acceptance, of merchandise ordered. During normal times when prices are stable, the foreign

credit man will not experience any difficulties; but as soon as prices begin to fall it will be to his benefit to scrutinize the credit files, especially the reports of those buyers who have in the past given any indication of being too technical, have shown a knack for making claims, or have taken advantage of every opportunity to request some concession or other.

Another phase of this particular problem can be stated better by citing an actual case.

A Brazilian buyer called on a textile exporter and selected 100,000 yards of rayon. The pattern was plain, of standard weave, and this type of goods could be obtained, if available, wherever rayon cloth was manufactured. In other words, there was nothing exclusive about the material. The price per yard was 66 cents, so that the cost of the goods amounted to $66,000 without including transportation charges, insurance, and other incidentals. The terms proposed by the buyer were sight draft with documents attached.

When the order was presented to the foreign credit man, the first thought that struck his mind was: "Why should this buyer incur expenses in coming to the United States to buy rayon goods which he can purchase right in Brazil?"

The second point that also needed consideration was that the buyer would have to pay customs duty when the material entered Brazil, which would naturally increase the price of the merchandise above the price commonly paid in that market for this type of goods.

A rapid calculation brought out these facts:

Cost of the goods was	$66,000
Freight, Insurance, and other minor charges were about	6,700
Duties (assuming they were 40%)	26,400
	$99,100

so that before the goods reached the buyer's establishment they would cost close to $100,000.

The third issue had to do with what the buyer said when asked the price he had to charge the consumer in Brazil to make a profit on the transaction. His answer was that he had to sell the goods at $2.50 per yard. "No matter how rich Brazil might be," the foreign credit man could not help asking himself, "how many Brazilians care to pay $2.50 a yard for rayon that sooner or later they can obtain for much less money?"

The fourth consideration was the question of competition. Even if there was a scarcity of rayons in Brazil at the moment, the importer would no doubt find some resistance and competition.

The fifth consideration given to this transaction was the matter of exchange. Brazil has full control over all exchange transactions, and naturally dollars are first available to pay for imports not produced in

that country. This would mean that the allocation for the dollars needed to pay for the rayon when it reached the buyer might not be assigned immediately, and naturally the seller would be forced to wait for his money.

In closing, it is very obvious that there are certain factors in this transaction which clearly affect the credit of the buyer, and which cannot be overlooked, controlled, or changed by either the vendor or the buyer. Briefly stated, these factors are:

1. The possibility of a decline in the price of the goods, which might prompt the buyer to refuse them.
2. The transfer risk.
3. Local competition and high duties which add to the exporter's difficulties in disposing of the goods if the importer refuses to accept them.

This problem will be further clarified by bringing out other factors, which, incidentally, emphasize the validity of examining every phase of any foreign transaction, and calculating the various risks involved in any export deal. The facts are:

1. There was, at the time the importer ordered the goods, a scarcity of rayon in Brazil.
2. Prices had increased tremendously, which naturally prompted merchants to take chances when buying or replacing their inventories.
3. Since the importer was not doing any business in Brazil, he had not named an agent who could help if this deal did not materialize satisfactorily.

To the foreign credit man the problem became one of deciding how to sell without exposing himself to the hazards enumerated before. If he accepted the order as reported, that is, sight draft against documents, the possibility existed that the buyer might not care, or might not be able, to accept the goods when they reached Brazil. His refusal might be caused by a fall in prices or his inability to raise the money needed to pay for the goods and the duties. Consequently, the foreign credit man was forced to accept the order on the following conditions only:

1. Against irrevocable letter of credit, payable at sight in United States dollars on presentation of shipping documents.
2. Cash with order.

In summary, this case illustrates what in practice is generally called the price risk, the hazards inherent to sales made abroad under unfavorable conditions.

The Transfer Risk

The exchange risk is present whenever United States products are sold in any other currency than dollars. For example, if goods are sold to England and the prices are quoted in pounds sterling, the exporter

runs the risk that when the bill is paid by the importer and the proceeds are then converted by the seller into dollars, the conversion may yield a smaller amount than expected, as a result of a drop in the value of the pound sterling in terms of dollars. If, on the contrary, goods are sold to Chile, and the bill is submitted in dollars, the Chilean importer assumes the exchange risk. In other words, if the value of the dollar increases, the buyer in Chile will need an additional amount of pesos to make up for the rise in the value of the dollar. In the first case the loss suffered in the transaction is absorbed by the vendor. The importer bears the burden of the loss in the second case.

These two risks are some times erroneously bracketed under the name of *exchange risk.* They should not be confused. The American exporter is vulnerable to the *transfer risk* when he sells in dollars to a country that finds it difficult or might encounter difficulties in obtaining dollar exchange. The transfer risk is present whenever an importer is unable, or finds it arduous, to obtain dollar exchange which he needs to pay his foreign obligations.

For example, when the Chilean buyer, who owes to an American exporter a draft covering merchandise imported for $1,000, calls at the bank to honor the outstanding bill of exchange, and is informed by the bank that they have no dollars to sell him, the buyer, in spite of his willingness to pay the American exporter, will not be able to liquidate the matured draft. He is forced to postpone its payment until some future date when the bank has acquired dollar funds in the United States and is able to sell the Chilean importer the dollars he needs.

The risk is brought about, it might be said, by the inability of the buyer's country to create dollar balances in the United States. The natural question to ask is, "But why cannot Chile build up dollar balances in New York?"

Although this problem will be explained more in detail in Chapter XII, suffice it to say now that Chile cannot build dollar balances in the United States because this country does not import enough Chilean products to pay for the purchases Chile makes in this country. In other words, Chile buys more from us than we buy from it; hence there is a debit balance, and whenever that debit balance occurs there is a lack of dollars. That is the reason the Chilean buyer could not honor the outstanding draft at the time he called at the bank.

The exporter then runs the risk that the importer might not be able to honor the American draft when it falls due. These difficulties might occur after the goods have been shipped.

The risk may be very remote in some countries, but in others it is forever present. Between these two extreme cases, there is what might be called a middle ground. That is to say, there are certain countries which

do not present any immediate danger; but the contingency exists, nevertheless, that they might experience the difficulty of not being able to meet the importers' demand for dollar exchange.

The obvious question that must emerge from this discussion is: "But how is the foreign credit man to know when a country will experience such difficulties?"

The answer is presented in detail in Chapter XII, where foreign exchange and the balance of trade are discussed. For the present, suffice it to say that the reply to this question is found when the foreign credit man ascertains through the local banks and the Department of Commerce how much the foreign country is buying from us; and how much the United States is buying from the same country. If the foreign country's purchases are so active that it begins to use the balances it has in this country too rapidly, the foreign credit man will do well to proceed with caution. He should not, however, conclude, because the balance of trade is moving against the foreign country, that the country is in bad shape. He should, however, seek the advice of a foreign exchange expert. His bank should be able to help him.

It will also be worth while for the foreign credit man to study historical events that occurred just before and after 1932 when various countries went off the gold standard, others declared a moratorium, or "standstill," and still others "froze" or "blocked" all foreign payments. The factual study of these events will no doubt assist in answering and in clearing this problem. He will see that certain events precipitated the financial crisis that engulfed the whole world.

Finally, it might be said now that it is extremely important for the foreign credit man to ascertain:

1. The dollar balances the importer's country possesses in the United States.
2. Whether such balances are sufficient to meet current obligations representing the monthly importation of goods.
3. Whether the country has the necessary facilities to create the needed dollar balances to pay its obligations in this country.
4. Whether the country has any restrictions concerning the sale of foreign exchange.
5. Whether the country has in the past placed an embargo on the importation of goods or has in force a quota, thus limiting the amount of goods that could be shipped to and sold in that country.

It will be worth mentioning now that whenever an exporter sells goods abroad in any currency but his own, he should avoid the exchange risk by means of hedging.

For example, if an exporter is shipping hosiery to England for £1,000, and the draft will be due 30 days hence, he will have to sell to his bank

a month from today £1,000. Since the rate of exchange on the date of the contract made with the foreign buyer was $4 to the pound sterling, the exporter expects to get 30 days hence $4,000 for his £1,000.

If he intends to sell his £1,000 on the date the bill is honored in England, he might get the $4,000. If, on the other hand, the exchange goes up to, say, $4.05, he will get $4,050; and if the exchange declines to $3.95, he will get $3,950.

Therefore, wishing to avoid this exposure, he makes a contract with his bank to deliver to it, 30 days hence, £1,000 in London, at the rate of $4 to the pound sterling, or at some other rate acceptable to the exporter.

If the bank accepts the contract and agrees to buy this foreign currency, the exporter instructs the importer to deliver to some specified bank in London, which is the correspondent of the American bank, the amount of the bill representing the goods shipped, or £1,000.

This arrangement permits the exporter to eliminate the exchange risk when selling in a foreign currency.

The Merchandise Risk

In foreign trade the *merchandise risk* means the danger that exists when the foreign customer refuses to accept a shipment. The reason given as a rule is late delivery, or the failure of the quality of the merchandise to come up to the standard of the sample. The first obstacle can be removed by the exporter's adhering to delivery dates specified in the order. In the event of unavoidable delay, the exporter should always obtain authority from the customer or from the agent to postpone the shipment of merchandise for a definite period of time.

The second phase presents a more serious condition. In the case of cotton goods the solution calls for technical decision, which of course takes time. In some countries such disputes are submitted to the Chamber of Commerce for arbitration. Its decision is binding, and, should the case be taken to court, the judge accepts the decision of the investigating committee as the basis for his decision. In the majority of cases the seller prefers to allow a reduction in the price of the merchandise, or to resell the goods to a third party.

At this point it is worth mentioning that the contract covering the sale of goods must be drawn to conform to the general business practice and the laws of the country where the importer is located. On page 31 is presented a detailed discussion of the foreign sales contract.

The Credit Risk and the Policy of the Exporter

The question of *credit risk* was dealt with when the various factors affecting foreign credits were discussed. This risk is present whenever goods are sold abroad on terms other than cash or its equivalent. It can

be eliminated when the importer is willing to buy against letters of credit, is able to pay cash on receipt of documents, or when he advances a payment on account and the balance is payable on presentation of documents.

Closely related to the credit risk is the attitude or policy the house has toward credit. In brief, the firm might prefer to prescribe a liberal policy in granting foreign credits. The decision will be, of course, a manifestation of some previous sound reasoning.

It is a known fact that certain firms do obtain larger profits than others, even though they sell the same product. Such concerns, naturally, are justified in following a liberal policy in extending foreign credits. Again it might be that a house, knowing well its cost of production, is quite aware that it will soon enough decrease its cost as production increases. There can be no quarrel if the concern decides to extend foreign credits in a liberal way.

It also could be that competition is so keen that the exporter finds it necessary to adopt a liberal policy in granting foreign credits: this is justified if the exporter possesses sufficient financial backing to carry on such a policy.

The nature of export business is such that it requires a certain liberality in terms of sale. In domestic business, similar conditions exist—for example, when a vendor deals with farmers or sells patent medicines—for farmers require longer terms than, say, cotton converters.

Under these conditions, the foreign credit man is given a free hand. So much so that, when he grants credit, he relies primarily on the character and the ability of the importer as a business man. It might be added that credit then becomes a source of capital for the foreign merchant.

To follow this sort of policy with any amount of success requires a constant watch of the accounts and periodical visits to the market. Such precautions will permit the credit grantor to judge current tendencies and to visualize and appreciate to some extent the trend that business will take in the near future. In other words, whenever a foreign credit man is called upon to grant liberal credits, he must above all interpret the information he has marshaled not only on its present aspect, but also in its respect to the future.

The credit man's past experiences, his capacity to feel or to sense the meanings of events that so frequently cast significant shadows affecting the future of a country's commerce, as well as his knack of responding to hunches, which are nothing else than "reasons that the reason knows nothing about," will invariably permit the foreign credit grantor to succeed in his work.

If, on the other hand, the house adopts a conservative policy in the

granting of foreign credits, the credit executive will naturally proceed to exercise due care in the extension of credit, and will thoroughly consider the various factors affecting the credit risk.

GENERAL POLICIES TO BE CONSIDERED

Credit Policies

Much of the success and profit to be derived from export business depends principally on the type of importer to whom goods are sold. The very first step to be taken by the credit department, therefore, is to give preference to those merchants who are well known throughout the trade for their integrity and responsibility. Thus from the very beginning the foreign credit man strives to define the character of his firm and build prestige among foreign merchants. Perhaps at first it will be difficult to obtain business, since foreign traders have a great aversion to change, but in time the exporter will find this policy most beneficial.

"Cria fama y acuestate a dormir" is an old Spanish saying, meaning that in life name and renown go far. To Shakespeare's flippant question, "What's in a name?" the business man could answer: "Everything, or nothing!"

To build such prestige the credit man contributes his share by the efficient and rapid manner in which he makes satisfactory credit arrangements with the importers.

To accomplish this it would be advisable to instruct the agent quite fully concerning the policies of the credit department. Every issue should be clearly defined, nothing left to chance.

The agent should know the terms to be granted; rate of interest to be charged for any extra time taken by the buyers in settling their accounts; guarantees to be accepted, if any; discounts granted for cash sales; and, finally, whether he should be allowed to grant extensions or allow deductions on any open bill. In a word, the credit man will define his stand beforehand on every issue within his province, thus avoiding differences and misunderstandings.

Bank's Policy Toward the Importers

If the foreign credit man is fortunate enough to uncover the attitude of the bank toward a foreign buyer seeking credit, he acquires valuable information that will enable him to judge the importer's power to command credit in his own country.

Unfortunately such detailed information is rarely divulged by foreign banks. Their reports as a rule are of a general nature, seldom revealing the bank's own judgment about the merchant.

The only way to get such a report is to inquire directly of the im-

porter, or through the foreign agent. Once this information is received, the credit man may verify it at the bank.

If the bank grants the merchant a line of credit, a special effort should be made to determine what conditions were required in granting the loan. Often it is fully guaranteed by mortgages, personal signatures, or some collateral that protects the bank entirely.

When the banks follow a too conservative credit policy with the merchants, its results are detrimental to exporters. The merchants needing cash to pay their import duties or other obligations will turn to loan sharks, who always demand exorbitant rates of interest and guarantees, such as liens on the merchant's inventory. This procedure as a rule brings grief and losses.

Is the Merchandise Suitable for the Market?

The first thing a banker wants to know, when discounting a foreign bill, is whether the goods covered by the draft are suitable for the market; so that if the drawee refuses to honor the obligation there will be no difficulty in disposing of the merchandise.

When the merchandise is greatly in demand in a particular market, the foreign credit man will not encounter difficulties in collecting his bills. The merchants are too anxious to reap profits and will readily liquidate their bills, thus enabling themselves to obtain more goods on credit.

In such conditions the foreign credit man is bound to be liberal in extending credit. On the other hand, when a small profit is realized from the merchandise, the tendency is to be cautious.

The Trend of the Market

A prolonged period of unstable prices combined with an oversupply of commodities, high rates of exchange, plus the lack of banking facilities to remedy or to ease the situation, will undoubtedly have a damaging effect on the general conditions of the country. During such periods foreign wholesalers become wary and prefer not to increase their stock. Forgetting for a moment the effect this situation will have on collecting foreign bills, and instead examining what takes place in the market where there is such business stagnation, we find that, in the first place, retailers carrying small stocks and selling for cash only will start to import low-priced goods, which they cannot get from the local wholesalers.

In consequence, the exporters, looking for outlets in foreign markets, will distribute their products through the retailers. This policy unquestionably will deprive wholesalers of the only opportunity they have to liquidate their inventories. To overcome this difficulty, therefore, a practicable solution must be found. The obvious one is to help the

importer obtain cheaper merchandise through additional credit. This will bring his over-all price level down. To carry out this plan, the foreign credit man must satisfy himself first that the importer's financial condition is solvent; second, that any additional credit granted will be extended on short terms and paid promptly on maturity date; third, that drafts drawn against new shipments will include a portion of the old debt. This plan will remain effective until the old debt has been liquidated. Finally, the exporter should decline to accept any business offered by foreign retailers.

The Market Credit Limit

To the foreign credit man, the potentiality or power the market has to consume a given product is determined by ascertaining the average dollar value of the product in question that the nation has imported in normal years. This information is supplied on request by the Bureau of Statistics, United States Department of Foreign and Domestic Commerce.

It needs no further argument to set the rule that the yearly sales to a country of a particular product must be fixed within the yearly amount the country is capable of importing and consuming.

As a corollary to the above statement, it can be said then that the foreign credit man can set the total amount of receivables he may have outstanding in any country at any one time.

There are, however, other factors the foreign credit man must consider besides the amount of goods a country imports, before he determines the amount of receivables he should have outstanding at one time in a given country, namely:

1. The general condition of the market.
2. The responsibility and financial conditions of the importers.
3. The competition the exporter will encounter.
4. The terms of sale.
5. The facilities the exporter has to finance his foreign sales.

If the conditions of the market are satisfactory, and the importers are responsible and deserve credit consideration, it remains for the exporter to determine the competition he will encounter. This information the exporter may readily obtain from his own agent, who will also recommend his yearly sales for the market.

Let us assume that the exporter sells mercerized cotton yarn and that the market under consideration is Uruguay, which we find imports annually about $750,000 of the type of yarn the exporter produces.

If the agent reports that he can overcome the competition of the other three exporters and will be able to sell about $200,000 of goods a year, the exporter would then have accounts receivable outstanding at one time in Uruguay of about $50,000 to $75,000, assuming, of course, that

the terms of sale are 90 days date. This amount is well in line with the total amount of yarn imported by Uruguay every three months, which is about $190,000. Therefore, if the exporter can finance the sales recommended by his agent, he is not assuming an abnormal risk.

The Credit Department and the Merchandise Department

It was mentioned that the credit department can assist the merchandise department in developing the sales policy by determining the potentiality of the market. The export sales manager can, and must, reciprocate by acquainting the credit department with the name of any foreign merchant who in his estimation is ordering goods unwisely.

If, for example, an importer buys a type of merchandise not adaptable to his country, or is willing to accept prices higher than those quoted to other importers, it is fair to conclude, to say the least, that the importer is incompetent, and that this inadequacy will invariably bring him financial difficulties.

CHAPTER VIII

ANALYZING THE CREDIT RISK

The Specific Information That It Is Possible to Obtain

General opinion in the past considered it impossible to ascertain when a foreign buyer was obtaining goods in excess of his buying power. Modern methods of investigation, however, have improved considerably. With the aid of commercial agencies, the Foreign Interchange Bureau of the National Association of Credit Men, Trade Groups, foreign agents, and commercial banks with overseas branches, the foreign credit man can marshal a great deal of reliable information on this particular issue.

The difficulty in this respect is to determine how actively the importer is purchasing from European concerns and from other foreign sources of supply. Yet a diligent agent could easily assemble such information by inquiring of his colleagues representing European houses. Furthermore, after periodic visits to the establishment, the agent could make a fairly accurate estimate of the firm's purchases from countries other than the United States.

The foreign buyer's activities in this market can be obtained by making inquiries of:

1. Trade groups,
2. The Foreign Interchange Bureau of the National Association of Credit Men,
3. The merchant's broker,
4. The local commercial agencies,
5. Commercial banks with branches in the buyer's country,
6. The importer and the agent directly.

The Nationality of the Importer

Mr. E. B. Filsinger, in his booklet on foreign credits (*Is Credit Necessary in Export Trade?*, published by the National Foreign Trade Council, New York), remarked that it would be interesting to discuss the relative importance of the three *C's* of credit under different racial and local conditions. It would seem that this is the very first question the foreign credit man must answer, since it not only affects the credit of

the individual merchant, but also decides the policy to be adopted in each market.

To simplify this problem it would be practical to classify the importers into groups, study their position in regard to the rest of the trade, inquire about their commercial standards, their past performances as merchants, and their respective financial and social importance in relation to the country as a whole.

It should by no means be inferred that this or that race is condemned and qualified as a poor risk. Generalizations of this nature are valueless, since scoundrels are found among every race. Nevertheless the foreign credit man can do nothing else but consider the evidence: the experiences of other exporters, the attitude of the traders, their reputation and business practices. He can then adjust his policies to the dictates of the investigation. Facts, which are stubborn, should always dictate the foreign credit man's policies.

The Basis of Credit

"Credit," Gladstone said, "is suspicion asleep." In other words, credit, whether domestic or foreign, is a commercial function based on confidence. But how is confidence established?

It is a fact that in ordinary life individuals quite often pass judgment on a person they happen to meet. They do so on the spur of the moment, without giving any consideration to the varied nature of the man. This sort of judmgent lacks value and finality since it is not based on known facts. If, on the other hand, the person is scrutinized and investigated, then there will be facts on which to base an unbiased and valid judgment.

In export business the same procedure must be followed; that is, the foreign credit man will search for and marshal enough information bearing on the prospective buyer's past record, on the willingness he has shown to honor his obligations, on his business ability, and finally, on his capital and on the reputation he enjoys in the community where he works and lives. Invariably these data will create in the mind of the foreign credit man a sense of trust or mistrust about the prospective foreign buyer.

Without diminishing the scope of the above investigation, its objective can be defined in a more simple way by saying that confidence is determined by ascertaining the character, the capacity, and the capital of the credit seeker. These three elements are commonly known as the three *C's* of credit.

Character. Character, being a personal attribute, becomes quite difficult to define with any amount of certainty. Considered from a purely commercial point of view, its meaning may be grasped by implication, that is, by noting those personal qualities which impress one as reflect-

ing the mark of worthiness and trust. Nothing speaks so truthfully of a man's actual character as his past history. Through his actions his business ethics are praised or condemned. His past performances will place him, as it were, among those who do or do not deserve any respect or consideration. His commercial dealings, his methods of doing business, the attitude he has assumed at some critical moment, the way he has responded to any consideration extended, all reveal the true character of the man.

In the search for this evasive basic element, do not stop at investigating only his commercial activities. The foreign agent, who is right on the ground, should be able to get the facts about the man's antecedents, his family connections, as well as his social position in the community.

Since it is a common practice throughout South America for some wealthy relative to extend financial assistance to capable individuals, the agent should find out whether the importer is getting such help and under what circumstances. If family ties are strong, there is no doubt that the merchant will be amply assisted.

Experience teaches that gamblers do not offer any high degree of security from a business point of view; consequently, a man's private life is also fertile ground to scrutinize and search for danger signals. Individual business qualities are the credentials that reflect a man's integrity and the soundness of his moral principles.

Capacity. The best and most practical method by which to judge the technical and commercial capacity of an importer is to ask the merchandise department whether or not his purchasing methods reveal a wise and businesslike policy. If the importer accepts higher prices than those prevailing, buys indiscriminately, or his purchases are in excess of the market requirements, the foreign credit man can only make two deductions: the man is not a capable executive, or he has a questionable motive for his apparently unwise policy.

Capital. The necessity to determine the willingness of a foreign buyer to pay for his credit purchases has been stressed. His own assurance, however, cannot be taken as final. The foreign credit man must be convinced that the means of the man are sufficient to permit him to liquidate his debts. No matter how anxious a merchant is to pay, if he does not command the necessary capital, he will not be able to do so. It is not the capital solely that will supply his needed funds, but the manner in which the capital is managed. This interrelation of capital and capacity becomes paramount in foreign business.

It has already been remarked that commercial activities in many countries, especially in South America, flourish during certain months of the year. In between seasons there is always a pronounced dead period. If the finance of the business is not managed with ability and foresight, the importer will undoubtedly face a rather unfortunate situation.

This fact brings out the observation that expenses among these merchants must be kept low, and any signs of undue disbursement should be taken as a proof and a warning of poor management.

Financial Statements

Foreign merchants are somewhat reluctant to issue financial statements. They feel that by doing so they reveal business secrets. They reason, not without logic, that since other exporters grant them the necessary accommodation without such prerequisite, they prefer to continue doing business in that manner. They also argue that their names should be sufficient to guarantee the extension of credit. Besides, they remonstrate, the knowledge they possess about their own business qualifies them to judge their own buying power better than the knowledge the foreign credit man might get by studying their financial statements. Of course these arguments are more impressive than logical, since the person who extends the credit is the one who wants to be convinced, not the foreign buyer who seeks credit and who is already convinced to his own and not to the credit man's satisfaction.

This attitude has waned, undoubtedly because of the influence exerted by modern business methods and the enactment of laws compelling corporations to make public their financial statements. But in spite of this change, in most cases the foreign credit man must satisfy himself with estimated financial details or sketchy comments about the resources of the importer.

Regardless of the merchant's attitude, however, if he is located in an important commercial center, such as Buenos Aires or London, where he can easily obtain the services of a reliable accountant, the foreign credit man should not hesitate to demand enough financial information to justify the credit, more so if the importer's contemplated purchases necessitate a fair line of credit.

Analyzing the financial statement. As far as the foreign credit man is concerned, it is essential for him to have a fairly accurate understanding of the financial condition of the seeker of credit. It does not matter what attitude the importer takes about revealing such information. What is important for the foreign credit man is that he obtain sufficient financial details about the foreign buyer to permit him to determine the credit standing. The foreign credit man must get that information: through the agent; through a commercial agency such as Dun & Bradstreet, Inc.; from the banks; or from any other source. This financial information is one of the three basic requisites that uphold the right to command credit, the other two being character and capacity.

Below are presented three financial statements received from foreign concerns. In analyzing these balance sheets, the main concern is to scrutinize the various items in order to evaluate them in a conservative

way, without overlooking the consideration of these additional facts: the year the statement was issued; the type of business represented; the reputation of the owners; and the conditions of the country where the business is located.

Above all, it must be remembered that these balance sheets are the sort of statement issued by the average foreign buyer located in countries which have not reached the commercial maturity of this country, England, or Argentina.

BALANCE SHEET 1
June 30, 1942

ASSETS		
Merchandise		$ 71,104
Furniture and fixtures		2,617
Cash in the local bank		1,901
Cash in a New York bank		2,547
Drafts receivable		353
Accounts receivable		39,032
Cash in hand		1,396
Various creditors		8,416
		$127,366
LIABILITIES		
Capital		$ 65,159
Loans		19,500
Various		5,619
		$ 90,278
Total assets	$127,366	
Total liabilities	90,278	
Profits	$ 37,088	
Distribution of the Profits:		
Taxes		$ 2,856
For the liquidation of private money owed by partners		8,317
Partners' withdrawals		2,567
Added to capital		23,348
Working capital		$ 37,088
Original capital	$ 65,159	
Profits added to capital	23,348	
	$ 88,507	
Sales for the year	$338,119	
Insurance against fire	$ 52,000	
Our bank in New York is:		

1. The first balance sheet is from a jobber and retailer of textiles and novelties, which is located in a medium-sized town having a population of from 70,000 to 75,000, and which supplies a number of smaller communities located near by.

The balance sheet is dated June 30, 1942, and is presented exactly as it was submitted to the foreign credit man, except that the original statement gave the assets and liabilities valued in pesos, whereas the

copy here shown has been converted into dollars at the rate of exchange at which the peso was quoted by the Treasury Department on June 30, 1942. The cents have been eliminated.

a. The most striking feature about this statement is that the debts are low. That would be expected in 1942 when there was plenty of money and foreign merchants were doing a fairly large cash business which permitted them to liquidate their debts promptly. In fact some of them anticipated their payments. That year the merchandise was scarce and there was a great demand for goods.

b. No reserves are shown for bad debts, or for depreciation on furniture or fixtures. The bad debts should have been about $2,500 to $3,000, and the value of the furniture and fixtures could be reduced to a nominal sum of $1.

c. The asset listed as "Various creditors" valued at $8,416 is problematical. It frequently represents money borrowed by the partners. Acting conservatively, the firm should eliminate it entirely from the statement.

d. The inventory shown in the statement could be fairly accepted as correct in 1942.

e. The firm capital turnover is about five times a year on the basis of the sales reported, which is good for this firm located where it is, in a region where the main income is from sugar and tobacco. The profits are in line with the sales, and not exorbitant.

f. The information that has been obtained from various sources points out that this merchant's capital is in the neighborhood of $75,000 to $80,000. He pays well, enjoys a good reputation, knows his business, and is respected. The agent reports he is a careful buyer. Other exporters speak well of the firm and also comment that their past experience with this account has been favorable. The region where the firm is located is commercially active. Therefore, from all indications, this firm is a favorable risk.

g. A guiding line of credit, for this account, could be assigned for about $7,500.

BALANCE SHEET 2
December 31, 1945

ASSETS			
Cash on hand			$ 6,599
Merchandise			139,708
Various creditors			8,090
Accounts receivable		$499,407	
Reserve for bad debts		145,434	
		$353,973	353,973
Cash in the banks			587,075
Cash in a New York bank			52,665
Other creditors			145,205
			$1,293,315

LIABILITIES	
Loans and deposits	44,108
Reserve for employer's bonus	11,612
Capital	688,000
Legal reserve	68,247
General reserve	120,008
Surplus	361,310
	$1,293,315

2. The second statement shown above is from a well-known and long-established wholesaler situated in one of the most progressive republics of Central America. The firm is located in the most important city of the country, having a population of about 120,000, and is very active commercially. The country exports principally coffee, bananas, and some sugar. The political conditions there are good, and it has no difficulty in obtaining dollar exchange.

The statement is dated December 31st, 1945.

a. The liquidity of this statement cannot very well be challenged. Even if the asset listed "Other Creditors" is disregarded, still the firm has substantial means to take care of its obligations.

b. The liabilities compared with the cash are negligible.

c. The past history of the firm is excellent. Information gathered from various sources is entirely complimentary.

d. It can be said, then, that this firm's credit is good for its requirements.

BALANCE SHEET 3
June 30, 1946

ASSETS		
Cash in hand		500
Receivables		124,273
Merchandise		291,821
Merchandise in transit		37,427
Due from employees		488
Various		100
Investments		205
Furniture and fixtures	$2,945	
Less depreciation	1,089	
	$1,856	1,856
Trucks	$5,531	
Less depreciation	1,690	
	$3,841	3,841
Deferred		894
Other creditors		5,415
		$466,820
LIABILITIES		
Commissions		$ 3,640
Bills payable		14,835
Accounts payable		18,142

Foreign accounts payable	12,086
Taxes	1,307
Interest due	2,427
Bankers' acceptances	105,115
Capital stock paid in	200,000
Surplus	109,268
	$466,820

3. The third statement is that of a firm manufacturing sports ensembles and shirts for men. The country's financial condition is healthy. It does an active export business in tobacco, citrus fruits, coffee, and sugar. The city in which the firm is located has a population of 500,000. It is the commercial and financial center of the nation. Political conditions are sound, and the importer will have no difficulties in obtaining dollar exchange.

The statement is dated June 30, 1946.

a. The most striking features of this statement are:

(1) Its weak cash position.

(2) The heavy inventory.

(3) The heavy debt due to the banks in the form of bankers' acceptances.

Obviously the firm is buying heavily and is depending on the bank for financing its purchases. No doubt the bank is fully protected. In fact, one of the reports quoted states that credit dealings of importance should be guaranteed by one of the partners, which makes one deduce that the lender is fully secured.

b. The inventory, if one considers the year, should be worth the amount indicated in the statement.

c. There is no provision for bad debts, which should not be less than $4,000 to $5,000.

d. No reserves have been created for emergencies.

e. The house suffered some reverses in the past, and an arrangement was made with certain creditors who received about 80 cents on the dollar. Some of the members of the old firm are still connected with this business, and an American bank with offices in that country suggests that credit dealings of importance should be guaranteed by Mr. X, who reorganized the business in 1942 and added new capital. Mr. X is considered a man of high repute and has some means outside the business.

f. In summary, this is the type of concern that should be watched if any credit is granted. In fact, if the foreign credit man decides to open the account, it should be on the basis of a documentary draft. That is to say, the account should be limited to, say, $1,000 or so at a time. Every shipment should be covered by a 30 days date draft with documents attached. Furthermore, the collecting bank should be in-

structed to protest the draft for nonpayment. If there is any delay in accepting the bill of exchange, the account should be closed.

g. Should Mr. X withdraw from the firm, credit should be discontinued. A guarantee from Mr. X should carry little weight. In foreign business such a guarantee is not very practical or effective unless it is represented by a mortgage on readily salable real estate holdings, which bring sufficient income to cover comfortably the operating expenses of the real estate.

Credit Limit

There can be no fast rule to estimate, with mathematical precision, the amount of credit that can be assigned to an account. If it were possible to apply a formula, it would make credit rigid, and that result repudiates the first aim in the granting of credit, namely that it should be flexible. Credit to be sound must be elastic, thus permitting the credit man to expand or contract it as conditions warrant.

The problem of foreign credit, as has been pointed out, rests on the information gathered about the country, the currency, and the buyer. Once these facts are known, then the credit grantor is ready to assign a "guiding line of credit" to each account, which will be revised periodically.

Let us take a practical example by referring to the first case presented on page 138. The details are as follows:

The buyer in question is located in a medium-sized town having a population of about 70,000 to 75,000 inhabitants. In addition to its local sales, this firm also distributes its products to the adjacent communities. The region is prosperous and the currency of the country is stable. There is no exchange control.

From the reports gathered from the agencies, the banks, and the foreign representative, this importing firm enjoys a good reputation and appears to be one of the most important concerns in the region.

The balance sheet of the buyer, which is reprinted on page 138, presents a liquid condition. Sales are well in line with the capital, and the profits indicate good management. Furthermore, even after deducting the asset which is listed as "Various creditors," the house still shows a net capital of about $80,000.

In short, all the information available, which forms the basis on which credit rests, indicates that the buyer presents a normal risk and is entitled to credit. Consequently, in this case it would be reasonable to assign a guiding line of $7,500. As commercial relationship develops and the credit grantor begins to feel or sense the growing importance of the account, the amount may be increased to, say, $12,000 or $15,000.

If, on the other hand, the importer shows an inclination to overbuy (this information can be obtained by consulting with other suppliers in

this country), then it would be prudent to revise the line of credit. The same would be true if the political conditions in his country became difficult.

In summary, when assigning a line of credit to a foreign buyer, it should be the practice of the export credit man to base his decision on the data he has obtained about the importer's character, capacity, and capital. He should also take into consideration the general trend of the business.

Furthermore the lines of credit assigned should be revised every so often, say every three months or so. This dictum does not mean that every three months the foreign credit man should go through all of his foreign accounts with the purpose of assigning new lines of credit. It does mean, however, that he should not neglect to follow the trend of his most important accounts with the purpose of increasing or decreasing the lines of credit as conditions change.

CHAPTER IX

SOURCES OF INFORMATION—THE MARKET

Information Required

The scope and character of the investigation depend primarily on the nature of the business. The banker sponsoring a loan is principally interested in measuring the potentialities of the country, its income, and the business prospects for the future, as well as the technicalities, legal or otherwise, present in the transaction. The contractor engaged for the construction of roads or another government project will direct his attention toward making the investment secure and profitable.

In the field of foreign credits three distinct problems arise:

1. To survey the market with the object of determining its risk and its power to consume goods. This investigation must include, not only the study of the fundamentals revealing the potentialities of the market, its relative financial position, its commercial activities (import and export), but also the facilities the country offers, such as banking, communication, and legal protection for the proper development of international commercial relations on a credit basis.
2. To determine the value and stability of the currency of the country and its facilities to obtain foreign exchange.
3. To appraise the moral and financial responsibility of the buyers as well as their capacity as merchants.

Care in Selecting Sources of Information

Unless the foreign credit man makes periodic visits (which, incidentally, he should) to foreign markets to discover the financial responsibility of the accounts and the general commercial condition of the trade, he must rely entirely on the information he may gather from various sources to determine the financial importance of the merchant seeking credit. It is essential to know all possible sources of information that will permit him to visualize the potentiality and the commercial life of the nation, as well as the relative financial position of the buyer. It is an undisputed fact that the amount of information gathered is not the important thing. It is the quality and the nature of the information that are of value to the credit grantor. The reports obtained should

contain the essential facts about the market or the importer and bear the mark of being reliable. Furthermore, the information must be revised at frequent intervals.

The sources open to the foreign credit man, from which he will draw reliable details revealing the relative financial importance of the market, are:

Department of Commerce

The present Bureau of Foreign and Domestic Commerce was first organized with the object of building up this country's foreign commerce. To accomplish this the Government established a group of services for exploring and reporting on opportunities for trade abroad. It also built a center for information. Their reports are available to American manufacturers.

The organization of the Bureau also includes technical divisions known as:

1. *The Commercial Intelligence Division,* which acts as a clearing house for information in regard to foreign houses.

2. *The Division of Commercial Law,* which is engaged in compiling and furnishing information concerning the laws of foreign countries that affect the business of American firms. This division also supplies practical information concerning legal problems.

3. *The Finance and Investment Division,* whose principal work is to study the conditions in foreign countries relative to foreign investments. It collects data concerning the budgets, loans, currencies, and banking problems abroad.

4. *The Division of Foreign Tariff,* which reports on the duties paid on American goods entering foreign markets.

5. *The Division of Regional Information,* which distributes information on general economic conditions abroad, and attends to the publication of bulletins concerning the possibilities of distributing American goods in foreign markets.

6. Other divisions are: *Economic Research, Statistics, Transportation and Communication,* and *Foreign Construction.*

Publications. From the foreign credit man's point of view, perhaps the most valuable book issued by the Bureau of Foreign and Domestic Commerce, Statistical Department, is *The Commerce Year Book—Foreign Countries.* This book is well illustrated with maps, statistics, and other features, revealing at a glance the commercial potency of each country. It is a compact textbook on the economic and industrial geography of the world. As an insight into its value, the following are some of the topics discussed in regard to the Argentine market:

1. General economic trend, compared from year to year,
2. Area and population of the country,

3. Agricultural production,
4. Pastoral industry,
5. Mining and forestry,
6. Transportation and communication—railway, navigation, and airways,
7. Foreign Trade,
8. Statistics,
9. Labor situation,
10. Finance, Government, currency, exchange, banks, and credit,
11. Maps and tables.

The Bureau also publishes and distributes a number of special bulletins, a complete list of which may be obtained by addressing the Department of Commerce, Bureau of Foreign and Domestic Commerce, Washington, D. C.

The National Association of Credit Men

This association distributes to its members a weekly confidential bulletin commenting in a general way on the principal changes in the commercial life of Latin America, Europe, Australia, and the Far East. The paper is well edited, speaks with authority—since the information is obtained from reliable sources—and serves as a clearing house on matters and opinions affecting foreign trade.

Bank Publications

When studying the market's conditions the foreign credit man cannot overlook the abundance of information presented in the various publications issued by the central banks, as well as the periodicals distributed by the most important banking houses of the world.[1]

One of the main features of these financial reviews is the presentation of a general survey disclosing the conditions of the market. The discussion first makes a preliminary review of the events that have already taken place, then presents the immediate developments, and later centers its attention on the effect these events will have on business.

The value and scope of these publications can be appraised from the following list of some of the questions regularly presented:

1. General Survey of the financial and political conditions of the country.
2. The exports and imports for the month. Comparative figures are

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[1] Some of the foreign bank publications are: *A Trade Review and Business Commentary*, Barclays Bank, Pretoria, South Africa; *Boletin Mensual*, Banco Central de Chile, Santiago de Chile; *Revista del Banco de la República*, Bogotá, Colombia; *Monthly Review*, Lloyd's Bank Limited, London, England. To these may be added the publications issued by the National City Bank of New York, the Guaranty Trust Company of New York, and The First National Bank of Boston.

quoted, thus making it possible to follow the trend of the balance of trade.

3. Commercial laws and decrees enacted.
4. The conditions of the exchange and prospects for the future.
5. Currency in circulation.
6. The price of commodities.
7. Banking and credit situation.
8. Balances of foreign monies held abroad.
9. Movement of gold.
10. Drafts protested.
11. Failures.
12. The prices of stocks and bonds, which are a reliable indication of the general conditions of a country.

This varied discussion will enable the foreign credit man to unearth the three great factors determining the financial condition of a country: its commerce, its credit, and its currency.

The Department of State

Among the many functions performed by the Department of State that will interest the foreign credit man are: first, the business of negotiating, enforcing, and terminating international agreements; and second, the gathering of political and economic information all over the world.

The first function includes the drafting of commercial treaties, which are negotiated primarily by the Division of Trade Agreements of the State Department.

From the consuls that are sent to every important city of the world, the State Department obtains detailed reports on the following:

1. Commercial economic conditions of some specific region or country,
2. Trade opportunities,
3. World Trade Directory reports,
4. Trader lists.

National Foreign Trade Council

One of the many activities of this active association is the yearly publication of the proceedings of the Council. It also edits a number of pamphlets (C. C. Martin's *Can We Compete Abroad?* and *The How and Why of Foreign Trade Work* by O. K. Davis, W. H. Mahoney, L. G. Macomber, E. L. Bacher, P. M. Terry), dealing with issues of immediate importance to the exporter. The authors are leaders of long standing in foreign business, experienced and well versed in international trade; and their conclusions and opinions are to be accepted as authoritative.

The topics presented vary from definitions of foreign trade terms to more intricate matters related to credits, collections, shipping, legal issues, contracts, and other matters.

Foreign and Domestic Newspapers

Cable lines, radiograms, and telephone service have virtually eliminated distances between nations. The happenings in some distant city in Manchuria become common news shortly afterward all over the world. The merchants in Puerto Rico, as well as those of Australia and India, know the daily prices of sugar, wool, and cotton, as quoted in New York and London. Events that in former eras took months to affect the financial structure and life of nations today are instantly felt in every great city of the earth.

Thus daily papers become another source of information in the constant task of keeping abreast of developments abroad. In the same manner foreign newspapers also serve to enrich the credit man's knowledge of the market. From them he gathers firsthand information regarding the political sentiment of the country, public opinion, and similar comments bearing on the welfare of the nation.

Local Chambers of Commerce

There is scarcely a town of any commercial importance which does not have a local Chamber of Commerce. To the foreign credit man these associations represent another medium from which he may obtain a competent and reliable report concerning prevailing prices of local commodities, a general review of the business outlook, a record of business failures within that district, inquiries of goods needed, changes in the customs duties, and a general survey of the crops and business prospects for the future.

The nature of the information is purely local, but it represents a condensed and clear picture of that particular section of the country.

The International Trade and Service Association [2]

This is a trade association established for the benefit of its members, mostly composed of industries that are interested not only in developing foreign trade, but also in maintaining those foreign markets already accepting the influx of American goods.

The International Trade and Service Association is a nonprofit organization. It has a board of directors of eight members, selected from well-known commercial houses in this country. The Association aims to bring within its membership reputable members of foreign concerns and to establish branches outside the United States.

It has two types of membership, one open to individuals, firms, or corporations; the other, whose participants are known as associated members, open to trade groups, associations, Chambers of Commerce,

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[2] Reported by the *Wall Street Journal*, September 30, 1946. Page 5.

and Boards of Trade. The dues for active members are $300 a year.

The purpose of this organization is to handle, for the members, any sort of question they might encounter in connection with their foreign trade. It will also maintain a close relationship with the Department of Commerce, the Department of State, the Embassies of foreign nations, the Export-Import Bank, and other local and federal agencies and offices having any interest or concern with foreign commerce.

Above all, it will oppose any legislation introduced to bar the export of commodities from this country. The head office is located in Washington, D. C.

Other Sources of Information

In a world that is susceptible to the impact of new ideas and experiments, the foreign credit man is compelled to be alert and conscious of the effect these trends and changes will have on business. It would be impossible for him to analyze and gauge these forces by himself. He must depend for his information on the studies made by others, which may be found in:

1. The books and pamphlets published by foundations and institutes, created for the purpose of acquainting the public with the economic problems affecting this nation and other nations. These studies and investigations are made by a staff of scholars recognized for their integrity and capacity as economists.[3]

2. The reports distributed by statistical bureaus. Their aim is to collect and tabulate facts with the purpose of disclosing the needs and resources of a country. They also aim to reveal the trend of foreign business and forecast its future. The information is available to paying members only.

3. Hanson's *Latin American Letter* is a well-edited, precise survey replete with details covering almost every aspect of foreign trade. It is distributed to subscribers every week.[4]

4. Associations such as The Commerce and Industry Association of New York, Chamber of Commerce of the United States, and The National Foreign Trade Council distribute through their bulletins and papers information reflecting the political, social, and financial conditions abroad. The contributors and editors are well-known business men, fully acquainted with international trade.

5. The daily trade papers, such as *The Journal of Commerce,* bring to the foreign credit man up-to-date financial news and commentaries from all over the world.

From the sources mentioned in this chapter, the export executive

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[3] *Economic Problems of Latin America,* edited by Seymour E. Harris, published by McGraw-Hill, is an excellent example of this type of study.

[4] Hanson's *Latin American Letter,* 1070—19th Street, N. W., Washington, D. C.

should be able to obtain as much information as he needs. It is evident, however, that he must arrange these data into a logical pattern so as to enable him to visualize and judge the conditions prevailing abroad.

Barometer of International Trade

Coming events cast their shadows; the state of the pulse determines the state of the patient. By following events as gathered from all available sources, the foreign credit man will soon be able to deduce that the abnormal outward movement of gold often spells disaster, that an increase in duties obstructs the general movement of merchandise, and renders almost financially impotent those countries whose livelihood depend on the commodities so taxed.

It would seem feasible then to watch these changes very closely, as well as any action or event that affects the normal march of business. With this principle in mind, there have been listed below what are considered the main influences that will affect the financial life of the country adversely:

1. Unstable exchange,
2. Adverse movement of gold,
3. Abnormal increase or decrease in the amount of currency,
4. Rapid drops in the prices of the country's basic commodities, or crop failure,
5. Unfavorable balance of trade,
6. Inability to meet foreign loans or the interest on the loans, the result of which will be immediate loss of confidence, and exchange restrictions,
7. Unsettled political conditions.

The favorable signs are:

1. Balanced national budget,
2. Stable exchange,
3. Basic commodities of the country selling at profitable prices,
4. A favorable balance of trade,
5. Prompt payment of loans coming due, and the payment of their interest,
6. Settled political conditions,
7. Good crops, or favorable business activities.

GENERAL SURVEY OF A MARKET

Establishing the Export Department

Before establishing an Export Department, there are two main problems to be solved:

1. The method of distributing the merchandise.
2. The method of financing the foreign sales.

It would be logical to add, then, that the merchandise and the credit departments should sit side by side to consider the problems of selling and financing the foreign trade. This co-ordination becomes more eminent and essential the moment it is realized that every function of international trade is closely linked together. Like the traditional Siamese twins, one must go where the other goes.

It is true that the contribution the credit department will make toward establishing an export department is primarily within the realm of finance; nevertheless, such a contribution must be made while considering the various phases of exporting goods, among which are selling, shipping, and the selection of agents.

It will be the purpose of this discussion to present in a general way the method to follow in establishing an export department for a concern selling textiles.

First of all it is essential to bear in mind these five rules:

1. Do not create an export department unless it becomes an integral part of the business. If it is to be considered as a stepchild, dismiss the idea of selling abroad, and allow someone else really interested in export trade to distribute the product in foreign markets.
2. Do not enter the export business with the idea of getting quick profits and gaining immediate recognition of your product. A miracle will not happen. Export business requires patience and continued effort.
3. Develop one market at a time.
4. Make a thorough study of the problem before you develop a policy and continue your interest in the business. If your curiosity and inquiring mind slacken, the business will suffer.
5. Exert great care in selecting the personnel, both here and abroad, and exercise much vigilance in executing to perfection the various functions of exporting.

The Survey

Above all, remember that all American products are not salable in foreign markets. There is no use trying to sell central heating units for homes in Puerto Rico. They get enough heat from the sun all year 'round. They will be willing, however, to buy air-cooling systems or electric fans.

The first thing, therefore, is to determine what markets will be willing to purchase your products, in this case, cotton cloth. Since it is preferable to develop one market at a time, the survey will comprise a country easily accessible, for example, Cuba.

The Size of the Market. The best reference book for ascertaining the size of a foreign market is the *Foreign and Domestic Commerce Year Book,*

published by the United States Department of Commerce. It states that Cuba imported cotton goods as follows:

	1937	*1938*	*1939*
From United States	10,000,000	7,500,000	9,200,000
Total imports from all countries, including the United States	13,600,000	10,000,000	11,000,000

Obviously there is a ready demand for cotton cloth in that market.

The Purchasing Power. The per capita imports in the year 1939 amounted to a little over $25. The deduction is that although there will be a demand for manufactured cotton cloth, its price must be low to meet the available income in the hands of the people of Cuba.

The Marketing Areas. The island of Cuba (see Illustration 34) has an area of 44,164 square miles and a population of about four and a half million inhabitants. Over 69 per cent of its imports come from the United States, and Cuba exports to this country 81 per cent of her sales abroad. In other words, it shows a favorable balance of trade. Cuba sells to this country mainly sugar, molasses, fruits, and vegetables; and buys from the United States primarily food, textiles, beverages, and machinery.

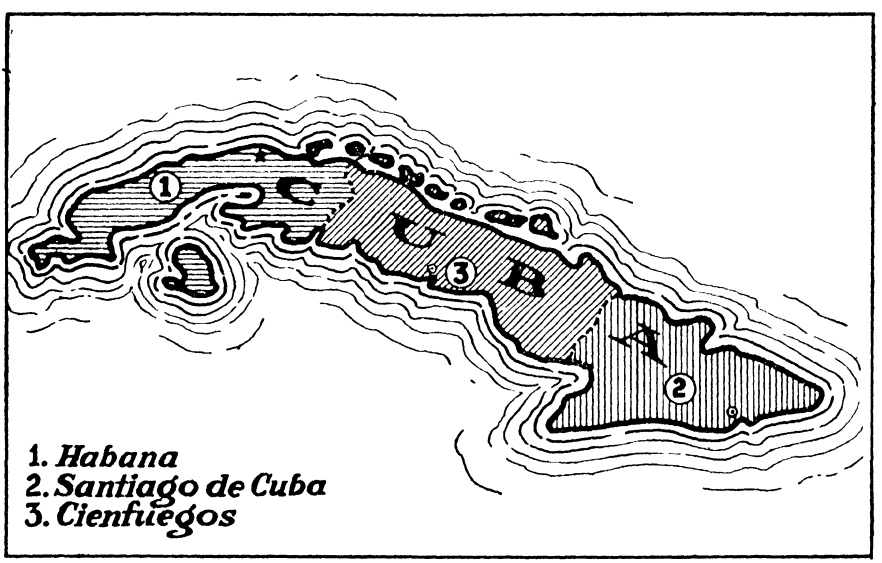


Illustration 34. MAP SHOWING MARKETING AREAS OF CUBA.

Cuba may be roughly divided into three marketing areas:

1. *Habana,* located in the north, and comprising such trade centers as Mantanzas, Cardenas, and Santa Clara. This area has a total population of about two millions. It produces sugar, fruits, tobacco, and coffee.

It manufactures some textiles, knit goods, shoes, and rayon. Without any doubt, this is the most important section of the country from a financial and commercial point of view.

2. *Santiago de Cuba,* next in importance, and comprising the following trade centers: Manzanillo, Holguin, and Guantanamo. The region has a total population of over one million people. They produce sugar, fruits, vegetables, and coffee. Outside of the sugar factories, there are hardly any other industries to mention.

3. *Cienfuegos,* which comprises the southern part of the island, and includes another important city: Camaguey. The combined population of this section is close to one million inhabitants. This district produces coffee, dairy products, and some timber, and, commercially, is the least important of the three areas.

Competition. From the figures already quoted, it is obvious that European competition is not strong. In 1939, for example, Cuba imported $11,000,000 worth of cotton goods; of this amount, over $9,000,000 was bought in the United States. The exporter will surely encounter competition from other American houses and, to some extent, from local manufacturers.

The low-priced cloth will bring to the exporter large sales, but the more expensive goods will have only a limited distribution. Bear in mind, when figuring the price of goods in Habana, that to the price of the cloth as bought in New York must be added about 15 cents per yard to meet the cost of transportation, insurance, and incidental expenses. If, for example, shirt broadcloth is quoted in New York at 43 cents a yard, it will cost, delivered at the importer's establishment in Habana, about 58 to 60 cents a yard.

The Attitude of the Market Toward American Exporters. For many years this country has had a friendly and sound commercial relationship with Cuba. The foreign trade figures quoted indicate an active and no doubt profitable business for both Cuba and the United States. From banks and the trade the exporter will find that Cuban merchants regard very highly the American methods of doing business and their products. It is equally true that American businessmen visiting Cuba have not experienced animosity against them. There exists a mutual respect and admiration.

Exchange Conditions. Unlike so many countries, Cuba has no exchange control. The importers may buy freely whatever dollars they need to meet their commercial obligations. The dollar is readily accepted as a medium of exchange. The *Commerce Year Book* reports Cuba's foreign trade as follows:

	1937	*1938*	*1939*
Exported	$109,000,000	$84,000,000	$87,000,000
Imported	76,000,000	62,000,000	62,000,000

which shows that Cuba has had more than enough exports to pay for its imports.

Political Conditions. For some years Cuba has been free of political disturbances. The government is well entrenched. The financial condition of the island is strong, and from all indications the prospects for the future are reasonably good. It is fair, therefore, to assume that the political condition of the country will remain sound.

Financial Facilities for the Exporter-to-Be. The exporter has arranged to obtain from the bank a loan for $25,000. The bank has also agreed to discount the exporter's foreign bills up to $50,000, which he calculates should be sufficient to finance his sales abroad. Both accommodations will be granted at an interest rate of 3 per cent.

The Credit Standing of the Importers. American houses doing export business in Cuba have reported excellent results. The losses suffered in Cuba have been much less than those in our domestic trade. This coincides with the study made by Mr. Eugene Van Cleef of Ohio State University, Bureau of Business Research, which indicates that the "losses are less in foreign trade than in domestic trade."

Conclusion. From the facts and comments set forth in this survey, there can be little doubt that, as far as the credit department is concerned, it would be satisfactory to extend credit facilities to deserving Cuban buyers on terms no longer than 60 days date of invoice.

CHAPTER X

SOURCES OF INFORMATION—THE IMPORTER

When to Start the Investigation

By considering the time required to receive replies to inquires from abroad, it will follow that the investigation should be started as soon as the importer requests quotations or asks for samples. Any direct inquiry of this nature must be followed immediately by a general investigation.

The first step then should be to make tentative inquiries through the trade and the banks in order to determine in a general way the financial responsibility of the firm. It would be practical, when the merchandise department receives an inquiry from a foreign merchant, to refer the name to the credit executive. Furthermore, the reply to the inquiry from abroad should be made after the investigation has been completed by the credit department. The answer should be sent through the agent. This is done with the object of keeping the representative informed on all matters pertaining to his territory, and for reasons that can be explained briefly by saying that as a matter of policy all sales should be consummated through the agent.

The objective of this policy is to make the agent feel that he enjoys the confidence of the head office, and that he is an integral part of the organization, fully responsible for his own territory. He will understand also that he represents the interests of the exporter and his actions and decisions are thoroughly acceptable to the head office.

Furthermore, by following this practice of referring new accounts to the foreign representative, the foreign credit man avoids the hazard of creating the impression that the agent has been ignored. It also eliminates the possibility that the foreign buyer, who has been disregarded by the agent for credit reasons, will go over his head in the hope of establishing credit relations without the knowledge or authority of the agent.

If the prospective buyer is not known to the local banks or through the trade, it is quite in order for the foreign credit man to wait for the foreign representative's comments on the credit of a new or prospective account.

Information Required

Once a foreign credit man has made his survey, has found the nation's financial position acceptable as a credit risk, and has favorably appraised the political situation of the country as well as the stability of the currency, he is ready to evaluate the merchant's power to command credit.

In order to accomplish this evaluation he must assemble all data systematically, setting forth in detail the conditions of the prospective buyer. In other words, he must investigate, through all the sources at his disposal, the three basic elements forming the basis of credit, or the three *C's,* which can be outlined as follows:

I. Character
   (a) Personal record as a merchant,
   (b) Personal qualities as an individual,
      1. His habits,
      2. His political affiliations, if any,
      3. His social position in the community,
      4. His nationality.

II. Capacity
   (a) His knowledge of the business,
   (b) Experience,
   (c) Past performances—were they successful?
   (d) Education,
   (e) Age,
   (f) Relative position in the community as a merchant.

III. Capital
   (a) As represented by his financial statement,
   (b) As reported by others.

Causes of errors. Errors in judgment are frequently due to faulty investigations. To succeed in rendering a fair judgment, it is essential to scrutinize over and over every clue until the most negligible detail has been weighed.

Very often the foreign credit man is not fortunate enough to examine the buyer's financial statement: hence, the necessity for searching every bit of detailed information that will reveal the character of the man, his capacity, and, above all, his honesty.

Verifying the information. Any contradiction in the report will invariably result in indecision. Consequently, the foreign credit man must immediately verify the data assembled, first by asking the bank to confirm the facts. He must be sure that the query contains all the details as reported and specifically asks the questions that press for answer. Second, he should approach the agent and place before him the facts collected and the sources of information, stress the contradictory nature

of the reports, then request verification. Third, a similar request should be addressed to the credit agencies.

Dun & Bradstreet's Foreign Credit Services

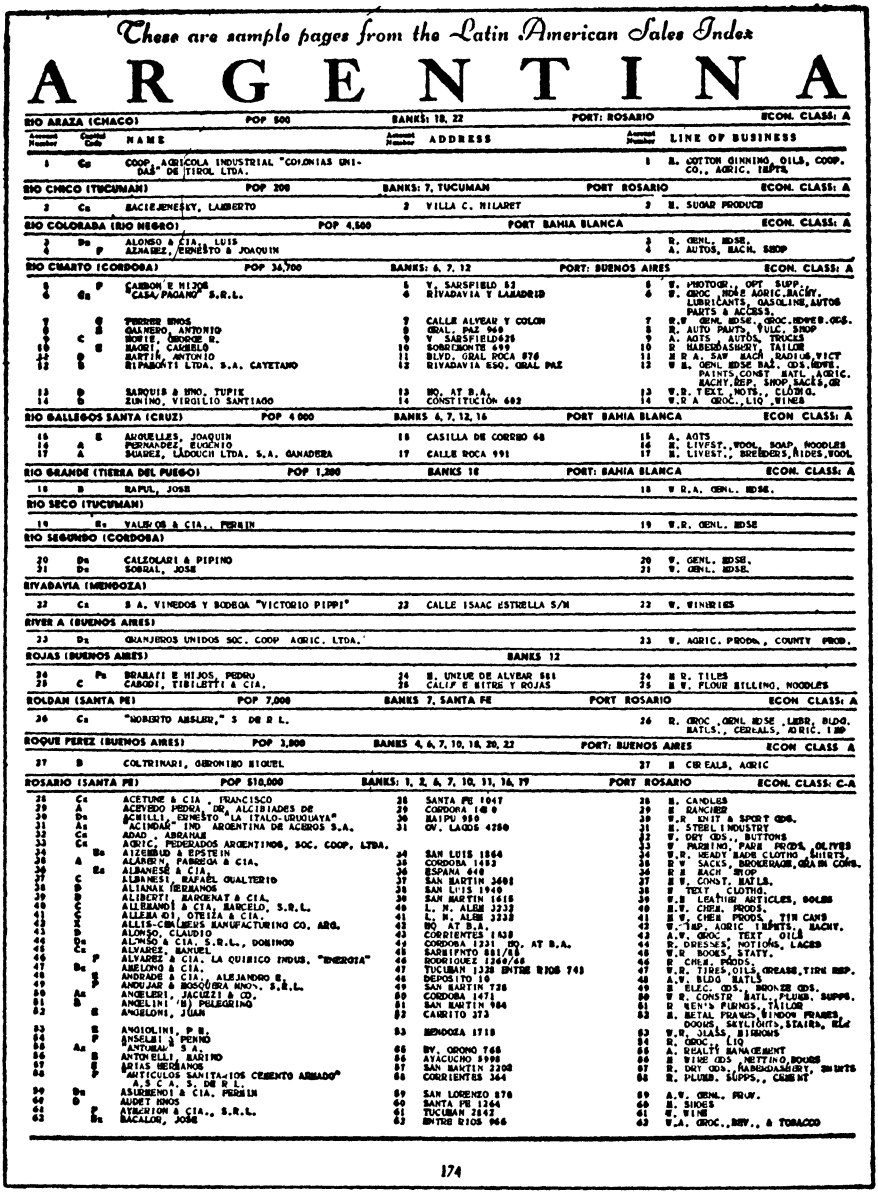
The best known mercantile credit agency in this country is Dun & Bradstreet, Inc. Its main office is located in New York City, and it has branches, correspondents, and agents all over the world.

To the exporter this agency offers the following services:

1. Credit reports on foreign commercial houses.
2. The *Latin America Sales Index.*
3. *Trade Index of United States Manufacturers* for Latin America.
4. Foreign Collection Service.
5. Dun's *Review.*
6. Studies and analyses of foreign trade, as well as advice to exporters on their sales and credit problems.
7. Miscellaneous services, such as cabling for information, and making translations.

"The Latin America Sales Index." Although the *Latin America Sales Index* is primarily intended as an export sales index, it can be of service to the foreign credit executive. The book may be used in making a market survey, or for investigating the sales possibilities in any of the South American markets. If, for example, the foreign credit man wishes to know the number of retail drug stores in a given territory, he looks up the name of the country he is considering for his analysis (the book has the countries arranged alphabetically), and, under the column "line of business," he selects the names of the drug stores in each city, the addresses, and their respective capital ratings. He can then discard those houses which, because of their capital rating, do not come within the category of being desirable prospective accounts.

If the exporter wants to know whether his foreign agent is selling as much as he should in a territory, he may make a market analysis with the aid of the *Latin America Sales Index.* This is accomplished by preparing a list of desirable accounts given in the book, and then comparing the names selected with the list appearing in the foreign ledger. The export manager will, of course, refer to the agent as possible buyers the names appearing in the *Latin America Sales Index* and missing from his foreign ledger. To be sure, the foreign credit man may augment this analysis by comparing the ratings of accounts from whom he is not receiving business with the accounts to which the agent sells. If, for example, his own accounts are not among the very best in the country, he may bring this fact to the attention of the agent and convince him to direct his efforts to sell to the more desirable importers.



These are sample pages from the Latin American Sales Index

ARGENTINA

RIO ARAZA (CHACO) — POP 500 — BANKS: 18, 22 — PORT: ROSARIO — ECON. CLASS: A

Account Number	Capital Code	NAME	Account Number	ADDRESS	Account Number	LINE OF BUSINESS
1	Co	COOP. AGRICOLA INDUSTRIAL "COLONIAS UNI-DAS DE TIROL LTDA.			1	B. COTTON GINNING, OILS, COOP. CO., AGRIC. IMPTS.

RIO CHICO (TUCUMAN) — POP 200 — BANKS: 7, TUCUMAN — PORT ROSARIO — ECON. CLASS: A

2	Co	BACIEJENESKY, LAMBERTO	2	VILLA C. HILARET	2	B. SUGAR PRODUCR

RIO COLORADA (RIO NEGRO) — POP 4,500 — PORT BAHIA BLANCA — ECON. CLASS: A

3	Pn	ALONSO & CIA., LUIS			3	R. GENL. MDSE.
4	P	ALMAREZ, ERNESTO & JOAQUIN			4	A. AUTOS, MACH. SHOP

RIO CUARTO (CORDOBA) — POP 36,700 — BANKS: 6, 7, 12 — PORT: BUENOS AIRES — ECON. CLASS: A

5	P	CARBON E HIJOS	5	Y. SARSFIELD 53	5	W. PHOTOGR., OPT. SUPP.,
6	Gn	CASA PAGANO S.R.L.	6	RIVADAVIA Y LAVALLE 1	6	W. GROC. MDSE AGRIC. MACHY. LUBRICANTS, GASOLINE, AUTOS PARTS & ACCESS.,
7	G	FERRER HNOS	7	CALLE ALVEAR Y COLON	7	R.W. GENL. MDSE., GROC. MDSE B. GDS.
8	B	GALNERO, ANTONIO	8	GRAL. PAZ 960	8	R. AUTO PARTS, TULC. SHOP
9	C	MONTE, GREGORIO R.	9	Y. SARSFIELD 625	9	A. AGTS., AUTOS, TRUCKS
10	G	NAGRI, CARMELO	10	SOBREMONTE 699	10	R. HABERDASHERY, TAILOR
11	P	MARTIN, ANTONIO	11	BLVD. GRAL ROCA 876	11	R R A. SAP MACH RADIUS, VICT
12	B	RIPAMONTI LTDA. S.A. CAYETANO	12	RIVADAVIA ESQ. GRAL PAZ	12	W B., GENL MDSE BAT., GDS., HDWE., PAINTS, CONST MATL., AGRIC. MACHY. REP. SHOP SALES, GR
13	D	SARQUIS & HNO. TUPIK	13	BO. AT B.A.	13	W.R. TEXT., NOTS., CLOTHG.
14	G	ZUNINO, VIRGILIO SANTIAGO	14	CONSTITUCION 682	14	W.R A GROC., LIQ., WINES

RIO GALLEGOS SANTA (CRUZ) — POP 4 000 — BANKS 6, 7, 12, 16 — PORT BAHIA BLANCA — ECON CLASS: A

15	G	ARGUELLES, JOAQUIN	15	CASILLA DE CORREO 68	15	A. AGTS
16	A	FERNANDEZ, EUGENIO			16	R. LIVEST., WOOL, SOAP, NOODLES
17	A	SUAREZ, LADOUCH LTDA. S.A. GANADERA	17	CALLE ROCA 991	17	R. LIVEST., BREEDERS, HIDES, WOOL

RIO GRANDE (TIERRA DEL FUEGO) — POP 1,200 — BANKS 16 — PORT: BAHIA BLANCA — ECON. CLASS: A

18	B	RAFUL, JOSE			18	W R.A. GENL. MDSE.

RIO SECO (TUCUMAN)

19	Co	VALSIGS & CIA., FERRIN			19	W.R. GENL. MDSE

RIO SEGUNDO (CORDOBA)

20	Pn	CALZOLARI & PIPINO			20	W. GENL. MDSE.
21	Pn	SOBRAL, JOSE			21	W. GENL. MDSE.

RIVADAVIA (MENDOZA)

22	Co	S A. VINEDOS Y BODEGA "VICTORIO PIPPI"	22	CALLE ISAAC ESTRELLA S/N	22	W. WINERIES

RIVER A (BUENOS AIRES)

23	Dn	GRANJEROS UNIDOS SOC. COOP AGRIC. LTDA.			23	W. AGRIC. PRODS., COUNTY PROD.

ROJAS (BUENOS AIRES) — BANKS 12

24	Pn	BRABATI E HIJOS, PEDRO	24	B. UNZUE DE ALVEAR 861	24	W R. TILES
25	C	CABODI, TIBILETTI & CIA.	25	CALLE E MITRE Y ROJAS	25	R W. FLOUR MILLING, NOODLES

ROLDAN (SANTA FE) — POP 7,000 — BANKS 7, SANTA FE — PORT ROSARIO — ECON CLASS: A

26	Co	"ROBERTO ABELER," S DE R L.			26	R. GROC., GENL MDSE., LIBR., BLDG. MATLS., CEREALS, AGRIC. IMP.

ROQUE PEREZ (BUENOS AIRES) — POP 3,000 — BANKS 4, 6, 7, 10, 18, 20, 22 — PORT: BUENOS AIRES — ECON CLASS A

27	B	COLTRINARI, GERONIMO MIGUEL			27	R CEREALS, AGRIC

ROSARIO (SANTA FE) — POP 510,000 — BANKS: 1, 2, 6, 7, 10, 11, 16, 19 — PORT ROSARIO — ECON. CLASS: C-A

28	Co	ACETUNE & CIA., FRANCISCO	28	SANTA FE 1947	28	R. CANDLES
29	A	ACEVEDO PEDRA, DE, ALCIBIADES DE	29	CORDOBA 1180	29	R RANCHER
30	Dn	ACHILLI, ERNESTO "LA ITALO-URUGUAYA"	30	MAIPU 950	30	W.R. KNIT & SPORT GDS.
31	As	ACINDAR IND ARGENTINA DE ACEROS S.A.	31	GV. LAGOS 4280	31	R. STEEL INDUSTRY
32	Co	ADAD, ABRAHAM			32	W. DRY GDS., BUTTONS
33	Co	AGRIC. PEDREGADOS ARGENTINOS, SOC. COOP. LTDA.			33	W PURSING, PAPR PRODS, OLIVES
34	Bn	AIZENBUD & EPSTEIN	34	SAN LUIS 1866	34	W.R. READY MADE CLOTHG SHIRTS,
35	A	ALARCIA, PABREGA & CIA.	35	CORDOBA 1693	35	R W SACKS, BROKERAGE, GRAIN COMS.
36	En	ALBANESE & CIA.	36	ESPANA 640	36	R H RACH SHOP
37	C	ALBANESI, RAFAEL GUALTERIO	37	SAN MARTIN 3681	37	R W. CONST. MATLS.
38	B	ALIANAK HERMANOS	38	SAN LUIS 1940	38	W TEXT CLOTHG.
39	B	ALIBERTI, BERNARAT & CIA.	39	SAN MARTIN 1615	39	W.R LEATHR ARTICLES, SOLES
40	C	ALLEBRANDI & CIA. BARCELO, S.R.L.	40	L. N. ALEM 3232	40	R.W. CHEM. PRODS.
41	C	ALLERIA CI, OTRIA & CIA.	41	L. N. ALEM 3238	41	R W. CHEM PRODS., TIN CANS
42	X	ALLIS-CHALMERS MANUFACTURING CO. ARG.	42	BO. AT B.A.	42	W.-TRP. AGRIC IMPTS. MACHY.
43	D	ALONSO, CLAUDIO	43	CORRIENTES 1430	43	A.W. GROC TEXT OILS
44	Gn	ALONSO & CIA. S.R.L., DOMINGO	44	CORDOBA 1231 BO. AT B.A.	44	D. DRESSES, NOTIONS, LACES
45	Co	ALVAREZ, MANUEL	45	SARMIENTO 881/83	45	W.R BOOKS, STATY.
46	P	ALVAREZ & CIA. LA QUIRICO INDUS. "ENERGIA"	46	RODRIGUEZ 1260/68	46	R CHEM. PRODS.
47	Bn	ARCHIO & CIA.	47	TUCUMAN 1328 ENTRE RIOS 745	47	W.R. TIRES, OILS, GREASE, TIRE REP.
48	G	ANDRADE & CIA. ALEJANDRO E.	48	DEPOSITO 10	48	A.W. BLDG MATLS
49	P	ANDUJAR & BOSQUERA HNOS. S.R.L.	49	SAN MARTIN 726	49	R ELEC. GDS., BRONZE GDS.
50	As	ANGELERI, JACUZZI & CO.	50	CORDOBA 1471	50	W R. CONSTR MATL., PLUMB. SUPPS.
51	B	ANGELINI (H) PELEGRINO	51	SAN MARTIN 984	51	R MEN'S FURNGS., TAILOR
52	G	ANGELONI, JUAN	52	CAMBITO 373	52	R. METAL FRAMES, WINDOW FRAMES, DOORS, SKYLIGHTS, STAIRS, ETC
53	B	ANGIOLINI, P. R.	53	MENDOZA 1718	53	W.R. GLASS, MIRRORS
54	P	ANSELMI & PERINO			54	R. GROC. LIQ
55	As	ANTUNAL S.A.	55	BV. ORONO 768	55	A. REALTY MANAGEMENT
56	B	ANTONELLI, MARINO	56	AYACUCHO 3998	56	R WIRE GDS., NETTING, BOURS
57	G	ARIAS HERMANOS	57	SAN MARTIN 2208	57	R. DRY GDS., HANDBAGS, SMARTS
58	P	ARTICULOS SANITARIOS CEMENTO ARMADO A.S.C.A. S. DE R.L.	58	CORRIENTES 364	58	R. PLUMB. SUPPS., CEMENT
59	Bn	ASURRENDI & CIA. PERRIN	59	SAN LORENZO 870	59	A.W. GENL. PROV.
60	B	AUDET HNOS	60	SANTA FE 1264	60	R. SHOES
61	P	AVELLON & CIA., S.R.L.	61	TUCUMAN 2642	61	W. WINE
62	Bn	BACALOR, JOSE	62	ENTRE RIOS 966	62	W.A. GROC., BEV., & TOBACCO

Illustration 35. A PAGE FROM "LATIN AMERICA SALES INDEX" (Dun & Bradstreet).

Illustration 35 shows a page of the *Latin America Sales Index*, and Illustration 36 gives an explanation of the various symbols used throughout the book to determine the capital rating, the economic classification, and the trade group.

DUN & BRADSTREET, INC.

LATIN AMERICA SALES INDEX

KEY TO CAPITAL GROUPS
(U. S. DOLLARS)

A	Over $600,000
B	$300,000 to $600,000
C	$100,000 to $300,000
D	$ 40,000 to $100,000
E	$ 15,000 to $ 40,000
F	$ 5,000 to $ 15,000
G	Less than $5,000

KEY TO TRADE GROUPS

M	Manufacturer
W	Wholesaler
R	Retailer
A	Agent
S	Service Organization

O — No figures available, estimates incomplete or other circumstances make it difficult to assign a definite symbol at this time.

X — This is used to indicate that additional assets are owned by proprietors or partners, outside the business. When standing alone the symbol generally signifies that the enterprise is owned or controlled by another company. In certain instances government purchasing departments have been classified with an "x."

In the case of Sugar Mills, Public Utilities, or other enterprises requiring heavy investments in fixed assets, which are generally financed by bond issues, the size and scope of their operations are usually much greater than their invested capital would indicate.

NOTE: The key to capital groups is given in terms of the local currency in each of the 29 markets contained in the Latin America Sales Index. These are on blue sheets which precede each of the 29 sections in the book.

KEY TO ECONOMIC CLASSIFICATION

C	Commercial Center
I	Industrial Center
A	Agricultural Center
M	Mining Center

Illustration 36. EXPLANATION OF SYMBOLS, "LATIN AMERICA SALES INDEX" (Dun & Bradstreet).

Those interested in availing themselves of the use of the *Latin America Sales Index* should apply to the Foreign Department of Dun & Bradstreet, Inc.

"Trade Index of United States Manufacturers." This book represents a new effort on the part of Dun & Bradstreet, Inc. to stimulate export trade. It is primarily intended for foreign buyers who desire to develop trade connections with American houses. There are three separate editions: one English, another Spanish, and a third in Portuguese. This book is being distributed through the facilities of Dun & Bradstreet's foreign office and agents to 40,000 selected South American importers, and will reach 29 different markets.

The *Trade Index of United States Manufacturers* contains 22 industrial classifications, and under each of these classifications are listed the name of the concern, street and code addresses, and the name of the city and state.

The publishers charge a yearly subscription fee for entering the name of an American exporter in this index.

Sales index rating and the agency report. In discussing the *Latin America Sales Index,* it was mentioned that the book may also be used as a rating guide.

Ratings, as used in this book, refer to symbols expressing the capital, in United States dollars, of foreign commercial houses. For example, the letter "A" expresses that the firm has a capital of over $600,000, whereas the letter "G" indicates that the importer has a net worth of less than $5,000, and "O" means that the firm's capital is unknown. Illustration 36 shows the various symbols and their meanings used in detailing the capital of the firms listed.

Let us take a practical case. If, for example, we refer to Illustration 35, showing a page of the *Latin America Sales Index,* and select the name of Ferrer Hnos. in Rio Cuarto, we shall find a capital letter in front of it. This letter happens to be "E." We then look in the key, Illustration 36, to see what this letter signifies, and we find it means that the concern has a capital of between $15,000 and $40,000.

It would be most advisable, however, to use these ratings with a certain amount of caution. They should be used only for obtaining a quick idea of the account's approximate capital or relative importance, and not for credit checking. The foreign credit man would do well, therefore, to obtain, in addition to the rating, the agency's credit report. He should not consider the firm's capital as listed in the *Latin America Sales Index* as the sole criterion for granting credit. On the contrary, he should reserve his judgment until he has read and appraised all the information he has gathered from every source at his disposal.

The report. The credit report is compiled and edited by men whom Dun & Bradstreet, Inc., considers capable. The agency aims to reveal

the facts assembled in their true aspect. Its interest is to tell what its investigators have marshaled without causing any harm. Since the agency is open to a libel suit in case incorrect facts are distributed, it naturally uses extreme care in checking its information and sources. Its practice of carefully editing the reports also avoids the possibility of favorably exaggerating the financial condition of any firm.

As stated before, the reports are distributed to subscribers who have agreed beforehand to accept the service offered by this mercantile agency (Dun & Bradstreet, Inc.) in accordance with the conditions stipulated in its contract. The contract requires, among other things, that the information must be held in strict confidence, that the subscriber will not permit the use of this information by other concerns, and that the agency reserves the right to terminate the subscription and forbid renewal.

Whenever a subscriber wishes to obtain a foreign report, he fills out a form similar to the one shown in Illustration 38.

The reports are uniform both in style and in the manner in which the information is presented. The facts are listed in accordance with their importance. The full name of the importer is given first, followed by the nature of his business; that is, whether he is a jobber, manufacturer, a commission merchant, or an agent. Then the report mentions the full street address of the main office and the addresses of the company's branches, if any. This is followed by the names of the partners or officers, and the members of the board of directors.

The content of the report is divided into the following headings:

1. *History of the firm.* This covers the year the business was established, and the background of the partners or officers. These details are presented chronologically and they aim to stress the antecedents of the members of the firm, as well as the record of the firm from its inception to the time the report was issued.

2. *Method of operation.* This section of the report reveals the nature of the business. It explains the kind of business the firm does, or the type of service offered by the importer. There is also a description of: its operation; the goods the firm handles, manufactures, or sells; its connections with other businesses; the general physical appearance of the establishment; the space and the type of buildings the firm occupies; whether it is in the commercial center of the city or not; the number of people employed; to whom the firm sells its products and where, locally or throughout the nation; fires reported, if any, and under what circumstances the fires occurred. In short, this section tends to describe the nature of the business, its operation, the method of distribution, and other details bearing on the organization.

3. *Financial information.* If the importer has consented to distribute his balance sheet through Dun & Bradstreet, Inc., the information is presented in this section of the report. When the importer has mailed

the agency his statement of previous years, it first lists a résumé of the past balance sheet, represented by the current assets, current liabilities, other assets, working capital, net worth, and net sales, thus permitting the foreign credit man to follow the financial trend of the business over a number of years. If, on the contrary, the importer has refused to give a detailed balance sheet and has merely stated his general financial condition as of a certain date, then this information is incorporated into the report as recited by the treasurer or manager of the house.

When the agency cannot obtain the firm's balance sheet or an expression from the principal in regard to the financial standing of the firm, the report then contains estimated figures.

This section often contains information obtained from local banks.

4. *Trade investigation.* This part of the report includes the information obtained by mail or by credit investigators who interview exporters here in the United States. It also contains the reports gathered abroad from the trade and the banks by the branch offices or their agents. This information is usually shown in tabulated form, and lists the highest amount of credit granted, the amount owing on the date of the investigation (which is also indicated in the report), the terms of sale, and the manner in which the importer is paying his bills: anticipated, prompt, slow, or very slow.

Illustration 39 represents the Ledger Experience Inquiry Form sent by Dun & Bradstreet, Inc., to exporters throughout the United States.

5. *Summary.* This section of the report consists of a short, precise statement which emphasizes the high points of the information, and which can be interpreted as meaning whether the account should receive credit favors or not.

Illustration 37 represents a complete report such as Dun & Bradstreet, Inc., would issue on a foreign concern.

The credit reports are periodically revised; and the subscriber, under the "Continuous report service," is entitled to receive any additional information or revisions that the agency might issue on the names about which the subscriber has made inquiries. These additional reports are automatically sent for a period of a year, at the end of which the subscriber receives a notice announcing that, if he is still interested in receiving information on the mentioned name, the notice should be returned to the agency.

Analysis of the Dun & Bradstreet foreign report. To the foreign credit man the mercantile agency report on foreign names not only reveals details that he must appraise, but also serves as a starting point for mental speculations bearing on the firm's business and the risk involved.

Let us take the report shown in Illustration 37. The first thing we notice is the type of business the firm represents: in this case, wholesalers

of heavy hardware, manufacturers of bolts, pipes, and farming equipment.

Why should we be so interested in determining the firm's business while considering its credit? Because there exists a close relationship between the firm's credit and the type of business it represents. For example, a converter of cotton goods differs widely from a manufacturer of dresses, and a wholesaler of general merchandise also differs from a wholesaler of hardware. Consequently, when the foreign credit man considers the credit of a wholesaler of hardware, he knows that the firm will have a heavy inventory, and as a rule the inventory will not be as diversified as the inventory of a general store.

In other words, each particular trade has its own method of doing business, and it must adhere to certain procedures and policies dictated by the nature of the business itself.

Going back to the analysis of the report, we shall not be alarmed to find that the firm in question carried an inventory of over 5,000,000 pesos, which is equal to almost half its capital.

We know also that since it manufactures bolts, pipes, and so forth, it would naturally need expensive machinery and a manufacturing plant. Therefore, the amounts shown in the balance sheet for machinery, equipment, and real estate are not excessive.

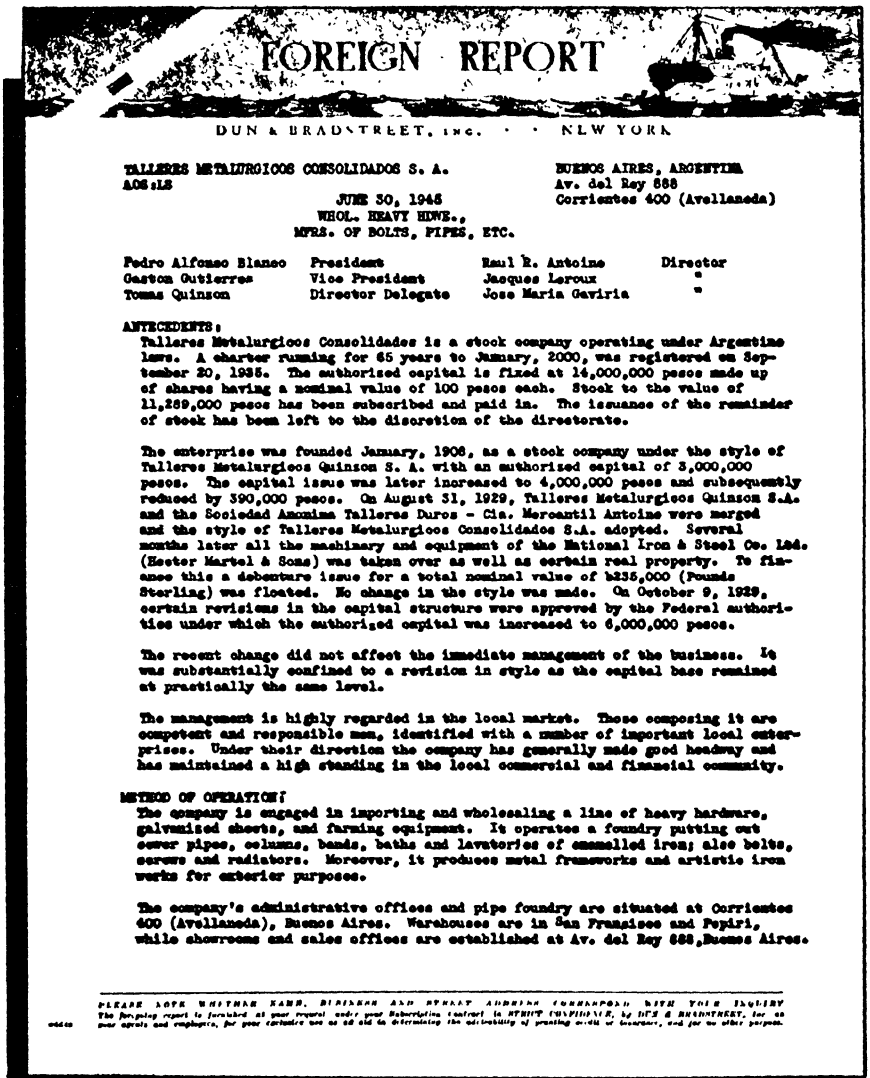
The report further states that the changes that have taken place within the firm did not affect the management, which is very highly regarded and considered reliable. Upon glancing rapidly over the financial details given in the report reflecting the firm's condition in previous years, it is obvious that the company is well managed, and that the principals must be very competent people. The statement reprinted in the report substantiates that opinion, too. The profits reported further increase our conviction that the house is under efficient management.

Investigations carried on in the United States bring out the fact that this concern is receiving fairly substantial credit on different terms and that the firm is handling its payments in a very satisfactory manner.

Summarizing our comments, we say that the firm has been established for many years, that the principals enjoy an excellent reputation and are able businessmen. The history of the house is satisfactory. Furthermore, the firm has accumulated sizable profits in the past years. Its financial condition is liquid. Moreover, the firm is receiving the credit it needs, and is meeting its obligations in accordance with the terms of sale.

On the basis of this report, the foreign credit man should not hesitate to go along with the account for its normal requirements.

Publications. To the domestic subscribers of the mercantile agency of Dun & Bradstreet, Inc., is mailed a copy of its monthly magazine. The policy of this review is to present to American businessmen articles dealing with problems of credit, finance, industry, and special features of spe-



FOREIGN REPORT

DUN & BRADSTREET, INC. • • NEW YORK

TALLERES METALURGICOS CONSOLIDADOS S. A.
AOE:LS

BUENOS AIRES, ARGENTINA
Av. del Rey 888
Corrientes 400 (Avellaneda)

JUNE 30, 1945
WHOL. HEAVY HDWE.,
MFRS. OF BOLTS, PIPES, ETC.

Pedro Alfonso Blanco	President	Raul R. Antoine	Director
Gaston Gutierrez	Vice President	Jacques Leroux	"
Tomas Quinson	Director Delegate	Jose Maria Gaviria	"

ANTECEDENTS:

Talleres Metalurgicos Consolidados is a stock company operating under Argentine laws. A charter running for 65 years to January, 2000, was registered on September 20, 1935. The authorized capital is fixed at 14,000,000 pesos made up of shares having a nominal value of 100 pesos each. Stock to the value of 11,289,000 pesos has been subscribed and paid in. The issuance of the remainder of stock has been left to the discretion of the directorate.

The enterprise was founded January, 1906, as a stock company under the style of Talleres Metalurgicos Quinson S. A. with an authorized capital of 3,000,000 pesos. The capital issue was later increased to 4,000,000 pesos and subsequently reduced by 390,000 pesos. On August 31, 1929, Talleres Metalurgicos Quinson S.A. and the Sociedad Anonima Talleres Duros - Cia. Mercantil Antoine were merged and the style of Talleres Metalurgicos Consolidados S.A. adopted. Several months later all the machinary and equipment of the National Iron & Steel Co. Ltd. (Hector Martel & Sons) was taken over as well as certain real property. To finance this a debenture issue for a total nominal value of £235,000 (Pounds Sterling) was floated. No change in the style was made. On October 9, 1939, certain revisions in the capital structure were approved by the Federal authorities under which the authorized capital was increased to 6,000,000 pesos.

The recent change did not affect the immediate management of the business. It was substantially confined to a revision in style as the capital base remained at practically the same level.

The management is highly regarded in the local market. Those composing it are competent and responsible men, identified with a number of important local enterprises. Under their direction the company has generally made good headway and has maintained a high standing in the local commercial and financial community.

METHOD OF OPERATION:

The company is engaged in importing and wholesaling a line of heavy hardware, galvanized sheets, and farming equipment. It operates a foundry putting out sewer pipes, columns, bands, baths and lavatories of enamelled iron; also bolts, screws and radiators. Moreover, it produces metal frameworks and artistic iron works for exterior purposes.

The company's administrative offices and pipe foundry are situated at Corrientes 400 (Avellaneda), Buenos Aires. Warehouses are in San Francisco and Pepiri, while showrooms and sales offices are established at Av. del Rey 888, Buenos Aires.

PLEASE KEEP WRITTEN NAME, BUSINESS AND STREET ADDRESS CORRESPONDENCE WITH YOUR INQUIRY

The foregoing report is furnished at your request under your Subscription Contract in STRICT CONFIDENCE, by DUN & BRADSTREET, Inc. on your agreed and emphatic, for your exclusive use as an aid in determining the advisability of granting credit or insurance, and for no other purpose.

Illustration 37. CREDIT REPORT (Dun & Bradstreet).

TALLERES METALURGICOS CONSOLIDADOS S. A. BUENOS AIRES, ARGENTINA
Page #2

FINANCIAL INFORMATION:

DATE	CURRENT ASSETS	CURRENT DEBT	NET WORTH
Dec. 31, 1944	12,278,363 Pesos	4,125,199	10,030,701
Dec. 31, 1943	9,389,005	1,860,224	10,360,859
Dec. 31, 1942	9,148,619	1,200,991	10,512,763

ASSETS		
Cash and banks	Pesos	942,541.18
Accts. & Notes Rec.		4,070,487.01
Inventories:		
Raw materials		1,544,079.68
Finished products		3,564,895.71
CURRENT ASSETS		10,122,003.58
Real estate & securities		5,546,331.05
Machy.,equip.,furn., & fix.		2,893,878.89
Order accounts (Contra)		11,603,798.97
TOTAL ASSETS		30,166,012.49
LIABILITIES		
Creditors in curr. acct.		946,512.82
Accts. Pay.		428,416.95
Dividends Pay.		38.22
Notes Pay.		264,665.76
CURRENT LIABILITIES		1,639,632.75
Funded Debt		3,242,224.64
Reserves		1,566,001.60
Order Accounts (Contra)		11,603,798.97
Capital		11,289,000.00
Surplus		825,354.63
TOTAL LIABILITIES		30,166,012.49

ANALYSIS

During 1944 the company grossed 3,336,891 pesos from merchandising operations. This together with 13,624 pesos from rentals and 205,278 pesos from the 1944 carryover left it with a total of 3,555,693 pesos with which to meet operating expenses. After providing for general expenses, interest, taxes, debenture payments, etc., the company closed the year with a net profit of 623,042 pesos, a fair return on the invested capital. At that, the return compared favorably with 1943 earnings jumping up from a level of 283,308 pesos.

Obviously there was an expansion in sales judging from the considerable rise in receivables and inventories. This was to some extent supported by an increased debt, but a larger margin of working capital left the company in a position relatively more liquid than during the previous year. A high degree of coverage against both the quick and funded debt continued to be shown.

As a whole, operations are on a comfortable and well aligned basis with a continued responsibility for legitimate credit dealings indicated.

(The Argentine paper peso is currently quoted at about $.25 U.S.)
(The Pound Sterling is currently quoted at about $4.00 U.S.)

ARGENTINE INVESTIGATION:

Local advices of June 30, 1945 developed by our Buenos Aires office have been used as a basis for this report.

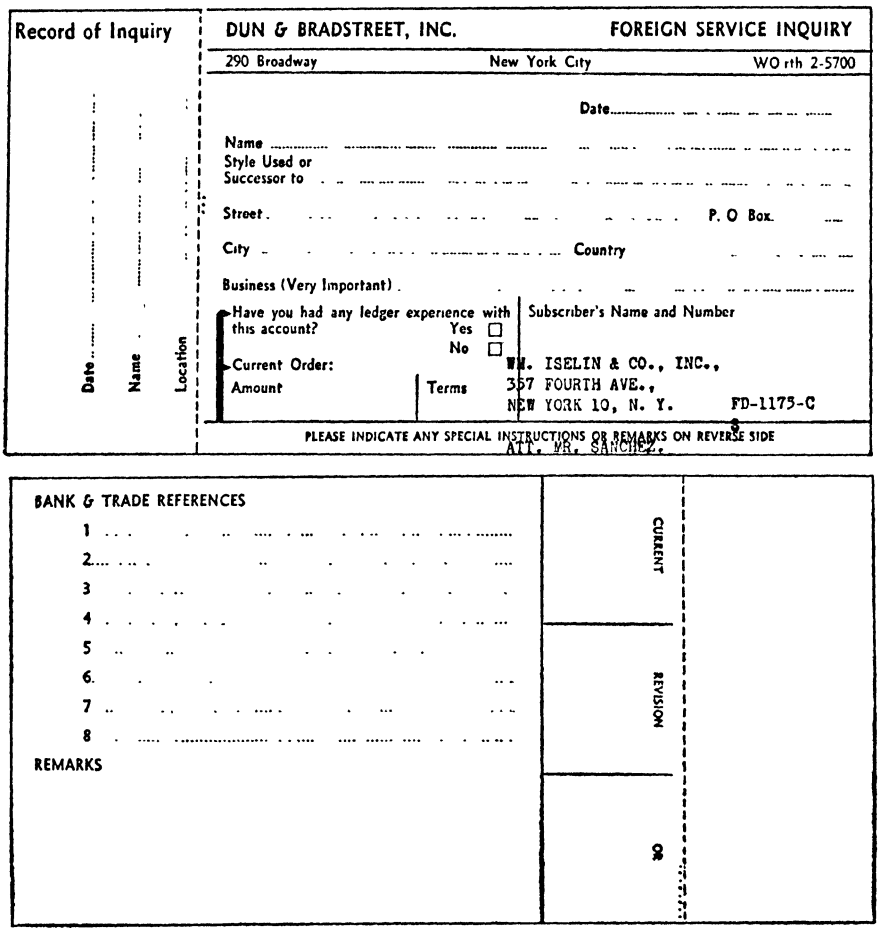
U. S. A. INVESTIGATION:

		PAST DUE	TERMS	PAYMENTS	REMARKS
1.	$ 40,000	7,000	S/D	PROMPT	
2.	20,000		2%C.A.D/90 s/D	net DISCOUNTS	Account in balance.
3.	5,700		3% Net Cash	DISCOUNTS	
4.	12,000		60 days S/D	ANTICIPATED	

SUMMARY:

THIS IS AN OLD AND WELL ESTABLISHED HOUSE. IT IS UNDER A RESPONSIBLE AND WELL CONNECTED MANAGEMENT CONTROLLING SUBSTANTIAL AND ONLY REASONABLY ENCUMBERED RESOURCES. INCREASED AND FAIR EARNINGS ARE BEING CLEARED. BILLS CONTRACTED ARE RETIRED PROMPTLY OR AT DISCOUNT. THE ACCOUNT IS HELD IN CREDIT FOR ITS LEGITIMATE REQUIREMENTS.

Illustration 37. *(Continued.)*



Record of Inquiry

Date..... Name Location

DUN & BRADSTREET, INC. FOREIGN SERVICE INQUIRY

290 Broadway New York City WO rth 2-5700

Date.....

Name .....

Style Used or Successor to .....

Street ..... P. O Box. ....

City ..... Country .....

Business (Very Important) .....

Have you had any ledger experience with this account? Yes ☐ No ☐

Subscriber's Name and Number

Current Order:

Amount Terms

WM. ISELIN & CO., INC.,
357 FOURTH AVE.,
NEW YORK 10, N. Y. FD-1175-C

PLEASE INDICATE ANY SPECIAL INSTRUCTIONS OR REMARKS ON REVERSE SIDE
ATT. MR. SANCHEZ.

BANK & TRADE REFERENCES

1 .....
2 .....
3 .....
4 .....
5 .....
6 .....
7 .....
8 .....

REMARKS

CURRENT

REVISION

Illustration 38. REQUEST FOR REPORT (Dun & Bradstreet).

cial interest to the readers. From time to time this magazine contains articles that are of great value to foreign credit men. For example, in the issue of July 1942, *Dun's Review* presented a well-documented article by Mr. Alexander O. Stanley of its staff, entitled: "Latin America as a Credit Risk."

It has been stated often enough by export traders that credit losses in foreign business are less than the credit losses in domestic trade. This article, although it says the same thing, goes much further: it proves with facts that the above assertion is correct. Mr. Stanley took the trouble to inquire of exporters all over the United States about their sales and losses throughout Latin America. His investigations brought out that 514 American concerns sold to 37,807 importers throughout South America a total of $750,328,721 worth of goods of all kinds, and that these

exporters had credit losses of $2,837,260. He goes still further in his analysis and shows the sales and credit losses by trade. For example, here are the high lights:

Trade	Sales	Credit Losses
Food	$117,604,000	$39,000
Textiles	91,218,000	44,000
Drugs, Chemicals, and Paints	126,517,000	10,000
Machinery and Electrical Equipment	111,126,000	68,000
Iron and Steel	47,148,000	12,500

Then he proceeds to study the record of each country as indicated by the credit losses the exporters had against their sales to that particular market.

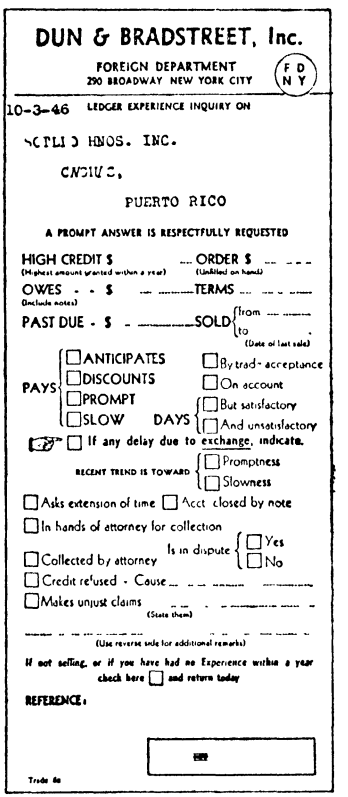
In addition to this publication, Dun & Bradstreet, Inc. issues *International Trade Inquiries,* which is a well-prepared list of inquiries received by the agency from importers located all over the world wishing to buy American products, or from foreign agents wanting to distribute American goods in their own countries.

Miscellaneous services. Under this heading may be included:

Air Mail service, offered to subscribers who wish to obtain current information on some importer without delay.

Cable service, permitting the exporter, as a member of Dun & Bradstreet's subscription list, to request the agency to cable abroad for credit information on any foreign buyer. The expenses incurred, of course, are for the account of the inquirer.

Translation service, offering to subscribers facilities for translating letters, papers, and so forth, from the Spanish, Portuguese, French, and German, into English, and vice versa. The agency does, of course, charge for this service.



DUN & BRADSTREET, Inc.

FOREIGN DEPARTMENT
290 BROADWAY NEW YORK CITY

F D N Y

10-3-46 LEDGER EXPERIENCE INQUIRY ON

SCELLO HNOS. INC.

CAGUAS,

PUERTO RICO

A PROMPT ANSWER IS RESPECTFULLY REQUESTED

HIGH CREDIT $ ... ORDER $ ...
(Highest amount granted within a year) (Unfilled on hand)

OWES - - $ ... TERMS ...
(Include notes)

PAST DUE - $ - ... SOLD { from ... to ...
(Date of last sale)

PAYS { ☐ ANTICIPATES ☐ DISCOUNTS ☐ PROMPT ☐ SLOW DAYS
☐ By trade acceptance ☐ On account ☐ But satisfactory ☐ And unsatisfactory

☞ ☐ If any delay due to exchange, indicate.

RECENT TREND IS TOWARD { ☐ Promptness ☐ Slowness

☐ Asks extension of time ☐ Acct closed by note

☐ In hands of attorney for collection

☐ Collected by attorney Is in dispute { ☐ Yes ☐ No

☐ Credit refused - Cause ...

☐ Makes unjust claims (State them)

(Use reverse side for additional remarks)

If not selling, or if you have had no Experience within a year check here ☐ and return today

REFERENCE:

Trade to

Illustration 39. LEDGER EXPERIENCE INQUIRY (Dun & Bradstreet).

American Foreign Credit Underwriters Corporation

For a number of years, the American Foreign Credit Underwriters Corporation has been distributing to its members credit reports on foreign manufacturers, importers, sales agents, and other commercial institutions located abroad.

These credit reports are based on the information it obtains from its foreign correspondents, on financial statements and other data obtained directly from importers, on the trade's checking, and on reports gathered from banking houses located here and abroad.

The report includes the background of the foreign concern, its antecedents, nationality, and financial and credit status. It also rates each firm on which the corporation has issued information, and gives a definite opinion as to the advisability of extending credit.

American Foreign Credit Underwriters, New York (7)

GARCIA Y MUNIZ, LTDA.

COLOMBIA
BOGOTA
Carrera 25 No. 12-41
Aptdo. Nacional 1483 - Aereo 253
Also at: Medellin, Cali and Barranquilla

LINE OF BUSINESS: Distributors, Agents, Importers - Industrial, Electrical Machinery, Equipment, Supplies, etc.

ESTIMATE OF MEANS: P.200,000 (2) RATE OF EXCHANGE 1 Peso $.5825 US

CREDIT RATING B (Good) NATIONALITY: Colombian

DATE OF INVESTIGATION: March 15, 1946 PROSPECTS: Favorable

PRINCIPALS: Juan Garcia, 56 years of age, married, and Rafael Muniz y Jaramillo, 50 years of age, married.

COMMERCIAL RECORD - ANTECEDENTS: Limited liability company, organized February 1938, succeeding partnership conducted as Garcia y Munis since 1926. The principals are of good reputation and business ability. Both are graduate engineers and were employed by local industrial and public utility enterprises before entering business for themselves. They have worked hard, and have made steady progress since starting with an initial capital of P.75,000 in 1926.

FINANCIAL STATUS: Financial statement December 31, 1945:

ASSETS	Pesos	LIABILITIES	Pesos
Inventory & goods in transit	P.58,695.42	Accounts payable	P.24,265.18
Accounts receivable	51,941 87	Notes payable	13,546.20
Cash in bank	10,558.41	Customers deposits against purchases	72,456.00
Deposits against orders	72,803.60		
Commissions earned	37,259.30		
TOTAL QUICK ASSETS	P.231,258.60	TOTAL CURRENT LIABILITIES	P.120,267.38
FIXED ASSETS			
Furn., fix. & tools (less depreciation P.2,250.43)	6,879.24	Capital	150,000.00
Real estate (business)	95,677.90	Undivided profit	63,548.36
TOTAL ASSETS	P.333,815.74	TOTAL LIABILITIES	P.333,815.74

SUMMARY

Current Assets	P.231,258.60	Net Working Capital	P.110,991.22
Current Liabilities	P.120,267.38	Current Ratio	1.92

Fire insurance on merchandise P.60,000. On buildings and plant P.75,000.

Above figures, accepted as correct according to the company's books, indicate a sound financial condition. Net worth is estimated around P.200,000. All figures are in Colombian pesos.

SALES AGENCY FACILITIES: The company acts as exclusive sales representatives for several leading U. S. manufacturers of industrial equipment and supplies, usually importing direct and reselling to local industries, though in some industrial supply lines it operates on a commission basis. For the ---------- Electrical Mfg. Co. of ----------, it has for years been exclusive distributor for all Colombia, except the Depts. of Atlantico, Bolivar and Magdalena. Other U. S. principals include ---------- of Peoria, Ill. (Diesels), ---------- Mfg. Co. of St. Louis, Mo. (Gasoline Engines), ---------- Belting Co. of Moline, Ill. (Leather belting), ---------- Fan Co. of Pittsburgh, Pa. (Fans and Dryers), ---------- Co. of Cincinnati, O. (Machine Tools), ---------- Tool Co. of Cleveland, O. (Power Tools), etc. For most of these it covers all of Colombia, through branch offices and travelers. Specializes in sales to public utilities, railroads, sugar mills, petroleum companies and other industrial enterprises. Has a well equipped and staffed engineering and service department and installs machinery and equipment which it sells. U. S. principals report favorable experience with subjects as distributors.

PAY RECORD: In the local market the company is not known as a seeker of commercial credit; however, obligations are met promptly. Two local banks report all dealings satisfactory.

Several U. S. suppliers report granting credits in individual amounts from $300 to $10,000 on terms of sight draft d/p to 60 days d/a with payments usually prompt, though sometimes with 30 to 60 days delay, due mainly to formalities in connection with allotment of exchange.

CONCLUSION: THIS COMPANY IS DOING WELL UNDER PROGRESSIVE, COMPETENT MANAGEMENT. RECOMMENDED AS A GOOD CREDIT RISK FOR AMOUNTS UP TO $5/10,000 ON DRAFT TERMS. CONSIDERED A DESIRABLE SALES REPRESENTATIVE FOR INDUSTRIAL AND ENGINEERING PRODUCTS.

B-3

This is a Specimen Report.
Actual Names Not Used.

KEY TO CREDIT RATINGS

A—High B—Good C—Fair D—Borderline X, XX—Unacceptable

The correctness of this report is not guaranteed, but having been obtained by us in good faith, from authorities deemed reliable, it is furnished to you in strict confidence and for your exclusive use in determining credit.

Illustration 40. AMERICAN FOREIGN CREDIT UNDERWRITERS REPORT.

Illustration 40 shows the type of report issued by the American Foreign Credit Underwriters Corporation.

In addition to supplying its members with reports on foreign concerns, the American Foreign Credit Underwriters Corporation also offers the following services:

1. Automatic confidential notices of changes in the ratings of foreign houses.

MARKET GUIDE FOR CUBA 669

Code	Trade Class	Name and Address	Business	Rating
		SAN LUIS (Oriente) - Pop. 10,820 (Seaport-Santiago de Cuba)	**Banking Town-Santiago de Cuba**	
01	EJR	Alea, Francisco ("El Escandalo") (Apo. 3) (Norma 10)	Dry Gds., Shoes & Hardware	C-4
02	J	Carsi, Cristobal (also Los Pazos)	Dry Gds	C-9
03	JKM	Chang Hnos y Cia. (Apo. 47)	Dry Gds , Notions, Silks & Groceries	C-4
04	Ⓢ U	Cia. Cubana de Electricidad, (S.A.) (Br. of Habana)	Elec Power Plant, Mfr. Ice	A-1
05	JR	Fernandez, Angel ("La Isla de Cuba") (Apo. 42) (Cespedes 18)	Dry Gds , Clothing, Shoes, Hats, etc	XX
06	JRS	Lozano (S. en C.), Antonio	Shoes, Dry Gds , Furniture, etc	B-4
07	M	Meda, Jacinto (Cespedes 3)	Whol. Groceries	B-3
08	JR	Prada, Paulino ("Los Estados Unidos") (Apo. 84) (Calle Marti)	Men's Wear, Leather Gds., Shoes	XX
09	O	Ramon, Andres M. ("Farmacia San Rafael") (Cespedes 1)	Drugstore	C-4
10	Ⓢ	Rousseau y Verdereau, Jose ("Central Union")	Sugar Mill	B-1
11	Ⓢ	San Luis Industrial, (S.A.) ("Imperial") (Apo. 26) (Norma y Miro)	Mfr. Mineral Water	X-4
12	JW	Santos, Alfonso	Dry Gds., Silks, Genl. Mdse	X-4
13	O	Santos, Dr. Juan B (Marti 16)	Drugstore	XX
14	Q	Sune Hernandez, Joaquin (Cespedes 3)	Paper, Printer	C-4
		SAN LUIS (Pinar del Rio) - Pop. 7,400 (Seaport-Habana)	**Banking Town-Pinar del Rio**	
15	W	Castro, Agustin J (J. Romero 61)	Genl. Store	X-6
16	W	Collado, Vda. de (Calle J Romero)	Genl. Store	B-4
17	TW	Fernandez, Rubin y Cia., (S. en C.) (J Romero 81)	Genl. Mdse, Whol. Leaf Tobacco	B-3
18	GI	Martinez, Jose A. (J. Romero 69-71) (Br. of Habana)	Com Art. & Imp. Gns Motors, Pumps	C-4
19	W	Mora, Alejandro	Genl. Mdse	B-4
20	M	Perez Almirall, Luis (also Santiago de Cuba)	Groceries, Provisions, etc	C-4
21	W	Villar y Hnos., (S. en C.) (J. Romero 14)	Genl. Store	B-3
		SAN NICOLAS (Habana) - Pop. 4,000 (Seaport-Habana)	**Banking Town-Habana**	
22	E	Fernandez (S. en C.), A. (Marti 65)	Hardware	X-9
23	JR	Larios y Saez	Shoes, Clothing, etc	C-4
24	JR	Larios y Vergara, Guillermo ("La Libertad") (Marti 84)	Dry Gds., Shoes, etc	B-4
25	JR	Martinez, Jaime ("Mi Sistema") (Asber esq. Avellaneda)	Shoes, etc , Tailor	XX
26	W	Martinez, Viuda Manuel (Central Gomez Mena)	Genl. Mdse	B-4
27	Ⓢ	Nueva Cia. Azucarera Gomez Mena, (S.A.) ("Central Gomez Mena") (Br. of Habana)	Sugar Mill	B-1
28	JR	Rodriguez, Pablo ("La Filosofia") (Marti 21)	Shoes & Clothing	C-4
		SAN RAMON (Oriente) - Pop. 1,800 (Seaport-Manzanillo)	**Banking Town-Bayamo**	
29	W	Reina e Hijos, F	Genl. Mdse	B-4
		SAN RAMON DE GUANINAO (Oriente) - Pop. 1,525 (Seaport-Santiago de Cuba)	**Banking Town-Santiago de Cuba**	
30	RW	Campo, Manuel	Shoes, Genl. Mdse	B-4
		SANCTI-SPIRITUS (Las Villas) - Pop. 14,170 (Seaport-Caibarien)	**The First National Bank of Boston** **The Royal Bank of Canada**	
31	JK	Alonso, Carlos ("La Republica") (Independencia 71)	Dry Gds , Notions, Silks, etc	B-3
32	M	Alonso Mendez, Jose	Provisions, Groceries, etc	C-4
33	M	Alonso, Rafael	Provisions, Groceries, etc	C-5
34	R	Alvarez, Anselmo ("La Princesa") (Plaza S. Sanchez 3)	Leather Gds., Shoes, etc	B-4
35	EJKR	Alvarez, Jose ("La Campana") (Cespedes 21)	Dry Gds., Hardware, Notions, Shoes, Saddlery	X-4
36	E	Amezaga, Gregorio (Cespedes 60)	Hardware	X-5
37	M	Batista, Miguel	Provisions, Groceries, etc	C-5
38	M	Blanco y Hermano	Provisions, Groceries, etc	C-5
39	M Ⓢ	Brizuela (S en C.), A. ("La Ceiba") (Placido 12)	Groceries, Bakery	C-4
40	JR	Caballero, Luis ("El Siglo") (Cespedes 72)	Hats, Leather Gds., Shoes, Trunks	C-4
41	J	Cabarga, Demetrio ("La Defensa") (Independencia 58)	Hats	B-3
42	O	Cabarga y Martinez (Independencia 76)	Drugstore	C-4
43	ES	Camba Carballeira, Jesus ("El Jardin Cubano") (Independencia 45)	Furniture, Housewares, etc	C-4
44	O	Cancio, Joaquin M (Independencia 5)	Drugstore	C-4
45	E	Casadevall, Jaime (Independencia 51)	Hardware, etc	C-4
46	M	Castaneda, Manuel	Provisions, Groceries, etc	C-5
47	KL	Cheng, Roberto ("El Pekin") ("Zarito") (Independencia 38)	Notions, Optical Gds., etc	C-4
48	JK	Cordera Cayoda, Eugenio ("La Habana") (Cespedes y Sobral)	Dry Gds , Notions, Silks, etc	B-4
49	M	Cuan, Joaquin	Provisions, Groceries, etc	C-4
50	M	Cuan Kocbuan y Hno., Arturo	Provisions, Groceries, etc	C-5
51	R	Cueta y Hno., (S en C.) ("La Imperial") (Independencia 40)	Shoes, Luggage, etc	B-4
52	Ⓢ S	Deniz Sanchez, Juan (Apo. 135)	Carpentry Shop, Undertakers' Supp. & Fixtures	C-5
53	O	Distribuidora Medica, (S.A.)	Whol. Chemicals, Pharm. Prod., Drugs	C-4
54	M	Elizalde, Victor	Provisions, Groceries, etc	C-5
55	R	Fernandez Couso, Baltazar ("El Mundo") (Independencia 94)	Shoes, Leather Gds., etc	C-4
56	O	Fernandez, J. Benigno (Independencia 27)	Drugstore	X-4
57	M Ⓢ	Fernandez Perez, Francisco ("La Naviera") (Maximo Gomez 145)	W.& R. Groceries, Bakery	C-4
58	M	Fernandez y Cia., J.P. (Cespedes 128)	Groceries, Tobacco, Sugar, etc	C-3
59	JK	Garcia Arias, Francisco ("La Marquesita") (Cespedes 96)	Notions, Dry Gds , Clothing, etc	B-3
60	O	Garcia Canizares, Jose (Independencia 62)	Drugstore	X-3

Illustration 41. A PAGE FROM AMERICAN FOREIGN CREDIT UNDERWRITERS "MARKET GUIDE FOR LATIN AMERICA."

2. Moral Suasion Service, which is an aid in collecting delinquent foreign accounts.

3. *Exporters' Digest,* a magazine that contains information about business conditions in all world markets, exchange regulations, and other material pertaining to export business.

4. *The Market Guide for Latin America,* which may be used as a credit guide. This book lists, by countries, the name of the firm, its address, the type of business in which the firm is engaged, its capital and credit rating. See Illustration 41.

The capital rating, which is designated by a number, permits the foreign credit man to evaluate the financial worth of the concern; the credit rating, which is represented by a letter of the alphabet, reveals the manner in which the foreign house pays its bills.

Foreign Credit Interchange Bureau

Not so long ago, the most common way for the exporter to obtain credit information on a new foreign account was to address several inquiries to other exporters located throughout the United States, who, to the foreign credit man's knowledge, were selling to the same firm. This method did not prove very effective, since it was not only expensive, but proved to be inadequate and inefficient for the demands of modern business, which requires promptness in the discharge of its functions. To remedy this cumbersome and slow procedure of gathering foreign credit information, exporters decided in 1919 to establish as a part of the National Association of Credit Men, The Foreign Credit Interchange Bureau.

The Bureau is a nonprofit organization which operates on the principle of serving its subscribers. It charges for its services a minimum fee, sufficient to cover its actual yearly expenses.

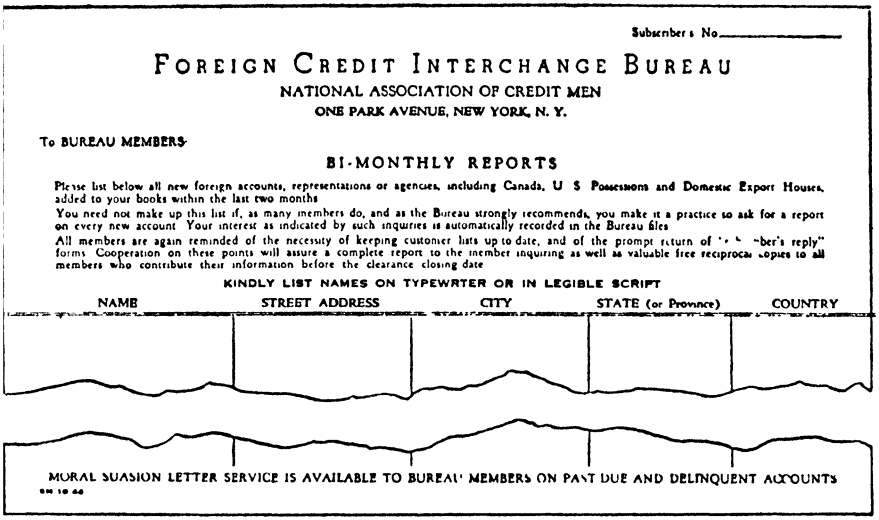
At the time an exporter becomes a member of this organization, he must send to the Bureau a complete list of his accounts, and twice a month he will report any new ones he has accepted. (See Illustration 42.) The exporter further agrees to reply promptly to inquiries he receives from the Bureau from time to time. Whatever information is supplied to its subscribers by the Bureau is submitted in strict confidence.

The Bureau renders various types of services to the members, as follows:

The foreign credit interchange report. This report (see Illustration 43) contains the actual ledger and credit experience of American exporters who are doing business all over the world. At the present time the Bureau has in its files information on more than 200,000 foreign accounts, and the number is increased from month to month. Each report contains the following data:

a. Highest recent credit received by the importer.

b. How long the exporter has sold to the account.



Subscriber's No._____

FOREIGN CREDIT INTERCHANGE BUREAU

NATIONAL ASSOCIATION OF CREDIT MEN

ONE PARK AVENUE, NEW YORK, N. Y.

To BUREAU MEMBERS:

BI-MONTHLY REPORTS

Please list below all new foreign accounts, representations or agencies, including Canada, U. S. Possessions and Domestic Export Houses, added to your books within the last two months.

You need not make up this list if, as many members do, and as the Bureau strongly recommends, you make it a practice to ask for a report on every new account. Your interest as indicated by such inquiries is automatically recorded in the Bureau files.

All members are again reminded of the necessity of keeping customer lists up to date, and of the prompt return of "Subscriber's reply" forms. Cooperation on these points will assure a complete report to the member inquiring as well as valuable free reciprocal copies to all members who contribute their information before the clearance closing date.

KINDLY LIST NAMES ON TYPEWRITER OR IN LEGIBLE SCRIPT

NAME	STREET ADDRESS	CITY	STATE (or Province)	COUNTRY

MORAL SUASION LETTER SERVICE IS AVAILABLE TO BUREAU MEMBERS ON PAST DUE AND DELINQUENT ACCOUNTS

Illustration 42. FOREIGN CREDIT INTERCHANGE BUREAU BI-MONTHLY REPORT ON NEW ACCOUNTS.

c. Terms granted.
d. Amount the importer is owing at the time of the investigation.
e. Amount past due, and how long past due.
f. Manner of meeting his obligations in this market.
g. The buyer's rating as judged by other foreign credit men.
h. Credit limit assigned by other members of the Bureau.
i. Whether credit has been declined to the account in the past.
j. The actual date of the last transaction.
k. Remarks that will assist the credit grantor in reaching a decision.
l. General information.

The foreign credit man, by glancing at this information, gets a factual history of the importer's business activities in this country.

Moreover, upon further study of the data the foreign credit man can make some valuable deductions. For example, the most emphatic revelations are: the trend that the business has followed from year to year as reflected by the firm's paying record; the total sum the importer owes to his suppliers in this country, and not due; the total amount past due, if any; and the terms granted by other American houses.

Further analyses will also reveal the relation that exists between the terms granted and the manner in which the buyer pays his bills. Often a house receiving open account terms will take additional days beyond maturity date to pay its indebtedness, whereas the same concern will pay promptly when sales are made on the basis of drafts.

Members wishing to obtain a report on any foreign account must fill out a Subscriber's Inquiry Ticket, similar to that shown in Illustration

44, and mail it to the Bureau, which will not only obtain the ledger experience of the other members selling to the same account, but will also cover all references submitted by the inquirer.

Often the Bureau writes directly to the importer inviting him to submit credit information relative to his own firm. The form used for this purpose is shown in Illustration 45.

FOREIGN CREDIT INTERCHANGE BUREAU
National Association of Credit Men
One Park Avenue New York 16, N. Y.

While the information given in this report is obtained from sources deemed reliable the accuracy of the information is not guaranteed and no responsibility is to attach to the Bureau or any of its representatives or agents

FG

REPORT ON John Doe & Co.
P.O.Box 260
Mexico City, Mexico

6-12-46
Sheet # 248-A
Inq. # 176650

TERMS OF SALE

1 Open account payable ____ days from date of (a) Invoice (b) Fac. of shipment (c) Export shipment
2 Open account payable immediately upon receipt of (a) Documents (b) Invoice (c) Goods
3 Account Guaranteed.
4 Voluntary remittance with order
5 Sell for cash in advance only
6 C. I. D. or S/D B. & D/L attached.
7 Cash against documents under (a) Irrevocable L/C - Confirmed (b) Irrevocable L/C - Unconfirmed (c) Revocable L/C
8 Authority to Purchase or Letter of Advice (a) Irrevocable with recourse (b) Irrevocable without recourse (c) Revocable with recourse (d) Revocable without recourse
9 Bank acceptance of bank in this country at ____ days
10 Bank acceptance of foreign bank at ____ days
11 Draft at ____ days sight d/a
12 Draft at ____ days date d/a
13 Draft at ____ days sight d/p
14 Draft at ____ last date d/p
15 Clean draft at ____ days sight
16 Clean draft at ____ days date
17 Consigned stock Terms?
18 Cash against shipping documents dock receipt or warehouse receipt (a) At customer's office (b) At paying agency other than bank (c) At bank.
19

MANNER OF PAYMENT

OPEN ACCOUNT
A Discounts
B Pays when due
C Slow
D Takes unauthorized discounts

DRAFTS
H Anticipates payment.
I Accepts and pays promptly
J Accepts promptly delays payment
K Delays acceptance pays promptly
L Delays both acceptance and payment
M Makes unjust claims

GENERAL
N Account settled by attorney
O Account settled by arbitration or compromise
P Account still in dispute

WE RATE THE ACCOUNT
Q High
R Good
S Satisfactory
T Unsatisfactory
U Undesirable

How Long Sold	Terms of Sale Key No.	Terms of Sale Details	Highest Recent Amount Within Past Year	Date Last Dealings	Amt. now Owing (including outstanding drafts)	Amount Past Due	Length of Time Past Due	Manner of Payment (Use Code)	Rating	REMARKS
Yrs.		Days								
5	11	120	2899	6-'46	2899			I	Q	
8	11	60	3868	6-'46	2032			I	R	
yrs.	16	90	2284	6-'46	1080	60	2mos.	I	S	$60.- disputed item
yrs.	1	120	2000	5-'46	1200				R	
12	16	90	1700	5-'46	1280			B	Q	
7	S/D	90	1000	5-'46	650			I	R	
4	11	90	750	4-'46	175				S	
yrs.	S/D	90	2500	4-'46	1960			I	Q	
yrs	4		385	3-'46					R	
12	11	120	480	2-'46	212			H	Q	
yrs	11	90	2865	2-'46				I	R	

GENERAL INFORMATION

Information dated June 1946 indicates that this firm was originally established in 1928 and reorganized in December 1938 as a stock company under the present style - Reported Capital - 650,000 Pesos. Act as Importers, Wholesalers and Retailers of Drugs, Pharmaceuticals, Insecticides, etc. Principals are Joaquin Pardo, Pres. and Carlo Girardo, General Manager - both Mexicans. All reports are favorable.

This report is strictly confidential and for your own individual use only

ORIGINAL COPY

Illustration 43. FOREIGN CREDIT INTERCHANGE BUREAU REPORT.

The Weekly Bulletin. This bulletin aims to inform all members of the Bureau about any changes that have taken place abroad, and especially those reflecting on the conditions in other countries. For example, twice a year this publication makes a complete commercial credit and collection survey of the conditions in Latin America. The markets are rated "Good," "Fairly Good," "Fair," and "Poor," in accordance with the paying records reported by the members.

Every so often this bulletin gives a digest of the conditions prevailing in some particular foreign market. The comments are sound, unprejudiced, and well documented. The issues covered are many. Each represents a special problem or policy affecting the credit and social conditions of the market, which naturally would also affect the administration of foreign credits.

Round Table Conferences. These conferences are held every month. The members, as well as others interested in foreign trade, gather to discuss the various financial problems of the day. The discussion ranges from trade regulations, tariffs, quotas, to problems of credit and collection, exchange, and any other issues that confront exporters.

The gatherings are attended by the top men of the trade, who openly and without reservations express their opinions on knotty problems facing American merchants and bankers doing business abroad. The range of the discussions can best be judged by looking at the table of contents of the minutes of one of the conferences. At one of the recent meetings, the Round Table discussed the new regulation enacted by Argentina, requiring that all foreign trade to that country be insured with Argentine nationalized underwriters. The second question discussed was whether import permits automatically make dollars available in Belgium to pay for the merchandise bought by that nation abroad.

In other words, it is the purpose of these conferences to consider one country after another, especially those which have enacted new commercial regulations affecting the exporter. As one problem is disposed of, another is brought up, and the quest continues, leading freely to the discussion of any topic that may contribute toward a better understanding of the broad and complicated business of foreign trade.

The second phase of the Round Table discussion deals with general questions. For example, one member may inquire what steps should be taken by a newcomer into export business in order to acquaint himself with the technique of marine insurance, shipping procedure, terms to be granted to buyers, and so forth. Another may ask about the new Revised American Foreign Trade Definitions of 1941. A third may challenge the right of the bank to refuse acceptance of documents because the beneficiary failed to present a Consular Invoice demanded by the Letter of Credit but not required by the country to which the shipment was intended.

FOREIGN CREDIT INTERCHANGE BUREAU
NATIONAL ASSOCIATION OF CREDIT MEN
ONE PARK AVENUE NEW YORK, N. Y.

Inq. No._____ Date_____

Name _____ Business_____

Also uses Trade Name_____

Street_____ City_____ Country_____

Branches at _____

Successors to _____ at_____

THIS STUB IS ARRANGED FOR CARBON COPY WHEN DETACHED AND IS TO BE RETAINED FOR YOUR RECORD. TEAR OFF ON PERFORATION

SUBSCRIBER'S INQUIRY TICKET
FOREIGN CREDIT INTERCHANGE BUREAU
NATIONAL ASSOCIATION OF CREDIT MEN
ONE PARK AVENUE NEW YORK, N. Y.

Date_____

Reason for making inquiry. [check] Old Acc't [ ] New Order [ ] Inquiry [ ]

Name _____ Business_____

Also uses Trade Name_____

Street_____ City_____ Country_____

Branches at _____

Successors to _____ at_____

(PLEASE PRINT OR TYPE THE ABOVE GIVING FULL NAME, TRADE STYLE AND ADDRESS CORRECT SPELLING ABSOLUTELY ESSENTIAL)

TERMS OF SALE

1. Open account payable.... days from date of
   (a) Invoice
   (b) Factory shipment
   (c) Export shipment
2. Open account payable immediately upon receipt of
   (a) Documents
   (b) Invoices
   (c) Goods
3. Account Guaranteed.
4. Voluntary remittance with order
5. Bill for cash in advance only
6. C. O. D. or S/D B. R. B/L attached.
7. Cash against documents under:
   (a) Irrevocable L/C—Confirmed
   (b) Irrevocable L/C—Unconfirmed
   (c) Revocable L/C
8. Authority to Purchase, or Letter of Advice:
   (a) Irrevocable with recourse
   (b) Irrevocable without recourse
   (c) Revocable with recourse
   (d) Revocable without recourse
9. Bank acceptance of bank in this country at . days.
10. Bank acceptance of foreign bank at. days.
11. Draft at days sight d/a.
12. Draft at. days date d/a.
13. Draft at. ...days sight d/p.
14. Draft at. days date d/p.
15. Clean draft at.... days sight.
16. Clean draft at days date.
17. Conditional draft. Terms?
18. Cash against shipping documents, draft receipt or warehouse receipt.
   (a) At customer's office.
   (b) At paying agency other than bank.
   (c) At bank.
19. ... .

MANNER OF PAYMENT

OPEN ACCOUNT	GENERAL
A. Discounts.	N Account settled by attorney.
B. Pays when due.	O. Accounts settled by arbitration or compromise.
C. Slow	P Account still in dispute.
D. Takes unauthorized discounts.	

DRAFTS

K. Anticipates payment.
L. Accepts and pays promptly.
J. Accepts promptly-delays payment.
M. Delays acceptance-pays promptly.
L. Delays both acceptance and payment.
M. Makes unjust claims.

WE RATE THE ACCOUNT

Q. High.
R. Good.
S. Satisfactory.
T Unsatisfactory.
U Undesirable.

GIVE YOUR MOST RECENT EXPERIENCE:

How Long Sold	Terms of Sale: Key No.	Terms of Sale: Details	Highest recent Amount Within Past Year	Date Last Dealings	Amt. now Owing (including outstanding drafts)	Amount Past Due	Length of Time Past Due	Manner of Payment (Use Code)	Rating	REMARKS

GIVE BELOW REFERENCES OR NAMES OF HOUSES WHICH YOU BELIEVE TO BE INTERESTED (with complete address.)

_____

_____

_____

Subscribers No._____ Signature_____

12M-3-46

Illustration 44. FOREIGN CREDIT INTERCHANGE BUREAU SUBSCRIBER'S INQUIRY TICKET.

FOREIGN CREDIT INTERCHANGE BUREAU

NATIONAL ASSOCIATION OF CREDIT MEN

ONE PARK AVENUE NEW YORK, N. Y., U. S. A.

Informe para el Foreign Credit Interchange Bureau
Information for the Foreign Credit Interchange Bureau

Razón social
Firm name

Año de fundación
Date of establishment

Dirección
Address

Ramo a que se dedica — Line of business

Sucursales
Branches

Casas afiliadas
Affiliated firms

Firma antecesora, o sucesores de
Predecessor firm, or successors of

Fecha de la sucesión
Date of succession

Sociedad anónima, colectiva, o firma individual
Corporation, partnership, or individual firm

Ventas Anuales — Annual sales

Socios solidarios, o gerentes (nacionalidad y edad)
Partners, or managers (nationality and age)

Importadora directa por su propia cuenta, ☐ o representante de firmas ☐ Seguro sobre las mercancías
Direct importer for own account, or representative of firms Insurance on merchandise

Valor de las mercancías
Value of the merchandise

Capital empleado en el negocio
Capital employed in the business

Cuentas a cobrar
Accounts receivable

Pasivo Corriente
Current liabilities

Bienes Raices
Real Properties

Capital Liquido
Net Worth

Total del activo
Total assets

Total del pasivo
Total liabilities

Referencias Bancarias (locales y extranjeras)
Bank References (Local and foreign)

Casas norteamericanas que representa, o de cuales compra
United States firms represented, or from whom you are buying

Después de enviarnos este cuestionario, quedan Uds. autorizados para dar el nombre de nuestra organización como referencia en los Estados Unidos del Norte
After sending us this questionnaire, you may use the name of our Bureau as a reference in the United States

Se ruega indicar al dorso de esta hoja otras referencias, o observaciones generales
Please indicate on the reverse side of this sheet other references, or remarks

Fecha de este informe
Date of this report

Illustration 45. FOREIGN CREDIT INTERCHANGE BUREAU INQUIRY FORM —SENT DIRECTLY TO THE IMPORTER.

APPLICATION FOR MEMBERSHIP
IN THE
Foreign Credit Interchange Bureau
NATIONAL ASSOCIATION OF CREDIT MEN
One Park Avenue, New York 16, N. Y.

Date _____ 19____

As members of the National Association of Credit Men, we apply for membership in the Foreign Credit Interchange Bureau of the National Association of Credit Men, and agree, if admitted, to abide by the terms and conditions set forth on the reverse side

Firm Name _____

Address _____

Business _____

Representative _____ Title _____

Name of person to whom literature shall be sent _____

Title _____

NOTE No commission is paid to any employee or member for securing this application. The invitation to join is extended from the standpoint of mutual interest, and the promotion and protection of foreign trade.

FCIB 2M 10 45

TERMS AND CONDITIONS

THE SUBSCRIBER AGREES:

(a). To pay in advance the sum of One Hundred Twenty Five Dollars ($125 00) covering one year's membership.
(b) To treat all information furnished by the Bureau as strictly confidential.
(c). To furnish a complete list of the names and addresses of foreign concerns, including Canada and domestic export commission houses in whom interested, and supply names of new or additional accounts in any manner most convenient.
(d). To furnish promptly a full and exact statement of business experiences in accordance with details indicated on the form of inquiry received from the Bureau, and to substantiate, if requested, experiences so contributed.

THE FOREIGN CREDIT INTERCHANGE BUREAU AGREES TO SUPPLY THE FOLLOWING SERVICES WITHIN THE MEMBERSHIP YEAR.

1. To furnish up to one hundred original foreign credit interchange reports and supplementary information whenever obtainable.
2. Free reciprocal copy of all foreign credit interchange reports to which the member contributes experiences.
3. Monthly Round Table Conferences on foreign credit, collection and exchange problems in which members may participate by attendance or mail. Minutes of these Conferences available at $1 00 per copy
4. Moral Suasion Letter Service on overdue accounts. A service charge of $3.00 is made for each account handled.
5. Weekly Bulletin for the period of the membership year.
6. Consultation Service available on all unusual foreign trade problems.
7. Exchange of General Information—credit, collection and exchange surveys, etc.

THE BUREAU FURTHER AGREES

(a). To furnish additional reports on the basis of one hundred or a multiple thereof at the rate of Ninety Dollars ($90 00) per hundred, such reports to be supplied within the subscription period of this application S e reports in excess of one hundred to be furnished at a charge of One Dollar and Twenty-Five Cents ($1 25) per repo.
(b) To make no charge upon inquiries on which information is unobtainable.
(c). To undertake to obtain information directly from a firm inquired upon when information is unobtainable through the usual channels
(d). To hold as strictly confidential the subscriber's list of foreign accounts, transfer it promptly to card records under the subscriber's code number, and return original list by registered mail, retaining no duplicate.
(e) Never to divulge the name of subscriber who has contributed information, without first securing his permission.

All information is procured and transmitted by the Bureau as the member's agent, without liability for negligence in procuring, collecting, communicating or failing to communicate the information so procured.

Illustration 46. APPLICATION BLANK FOR MEMBERSHIP IN FOREIGN CREDIT INTERCHANGE BUREAU.

In every sense of the word these Round Table discussions not only are extremely effective and beneficial, but also serve as a clearing house permitting the members to gather information and knowledge that will make it possible for them to develop and establish new policies and procedures adaptable to new trends in foreign trade.

Exporters who are unable to attend these gatherings and wish to contribute to the discussion can easily do so by submitting for general discussion any question or topic bearing on export trade. Furthermore, the Bureau will mail to them, upon request and for a small charge, the complete minutes of each conference.

Trade groups. Besides the Round Table conferences, the Bureau also sponsors monthly meetings of trade groups having common interests and common problems. These groups are found in the drug, chemical, and pharmaceutical trade; the food trade; the hardware trade; the textile trade; and others.

Consultation service. It is the member's right to submit to the Bureau any unusual problem he may encounter in his foreign credit

administration, and the Bureau is ready to make every effort in securing a solution for him.

Moral suasion service. This service is intended to assist members in the collection of delinquent accounts. The exporter submits to the Bureau a detailed statement of the matured bills and a history of the transactions, and the Bureau then writes directly to the foreign customer requesting that the bill or bills be settled. The only payment the exporter makes for this service is the cost of translation and incidental expenses.

Membership. The fee for membership in the Bureau is $125 a year. This includes one hundred Foreign Credit Interchange Reports and an unlimited number of free reciprocal reports, as well as the other services outlined above. Illustration 46 is a copy of the application blank for membership in the Foreign Credit Interchange Bureau.

Credit Agencies Abroad

Throughout Europe and in most important centers of the world, commercial credit agencies have been established. Their purpose is similar to that of the credit agencies located in the United States.

As in the case of reports issued by commercial agencies located in this country, they also provide the names of the principals, past history of the business, method of operation, financial information, and they frequently recommend a guiding line of credit.

Department of Commerce Report

The reports submitted by the Department of Commerce on individual firms are distributed on receipt of a written request and the payment of a fee. They are compiled by the American Consular Service, and although the Department does not assume any responsibility for the data submitted, nevertheless the information is useful.

The reports present financial details about the foreign merchant. Illustration 47 indicates that the information compiled touches upon the most salient points bearing on the firm's responsibility, and enough information is given to determine the importance of the concern in a general way.

Perhaps the greatest value derived from these reports is the leads they give, which direct the foreign credit man to continue his investigation through other channels of information. They contribute toward organizing a complete credit file.

Another Source of Information

The foreign credit man doing business in England will find very valuable and useful the *Commercial List* issued by Seyd & Company, Ltd., of London, England.

The book is similar to the rating book issued in this country by Dun & Bradstreet, Inc. Seyd's book is issued in several volumes. One, for example, covers London, another Manchester, and so on.

The books list private firms and limited companies. Seyd also issues a separate list for banks and insurance companies.

The books are arranged to give the following information:

1. The name and address of the firm.
2. The kind of business in which the house is engaged.
3. When founded.
4. The type of business: partnership or corporation.
5. The general standing of the firm designated by a number: No. 1 represents the highest rank; No. 3 is of lesser importance.
6. Monetary standing, that is, the capital of the firm.
7. Trade extent, also designated by a number ranking the same as above: No. 1 is very high; No. 3 is of lesser importance.
8. Mercantile credit. This is also designated by numbers from 1 to 3, having the same meaning as explained above.

For example, by looking up any name in the book, we get the full name of the firm, its business, its capital, and its credit rating, all of which give a fair idea of the importance of the firm.

Bank Information and Services

The absolute necessity of a world-wide banking system for the development of international trade has already been discussed. It is the link that unites the buyer and seller. To foreign trade, American bankers have brought facilities and guarantees that have made the growth of this business possible. Through their offices foreign trade is financed, drafts collected, and funds transferred.

Perhaps one of the most important services banks render to their customers is that of submitting credit information on foreign houses. The reports are obtained from their offices abroad, or through their correspondents. Some of these banks have developed an absolutely first-rate service. Their reports are fairly complete, or complete enough to reveal the morality, capacity, and financial prominence of the importer.

Inasmuch as all international banking houses collect and discount foreign bills, they are in a position to acquaint themselves with the paying record of the foreign merchant, which as a rule is also included in the report.

In the Appendix are listed the names of the foreign cities where American banks have offices.

Bank Reports and Their Interpretation. In discussing the bank's policy toward the importer, it was mentioned how difficult it is to obtain direct information from foreign banks. It is their practice not

Form 561B

DEPARTMENT OF COMMERCE

BUREAU OF FOREIGN AND DOMESTIC COMMERCE

WASHINGTON

August 21,

William Iselin & Company,
357 Fourth Avenue,
New York, New York.

IN REPLY REFER TO 22b -JAR

Reference your letter: August 12, 1931.

Attention:

This report, compiled by the American Consular Service, is furnished at your request in confidence and without guaranty or responsibility on the part of this Bureau or the Consular Service
The report is designed to present a true picture of the business organization of a prospective buyer of American goods and to indicate reliable and available sources of credit information.

Report on .....

Address ..... Alsina, Buenos Aires, Argentina.

Classes of goods and character ..... Importer, wholesaler of textiles, cotton goods, cotton-silk goods.

Language of correspondence . Spanish | Code address ..... | Code used Bentley's, ABC 5th

Buys chiefly: Domestic 2% Foreign France, England, United States

Imports on: Own account yes Commission -- Consignment ---

Organization individual Established 1925, Argentina.

Branch houses --

Traveling representatives --

Representatives in U. S. --

Financial references Banco

Stated capital 160,000 Argentine paper pesos Annual sales 900,000 Argentine paper pesos Number of employees 6

Date of this report July 22, 1931. Relative size of concern Medium

Managers or partners

Capital stock controlled by the above.

Agents for --

Stock and plant protected by insurance ---

General reputation reported to be favorable.

General remarks:

Chief, Commercial Intelligence Division.

Illustration 47. DEPARTMENT OF COMMERCE REPORT.

to divulge their dealings with their own clients. They feel that their commercial relationship is confidential and, consequently, not to be discussed with others.

Of late years there has been quite a change in this respect; no doubt American business methods have influenced their thinking. To this influence might be added the direct efforts and pressure exerted by the foreign credit men in demanding credit information reflecting on the importer's relationship with his bank.

Several ways available to the foreign credit man permitting him to obtain the needed bank report are:

1. Inquire directly from the importer during the course of a personal interview whether he is receiving financial assistance from the bank, and whether that financial assistance is in the form of:

(a) Loans extended to the company and guaranteed by the partners or stockholders.

(b) Loans made directly to the company on its own responsibility.

(c) Loans guaranteed by real estate (mortgages), by some outsider, or in any other form.

(d) "Overdraft" facilities. If so, has the bank any guarantees in the form of liens on the merchandise; or have his accounts receivable been assigned to the bank?

2. Request the foreign agent to get the information as outlined above.

3. When visiting the market, call on the importer's bank and endeavor to obtain as much information as you can. By all means try to confirm with the bank any report obtained directly from the importer, the foreign agent, or from any other source.

The bank's report should present specific information covering the following points:

1. Length of time the bank has known the importer.

2. The average balance he carries. This information is rarely divulged, if ever.

3. The loans extended in the past, the amount owing at the moment of the inquiry, the way the importer has attended to his obligations, and the length of time the loan has been outstanding.

4. The type of loan granted: guaranteed or nonguaranteed.

5. The manner in which the customer has been meeting his foreign drafts, and the average amount of drafts received by the bank for collection on the house being investigated.

6. General reputation of the importer.

7. Nationality.

8. Type of business.

9. The opinion of the bank about the importer.

The report that the foreign credit man gets reads somewhat as fol-

lows: (The name of the American bank, and the name of the importer have been omitted.)

This is one of the largest department stores in the country. It was established many years ago. The business has grown considerably since then.

The present owners are Spaniards of 40, 50, and 55 years of age, who have been in this country for many years. They enjoy a good reputation, are considered capable, and have managed the business with care and efficiency.

The latest statement available is dated August 31st of last year which shows current assets of $987,000 to pay total liabilities of $419,000, giving them a working capital of $568,000, and a net worth of $1,397,000. The total assets amounted to $2,077,000. The working capital was reduced for a period by $10,000.

The reports received from abroad indicate that they were paying their bills with some delay, but there was no criticism offered in this respect. The business is suffering from the general unfavorable conditions prevailing in the country.

They maintain an account with this office, and also with our branch abroad. They have been owing us a substantial sum of money for some time, but the debt is secured by real estate. We have no intention of forcing them to liquidate the outstanding loans. We are inclined to believe they will succeed in paying off their debt to us without causing any trouble.

It does not take a great deal of effort to interpret the information just quoted. It is direct and factual. Not always, however, is the foreign credit man fortunate enough to obtain such detailed reports. He will find it quite advantageous to develop the skill of reading between the lines.

Below is another report, in the form of a letter sent by a local bank, which speaks in general terms, yet manages to say enough to warn the credit grantor to continue his investigation. In fact, it even tells him that credit favors, if granted, should be granted in a conservative way. The report reads as follows:

According to our information this stock company was organized in February 1942 and is continuing a business formerly conducted by ..... a firm which is understood to have met with financial difficulties.

The subject is engaged in the manufacture of trousers, shirts and ensembles, and as of last year a paid in capital of $55,000 was indicated. We have been advised that the principal is Mr. ....., a Spaniard who is managing director of the enterprise. He is also understood to be a member of another firm in this city, and said to be an important house growing and shipping bananas and carrying on a general merchandise business. Mr. ..... is understood to have been developing the subject business in a satisfactory manner and local sources consulted in October informed us that he was looked upon as a capable and hardworking business man. They advised us further that he was understood to possess means and they considered the subject responsible for a reasonable amount of credit in view of his connection with

the business. For amounts of any consequence, the suggestion has been offered that it would be well to request the signature of Mr. .....

If it is urgent for the foreign credit man to obtain a credit report on a firm unknown to the trade, the commercial agencies or the banks will cable for such information.

The method to follow is to give the name and address of the importer, and request the bank to cable, inquiring whether this firm is considered good for a credit, say, of $5,000 on 60-day terms. If the inquirer is interested only in knowing the standing of the firm, the bank will cable requesting general information bearing on the standing, the credit, and the reputation of the importer.

Information from banks located abroad. Foreign banks as a rule do not submit credit information directly to commercial houses. In fact some of the European banks located in New York refuse to divulge any of their reports on foreign firms except through another bank or its representative. It would be preferable for the credit man not to address inquiries to a foreign bank; he should obtain the desired information from his own local bank.

Trade Groups

With the object of cementing friendship, creating contact and mutual understand among credit men handling similar lines of commodities, the National Association of Credit Men, through the Foreign Interchange Bureau, has sponsored the formation of Trade Group Meetings.

Their general aim is to discuss any questions pertaining to foreign business and to exchange, from time to time, credit information. The groups are a clearing house for ideas about international trade.

The advantages derived from such reunions are many. First of all a feeling of good-fellowship is developed. They bring about the opportunity to unify and standardize credit policies. All in all, Trade Groups present a unique medium for co-operation and protection.

In addition to the groups sponsored by the Foreign Trade Interchange Bureau, the textile trade, under the name of The Downtown Textile Group, Inc., the American Manufacturers Export Association, and Commerce and Industry Association of New York have also established similar movements entirely independent of the National Association of Credit Men. These independent groups extend valuable service to those who belong to the associations. Their scope is to discuss current export problems and to exchange credit information.

Since this country has become so export-minded, similar groups and associations have been established outside of New York City. In St. Louis there is the Foreign Trade Bureau of the St. Louis Chamber of Commerce; in Chicago there is The Export Manager Club, Inc. Dallas also has its own Foreign Trade Bureau; and Los Angeles exporters or-

4-025x (Inq. by #7x)

Members interested 1x,6x,7x,8x,10x,11x,12x,14x,15x,17x,18x,20x,22x,28x,29x,31x,32x. 33x,35x,36x,37x,38x,

Members Number	Recent high Credit	Owes	Past Due	Payment Record Ant.	Ppt.	Slow	Terms	Remarks
#1x	900			*			60 open account	Balanced Mar. 31.
6x	78			*			60	In balance Sept. 29.
#7x	1,122	47		*	*		60 day O/A	Paid on a/c bill due Feb. 28. Have anticipated later bills.
#8x	500 200	0 0		*		*	10 70	
#10x	500	0		*	*		10 days open 2/10-60 open	
#11x	1,700	400	0		*		10 days open a/c	
#12x	740	0		*			Cash N.Y 70 days	Balanced since 4/10/30
#14x	1,700				*		10 open a/c	
#15x	500	500			*		3/10	
#17x	805	805			*		70 open	
#18x	950	0		*			2/60	
#20x	1,000	0			*		10 days open acct.	
#22x	2,500	350		*			60 O/A	
#28x	137 Oct.1929			*			2/10 Net 60	
#29x	1,000	0			*		3/10 open a/c	
#31x	730	0		*			2/60	
#32x	45	0			*		70	
#33x	2,212			*			70	Last sale 11/16/29
#35x	477	0		*				
#36x	661	0	0	*			2/10-60	
#37x	475	Bal.		*			3/10 or 2/60	
#38x	350	350		*			60 d. direct remittance	

The word declined does not necessarily reflect on the financial condition of the account discussed.

Illustration 48. TEXTILE TRADE GROUP REPORT ON A FOREIGN BUYER.

ganized quite some time ago their World Trade Bureau, which is associated with the Los Angeles Chamber of Commerce.

The aim of these associations is also to discuss current topics related to international trade and to exchange information about foreign accounts.

Letters of Inquiry

Letters requesting credit information should be as brief as possible. Verbosity and unnecessary explanations should be avoided. Particular attention should be paid, however, to ask for the special information desired.

When writing for credit information, avoid form letters, for they tend to cover too many questions, and the result is that the reply follows a similar pattern.

The Agent's Report

The agent, acquainted as he should be with the policy of the credit department, and also knowing the conditions of the market and the position of the trader, is ideally situated to speak intimately relative to the financial standing of each importer. His information should be entirely confidential, dealing with data not obtainable from banks or agencies. He should divulge facts that bring out the essential problems of the importer, and the ways for developing each foreign account to its utmost capacity.

In his daily contacts with other agents, the banks, and the customers, he can penetrate into the most intimate affairs of the trade, and such details should be relayed to the credit department.

The agent's report should contain information that neither the banks nor the agencies care to or are willing to give out; such as the social position of the merchant, details of his private life, the kind of customers to whom he sells, the condition and quality of his stock, the average range of his prices, and the manner in which he meets competition. In other words, the agent should report facts that are intimate but self-revealing.

The Personal Interview

Through a personal interview, the foreign credit man has the unique opportunity of acquainting himself with the affairs of the merchant, and, what is far more important, he will be able to fathom, to a certain extent, the human element.

Before interviewing the man, learn all there is to be known about him. Make a mental note of any contradictions or fact that must be verified.

Each individual requires a different method of approach. First size

the man up and judge him. As you meet him, be friendly, create a feeling of ease and good will. Allow him to speak, and avoid taking notes or arguing. Tactfully direct the conversation toward the questions that interest you most, as follows:

1. Ascertain what accommodations the merchant receives from the bank. Bring out whether the loans granted, if any, are guaranteed or not. His comments should be verified through the bank.
2. Obtain an explanation for any delays reported.
3. Inquire about the condition of the market and the currency.
4. Find out the amount of goods he expects to buy, and the terms he is getting from other exporters.
5. Strive to obtain as much financial information as possible.

Above all, do not put the interview in the form of a third degree. Be tactful and fair.

CHAPTER XI

TRADE ROUTES AND FOREIGN CREDITS

Ocean Trade

International trade was defined at the beginning of this book as the exchange of goods and services carried on between nations. In following this thought through, it is clear that there are three essential things which must exist to make the exchange of goods and services possible:

1. Goods and services, or supply and demand.
2. The means for financing the exchange of goods and services.
3. The means for transportation.

The first of these requirements is fulfilled either when the country's facilities for production are such that it looks to foreign markets for additional demands to absorb the excess of goods manufactured by the nation's industries, or when the country is able to produce some commodity needed but not produced abroad. At any rate, this issue resolves itself in the original thought that there must be a supply of goods somewhere and a demand for them somewhere else.

The second requisite is that there must be the necessary facilities for financing the exchange of goods with other nations. If this issue is taken collectively, it means that the country must possess, besides goods and services, enough capital to permit it to finance its international dealings. If the problem is considered from the point of view of the business man, it means that the individual merchant must have enough capital or is capable of commanding enough capital and credit to finance the exchange of goods and services with some other foreign merchant. In addition to this qualification, the countries concerned must have a competent system of international banking facilities, which will aid the individual in carrying on his foreign trade.

The third requisite listed is that of transportation. It is not very original to say, yet it is a fact that must be repeated here, that the exchange of goods can be carried on by a country only if it has, or can command, the means for transporting these goods.

Every nation engaged in international trade must have, in order to

exchange goods with other nations, a network of inland roads connecting the center of production with a coastal point of embarkation, as well as ocean service linking the country's coastal points with other receiving centers located in foreign lands.

In other words, the delivery of goods from this country, for example, to a foreign country not accessible by inland waterways or roads must depend on ocean transportation.

In the same manner that railroads have become an integral part of domestic business, ocean routes have become just as essential for international trade. In most instances it might be said that inland transportation complements or is an aid to ocean transportation.

To the traveler, whether he is a businessman or a tourist, the ocean is a huge mass of water covering 70 per cent of the surface of the earth. To the man offering ocean service, besides being a mass of water, it also facilitates the movement of goods by means of ships that follow well-defined ocean routes.

Ocean routes. The purpose of ocean transportation, as has been stated, is to facilitate the interchange of commerce between nations. Like the trunk line of a railroad that connects one commercial center with others, ocean routes link one nation with other nations. The selection of these ocean routes is determined by several factors, on which the following questions could throw light:

1. Is the port a commercial center; that is, is it near a commercial center capable of receiving and sending out goods? What is the population of the territory depending on the port for incoming and outgoing goods? What does it produce salable abroad? What does it consume from other markets?

2. What portion of land is accessible to the ocean route? For example, the ocean route of the Panama Canal leads to South America, the west coast of Mexico, the United States and Canada, as well as the Pacific.

3. What facilities are available for fuel and repairs?

4. What, if any, are the hindrances to the ocean routes, such as ocean currents, winds, storm areas, icebergs, and so forth?

5. What inland roads or waterways lead from the port to the interior of the country facilitating the distribution of goods or aiding the transportation of products from the interior to the port?

The best known ocean routes are:

1. The North Atlantic, serving Europe and the United States.

2. The South American route, connecting the United States with the West Indies and the east coast of South America. This route also deviates east and serves the west coast of Africa.

3. The Panama Canal route, linking the United States with the land along the Gulf of Mexico, passing by Central America, through the

Canal to the west coast of South America and North America, to Asia and the South Pacific lands.

4. The route from the west coast of the United States to South America, up north toward Canada and Alaska, and toward Asia and the Pacific.

5. The route from Europe through the Mediterranean, Suez Canal to the Middle and Far East.

Ocean traffic. Ocean traffic is conducted by various types of carriers, generally known as passenger-freight liners, tramp steamers, and private liners. The latter were owned by powerful industrial companies requiring a large tonnage of shipping to transport their products from this country to other countries, and to bring in commodities required by the industry. For example, the United Fruit Company, which has developed large tracts of land for the growing of bananas, requires extensive shipping facilities to supply the various markets of the world with its product. To the United Fruit Company it is more economical and efficient to own its steamship line than to charter tramp steamers or engage steamship companies to transport its fruit. Similarly The Standard Oil Company has its own tankers to carry its oil all over the world.

The tramp steamer is like the neighborhood handy man, who goes from one place to another doing free-lance work. The tramp is the free-lance freight carrier of the seven seas. It goes where there is cargo to be hauled. From Baltimore it may go to Maine to take on a cargo of potatoes, which are carried to Puerto Rico; there it may be loaded with sugar to be brought to New York. It may move out in the open ocean from country to country, or along the Hudson, the Mississippi, or the Great Lakes.

It usually carries bulky products: lumber from Honduras, grain from the United States, and coal from England. These tramp steamers are chartered either for a particular voyage or for a definite period of time.

The regular liners, also called express liners, or just liners, are large, speedy, and sometimes luxurious vessels that serve travelers primarily, but also carry mail and freight. They do not take any bulky materials, since the space available for freight is limited. These vessels have a regular weekly or monthly schedule and travel to certain definite destinations. They are speedy, efficient, dependable as to time schedules, and are well managed. These liners mainly serve two nations, or three, at the most. The French Line, although it touches in England, serves primarily to meet the demand of passengers, mail, and freight between the United States and France.

There are a number of rivers like the Danube in Europe, the Yellow River in Asia, the Rio de la Plata in Argentina, and the Mississippi in the United States, which also serve to facilitate international trade, especially the Danube River, which flows through several countries.

In summary, two main routes carry the bulk of international trade: (1) the land route, which uses railroad and trucking facilities; (2) the sea route. This nation, like other nations, depends on both for its international trade. Overseas trade relies on ocean carriers to transport the goods that each nation sells or buys abroad. Ocean carriers follow predetermined routes, while distributing goods all over the world.

These routes, called ocean routes, are determined by three main factors: (1) each route must be economically sound; (2) each route must take into consideration nature's forces, such as storms, currents, and climate in general, which affect the direction the route must take; and (3), there must be facilities to satisfy the ships' needs for fuel and repairs.

As stated, overseas traffic is carried on by vessels divided into three groups: tramps, regular liners, and private liners. Each of these types of vessels satisfies a special need of international commerce. The tramp, for instance, suits the needs of seasonal distribution of commodities, bulky cargoes, and irregular sailings; the express liner answers the needs of regular speedy service; and the last, the individual liner, fits into the pattern set by private enterprises doing a huge volume of international business, most of which requires special handling.

To the foreign credit man, transportation has a very important significance, and that is *time*. Terms in export business, as has already been noted, are affected by the time it takes the goods to be delivered to the buyer, plus the time it takes the payment to reach its destination. For example, if the exporter sells coal to Italy on sight draft, and the cargo goes on a tramp ship, it will take more time for the shipment to reach Italy than a shipment of wool or yarn which is sent by a fast liner. Consequently the foreign credit man will have to wait longer for the payment for the coal than for the payment for the wool.

The time element naturally affects the hazard of the transaction and must be considered when financing the sale through a bank. The second consideration that the foreign credit man must bear in mind is the cost of transportation. This leads into inquiring which are the cheapest, most speedy, and efficient routes from the point of loading to the port of entry. The credit executive must depend on the sagacity of the traffic manager in selecting the most economical route.

Air Trade

There is no question that up to now the bulk of international commerce has been carried by ocean carriers and inland roads. The latter is used to transport goods from this country to Canada and Mexico. In Europe this mode of transporting goods from one country to another is more in use than in the United States. When the Pan American Highway is finished, no doubt the ocean carrier will have more competition on this continent.

A third type of transportation that has been growing rapidly is air traffic, which, as the term is used throughout this book, means the service rendered by air lines to exporters in transporting goods from this country to other countries.

Since Columbus sailed from Spain to look for a shorter route to the East, man has not ceased to develop more rapid ways of communication. First steam engines permitted man to discard the oxcart and the sailing boat; then the automobile came along to compete with the railroad; and now air flying is becoming a strong contender for the supremacy held by the land and ocean carriers in transporting goods from one point to another. Perhaps neither ocean liners nor the railroads will be eliminated entirely, but there is no question that air freight will bid for and obtain a large share of the international traffic. At any rate, from all indications it appears that these three routes—land, sea, and air—will complement one another in fulfilling man's demands for carrying goods and services all over the world.

Air transportation has proved very beneficial in emergencies when the surface facilities for transporting goods have been too slow or too precarious, and when there have been no other facilities. In Colombia, the use of the airplane has become very effective because of difficulties in transporting goods and passengers from the coast to the interior. The same is true, in a more pronounced way, in reaching the northern part of Canada and Alaska, and the interior of Africa and Asia.

Although previous to 1933 air cargo transportation existed, its importance as a carrier for commerce was somewhat negligible. Its services were extremely limited and only covered transportation from airport to airport. The business was purely domestic and entirely neglected foreign commerce. Since 1933 the public has become aware of its possibilities, and the air lines have developed new air routes to satisfy the demand for air freight within the country and beyond the borders of the United States. This demand became more pressing right after World War II started, when the crying demand for goods and services became more and more urgent.

To satisfy this clamor, air-line companies are now planning to build huge airplanes capable of flashing through the stratosphere at tremendous speed. For example, the Stratocruiser crossed from Seattle, Washington, to Washington, D. C., with a cargo of 20,000 pounds at an altitude of 30,000 feet in about six hours. At that rate a cargo could go from Los Angeles to Mexico City in three hours and 13 minutes; from Miami to Panama in three hours and 58 minutes; Panama to Lima, Peru, in four hours and 57 minutes; and from Lima to Santiago de Chile in four hours and 29 minutes.

Already air lines have greatly developed their facilities to carry goods to faraway points. During World War II a town in Ecuador badly

needed repair parts for a mine, for without them several hundred men would have been out of work. Since the required commodities would have been delayed in reaching the mine by ordinary transportation, an air priority was obtained for the parts, which weighed 2,895 pounds. They were first flown to Balboa, and from there to Ecuador in time to avoid the stoppage of work in the mine. It is no secret that the Army also flew badly needed materials all over the world. It can therefore be said that the air lines can satisfy certain demands for transporting goods abroad.

Air transportation meets one of the greatest requirements of international trade, namely, speedy transportation, which naturally shortens the time needed between the selling of the goods and delivery to the buyer. However, in air express and air freight services there are certain limitations that the exporter must take into account:

1. *Bulk and weight.* For example, Pan American World Airways, in its instructions to shippers, requests that shipments should not generally exceed 500 pounds in weight per airwaybill. Shippers may, nevertheless, forward additional shipments weighing up to 500 pounds on separate airwaybills. If the article or piece exceeds 500 pounds in weight and measures more than 20 x 24 x 42 inches, the shipper should communicate with the carrier before shipping the merchandise.

2. *Property not acceptable for carriage,* among which are inflammable or dangerous articles such as acetone, nitric acid, benzol, firearms, lacquers, paints, explosives, poison, chemicals liable to emit dangerous or unpleasant odors, and many others.

3. *Property acceptable only under certain conditions.* For example, animals of certain types which are not dangerous, and which are of a size adaptable to carriage will be transported by planes. Baby chicks and ducklings not over 24 hours old, bees, insects, and sea food are accepted. Motion picture film, newsreels, and still film are accepted if they are packed in metal cases not exceeding 2,000 feet of film per case. Each reel must be wrapped in moisture-proof paper and packed in full telescope fibre board boxes testing not less than 175 pounds (Mullen Test). Seams of boxes must be completely sealed with adhesive tape, cloth, or paper. Since this list is incomplete, the shipper should consult the air lines or their agents for full details.

4. *Frequency of flights.* If the line has a regular schedule, the exporter can calculate when the shipment can be prepared and delivered to the air-line company. He can adjust his schedule of deliveries to its time table.

5. *The distance from airport to point of destination.* Long distances between airport and the point of destination tend to diminish whatever benefit has been gained by using the air line.

Air routes. As with ocean routes, air routes must take into account

certain factors. The selection of routes is, in fact, governed by them. A number of these factors are as follows:

1. Location of what is called the generating area; that is, section of a country that has potentiality to make commercial flying economically profitable and possible.

2. Population of the area. Dearth of population in a territory can hardly be considered as advantageous in establishing an air-line service there. For example, when considering the extension of air service in the Middle East, the center selected was at Teheran, Iran. Basra, Iraq, is not far away, and besides these two cities there are nine others, which together have a population of over one million people.

3. Topography; that is, the terrain of the surrounding country. What obstructions are there which might make flying difficult?

4. Resources of the area.

5. Industrial capacity of the whole community.

6. Climatic conditions.

7. Tourist appeal.

8. Political conditions within the territory and surrounding countries.

9. Facilities for fueling, repairing, for obtaining help, and accommodations for tourists and personnel.

In other words, the air line must consider the potentiality of the area for air travel as well as its topography, climate, and political condition. To these conditions may be added the demand there might be in the region for air freight transportation, within the area and beyond its borders.

The most important routes are:

1. From the Atlantic Coast in North America to South America, down to the lower tip of Argentina; from the Atlantic Coast to Brazil, over to Africa, as far down as Capetown in South Africa.

2. From the Atlantic Coast in the United States over to Europe, through the Balkan States to the Middle East and India, China and Japan, and the South Pacific.

3. From the Atlantic Coast to the Azores to Spain and through the Mediterranean.

4. From the West Coast of the United States to North and South America, to the most southern point of Chile.

5. From the West Coast to Hawaii, over to Japan into China.

Perhaps some day there will be a route to Siberia and Russia, and from Hawaii to the South Pacific, to Australia and New Zealand.

Advantages in using air routes. What advantages are offered by the air lines as far as the foreign credit man is concerned?

1. *They extend the markets.* Regions previously inaccessible to the exporter can be rapidly reached by plane. The fine fashion creations that were limited to a few markets can be distributed anywhere within

a few hours. Because of air service, marketing methods will be affected tremendously—in fact they have already been affected.

2. *They permit merchants to carry reduced inventories.* For example, under normal conditions a merchant located in Puerto Rico, which is eight hours from New York by plane, will not need to carry excessive inventories. He will find it more advantageous to have on hand the goods he needs for immediate consumption. As the stock is reduced, he will order his replacements. There will be no need for him to order his requirements for the Christmas trade months in advance. The telephone and airplane will eliminate that necessity.

3. *Services are improved.* Deliveries can be made to the lines with the assurance that within hours the goods will be in Hawaii or Buenos Aires.

4. *Emergency service is afforded.* It has already been told how the flying of mining parts needed in Ecuador saved the community from unemployment. In the same manner, medicine has been flown to Alaska to save lives.

5. *Cancellations of orders are reduced.* The nightmare of all merchants, cancellation of orders, will occur less frequently, since buyers will order when they actually need goods. Possible speculation in merchandise will thus be avoided.

6. *Price risk will be reduced considerably.* The fact that there will be no desire on the part of merchants to order in advance thus avoids the possibility of a fictitious rise in prices which naturally will fall sooner or later. It will also eliminate failures and causes for disputes.

7. *There is a reduction of the time element* in considering terms of sale.

To the foreign credit man all these advantages are of tremendous importance. Each of them has something to do with the various risks that he must face when extending credit abroad. None, however, is as important and far reaching in its implications and advantages as point 7. The use of air lines saves time, and by shortening time, the credit executive narrows the credit exposure. The obvious question to ask is: "What are the advantages of a reduction in the time element?"

(a) It will permit the foreign credit man to sell to importers with small capital (the small business man) on short terms. This step will become possible by reducing the terms to sight draft. The air-line company, whenever it receives a shipment on the basis of payment on receipt of goods and documents (both will go by the same plane), agrees that it will not release the merchandise until the consignee or buyer has paid in full for the shipment.

(b) Merchandise that commands short terms, such as quinine and certain pharmaceutical products, can easily be shipped by plane, and payment can reach the seller within a short time. For example, if goods are shipped to Puerto Rico on sight draft, the proceeds of the sale would

reach the foreign credit man within five days at the most, and that gives sufficient time to the buyer to adhere to his tradition of liquidating his bills "mañana," or taking his time. By regular steamer it used to take five days to reach San Juan from New York, five days for the goods to reach the store, and by the time the payment reached New York, from 20 to 30 days had elapsed. A similar reduction in time would be attained in other markets.

(c) It reduces the cost of financing. If, for example, the exporter discounts his drafts at the bank, he can easily reduce his cost of financing by shipping by air and getting payment for the sale in the same manner—that is, by asking the collecting bank to remit the proceeds by air mail. Even when the shipment is forwarded by steamer, the foreign credit man can gain time by instructing the collecting bank to send the proceeds by air mail. This reduction becomes important when the exporter is selling goods to Australia, the Middle East, or some other distant country.

(d) It speeds the turnover of the capital, since it reduces the time between the date of sale and the date the proceeds of the sale reach the credit executive.

(e) It eliminates unnecessary claims because of spoilage of the goods while in transit.

(f) It reduces warehouse charges, permitting the article to be sold cheaper. There is no need to build up inventories for future deliveries, since goods can be manufactured quickly and shipped just as rapidly. It also eliminates warehousing of merchandise awaiting the sailing of the steamers, which usually follow a weekly schedule. Air lines, on the contrary, make more frequent flights and thereby save the exporter warehouse charges.

Although air lines offer great facilities for speeding the transportation of funds, currency, securities, gold, silver, and valuable documents, nevertheless they fail the banks in some respects. For example, when a banker finances any purchase against letter of credit, he usually demands the documents, which include a negotiable bill of lading drawn in accordance with the bank's instructions, and the insurance certificate. The bill of lading fixes the ownership of the goods; the insurance certificate, in case of claim, determines who is to collect the claim. Unfortunately, when goods are shipped by airplane, the airwaybill is a nonnegotiable instrument, thus restricting the desire of the banker to finance shipments routed by air. This inconvenience also restricts the foreign credit man in number of shipments to one customer allowed to be sent by air on the basis of sight draft.

Mr. A. M. Strong, in an article published in a book edited by Lucien Zacharoff, entitled *Vital Problems of Air Commerce,* defends the stand taken by the Committee on Uniformity of Documents of the Bankers'

Association for Foreign Trade, which advocates, and we quote in part as follows:

1. That the air lines adopt uniform and negotiable or nonnegotiable airwaybills which are suitable for bank financing.
2. That comprehensive uniform laws be adopted with regard to international air cargo shipments and the documents relating to such shipments.
3. That until a satisfactory uniform airwaybill is adopted the operating air lines take steps to revise their airwaybills to meet financing requirements.

Charges. Transportation charges consist of weight rate per pound or fraction thereof, or measurement rate per unit of 200 cubic inches or fraction thereof at carriers' option *plus* valuation charge per $100 of the value of the shipment as declared by the shipper for the purpose of carriage. This declaration is known as the "Shipper's Declared Valuation for Carriage."

Shippers will be required to declare a valuation for carriage, and in all cases such valuation must be stated in the airwaybill.

Valuable cargo is a shipment containing one or more of the articles listed below:

a. Gold, silver bullion, dust, cyanides, precipitates, or any form of uncoined gold and silver.

b. Dore bullion.

c. Platinum and any other precious metals in any form.

d. Precious and semiprecious stones, including commercial carbons or ndustrial diamonds.

e. Gold, platinum, and silver jewelry.

f. Watches and watch parts.

g. Jewelry of any kind containing precious stones or semiprecious stones.

h. Currency (paper or coin) of any nationality.

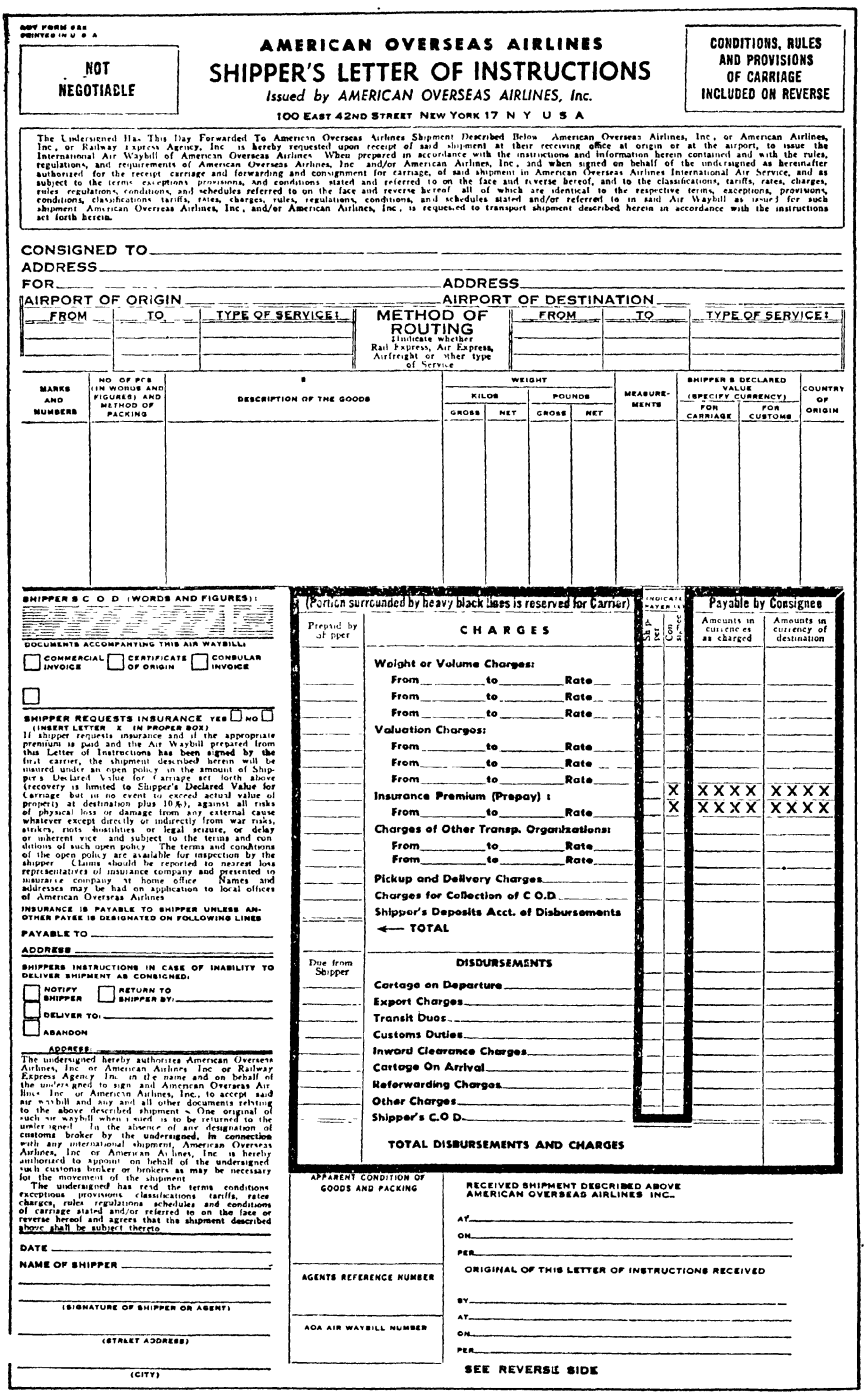
i. Securities, stocks, bonds, certificates, coupons, deeds, mortgages, uncanceled postage or revenue stamps, war saving or thrift stamps, and any form of negotiable paper.

j. Any item with a declared value for carriage of over $50 per gross pound.

Specific commodity rates. Specific commodity rates are established subject to a minimum weight per shipment, by weight or measurement, at carrier's option. For example, baby chicks from Miami, Florida, to San Juan, Puerto Rico, are sent at 39 cents per pound, weight or measurement, and minimum shipment is 11 pounds.

Yeast from New Orleans, Louisiana, to Merida, Yucatan, Mexico, is 20 cents per pound, weight or measurement, minimum shipment 50 pounds.

General cargo is any merchandise not classified for the purpose of freight tariff.



DOT FORM 535
PRINTED IN U.S.A.

NOT NEGOTIABLE

AMERICAN OVERSEAS AIRLINES

SHIPPER'S LETTER OF INSTRUCTIONS

Issued by AMERICAN OVERSEAS AIRLINES, Inc.

100 EAST 42ND STREET NEW YORK 17 N Y U S A

CONDITIONS, RULES AND PROVISIONS OF CARRIAGE INCLUDED ON REVERSE

The Undersigned Has This Day Forwarded To American Overseas Airlines Shipment Described Below. American Overseas Airlines, Inc., or American Airlines, Inc., or Railway Express Agency, Inc., is hereby requested upon receipt of said shipment at their receiving office at origin or at the airport, to issue the International Air Waybill of American Overseas Airlines. When prepared in accordance with the instructions and information herein contained and with the rules, regulations, and requirements of American Overseas Airlines, Inc. and/or American Airlines, Inc., and when signed on behalf of the undersigned as hereinafter authorized for the receipt carriage and forwarding and consignment for carriage, of said shipment in American Overseas Airlines International Air Service, and as subject to the terms exceptions, provisions, and conditions stated and referred to on the face and reverse hereof, and to the classifications, tariffs, rates, charges, rules regulations, conditions, and schedules referred to on the face and reverse hereof, all of which are identical to the respective terms, exceptions, provisions, conditions, classifications tariffs, rates, charges, rules, regulations, conditions, and schedules stated and/or referred to in said Air Waybill as issued for such shipment American Overseas Airlines, Inc., and/or American Airlines, Inc., is requested to transport shipment described herein in accordance with the instructions set forth herein.

CONSIGNED TO

ADDRESS

FOR ADDRESS

AIRPORT OF ORIGIN AIRPORT OF DESTINATION

FROM	TO	TYPE OF SERVICE†	METHOD OF ROUTING (Indicate whether Rail Express, Air Express, Airfreight or other type of Service)	FROM	TO	TYPE OF SERVICE†

MARKS AND NUMBERS	NO. OF PCS (IN WORDS AND FIGURES) AND METHOD OF PACKING	DESCRIPTION OF THE GOODS	WEIGHT KILOS GROSS	WEIGHT KILOS NET	WEIGHT POUNDS GROSS	WEIGHT POUNDS NET	MEASUREMENTS	SHIPPER'S DECLARED VALUE (SPECIFY CURRENCY) FOR CARRIAGE	SHIPPER'S DECLARED VALUE (SPECIFY CURRENCY) FOR CUSTOMS	COUNTRY OF ORIGIN

SHIPPER'S C.O.D. (WORDS AND FIGURES):

DOCUMENTS ACCOMPANYING THIS AIR WAYBILL:
☐ COMMERCIAL INVOICE ☐ CERTIFICATE OF ORIGIN ☐ CONSULAR INVOICE
☐

SHIPPER REQUESTS INSURANCE YES ☐ NO ☐
(INSERT LETTER X IN PROPER BOX)
If shipper requests insurance and if the appropriate premium is paid and the Air Waybill prepared from this Letter of Instructions has been signed by the first carrier, the shipment described herein will be insured under an open policy in the amount of Shipper's Declared Value for carriage set forth above (recovery is limited to Shipper's Declared Value for Carriage but in no event to exceed actual value of property at destination plus 10%), against all risks of physical loss or damage from any external cause whatever except directly or indirectly from war risks, strikers, riots hostilities or legal seizure, or delay or inherent vice and subject to the terms and conditions of such open policy. The terms and conditions of the open policy are available for inspection by the shipper. Claims should be reported to nearest loss representatives of insurance company and presented to insurance company at home office. Names and addresses may be had on application to local offices of American Overseas Airlines.

INSURANCE IS PAYABLE TO SHIPPER UNLESS ANOTHER PAYEE IS DESIGNATED ON FOLLOWING LINES

PAYABLE TO

ADDRESS

SHIPPERS INSTRUCTIONS IN CASE OF INABILITY TO DELIVER SHIPMENT AS CONSIGNED:
☐ NOTIFY SHIPPER ☐ RETURN TO SHIPPER BY:
☐ DELIVER TO:
☐ ABANDON

ADDRESS

The undersigned hereby authorizes American Overseas Airlines, Inc. or American Airlines, Inc. or Railway Express Agency, Inc. in the name and on behalf of the undersigned to sign and American Overseas Air lines, Inc. or American Airlines, Inc., to accept said air waybill and any and all other documents relating to the above described shipment. One original of such air waybill when signed is to be returned to the undersigned. In the absence of any designation of customs broker by the undersigned, in connection with any international shipment, American Overseas Airlines, Inc. or American Airlines, Inc. is hereby authorized to appoint on behalf of the undersigned such customs broker or brokers as may be necessary for the movement of the shipment.

The undersigned has read the terms conditions exceptions provisions classifications tariffs, rates charges, rules regulations schedules and conditions of carriage stated and/or referred to on the face or reverse hereof and agrees that the shipment described above shall be subject thereto.

DATE

NAME OF SHIPPER

(SIGNATURE OF SHIPPER OR AGENT)

(STREET ADDRESS)

(CITY)

(Portion surrounded by heavy black lines is reserved for Carrier)

Prepaid by Shipper	CHARGES	INDICATE PAYEE IN Ship. Per	INDICATE PAYEE IN Cons. Cons.	Payable by Consignee: Amounts in currencies as charged	Payable by Consignee: Amounts in currency of destination
	Weight or Volume Charges:				
	From to Rate				
	From to Rate				
	From to Rate				
	Valuation Charges:				
	From to Rate				
	From to Rate				
	From to Rate				
	Insurance Premium (Prepay) :		X	XXXX	XXXX
	From to Rate		X	XXXX	XXXX
	Charges of Other Transp. Organizations:				
	From to Rate				
	From to Rate				
	Pickup and Delivery Charges				
	Charges for Collection of C.O.D.				
	Shipper's Deposits Acct. of Disbursements				
	← TOTAL				
Due from Shipper	DISBURSEMENTS				
	Cartage on Departure				
	Export Charges				
	Transit Dues				
	Customs Duties				
	Inward Clearance Charges				
	Cartage On Arrival				
	Reforwarding Charges				
	Other Charges				
	Shipper's C.O.D.				
	TOTAL DISBURSEMENTS AND CHARGES				

APPARENT CONDITION OF GOODS AND PACKING

AGENTS REFERENCE NUMBER

AOA AIR WAYBILL NUMBER

RECEIVED SHIPMENT DESCRIBED ABOVE AMERICAN OVERSEAS AIRLINES INC.

AT

ON

PER

ORIGINAL OF THIS LETTER OF INSTRUCTIONS RECEIVED

BY

AT

ON

PER

SEE REVERSE SIDE

Illustration 49. SHIPPER'S LETTER OF INSTRUCTIONS (American Overseas Airlines).

Airwaybill No. _____
(For Use by Forwarding Broker only)

PAN AMERICAN INTERNATIONAL AIR EXPRESS SERVICE

SHIPPER'S AUTHORITY TO RAILWAY EXPRESS AGENCY TO ISSUE AIRWAYBILL

(The Original of this form is to be delivered with the shipment.) _____ (Date)

RAILWAY EXPRESS AGENCY, INC. & PAN AMERICAN AIRWAYS, INC.

Railway Express Agency, Inc., is hereby requested upon delivery of the shipment described below to its receiving office to issue the Airwaybill of the PAN AMERICAN INTERNATIONAL AIR EXPRESS SERVICE (herein called Air Express Service) in accordance with the instructions and information herein contained and with the rules, regulations and requirements of Air Express Service and when signed on behalf of the undersigned as hereinafter authorized, for the receipt, carriage, and forwarding and consignment for carriage, of said shipment in Air Express Service, but subject to the terms, exceptions, provisions and conditions stated and referred to in said Airwaybill as issued for such shipment, and to the classifications, tariffs, rates, charges, rules, regulations, conditions and schedules referred to in such Airwaybill.

This shipment is to be forwarded via Railway Express Agency, Inc. RAIL ☐ AIR ☐ Service. (Check one.)

to the INTERNATIONAL AIRPORT OF _____

Shipper's Name _____ Shipper's Address _____

Consignee _____

Address _____ (Street) _____ (City) _____ (Country)

No of Packages _____ Type of Packing (Cartons, Boxes, Bales, etc.)

TO BE STATED IN AIRWAY BILL

Shipper's Description of Articles	Shipper's Declared Valuation		Gross	PREPAID ☐ Carriage Charges COLLECT ☐
	For Customs U. S. Cy.	For Carriage U. S. Cy.	Package Wt. or Meas.	P.A.A. Wt. or Meas. Charge .....
				P.A.A. Valuation Charge .....
				P.A.A., C.O.D. Service Charge (if any) .....
				Other Customs Charges .....
				.....
				Insurance Premium (if any) XXXXX
	Country of Origin			Shipper's Deposit (if any) XXXXX
				TOTAL

Legal Weight..... Net Weight. .....

Amount of C. O. D. $_____ (If any)

Value to be declared for carriage in (Rail or Air Service) of Railway Express Agency, Inc. to PAA AIRPORT OF EXPORT - - - - - - (check one) ☐ Shipper's Declared Valuation for Carriage. ☐ Maximum value not subject to excess value charge.

If Shipment cannot be forwarded or delivered as consigned under the Airwaybill: (Check one of the following) ☐ Abandon, ☐ Return to shipper; ☐ Deliver to _____

SHIPPERS INSTRUCTIONS REGARDING INSURANCE

STATE WHETHER OR NOT INSURANCE IS DESIRED_____ (Write in "Yes" or "No.")

If the word "YES" has been inserted in the space above, the shipment will be insured under PAN AMERICAN AIRWAYS Shipper's Open Policy FROM THE TIME "Shipper's Authority to Railway Express Agency to Issue Airwaybill" has been signed by Railway Express Agency, Inc. until it is delivered to the consignee named in the Airwaybill, or his agent, in the above stated amount of Shipper's declared Valuation for Carriage in Air Express Service at the premium rate shown in the current tariff of PAN AMERICAN AIRWAYS INTERNATIONAL AIR EXPRESS SERVICE (recovery to be limited to actual loss) against all risks of physical loss or damage from any external cause whatsoever except directly or indirectly from legal seizure, war risks or hostilities under and subject to the terms and provisions of the policy referred to or in the Airwaybill, a statement of which terms and provisions has been made available for inspection of the shipper.

The undersigned hereby authorizes the Railway Express Agency, Inc., in the name and on behalf of the undersigned, to sign said Airwaybill.

★The original of such Airwaybill when issued is to be forwarded to the undersigned in the attached self-addressed stamped envelope.

It is understood that the liability of PAN AMERICAN AIRWAYS SYSTEM shall not exceed the above-stated amount of Shipper's Declared Valuation for Carriage, upon which in part the charges of such Carriers will be fixed.

Original of this Letter of Instructions Received
RAILWAY EXPRESS AGENCY, INCORPORATED

Per_____
Railway Express Agency—Uniform Receipt No. _____

Yours truly,

Shipper _____ (Name of Firm)

_____ (Shipper's Address)

Per _____ (Agent of Shipper, or Forwarding Broker)

_____ (Forwarding Broker's Street Address and City)

Shippers must deliver with the shipment all documents necessary for Customs purposes at point of export and in country of destination. (See current "Advice to Shippers" and "Memorandum Tariffs" issued by Pan American Airways, Inc.)

★ If the shipper requires the "Shipper's Copy" of the AIRWAYBILL immediately he may make special arrangements with the office of the Railway Express Agency, Inc., at which the shipment is delivered

Form 33 980 Printed in U S A

(Shipper to keep duplicate copy for his files)

Illustration 49. SHIPPER'S LETTER OF INSTRUCTIONS (Pan American International Air Express Service).

★

Insurance. The air lines have made arrangements with insurance companies, permitting exporters, if they so request it, to obtain insurance coverage on their shipments, except for live stock, perishables, radio and X-ray tubes.

The coverage includes all risks of physical loss or damage from any external cause whatsoever. This insurance does not cover, however, legal seizure, war risk, or hostilities.

The amount of insurance the shipper may obtain is equal to the valuation of the goods which the shipper declares for the purpose of carriage under the airwaybill. The recovery for any loss will be limited to the actual value of the goods at destination point at the time the loss occurred plus 10 per cent of said value, or the shipper's declared valuation for carriage, whichever is smaller.

The insurance rates are as follows:

	General Cargo	*Valuable Cargo*
When the all commodity rate is from $ .10 to $ .24 per lb.	$.06	$.04
" " " " " " " .25 to .45 per lb.	.07	.06
" " " " " " " .46 to 1.06 per lb.	.15	.12
" " " " " " " 1.07 to 2.35 per lb.	.20	.15
From Brownsville, Texas to Mexico City (irrespective of poundage rate scale)	.06	.04

The insurance at the premium rates shown above covers transit in or through the United States and Canada to the International Airport of export from the United States. It is effective from the time the airwaybill is issued by the Railway Express Agency, Inc., at its offices in the United States and Canada, where the airwaybill is issued, until the shipment is delivered to the consignee or his agent.

At offices where airwaybills are not issued, shipments are accepted to be forwarded to the International Airport. They are forwarded by the agent after the shipper has filled in and delivered Shipper's Letter of Instructions (see Illustration 49). The airwaybill is issued at the office of the International Airport through which the shipment is forwarded. In such cases the insurance does not become effective until the shipment has been delivered to the air line at the International Airport and the corresponding airwaybill has been issued. To be sure, the insurance will be issued if the Shipper's Letter of Instructions requests that full coverage be taken by the air line. The coverage begins at the moment the airwaybill is issued, and remains in force until the goods have been delivered to the consignee or his agent at the point of destination. In other words, the exporter must insure the shipment up to the time that the air line issues the airwaybill.

The Shipper's copy of the airwaybill, which is marked at the bottom of the page in bold letters, "COPY FOR THE SHIPPER—ORIG-

INAL," becomes the shipper's certificate of insurance (See Illustration No. 50), after the insurance premium has been entered and marked as paid by the agent. This paper, after it is endorsed, becomes the basis for collecting claims covering loss or damage to a shipment.

Charges made by connecting carriers for transporting the goods to the International Airport are in addition to those charged by the air line.

The transportation and forwarding of shipments by the air lines is subject to the terms, conditions, and provisions stated in the airwaybill issued by the air line.

Air service is more costly than ocean service, but this can not be the sole criterion for accepting or declining it. The foreign credit man must consider the advantages derived by using this service, which were presented on page 192 and weigh them against the difference in cost. No doubt in some cases the difference will not be sufficient to disregard air service as a possibility for transporting certain goods abroad.

Documents Required for Foreign Air Express of Air Freight. As far as documents are concerned, there is no difference between air express and air freight. To be sure, for the purpose of this book no distinction is made between these two terms.

As was said before, on all air shipments leaving the United States for foreign countries, the shipper must prepare certain documents which are required at the point of destination, and which must be presented to the air lines or their agents when the goods are delivered for shipment abroad.

There are usually five types of documents that the exporter must draw:

1. The documents representing the interest the United States has in the transaction.
2. The document intended to identify the transaction that has taken place between the buyer and the seller.
3. The document that indicates the interest the insurance company has in the transaction.
4. The documents representing the interest the air line has in the transaction.
5. The documents that indicate the interest the foreign country has in the transaction.

Any shipment sent abroad without the necessary documents will cause a great deal of annoyance and inconvenience. To avoid delays or possible fines levied by government officials, the exporter must present the necessary shipping papers to the air line at the same time the goods are delivered to the carrier. If the shipment is forwarded to the air line without the corresponding papers, the merchandise will be held at the airport until the documents are received.

Documents required by the United States Government. The first

AAL FORM T 525 B PRINTED IN U.S.A.

Member of International Air Transport Association

AMERICAN AIRLINES
INTERNATIONAL AIR WAYBILL

Issued by AMERICAN AIRLINES, Inc.
100 EAST 42nd STREET, NEW YORK 17, NEW YORK, U S A.

No.___-_____-I
AGENT'S REF NO _____

NOT NEGOTIABLE

CONSIGNED TO _____
ADDRESS _____
AIRPORT OF DEPARTURE _____ AIRPORT TO WHICH CONSIGNED _____
ALSO NOTIFY _____ ADDRESS _____

FROM	TO	TYPE OF SERVICE*	METHOD OF ROUTING *Indicate whether Air Express, Air Freight or other type of service	FROM	TO	TYPE OF SERVICE*

MARKS AND NUMBERS	NO OF PIECES; DIMENSIONS AND VOLUME; AND METHOD OF PACKING	DESCRIPTION OF THE GOODS (NATURE AND QUANTITY) AND COUNTRY OF ORIGIN	WEIGHT (Specify lbs. & kilos) GROSS	WEIGHT (Specify lbs. & kilos) NET	SHIPPER'S DECLARED VALUE (SPECIFY CURRENCY) FOR CARRIAGE	SHIPPER'S DECLARED VALUE (SPECIFY CURRENCY) FOR CUSTOMS

INSURANCE

Indicate YES or NO

If shipper requests insurance, in accordance with conditions stated ON REVERSE HEREOF, indicate with "YES" in box to left. If shipper does not wish insurance, indicate with "NO" in box to left. If insurance is requested, and appropriate premium is paid, shipment described herein will be insured under an open policy IN THE AMOUNT OF SHIPPER'S DECLARED VALUE FOR CARRIAGE set forth above.

INSURANCE IS PAYABLE TO SHIPPER UNLESS ANOTHER PAYEE IS DESIGNATED BELOW:

PAYABLE TO _____
ADDRESS _____

SHIPPER'S INSTRUCTIONS IN CASE OF INABILITY TO DELIVER SHIPMENT AS CONSIGNED

DOCUMENTS HANDED TO THE CARRIER TO ACCOMPANY THE AIR WAYBILL

PAID BY SHIPPER	(Portions surrounded by Heavy Black Lines are reserved for the Carrier) CHARGES	Shipper Must Indicate Which is Payable by Consignee ↓	Payable by Consignee: AMOUNTS IN CURRENCIES AS CHARGED	Payable by Consignee: AMOUNTS IN CURRENCY OF DEST'N
	WEIGHT OR VOLUME CHARGES (Air Only)			
	1 From____ To____ Rate____ Carrier____			
	2 From____ To____ Rate____ Carrier____			
	3 From____ To____ Rate____ Carrier____			
	VALUATION CHARGES (Air Only)			
	4 From____ To____ Rate____ Carrier____			
	5 From____ To____ Rate____ Carrier____			
	6 From____ To____ Rate____ Carrier____			
	INSURANCE PREMIUM (Prepay)			
	7 From____ To____ Rate____			
	8 Cartage on Departure____			
	9 ____			
	ONWARD CARRIAGE CHARGES delivered to American Airlines for transmittal to surface carriers on behalf of shipper			
	10 From____ To____ Rate____ Carrier____			
	11 From____ To____ Rate____ Carrier____			
	12 ____			
	13 Cartage on Arrival____			
	14 Charges for Collection of C O D ____			
	OTHER CHARGES (Specify)			
	15 ____			
	16 ____			
	17 ____			
	18 ____			
	19 Shipper's Deposit for Charges Not Otherwise Specified ____			
	20 SHIPPER'S C O D (in words and figures)			
	← TOTAL →			

THE SHIPPER CERTIFIES THE ABOVE PARTICULARS ARE CORRECT AND AGREES TO THE CONDITIONS ON THE REVERSE HEREOF.

SHIPPER _____
AGENT _____
ADDRESS _____
BY _____ (SIGNATURE OF SHIPPER OR AGENT)
DATE _____

REC'D AT _____ ON _____ 19____

Apparent Condition of Goods and/or Packing

FOR CONDITIONS OF CONTRACT FOR TRANSPORTATION SEE REVERSE SIDE.

IN APPARENT GOOD ORDER AND CONDITION, EXCEPT AS NOTED HEREON THE ABOVE-DESCRIBED GOODS AND PACKAGES FOR TRANSPORTATION SUBJECT TO CONDITIONS AND PROVISIONS ON REVERSE HEREOF

Date and Place of Execution of Air Waybill _____
Name of First Carrier _____
Address _____
Signature of First Carrier or Its Agent _____
Name of First Carrier's Agent _____
Address _____

Copy #3 - For the Shipper - ORIGINAL

Illustration 50. SHIPPER'S COPY OF AIRWAYBILL.

document that the exporter must get is the Export License. The requirement for this license is not a permanent regulation, but an emergency measure. It is a permit allowing the exporter to ship a certain type of merchandise, such as textiles, coal, and many others, which because of reasons of its own or because of shortages the Government of the United States has deemed it necessary to allocate or restrict their sales abroad. Such products may not be exported unless a Government Export License has been obtained. An exporter wishing to obtain full information in this respect should communicate with the United States Department of Commerce, Bureau of Foreign and Domestic Commerce in Washington, D. C., or any of its district offices.

The second paper required by the United States Government is the Shipper's Export Declaration, similar to the one shown in Illustration 51. This document must be made in quadruplicate, and is required for all shipments intended for foreign buyers. The form, which can be obtained at the Custom House, must be filled out in accordance with the instructions printed on the back of the form. The data requested must be correct and exact; otherwise, the documents will be held by the air line. Once this form has been correctly filled out, it is presented at the Custom House, where it is stamped as approved.

Documents issued by the exporter. The most important document there is, as far as the importer is concerned, is the commercial invoice, made out by the exporter himself. It forms the basis for all other documents except the Export License. This document was discussed on page 27, but suffice it to say that it must contain enough information to permit the buyer to identify the transaction. The following data must be listed:

a. Name and address of the exporter.
b. Name and address of the importer.
c. Date of the invoice.
d. Number of the invoice, buyer's order number and date.
e. Name of the agent or salesman.
f. Number of packages, marks, weight, and measurements.
g. Description of the article, price per unit, and total cost.
h. Terms of sale.
i. A statement that the amount of the invoice is payable in U. S. dollars with banker's sight draft on New York.
j. Transportation expenses, insurance charges, and other fees collectible from the buyer.

Documents issued by the insurance company. If the shipment is insured by the air line, coverage is obtained by instructing the carrier to take the necessary insurance and by paying the corresponding premium. The copy of the airwaybill that the exporter receives from the air line will indicate that the shipment has been insured through the air line.

If the exporter wishes to insure the shipment through his own broker or insurance company, he will notify the air line not to take any insurance. This he does when filling out the form, Letter of Instructions, supplied by the air line. See Illustration 49.

If the buyer requires an insurance certificate, the exporter will include and deliver it to the air line together with the other shipping papers. The certificate is similar to the one covering marine insurance. See Illustration 33.

Form 7525-V
UNITED STATES
DEPARTMENT OF COMMERCE
FOREIGN COMMERCE STATISTICAL REGULATIONS
(See Items 5—Reverse Side)

File No. ..... (Section Customs Statistics)

(This space for use of Customs)

FORM NO. 23—PRINTED AND SOLD BY UNZ & CO., 34 BEAVER STREET, NEW YORK 4, N. Y. © 1950

FORM APPROVED
BUDGET BUREAU No. 41-R397.43

BUREAU OF THE CENSUS

☛ Read carefully the instructions on back to avoid delay at shipping point

SHIPPER'S EXPORT DECLARATION

OF SHIPMENTS TO FOREIGN COUNTRIES OR NONCONTIGUOUS TERRITORIES OF THE U. S.

☛ Clearance will not be granted until shipper's declaration has been filed with the collector of customs (Declarations should be typewritten or prepared in ink; pencil is not permissible)

Customs File No.	
District	Port
Flag	Country

Pier No. .....

Exporting carrier ..... (If vessel, give name and flag) From ..... (U. S. Customs port of exportation)

Exporter ..... (Actual shipper or agent) ..... Address (number, street, place, State)

For account of ..... (Principal or seller) ..... Address (number, street, place, State)

Consignee ..... (Ultimate consignee) ..... Address (place, country)

Foreign port of unloading ..... (For vessels only) Final Destination ..... (Not place of transshipment) ..... (Place and country)

(1) MARKS AND Nos.	(2) SHIPPING WEIGHT[1] (Gross weight in pounds)	(3) NUMBER AND KIND OF PACKAGES, DESCRIPTION OF MERCHANDISE AND EXPORT LICENSE NUMBER[2] (Describe in sufficient detail to permit classification according to Schedule B. Do not use general terms).	(4) SCHEDULE B LINE NO.	(5) SCHEDULE B[3] COMMODITY No.	(6) NET QUANTITY (in Schedule B Units (State unit.)	(7) VALUE AT TIME AND PLACE OF EXPORT (Selling price, or cost if not sold including inland freight, insurance and other charges to place of export) Nearest whole dollar

CONFIDENTIAL

Waybill or manifest No. ..... (of exporting carrier) ..... (Date of exportation or, if vessel, date of clearance) Total, $ .....

I authorize ..... to act as my agent for customs purposes.

..... Shipper.

I declare that the above is a true account of merchandise shipped to the country named; and that the description and quantity of each article are truly stated at the selling price or market value at time and place of exportation.

SUBSCRIBED AND SWORN TO before me

on ..... 19.....

..... (Title or designation) (Notary public, etc., or those authorized to administer oaths under Sec. 486, Tariff Act of 1930)

(Signature) .....

(Capacity) ..... (Member of firm, secretary, agent, etc.)

(Address) .....

[1] If gross weight is not available for each Schedule B item listed in column (4) included in one or more packages, insert the approximate gross weight for each Schedule B item. The total of these estimated weights should equal the actual weight of the entire package or packages.

[2] Insert the appropriate export license number on the line below the description of each item.

[3] Foreign exports (reexports) should be classified in accordance with the latest edition of Schedule B. For shipments to Alaska, use Schedule K.

Designate foreign merchandise (reexports) with an "F" and exports of domestic merchandise with a "D".

"This document contains information affecting the national defense of the United States within the meaning of the Espionage Act, U. S. C. 50; 31 and 32. The transmission or revelation of its contents in any manner to an unauthorized person is prohibited by law."

Illustration 51. SHIPPER'S EXPORT DECLARATION.

The document issued by the air lines; the airwaybill. The document issued by the air line denoting the interest it has in the transaction is called the Airwaybill. See Illustration 50.

Before the carrier or its agent prepares this paper, it must have in writing certain information that the shipper supplies. This requirement is accomplished by filling out the blank supplied by the air lines, generally called a Letter of Instructions. See Illustration 49.

It must contain the following information:

a. Place where the exporter is located.

INSTRUCTIONS FOR THE USE OF THE YELLOW SHIPPER'S EXPORT DECLARATION
(Commerce Form 7525-V)

(See reverse side of the White Defense Aid (Lend Lease) Shipper's Export Declaration form for instructions relating to that form)

(Follow Carefully to Avoid Delay at Shipping Point)

1. PROVISIONS OF LAW.

(a) Vessels shall not be cleared for foreign ports until manifests (or declarations) verified by oath, of the cargo, or its parts have been delivered to the collector at the point of exportation by the owners, shippers, or consignors thereof. Vessels leaving without clearance subject the master of vessel to a penalty of not more than $1,000 or less than $500

(b) Similar provisions apply to exportations by rail, air, vehicle, or ferry.

(c) Shipper's export declarations must also be filed for shipments between the United States and its noncontiguous territories.

(d) For instructions regarding the use of this form for parcel-post exportations, see Section 91, Part II, United States Official Postal Guide

2. SHIPPER'S EXPORT DECLARATIONS (COMMERCE FORM 7525-V).

(a) Must be made in *triplicate* for shipments by vessel or air, and in *duplicate* for shipments by rail, car, vehicle, and ferry for all merchandise shipped to foreign countries or to and from noncontiguous territories of the United States (Commerce Form 7525-V should not be filed for foreign merchandise shipped in transit through the United States from one foreign country to another In lieu thereof, "Shipper's Export Declaration for In-Transit Goods" on Commerce Form 7513 should be filed) (A copy of this declaration is acceptable in various foreign countries to meet certain of their entry requirements Therefore, on shipments to those countries, an additional copy of the declaration must be filed This list of countries includes Canada, Haiti, and Panama, and Argentina and Uruguay for air-express shipments)

(b) The name of the shipper or his agent must appear on the space provided for "(Signature)" in the lower right-hand corner of all copies of the Declaration, but only the original (or the collector's copy) need be manually signed The original declaration covering shipment by vessel must be verified by oath before a notary public, customs officer, or other person authorized to administer oaths. Oath is not required on declaration covering shipment to Canada or Mexico by rail, vehicle, or ferry

(c) Agents authority must be in writing on declaration or other document filed with the collector Declarations are treated as confidential

(d) Declarations must be presented to the Collector of Customs, who will retain the original and stamp one copy for presentation by shipper to the transportation company, to be attached to outward vessel or car manifest. The duplicate (or statistical) copy shall be forwarded by the collector to the Section of Customs Statistics, Customhouse, New York, N Y.

(e) When shipments are made from the interior on through bills of lading to foreign destination, declarations must accompany waybills (if preferred, in sealed envelope) to port of exportation

(f) On local bills of lading, declarations may accompany the goods, or be mailed to consignee at seaboard.

(g) For shipments by rail to Mexico and Canada separate declarations shall be prepared for each carload.

(h) The final place and country of destination, not the place of transshipment, should be shown in the space provided for "Final Destination" Special care should be taken to give the final place and country of destination for goods shipped through Canada, United Kingdom, Panama Canal Zone, or other seaboard countries for transshipment to other countries, such as through Chile or Peru, destined for Bolivia.

(i) In the case of shipments by vessel, the date of exportation, for statistical purposes, is the date of clearance of the vessel

(j) The name and address of the ultimate consignee shall be furnished in accordance with the provisions of Treasury Decision 50433

(k) Certificates of inspection by Department of Agriculture, for export of cheese, oleomargarine, butter, meats, and other food products must be furnished when required.

3. DESCRIPTION OF ARTICLES, QUANTITIES, AND VALUES.

Column 1 —Insert marks and numbers

Column 2 —Insert gross weight in pounds

Column 3 —Insert number and kinds of packages, description of merchandise and export license number The merchandise must be described in sufficient detail to permit its classification in accordance with the commodity description provided in Department of Commerce Schedules "B," "STATISTICAL CLASSIFICATIONS OF DOMESTIC AND FOREIGN COMMODITIES EXPORTED FROM THE UNITED STATES" The description of the articles must be definite and complete Trade-marks and general terms such as "dry goods," "groceries," "meats," etc , are not sufficient

Column 4 —Specify whether of domestic or foreign origin Exports of domestic merchandise (U S. products) include articles grown, produced, or manufactured in the United States. Exports of foreign merchandise (reexports) include articles reexported in the same condition as imported. Foreign articles changed by alteration or manufacture become U S articles and are to be classified as "domestic."

Column 5.—Insert the Schedule B commodity code number (See Instruction 4 (a) below.)

Column 6 —Insert the net quantity in Schedule B unit State the unit of quantity shown

Column 7 —Insert the dollar value at time and place of export Value stated should be the selling price, or cost if not sold, including inland freight, insurance, and other charges to border point or seaport.

4. SCHEDULES AND BLANKS.

(a) Schedule B, statistical classifications of domestic and foreign exports, may be purchased from the Superintendent of Documents, Government Printing Office, Washington, D C , local Collectors of Customs, and the Department of Commerce Field Office, 500 Fifth Avenue, New York, N. Y

(b) Shipper's Export Declarations may be obtained from the Superintendent of Documents, Government Printing Office, Washington, D C., or from the Collectors of Customs for 30 cents per block of 100. They may be printed by private parties provided they conform to the official form in size, wording, color, and arrangement.

5. FOREIGN COMMERCE STATISTICAL REGULATIONS.

For more detailed information regarding the preparation of the export declaration, refer to the Regulations for Collection of Statistics of Foreign Commerce and Navigation of the United States (Title 15, Chapter I, Part 30, Code of Federal Regulations), copies of which may be obtained free of charge from the Department of Commerce Field Offices, located in the principal cities, the Section of Customs Statistics, Customhouse, New York, N. Y ; and the Division of Foreign Trade Statistics, Bureau of the Census, Washington, D. C.

Revised January 31, 1943.

Printed and Sold by UNZ & CO , 24 Beaver Street, N. Y.—10104

Illustration 51. *(Continued.)*

b. Date of the Letter of Instructions.

c. How the goods are to be forwarded to the international airport; that is, by rail, or by air.

d. Name of the consignee.

e. Address of the consignee.

f. Number of packages and type of packing.

g. Description of the articles to be shipped.

h. Shipper's declared value of the goods for the purpose of customs information, and shipper's declared value for the carriage.

i. Weight or measurements.

j. Legal weight and net weight.

k. Country of origin.

l. Indication in the letter whether the shipment is to be insured or not. Since insurance is optional, it would be advisable for the exporter to insure the shipment under his own policy.

m. Signature of an individual authorized to sign for the shipper.

For shipment to Central and South America, the International Airport for Pan American World Airways is Miami, Florida. For shipments going to Puerto Rico and South America, the International Airport is New York. For shipments going to Mexico, the International Airport for the American Air Line is San Antonio, Texas, and for shipments intended for Europe, the International Airport is New York.

Upon receipt of the detailed information mentioned above, the air line or its agent makes out the airwaybill subject to the terms, exceptions, provisions, and conditions stated in the airwaybill itself. Some of the stipulations stated thereon are as follows:

1. The liability of the company is governed by rules enacted by the Convention for the Unification of Certain Rules relating to International Transportation and signed in Warsaw in 1929. It can be said in this respect that the only course to be followed by the exporter is fully to insure the shipment with an insurance company.

2. The shipper is liable to pay the air line for any claims, fines, or penalties suffered for any violations of the tariff regulations.

3. The air line has a lien on the shipment for all money due to the carrier.

4. The shipper has the right to withdraw the goods from the airport, to stop them while in transit, and to instruct the carrier to deliver the shipment to someone other than the consignee named in the airwaybill. This right will cease as soon as the goods are delivered to the consignee or his agent.

5. The captain or any officer of the aircraft will have the right, for reasons of safety, to cast overboard any of the goods carried by the plane.

6. The consignee is entitled to claim the goods on its arrival at the

point of destination and upon payment of the charges due, after complying with all conditions of the contract of transportation.

7. If, for any reason at all, the consignee refuses to accept the shipment the exporter is liable to the air line for the charges involved, including, if necessary, the expenses of returning the shipment to the consignor.

If the goods are stored, the air line will do so at the expense and risk of the exporter.

These are in general some of the most important conditions under which shipments for foreign countries are accepted by the air lines.

The airwaybill contains the following information:

a. Number of the airwaybill.
b. Date the shipment was received.
c. The name and address of the shipper.
d. The name and address of the consignee.
e. Destination.
f. Person to be notified about the arrival of the shipment; his full address must be indicated in the airwaybill.
g. Description of the goods shipped.
h. The declared value for:
   (1) Customs.
   (2) Carriage.
i. Weight or volume.
j. Point of shipping.
k. Insured or not insured.
l. Charges paid or to be collected from the consignee.

Documents required at the point of destination. The documents that are required by the country to which the goods are shipped indicate the interest that that country has in the transaction.

Since customs procedures are not standardized all over the world, each country has its own regulations, and each country requires different sets of papers prepared in different ways, and even in different languages. Below are listed the necessary procedures for some of the most important countries of the world, as well as the shipping documents these nations require to be presented by the importer for customs clearance.

For Canada. The exporter must supply at least three copies of the Canadian Export Invoices, besides the regular commercial invoices. The Canadian forms, as they are called, are similar to the one shown in Illustration 52. These forms are made out from the information contained in the commercial invoice, and must give the:

1. Country of origin of the goods.
2. Marks and numbers on packages.
3. Quantity and description of the merchandise.

4. Fair market value of the goods.
5. Selling price to the purchaser in Canada.
6. Freight charge.
7. Owner's statement at the bottom of the invoice, which must be signed.

For Argentina. Argentina requires:

a. Consular invoice in duplicate, duly viséed by the Argentine Consul. If there is no consul at the point of shipment, the exporter may have these papers viséed by any other Argentinian consul located near by. If it is impossible to obtain the service of a consul to visé the consular invoice, the documents may be forwarded to the air lines without visé, provided, however, the exporter explains the impossibility of having the document viséed. In that case the shipper should then have the commercial invoice certified to by the Chamber of Commerce or a consular official of some other nation.

b. Commercial invoice in duplicate. It must contain the following declaration:

> I declare under oath that all the information given in this invoice is true and correct and that the prices stated are those really paid or to be paid. In the same manner I declare that no agreement has been entered into which permits the modification of these prices.

For shipments valued at less than 550 Argentine pesos (about $125 U. S. currency) consular invoices are not required.

For Bolivia. Regardless of the value of the goods, all shipments to Bolivia must be accompanied by a commercial invoice made out in duplicate. It will show, like any other bill, the type of package (box, bundle, case, and so forth), the gross weight in kilos of each package, an accurate description of the goods, and the value of the merchandise. The commercial invoice, moreover, must detail and describe every article and give its value separately. It must also contain the following statement duly signed by the exporter:

> *Protestamos que los pormenores de cantidad, pesos, calidades y valores de las mercaderías detalladas en esta factura, son verdaderos y correctos.*

In English, this means that the exporter swears that details such as quantity, weight, quality, and value of the merchandise as stated in the commercial invoice are true and correct.

The consular invoice is also required, provided, however, the value of the goods for customs purposes is in excess of $40 U. S. currency. It will be viséed by the consul if the shipper presents an import license issued in Bolivia. At points where there is no consul, the consular invoice may be disregarded.

For Brazil. Brazil requires six copies of the commercial invoice duly signed by the seller of the goods. It must contain detailed information in regard to:

1. The total number of packages duly numbered.
2. Type of packages.
3. Net, legal, and gross weight of each package.
4. Quantity and detailed description of the merchandise.
5. Unit price of the goods.
6. Country of origin.

An import license is required on certain goods brought into Brazil. On those goods, therefore, the license must accompany the shipment. If the import license is not required on the goods shipped, then the airwaybill must state that an import license is not required.

For Chile. Chile requires that all shipments be accompanied by a commercial invoice in duplicate regardless of the value. If, however, the goods are valued at $100 U. S. currency, or more, then the invoice must be viséed by the consul for Chile. If there is no consul at the point of shipment, then the shipper will disregard those instructions.

For Colombia. Shipments intended for Colombia must be accompanied by a commercial invoice in duplicate, regardless of the value of the merchandise. The invoice must also contain the following statement in Spanish:

Certificamos bajo juramento que los precios de esta factura son los mismos que cargamos al cliente y que la mercancia a que se refiere esta misma factura es originaria de _____ (Country of Origin) _____ *en fé de lo expuesto firmamos la presente declaración en* _____ (city, state) _____ *de* _____ (date) *de* _____ (year).

_____
(Signature of Shipper).

In English this means that the exporter swears under oath that the prices of the goods specified in the commercial invoice are the same as those charged to the customer, and that the merchandise listed in the bill originated in ..... country of origin. Whoever signs this statement must be authorized to do so, and must indicate his title, if any.

The invoice must show: the exact gross weight of the shipment in kilograms and grams. If the invoice represents a sale of silk articles, it must contain a description of the nature of the silk, such as "Animal (Real) Silk," or "Artificial Silk." That description must also appear in the airwaybill.

For Cuba. The commercial invoice, issued in duplicate and signed by the exporter, must be presented with the goods.

If the shipment contains essential oils, then a Certificate of Origin must be delivered with the goods.

Form M. A. 8½ x 14 Size-Effective February 1, 1938

Form M-A—Invoice of goods for entry in Canada, under Treaty or Preference Rates, when the goods have been sold by the Exporter prior to shipment.

(Place and Date).....19

Invoice of (General nature or class of merchandise).....purchased

by.....of.....

from.....of.....

to be shipped from.....per.....

CUSTOMER'S ORDER NO.....OUR ORDER NO.....TERMS:.....

Country of Origin	Marks and Numbers on Packages	QUANTITIES AND DESCRIPTION OF GOODS	Fair Market Value at time and place of shipment. (See clause 4 of certificate of value hereon.)	Selling Price to the Purchaser in Canada	
				@	Amount

NOTE: These facts must be shown

Amount of: Freight, if any, prepaid and charged.....

Freight, if any, prepaid and not charged.....

Freight, if any, allowed to be deducted by importer on settlement.....

I, the undersigned, do hereby certify as follows:—

(1) That I am the (a) .....exporter of the goods in the within invoice mentioned or described;

(a) Insert the word partner, manager, chief clerk or principal official, giving rank as the case may be.

(2) That the said invoice is in all respects correct and true;

(3) That the said invoice contains a true and full statement showing the price actually paid or to be paid for the said goods, the actual quantity thereof, and all charges thereon;

(4) That the said invoice also exhibits the fair market value of the said goods at the time and place of their direct exportation to Canada and as when sold at the same time and place in like quantity and condition for home consumption in the principal markets of the country whence exported directly to Canada, and that the said fair market value,—

(a) In the case of new or unused goods is not lower than the actual cost of production of similar goods at the same time and place, plus a reasonable advance for selling cost and profit;

(b) Is without any discount or deduction not shown and allowed on invoices covering sales for home consumption in the country of export in the usual and ordinary course of trade; and

(c) Is without any deduction on account of any drawback or bounty or on account of any royalty actually payable thereon, or payable thereon when sold for home consumption, but not payable when exported, or on account of the exportation thereof, or for any special consideration whatever;

(5) That no different invoice of the goods mentioned in said invoice has been or will be furnished to anyone; and

(6) That no arrangement or understanding affecting the purchase price of the said goods has been or will be made or entered into between the said exporter and purchaser or by any one on behalf of either of them, either by way of discount, rebate, salary, compensation or in any manner whatsoever other than as shown in the said invoice.

(A) That each article on this invoice is bona fide the produce or manufacture of the Country specified on the invoice as its Country of Origin;

That each manufactured article on the invoice in its present form ready for export to Canada has been finished in such specified Country of Origin, and not less than one-half the cost of production of each such article has been produced through the industry of *.....entitled to the benefits of treaty or convention rates or the British Preferential Tariff.

* Insert here name of country or countries.

Dated at.....

this.....*day of*.....

.....
(Firm Name)

.....
(Individual Signature and Title)

Before .....

NOTE.—When invoicing goods which have been finished in a country specified on the invoice as its country of origin from materials originating in a country or countries entitled to the benefits of treaty or convention rates or the British Preferential Tariff, the names of the countries contributing to one-half the cost of production should be shown in the space provided in the certificate.

In the calculation of the cost of production for the purpose of determining the qualification for entry under the Intermediate Tariff, none of the following items are to be included or considered, viz:—

1. Outside packages and expenses of packing thereinto.
2. Manufacturer's or exporter's profit or the profit or remuneration of any trader, broker, or other person dealing in the article in its finished manufactured condition.
3. Royalties.
4. Customs or excise duty or tax paid or payable on imported materials.
5. Carriage, insurance, etc., from place of production or manufacture to port of shipment.
6. Any other charges incurred or to be incurred subsequent to the completion of the manufacture of the goods.

For Costa Rica. If the shipment is valued in excess of $100 U. S. currency, the shipper must present to the air line a commercial invoice, in Spanish, and in triplicate.

Consular visé is not required.

For shipments valued at $100 or less, the exporter does not have to deliver any commercial invoice to the air line.

For Ecuador. For Ecuador the commercial invoices must be viséed by a consul of that country, provided the value for customs purposes in the airwaybill is in excess of $125 U. S. currency.

Since the exporter must present a consular invoice also, the consul will visé it if the exporter presents an import license issued in Ecuador for the goods ordered by the buyer.

If there is no consul at the point of shipment, the exporter will disregard this requisite.

For El Salvador. The commercial invoice required by El Salvador must be viséed by the consul of that country. The shipper must also deliver with the goods a Certificate of Origin certified by the local Chamber of Commerce or some other responsible civic body, and viséed by the consul of El Salvador. If the shipment is valued for customs purposes in the airwaybill for less than $100 U. S. currency, these papers are not required.

If at the point of shipment there is no Salvadorean consul, then the above-mentioned documents must be viséed by the consul of a friendly nation, or by the nearest available consul of El Salvador.

For Guatemala. Neither the commercial nor the consular invoice is required by Guatemala. Nevertheless, on all shipments, regardless of their value, the air lines or their agents must insert in the airwaybills the following statement:

"Shipper guarantees article(s) shipped under this airwaybill is (or are) a product of *(name of country of origin).*"

The airwaybill must also contain a complete description of the goods shipped, the number of pieces, and the material of the merchandise. If the shipment contains silk articles, such as silk hosiery, silk underwear, ladies garments, and so forth, the description inserted in the airwaybill must state the quality or type of silk used in the manufacture of the article, such as "Pure Silk," or "Artificial Silk."

For Honduras. Consular invoice is not required; only a commercial invoice in duplicate must accompany all shipments. This document is not required to be viséed by the consul.

For Jamaica. The only requirement is a commercial invoice in duplicate, and the consular visé is not needed.

For Nicaragua. Regardless of value, all shipments must be accompanied by a commercial invoice (original and two copies). If the value

of the shipment is more than $100 U. S. currency, then the consular invoice must be viséed by a consul of Nicaragua.

For Panama. Shipments intended for Panama must be accompanied by a commercial invoice in duplicate, bearing the following statement duly signed by the seller:

Declaro bajo la gravedad del juramento, con la firma puesta al pie de esta declaración que todas y cada uno de los datos contenidos en esta factura son exactos y verdaderos y que la suma total declarada es la misma en que se han vendido las mercancias.

This means that the exporter swears under oath that each and every one of the details inserted in this invoice are exact and correct, and that the total amount declared therein represents the total cost for which the merchandise is sold.

For Peru. Regardless of the value, all shipments going to Peru must be accompanied by a commercial invoice. If the value of the goods exceeds $100 U. S. currency, then the invoice must be viséed by the consul of Peru. If, at the point of shipment there is no Peruvian consul, then the invoice will be countersigned by the local Chamber of Commerce, and the consul's visé may be disregarded.

For Uruguay. A consular invoice, which is required on shipments being sent to Uruguay, must be signed by the local Chamber of Commerce or some other responsible civic body, and then viséed by the consul of Uruguay. If the shipment is less than 100 Uruguayan pesos, or about $55 U. S. currency, the consular invoice is not required; instead, the shipment must be accompanied by a commercial invoice in duplicate. No certification is required for this document.

If there is no Uruguayan consul at the point where the shipment originates, then, regardless of value, the consular invoice will be disregarded; but the shipment must be accompanied by a commercial invoice in duplicate without certification.

For Venezuela. Consular or commercial invoices are not required, but the shipper must submit a special declaration in quadruplicate, which must be filled out with care, for any error might bring about a fine. This blank will be supplied by the air lines when shipments are to be made. A Certificate of Origin must also accompany the shipment whenever the value of the goods exceeds 100 Bolivares, or about $33 U. S. currency.

For New Zealand. In addition to the four copies of U. S. Shipper's Export Declaration and the Export License when required by the United States Government, New Zealand demands also that all shipments going there must be accompanied by its special form of commercial invoice, similar to the one required by Canada. (See Illustration 52.) This

document must be signed by the shipper before a witness, whose signature must also appear. The form of invoice may be obtained at any stationery store catering especially to the needs of exporters and importers.

For Australia. Australia also has its own special form to be filled out by the exporter, and, as in the case of New Zealand, is must be presented to the air line or its agent in triplicate.

Rules to follow. 1. Before shipping goods abroad by air, or, for that matter, by vessel, ascertain what documents are needed. Since the regulations change frequently, a constant check must be made. *The Exporter's Encyclopedia* will be a great help in this respect, as will having the air lines mail you any changes made in these regulations.

2. Each country has its own methods and procedures for clearing incoming shipments. Follow their instructions to the letter, and you will eliminate difficulties, annoyances, and possible fines.

3. The banks engaged in international trade will inform you of prevailing shipping regulations. Do not hesitate to call on them for such information.

The foreign credit man will save time and effort by designing a card similar to the one issued by the Department of Commerce, a copy of which is in the Appendix of this book. This card will permit him to

PART OF POLICY NO. OF

ISSUED TO

AIR CARGO—"ALL RISK"

It is hereby understood and agreed that effective as to all shipments made on and after _____, this policy is extended to cover shipments by aircraft and connecting conveyances, subject to the following clauses:

To cover against all risks of physical loss or damage from any external cause irrespective of percentage, but excluding, nevertheless, the risks of war, strikes, riots, seizure, detention and other risks, excluded by the F. C. & S. (Free of Capture & Seizure) Warranty and the S R. & C C (Strikes, Riots and Civil Commotions) Warranty in this policy, excepting to the extent that such risks are specifically covered by endorsement.

Warranted free of claim for loss or damage due to heat or cold or changes in atmospheric pressure.

Wherever the term "vessel" or "overseas vessel" is used in this policy, it is understood and agreed that it shall be construed to include aircraft.

It is further understood and agreed that this Company shall not be liable for more than $_____ by any one aircraft.

Rates of premium on shipments by aircraft to be named at time of declaration of risk.

ALL OTHER TERMS, CONDITIONS AND VALUATIONS REMAINING UNCHANGED

_____

Dated _____ 19__

Illustration 53. AUTHORITY FROM UNDERWRITERS GRANTING INSURANCE ON SHIPMENTS MADE BY AIRCRAFT.

see at a glance, when examining the documents to be attached to the draft, whether they are complete and in accordance with requirements set by each country. Since the documentary regulations change, the card should be revised from time to time.

*

CHAPTER XII

FOREIGN EXCHANGE

International Trade in Raw Materials and Other Commodities

International trade is defined as the exchange of goods and services. These goods may be classified into two main categories.

The first covers basic commodities such as raw silk, sugar, raw cotton, wheat, copper, and other raw products for which there is a demand. The sales of these basic commodities are carried on in the consuming or producing countries by means of:

1. *Private sales,* which comprise, as the name implies, dealings carried on by individual importers and exporters located in different countries. They range from the simplest barter deals to the most complicated transactions needing the services of lawyers and business experts.

2. *Auction sales.* Auction sales are conducted at the great commercial centers of the world: Liverpool, New York, Amsterdam, Havre, Antwerp, Montreal, and London. At these points, buyers and sellers assemble to bid for the commodities offered. The products sold in these markets are coffee, cacao, cotton, rubber, spices, sugar, tea, tin, wool, wheat, and similar commodities very much in demand the world over.

3. *Exchange houses.* The third method of selling basic products is through organized exchange houses, where brokers gather to bid and to offer essential commodities. The staple products offered at these exchanges are coffee, copper, cotton, eggs, oil, raw silk, sugar, wheat, wool, and other essential products.

The second category covers the sales of manufactured products, which are in turn divided into two main groups:

1. Consumers' goods, such as paper, radios, shoes, textiles, and similar articles bought by individual buyers.

2. Producers' goods, such as steam engines, lathes, and other machinery used for manufacturing consumers' goods.

The sale of these products is made either directly by the house which manufacturers them, or through an agent or a broker.

When an importer buys any of the basic commodities: raw cotton, coal, or wheat; or consumers' goods: textile machinery, or a locomotive, such purchases are financed either by the exporter or by the importer.

If the latter finances the purchase, he buys for cash, or its equivalent, which may be a letter of credit available on presentation of shipping documents. If, on the other hand, the exporter finances the purchase, he sells on credit.

Whether the importer or the exporter finances the transaction, he must do so with the assistance of a bank which will either lend the money to make the purchase, supply the foreign exchange required to pay the debt, or act as intermediary in collecting the debt.

As indicated above, the bank, as well as the agents, the steamship companies, and insurance companies, renders a service—for which it collects a commission, a fee, or a charge. This phase of international trade is beyond the scope of this book, which is interested in discussing the sales of commodities, and the way in which such sales are financed.

The Settlement of Foreign Debt

Under normal conditions, international commercial obligations, like domestic business transactions, are settled in terms of money.

If John Smith of Philadelphia buys 10,000 yards of cotton goods on credit from Harry Doe of New York, John Smith will pay at some definite future date so many dollars in the liquidation of his debt.

In foreign trade the procedure is the same, except that the settlement may be made in some other currency than U. S. dollars. The buyer may arrange to discharge his obligations in one of the following ways:

1. *In U. S. dollars.* To do so, the importer calls at his bank and buys with his own currency sufficient dollars to liquidate his foreign debt.

2. *In his own currency.* On the day the foreign purchase is to be paid, the importer deposits with the collecting bank a definite amount of his own currency to cover the face value of the bill. The foreign money received is then changed by the bank into dollars and remitted to the exporter.

3. *In the currency of a third nation.* As in the previous case, on the day the bill falls due, the importer honors the obligation by depositing at the local collecting bank the currency designated in the transaction, which is then changed into dollars and forwarded to the seller.

From the point of view of the credit man, the first method offers the least risk, since it vests in the importer the obligation to obtain the dollars he needs to pay his debt, regardless of the price he must pay for them. Do not assume, however, that by quoting prices in dollars the risk is eliminated. In the event there is a scarcity of dollars, the importer might not be able to honor the bill, and the obligation would remain unpaid until dollars were available. The risk, as indicated before, is called the "transfer risk."

The second method is practicable if the rate of exchange remains stable. If, on the other hand, the value of the foreign currency falls in

terms of dollars, the exporter will suffer a loss when exchanging the acquired foreign currency into dollars.

Let it be assumed, for example, that the exporter accepted an order from England, the prices were quoted in pounds sterling, and the total amount of the purchase equaled £1,000. Furthermore, let it be assumed also that the prices as quoted to the buyer were figured on the basis of $4 to the pound sterling. In other words, although the invoice rendered to the English buyer specified that the payment would be made in pounds sterling, the exporter, nevertheless, expects to get $4,000, since the pounds sterling are useless to him.

As soon as the foreign buyer pays the bill for £1,000, the foreign credit man will instruct the bank to change this currency into U. S. dollars. When the foreign currency is exchanged into U. S. dollars, the conversion is expected to be made without loss, or at the rate of exchange at which the prices were originally figured and quoted, namely $4.00 to the pound.

It is obvious, then, that if the rate goes up to $5 to the pound there is a profit; and if it drops below $4, there is a loss.

To be sure, the element of speculation is evident. The practical course to follow, to lessen the exchange hazard, is to sell the currency. This is accomplished by means of a contract made with a local bank, a contract that specifies, among other things, the delivery of a definite amount of foreign currency at some definite date and at a definite rate of exchange. Later in this book the problem of selling foreign currency will be discussed in detail.

A similar experience ensues by quoting prices in the currency of a third nation. The credit man will do well to protect himself against the fluctuations of the exchange, as suggested in the previous paragraph. The one rule to follow in both cases is never to quote prices in foreign currency unless there is a ready and stable market for that particular money.

Sources of Supply of Foreign Exchange

How does the importer's bank obtain the dollars it sells to pay for purchases made in this country? Simply by buying bills of exchange drawn on the United States representing sales made to this country. The following case will clarify the problem.

We shall assume that Mejia & Cia, of Caracas, Venezuela, sold several bags of coffee in New York. To collect the bill, this firm drew a bill of exchange at sight for the value of the merchandise, namely $1,000. This draft, together with the bill of lading, commercial invoice, and other shipping papers is presented by Mejia & Cia to its bank for discount or collection. In either case, the bank endorses the bill of exchange, and forwards it, with the set of documents, to its correspondent or branch

in New York. These papers, on arrival, are presented to the American buyer for payment. When the draft is honored, the American bank credits the Venezuelan bank with the dollars received, or $1,000. In other words, foreign institutions create dollar balances in New York through the exportation of commodities to this country. This is the main source of supply of foreign exchange. The other means are:

1. *Through loans raised in this market.* If the New York banks make loans to Argentina, the proceeds of such loans constitute a fund in dollars against which the banks in Argentina may draw.

2. *Through the sales of American securities to foreign investors.* Since these securities are obligations redeemable in U. S. dollars, they may be sold for the purpose of creating dollar balances.

3. *Through the shipment of gold,* which also creates dollars, in the same manner that the sale of coffee created dollars for Venezuela.

4. *Through money spent by tourists,* or money sent by immigrants abroad.

5. *Through insurance premiums paid to foreign insurance companies,* interest payable on securities sold abroad, and commissions due to foreigners. These serve as means of building dollar balances in this country against which the foreigners can draw.

Foreign Exchange Defined

Foreign exchange, as it is generally understood, is the conversion of the money of a country into its equivalent in money of another country; the rate at which the currencies are exchangeable is called the *rate of exchange.*

Exchange Stabilization

When the value of the nation's currency suffers violent and frequent changes in relation to other currencies, the government is forced to adopt measures tending to neutralize the fluctuation, thus permitting the rate of exchange to be stabilized. The classical method followed years ago was to ship gold or raise a foreign loan, which ordinarily checked the downward trend of the exchange.

The heavy concentration of gold in the hands of one nation, the recognition that the yellow metal is an imperfect stabilizer, the desire to manage the value of the currency—such factors have, in large measure, relegated the use of the above method of stabilizing the currency to a less important position. Consequently, in order to overcome rapid fluctuations in the rate of exchange, economists designed a new technique to stabilize the exchange rate, namely the use of a *stabilization fund.*

In a broad sense this fund accomplishes its aim by buying and selling foreign currencies as conditions require. For example, if the pound sterling falls in terms of the dollar, the stabilization fund offers dollars

to the market and purchases pounds sterling, continuing this operation until the pound sterling reaches the value desired.

The Balance of International Payments

International trade, it was said, is the exchange of goods and services carried on among the nations of the world. The bulk of this trading is represented by merchandise sold and bought abroad. Fundamentally, although money is used as a medium of exchange in international transactions, nevertheless, international trade is primarily the exchange of one nation's goods for the products of another nation. This country, for example, buys coffee from Brazil; and from the proceeds of the sales, the Brazilians are able to purchase machinery here. Basically, however, it is equally true that coffee was exchanged for machinery. If, instead of this single transaction, one considers the many deals that this country carries on, not only with Brazil, but with all the nations of the world, it is possible to construct a sort of statement listing on the credit side goods and services rendered by this country to other countries, and on the debit side goods and services rendered to the United States by foreign countries, over a definite period of time. This statement itemizing the various commercial and financial transactions taking place over a definite period of time in a country is called the *balance of international payments.*

If, for example, we were to draw the balance of payments of the United States for the year 1946, we would list on the credit side the cash or credit claims this country has against foreign countries, and on the debit side the claims that other nations have on the United States. The statement will of course include only the credits and debits for the year 1946.

The items listed in the balance of payments are divided into two different groups. The first are called the *visible* items, and the second are the *invisible* items.

The visible items are represented by tangible things, such as merchandise, gold, and silver, which are imported and exported.

The invisible items are not so easy to determine as the visible, which may be obtained from the shipping invoices. The invisible items are represented by services received that involve the transfer of cash. Some of the principal invisible items are ocean freight, interest paid on shares of stocks and bonds of American concerns held by foreigners, tourists' expenditures, and so forth.

In a previous paragraph it was pointed out that the balance sheet contained debits and credits. The natural question to raise is: "Which items are to be considered as debits, and which as credits?" The answer is that goods and services received from foreigners are debits, and goods and services rendered to other people outside the United States are credits.

The principal *credit* items are as follows:

1. *Export of merchandise.* This naturally represents sales of goods made abroad, for which the foreign buyer must pay cash. It is one of the most important items of balance of payment. For example, in the year 1939 the United States received payments for merchandise sold abroad in excess of three billion dollars.

2. *Services rendered by this country to foreign countries.* This item includes shipping expenses representing charges collected by American steamship companies, and money spent here by tourists.

3. *Interest and dividends due to Americans.* This item is represented by investments made abroad by Americans on which foreign firms pay interest or dividends.

4. *Remittances received here from Americans working in other countries.* These are cash disbursements.

5. *Money sent here to pay for stocks and bonds issued by American concerns and bought by foreigners.* Obviously, when a foreigner places an order for shares of stock, he must pay for them in the same manner as if he bought merchandise from this country.

6. *Payments made by foreigners against money they have borrowed from United States banks and other institutions, such as loans.*

7. *Miscellaneous items.* These include royalties paid by foreigners for the use of patents, motion pictures, and plays.

The *debit* items are represented by the items this country buys abroad, and for which it must pay in cash. The most important are:

1. *Merchandise sold in this country by foreign nations for which the United States must remit cash.* This item, which in 1939 amounted to over $2,300,000,000, is balanced out by this country's selling goods and services to other countries.

2. *Services rendered to this country.* When this country ships goods abroad in vessels other than American carriers, payment is, of course, required. The money expended by tourists is another item that must go on the debit side.

3. *Money remitted from this country by immigrants to their relatives abroad.* This represents an obligation against the United States.

4. *Insurance and banking services rendered to this country.* For example, when some foreign insurance company issues a policy to cover the shipment of goods or to cover any other service, that service must be paid for in cash by this country. The services rendered by foreign banks, such as commissions for collecting bills of exchange, are a similar obligation.

5. *Capital invested abroad by Americans.* When capital is invested abroad in any type of business venture, it must be paid and transferred abroad; hence, it becomes a debit on the balance of payment.

6. *Dividends and interest paid to foreigners against investments which*

they have made in this country. These are also debit items against this country.

7. *Miscellaneous items.* These include royalties paid to foreigners for the use of their patents, or royalties due to authors and artists.

Besides these, there are others just as important, but which do not come within the category of trade and services. They are the movement of gold to and from this country, and the movement of capital.

What advantages does the foreign credit man draw from the study of such a balance sheet? The obvious reply is that it enables him to follow the trend of business as represented by the merchandise sold and bought and the movement of gold, which so directly affect the price levels of any country.

Factors Affecting the Rate of Exchange

There are other forces affecting the rate of exchange, besides those of supply and demand for the currency. From experience, it is known that radical social reforms, political disturbances, crop failures, and similar events fatally affect the financial stability of a nation. The value of its currency suffers accordingly.

As a practical guide to follow in studying the consequences any national event or action might have on the financial condition of a country, the following signs should be watched:

1. Forces affecting the rate of exchange adversely:
   (a) Lack of confidence in the country because of political disturbance or internal conflicts.
   (b) Disturbances in the prices of commodities.
   (c) Declining foreign trade, resulting in an unfavorable balance of trade, followed by:
   (d) Abnormal outward shipment of gold or the enactment of exchange control restrictions.
2. Forces affecting the rate of exchange favorably:
   (a) Stable government.
   (b) Active export trade.
   (c) Stable and profitable prices.
   (d) Confidence in the country.

Since it will be almost impossible for the foreign credit man to become a monetary expert, he should seek the advice of bankers and exchange dealers in an effort to foresee:

1. Whether the country's currency will suffer rapid fluctuations. Remember that it is relatively unimportant to know that the drachma is worth a fraction of a cent, but it is vitally important to know that the value of the drachma will remain stable.

2. Whether the currency is bound to decline in value. If so, what are the possibilities of recovering its normal value? Will it be revalued?

Generally speaking, if the factors affecting the rate of exchange adversely are the outcome of seasonal lulls in business, the rate of exchange is bound to recover any loss that it has suffered as soon as the crops begin to move, or business improves, and the period of transition ends. On the other hand, if the ailments of the nation are deeply rooted, it will be a long time before the rate of exchange reaches a normal level. In fact, the country might be compelled in self-protection to establish a rigid control over international dealings to avoid financial chaos.

Gold Standard

When a country adopts the gold standard, it accepts gold as the standard of value. In other words, under the gold standard all obligations are to be paid in coined gold. In practice such is not the case, for ordinarily creditors waive this right and accept "promises" payable in gold on demand. These notes are issued only by governments and banks. They are, of course, backed by sufficient gold reserves held in the vaults of the central banks or by the government. The important point to bear in mind is that such promises, as issued, are payable in gold upon demand. Consequently, the gold standard exists when the government guarantees to redeem on demand its paper money in gold. The gold standard demands three main requirements:

1. There must be free coinage and free movement of gold.
2. Gold is redeemed on demand for any other form of money, such as paper.
3. Gold is accepted as legal tender.

When a country goes off the gold standard, the government ceases to convert its paper currency to gold.

Gold Exchange Standard

In countries where gold exchange standard exists, the local currency, which consists largely of silver coins, is redeemable in bills of exchange payable in gold in some other country, say the United States, if the United States is on the gold standard.

Bimetalism or Double Standard

Bimetalism exists in a country where the government opens its mints to the free coinage of gold and silver, at a fixed rate.

Silver Standard

In essence, the silver standard functions when the government opens its mints to the free coinage of silver. The same principles regulating the gold standard apply also to the silver standard. Of course, silver, and not gold, is the accepted standard of value.

Future Contracts

Early in this chapter, the risk the foreign credit man assumes when prices are quoted in foreign currencies was explained. It was also pointed out that this hazard may be lessened by taking advantage of the services offered by banks willing to buy foreign money. Briefly, the procedure is to make a contract with a bank for the sale of any foreign currency acquired through sales abroad.

A practical case is a transaction representing the sale of silk yarn to Argentina, amounting to $30,000,000, to be delivered over a period of three months, on terms of 30 days date. Prices were quoted in pesos and figured at the rate of four pesos to the dollar. In other words, the order amounts to 120,000,000 Argentine pesos.

The credit man, of course, wants not foreign currency, but U. S. dollars. He therefore calls at his bank as soon as the sale is consummated, outlines his problem, and offers to deliver to the bank every 30 days for a period of three months, starting, say, on October 17th, 40,000,000 Argentine pesos.

The bank quotes the rate indicated above, or four pesos to the dollar, and proceeds to draw a contract making the transaction binding.

As the first lot of silk is shipped, the credit man draws a bill of exchange for 40,000,000 Argentine pesos and delivers it to his bank together with the shipping documents. On maturity date the buyer in Buenos Aires honors the draft, and the proceeds are credited to the bank in New York, which in turn credits its client with the payment in dollars.

If the importer fails to pay the draft on the due date, the foreign credit man must deliver to his bank the pesos contracted for, or 40,000,000, unless he is able to arrange with the bank for an extension permitting him to deliver the Argentine currency 30 days later.

This method of selling exchange for future delivery is also adaptable to houses selling goods from consignments held abroad, or to manufacturers having branches in foreign lands.

The Currencies of the World

Each country, as already has been said, has its system of currency. France, for example, has the franc; England the pound sterling; Argentina the peso; Venezuela the bolivar, and so on. Yet, in spite of these differences in systems, these currencies are closely related to each other, primarily because of the fact that when nations trade with one another they agree to settle the debts arising from such transactions in terms of their currencies.

For example, if the United States sells to England, the payment will be made in dollars or in pounds sterling. It will follow then that when an exporter sells to an English concern a certain number of bales

of cotton at $50 a bale, there must exist a relationship between these two currencies that will make it possible for the buyer in England to know how many pounds sterling he must put up in order to pay for each bale of cotton. If he finds from his bank that he can obtain, say, $5 for each pound, the bale of cotton will cost him £10.

How does the bank arrive at that price?

If both countries' currencies are on the gold standard, the governments fix by law the amount of gold the unit currency must contain. In other words, if Jones has 23.22 grains of gold, and that happens to be the amount of gold in one dollar, Mr. Jones then has the equivalent of a dollar. If he has five times that amount, he has enough gold to obtain a pound sterling. It follows then that by knowing the amount of gold contained in one currency, and the amount of gold contained in another foreign currency, it is possible to determine the par of exchange by dividing the weight of gold contained in one currency by the weight of gold contained in the other currency. Through this method of calculation, the foreign credit man computes the par value of exchange. However, the possibility of such computation does not mean that the exchange value will remain unchanged. On the contrary, there are, as noted before, many forces affecting the relation between one currency and another, such as the demand for exchange, and the social and political conditions of the countries.

The next question that might arise is how to determine the rate of exchange between a country that is on the gold standard and another that has left the gold standard. The primary factor to consider is the general price level. Let us assume that the United States is on the gold standard and that Colombia, whose currency is quoted as five pesos to the dollar, goes off the gold standard. If the price level of that country rises to such a point that it takes ten pesos to buy the same article that originally cost five pesos, it naturally follows that a dollar will then, when exchanged into Colombian pesos, bring ten pesos. Of course, there are other forces that affect this exchange, but in a general way the average price level is the main factor in determining the exchange rate between a currency that adheres to the gold standard and another currency that has left the gold standard.

The main currencies of the world are:

Country	*Unit*
Argentina	Peso
Australia	Australian Pound Sterling
Belgium	Belgian Franc
Bolivia	Boliviano
Brazil	Cruzeiro
British Honduras	U. S. Dollar
Canada	Canadian Dollar
Chile	Peso
Colombia	Peso

Country	*Unit*
Costa Rica	Colon
Denmark	Koruna
France	Franc
Great Britain	Pound Sterling
Greece	Drachma
Guatemala	Quetzal
Republic of Honduras	Lempira
Italy	Lira
Japan	Yen
Mexico	Peso
Netherlands	Guilder
New Zealand	Pound Sterling
Nicaragua	Cordoba
Norway	Krone
Paraguay	Guarani
Peru	Sol
Philippine Commonwealth	Peso
Portugal	Escudo
Russia	Chervonitz
El Salvador	Colon
Spain	Peseta
Sweden	Krona
Switzerland	Franc
Turkey	Piaster
Union of South Africa	Pound
Uruguay	Peso
Venezuela	Bolivar

The Sterling Bloc

Although almost every political unit of the British Empire has its own separate and distinct local currency, the most common units used throughout the Empire have been the pound sterling, the rupee, and the dollar. The natural question to ask now is: "What has maintained the monetary coherence so noticeably among the wide-spread political units of the Empire?"

First of all, as has been said: in spite of the separate units used, it is noticeable that the most important and most-used units of the Empire are the pound, the rupee, and the dollar, with the pound predominating over the other two, with the result that this condition has created a tendency to consider the various units as one.

Second: for years the pound and the dollar have been the two principal currencies used in international trade, a situation that has naturally created a sort of common denominator for the common dealings and friendly condition which strengthened the monetary ties. Even after England went off the gold standard, the Dominions and Colonies continued to follow the sterling, rather than establish some other, system.

The tendency to follow the lead of the pound sterling even after the pound had broken away from the gold standard was most instrumental in creating what was called the "Sterling Bloc." In a general way the term was used to differentiate between two groups of nations.

In one group were the countries that continued to use the gold standard, like the United States and France; in the second group were included the countries that had broken away from the gold standard but linked their currencies to the pound sterling. This second group was called the Sterling Bloc.

The countries belonging to the Sterling Bloc pegged the value of their currencies to the pound, and their central monetary reserves were held mostly in the form of London funds instead of gold or some other foreign exchange. By following this policy, these countries followed also the fate of the pound. England, of course, became more or less a sort of custodian that not only assumed the responsibility of keeping the pound stable, but also accepted the duty of stabilizing the currencies of the other nations which belonged to the Sterling Bloc.

The countries which belonged to the Sterling Bloc were the United Kingdom and the British Colonies, some of the British mandates, the British Dominions except Canada and Newfoundland, Egypt, Iraq, Portugal, Norway, Sweden, Finland, and Iran.

The influence exerted by the pound within these countries naturally favored trade relations with England, and indirectly handicapped the American exporter.

The Sterling Area

The war that started in 1939 put an end to the above arrangement, and a new system was created, known as the "Sterling Area."

There are certain resemblances between this new system, brought about by the war, and the old Sterling Bloc system, created because of the financial crisis of 1930.

The Sterling Area has been a system of co-operative exchange control, through the association of several countries, most of which originally formed part of the Sterling Bloc. The latter, however, did not exert any restrictions in converting funds into foreign exchange. If, for example, Norway had funds in London, it was free to convert its funds into dollars. Under the present arrangement, that is, the Sterling Area, Norway is restricted by certain procedure from converting freely its pounds sterling held in London into dollars or other currencies. The same regulations apply to Egypt, Argentina, and the other countries that have associated themselves with the Sterling Area. Under this system, England is not only the guardian of the funds, but the manager as well. In 1946 England had under this arrangement over three billion pounds sterling, or more than fourteen billion dollars in all, tied up in London.

There is no question that this system, if continued, will affect foreign trade tremendously. However, there is already a pronounced tendency to press for the solution of this problem; and no doubt the International

Monetary Fund, which aims to replace the old bilateral trade agreements with multilateral trade arrangements, will assist in the solution.

Exchange Control

It has been indicated that a nation lacking the facilities to overcome an unfavorable balance of trade as a rule effects a control over all exchange transactions. Through this procedure the government regulates the transfer of funds from one nation to another, and also exerts a direct control over its foreign trade.

Exchange control also tends to do the following:

1. Avoids the flight of capital from the country.
2. Insures the importation of essential commodities needed by the country.
3. Counteracts the dumping of foreign goods.
4. Insures the payment of new foreign debts, and also tends to accumulate enough foreign exchange to pay the old debts.
5. Provides a means to allocate exchange.
6. Exerts influence as a political weapon when needed.
7. Regulates the international trade of a nation using a managed or planned economy.

Before accepting business from any country exercising control over its exchange transactions, the foreign credit man should inquire as to the procedure the importer must follow in order to obtain foreign exchange, and also ascertain the delays experienced by other exporters in receiving their funds from such markets.

This question demands a close study, and compels the exporter to decide on the policy to follow when doing business under such restrictions.

Free market. A free market is one in which the government does not exercise any control over foreign exchange transactions, and the rates are set by bidding.

Blocked or frozen accounts. Blocked accounts are credits held in the country of the debtor by the authority of his government. They are liquidated when the government authorizes the sale of exchange permitting the transfer of the blocked currency to the creditors.

Certain Conditions and Some Possible Remedies

Throughout this book the necessity has been stressed for a close study of the exchange risk before granting any credit to a foreign buyer. In fact, the rule should be to refuse business intended for countries lacking the ordinary facilities to obtain dollar exchange.

It is of utmost importance to watch the behavior of every currency. The foreign credit man should be alert and guard himself against any contingencies or possible rapid changes in the financial condition of the

market, especially one with which he is dealing actively. He should follow the exchange quotations, watch the trend of the exchange, and, as soon as he notices any adverse sign, he should seek the advice of bankers and exchange dealers.

As often happens, exchange restrictions are enacted without warning. The immediate effect is that importers are not allowed to buy, or cannot buy, at any price, foreign exchange to meet their bills abroad. In these circumstances, what can the foreign credit man do to recover the debt?

In most cases very little can be done. The restrictions usually imposed are so strict that all obligations must remain unhonored; and if paid, they are paid in the currency of the debtor country.

If circumstances permit, the foreign credit man should instruct the agent to accept payment in the currency of the country, and to exchange it for dollars at whatever rate he can get.

Another method to follow is to have him buy real estate with the foreign currency, the nation's bonds, stock of well-known local corporations, raw materials, or any commodity that could be transported and sold in this country.

Besides the extreme condition just outlined, and the exceptional markets enjoying stable currencies, there is a third group of nations whose money falls at certain times of the year, and then recovers. These fluctuations are caused principally by seasonal business lulls and are not severe enough to cause alarm.

From these markets, the foreign credit man will receive requests for extensions on maturing bills. The importer, as a rule, explains that at the expiration of the extra time requested the exchange will have improved and he will immediately honor the bill.

This request is not motivated by the lack of dollars, but because the importer's currency has decreased in value, and he naturally dislikes to take a loss. Suppose, for example, that the firm of Mejia & Cia owes $1,000, which it intends to liquidate at maturity date at the normal rate of five pesos to the dollar. On the day its representative calls at the bank with 5,000 pesos to buy a draft on New York for $1,000, he finds that the rate is six pesos to the dollar instead of five. He must then put up 1,000 pesos more to cover the face value of the bill. To avoid this loss, he asks the foreign credit man to permit him to defer the payment of the draft for 30 days, during which time the exchange will improve.

The obvious questions to ask are: "Will the exchange improve at the end of 30 days?" "Is the importer entitled to receive such benefit?"

The bank should be able to answer the first question; and the answer to the second question will be revealed by reports gathered on the importer, and by the importer's past paying record.

If the answers to these questions are satisfactory, the procedure may be as follows:

1. The foreign credit man asks the importer to accept a new draft and to agree to pay interest for the extra time requested.

2. The importer must agree also to deposit native currency with the bank to cover the debt at the rate of exchange prevailing on the date the draft matured.

3. At the expiration of the extension, the bank without consulting the importer exchanges the currency deposited by the importer into dollars, which are immediately remitted to the seller. If the exchange has improved, there will be some money due to the importer. If, on the contrary, the exchange has not improved, the bank will proceed to convert the currency into dollars, as noted before. Furthermore, the importer must agree to satisfy any losses the exporter might suffer by reason of further declines in the rate of exchange.

Foreign Trade under Government Restrictions

So far, the discussion has dealt with the difficulties encountered by the importer in transferring funds under exchange restrictions. It has been noted that, from the moment the control is effective, all payments made and accruing since the date the restriction went into effect are held frozen at the bank, and will be transferred as soon as the government permits the individual importer to purchase foreign exchange.

In these circumstances, what are the possibilities of trading again with such a market?

The answer to this question leads to the study of numerous types of restrictions. If the foreign credit man decides to do business under these restrictions, he will do well to comply with the formalities required by the board which directs all exchange transactions. The more generally known types of exchange control are as follows:

1. *In totalitarian states,* international commerce is monopolized by the State; either directly, through dictatorial powers authorizing the administrator of the foreign trade board to buy and sell commodities in the international market for the account of the State; or indirectly, by exerting control over foreign dealings. This latter method allows individual exporters to sell abroad as much as they can, although they must deliver to the government their foreign exchange holdings. Individual importers are also allowed to function, but their purchases are regulated by a board from which they must obtain permission to import goods.

If the government exercises complete monopoly of foreign trade, purchases made on credit by the authorized functionary are made in the name of the State, to which the foreign credit man must look for payment.

This situation demands a thorough investigation as to the stability and financial condition of the government, and a knowledge as to how

the government has discharged its foreign obligations in the past.

The sources from which the credit department may obtain information dealing with the above conditions are the banks, the credit agencies, other exporters, bond traders, or a personal interview with the purchasing agent for the foreign government. If the transaction is of any importance, the seller should seek the advice of the United States government.

If, on the other hand, the foreign government allows the importation of goods by means of permit, the foreign credit man must assure himself: first, whether such permit has been granted; and second, whether the government will grant the foreign exchange required, or withhold the payment, allowing the funds to be used only for the purchases of its own commodities.

2. *Barter system.* The foreign government, because of its lack of exchange, takes over the functions of selling and buying goods abroad, and carries such trade on a barter basis. In the circumstances, the individual exporter should consult the United States government officials for advice.

3. *Markets with quota restrictions.* The government publishes lists of the commodities allowed to be imported, and grants permits for the importation of the goods and for the purchase of exchange to be applied only against such purchases.

4. *Markets where importers are allowed to buy exchange in the free market, after obtaining a permit from the foreign government.*

5. *Markets where essential raw materials and necessities are imported without restriction, whereas other commodities, such as manufactured goods, are subject to license.*

6. *Markets lacking foreign exchange or the means to create balances abroad, and consequently devoid of the facilities to finance foreign purchases.* These markets do not offer any protection to the exporter and should be avoided.

7. *Nations which permit free market operations, and also issue permits.* Under the first arrangement the importer is allowed to buy exchange in the open market; however, the open market rate is higher than the official rate. Under the second arrangement the importer applies for a permit to purchase exchange at the official rate, and, when it is issued, he proceeds to make his purchases abroad.

Releasing Documents to Obtain Exchange

There are as many types of restrictions as there are countries imposing exchange regulations. Obviously, therefore, it is impossible to state definitely the procedure to follow in releasing documents to permit the importer to obtain exchange. The rule should be to study the regulations and be guided accordingly.

In a general way, the most common practice to follow is one of the following:

1. Release the documents to the importer against trust receipt or the type of receipt used in the circumstances. He will then proceed to make application to obtain the exchange he needs.

2. Release the documents against trust receipt or any other receipt and demand a partial deposit in local currency as a guarantee; or release the documents against a full deposit in local currency for the amount of the shipment. The buyer himself must agree to apply for the exchange.

3. Release the documents without any deposit or trust receipt, and allow the importer to attend to all formalities for obtaining exchange.

4. Arrange with the agent, or with the bank, if it is willing, to present the documents to the exchange board for the purpose of obtaining the exchange necessary. This procedure is rarely accepted by the importer.

The method to be adopted depends on the demands of the board of foreign exchange, and, of course, on the confidence the foreign credit man has in the importer.

Exchange Clearing and Payment Agreements

The sudden curtailment of the transfer of foreign payments left substantial sums of money due to exporters "blocked," or "frozen" in the vaults of foreign banks.

To watch for the opportune moment when foreign exchange would be available and the money transferred meant years of waiting. These adverse conditions naturally challenged man's ingenuity, and he responded with several schemes, each one designed to meet the nation's needs. Among the plans devised were the following:

Clearing agreement. This was created to permit the release of frozen money from Country A, which has exchange restrictions, to Country B, which has no exchange limitations, and which buys more from Country A than it sells to it. For example, when Argentina restricted the sale of foreign exchange, it had a favorable balance of trade with England. This circumstance permitted these two countries to enter into a clearing agreement, whereby Argentina's buyers would pay, for purchases made in England, to a named bank in their own country, entrusted with the working of the arrangement. At the same time the English importers would pay to a designated bank in London for their purchases in Argentina. At the end of a certain period, these two accounts would be balanced by England's transporting to Argentina whatever money was due to that country. This arrangement was possible because Argentinian exports exceeded her imports in her trade with England.

The banks acting as collecting agents for the contracting parties of the agreement also attend to the payment of bills due to exporters in their own currency.

Payment agreement. This arrangement operates differently from the previous one. Nevertheless, the aim is the same: to break the deadlock caused by the shortage of foreign exchange, and to permit the continuance of foreign trade. The Payment Agreement, by necessity, limits sales from Country A, which has a free exchange market, to Country B, which suffers a shortage of foreign exchange.

Let us take another hypothetical case, and, as in the previous problem, let us assume that England has a free exchange market, and also has frozen balances in Argentina because of the fact that the latter government has restricted the sale of foreign exchange.

The question arises: "How can Argentina, or any other nation under similar conditions, liquidate the blocked balances and continue to pay for current foreign purchases?"

It can do so by arranging a Payment Agreement, whereby England consents to pay in full for her imports from Argentina and also agrees to limit her sales to that country, thus permitting Argentina to build balances in London. These balances, of course, will be applied to liquidate the frozen payments owed to English exporters.

Compensation or barter agreement. Under this arrangement the contracting nations agree to exchange their products without the interference of any monetary consideration.

If a similar agreement is carried on between individuals, it is called a *Private Compensation Agreement.*

Reciprocal trade agreement. To undo the harm caused to international trade by restrictions imposed on foreign exchange dealings and the enactment of high tariffs, the United States contributed the Reciprocal Trade Agreement. The object of this policy is to provide the United States with a technique permitting it to receive from other countries a fair treatment in the allocation of foreign exchange. This is accomplished by means of a commercial treaty extending mutual commercial concessions beneficial to the two contracting nations, and calling for the removal and prevention of discrimination against American commerce.

In practice, the United States Government consents to reduce its tariff on certain imports, if the other nation extends either a corresponding decrease in the duties on American commodities or some other acceptable commercial concession.

For example, if the United States consummated a trade agreement whereby this nation agreed to reduce its tariff on certain goods coming from Belgium, that country in turn would also agree to lower its duties on certain American products.

The Future

What are the prospects for the future as far as trade regulations are concerned? To the foreign credit man the future must always be a question mark, a problem to be answered. It might be said, however, that the future as far as foreign trade is concerned depends on the policies that the nations of the world will adopt. It is hoped that they will eliminate the nationalistic and self-sufficient tendencies that have prevailed for so many years. It is also hoped that the nations of the world will pledge their full co-operation for the establishment of an international bank to facilitate the restoration of international trade; and will link this plan to a monetary fund that will make possible the stabilization of the exchange. Then, and only then, will the nations of the world be able to eliminate their exchange restrictions and re-establish free international trade.

The Exporter as an Importer

Early in this chapter the possibilities were discussed that the payments made by importers might be blocked because of lack of dollars. In Chapter VII, when analyzing the foreign markets, it was also mentioned that at times the exporter might find himself deprived of selling goods to a particular country because of existing regulations restricting, more or less, foreign dealings to a system of barter.

Under the first condition, the foreign credit man has to devise some method of withdrawing whatever funds he may have tied up or blocked abroad. Under the second condition, if the exporter wishes to save his markets and his investments in this business, he must conceive a plan adaptable to prevailing regulations.

Let us take a practical case. Let us assume that the exporter was doing a profitable business with Chile back in 1932. As is known, about that year Chile suffered severe financial reverses, so much so that exporters were unable to get their funds out of Chile and had to discontinue selling in that market because of the drastic exchange controls enacted.

The exporter, in order to get his funds out, would have to buy Chilean products with the blocked funds, ship them to the United States, and sell the imported goods in this country.

If the exporter wanted to continue doing business with Chile under the prevailing exchange regulations, he had to follow the procedure as outlined above. It became evident, therefore, that the exporter would do well to establish his own import department.

The establishment of such a venture requires as much care as establishing an export department. First the exporter must examine the possibilities of selling the imported goods in this country. Such examina-

tion demands that he should survey this market with the object of determining what products produced in Chile would be acceptable to the American trade. The study will be similar to the one presented in Chapter VI of this book when considering the extension of credit abroad. It will involve considering certain questions, as follows:

1. Is there a ready market in the United States for the product or products the exporter intends to bring from abroad?

2. Is the exporter sure that the Chilean Government will not demand the dollars arising from his sales in the United States?

For example, if the exporter contemplates importing hides in the hope of getting his funds out of Chile, he might find that the government would demand that he turn over to the Central Bank the dollars he will get in this country for selling the hides. It is true that Chile will give so many pesos in return for the dollars, but such a regulation would naturally defeat the aim of the exporter, which is to get dollars in New York. In the circumstances the exporter must import some other Chilean product, free from any prohibitive restriction, which would allow him to receive payment in dollars in New York.

3. What competition will the imported product encounter in the United States?

4. Can the exporter select a reliable man in Chile who will purchase and ship the goods the exporter intends to import into the United States?

5. If there is no demand for the product to be imported, can the exporter create a demand for it?

Organizing for imports. The exporter who wishes to go into the importing business must recognize the fact that the United States market is a highly competitive and complex one, requiring special knowledge. Consequently, he must either venture to sell the product himself, or engage the services of a competent person who knows the import business and is also a capable salesman. Another alternative is to arrange with a local merchant to handle the distribution of the product on a commission basis.

Transporting the goods. As stated before, the exporter must depend on some reliable agent who is not only a capable buyer, but is also acquainted with the procedure of shipping merchandise to the United States. The most efficient way to select such a man is to visit the market and find the man best suited for the job. If the exporter is not able to call on the market, he must depend on the recommendation of his friends, or his bank, who would be in a position to recommend a man with the proper qualifications. Perhaps one of the American forwarding agents with foreign branches could assist him in this respect.

Customs procedure. All merchandise coming into this country must be cleared through customs at the port of arrival. This clearance is done

by the importer himself, or by an authorized agent. It is far more convenient for the importer to engage the services of a customs broker, who has been duly licensed by the Treasury Department of the United States, to perform the required service of clearing shipments through customs. The customs broker must receive the necessary authority to permit him to represent the importer. The duties will be paid by the exporter, who will naturally charge them to the cost of the goods.

Financing the imported goods. Once the goods have gone through customs, the next step is to distribute the goods to those customers who have already placed their orders. The question then arises: "Who will assume the credit risk?"

There are three possible answers to this question:

a. The exporter, who imports the merchandise, may assume the credit risk if he possesses sufficient financial means.

b. The exporter, needing financial assistance, may go to his bank and obtain a loan or discount his domestic bills. Under this procedure the seller naturally assumes the credit hazard, but receives financial aid from his bank permitting him to finance these import transactions.

c. The exporter obtains the services of a factor, who agrees to guarantee the exporter's sales in this country, and assume the credit risk. The factor will also agree to finance the exporter's transactions by discounting his bills as they are created. This method of financing is discussed more in detail in Chapter XV.

The procedure is simple. The exporter merely calls on a factor; when an agreement is reached a contract is drawn. In substance the contract states that on those sales submitted by the seller and approved by the factor, the latter will assume the credit risk. Furthermore, the factor also agrees to advance a certain portion of the bills assigned to the factor, as soon as the goods have been shipped and accepted by the buyer.

The arrival of the goods. As soon as the goods from abroad arrive in a United States port, the steamship company will send a notice to that effect to the consignee, whose duty it is to claim the shipment without delay. If the shipping documents have not been received with the shipment, he must then file a guarantee with the steamship company, permitting him to take possession of the merchandise.

PART 3

FINANCING EXPORT BUSINESS

CHAPTER XIII

EXPORTS FINANCED BY THE SELLER

Five Methods of Financing Export Business

There are five methods for financing foreign trade:

1. *By the seller:* the exporter sells on terms, and assumes the market and exchange risks.

2. *By the seller with the assistance of the bank:* the exporter makes an arrangement with his bank to discount his foreign bills.

3. *By the buyer:* the importer buys for cash. A typical case is that in which the foreign merchant remits cash with order.

4. *By the buyer with the assistance of his bank:* the importer requests the bank to assist him in financing his purchases abroad. Such assistance is generally accomplished by means of letters of credit.

5. *By the factor:* the factor guarantees the seller's foreign sales.

This chapter discusses the first two methods: *export business financed by the seller;* and *export business financed by the seller with the aid of his own bank.*

Chapter XIV deals with the subject of *financing of export business by the buyer,* and also discusses the fourth method, *export business financed by the buyer with the aid of his bank.* This discussion naturally brings up the question of handling sales against commercial letters of credit.

Chapter XV takes up the last method: *financing export sales through the services of a factor.*

Factors Affecting the Terms of Sale

The exporter who finances his foreign business not only assumes the risk of the individual buyer but also accepts the hazards of the market and of the exchange. Obviously, before deciding on the terms of sale to be granted to any particular importer, the foreign credit man must estimate these three risks, namely: the market, the exchange, and the credit of the individual buyer. If, for example, the market is politically unstable and the exchange is strictly regulated, the terms of sale will not be the same as if the political and exchange conditions were normal.

In addition to these considerations, the foreign credit man will also

appraise the effect that the following factors may have on the terms to be granted to the importer:

1. *Nature of the merchandise.* Short terms will invariably be extended for the sale of perishable goods and products affected by the weather. Fashion and style should also be taken into consideration when appraising the terms of sale on certain products. For example, stamped silks and shoes, whose style and designs change frequently, will necessitate the granting of short terms.

2. *Geographical considerations.* The distance from the source of supply to the market and the transportation facilities further influence the attitude of the foreign credit man in regard to terms. It would be practicable to sell on short terms, such as 30 days date, to a near-by market. On the other hand, markets located far away from the United States, or markets that are inaccessible during certain periods of the year, will receive longer terms.

For example, yarn is sold to Cuba, which is near this market, on terms of 30 days; whereas to Uruguay, which is far from this country, it is sold on terms of 90 days sight. There is no doubt that the development of air freight will affect this procedure. For a detailed discussion of this problem, refer to Chapter XI.

In the Appendix has been included a table listing the most common terms extended to the various markets of the world.

3. *Demand and supply.* The demand for an article also controls the terms of a transaction. An easily salable article will invariably be offered on short terms; but merchandise such as patent medicines and luxuries will require much longer terms.

4. *Terms granted by competitors.* The credit terms that competitors grant will, without doubt, affect the attitude of the foreign credit man concerning the terms of foreign sales. Uniformity can be achieved, however, by agreeing with the competitors to limit the terms to be granted in each territory. A way to start these negotiations is to consider each market by itself, or to group neighboring nations as one unit—for example, Central America and the West Indies, the Scandinavian States, and so forth—and then to determine terms that will be fair to both the importers and the exporters.

These agreements are usually arrived at through negotiations carried on by export managers or foreign credit men. From the list of terms appearing in the Appendix, it will be seen that as a rule the terms granted vary anywhere from sight draft to 90 days sight or 120 days date. These terms are known in international trade as *short terms* to distinguish them from *long terms,* which cover anywhere from six months to a year or more.

5. *Foreign competition.* In order to meet the competition of other

nations, businessmen in this country must consider the terms granted by other countries to their customers in every market of the world.

Before World War II, both England and Germany put forth very stiff competition against the United States. In fact, that competition explains, to some degree, the reason for granting such terms as 90 days sight draft (which is the equivalent of about 120 days date) on cotton yarn sold in Uruguay. If such competition did not exist, the terms could be shortened to 30 days sight.

6. *Terms already accepted by the market.* If yarn, for example, is sold to Cuba on 30 days date draft, these terms become standard for that product there; and, all things being equal, it would be difficult, if not impossible, to shorten them.

7. *Products and services that require special terms,* such as machinery, automobiles, or the construction of public works.

8. *Lack of financial facilities.* Such a lack will invariably affect the terms of sale. An exporter with limited working capital must sell on short terms, whereas an exporter with ample funds will grant longer terms.

9. *Products that require terms in special circumstances.* During hard times when business is slow, dealers in raw materials at times ship their commodity, such as cotton, on consignment to be held at the point of destination and sold whenever there is a demand for the product. For a detailed discussion of Consignment Accounts, see Chapter XVI.

Extra Cash Discount

The one great objection against export business is that capital is usually tied up too long. One way to overcome this is to offer the merchandise at a substantial discount if payment is made on presentation of documents.

If this method is followed, great care should be taken to select buyers who are financially able to meet payments on demand. Under this arrangement it will be necessary to dispatch all the shipping documents and draft by air mail. The financial success of this plan will depend, to a great extent, in refusing to allow the cash discount if the drawee delays payment of the bill. To make this policy effective the collecting bank must be instructed not to allow a cash discount if the draft is not paid immediately upon presentation.

Mail Time, Bank Charges, and Interest

When considering the question of terms, the foreign credit man should not lose sight of the time required for the payment, after it has been made, to reach this country. This time is called "Mail time."

It is the custom in the Far East to insert a clause on the face of the

draft instructing the bank that interest must be collected from the drawee from the date of the draft to the approximate date of the arrival of funds at the point where the exporter is located. This clause, known as the "Far East Clause," reads as follows:

> Payable with interest at the rate of ___% and all charges from date of draft until approximate date of arrival of cover in New York. Payable at the collecting bank's current selling rate for on demand drafts of telegraphic transfer on New York.

In dealing with Central and South America, the practice is to include such interest charge on the bill. For example, if a draft is drawn on Guatemala at 60 days date, the exporter will include in the expense bill (see page 27 for definition of an expense bill) an item for interest for 30 days, which measures the time it takes to receive the funds in New York. Incidentally, it is worth mentioning now that the exporter should also collect from the drawee all banking charges and fees. Collection is accomplished by adding to the expense bill the bank's commission, bill of stamps, and all other items that the collecting bank must deduct from the face of the draft. Bank's charges, when added in the draft and not included in the expense bill, as a rule are refused by the drawee.

Another item that should be included in the expense bill is interest for extra time granted and interest on the money advanced for freight charges, insurance fees, and other expenses incurred.

The exporter should also collect interest for any overtime taken by the customer in paying a bill. The rate of interest is usually about six per cent per annum.

See Illustration 7.

Terms to Be Extended by the Seller to the Buyer

1. *Current account.* Under this arrangement the customer receives the original shipping documents; or they are mailed, as instructed, to his broker or his consignee at the port of entry. In the latter case, copies of the invoice and expense bill are sent directly to the buyer. Payments will be made at the expiration of the terms. If the bills are anticipated, the corresponding interest is credited to the customer's account. On the other hand, if his remittances are delayed, interest is charged for the extra time taken, and the corresponding bill will be submitted to the importer. These terms also permit the customer to make periodic remittances to be credited to his account. Every three months or so, a statement is mailed for comparison. These terms are granted only to first-rate houses.

Incidentally, in cases where the customer requests the foreign credit department to pay for other purchases he has made at various sources in this market from available funds, a careful notation should be made

of all details pertaining to the transaction, such as the number of the invoice paid, its amount, the number of the check, and, in fact, any information that will enable the importer to identify the payment. It is customary to collect a small fee for such services.

2. *Open account.* As in the previous case, the documents are sent directly to the customer or the consignee. If to the latter, the required copies of the invoice and the expense bill are mailed to the importer without delay. Care should be taken that the shipping papers are sent on the steamer carrying the merchandise. If this arrangement is not possible, they should be forwarded by air mail.

Payments are made direct by the buyer at the expiration of the terms. Remittances should be accepted only by draft on New York, International Money Order, or U. S. currency. Currency remitted by mail is sent at the risk of the sender. These terms are granted in the textile trade, but only to well-known houses enjoying an excellent reputation. In other lines, as drugs and chemicals, such liberal terms are almost unknown.

In order to compel the customer to comply with the terms of the sale, a notation should be made on the invoice to the effect that the total value of the shipment is payable in acceptable bankers' drafts drawn in U. S. dollars on New York, and interest will be charged for any extra time taken by the importer.

Should the importer abuse these terms by frequent delays in paying his bills, the foreign credit man should insist on restricting future sales to draft terms.

3. *Cash by return mail.* Under this agreement, the shipping documents are remitted directly to the buyer or to the consignee at the port of entry. The importer is to pay as soon as he receives the shipping papers sent by air mail or by the steamer carrying the goods. Failure to do so means delay in receiving payment on the scheduled time.

It is unnecessary to dwell on the advantages derived by dealing under such terms, but in order to discourage delays in the settlement of bills a high rate of interest (not less than 6 per cent per annum) should be charged for extra time taken by the importer in paying the bills. Frequent delays, of course, should be sufficient warning to the foreign credit man to limit the account to draft terms.

Payment Against Draft

A bill of exchange, or as it is more commonly known, a *draft,* is an evidence of debt, either for value received or for services rendered, and it is accepted as a negotiable instrument. See Illustration 3.

The drawer is the person who draws and signs the draft. It is he who sells the goods or has rendered the service—in other words, the creditor or exporter.

The payee is the party on whom the title of ownership is vested, or in whose favor the draft has been made. In most cases it is a bank, which will act as collector of the bill. In some cases the payee is the creditor himself. In such cases, when the draft is sent for collection through a bank, it requires an endorsement.

The drawee is the party on whom the draft is drawn, or the buyer.

A draft is presented to the drawee for two purposes:

1. For acceptance, if the bill of exchange is a time item. That is, the importer expresses his willingness to pay the amount of the draft at a specific future date by writing across the face of the draft the word "accepted," the date, and then placing his signature underneath.

2. For payment on due date. Of course, if the draft has been drawn at sight, it is unnecessary to have it accepted.

When a draft is paid on presentation or at maturity, it is said to have been "honored."

The draft may be drawn in English, having the same legal standing as one drawn in the language of the country where it is presented for payment. In case of litigation, however, it must be translated, with consequent delay and increased expense.

Time draft. As the name implies, such a document is payable at a future date, which must be stated on the face of the draft. Under this classification there are two main divisions:

(a) *Date draft,* the maturity of which will fall due in a definite number of days after the shipment of the goods. The most common terms used in export business are: 30, 60, and 90 days date.

(b) *Sight draft,* in which class are drafts payable a designated number of days after presentation and acceptance by the importer. For example, if the draft is drawn at 90 days after sight against a buyer located in Australia, its maturity is figured from the date the bill of exchange is presented and accepted by the drawee. The date written on the face of the draft when accepted is the date used. In other words, the maturity is prolonged by the time the instrument is in transit and by the possible delay on the part of the drawee in accepting the draft.

Remember that the maturity of the draft actually begins from the date the drawee signs and dates the acceptance of the bill of exchange, and not before.

The tenor of the draft depends on several elements already discussed at the beginning of this chapter.

Grain, for example, is sold for the most part on sight and seven days after sight. Cotton piece goods are sold anywhere from 60 days date to 90 days sight.

Payment on presentation of sight draft with documents attached. (Abbreviated S/D—D/P).

There are three explanations given for accepting foreign orders payable against sight draft with documents attached:

1. The exporter lacks sufficient capital to grant terms of 30, 60, or 90 days.

2. The merchandise, or the practice of the trade, demands such short terms.

3. The importer's credit is not strong enough to receive better terms.

Often after the foreign credit man has refused regular terms to a buyer, he expresses his willingness (perhaps with a sense of security) to ship the order on sight draft with shipping documents attached. He rightly assumes that on the arrival of the merchandise the customer will immediately call at the bank, pay the draft, and within a reasonable time the proceeds of the bill will be received in New York, thus closing the transaction. There is a further feeling of security inasmuch as the drawee cannot obtain the goods until the draft has been paid. This condition in itself seems to avoid the credit risk.

Both of these views are correct in theory, but sometimes incorrect in practice. The reason is that in business, as in life, things do not always follow in logical sequence or adhere to a plan. Obstacles and difficulties are bound to arise.

Such contingencies should be appraised. In the first place, the drawee or buyer will be compelled not only to pay the full amount of the draft, but also to meet the import duties, taxes, and other incidentals. These additional sums the drawee is requested to pay before he is even permitted to receive the goods from the custom house.

In other words, a shipment forwarded, let us say to Haiti, on sight draft terms, for about $1,000 will mean that the customer will have to raise no less than $1,400 to $1,500 before he may take possession of the merchandise. It is assumed in this case that the duties and other charges amount to no more than 50 per cent of the value of the goods bought. Naturally in such circumstances it will be impossible for a small importer to raise such a sum at a moment's notice. If he had available cash, it would be more advantageous for him to pay in full in New York and benefit by the extra discount. Hence the reason for assuming that the drawee will often delay the payment of a draft until he has raised the necessary funds, usually 30 days or so. It is safe to add that the foreign credit man will not succeed in collecting the interest for the delay, even with the aid of the agent.

Another factor to be considered is customs regulations. In many countries it is required that all shipments be cleared within a definite time after the unloading of the merchandise. If the buyer does not pay the draft within that period and move the goods, the shipment may be sold by the customs officials to recover the customs duty. This practice means that in order to avoid a loss the agent will have to expedite the removal of the shipment and place the merchandise in a bonded warehouse. The extra expenses covering cables, warehouse charges, duties, and additional insurance charges will be paid by the exporter.

Still another point to consider is the fluctuation of prices and exchange. During unsettled times, the possibility exists that the buyer will refuse or be unable to take the shipment if the value of the goods has dropped. The result is that the foreign credit man must wait for his payment, grant concessions, order the goods to be resold in the open market, or have them reshipped. Any of these possibilities spells losses. To avoid this situation the foreign credit man should demand—before shipping the goods on sight draft—a deposit of no less than 25 per cent of the value of the merchandise. This advance will be used as a guarantee against any possible loss.

Other pitfalls against which the foreign credit man must guard are regulations concerning bills of lading and exchange control procedures.

When making a shipment on sight draft terms, with documents attached, the bill of lading must be issued "to order," or in the name of the seller. Thus the title to the merchandise remains with the exporter, who transfers it to the collecting bank after the bill of lading has been endorsed.

Naturally if the commercial regulations of the country to which the goods are going do not allow steamship companies to accept "to order" bills of lading,[1] it will be futile to take orders on sight draft-documents-attached terms, since the seller will have no control over the merchandise thus shipped. In fact, the importer can obtain possession of the goods without paying for the drafts.

Another regulation that must be taken into consideration is the one that permits importers who lack the shipping papers to secure the goods on the presentation of an affidavit, which costs very little, showing the shipment is intended for him. With this paper he can obtain the goods without paying for the draft.

A third method open for the buyer to obtain the goods shipped on a sight draft-bill of lading-attached basis is to give a bond to the proper authorities at the port of entry. Immediately upon presentation of such guarantee the goods are released. As in the previous case, the buyer may obtain the goods before liquidating the draft.

In countries where exchange transactions are controlled, the government or its agents demand, before selling any exchange, that the buyer produce the shipping documents to prove that he is buying the foreign exchange to pay for the importation of goods.

Obviously when a shipment is made to a foreign customer on sight draft with documents attached, the seller must instruct the bank to release the shipping papers to permit the importer to obtain exchange. This action will also permit the importer to obtain the goods without paying for the draft.

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[1] Order shipments are not permitted to Colombia, Honduras, and Venezuela.

Before accepting an order payable on presentation of sight draft with documents attached, it becomes indispensable for the credit grantor to ascertain:

1. Whether "to order" bill of lading offers its intended protection and is acceptable by the steamship company. Lacking this assurance, it would be wise to use caution or decline to grant such terms unless the buyer is financially responsible.

2. Whether the shipment could be obtained without the presentation of the corresponding original shipping documents, but on delivery of a bond or an affidavit.

3. Whether there are exchange regulations.

The documents to be attached to the draft are the following:

(a) Bill of lading, issued "to order" or in the name of the exporter and endorsed in blank.

(b) Consular invoice when required.

(c) Certificate of origin when requested.

(d) Insurance certificate endorsed in blank.

(e) Commercial invoices and expense bill, as well as any other documents requested by the buyer or the government.

Clean and documentary draft. If this discussion is limited to trade bills only, it is well to know that there are two main types of draft used in foreign trade. The first is known as a *clean draft,* in which case the bill is sent to the bank for collection unaccompanied by any of the shipping documents. As a matter of fact, the original shipping papers should be dispatched to the consignee at the port of entry on the steamer carrying the goods. The draft is thus sent for collection directly to the foreign bank or through a local bank. In either case it will be presented to the drawee for acceptance and payment on its due date.

A *documentary draft* is one to which all original shipping papers are attached and released against payment or acceptance, as the case may be. The advantage derived from this arrangement is that the exporter holds title to the goods until the documents are released to the buyer.

Drafts are drawn payable to the bank or to order. In the latter case, the draft must be endorsed when delivered for collection or for discount.

Endorsing the drafts. All bills of exchange, if endorsed, must be endorsed and signed by a person legally authorized to do so. In some countries, Cuba, for instance, the authority of the person signing should be expressed with the signature.

The endorsement should include the full name of the bank, entity or person to whom title to the bill is passed. Such endorsement as used in this country payable to "any bank or banker" is not approved. Another requirement that should be observed is to date the endorsement clearly. The date may be affixed with a rubber stamp, but should be made part of the endorsement.

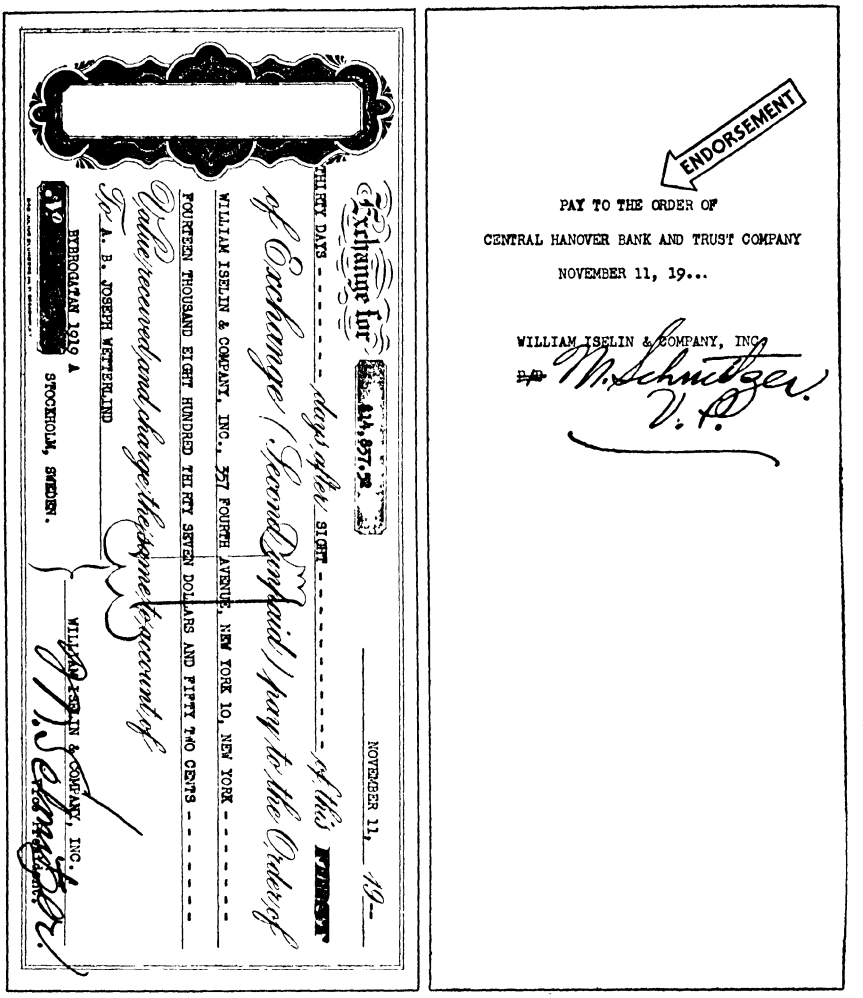


Illustration 54. ENDORSED DRAFT. The above illustration represents a 30 days sight draft, issued in the name of the drawer, who must endorse the draft on the reverse side before sending it for collection.

Rubber-stamped signatures are not considered valid and consequently should be avoided.

Sending the draft for collection. Whether or not a foreign draft is discounted, it must be sent out for collection through a bank.

In very rare instances does the credit man mail the bill of exchange directly to the importer to be accepted and returned.

The issue then becomes whether the bill should be sent for collection through the exporter's bank or mailed directly to the collecting bank abroad. This decision depends mainly on the policy of the

house. The foreign credit man, however, should not fail to consider these important elements bearing on the question:

1. The facilities the bank offers for handling the collection of foreign bills.

2. The responsibility and financial standing of the institution.

Instructions to the collecting bank. When a foreign bill is sent for collection, the bank should receive clear and detailed instructions. The bank is not familiar with your business, the customs of your trade, or the manner in which you want the documents and the draft to be handled. Therefore be explicit, and indicate in your letter of instructions the following data:

1. The full name and address of the drawee.

2. The amount and tenor of the draft.

3. The documents attached to the draft. Inform the bank if they are to be delivered to the drawee against payment or acceptance of the draft.

4. If the acceptance or payment of the draft is to be delayed until the goods have arrived.

5. Whether the documents should be released against trust receipt, or against receipt to permit the drawee to obtain exchange from his government's agency.

6. Whether the draft should be protested if not paid on due date.

7. Whether the bank should cable for nonacceptance or nonpayment.

8. Whether funds are to be cabled, sent by regular steamer, or by air mail.

9. Rate of interest to be collected for delay experienced in the receipt of payment for the draft.

10. Whether collection charges, stamps and other expenses are to be collected from the drawee.

11. The name and address of the foreign representative. Indicate his powers.

12. Whether the draft is sent for collection, or is to be discounted.

13. Whether the commission due to the agent is to be paid from the proceeds of the draft.

Collection charges. If the exporter has not included the bank's fees, commissions, stamps, and other charges in the expense bill or invoice, the drawer should instruct the bank whether such items are to be collected from the drawee, or are to be waived if the importer refuses to pay them.

In case of need. Not always do business transactions follow a logical and perfect sequence. Unavoidable obstacles appear occasionally. Perhaps the documents were drawn at variance from the original instructions, or the merchandise lacked the same finish as the sample. Such irregularities must be adjusted. Such adjustment cannot be effected

WILLIAM ISELIN & CO.

[redacted] New York, N.Y. _____ 19__

_____ days after _____ of this

Sola of Exchange pay to the order of

[redacted]

Value received, and charge the same to account of

To _____

No. [redacted] _____

WILLIAM ISELIN & CO.
357 FOURTH AVENUE
NEW YORK, N.Y.

_____ DATE _____

_____

GENTLEMEN:

WE ATTACH OUR DRAFT NO _____ WHICH WE DESIRE YOU TO ACCEPT FOR COLLECTION AND CREDIT WHEN PAID

AMOUNT _____ DRAWN ON _____

TENOR _____ ADDRESS _____

THE FOLLOWING DOCUMENTS ARE ATTACHED:

BILLS OF LADING			CONSULAR INVOICES	INSURANCE CERTIFICATES	INVOICES			CERTIFICATES OF ORIGIN
1	2	3			ORIG	DUP	TRIP	

INSTRUCTIONS COVERING THIS DRAFT ARE NOTED WITH AN (X)

- [ ] DELIVER DOCUMENTS AGAINST
- [ ] ACCEPTANCE OF THIS DRAFT MAY NOT BE DEFERRED UNTIL ARRIVAL OF SHIPMENT
- [ ] PAYMENT OF THIS DRAFT MAY NOT BE DEFERRED UNTIL ARRIVAL OF SHIPMENT
- [ ] CABLE ADVICE OF NON-PAYMENT
- [ ] BILL STAMPS INTEREST AND COLLECTION CHARGES ARE FOR OUR ACCOUNT
- [ ] ALLOW DRAWEE INTEREST AT ____ % PER ANNUM FOR ANTICIPATED PAYMENT
- [ ] DO NOT PROTEST FOR NON PAYMENT
- [ ] CABLE ADVICE OF NON ACCEPTANCE
- [ ] DO NOT PROTEST FOR NON ACCEPTANCE
- [ ] INCUR NO CABLE EXPENSE ON THIS DRAFT
- [ ] BILL STAMPS INTEREST AND COLLECTION CHARGES TO BE COLLECTED FROM DRAWEE
- [ ] COLLECT INTEREST AT ____ % FROM DATE OF DRAFT UNTIL APPROXIMATE ARRIVAL OF COVER IN NEW YORK

PLEASE PRESENT THIS DRAFT THROUGH _____

_____

IN CASE OF NEED OR DIFFICULTY COMMUNICATE WITH _____

_____

_____

- [ ] WHOSE INSTRUCTIONS WITH RESPECT TO THIS DRAFT (AND THE DOCUMENTS, IF ANY) YOU ARE AUTHORIZED TO FOLLOW
- [ ] WHO WILL ENDEAVOR TO OBTAIN THE HONORING OF THIS DRAFT AS DRAWN

SPECIAL INSTRUCTIONS _____

_____

_____

_____

YOURS VERY TRULY

Illustration 55. DRAFT AND LETTER OF INSTRUCTIONS COMBINED.

by letter, since it would take too much time. Cables are rather expensive, and so the logical thing to do is to instruct the bank to communicate with the agent, in case of need. The bank must be informed exactly how much authority the designated person has, and whether or not his instructions are to be accepted as final.

Interest. There should be no question concerning the collecting of interest from any customer who delays the payment of his bills. In fact, the bank should be instructed to demand that interest be paid by the drawee for any extra time taken by him. This policy is not only fair, but by insisting upon it, the credit department discouiages unnecessary delays.

If the bank does not succeed in collecting the interest when the draft is finally paid, the customer should be notified that the interest involved has been charged against his account. A practical method to follow is to add such charges to the following draft.

Protest. The bank should know with all certainty whether the draft should be protested for nonpayment or not. Failure to give such instructions may be accepted to mean not to protest, when in reality the intent was to have it protested. In some countries this formality is indispensable in proving the legality of the debt, and it facilitates matters in case of a suit. The general rule to follow is to consider the circumstances and when advisable to adhere to the policy of having the draft protested for nonpayment as a matter of precaution. Bear in mind, however, the expense involved when taking such action.

Sales made in foreign currency. In making a sale in foreign currency, either in open account or against draft, it is practicable to avoid the exchange risk as much as possible by transferring it to a bank or an exchange dealer. The procedure is the same as outlined in Chapter XII under the heading, "Future Contracts." Briefly stated: the credit man makes a contract with the bank whereby the foreign currency accruing on a certain date, or over a certain period of time, is purchased by the bank.

Notices to the customer. It is customary to notify the importer about every draft drawn on him covering merchandise shipped to him. The advice may be in the form of a letter, specifying the name of the steamer carrying the goods, the date and amount of the invoice, the customer's order number, the number of the draft, and the name of the bank through which the bill was sent for collection. In fact the letter should contain any information that will assist the importer in identifying the transaction.

Accepting the draft. By *accepting the draft* is meant the action taken by the drawee to recognize the debt, thus making the transaction legally valid. It is executed by a duly authorized person. The acknowledgment is made when the drawee writes on the face of the draft the word "accepted," stamping the date next to it, and signing underneath.

Illustration 56 shows a bill properly accepted by the drawee.

December 11, 19

THIRTY days sight

favor of WILLIAM ISELIN & CO., INC.

on A. B. Joseph Wetterlind, Stockholm

Payable in U. S. Dollars

Sold to x x x x x

Rate x x x x x Amt. $14,837.52

No WI-1073

DOCUMENTS
Payment
Acceptance
BILL LADING
COMMERCIAL INVOICE
CONSULAR INVOICE
INSURANCE CERTIFICATE
DELIVERY ORDER
LETTER
DECLARATION
WEIGHT NOTE
CERTIFICATE OF INSPECTION
CERTIFICATE OF ORIGIN

Inv.No. 491	$7,449.31
492	5,810.98
Expense Bill No.89	1,577.23
	$14,837.52

250

Exchange for [redacted] DECEMBER 11, 19

THIRTY days after SIGHT of this FIRST

of Exchange (Second unpaid) pay to the Order of

WILLIAM ISELIN & COMPANY, INC., 357 FOURTH AVENUE, NEW YORK 10, NEW YORK

FOURTEEN THOUSAND EIGHT HUNDRED THIRTY SEVEN DOLLARS AND FIFTY TWO CENTS

Value received and charge the same to account of

To A. B. Joseph Wetterlind
Nybrogatan 1919 A
Stockholm,
Sweden

D/P WI-1073

ACCEPTED STOCKHOLM, SWEDEN January 4th, 19[illegible] A. B. Joseph Wetterlind

WILLIAM ISELIN & CO., INC.
Donald Talbot
Vice President.

Exchange for $14,837.52 December 11, 19

THIRTY days after SIGHT of this SECOND

of Exchange (First unpaid) pay to the Order of

WILLIAM ISELIN & COMPANY, INC., 357 FOURTH AVENUE, NEW YORK 10, NEW YORK

FOURTEEN THOUSAND EIGHT HUNDRED THIRTY SEVEN DOLLARS AND FIFTY TWO CENTS

Value received and charge the same to account of

To A. B. Joseph Wetterlind,
Nybrogatan 1919 A,
Stockholm,
Sweden.

D/P WI-1073

WILLIAM ISELIN & CO., INC.
Donald Talbot
Vice President

Illustration 56. DRAFT PROPERLY ACCEPTED BY THE DRAWEE.

The Practice in the Far East

The common terms of sale to buyers in the Philippine Islands, India, and China, are "60 or 90 S/D D/P." Under this procedure the customer does not receive the shipping documents until he pays the draft. He receives the benefit of 60 or 90 days in which to raise the sum required. During this period the importer as a rule disposes of the goods by means of samples, promising delivery of the goods to correspond with the expiration of the terms granted. It is the practice, in drawing such drafts, to authorize the collecting bank to release the documents, against trust receipt, at its own risk. For this reason it is advisable to stamp or insert in the letter of instructions the following authority:

> We hereby authorize the collecting bank on their own responsibility and in their discretion to deliver documents against trust receipt, with the understanding that they assume full responsibility for the prompt payment of this item at maturity.

Thus the collecting bank assumes all responsibility for the payment of the draft at maturity should it release the documents to the drawee.

As stated before, bills drawn on merchants in the Far East collect interest from the date of the bill until the approximate date of arrival of the funds in New York, or the point where the proceeds should be remitted.

Before the foreign credit man gives authority to the bank to release the documents against trust receipt, he must of course ascertain:

1. The legal standing of the trust receipt in the country where it is issued.
2. The financial strength of the bank.

Export Business Financed by the Exporter with the Assistance of His Bank

The answer to the problem of whether to discount the foreign bill or send it to the bank for collection depends on the answers to two questions:

1. Does the exporter need the money? If he has ample capital with which to finance his foreign sales, he has no need for using the bank's facilities. If, on the other hand, his capital is not sufficient to finance his foreign orders, he must arrange with his bank to discount some of his foreign bills. In other words, the sales he is able to finance he sends out for collection; the balance he discounts at the bank.

2. Will the bank agree to discount the foreign bills? The bank, before replying, will want to know the type of customer the exporter sells to, the destination of the goods, and the kind of merchandise he handles.

If, for example, the foreign bills are drawn on importers deserving

credit facilities, the merchandise is readily marketable, the exporter enjoys the confidence of the bank, and, finally, there are no great difficulties in obtaining dollars from the market where the goods are to be sold, then the exporter will find no difficulties in discounting his foreign bills at the bank.

Discounting the Foreign Bill

Assuming that the bank is willing to discount the foreign bills, the foreign credit man arranges:

To sell the bill of exchange to the bank without recourse. This practice is rarely, if ever, followed by banks. However, the procedure is that the banks agree to pay the exporter, without recourse, a portion or the full value of the draft, less collection charges and interest, calculated at the current rate for the length of time elapsing from the day the bill is sold until the funds are received from abroad.

To have the bank discount the drafts with recourse. (a) A bank might advance the full face value of the draft less interest, computed at the current rate for the time elapsing from the day the bill is discounted until the funds arrive from abroad, less collection charges and other fees.

(b) The bank might advance from 60 to 90 per cent of the value of the bill less interest computed as above, less other charges and fees. The balance, of from 10 to 40 per cent is kept as a guarantee against possible claims, and is payable to the exporter after the drawee pays the draft.

A clean draft, or one to which no shipping documents have been attached, is not acceptable for discount unless the drawer's credit is acceptable to the bank.

When documentary drafts are discounted, the bank may request the exporter to sign a letter of hypothecation.

If the importer fails to pay the draft regardless of whether it is a clean or documentary bill, the drawer must refund the amount advanced by the bank.

Bills drawn in foreign currency may be discounted in the same manner, provided, of course, that the bank is prepared to do so.

Another course to follow in obtaining funds against foreign bills is to arrange with the bank for a line of credit, say, of $10,000. At the same time the foreign credit man binds himself to hypothecate enough foreign drafts to support this loan.

In practice, the amount of foreign bills demanded always exceeds the credit accomodation. For example, against a loan for $10,000 the foreign credit man will be requested to pledge from $12,000 to $15,000 of foreign bills, or more. Furthermore, the bank is free to call for additional collateral at any time and exercises full recourse for any draft dishonored by the importer.

Letter of Hypothecation. Before a bank agrees to discount any

foreign bills, it first investigates the credit responsibility of the drawer. In other words, whenever an exporter wishes to obtain advances against his drafts drawn on a buyer located abroad, he must convince his bank that he is entitled to a line of credit. At this point it might be well to say that a *line of credit* is the amount of money that a bank is willing to lend a customer who promises to pay it back at some future date.

The bank may also request the exporter to sign what is called a *letter of hypothecation.* This is a document by means of which the bank establishes its legal rights to the documents and the merchandise represented by the draft discounted. By virtue of the letter of hypothecation, the bank obtains complete control (a lien) over the merchandise shipped, and the corresponding shipping papers.

In a general way this document binds the exporter to agree as follows:

1. That he will deliver to the bank all necessary shipping papers.
2. That he will take adequate marine insurance in the name of the bank.
3. That he will give detailed instructions to the bank for the handling of the documents.
4. That he will advise the bank in regard to the action to be taken in the event the goods are refused or the draft is dishonored by the drawee.
5. That he will agree to indemnify the bank for all expenses in handling the draft.
6. That he will authorize the bank to resell the goods in the event the drawee refuses to accept the shipment.
7. That the bank has the right to call for additional collateral whenever the bank deems it necessary.

The next step the bank takes is to investigate the drawee. It is true that the bank looks to the drawer (the exporter) for the refunding of any money advanced in case the drawee (the importer) refuses to honor the draft; nevertheless, it is only natural and fair for the bank to determine the credit responsibility of the firm on which the discounted draft is drawn.

In practice, the bank exerts its right to sell the goods, which the drawee has refused, by turning over the letter of hypothecation to its foreign agent, who then proceeds to recover the merchandise and sell it for the account of the bank. Nowadays this type of financing is rarely used. The general practice is for the bank to assign a line of credit to the exporter; the latter not only presents to the lender bank his own signed note, but also delivers a specified amount of foreign bills.

If, for example, the bank assigns a line of credit of $20,000 to Jones & Company, at the time they wish to draw the $20,000 they present to the bank their note for $20,000 and an equal or larger amount (as the arrangement calls for) of foreign bills as collateral.

On this basis, the bank may advance the full face value of the foreign

bill, or a portion of it. Interest is charged at the arranged rate for the time the loan is outstanding. Whether the exporter signs a letter of hypothecation or his own note, he must follow the same procedure for obtaining funds from the bank against his foreign bills: that is, he first draws his draft on the foreign buyer for the value of the goods plus ocean freight, marine insurance, and other acceptable charges. To this bill of exchange, which the exporter delivers to the bank for discount, he attaches:

1. A negotiable bill of lading endorsed in blank or in the name of the bank.
2. The marine insurance certificate.
3. The commercial invoices.
4. Consular invoice if required.
5. Certificate of origin.
6. Licenses or any other documents required.
7. A letter of instructions similar to the one shown in Illustration 11.

The bank discounts the bill. As soon as the exporter has delivered his draft and the corresponding shipping documents to his bank for discount, the bank will follow one of two procedures:

1. It may credit the exporter with the face value of the draft LESS interest from the date the bill is discounted to the approximate date of receipt of the proceeds of the bill from abroad. However, in order to eliminate additional adjustments in determining the amount of interest to be charged (since it is not certain when the proceeds from abroad will be received in this country), the bank usually deducts from the face value of the draft the interest for the tenor of the draft; but when the proceeds are actually received from abroad, an adjustment is made for the additional interest covering the time it takes for the payment to reach the bank.

For example, if the foreign credit man presented at his bank for discount a bill of exchange drawn on a foreign buyer located in Montevideo, Uruguay, for $10,000, on terms of 90 days date, and the bank has fixed the rate of discount at 5 per cent, then the foreign credit man will receive $10,000 less interest for 90 days at the rate of 5 per cent, or

Face value of the draft	$10,000.00
Discount for 90 days at the rate of 5%	123.98
Proceeds to be credited to the exporter	$ 9,876.02

When the draft is finally paid by the exporter, the bank will charge the exporter's account for:

(a) The time it took the payment to come from Uruguay to the United States, say 30 days.

(b) Collection charges by the banks, both here and abroad, if such charges were refused by the drawee.

2. In the second method, the bank agrees to advance only a portion of the foreign bill, say about 80 per cent of the face value. In other words, the bank retains 20 per cent of the amount of the draft. The usual procedure is as follows:

Face value of the draft	$10,000.00
Discount for 90 days at the rate of 5%	123.98
	$ 9,876.02
Amount retained by the bank	2,000.00
Amount credited to the exporter	$ 7,876.02

When the draft is finally paid, the bank will credit the exporter with the $2,000, less:

(a) Interest for the time it took to receive the foreign payment, say 30 days.

(b) Collection charges.

If the foreign bill is drawn in foreign currency, say in pounds sterling, then the bank will convert the proceeds of the draft into dollars at the prevailing rate of exchange and proceed as before. If it is assumed that the draft is for £2,000, the terms of the draft are 90 days date, and the pound sterling is quoted at $5 to the pound, then the bank proceeds as follows:

Face value £2,000 @ $5	$10,000.00
Discount for 90 days at the rate of 5%	123.98
Amount to be credited to the exporter	$ 9,876.02

When the payment of the foreign draft is received by the United States bank, the exporter's account will be charged for the time it took the money to reach this country, and for the collection charges.

Export Sales Financed by Investment Houses

The construction of railroad lines, the building of electric plants, or similar undertakings requiring the importation of foreign machinery or implements entail the expenditure of substantial sums of money. As a rule, payment for such purchases are made over a long period of time and are handled by means of a conditional sales contract or a similar arrangement, which must be in agreement with the legal requisites of the foreign country.

If, for some reason, the manufacturer, seller, or contractor is not in a position to finance this type of transaction as outlined above, he could overcome the difficulty by financing the deal through the co-operation of an American investment house. In other words, the required money is

raised by floating a loan in the open market, and in the name of the foreign country or municipality. If the credit of the contracting firm is acceptable, the loan could be floated in the form of bonds.

Still another way open to finance this type of foreign business is through the facilities offered by the United States Government's fiscal agencies, such as the Export-Import Bank.

Finally, the contractor could convince various banks to form a pool to absorb the loan required to finance the project.

Banker's Acceptance

This document offers another means by which the exporter may finance his sales. Its significance and functions can be understood by taking a practical case.

We shall assume that a responsible buyer in South Africa places an order for shoes with a Boston manufacturer for about $5,000, payable on terms of 60 days sight.

The American merchant accepts the order and at the same time makes arrangements with his bank to finance this transaction by means of a banker's acceptance.

On the day the seller ships the shoes to South Africa, he proceeds to draw two drafts.

The first draft he draws on his bank for the amount of the shipment, $5,000, on terms of 60 days sight. As agreed, the bank accepts this bill. The exporter then will either discount the acceptance at his bank, or he may sell it in the open market.

The second draft, drawn on the foreign buyer, is delivered to the bank together with the required shipping documents, and is sent abroad for collection. When this bill is paid by the importer, the American bank applies the proceeds to liquidate the sum advanced to the exporter. Of course if the importer fails to honor the draft, the exporter must reimburse his bank for the total amount borrowed.

Another method similar to the one just discussed is for the importer to arrange with his bank to instruct its office abroad, or its correspondent, to accept drafts drawn on the foreign bank, provided such drafts are accompanied by the documents giving proof of the shipment of goods intended for the named buyer.

Let us take the transaction outlined above, adding that the South African buyer has notified Hill Brothers, as seller, that his draft drawn on the Johannesburg Bank, Ltd., will be accepted by the First National Bank of Boston upon delivery of the shipping documents.

On the day Hill Brothers ship the shoes, it draws a draft on the South African bank, presents it to the First National Bank for acceptance, and at the same time delivers to the bank the proper shipping documents covering the consignment of shoes for South Africa. The American bank,

as instructed by the Johannesburg Bank, Ltd., accepts the draft and returns it to Hill Brothers, who will either discount it or present it again on its due date for payment.

This arrangement could also call for the draft to be drawn on the buyer instead of the foreign bank. The remainder of the transaction will be carried on exactly the same as indicated above.

Banker's acceptances are extensively used by exporters to finance consignments of goods held abroad. Under this arrangement the goods are stored in a warehouse under the control of the collecting bank. As the foreign agent sells the product, he instructs the local buyer to pay the bill to a named local bank. These funds are then forwarded to the American bank to apply against the outstanding acceptances issued by the exporter.

CHAPTER XIV

EXPORTS FINANCED BY THE IMPORTER

The Buyer Finances His Foreign Purchases

Export transactions financed by the importer are principally limited to the following methods:

1. *Cash with order.* The term is self-explanatory. The customer remits the full amount of the purchase with the order. This sum should include the cost of the goods plus transportation and insurance charges. If the amount received is not sufficient to cover the total value of the order, either reduce the quantity requested, or ship the full amount ordered, drawing at sight with documents attached for the balance due.

2. *Cable remittance.* Under this arrangement, as soon as the order is ready for shipment, the buyer is so notified by cable. On receipt of his remittance, the goods are delivered to the steamship company for transportation abroad. These terms are extended to financially responsible importers, who will not renege on their contracts.

3. *Payment made through a confirming house.* A *confirming house,* as a rule, is a resident buyer, an exporter, or a forwarding agent who agrees to confirm and to pay for orders sent by importers to manufacturers or exporters in this country. If the credit and responsibility of the confirming house are unquestionable, the foreign credit man should not hesitate to accept this form of payment. He should, however, bind the arrangement he has made with the confirming house by means of a written guarantee.

To understand the manner in which a confirming house assumes the responsibility of paying for the orders placed in this country directly by a foreign buyer or through the exporter's agent, it would be better to take a practical case.

Let us assume that Ibo & Company of Mombosa, East Africa, sends to Iselin Jefferson Company, Inc., an order for $2,000 calling for 5,000 yards of gingham, and the order specifies that payment will be made through Ibo & Company's confirming house in New York.

As soon as the order is received, the foreign credit man will inquire of the confirming house whether it has instructions from Ibo & Company to pay for the order in question. If the confirming house agrees to assume

CHICAGO
327 SO LASALLE ST
BOSTON
131 STATE ST
BALTIMORE
SHARP & LEE STS
NEW ORLEANS LA
226 CARONDELET ST
SAN FRANCISCO
420 MARKET ST

D. C. ANDREWS & CO., INC.
FOREIGN FREIGHT CONTRACTORS
27 & 29 WATER STREET
NEW YORK 4, N Y.

FOREIGN OFFICES AT
LONDON - LIVERPOOL
BUENOS AIRES - SAO PAULO
GLASGOW - RIO DE JANEIRO

CABLE ADDRESS
"BOCKAND"

CODES USED
LIEBERS - BENTLEY'S
WESTERN UNION - A.B.C.

TELEPHONE
WHITEHALL 4-0784

ORIGINAL

Date_____
DCAConf. No. Buyer's No.

Gentlemen.

We are pleased to confirm and pay for the above order under conditions specified below:

Account of

Description and Quantity

Prices and Terms

Approximate Total Amount $

Mark packages

Pack suitably for export

Ship via

Consigned to

Send us the Railroad / Truck Line bill of lading with

Payments

Special Remarks

Confirmation is subject to expiration by limitation on 194 . If under government proclamations the exportation of these articles is prohibited without an Export License, you must obtain that License from the State Department, before shipping the goods and send it to us. In such cases, this confirmation will not be binding on us if we do not have the License.

Anything herein to the contrary notwithstanding, this Company shall not be responsible if by reason of invasion, insurrection, blockade, interdict, war (whether declared or actual), riot, civil war, internal disturbance, commotion or military or usurped power or by order of any civil authority, or for any other similar reason this Company is rendered unable to complete the performance of any of its undertakings hereunder

Yours very truly,

D C. ANDREWS & CO., INC.

Approved_____
MAX ADAMSKY Secretary

Per

All shipments handled in accordance with the terms and conditions appearing on our acknowledgment of shipping instruction form, copy of which will be furnished upon request

Illustration 57. LETTER OF AGREEMENT SENT BY CONFIRMING HOUSE.

the liability involved in this transaction, it will forward to Iselin Jefferson Company, Inc., instructions confirming the arrangement. It will indicate in the agreement under what conditions it will pay; that is, on presentation of shipping documents, or so many days after submission of a commercial invoice. Of course, it is up to the foreign credit man to determine first whether the credit standing of the confirming house is acceptable. If

not, he should then make arrangements to accept the order on a cash basis.

The credit executive should also scrutinize the conditions stated in the letter of confirmation to see if these conditions agree with the policy of the house, and with the terms of the contract received from Ibo & Company of Mombosa. Illustration 57 shows the type of letter of agreement usually sent by a confirming house.

Payment against delivery of dock receipt. Under this arrangement, payment is made on presentation of the *dock receipt,* showing the goods have been delivered to the steamship company's pier. The dock receipt is merely an acknowledgment by the steamship company that certain goods have been received for transportation abroad. It is not a negotiable instrument. As a matter of fact, it is nothing more than its name denotes: a receipt. (See Illustration 6.)

These terms should be accepted when the buyer enjoys the full confidence of the foreign credit man. If not, it is imperative to investigate him thoroughly, more so, upon considering that once the merchandise is delivered at the pier in the buyer's name, the steamship company will consider him the owner of the goods.

These terms, payment against delivery of dock receipt, are usually requested by resident buyers of foreign houses, who are frequently financed by the importer, by means of letters of credit.

The Buyer Finances His Foreign Purchases with the Aid of His Bank

One of the ways in which the importer or buyer finances his foreign purchases is by means of a commercial letter of credit. To understand the way such an instrument is established, it will be well to present a practical case.

Let us assume that Bazbaz & Cia of Mexico City has placed an order with Howard G. Godfrey & Company, Inc., of New York for rayon yarn, and that the order amounts to $650 payable against a documentary commercial letter of credit. The question then arises: How does Bazbaz & Cia establish a commercial letter of credit, permitting the seller, Howard G. Godfrey & Company, Inc., to get paid for the yarn it will ship abroad?

The procedures are as follows:

Method A

1. The first step is for Bazbaz & Cia to call at its bank in Mexico with the request that the bank issue a commercial letter of credit in favor of Howard G. Godfrey & Company, Inc., of New York, for $650.00.

2. If the bank agrees, it will then proceed to prepare the document, similar to the one shown in Illustration 58.

3. Once the commercial letter of credit has been drawn in accordance

with the specifications detailed by the buyer, the Mexican bank will mail it to the seller in New York.

4. The bank will also notify its correspondent in New York that it has

Banco Nacional de Mexico, S. A.

INSTITUCION PRIVADA DE DEPOSITO, AHORRO Y FIDUCIARIA
FUNDADO EN 1884
CAPITAL $ 15,000,000.00
TOTALMENTE PAGADOS

8854 8 DE Julie DE 19 44

OR 7-1364 A

CREDITO No. 508

AVISO IMPORTANTE.

Se requiere el estricto cumplimiento de todos los términos y condiciones de las Cartas de Créditos Comerciales y no se permitirá ninguna desviación y modificación excepto cuando haya el consentimiento de todas las partes interesadas. Cualquier modificación que deba hacerse a un Crédito deberá ser arreglada antes de que los documentos sean presentados para su pago o aceptación. SIRVANSE REVISAR BIEN EL CREDITO Y ANTES DE PRESENTARNOS LOS DOCUMENTOS CERCIORARSE DE QUE ESTOS ESTAN COMPLETOS Y DE ACUERDO CON LAS CONDICIONES ESTIPULADAS EN EL MISMO

SRES. HOWARD G. GODFREY & CO. INC.
357 Fourth Avenue,
New York. U.S.A.

MUY SEÑORES NUESTROS:

POR ORDEN DE Purcel Pezoaz.Hnos. y Cia.

Y POR CUENTA DE l mismo.

HEMOS ABIERTO A SU FAVOR UN CREDITO irrevocable HASTA POR LA CANTIDAD DE
Dlls. 650.00 SEISCIENTOS CINCUENTA DOLARES)

VALIDO HASTA 31 de Agosto de 194_.

ESTE CREDITO PODRA SER UTILIZADO MEDIANTE LETRAS DE CAMBIO A la vista.
A CARGO l ser American Trust Co.

QUE PAGAREMOS POR CUENTA DE NUESTRO CLIENTE CONTRA ENTREGA DE LOS SIGUIENTES DOCUMENTOS.

Juego completo de conocimientos de embarque a la orden del Banco Nacional de Mexico,S.A. y al cuidado del agente aduanal en Laredo, Tex. Sr. Alfredo Peiozuela G.
Factura comercial por sextuplicado, todas a favor de Celica Dalgar.
Certificado de origen.
Copias fotostáticas de recomendacion y Licencia de Exportacion.
Poliza o certificado de seguro cubriendo riezgos en transito hasta Mexico.D.F.
Los documentos anteriores deberan amparar el embarque de Aproximadamente: 540 libras viscosa rayon 75 dr. brillante en conos o madejas, al precio de Dlls. 0.94 la libra F.O.B. punto de embarque enfabrica o en cualquier lugar de E.U.A.
NOTA:Pueden recibir conocimiento de embarque de "Freigth Ferwards"

de New York a Laredo por Ferrocarril.
al precio antes indicado. F.O.B.
Seguro cubierto por los vendedores y por cuenta de los compradores.

LOS EMBARQUES PARCIALES NO SERAN PERMITIDOS.

TODOS LOS GIROS EXTENDIDOS EN VIRTUD DEL PRESENTE CREDITO DEBERAN LLEVAR LA MENCION DE "EXTENDIDO EN VIRTUD DEL CREDITO DEL B N DE M No. 508 FECHADO el 8 de Julio de 1944. Y DEBERAN SER ANOTADOS AL REVERSO DE LA PRESENTE, LA QUE DEBERA SERNOS DEVUELTA DESPUES DE HABER SIDO UTILIZADO EL CREDITO O CUANDO HAYA CONCLUIDO EL PLAZO DE VIGENCIA DEL MISMO.

POR LA PRESENTE NOS COMPROMETEMOS A ATENDER A SU DEBIDO TIEMPO, TODOS AQUELLOS GIROS EXTENDIDOS BAJO ESTE CREDITO DE ACUERDO CON LAS CONDICIONES ESPECIFICADAS ARRIBA Y QUE NOS SEAN PRESENTADOS EN ESTAS OFICINAS, EN/O ANTES DEL VENCIMIENTO DE ESTE CREDITO.

DE USTEDES, ATTOS. AFMOS. Y SS. SS.

BANCO NACIONAL DE MEXICO, S. A.
Sucursal Santo Domingo.

c/c al Par American Trust Co.
E/E a la Suc. en Nuevo Laredo.Tamps.
C/c al Depto.Extranjero.

LA GACETA 16148

Illustration 58. LETTER OF CREDIT (UNCONFIRMED).

issued a commercial letter of credit in favor of Howard G. Godfrey & Company, Inc., and will request the American Trust Company to negotiate drafts presented to it by the beneficiary, complying with the condi-

AMERICAN TRUST COMPANY
New York.

February 27, 1945.

REFERENCE NO. 55217/B 31

Howard G. Godfrey & Co., Inc.
357 Fourth Avenue,
New York, New York.

Gentlemen:

The attached letter of credit, unless otherwise expressly stated, is subject to the Uniform Customs and Practice for Commercial Documentary Credits fixed by the Seventh Congress of the International Chamber of Commerce and certain guiding provisions.

It is necessary that the credit be submitted to us with any documents presented under it.

As we have not been authorized to confirm the credit, this letter conveys no engagement or obligation on our part.

Very truly yours,

AMERICAN TRUST COMPANY

By:

Illustration 59. NOTICE SENT BY A UNITED STATES BANK, THE NEGOTIATING BANK, TO THE BENEFICIARY OF AN UNCONFIRMED LETTER OF CREDIT. (METHOD *A*).

BANCO POPULAR
MEXICO, D.F.

Letter of Credit
No. *1075*

May 6th, 1941

Howard G. Godrey & Co. Inc.
357 4th Ave.
New York

Dear Sir (s)

We hereby authorize you to value on *Banco* ———, *Mexico D.F.* by bills drawn at *sight* for account of *Hosiery S. de R.L. C.V., Mexico D F.* for any sum or sums not exceeding in all *Five Thousand Dollars, $5,000 00 United States of America Currency* against shipment of *5 bales 92% Silk at $3.58 Dlls. per Lb., 5 bales 78% Silk at $2.93 Dlls. per Lb. Charges for Testing, Freight, Insurance and Consular Fees to be added to cost of silk also handling charge,* and accompanied by the following documents: *Bills of Lading to order of Banco* ——— *or order blank endorsed, Commercial Invoices in the name of* ———, *Consular Invoices showing that the 5% consular fee has been paid, Testing Certificate showing that the quality of the silk is as specified, Insurance Certificate or policy covering all risks including war risk from point of shipment to Mexico D.F.*

Remarks: *Drawings under this credit should bear our L/C #1075.*

We agree that drafts complying with the terms of this letter will be honored if negotiated on or before *June 20th, 19—.*

This letter is confirmed by *Banco* ———.

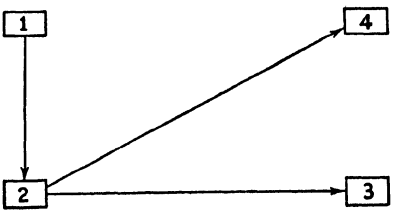
Yours respectfully,

Banco ———

Illustration 60. UNCONFIRMED DOCUMENTARY LETTER OF CREDIT. Issued by a foreign bank without the assistance of a United States bank. The Credit is paid by the foreign bank on receipt of shipping documents with their dollar draft drawn on New York. (METHOD *D*).

tions of the credit. A copy of the letter of credit is of course mailed by the Mexican Bank to its New York correspondent.[1]

The following diagram will help to follow the transaction:



Explanation:

1. Bazbaz & Cia will call at its bank to arrange for the issuance of the letter of credit. No. 1 to No. 2.

2. The foreign bank draws the credit. No. 2.

3. The letter of credit is mailed to the seller, Howard G. Godfrey & Company, Inc., of New York. No. 2 to No. 4.

4. The Mexican Bank sends a notice to its New York correspondent (the American Trust Company) notifying it of this action, and requesting it to negotiate drafts drawn by Howard G. Godfrey & Company, Inc., in accordance with the specifications of the credit. No. 2 to No. 3.

5. The New York bank notifies Howard G. Godfrey & Company, Inc., that it (the bank) will negotiate its drafts drawn in accordance with the credit issued by the Mexican Bank for $650. No. 3 to No. 4. Illustration 59 is the type of notice usually sent by the negotiating bank, in this case the American Trust Company.

In this transaction it will be seen that the foreign buyer has a direct obligation to his own bank, which in turn assumes a direct obligation to the seller, Howard G. Godfrey & Company, Inc. It will be noticed, however, that the American bank assumes no responsibility in the deal; it merely negotiates the drafts drawn by the exporter on the foreign bank.

Method B

This method follows a course very similar to the first. The foreign buyer calls at his own bank and arranges with it to issue a commercial letter of credit to pay for the purchases he intends to make from Howard G. Godfrey & Company, Inc., of New York.

The next step is for Bazbaz & Cia's bank to issue the credit in favor of Howard G. Godfrey & Company, Inc., of New York. In this case, however, instead of mailing the letter of credit directly to the beneficiary,

[1] Sometimes, both the original and copy of the Letter of Credit are sent by the issuing bank to the negotiating bank, which in turn mails the original to the beneficiary, together with a letter similar to the one shown in Illustration No. 59.

CENTRAL HANOVER BANK AND TRUST COMPANY
SEVENTY BROADWAY
FOREIGN DEPARTMENT
CABLE ADDRESS CENTRUST

Howard G. Godfrey & Co. Inc.
357 Fourth Avenue
New York, N. Y.

Credit No. D-a 711
New York 15, N. Y. January 31, 194-.

Dear Sirs:

We are instructed by Banco A. B. C., Medellin, Colombia

to advise you that they have opened their irrevocable credit in your favor

for account of Hijos de Ramon Mejia & Cia, Medellin

for a sum(s) not exceeding a total of ($ 21,000. ,)

Twenty-one Thousand Dollars

available by your drafts on us at Sight

to be accompanied by Signed invoice in triplicate, copy of Consular Invoice, 2/3 original clean ocean bills of lading consigned to Soneira & Cia., at any Colombian port and/or Air Express Receipt and/or Airway Bill of Lading consigned to Soneira & Cia., at any Colombian port, copy of your air mail advice to Mr. Pablo Mejia, Medellin covering details of shipment for insurance purposes.
We are informed buyer holds import license No.

evidencing shipment of about 1400 POUNDS SILK YARN. Partial shipments permitted.

From New York To any Colombian port

all insurance to be effected by buyer, under open policy with The Ocean Insurance Company.

All drafts drawn under the credit must be marked

"Drawn under CENTRAL HANOVER BANK AND TRUST COMPANY'S

Credit No. D-a 711, dated January 31st, 194-."

Unless otherwise expressly stated, this credit is issued subject to all the pertinent terms, provisions and conditions contained in an instrument entitled," uniform customs and practice for commercial documentary credits fixed by the Seventh Congress of the International Chamber of Commerce with guiding provisions as now or hereafter revised," which are incorporated herein and made a part hereof.

Banco A. B. C., Medellin engages with you that all drafts drawn under and in compliance with the terms of this credit will be duly honored on delivery of documents as specified if presented at this office on or before July 3, 194-; we confirm the credit and thereby undertake that all drafts drawn and presented as above specified will be duly honored by us.

SHOULD YOU BE UNABLE TO COMPLY
WITH THE TERMS OF THIS CREDIT
PLEASE ARRANGE WITH THE BUYER
DIRECT TO HAVE THE CREDIT MODIFIED
TO MEET YOUR WISHES.

Yours very truly,

X X X X X X X X X X X X

Authorized Officer

X X X X X X X X X X X X

Authorized Officer

FR—112—SM 8 40

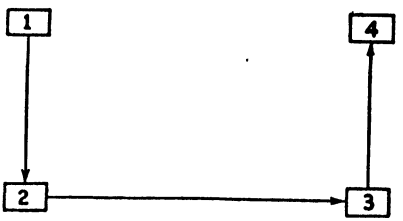
Illustration 61. CONFIRMED IRREVOCABLE DOCUMENTARY LETTER OF CREDIT, PAYABLE AT SIGHT IN U. S. DOLLARS.

the foreign bank instructs its correspondent to pay drafts drawn on it —that is, on the American Trust Company—by Howard G. Godfrey & Company, Inc., and in accordance with the instructions specified by the foreign bank.

The final step is for the American Trust Company to issue a letter

of credit in favor of Howard G. Godfrey & Company, Inc., in accordance with the stipulations given by the Mexican bank.

The diagram of this transaction is as follows:



Explanation:

1. Bazbaz & Cia of Mexico City calls on its bank to issue a letter of credit in favor of Howard G. Godfrey & Company, Inc., of New York. No. 1 to No. 2.

2. The Mexican bank agrees and proceeds to send instructions to its correspondent in New York, the American Trust Company, to issue such a credit. No. 2 to No. 3.

3. The American Trust Company sends to Howard G. Godfrey & Company, Inc. of New York its advice to draw on it, for the amount involved, or $650, and in accordance with the conditions stated in the letter of credit. No. 3 to No. 4.

4. As soon as Howard G. Godfrey & Company, Inc. of New York receives the credit, the order is prepared in accordance with the stipulations contained in the instrument.

In this transaction, as in the previous one, Bazbaz & Cia binds itself to its bank that it will pay $650 on receipt of certain documents representing the sales made to it by Howard G. Godfrey & Company, Inc.

The Mexican Bank becomes responsible directly to Howard G. Godfrey & Company, and the American Trust Company acts solely as a go-between, and without any responsibility on its part.

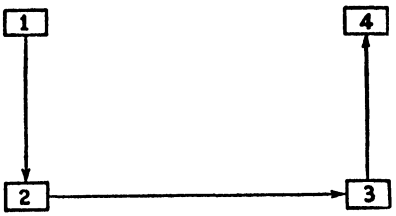
Method C

The procedure is very similar to that just explained under Method B. That is to say, the foreign buyer, Bazbaz & Cia, of Mexico City, approaches its bank requesting it to issue a letter of credit. The bank agrees to do so, and proceeds to draw the document in accordance with the instructions submitted by Bazbaz & Cia.

The next step, however, differs considerably from Method B. Under Method C, the Mexican Bank requests its correspondent in New York

to issue and confirm the credit to the seller, Howard G. Godfrey & Company, which the bank proceeds to do.

In diagram form, Method C can be presented as follows:



Explanation:

1. Bazbaz & Cia requests its bank to issue to its supplier, Howard G. Godfrey & Company, Inc., of New York a confirmed letter of credit. No. 1 to No. 2.

2. The Mexican bank proceeds to forward to its correspondent in New York, the American Trust Company, instructions to the effect that a confirmed credit be drawn in favor of Howard G. Godfrey & Company, Inc., of New York. No. 2 to No. 3.

3. The American bank, accepting the instructions of the Mexican bank, proceeds to issue such a credit. No. 3 to No. 4.

4. The credit is mailed to and received by Howard G. Godfrey & Company, Inc., which proceeds to get the order ready for shipment.

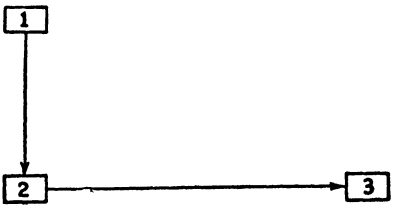
Under this method, it is clear that the buyer assumes the responsibility to pay his bank in Mexico a certain sum of money upon presentation of ocean documents indicating the shipment of certain goods forwarded by Howard G. Godfrey & Company to Bazbaz & Cia.

The Mexican bank is responsible to its correspondent in New York, the American Trust Company, for the payment the latter will make to the exporter, Howard G. Godfrey & Company, Inc. And finally, the American Trust Company is responsible to Howard G. Godfrey & Company, Inc., for honoring the draft the latter will draw on it for the value of the shipment sent to Bazbaz & Cia of Mexico City.

Method D

This procedure is rarely used. It follows the same initial steps as outlined under Method A. That is to say, Bazbaz & Cia requests its bank to issue a letter of credit in favor of Howard G. Godfrey & Company. The Mexican Bank does so, and sends the credit directly to the exporter in New York. In this case, however, no American bank enters into the transaction.

The diagram in this case could be drawn as follows:



Explanation:

1. Bazbaz & Cia requests its bank to issue a commercial letter of credit in favor of Howard G. Godfrey & Company, Inc., of New York. No. 1 to No. 2.

2. The bank agrees to this arrangement and draws the document.

3. The bank mails the credit to Howard G. Godfrey & Company, Inc. No. 2 to No. 3.

Under this method, the buyer is responsible to his bank in Mexico. The Mexican bank is responsible to the seller. The seller collects the money by sending the shipping documents directly to the Mexican bank, which immediately pays with draft in New York.

Illustration 60 represents a letter of credit drawn under this method.

Commercial Letters of Credit

1. *A commercial letter of credit* is an instrument issued by a bank, promising to pay drafts drawn on the bank, provided the beneficiary (the exporter) fulfills certain specifications as stipulated in the body of the letter.

2. *The opener* is the importer, who requests the bank to issue the letter of credit.

3. *The beneficiary* is the seller, in whose name the letter of credit is issued.

4. *The issuer,* or the credit opener, is the bank that accepts issuance of the letter of credit for the account of the importer.

5. *The notifier* is the bank that notifies the seller (beneficiary) of the opening of the credit.

6. *The negotiator* is the bank that buys the drafts issued against the letter of credit.

7. *The acceptor* is the bank that accepts the draft drawn on it or its correspondent abroad.

8. *The paying bank* is the bank that pays to the beneficiary (the seller) the amount due at the request of the foreign bank.

9. *The confirming bank.* If the beneficiary is not acquainted, or satisfied, with the responsibility of the opening bank, he will demand, as

security, the guarantee of the notifying bank. The local bank, which issues such guarantee, is called the confirming bank.

10. *Straight credit.* If the notifying bank is also authorized to pay drafts drawn against the letter of credit, such letter of credit is termed *straight credit.* If, on the contrary, the notifying bank does not receive such authority, the credit then becomes a *negotiating credit.*

Advantages of letters of credit. The benefits derived by both seller and buyer are many.

The exporter, first of all, is relieved to a large extent of the responsibility for the credit risk, inasmuch as the banker assumes the burden of financing the transaction. Second, on delivery of the shipping documents, the exporter either receives payment for the full amount of the shipment or obtains a definite assurance that at some specific time in the future he will collect his funds.

As far as *the importer* is concerned:

1. He assures himself that delivery of goods will be made on time, by setting a definite date on which the letter of credit will expire.

2. Since the transaction is almost a cash arrangement, the buyer receives the benefit of an extra discount.

3. He is assured that payment of the bill will not be made until the goods are shipped.

The bank also benefits, since it will collect a commission for handling the business.

Types of letters of credit. There is no standard letter of credit. To be sure, if such documents must be defined or classified, then classification depends entirely on the functions they are called upon to perform. Generally they are grouped as follows:

1. *Clean credit.* As the name implies, the bank pays or accepts drafts drawn against the credit. The beneficiary is not required to present any other document. See Illustration 63.[2]

2. *Documentary credit.* All shipping papers specified in the letter of credit are delivered to the bank with the draft. As a rule, they are the following:

(a) Bill of lading—full set,
(b) Commercial invoice,
(c) Consular invoice when required,
(d) Insurance certificate,
(e) Certificate of origin, when required,
(f) When the shipment is made by parcel post, post office receipt is attached instead of the bill of lading. The parcel post receipt should be drawn in accordance with the requirements of the letter of credit.

Illustration 61 is an example of a documentary letter of credit. In

[2] The only paper required by this credit beside the draft is receipt in duplicate, which is not classified as a shipping document.

this particular instance, the following documents are requested by the bank:

(a) Clean ocean bill of lading consigned to Soneira & Cia and/or Airwaybill of Lading, and/or Air Express receipt,

(b) Consular invoice,

(c) Commercial invoice.

3. *Classification as to terms.* Under this grouping there are only two forms of letter of credit:

(a) Payable at sight. The beneficiary collects the full amount of his shipment on presentation of his draft and the documents specified in the letter of credit. See Illustration 61.

(b) Payable at some future definite date. The seller presents his time draft to the bank for acceptance, which could be immediately discounted at the bank, or held by the exporter for payment on its due date. See Illustrations 62 and 64.

4. *Currency specified in the letter of credit.* Almost all letters of credit received by exporters in this country are drawn in dollars; however, in some cases they are issued in foreign currency. Illustration 62 represents a letter of credit drawn in pounds sterling.

Under a commercial letter of credit issued in foreign currency, the beneficiary is exposed to the exchange risk. This he avoids by selling the foreign currency represented in the letter of credit. The procedure is the same as outlined in Chapter XII, dealing with sales made payable in foreign currency. Briefly, the foreign credit man arranges with the bank to buy the foreign currency designated in the letter of credit.

5. *Revocable and irrevocable.* A *revocable letter of credit,* as the name implies, may be canceled without notice to the beneficiary at any time. The right of cancellation is exercised by the bank up to the time when the beneficiary presents the appropriate shipping papers.

If, on the contrary, the bank states on the document that the credit is not to be voided previous to expiration date, it is called an *irrevocable letter of credit.* Illustration 63 presents a revocable letter of credit, and Illustration 62 is that of an irrevocable letter of credit.

6. *Confirmed and unconfirmed.* If the notifying bank does indicate that it guarantees the letter of credit opened by the foreign bank and will honor drafts drawn against it, such credit is called *Confirmed.* See Illustration 61. If, on the other hand, the notifying bank does not express such guaranty, the credit is *unconfirmed,* and naturally the beneficiary must look to the foreign bank for the final payment of the credit. Illustrations 58 and 60.

Revocable letters of credit are never confirmed by the notifying bank, so that this classification narrows down to:

(a) Irrevocable and unconfirmed,

(b) Irrevocable and confirmed.

CENTRAL HANOVER BANK AND TRUST COMPANY
SEVENTY BROADWAY
FOREIGN DEPARTMENT
CABLE ADDRESS: CENTRUST

Howard G. Godfrey & Co., Inc.
357 Fourth Avenue,
New York, New York.

Advice No. C-a 1317
New York 15, N. Y. January 31, 194-.

Dear Sirs:

We are instructed by A. B. C. Bank, Ltd., Manchester, England

to advise you that they have opened their irrevocable credit in your favor

for account of Messrs. Robert Talbot & Co., Ltd., England

for a sum(s) not exceeding a total of (£ £690.0.0.)

SIX HUNDRED NINETY POUNDS STERLING

available by your drafts on ~~xxxxx~~ A. B. C. Bank, Ltd., Manchester at 90 days date

to be accompanied by Commercial Invoices, Marine Insurance Policies including war risk for the C.I.F. value plus 10%, Full set of clean on board ocean steamer bills of lading made out to shippers order and endorsed in blank.
This credit may be assigned by you to XYZ Corporation. If the credit is assigned to the XYZ Corporation, we will require your instructions together with the return of this advice and the credit can only be assigned on the same terms and conditions.

evidencing shipment of ten (10) bales Raw Silk 13/15 83% White Japan as £- - - per lb. cost insurance and freight British Port, in one or more lots during March/April 194-.

From New York To Manchester, England

Marine and War Risk insurance to be effected by seller

All drafts so drawn must be marked·

"Drawn under CENTRAL HANOVER BANK AND TRUST COMPANY'S

Advice No. C-a 1317, dated January 31, 194-."

Unless otherwise expressly stated, this credit is issued subject to all the pertinent terms, provisions and conditions contained in an instrument entitled," uniform customs and practice for commercial documentary credits fixed by the Seventh Congress of the International Chamber of Commerce with guiding provisions as now or hereafter revised," which are incorporated herein and made a part hereof.

A. B. C. Bank, Ltd., Manchester, England engages with you that all drafts drawn under and in compliance with the terms of this credit will be duly honored on delivery of documents as specified if presented at this office on or before May 7, 194-.

This letter is solely an advice of credit opened by A. B. C. Bank, Ltd., Manchester, England and conveys no engagement by us.

Yours very truly,

XXXXXXXXXXXXXXX
Authorized Officer
XXXXXXXXXXXXXXX
Authorized Officer

FX—110—1500-8-46

Illustration 62. CREDIT PAYABLE AT SOME FUTURE DATE, TRANSFERABLE, ISSUED IN FOREIGN CURRENCY.

Under the first condition, the beneficiary is called to negotiate his drafts with the notifying bank. In the latter case, the notifying bank pays or accepts the draft to be honored at some future date.

7. *Transferable.* As a rule, letters of credit are not assignable to another party. If, however, the foreign purchaser so desires, he may ar-

range with the opening bank to issue such a credit. It may be made assignable "to order," or to a specified individual. Samples of these letters of credit are shown in Illustrations 62 and 64.

8. *Revolving credit.* Under this credit the beneficiary is allowed to do one of the following:

1. He may draw drafts up to a specified amount, say $1,000, and, as soon as these bills are paid, automatically the seller has the privilege to draw again up to the same amount.

2. He may draw up to a specified amount at one time, say $5,000, and the credit becomes available again as soon as this amount has been paid.

3. He may draw a fixed amount, which immediately becomes available again. In a sense such credit is unlimited.

Authority to Pay

Authority to pay is a credit instrument by which the notifying bank advises the exporter to present for payment or acceptance drafts drawn on it. This type of document is subject to cancellation or modification without giving prior notice to the beneficiary. As the credit shown in Illustration 63 indicates, it is not an engagement on the part of the notifying bank or opening bank.

It will be noticed that this type of credit instrument is similar to an *authority to purchase,* which will be discussed in the next paragraph.

Authority to Purchase

The function of the *authority to purchase* (abbreviated A/P), shown in Illustration 65, in some respects is similar to that of the letter of credit, and, like the letter of credit, places most of the burden of financing the transaction on the bank.

In order to establish this type of credit, the buyer, X. Y. Z. Trading Co., Ltd., of Hongkong, China, approaches its bank with the request that the bank's branch or correspondent in New York *negotiate* drafts drawn on it (the buyer). This application is made in the form of a contract, and is called a *Letter of Guaranty.*

If the bank accepts the importer's request, it notifies its branch, correspondent, or agent in New York to negotiate drafts drawn on X. Y. Z. Trading Co., Ltd., by Iselin Jefferson Company, Inc., the beneficiary. This notification, which contains instructions as to the amount to be paid, shipping documents to be presented, terms, nature of the goods, and the name of the beneficiary, is called the *Authority to Negotiate.*

The advice received by the exporter from the importer, indicating the manner in which the purchase is to be financed, is called the *Authority to Draw.*

It is most important to bear in mind that the authority extended to

CENTRAL HANOVER BANK AND TRUST COMPANY
SEVENTY BROADWAY
FOREIGN DEPARTMENT
CABLE ADDRESS CENTRUST

Iselin Jefferson Co., Inc.,
90 Worth Street, New York, N. Y.

Advice No. A 711
New York 15, N. Y. January 31, 194-.

Dear Sirs
We advise you that A. B. C. Bank of Lisbon, Portugal
have authorized us to honor your drafts
for account of X. Y. Z. Company of Lisbon, Portugal
for a sum(s) not exceeding a total of ($ 3000.00 ,)
THREE THOUSAND DOLLARS
on us at Sight
to be accompanied by Receipt in duplicate

evidencing shipment of x x x x x x x x x

From x x x x x x x To x x x x x x x x
All risks insurance to be effected by Buyer

All drafts so drawn must be marked
"Drawn under CENTRAL HANOVER BANK AND TRUST COMPANY'S
Advice No. A 711, dated January 31, 194-."

Drafts so drawn with documents as specified must be presented at our office no later than June 7, 19-

The authority given to us is subject to revocation or modification at any time without notice to you.

Unless otherwise expressly stated, this advice is issued subject to all the pertinent terms, provisions and conditions contained in an instrument entitled," uniform customs and practice for commercial documentary credits fixed by the Seventh Congress of the International Chamber of Commerce with guiding provisions as now or hereafter revised," which are incorporated herein and made a part hereof.

This advice conveys no engagement on our part or on the part of A. B. C. Bank, Lisbon and is simply for your guidance in preparing and presenting drafts and documents.

Yours very truly,

X X X X X X X X X X
Authorized Officer

X X X X X X X X X X
Authorized Officer

FX—109—400 5 48

Illustration 63. REVOCABLE LETTER OF CREDIT, AUTHORITY TO PAY CLEAN CREDIT.

the exporter by the bank does not constitute an engagement for which the bank will be held liable. It merely suggests that the importer will, in all probability, honor the drafts drawn on him.

This document carries full recourse on the beneficiary, and it may be canceled without previous notice to the seller.

The difference between a letter of credit and an authority to purchase. The most striking difference between a letter of credit and an authority to purchase is that the latter is not a banker's credit, and consequently the drawer of the draft, or the exporter, must depend on the drawee, and not on the bank, for the final liquidation of the transaction, unless the authority to purchase specifies that drafts drawn on the importer are drawn *without recourse.*

In fact, since the local bank only negotiates the draft, in case of nonpayment by the opening bank or the drawee the beneficiary must refund the sum advanced to the negotiating bank.

The value of an authority to purchase rests entirely on the financial and moral responsibility of the importer. In other words, when the foreign credit man accepts orders payable against an authority to purchase, he must satisfy himself that the buyer is entitled to receive credit.

Recourse

Recourse, as used in this discussion, refers to the liability to which the exporter is exposed, as a drawer of a bill of exchange, under a commercial credit. In general the law specifies that if a bill of exchange is dishonored, the drawer is liable to the holder of the draft for the face value of the document.

For the sake of clarity, let us consider the existence of recourse in the types of credit commonly used in foreign trade:

1. *Authority to purchase.* As previously indicated, in the case of an authority to purchase, the bank only negotiates or advances to the beneficiary the face value of the draft drawn on the importer. Consequently, if the drawee refuses, or is not able, to liquidate the bill of exchange, the drawer is liable for the sum advanced to him plus the accumulated interest.

The authority to purchase (Illustration 65) carries full recourse, since it does not convey any obligation on the part of the bank. Indeed, any commercial credit which states or implies that the advice is not to be considered as being a "Bank Credit" [3] does not relieve the beneficiary from the ordinary liability attached to the drawer of a bill of exchange. That is, if the credit conveys no pledge or guarantee on the part of the bank, the beneficiary, as the drawer of the draft, is open to recourse if the bill is dishonored by the drawee.[4]

2. *Letter of credit.* As stated, the beneficiary of a letter of credit obtains his money by drawing a sight or a time draft (as the credit demands) on the notifying or confirming bank.

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[3] Mr. W. Ward, in his book, *Bank Credits and Acceptances* (Ronald Press Company, N. Y.), states that: "A credit under which the banker himself guarantees to accept or pay bills is a bankers' credit."

[4] If the authority to purchase stipulates that the draft is payable without recourse, the beneficiary is not open to recourse. He must, however, insert in the draft above the signature the words: "Without recourse to ————."

If the letter of credit is payable in dollars against sight draft, and the bank pays the bill of exchange on presentation, the beneficiary is free of recourse, regardless of whether the credit is revocable, confirmed, or unconfirmed.

If the credit is payable in dollars against a time draft, say a 60 or 90 days sight draft, the local bank accepts the bill of exchange in the manner shown in Illustration 1 and returns it to the beneficiary, who will either keep the draft until its maturity date, or discount it at his bank or in the open market. Should the drawee fail to pay the bill at maturity, the drawer becomes liable to the holder of the bill for the amount indicated in the instrument, plus the accumulated interest.

When a credit is issued in foreign currency, the beneficiary obtains the dollars by negotiating with his bank the draft drawn in foreign currency against the opening bank. If the drawee (the overseas bank) refuses to honor the draft, the drawer is responsible to the holder of the bill of exchange for the sum advanced against the draft.

In closing, let us add that when in doubt about the possibility of recourse, as the drawer of a bill of exchange under a commercial letter of credit, seek the advice of a competent lawyer, or convince the bank to pay the draft, marked above the signature "Drawn without Recourse."

Care to Be Exercised before Accepting Business Against a Letter of Credit

The first consideration to be given before accepting business against letters of credit is to determine if the document submitted offers the required protection; and the second, if it does, is to proceed to scrutinize the credit with the object of discerning the liabilities to which you are exposed.

In handling business payable by means of letters of credit, it would be logical to accept the principle that, if foreign business is to be done on this basis only, a credit should be demanded which affords full protection, such as an irrevocable letter of credit confirmed by a New York bank, payable at sight in U. S. Dollars available upon presentation of shipping documents, or commercial invoice and certificate of manufacture.

It is even more important to make sure that the credit has not been mutilated in any respect. For example, right after the World War II started, a bank proceeded to qualify its confirmed irrevocable credits covering sales to Canada, by appending at the end of the credit the following notice:

We reserve the right to refuse at any time to honor any drawing under this credit if in our opinion the transaction relevant to such drawing contravenes any present or future law or regulation of the United States of America.

CENTRAL HANOVER BANK AND TRUST COMPANY
SEVENTY BROADWAY

FOREIGN DEPARTMENT
CABLE ADDRESS: CENTRUST

Credit No. D-b 711

New York, January 31, 194-.

Messrs. H. G. Godfrey & Co., Inc.
357 Fourth Avenue, New York, N. Y.
and/or order

Dear Sirs:

We are instructed by A. B. C. Bank, Ltd., London, England

to advise you that they have opened their irrevocable credit in your favor for account of Messrs. Robert Talbot & Company, Ltd., England

for a sum(s) not exceeding a total of ($7000.00 ,)
SEVEN THOUSAND DOLLARS - - - - - - - - - - - - - - - -

available by your drafts on us (Central Hanover Bank and Trust Company)

at Ninety days sight to be accompanied by Commercial Invoice, Marine and war risk insurance policies/or certificates covering 10% above the C. I. F. value of the goods, full set negotiable bills of lading to order and blank endorsed. In lieu of bill of lading an endorsed warehouse receipt is to be accepted.

evidencing shipment of 30 bales 13/15 White Japan 83% Raw Silk. Delivery July to October 194- partial shipments allowed at price $1.62 per lb. plus shipping, testing, and other charges C. I. F. from New York to English Port. Should this credit be transferred by you to another party, all drafts presented to us must be accompanied by your letter of designation

From New York To English Port

Marine and War Risk insurance to be effected by you (seller)

All drafts drawn under the credit must be marked:

"Drawn under CENTRAL HANOVER BANK AND TRUST COMPANY'S

Credit No. D-b 711, dated January 31, 194-."

The amount of any draft drawn under this credit must be endorsed on the reverse hereof, and the presentation of each draft, if negotiated, shall be a warranty by the negotiating bank that such endorsement has been made and that documents have been forwarded as herein required. If the draft is not negotiated this credit and all relative documents must accompany the draft.

This credit must accompany any draft which exhausts the credit and must be surrendered concurrently with the presentation of such draft.

A.B.C.Bank, Ltd., London, England engages with the drawers, endorsers and bona fida holders of drafts drawn under and in compliance with the terms of this credit that the same shall be duly honored on due presentation and delivery of documents as specified at this office, if negotiated or presented on or before October 31,194-., we confirm the credit and thereby undertake that all drafts drawn and presented as above specified will be duly honored.

Yours very truly,

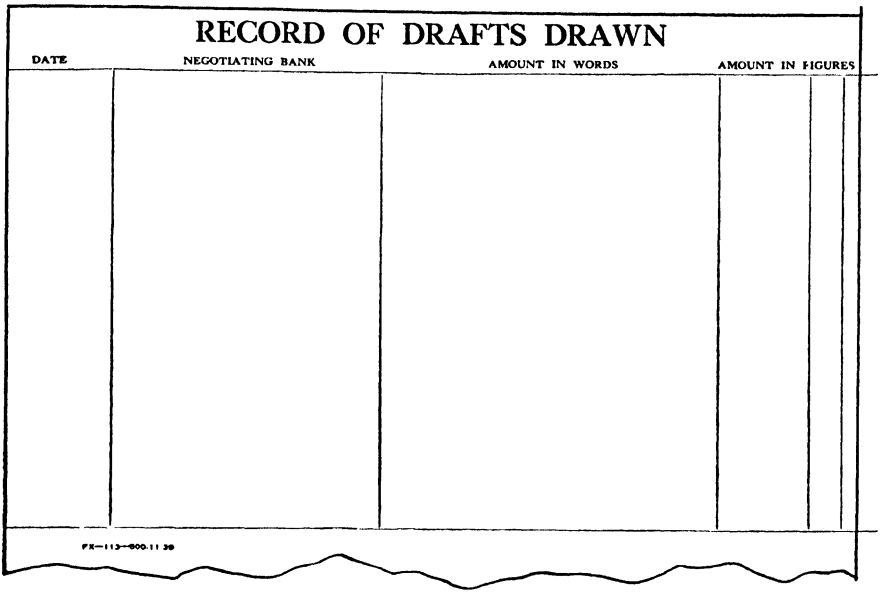
X X X X X X X X X X X X
Authorized Officer

X X X X X X X X X X X X
Authorized Officer

FS—113—500 11 30

Illustration 64. CONFIRMED IRREVOCABLE LETTER OF CREDIT ALSO TRANSFERABLE AND PAYABLE AGAINST DOCUMENTS OR WAREHOUSE RECEIPT.

Of course it is within the province of the foreign credit man to accept such a credit, or any other type of credit. At the same time he should not underestimate his responsibilities, or neglect to assure himself that the credit is a suitable instrument that will protect his interests. Above all, he should not hesitate to refuse a credit if it does not suit his purpose,


RECORD OF DRAFTS DRAWN

DATE	NEGOTIATING BANK	AMOUNT IN WORDS	AMOUNT IN FIGURES

FX—113—900-11 39

Illustration 64. (*Continued*).

or neglect to inform and explain his action to the foreign buyer and the bank.

He should go further: examine the credit closely, note its wording, compare the terms and conditions set in the credit with the terms and conditions set forth in the contract of sale. Do they agree? Is the amount of the credit sufficient to pay for the merchandise and transportation expenses? Can the shipment be made before the credit expires? What are the shipping facilities? Are the prices quoted in the credit in conformity with those listed in the contract? What type of insurance does the credit demand? Is it possible to obtain such insurance? What documents does the credit request? Can they be obtained? In short, the foreign credit man should question every detail specified in the credit until he is completely satisfied that all the requirements can be filled.

The credit should be scanned again, and the obligations of the parties concerned should be determined.

Even though the letter of credit is confirmed and irrevocable, there should be no hesitation in questioning the meaning of such phrases as: "documents must be satisfactory to us (the bank)," or "shipping documents of a character which must meet with our approval." Again, if the credit states that it was opened by cable and, consequently, prices and other details are subject to correction of error in transmission, it would be well for the credit man to wait until the bank receives the con-

CENTRAL HANOVER BANK AND TRUST COMPANY
SEVENTY BROADWAY

FOREIGN DEPARTMENT
CABLE ADDRESS: CENTRUST

Advice No. F-a 711

Iselin Jefferson Co., Inc., New York 15, N. Y. January 31, 194-.

90 Worth Street, New York, N. Y.

Dear Sirs

We are instructed by A. B. C. Bank of Hongkong,

to advise you that they have opened their irrevocable authority to negotiate in your favor for account of X. Y. Z. Trading Company, Ltd., Hongkong

for a sum(s) not exceeding a total of ($ 2500.00)

TWENTY FIVE HUNDRED DOLLARS

available by your drafts in duplicate ~~with~~ without recourse on X. Y. Z. Trading Company, Ltd., Hongkong at Ninety days sight to the order of our correspondent bearing the clause "Drawn under authorization No 711 dated January 31, 194-." "Payable with charges and interest at — % per annum from date of draft until approximate date of arrival of cover in New York" and "Documents against payment". All drafts must specify the number of this advice and are to be accompanied by the following documents

evidencing shipment of Sundry goods

From New York To Hongkong

All insurance to be effected by buyer

Unless otherwise expressly stated, this authority to negotiate is issued subject to all the pertinent terms, provisions and conditions contained in an instrument entitled, "uniform customs and practice for commercial documentary credits fixed by the Seventh Congress of the International Chamber of Commerce with guiding provisions," which are incorporated herein and made a part hereof.

A. B. C. Bank of Hongkong engages with you that all drafts drawn under and in compliance with the terms of this Authority to Negotiate will be negotiated on delivery of documents as specified if presented at this office on or before July 7, 194-.

This letter is solely an advice of an authority to negotiate opened by A. B. C. Bank and conveys no engagement by us.

Yours very truly,

XXXXXXXXXX
Authorized Officer

XXXXXXXXXX
Authorized Officer

FR—414—1M 4 40

Illustration 65. AUTHORITY TO PURCHASE.

firmation and passes it on to him before proceeding to get the order ready for shipment.

In summary, if in doubt about the significance of any phrase inserted in the document, the foreign credit man should seek the advice of the legal department. By no means should he accept the credit first and learn about it later. The course of action must be reversed.

Routine to Be Followed in Handling Orders Against Letters of Credit

All letters of credit specifically demand the fulfillment of the instructions set forth in the document. These instructions fall into three distinct categories. For example, the credit shown in Illustration 61 specifies:

1. The type of credit: (Instructions to be noted by the Credit Department.)
   (a) Confirmed irrevocable credit.
   (b) Its value: $21,000.00 (not more).
   (c) Available by draft on the Central Hanover Bank and Trust Company.
   (d) Partial shipment permitted.
   (e) Expires July 3, 194__.
2. The type of merchandise: (Instructions to be noted by the Merchandise Department.)
   (a) About 1,400 lbs. of Silk Yarn.
   (b) Import License No. 90374.
3. The type of documents: (Instructions to be noted by the Shipping Department.)
   (a) Clean bill of lading consigned to Soneira & Cia and/or Air Express Receipt, and/or Airwaybill of Lading.
   (b) Invoice in triplicate, signed.
   (c) Insurance: None. Give details of shipment to buyer.

It is evident then that the procedure should be to enter these instructions on a separate sheet and send it to the heads of the various departments: Credit, Merchandise, and Shipping, for their guidance and approval.

If the credit is not acceptable, the bank and the importer should be notified, with a request at the same time that the required amendments to the credit be issued.

Financing Goods while Waiting for Them to Be Shipped

In consequence of lack of conveyance, strikes, or similar uncontrollable events, exporters occasionally are forced to store goods intended for foreign buyers. If such delays tie up the seller's capital, he must naturally look for financial relief, which he might obtain from the bank in one of the following ways:

1. A loan extended against the exporter's note.
2. A loan against the merchandise stored, the bank requesting the warehouse receipt as collateral.
3. A banker's acceptance, guaranteed by the merchandise. This document is then discounted at the bank, or in the open market.

Telephone MUrray Hill 4 4000 Cable Address GODFREYARN

Howard G. Godfrey & Co., Inc.
357 FOURTH AVENUE
NEW YORK 10, N. Y.

RAW SILK
•
THROWN SILK
•
SPUN SILK
•
COTTON
•
RAYON
•
NOVELTY YARNS

Export Agents for
LEON-FERFNBACH Inc
NEW YORK, N Y

February 7, 194-

William Iselin & Co.
357 Fourth Avenue
New York, New York.

SUBJECT: Credit No. _____
drawn by:(ame of Bank)
for: $7,000.00

I hereby assign to William Iselin & Company, from the above mentioned Letter of Credit No. ____ issued in the name of H. G. Godfrey & Company, Inc., or Assignees, the sum of $5,000.00, subject to such terms as outlined in the herein mentioned credit.

The draft drawn under this credit for the above account is to be numbered ____.

This credit and assignment expires May 1, 194-.

HOWARD G. GODFREY & COMPANY, INC.

President.

ALL QUOTATIONS ARE SUBJECT TO PRIOR SALE AND TO REVISION WITHOUT NOTICE

Illustration 66. LETTER OF ASSIGNMENT ISSUED BY THE BENEFICIARY OF AN ASSIGNABLE LETTER OF CREDIT.

If the sale is financed by a letter of credit and the exporter finds it necessary to store the merchandise, he should promptly arrange with the bank and the foreign buyer for a time extension on the credit. It would be far more practical, however, for the exporter to demand that the credit be available against warehouse receipt or certificate of manufacture and invoice, in lieu of shipping documents.

Illustration 64 presents a credit extending such authority to the beneficiary.

Assignable Letters of Credit

It is the common practice among banks not to permit the beneficiary of a letter of credit to assign the document to another party, unless the credit extends that authority. As stated before, such a credit may be issued in the name of the beneficiary or assignees (Illustration 64), or it could be assigned to a designated person (Illustration 62).

If the whole credit, or a portion of the credit, is to be assigned to another party, the beneficiary notifies the bank that he has assigned *X* dollars to William Iselin & Company, Inc. The latter must receive from the beneficiary a copy of the credit and a letter similar to the one shown in Illustration 66, indicating that *X* dollars have been assigned for their account.

When William Iselin & Company ships the goods, it presents its draft to the paying bank together with the shipping documents, as well as the copy of the credit and the letter of assignment, both of which it received from the beneficiary.

Raising a Loan Against a Nonassignable Letter of Credit

The method by which the beneficiary of an assignable letter of credit finances his purchases has just been discussed. The question naturally will arise: "How can the beneficiary of a nonassignable letter of credit, acting as a buyer for a foreign house, finance his purchases while lacking sufficient capital?"

The answer to this question depends on the type of credit the beneficiary holds. If it is an authority to purchase, or an authority to pay, the beneficiary will find it difficult to raise funds against such credits. The reason is that these types of credit do not offer enough protection to the lender.

If the credit is confirmed and irrevocable, the beneficiary might be able to convince the bank or a business house to hold the credit as sort of security for financing his purchases.

To be more specific, let us assume that the beneficiary of the letter of credit presented in Illustration 61, for $21,000, calling for the purchase of 1,400 pounds of silk yarn, must pay cash for the goods, the freight charges, and the insurance. These items amount to, say, $20,000. The difference, or $1,000 represents the profit the exporter hopes to realize on the deal.

The beneficiary, armed with this credit, his honesty, and his reputation for fair dealing, calls at the bank and explains his problem; whereupon the bank might agree to hold the letter of credit for $21,000 and

grant him a loan of $20,000 to pay for the C. I. F. value of the goods.

As soon as the goods are ready for shipment, the exporter proceeds to draw the necessary shipping papers and in due time delivers them to the bank. If the documents are in order, the bank will keep $20,000 in payment for the advance made, and deliver to the beneficiary a check for the balance after deducting the interest due on the loan.

Let us take the same problem and have the beneficiary of the credit approach the supplier of the merchandise for the loan. How will the credit man handle the transaction?

It is taken for granted, of course, that the foreign credit man is satisfied with the honesty of the man and is willing to finance the deal.

As security he will request that the beneficiary deliver the letter of credit. He then arranges with the merchandise department to supply the articles required, and has the shipping department attend to the drawing of the documents. Incidentally, all papers must be drawn in the name of the beneficiary, and in accordance with the demands of the credit.

In due time the documents are delivered at the bank. In payment it will issue a check to the order of the beneficiary, who will in turn endorse it, and hand it to the supplier. This amount is applied to the account of the beneficiary, and after deducting the cost of the merchandise, insurance, and freight, the supplier returns the balance to the buyer.

It is true that in practice this procedure has worked out very satisfactorily, but it is also true that the foreign credit man is exposed to certain difficulties. For example, if the beneficiary is unable, because of illness or other emergency, to sign the shipping papers and the draft, it will not be possible for the foreign credit man to obtain payment for the goods released and already on board the steamer. To be prepared for such eventuality the credit man should obtain power of attorney from the credit seeker, permitting him to sign for the beneficiary of the letter of credit.

If the supplier has no facilities to permit him to attend to the drawing of the documents, he may use the services of a forwarding agent, or deliver the goods to the beneficiary against a trust receipt similar to the one shown below. Thus the beneficiary agrees to get the shipping documents ready, but with the understanding that the papers will be delivered to the supplier. Since the supplier will obtain power of attorney permitting him to sign in the name of the beneficiary, as soon as the shipping documents are delivered he will proceed to draw the draft and collect from the bank the value of the goods delivered to the beneficiary.

Regardless of the honesty and good will of the beneficiary, and his

willingness to co-operate with the supplier to make this sort of deal possible, it is evident that the relationship between the interested parties is loose, and their responsibilities are undefined. Furthermore, even though the foreign credit man obtains power of attorney from the beneficiary, it may be revoked without notification.

Trust Receipt

The undersigned (hereinafter called the "Trustee") hereby acknowledges receipt from:

1. (hereinafter called the "Entruster") of the documents listed below representing the goods therein specified, a security interest in both said documents and said goods remaining in or hereby passing to the Entruster.

2. In consideration of such receipt and other valuable considerations, the Trustee agrees to hold said documents and goods in trust for the Entruster and subject to its security interest, to be used promptly by the Trustee without expense to the Entruster for the purpose of transferring to carrier (land, water, or air) but for no other purpose and without liberty to pledge the same or to sell the same.

3. The Trustee agrees to account by delivering to the Entruster immediately upon receipt thereof by the Trustee, the proper and sufficient negotiable bills of lading to the order of:

(name of customer or bank)

according to the purpose for which the goods are withdrawn as indicated above.

The Trustee agrees to pay all charges in connection with said goods, documents and any proceeds thereof, and will at all times hold said goods, documents and proceeds separate and apart from the property of the Trustee and will definitely show such separation in all its records and entries. The Trustee will at all times keep said goods fully insured at the Trustee's expense in favor of, and to the satisfaction of the Entruster against loss by fire, theft, and any other risk to which said goods may be subject. The Trustee will deposit the insurance policies with the Entruster upon its demand.

The Entruster may at any time cancel this trust and bailment and take possession of said goods, manufactured or unmanufactured, and any documents representing the same (until delivery of said goods and documents to the purchaser pursuant to a sale hereby authorized and the receipt by the Trustee of the proceeds of such sale) and the proceeds of any sale, wherever said goods, manufactured or unmanufactured, documents or proceeds may then be found. As to articles manufactured by style or model, the Trustee's interest therein be forfeited, at the election of the Entruster, in the event of any default on the part of the Trustee, against cancellation to the extent and as provided by law of the Trustee's then remaining indebtedness with respect to such articles.

The Trustee agrees that the Entruster assume no responsibility for the correctness, validity or genuineness of the documents released to the Trustee hereunder or for the existence, character, quantity, quality, condition, value or delivery of any goods purported to be represented by any of such documents.

No waiver of any rights or powers of the Entruster or consent by it shall be valid unless in writing signed by it. The rights and powers herein given to the Entruster are in addition to those otherwise created.

Receipt of a copy of this Trust Receipt is herewith acknowledged.

Description of document	Merchandise	Value
Warehouse receipt from Equity Express, Inc. No. ____	Textiles	$_____

New York		TRUSTEE.

Credit Held by the Bank and Issued in Favor of Various Firms

Illustration 67B represents another variation of the method used by importers to finance their purchases abroad. Normally most credits are sent by the negotiating or paying bank directly to the beneficiary. In this case the importer notifies the exporter that the negotiating bank holds a credit for $925, which will be available upon presentation to the bank of the documents listed in the credit, plus the exporter's draft drawn on the bank, in this instance The English Bank, Ltd., of London, on terms of 90 days sight, and the delivery of the letter of authority received by the exporter from the importer, which is the same as shown in Illustration 67A.

On receipt of such authority the foreign credit man will inquire of the negotiating bank whether such a document exists and what the bank's responsibility is under the credit; and, finally, he will request the bank to supply him with a photostatic copy of the credit.

This type of credit does not bind the bank in any way. It may be revoked at any time without giving previous notice to the exporter, and it carries full recourse. Its value rests solely on the responsibility and integrity of the importer himself, which naturally should be investigated before accepting the credit.

Payment Against Trust Receipt Issued by a Forwarding Agent

This form of financing foreign sales is used by the purchasing agencies of foreign governments, or by foreign houses buying in this country through their own branch office or a resident buyer.

The procedure is that the exporter, or supplier, releases to the forwarding agent, as instructed by the buyer, the inland bill of lading and the invoice covering the merchandise intended for the foreign government or for an importer. In turn the forwarding agent issues his own trust receipt, similar to the one shown in Illustration 68. This document usually states that certain goods have been received in trust from the named exporter or supplier for transshipment, to permit the for-

ROBERT TALBOT, LTD.
Sydney, Australia

7th July, 194—.

Iselin Jefferson Company, Inc.,
90 Worth Street,
New York, N. Y.

Dear sirs:

For payment of shipment to Robert Talbot, Ltd., of Sydney please apply to THE EXPORT BANK, New York, N. Y., under Letter of Credit No. RT ——— for cash not exceeding NINE HUNDRED TWENTY FIVE ($925.00) dollars. The following documents in *duplicate* will be required:

1. A through Bill of Lading to Sydney consigned to Order and endorsed in blank.
2. Insurance Declarations as explained on order.
3. Invoices and Statement.
4. Bills of Exchange drawn on the English Bank, Ltd., of London at 90 days' sight for amount of statement.

Also this letter as your authority.

Yours truly,

ROBERT TALBOT, LTD.

Vice President.

Illustration 67A. LETTER OF AUTHORITY SENT BY THE IMPORTER TO THE EXPORTER (See Illustration 67B).

THE EXPORT BANK
New York, New York

July 16th, 194—.

Messrs. Iselin Jefferson & Company, Inc.,
New York City

Dear Sirs:

With reference to your letter of the 13th instant, the English Bank, Limited, Sydney Branch, have established a Letter of Credit in favor of various firms in the United States on account of Robert Talbot, Ltd., of Sydney, Australia.

Under this Letter of Credit we are authorized to honor drafts not exceeding the amount specified by Robert Talbot, Ltd., in their letter of instructions to the shipper which are supported by shipping documents in accordance with the above mentioned letter of authority.

Yours truly,

THE EXPORT BANK.

President.

Countersigned:

Illustration 67B. CREDIT OPENED IN FAVOR OF VARIOUS FIRMS
(See Illustration 67A).

warding agent to obtain a full set of ocean bills of lading; which will be delivered or disposed of as instructed by the foreign buyer. The trust receipt and the commercial invoice are then presented to the named person for payment. The payer for the foreign government is generally its ambassador or its economic commissioner, usually located in Washington, D. C. For the importer, the payer might be its own branch office or a confirming house located in this country.

These terms are acceptable if the forwarding agent is reliable, and if the foreign buyer is entitled to receive credit. If there is doubt, the sales should be made payable at sight on presentation of inland bill of lading and commercial invoice.

Special Types of Credit

It is true that there are many factors determining the types of credit instruments that a bank may issue (see the topic on page 291, entitled "To the Beneficiary of a Letter of Credit," for a discussion of the various factors affecting the drafting of a letter of credit), yet it is equally true that the general terms and specifications stated in the credit itself depend to a large extent on the nature and exigencies inherent in the commercial transaction. For example, if the buyer orders staple goods available immediately, the expiration date of the credit will be relatively short. On the other hand, if the importer orders a specially made machine, the expiration date of the credit will be determined by the time the seller takes to manufacture and ship the machine. If the commercial relationship existing between the buyer and seller is very friendly and of long standing, the stipulations in the credit may be limited to the most simple form.

Let us take a practical case: let us say that the X. Y. Z. Corporation are buyers for some foreign houses who are not interested in establishing credit relations with their suppliers in this country, but prefer to buy from well-known, reputable American concerns on a cash basis, thus obtaining lower prices or larger discounts. Therefore, in order to finance their purchases they decide to have their bankers issue the type of credit shown on page 289.

This credit is somewhat different from the various types of letters of credit already discussed. First of all, under this credit the beneficiary does not draw on the bank; second, it does not specify the quantity, quality, or the price of goods ordered by the buyer; and, finally, the credit is devoid of the customary phraseology usually found in commercial letters of credit. The credit, nevertheless, is an undertaking on the part of the bank to pay a certain amount of money on presentation of invoices and certificates of manufacture; it is irrevocable, and will remain in force until its expiration date, which is indicated in the body of the credit.

THE SHIPPING COMPANY
New York, New York

March 27, 194—.

TRUST RECEIPT

Refer to: No.————

RECEIVED FROM ISELIN JEFFERSON COMPANY, INC.

90 Worth Street, New York, N. Y.

THE ECONOMIC MISSION PURCHASE ORDER NO. ————

DOCUMENTS: Invoice in triplicate $1974.12 $2585.57 $4748.55
Packing list in triplicate
Original Inland Bill of Lading

COVERING: THIRTY TWO (32) CASES (#5370/76, 5403/10, 3164 5692, 5694/5708)
DRESS PRINTS

SHIPPED TO: Brooklyn, New York.

The above described documents and/or shipment are received by the undersigned IN TRUST to enable the undersigned and/or their agents to obtain possession of the above indicated merchandise for trans-shipment and to obtain a full set of ocean bills of lading, which set the undersigned will deliver or otherwise dispose of as instructed by The Economic Mission.

THE SHIPPING COMPANY

per: L. Talbot, Treasurer.

CC J. F. Brook.

Illustration 68. TRUST RECEIPT, ISSUED BY FORWARDING AGENT.

THE A. B. C. BANK
New York

New York, N. Y.,
November 18, 194__.

Iselin Jefferson Company, Inc.,
90 Worth Street,
New York, N. Y.

RE: OUR NO. 711

Gentlemen:

Understanding that you have entered, or are about to enter, into a Contract numbered 781 with the X. Y. Z. Corporation covering the sale by you to it of certain merchandise, and, in order to provide for the payment of the amount(s) as required thereby to be made by the X. Y. Z. Corporation, we hereby undertake as follows:

If you present to us at this Branch at any time(s) on or before December 31, 194__ one or more invoices bearing the above-mentioned contract number and one or more Certificates of Manufacture issued by you with respect to the merchandise sold under that Contract and covering not less than the merchandise referred to in the relative invoice(s) then being presented to us hereunder, we hereby engage irrevocably to pay you promptly thereafter a sum corresponding to the amount(s) of the invoice(s), but not exceeding in the aggregate the sum of fourteen thousand eight hundred dollars ($14,800.00).

When submitting any such invoice(s) or when communicating with us regarding this letter, kindly refer to our above entitled number.

Very truly yours,

THE A. B. C. BANK,
Assistant Cashier.

In other words, the credit was issued for the main purpose of fulfilling the requirements inherent in the transaction as outlined already, and it satisfies both the buyer and the seller.

This sort of credit is primarily used by confirming houses or buyers for foreign houses. It permits the buyers to obtain the lowest possible prices. By acting as their own forwarding agent, they are able to combine their various purchases, thereby reducing their shipping costs.

The Red Clause

The "Red Clause" is the name given in international trade to the provisions inserted in a commercial letter of credit permitting the beneficiary to obtain funds from the notifying or confirming bank without presenting the customary shipping documents.

A case will illustrate the purpose behind this authorization. But first an explanation: It is the accepted practice that the beneficiary of a documentary letter of credit can obtain payment against such a credit only after he has presented to the negotiating or paying bank the shipping papers prescribed in the credit. In other words, the bank will

not make an advance against such a commercial letter of credit without the documents, even though such an advance is intended to permit the beneficiary to buy and assemble the merchandise desired by his foreign client. That condition means, of course, that the beneficiary must use either his own credit facilities or cash to finance the purchase of the goods ordered and covered by the ordinary letter of credit.

There is a way, however, by which the beneficiary enjoys the right to obtain funds from the bank against a documentary letter of credit without fulfilling the requirement of delivering the necessary shipping papers. The procedure is to request the buyer to issue or amend the credit so as to permit the beneficiary to draw funds without surrendering any documents at the moment, but with the proviso that in due time the beneficiary will deliver to the bank the shipping papers stipulated in the credit.

For example: let us assume that Jones acts as the trusted buyer for Bergen & Company of Oslo, Norway, and that he receives a commercial letter of credit containing the "Red Clause" provision. He can immediately request the bank to make an advance against the credit. With this money he may then proceed to buy in the open market the merchandise ordered by his client, Bergen & Company.

The bank will, of course, grant the advance to Jones; but he must also undertake to sign a document promising that, as soon as he has assembled the merchandise specified in the credit, he will ship the goods and then deliver the corresponding shipping papers to the bank.

The advantage of this provision is that the beneficiary, Jones, can finance his foreign purchases without using or taxing his own funds or credit. The advances Jones will receive, however, will not exceed the amount of the credit. In fact, sometimes this clause specifies that the advances to be given to the beneficiary should not exceed a certain percentage of the total amount of the credit. It may also demand that the advances be made only after Jones presents negotiable warehouse receipts representing a part, or all, of the goods ordered by Bergen & Company. Furthermore, when Jones liquidates his debt, he may have to pay the negotiating bank the interest that has accumulated against the advances of money he has received from the bank.

Under this type of credit, the foreign buyer must assure himself that Jones is a reliable man who can be fully trusted, since the bank will not be responsible for any differences that might occur between the advances made against the credit and the value of the goods received. In addition, the foreign buyer guarantees to pay the opening bank the total amounts advanced to the beneficiary, plus the corresponding interest. Should Jones fail to deliver the documents or ship the merchandise, the foreign buyer is responsible to the bank for the liability incurred by

Jones, which is represented by the advances the bank has made to the beneficiary, Jones, under the authority expressed by the letter of credit.

To the Beneficiary of a Letter of Credit

From the previous discussions it can be deduced that there are many types of commercial letters of credit. In fact there are as many as man's ingenuity has enabled him to design. This becomes evident as one glances through any number of credits emanating from different parts of the world. Those coming from the Middle East differ widely from those issued in England; and the credits received from banks in South America hardly resemble the credits issued by banks in China or Sweden.

These differences are due mainly to:

1. Governmental regulations.
2. Business practices prevailing in each country.
3. The natural desire of the foreign merchant to safeguard his commercial dealings as much as possible.
4. The interests of the foreign and American banks in the transaction.
5. The terms of sale as set by the seller.

These unavoidable factors hamper the exporter who considers the possibility of drafting a letter of credit that would satisfy his own wishes or demands. It is true that the exporter may insist on receiving a letter of credit payable against commercial or *pro-forma* invoice, or any other conditions that he might desire. Yet the exporter will eventually find that, unless the foreign buyer is extremely anxious to obtain the merchandise, the latter will resist the exporter's extreme demands. Commercial transactions cannot be one-sided. Neither the seller nor the buyer should bear all the responsibilities. They should be shared equally by both parties.

In summary, the exporter who wishes to draft his own form of letter of credit must consider, besides his own interest, the interest of: the buyer, the issuing and the paying banks, the governmental regulations prevailing in both countries, and, finally, the business practices prevailing in the country where the buyer is located.

It can be said, nevertheless, that the exporter may obtain all the protection he needs by requesting the buyer to supply him with an irrevocable letter of credit, confirmed by a United States bank, payable at sight in U. S. dollars upon presentation of shipping documents. The expiration date of such credit will depend, of course, on the time required by the exporter to produce or obtain the merchandise ordered by the importer.

If shipping conditions are such that the exporter is not certain when he will be able to ship the goods, then the credit can be made payable against warehouse receipt or certificate of manufacture in lieu of

shipping documents. At the same time, however, the exporter should agree to take care of shipping the goods at a later date.

Even though the foreign credit man has drafted the type of letter of credit he prefers, he should, nevertheless, scrutinize every letter of credit that comes to his desk, and remember the following rules and suggestions:

1. The documents should be presented not after the expiration date of the credit, but before. If the beneficiary encounters any delays in getting the shipment ready, he should have the credit extended. He may do so by requesting the bank, the agent, or the buyer to allow such an extension.

2. Do not make partial shipments when the credit requires one shipment. Either wait until the whole order can be shipped, or have the credit amended to permit more than one shipment.

3. Present the documents before the steamer carrying the goods reaches its destination. If the documents do not reach the consignee before the arrival of the merchandise, the delay might cause inconvenience, and often great expense, such as customs fines.

4. Each credit must be considered as a separate transaction. Therefore do not combine shipments authorized by different credits.

5. Do not present invoices exceeding the credit, or showing a larger quantity of goods than called for in the credit. The bank will not pay a draft that exceeds the credit.

6. The documents must correspond with each other. For example, the marks and numbers shown on the invoice should be the same as those shown in the bill of lading.

7. Do not fail to present to the bank every document requested in the credit. If the credit requests the presentation of an unobtainable paper, have the credit amended.

8. The description of the merchandise in the invoice as well as in the other documents should correspond with the description given in the credit.

9. Do not overinsure or underinsure the shipment. If the credit asks for a policy, do not submit an insurance certificate.

10. The insurance certificate or policy should not bear a date later than the date of the bill of lading.

11. Do not submit a foul bill of lading. The bank will accept only clean bills of lading.

12. Never submit a bill of lading marked "on deck" when such shipment is not authorized in the credit.

13. The bill of lading should be drawn in the manner indicated in the credit. If the credit requires an "order" bill of lading, do not deliver to the bank one issued in the name of the buyer, or vice versa.

14. If the credit requires an "on board" bill of lading, it must be so marked by the steamship company.

15. If the seller pays for the transportation charges, the bill of lading should be marked accordingly, that is, "freight prepaid."

16. If the credit does not cover the transaction properly, request the bank, the foreign agent, or the buyer to change it.

17. Follow the stipulations of the credit to the letter, but do not hesitate to ask the bank to explain and confirm in writing any wording in the credit that is not clear.

Customs and Practice for Commercial Documentary Letters of Credit

In every commercial letter of credit issued by an American bank, the following paragraph is inscribed:

Unless otherwise expressly stated, this credit is issued subject to all the pertinent terms, provisions and conditions contained in an instrument entitled, "uniform customs and practice for commercial documentary credits fixed by the Seventh Congress of the International Chamber of Commerce with guiding provisions," which are incorporated herein and made a part hereof.

The terms to which the above statement makes reference are as follows:

GENERAL PROVISIONS

a. The provisions, definitions, interpretations, and so forth contained in the following Articles are to be understood as uniform directions in regard to Commercial Documentary Credits, applicable exclusively when other express and previously agreed arrangements between the parties do not intervene, and when such contrary agreements are not expressed in the conditions of credits or of Commercial Letters of Credit.

b. It is essential that instructions regarding papers or documents required be complete and precise. If, however, this should not be the case and Banks find themselves obliged to pay against documents without these being particularly specified, they will refer to Section C of the present text. It is also necessary that the use of technical terms should not give rise to confusion, owing to different interpretation.

c. The beneficiary of a credit can in no case avail himself of the legal relations existing between Banks, or between the Bank of the principal (purchaser) and the latter.

A. Form of Credit.

Article 1. Commercial Documentary Credits are essentially distinct transactions from sales contracts, on which they may be based, with which Banks are not concerned.

Article 2. Commercial Documentary Credits may be either:

a. revocable, or

b. irrevocable.

Article 3. All credits, unless clearly stipulated as irrevocable, are considered revocable, even though an expiry date is specified.

Article 4. Revocable credits are not legally binding undertakings between Banks and beneficiaries. Such credits may be modified or cancelled at any moment without the Bank being obliged to notify the beneficiary. When a credit of this nature has been transmitted to a correspondent or to a branch, its modification or cancellation can take effect only upon receipt of notification by the

said correspondent or branch with which the credit has been made available.

Article 5. Irrevocable credits are definite undertakings by an opening Bank in favour of the beneficiary. Such undertaking can neither be modified nor cancelled without the agreement of all concerned.

Article 6. Irrevocable credits may be notified to the beneficiary through an advising Bank without responsibility on the latter's part when it has merely been asked to notify the beneficiary.

Article 7. An advising Bank may be called upon by the opening Bank to confirm an irrevocable credit. In this case, the advising Bank makes itself responsible to the beneficiary as from the date on which it gives confirmation.

Article 8. In the event of the period of validity of the credit not being stipulated in an order to open, to notify or to confirm an irrevocable credit, the beneficiary will be advised of the credit for information only, and this implies no responsibility on the part of the correspondent or advising Bank. The credit will only be irrevocably opened or notified or confirmed later when the correspondent or the advising Bank have received supplementary details on the duration of validity.

Article 9. When an irrevocable credit is opened in the form of a Commercial Letter of Credit, the Letter of Credit itself must include notification of the opening of an irrevocable credit and constitute the definite engagement by the issuing Bank towards the beneficiary and holder in good faith to honour all drafts issued by virtue of and in conformity with the clauses and conditions contained in the document. This document may be transmitted and/or notified by another Bank without engagement for the latter.

When a correspondent is instructed by cable or telegram to notify such Letter of Credit, the issuing Bank must send the original of the said Letter of Credit to the said correspondent, if it is intended to put the document itself into circulation; if any other procedure were followed, the issuing Bank would be responsible for all consequences which may result therefrom.

All the other provisions applicable to Commercial Documentary Credits are also applicable to the Commercial Letter of Credit.

B. Liability

Article 10. Banks must examine all documents and papers with care so as to ascertain that on their face they appear to be in order. Payment against documents in accordance with the terms and conditions of a credit by a Bank instructed to do so binds its principal to take them up.

Article 11. Banks assume no liability or responsibility for the form, sufficiency, correctness, genuineness, falsification or legal effect of any documents or papers, or for the description, quantity, weight, quality, condition, packing, delivery or value of goods represented thereby, or for the general and/or particular conditions stipulated in the documents, or for the good faith or acts of the consigner or any other person whomsoever, or for the solvency, standing, etc. of the carriers or insurers of the goods.

Article 12. Banks assume no liability or responsibility for the consequences arising out of delay and/or loss in transit of cables or telegrams, letters and/or documents, or for delay, mutilation or other errors in the transmission of cables or telegrams, or for errors in translation or interpretation of technical terms, and Banks reserve the right to transmit credit terms without translating them.

Article 13. Banks assume no liability or responsibility for consequences arising out of the interruption of their business either by a decision of a public authority, or by strikes, lockouts, riots, wars, acts of God or other causes beyond their control. On credits expiring during such interruption of business, Banks

will be able to make no settlement after expiration, except on specific instructions from their principal.

Article 14. Banks utilising the services of another Bank assume no liability or responsibility towards their principal (unless they themselves are at fault) should the instructions they transmit not be carried out exactly, even if they have themselves taken the initiative in the choice of their correspondent. Banks consider themselves authorised to make provision for credits with the Banks whose services they utilise, for the account and at the risk of the principal, and without any responsibility.

The principal (purchaser) is responsible to the Banks for all obligations imposed upon the latter by foreign laws and customs.

C. Documents

Article 15. Unless otherwise instructed, Banks consider themselves authorized to honour the documents which they judge necessary, if presented in a suitable form, viz.:

a. In maritime traffic:
   Full set of Sea or Ocean Bills of Lading in negotiable and transferable form;
   Transferable Policy or Certificate of Insurance; Invoice.
b. In inland traffic:
   Complete set of negotiable and transferable inland waterway Bills of Lading, or
   Inland Waterway Consignment Note, or
   Railway Consignment Note, or
   Counterfoil Waybill;
   Transferable Policy or Certificate of Insurance;
   Invoice.
c. In postal traffic:
   Postal Receipt;
   Transferable Policy or Certificate of Insurance;
   Invoice.

Banks have the right to waive insurance papers, if the beneficiary furnishes proof satisfactory to them that the insurance is covered by the principal or the consignee of the goods.

Article 16. The date of the Bill of Lading, or date indicated on the reception stamp of the Railway or Inland Waterway Consignment Notes, Counterfoil Waybills, Postal Receipts or other shipping documents will be taken in each case to be the date of shipment of the goods.

Article 17. Proof of payment of the freight will be considered by the Banks sufficient if the mention "freight paid" or other similar expression is affixed by stamp or in handwriting on the shipping documents.

Article 18. Shipping documents bearing reservations as to the apparent good order and conditions of the goods may be refused. Unless otherwise implied by the conditions of credit or documents presented, Banks may honour documents stating that the goods are subject to C. O. D., insofar as such C. O. D. represents freight or transportation charges.

Bills of lading

Article 19. When Sea or Ocean Bills of Lading are required, the following may be accepted:

a. "Received for Shipment," or "Alongside" Bills of Lading;
b. "Port" or "Custody" Bills of lading for shipments of cotton from the United States of America, drawn under the "Liverpool Cotton Bill of Lading Conference" of 1907;

c. Transshipment Bills of Lading which, apart from printed clauses permit transshipment on the way, on condition, however, that the entire voyage be effected under one and the same Bill of Lading.

Should it, for technical reasons be impossible that the entire voyage be covered by the same document, transshipment Bills of Lading may nevertheless be accepted without any responsibility for the Banks;

d. "Through Bills of Lading" issued by steamship companies or their agents. (See guiding provision No. 3.)

Article 20. Bills of lading issued by forwarding agents will be refused, as also Bills of Lading for shipment by sailing vessels. (See guiding provisions No. 1 and No. 7.)

Article 21. Banks have the right to accept Bills of Lading mentioning the stowage on deck of goods of a special nature, on condition that the insurance covers the risks arising therefrom.

Article 22. When shipment by steamship is required, Banks may consider themselves authorized to accept Bills of Lading for shipment by motor vessels.

Article 23. When "On Board" shipment is required and is evidenced by a "Shipped" or "On Board" Bill of Lading, the Bill of Lading date will be taken as evidence that the goods have been shipped on or before that date at the place of shipment indicated on the Bill of Lading.

When loading on board is evidenced by means of a notation, and if the documents are presented for payment or for negotiation after the date of shipment stipulated in the credit, this notation must give the date of the loading on board in the port of shipment indicated on the Bill of Lading. If the date of the loading on board is not given, the date of the notation will be considered as that of the loading on board.

Article 24. Banks have the right to require that the name of the beneficiary of the credit appear on the Bill of Lading as shipper or endorser.

Railway or inland waterway consignment Notes, counterfoil waybills, postal receipts.

Article 25. Banks will consider these documents as regular when they bear the reception stamp of the railway or postal authorities, or, in the case of Inland Waterway Consignment Notes, when signed by the master. The documents must indicate as consignee either the principal (purchaser) or the opening Bank.

Article 26. When an attestation or certificate of weight is required in the case of railway transport, Banks may refer to the indications contained in the shipping documents, on condition that weighing has been duly witnessed by means of a weight stamp or other official means. A weight attestation will only be required on special request.

Article 27. If, in the case of shipment by rail, by inland waterway or by post, the name of the beneficiary does not appear on the transport documents, Banks may require them to be countersigned by him.

Insurance

Article 28. Banks may accept either Policies or Certificates of Insurance issued by companies or their agents, by underwriters or eventually by brokers. (See guiding provision No. 2.)

Article 29. The minimum value insured must be the C. I. F. value of the goods insofar as it is possible to check it by means of the documents tendered, but in no case should it be less than the amount of the settlement, or than that of the invoice if the latter is higher.

Article 30. Failing instructions as to the risks to be covered, Banks will accept insurance documents as tendered providing that these cover the goods against transport risks.

Article 31. When a credit stipulates "Insurance against all Risks" Banks can in no way be held responsible if any particular risk is not covered.

Invoices

Article 32. Invoices must be made out in the name of the principal (purchaser) or in the name of any other person designated by him.

Article 33. In order to determine the quality of the goods, Banks may refer to the indications given in the Invoices, which should correspond with those stipulated in the credit. Banks will accept shipping or insurance documents bearing the generic description of the goods.

Other documents

Article 34. When other documents are required, such as: "Warehouse Receipts, Delivery Orders, Consular Invoices, Certificates of Origin, Certificates of Weight, of Quality or of Analysis," without further definition, Banks may accept such documents as tendered without responsibility on their part.

In special cases to be determined by Banks, the latter will require all other documents which they may consider necessary.

D. Interpretation of Terms

"About," "Circa" or similar terms

Article 35. These terms to be construed as allowing a difference not to exceed 10% more or less applicable, according to their place in the instructions or letters of credit, to the amount of the credit, or to the quantity or unit price of the goods. When the goods, by their nature, do not allow the delivery of the exact quantity indicated—as, for instance, oil in barrels, ore in bulk, chemicals in bulk or in cylinders, etc—a difference of 3% more or less will be allowed, even if the terms of the credit call for a fixed weight or measurement.

Partial shipments

Article 36. Banks may refuse to pay for partial shipments if they think it advisable. (This article superseded by guiding provision No. 4.)

Article 37. If shipment by instalments within given periods is specified, each instalment shall be treated as a separate transaction. The instalment not shipped within a given period cannot be added to subsequent shipments and is considered as *ipso facto* cancelled. Banks may however pay against documents for subsequent shipments provided they are made within the given periods.

Maturity and validity

Article 38. The period for which all irrevocable credits are to remain in force must be stipulated. The period may be either a time for payment or a time for shipment. If the credit does not specify which, the Bank shall consider the date to be the date for payment and after its expiration shall refuse payment, even if the documents bear a date within the time for payment.

Article 39. The words "to," "until," "till" and words of similar import applying to dates of maturity for payment or negotiation are understood to include the date mentioned.

Article 40. When the stipulated expiry date falls on Sunday or legal or local holiday, or upon any holiday recognized as such by the Banks, the last day of

the period of validity will be extended until the first following business day. This does not apply to the last day for shipment which must be respected whatever the day.

Article 41. The validity of a revocable credit, if no date is specified, will be considered to have expired six months from the date of the notification sent to the beneficiary by the Bank with which the credit is available and this Bank may refuse any payment after said period, unless its principal gives special instructions to the contrary.

Shipment, loading or dispatch

Article 42. "Prompt," "immediately," "as soon as possible," etc., these terms, and others of similar import, are to be interpreted as a request for shipment within thirty days from the notification to the beneficiary, unless a date has been stipulated. When the words "departure," "dispatch," or "loading" are used in Commercial Documentary Credits, and unless specific evidence in respect thereto is required, the Banks will consider these words as synonymous to "shipment," and they may be guided by the date appearing upon the Bills of Lading or other shipping documents.

Presentation

Article 43. Documents must be presented without delay. Banks may refuse the documents if presented to them too late, in other words at a date not justified by the usual time taken to cover the distance between the place of dispatch and the place where payment is made.

Article 44. Banks are under no obligation to accept documents outside their banking hours.

Extension

Article 45. Any extension of the period for shipment shall extend for an equal period the time fixed for presentation or negotiation of documents or drafts. (See guiding provision No. 5.)

Date terms

Article 46. The terms "first half," "second half" of a month shall be construed respectively as from the 1st to the 15th, and the 16th to the last day of each month, inclusive.

Article 47. The terms "beginning," "middle," or "end" of a month shall be construed respectively as from the 1st to the 10th, the 11th to the 20th, and the 21st to the last day of each month, inclusive.

Article 48. When a credit is opened as good "for one month," "for six months," etc., and the principal has not specified the date from which the time is to run, the time shall run from the date on which the beneficiary is advised by the Bank which notified the opening of the credit, and at which the credit is to be payable.

E. Transfer

Article 49. A credit can only be transferred on the express authority of the principal. In this case the credit can be transferred once only, and on the terms and conditions specified in the original credit, with the exception of the amount of the credit and of the time of validity, which both may be reduced.

If a commercial Documentary Credit is transferred by fractions, such fractional transfers shall be considered as constituting one single transfer only.

Authority to transfer a credit covers authority to transfer it to another place. Bank charges entailed by such transfers are payable by the original beneficiary unless otherwise specified. During the validity of the original credit, payment may be made at the place to which the credit has been transferred.

GUIDING PROVISIONS

1. In the U. S. A., Bills of Lading stipulating that they have been issued under the terms of and subject to the conditions of a "Charter Party" are not accepted unless expressly stipulated in the Credit.

2. In the U. S. A., "Insurance Brokers' Cover Notes" are not accepted unless expressly stipulated, as the banks in the U. S. A. construe the term "insurance" as either policy of insurance or underwriters' certificate of insurance.

3. In the U. S. A., "On Board Bills of Lading" are not demanded unless expressly required, even though the Credit mentions the name of a steamer.

4. In the U. S. A., documents for partial shipments are accepted unless expressly prohibited; even though the Credit mentions the name of a steamer, partial shipment or shipments by that steamer are accepted.

5. In the U. S. A., an extension of a date for presentation or negotiation of draft and documents is not considered as extending the date of shipment.

6. In the U. S. A., the Definitions of Export Quotations are those known as "American Foreign Trade Definitions," which were adopted at a conference held at India House, New York, on December 16, 1919, revised July 30, 1941, and which are now in wide use.

7. In the U. S. A., Railroad Through Bills of Lading are not accepted unless expressly stipulated, except on exportations via Pacific ports to the Far East.[5]

Presentation of Documents

It has been previously stated that all shipping papers must be drawn to conform to the instructions indicated in the credit. These papers are presented at the bank for the purpose of:

1. *Negotiating the Draft,* in which case the notifying bank advances the sum of money specified in the bill of exchange and covering the value of the goods, ocean freight, and insurance. This amount should not exceed the sum specified in the credit.

2. *Payment,* in which case the bank pays the full value of the shipment.

3. *Acceptance,* which is accomplished by the proper official of the bank by writing on the face of the bill of exchange, the word "Accepted," dating it, and placing his signature underneath. Illustration 1.

Commerce with Nations Engaged in Armed Conflict

As soon as war starts outside the United States, this government usually issues regulations tending to control its foreign trade. Invariably the measures exert an unexpected and a far-reaching effect on the meth-

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[5] "Uniform Customs and Practice for Commercial Documentary Credits Fixed by the Seventh Congress of the International Chamber of Commerce With Guiding Provisions" are distributed by the Committee on Foreign Banking, New York, N. Y.

ods of financing foreign trade, especially on those sales intended for the belligerent countries.

For example, the Neutrality Act of 1939, unlike the previous existing law, forced the banks to change their methods of financing merchandise bound for countries at war. The generally accepted practice followed was to negotiate, accept, or pay bills drawn against export commercial letters of credit upon delivery of the corresponding shipping documents. This prerequisite guaranteed the bank the right to hold the title to ownership of the merchandise. The Neutrality Act of 1939, however, amended this procedure and required instead that, if the purchases represented war material intended for any of the nations engaged in the conflict, the title of ownership was required to be transferred to the foreign buyer before the goods could be placed on board the steamer.

To estimate the effect this decree had on exporters, it is sufficient to consider the position of a beneficiary of an export letter of credit issued previous to the enactment of the law and maturing after it had gone into effect. The accepting or paying bank had to adjust such credits to conform to the legal requirements of the new act. Furthermore, the shipping companies as well as the insurance underwriters had also to modify their methods of operation to suit the new conditions.

It is therefore hardly necessary to add that, since political actions, social changes, and national conflicts invariably have their repercussions in this country, at such times the foreign credit man should seek the advice of bankers and individuals qualified to speak with authority on the possible effect such events will have on international trade.

Shipping Documents: the Intervening Parties

If we follow the successive steps of a single export transaction, we shall notice that several parties have intervened. Furthermore, each of these intermediaries has issued a document defining his responsibilities in the transaction. For example:

1. **Commercial invoice** is a document issued by the seller to the buyer detailing the transaction. It usually states terms of the sale, currency in which payment must be made, number of packages shipped, their gross and net weights, measurements, description of the articles sold, price per unit, total value of the goods, shipping as well as other expenses incurred, marks and numbers on the packages, and any other information that will help both the exporter and the importer to identify the transaction.

2. **Ocean bill of lading** is a receipt issued, usually in sets of three, by the steamship company (the carrier) proving to the shipper that certain goods have been delivered for transportation to a named destination. This document contains a description of the goods, numbers and marks on the packages, buyer's name in full, name of the consignee, and final

point of destination. It also contains the contract binding the transportation company and the shipper.

As stated before, the shipper is known as the *consignor,* and the party who receives the shipment is known as the *consignee.*

The goods may be consigned in the name of a given person. In that case the bill of lading is known as a "straight B/L." If the shipment is consigned to order, then the bill of lading is known as an "order B/L."

The second form is the most practical from the foreign credit man's point of view, since the title of ownership to the merchandise does not pass to the importer until the documents are released to him.

Bills of lading issued to order must be endorsed either in blank or in the name of some particular person or firm.

There are several other kinds of bill of lading, of which the most commonly known are:

(a) *Through B/L.* A through bill of lading is one issued by railroad companies that carry goods from the interior to the port of embarkation. They also make arrangements to ship the merchandise overseas, for which service they charge a fee.

(b) *Clean B/L.* A clean bill of lading issued by the steamship company indicates that the goods have been received in apparently good order and condition.

(c) *Foul B/L.* A foul bill of lading is one in which the carrier indicates that certain containers or cases have been damaged in transit.

(d) *On board B/L.* Frequently one reads in the instructions of the commercial letter of credit that the bill of lading must be "on board." This is accepted to mean that the bill of lading will not be issued until the goods have been placed on board the steamer carrying the merchandise.

(e) *Received for shipment B/L.* A *received for shipment bill of lading* is one issued upon delivery of the merchandise to the carrier.

(f) *House B/L,* or *Forwarding agent bill of lading.* This is one issued by a foreign freight agent, usually called a forwarding agent. (See Illustration 9.)

If, for example, Mr. Robert Henderson of Sydney, Australia, comes to this market to purchase goods, and he buys from ten different houses, it would be profitable for him to combine these purchases into one shipment.

If Mr. Henderson buys on sight draft payable on receipt of goods in Sydney, Australia, he will find it impossible to combine his purchases and at the same time issue ten original negotiable bills of lading. To be sure, the steamship company will refuse such an arrangement.

To overcome this difficulty, Mr. Henderson arranges with a forwarding agent to accept the goods delivered in his name and to issue a house bill of lading to the seller of the goods.

As soon as the foreign credit man receives the forwarding agent's bill of lading, he attaches it to his sight draft, which he will send to the bank for collection.

When Mr. Robert Henderson pays the draft in Sydney, Australia, he detaches the bill of lading, presents it at the office of the American forwarding agent in Sydney, and receives the merchandise.

It is obvious that when the goods are delivered to the forwarding agent he becomes the sole owner or custodian. Therefore, the advisability of accepting foreign orders under this condition depends on the integrity of the forwarding agent and the responsibility of the importer.

3. Marine insurance. Inasmuch as ocean carriers do not assume full responsibility for the cargo entrusted to them, exporters protect themselves against possible losses at sea by means of marine insurance. This insurance is available upon payment of a premium to the insurer, or "underwriter," who undertakes to make good for any losses or damage suffered by the shipper and arising from the perils of the sea, fire, and other causes enumerated in the policy. Such compensation will not exceed, of course, the amount for which the shipment is insured.

As an indication that such a policy has been obtained, the insurer draws what is called an *Insurance Certificate.* The document is made out in the name of the shipper and can be assigned by writing his name on the back of the paper. Illustrations 33 and 33A.

The insurance should cover the risks specified by the importer, which usually are the peril of the sea, war, men-of-war, theft, and pilferage.

Insurance may be taken for each separate shipment, or the exporter may arrange for a "Floating Policy," which protects every single shipment made, up to a specified maximum amount.

4. Other documents. There are other minor documents that must be submitted to the seller, such as:

(a) *Consular invoice,* which is a commercial invoice made out on a special form obtained from the consul of the country where the goods are to be shipped, and consulated by him.

(b) *Certificate of origin,* which verifies that the merchandise originated in the country stated therein.

(c) *Non-dumping certificate,* in which the seller certifies that the invoice prices of the goods are not below the current market prices.

(d) *Less frequently used documents,* such as proof of standard and quality and weight of the products, health certificate, inspection certificate, import and export licenses. The list is endless. The important point to bear in mind, however, is to produce whatever documents are required by the importer and the officials at the port of departure and the port of entry.

Examining the documents. Although the shipping department is responsible for the drawing of shipping documents, the credit depart-

ment will nevertheless find it advisable to examine documents pertaining to any commercial letter of credit, so as to ascertain that all the requirements set forth in the credit have been faithfully fulfilled.

The object is to avoid any discrepancies, for otherwise the documents will be returned and the draft will remain unpaid. In fact, the possibility may arise that while the documents are returned for correction the letter of credit may expire, which will compel the exporter to cable the importer requesting an extension of the letter of credit. Should the foreign buyer decline to extend the credit, the exporter will not be able to collect for the goods already en route to their destination.

It is therefore absolutely essential for the credit department to examine carefully each detail of the draft and documents, which must agree in every respect with the details given in the commercial letter of credit. For example, a woolen house received a letter of credit which specified that the invoice declare the merchandise to be "woolen clothes." But since this firm does not sell woolen clothes, it must have the credit amended to read "woolen cloth." No doubt this was nothing more than a slight mistake on the part of the typist, or an error on the part of the foreign bank that prescribed in the credit "woolen clothes" instead of "woolen cloth." Nevertheless, since the beneficiary does not deal in "woolen clothes," it has to have the credit amended to read correctly.

It is advisable then for the foreign credit man first to examine carefully the letter of credit before accepting the order. If he cannot comply with the stipulations of the credit, he should proceed to have it amended to his satisfaction. Second, before presenting the draft and the shipping papers to the bank, he should exercise the utmost care in examining every document as well as the draft. This examination must be made in an orderly manner. Attention is first given to the draft, as follows:

1. He will examine it to see that it has been properly drawn as specified in the credit, as to the amount and tenor. The drawee's name and address should be clearly written. If the draft is to be drawn on the importer without recourse, the words "Without recourse to:" should appear above the name of the drawer.

2. If the payee of the draft is the beneficiary of the letter of credit, he should not neglect to sign and endorse the draft.

3. The face value of the draft should equal the total amount of the commercial invoices plus the expense bills. This total should not exceed the amount specified in the commercial letter of credit. Furthermore, the draft must be drawn and presented to the bank before the letter of credit expires.

Once the foreign credit man has satisfied himself that the draft has been properly drawn, he proceeds to examine the shipping documents. This, too, must be done methodically, without neglecting to consult the

credit every time he examines a new document. If necessary, he should have two people check the details.

The procedure is as follows:

1. The invoice is scrutinized to determine that:

(a) The name and address of the buyer is correct.

(b) It contains the number of the order, the number of the invoice, and the number of copies demanded.

(c) The cases, measurements, weights, and marks have been properly noted on the invoice.

(d) It shows in detail the goods ordered, the quality and quantity called for in the letter of credit.

(e) The price and the total amount agree with the price and amount specified in the credit.

2. The bill of lading must agree with the commercial invoice in regard to:

(a) Quantity.

(b) Description of the goods.

(c) Port of destination.

(d) Marks.

(e) Number of cases or packages.

The bill of lading should also agree with the specification of the credit as to how it should be drawn; that is, to order, in favor of the importer, or in favor of the opening bank. If the credit requires "on board" and "freight prepaid" bill of lading, then it should be marked accordingly and signed by an authorized official of the steamship company.

3. The insurance, when required, and the insurance certificate should show:

(a) The same kind and quantity of goods as shown in the commercial invoice.

(b) That it covers exactly the risks specified in the letter of credit, no more and no less.

If the insurance certificate shows that it covers risks not prescribed in the credit, the bank will refuse to pay the draft, claiming the excess coverage an unnecessary expense. If the letter of credit merely specifies "marine insurance," without hesitation the bank should be requested to define exactly what it means by "marine insurance," and to state exactly what insurance coverage is desired. It should be stressed again and again that, whenever the foreign credit man encounters any phrase in a credit which is not clear, he should immediately request the bank to explain in writing the meaning of the phrase.

4. The consular invoice should also agree with the details set forth in the commercial invoice.

5. Any other paper called for in the credit should also be examined

with the idea of determining that it is exactly the document required by the credit.

Finally, as far as the bank is concerned, the documents requested in the letter of credit must be drawn in accordance with the provisions of the letter of credit. If those provisions do not agree with the sales contract, the beneficiary will either follow the instructions contained in the letter of credit, or have the credit amended to conform to the terms of the original contract. In other words, the beneficiary should not adhere to the instructions of the contract when the sale is made against a letter of credit. He should reverse the procedure and follow the requirements of the credit.

Discrepancies in Documents under a Letter of Credit

Discrepancies in documents are due primarily to drawing the papers contrary to the general practice followed in making the documents in export business, or preparing them at variance with the instructions contained in the letter of credit.

For example, the bank must have in its possession a complete set of documents as specified in the credit before it expires. If for some reason the beneficiary overlooks this requirement and delivers the papers after the expiration date, the bank will naturally decline to honor the draft. Its only alternative is to return to the beneficiary the draft together with the documents. In these circumstances the only thing the exporter will be able to do to effect collection is to have the credit extended. This he may accomplish by cabling the importer directly, or through the bank, for additional time that will permit the American bank to recognize the presentation of the documents and to honor the draft.

It is important to remember that if the bank returns the documents because of discrepancies, and while the documents are being corrected the letter of credit expires, the beneficiary will not be able to collect the proceeds of the draft unless the buyer grants an extension on the credit.

Another rule that must be observed is to present the documents to the bank as soon as they have been prepared. Any delay in this respect might prevent the consignee from receiving the shipping papers at the time when the goods reach their destination. This will naturally cause inconvenience and annoyance to the buyer. In fact, he must incur additional expenses only too often in order to expedite the clearing of goods without the necessary papers.

When documents are presented with so much delay that it is impossible to forward them by the same boat that carries the goods, the bank as a rule refuses to honor the draft drawn under the authority of the letter of credit. Such documents are called *Stale Documents.*

If the letter of credit distinctly specifies that the bill of lading be issued in the name of the buyer or consignee, and the bill of lading is presented in negotiable form, the bank is not obliged to accept the documents; in fact it will decline to honor the draft unless the beneficiary obtains an amendment to the credit permitting the bank to honor the draft.

A letter of credit is a binding contract; thus when a bank confirms any commercial letter of credit, it obligates itself to adhere to all the conditions specified in the credit. If the beneficiary is not able to follow the instructions, there is only one solution: to have the credit amended to conform to the desires or requisites of the beneficiary.

Guarantees Issued to the Bank by the Beneficiary of a Letter of Credit

Whenever a responsible exporter who is a beneficiary of a letter of credit draws the documents in a way not satisfactory or not in accordance with the stipulations of the commercial letter of credit, the beneficiary, as stated before, may have the credit amended so as to permit the bank to honor the draft.

Another method to be followed by the beneficiary for collecting against a letter of credit, although the documents are not in order, is to give a guarantee to the bank. This guarantee holds the bank harmless should the importer refuse to honor the draft. If the foreign buyer declines to pay the amount of the shipment, the American bank will reclaim whatever money has been advanced to the beneficiary plus the accumulated interest.

The bank in this case takes the position that the payment received by the exporter is nothing else but an advance of funds, which must be returned if the importer declines to accept the shipping documents. If, on the other hand, the importer gives a waiver for the discrepancies, then the beneficiary's guarantee will not be required by the bank.

The guarantee usually accepted by the bank is similar to the one shown in Illustration 69.

The Bank Honors the Credit

Let us assume that the point has been reached when the seller has prepared his shipping documents and the goods are on their way to the foreign buyer. The questions arise:

How does the exporter get paid?

When does the buyer pay for the goods?

Let us follow step by step the final stages of this transaction:

1. First of all the exporter draws a draft. The letter of credit may specify that such a draft be drawn:

(a) On the American bank.
(b) On the foreign bank.
(c) On the foreign buyer and without recourse.

2. Once the draft has been drawn, the original is attached to the shipping documents and presented to the American bank, which will examine the papers to ascertain whether they have been drawn in accordance with the instructions specified in the credit. If correct, the bank pays or negotiates the bill.

3. The next step is for the American bank to mail the documents to the opening bank, which is, of course, the foreign bank, but first charging the latter's account for the money advanced to the exporter.

4. As soon as the papers are received by the foreign bank, they are presented to the buyer, who will pay the full amount of the shipment. These steps can be presented in diagram form as follows:

Explanation:

1. The exporter, No. 1, presents the documents to the American Bank, No. 2.

2. The American Bank, No. 2, pays and charges the Foreign Bank, No. 3, with the sum in question.

3. The American Bank, No. 2, mails the documents to the Foreign Bank, No. 3.

4. The Foreign Bank, No. 3, presents the documents and collects the value of the shipment from the buyer, No. 4, and the transaction is closed.

The Trust Receipt Abroad

When a bank extends credit to a merchant in the form of a letter of credit, it demands some security from the borrower, as a rule, the owner-

September 3rd, 1946

The ——— Bank,

New York, N. Y.

Attention: Manager, Foreign Department

Gentlemen:

RE: Letter of Credit No. E 49396, amount $22,000.

Account A. T. Kai & Company.

Reference is made to the above captioned Letter of Credit. In consideration of your honoring our draft No. 1149, dated August 15, 1946, in the amount of $7,326.51 drawn under the subject Letter of Credit, we hereby agree to hold you free and harmless on any and all consequences which may arise by reason of the following discrepancies in documents tendered to you: the credit provides for marine insurance including war risk and the certificate of insurance provided for all risk coverage.

Very truly yours,

———

Illustration 69. LETTER OF GUARANTEE FROM THE BENEFICIARY OF A LETTER OF CREDIT TO THE BANK.

ship of the goods while in transit. This is accomplished by having the bill of lading issued in the name of the bank granting the credit accommodation. Since the borrower must eventually have possession of the goods in order to dispose of them, it becomes essential for the banker to find a method to release the shipment in trust.

This is done by creating a legal document known as a *Trust Receipt.* In this commercial instrument the buyer acknowledges receipt of certain goods, and binds himself to pay the bank the money advanced from the proceeds of their sale. He may either pay the full amount at once, or pay by installments.

There are several types of trust receipt, the most generally used being:

(a) Trust receipt granting the merchant full possession of the goods.

(b) Trust receipt permitting the transfer of the goods from the vessel to the bank's warehouse. The warehouse receipt issued by the warehouse company is, of course, delivered to the bank. Under this arrangement the merchant obtains deliveries as payments are made.

(c) Trust receipt allowing the goods to be released to the merchant with the understanding that they must be kept separate from other merchandise in the establishment.

Trust receipts in the Far East. In discussing drafts drawn on the Far East on D/P basis, the fact was mentioned that the exporter gives authority to the collecting bank to release the documents on its own responsibility. This release is accomplished by the collecting bank by means of the trust receipt. For example: The exporter shipped goods to, let us say, Yon Pon Lee, of Manila, P. I. The terms were 90 days sight D/P. Authority was given to the bank to release the shipping documents on its own responsibility. If the bank decides to release the shipping papers, but also wishes to have some security, the bank then agrees to release the documents to the drawee provided he signs a trust receipt.

Before authority is given to the bank to release the documents against trust receipt, the foreign credit man should ascertain the financial responsibility of the collecting bank, as well as its policies in extending credit. If the bank grants credit too liberally, he should be cautious in extending the privilege of delivering the shipping documents against trust receipt. Another point to investigate in this respect is the legal status of the trust receipt in the country where it is issued.

In summary, if the credit man intends to instruct the collecting bank to release the shipping documents against trust receipt, it would be to his advantage to send his documentary drafts through a bank fully acquainted with the commercial practices in the Far East, and one which is financially responsible.

The trust receipt in Latin America (receipt in trust). Throughout Central and South America, the trust receipt, as commercially known, is nonexistent. Instead they have what is called a *Receipt in Trust.*

This document is issued by the collecting bank, holder of a documentary draft, and is signed by the importer when he receives the shipping documents from the bank. The documents are released for two reasons:

1. To permit the importer to examine the merchandise covered by the documentary draft.

2. To obtain foreign exchange from the government, which refuses to sell dollars unless the shipping papers are presented.

Under this document the exporter receives no protection whatsoever. In fact, from the moment the bank releases the documents, the ownership of the goods rests with the importer, possessor of the shipping papers. In case of bankruptcy the exporter has no right to recover the goods, and he will be accepted by the courts only as a general creditor. The merchandise covered by the documents released will, of course, be included as an asset of the bankrupt account.

The trust receipt in Europe. This document is extensively used in England, but since the banks follow a very cautious policy, the goods are released only under very strict conditions.

On the continent the trust receipt is rarely employed. Another instrument, which to a certain extent fills the purposes of the trust receipt, is preferred. It is known as the *warrant*.

The Warrant

This is a negotiable paper similar to the warehouse receipt, and possessing the functions of a trust receipt. It is issued in duplicate and contains a full description of the merchandise, marks, and other details permitting the owner to identify the articles. The holder of the warrant is recognized as exercising a lien on the goods. Therefore, by releasing this paper to a bank the owner may obtain a loan. It also follows that if the bank fails to collect the debt, the goods will be sold to satisfy the obligation.

CHAPTER XV

EXPORT BUSINESS FINANCED BY THE FACTOR. FOREIGN CREDIT INSURANCE GUARANTEES

FACTORING EXPORT BUSINESS: THE FUNCTIONS OF THE FACTOR IN DOMESTIC TRADE

Factoring first appeared in Europe in the fourteenth century,[1] when the factor's principal activity was to finance foreign trade. In this country it was introduced early in the nineteenth century.[2] At that time the factor not only financed the sales of foreign textile mills doing business in the United States, but also acted as their sales representative. As the domestic textile industries expanded, the factor also proceeded to extend its facilities to them by acting as their selling and financial agent. This dual service rendered by the factor has recently been discontinued. The selling is now mainly done directly by the textile mill itself, or through a commission house; and the factor undertakes to finance textile mills, as well as commission houses, manufacturers, agents, and other commercial enterprises not related to the textile trade.

A factor is a mercantile house concerned especially with the financing of manufacturers, commission houses, and selling agents, through the purchase and discount of receivables created by the sales of merchandise.

The services a factor offers are as follows:

1. It assumes the credit risk.
2. It discounts customers' bills representing sales of merchandise.
3. It makes temporary advances, both unsecured and against merchandise collateral, offers advice on financial questions, and occasionally extends additional assistance in the form of long-term credits and loans.

In practice the factor takes over the functions and work of the credit, the accounts receivable, and the collection departments of the factored concern. It does so by means of a legal contract providing for the necessary assignments and by notifying each customer that the bill rendered has been assigned to the factor. This notification must appear on all invoices, and reads as follows:

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[1] Saulnier, R. J. and Jacoby, N. H., *Accounts Receivable Financing*, National Bureau of Economic Research.

[2] The oldest factoring house in the United States, which is still active, is William Iselin & Company, Inc., of New York, established in 1808.

This bill is assigned to and payable only to our factors, XYZ Corporation, to whom notice must be given of any merchandise returns or claims for shortage, non-delivery, or for other grounds.

It is needless to add that the factor, for the services it renders of assuming the credit risk and the accounts receivable bookkeeping, charges a commission. The receivables are discounted at the customary rate of six per cent per annum; and the amount is immediately credited to the account of the assignor, who is free to draw the resulting credit, subject, of course, to a reserve. This reserve varies, and is intended to cover any shrinkages of the bills discounted because of merchandise claims, errors, or disputes.

In other words, the factoring charges are of two varieties: one is represented by the commission the factor charges for assuming the credit risk; the other covers the charges for the discounting of receivables prior to their maturity.

The Factor, the Exporter, and the Risks

Early in this book (Chapter VII), it was pointed out that five distinct hazards are present in every foreign transaction, namely:

1. The Market Risk.
2. The Exchange Risk.
3. The Credit Risk.
4. The Marine Risk.
5. The Merchandise Risk.

The merchandise risk is beyond the scope of this book. The marine risk is absorbed by the insurance company. The market and credit risks the exporter eliminates by accepting the services of a factor, who may also be willing to accept the exchange risk under certain limitations. For example, if exchange regulations are enacted after the shipment has been accepted by the importer, the factor will absorb the loss suffered, if any. If, on the contrary, such regulations are decreed before the arrival of the shipment or its acceptance by the importer, the risk will rest with the factored account, that is, the exporter.

The factor, of course, cannot be held responsible in any way for merchandise claims or disputes, for damages or losses encountered by the buyer for lack of sufficient marine insurance, or for fines imposed at the port of entry for irregularities or errors in the shipping documents when drawn by the seller. Furthermore, the factor will withdraw his credit guarantee to the exporter in case of fraudulent practices or misstatements by the exporter.

Method of Operation

Factoring is a highly specialized business, limiting its activities to the same functions exercised by the credit and the accounting departments

of any commercial organization. Export, on the other hand, demands the close co-ordination of its various operations, such as merchandising, shipping, and credit. It is essential, therefore, for the factor as well as for the exporter, to weld together their respective interests in order to function efficiently and smoothly, like one unified organization.

To accomplish this co-ordination, the exporter should direct his energy to the business of production and distribution, transferring the work of the credit, shipping, and bookkeeping departments to the factor. By performing these three functions, and especially the first two, the factor is able to inject itself into every commercial transaction the exporter develops abroad. Furthermore, when the factor attends to the shipping of the merchandise, it may issue the corresponding bills of lading in its own name. This practice would permit the factor to hold title to the merchandise shipped against documentary draft, until the foreign buyer has accepted or paid the draft issued by the factor, and covering the sales made by the exporter.

If the exporter takes care of the shipping, he must agree to deliver to the factor all shipping documents in duplicate. The factor will either mail the documents directly to the buyers who buy on open account terms, or attach the documents to the drafts drawn against the buyers who do not receive open account terms. In either case the exporter will notify the buyer in writing that the payment of the bill is to be made directly to the factor. Such a letter should be attached to the documents intended for the foreign buyer. The duplicate set of shipping papers will be held by the factor for future reference.

For the proper functioning of the credit department, the factor must develop a well-knit organization, and its operation should be identical to that outlined in Chapter IV.

Briefly stated, the requirements are as follows:

1. *Reliable sources of information,* which will enable the factor to ascertain the condition of the market, the credit standing of the importer, and the trend of the exchange.

2. *A steady flow of business,* which will bring the income necessary to make the venture profitable.

3. *A competent office staff,* thoroughly acquainted with various phases of export business, able to execute shipping documents, to handle the correspondence, and to attend to the granting of credit, bookkeeping, as well as collecting the accounts.

4. *The selection of able foreign agents.* Success in export business depends to a large extent on the agents. The factor should therefore insist that the factored account select men who are not merely salesmen, but who are respected, experienced, capable, and well known to the market they represent for their integrity and honesty. Above all, they should be alert and able to act quickly whenever the occasion arises.

The factor should refuse to extend credit in any country where the factored account is not properly represented.

At this point it would be well to mention that the factor should refuse to guarantee foreign sales made by an exporter who is financially weak and who sells a poor quality of merchandise. Such exporter will always be ready to push his sales to all countries in the hope of improving his financial position; but experience has shown that dumping merchandise in foreign markets has always brought grief and never relief.

Rate

The factoring rate in export business depends entirely on:

1. The volume of business to be done.
2. The credit conditions of the market.
3. The general credit standing of the importers.
4. The terms of sale.
5. The exchange or transfer risk.
6. The type of factoring desired by the exporter:

(a) Discounting and guaranteeing the foreign sales against the insolvency of the buyer.

(b) Discounting the sales and assuming the credit, exchange, and market risks.

(c) Discounting the foreign sales with full recourse; that is, in the event the buyer fails to pay, the exporter assumes the loss.

(d) Discounting the bills on a basis where part of the risks are shared by the exporter.

In other words, the rate will vary in accordance with the services rendered. As a rule the rate of commission charged for guaranteeing the foreign sales amounts to anywhere from one per cent for bills payable on presentation of shipping documents in this country, to five per cent for sales made on terms of 90 days date or 60 days sight. An additional charge is always made if the shipping documents are prepared by the factor.

The Contract

The terms under which the factor and the exporter agree to function constitute the contract. Its conditions are dictated by the exigencies of the trade and the markets to be covered by the agreement. In a general way, the contract deals with the following issues:

1. All orders intended to be shipped abroad must be submitted to the factor for approval.

2. All sales made by the exporter to foreign buyers or intended for foreign buyers will be assigned to the factor.

3. Invoices will be issued on forms approved by the factor.

4. All shipping documents must be drawn by or delivered to the factor, who will in turn mail them to the consignee, or send them for collection through the collecting bank attached to the draft drawn by the factor.

5. The factor has the right to withdraw the credit approval of any order for monetary reasons, for unfavorable exchange conditions, unfavorable developments in the country where the goods are intended to be shipped, or similar events that might take place prior to the acceptance of the goods.

6. The factor has the right to withdraw credit approval in consequence of unsettled merchandise disputes.

7. Money advanced for merchandise rejected will be charged back to the factored account.

8. The factor agrees to guarantee, without recourse, a portion of the C. I. F. value of the foreign bill. The balance is to be credited to the exporter when the factor receives the full payment of the foreign bill.

9. The exporter warrants that each account presented is based on actual shipment of merchandise as ordered by the importer, and the said importer has legally bound himself (through the medium of a sales contract) to accept the shipment as stated in the invoice submitted to the factor.

10. Should the exporter receive any payments from abroad, he agrees to turn them over to the factor.

11. All invoices are to be assigned to the factor as follows:

> This bill is assigned to and payable only to our factors, the XYZ Corporation, to whom notice must be given of any merchandise returns or claims for shortage, non-delivery, or for other grounds.

12. The factor does not assume any responsibility for shipping documents drawn by the exporter.

13. The contract defines the life of the agreement and the manner in which it shall be terminated.

14. The factor receives power of attorney from the exporter permitting the factor to sign drafts and all types of documents.

15. Irregularities, false or fraudulent claims, misleading statements in any material respect on the part of the exporter, permits the factor to withdraw credit approval, and to charge back whatever money has been advanced.

16. The factor assumes the credit risk after the merchandise has been accepted by the importer.

17. Finally the contract specifies the rate of commission to be charged to the exporter for guaranteeing the sales, as well as the rate of interest to be collected for discounting the receivables.

Form of Contract

This will confirm our agreement to act as factors for the sale of your (name products) to foreign buyers and to domestic exporters.

This arrangement shall apply only to the sale of (name products) to foreign buyers and domestic exporters in terms of United States dollars. Our credit approval will obligate us to assume two risks—as hereinafter more particularly defined:

(1) Failure of the customer to pay in full because of his financial inability; and

(2) Failure of the customer to pay in full because of governmental restrictions prohibiting the transfer of funds out of his country. However, we are free to withdraw our credit approval if new exchange regulations are enacted which in our estimation would make it impossible to transfer payments made by the foreign buyer.

In the event the customer does not accept the draft or pay it in full at its due date for any reason other than the two above mentioned, we are not to be responsible for collection.

Our credit approval will be given to you in writing and will be considered as going into effect when the merchandise has been actually delivered to and accepted by the buyer. In cases where you receive orders from buyers to be paid for by third parties, such arrangements are to be confirmed by the third parties and their credit approved. If letters of credit are involved, they are to be acceptable to both you and us.

In submitting orders to us for approval you will specify the terms, delivery dates, and any other pertinent information. We will draw up the drafts, but the shipping documents will be taken care of by you and turned over to us in the ordinary course.

All invoices must bear on their face the following notice:

"This account has been assigned and is payable to ..... New York City, who are to be notified at once of any objections to this bill. Payment must be made directly to ..... New York City, by approved banker's draft drawn at sight on New York in U. S. Dollars."

The full amount of any shipment, less our charges and discount, will be credited to your account as soon as the shipping documents have been received by us and the draft prepared, but we shall have the right, if we consider it necessary, to retain an amount of past sales reasonably necessary as a reserve against possible returns, claims, defenses, and any items which are properly chargeable to you. Your credit balance with us is to be subject to withdrawal by you at any time, qualified by the above mentioned reserve.

We will render an extract of your account current as of the end of each month and a closing thereof as of June 30 and December 31, and at other dates if you so request, with interest debit and credit at the rate of six per cent (6%) per annum. In this account current you will be credited with the net proceeds of account sales, with your share of net recoveries, and with any other amounts properly creditable to your account, and you will be charged with any commission, interest, or expenses owing to us, with your share of credit losses, and with all payments made to you or for your account. Accounts are to be considered accepted by you unless we receive in writing, within thirty days after rendering them, any objections thereto with specifications.

Under our assumption of credit risk we will be responsible to you for the

payment of eighty per cent (80%) of the C. I. F. United States dollar value of the invoices. Should a bill or draft not be paid for any reason for which we are not responsible, or should any unadjusted claim or dispute arise, we are to have the right to charge back to your account the amount credited to it in connection with the particular shipment involved, together with interest at the rate of six per cent (6%). Should it happen that after our credit approval has been issued the credit of the buyer should become impaired to such an extent that it would not justify our original credit approval, we shall have the option to withdraw such credit approval, but only provided the draft has not yet been accepted by the buyer. You will report to us any instances that come to your attention where merchandise has been rejected, claims have been asserted, changes in deliveries or terms made, and any other information necessary for the correction of our records. You are to adjust promptly all claims and disputes with customers, with prompt advice to us of any allowances granted.

All accounts receivable hereafter created by your sales to foreign customers and domestic exporters, together with your rights to the merchandise if returned, are hereby assigned to us in absolute ownership. We are to have the right to institute and maintain actions and proceedings in the name of..... (factored account) to collect such accounts and shall be entitled to exercise all the rights of an unpaid seller, including the rights of replevin, reclamation, and stoppage in transit, and any merchandise recovered will be dealt with, as between us, as returned merchandise. To help us to establish the collectibility of accounts, you will give us access at all reasonable times to your books, accounts, correspondence, and other records relating to the sales and accounts assigned to us.

The determination of a credit loss insofar as your twenty per cent (20%) responsibility is concerned will be determined solely by us in accordance with our usual factoring practice approved by our auditors. A credit loss shall mean the gross loss including collection expenses less the amount of any recoveries. All net recoveries obtained shall be applied to losses in the ratio of twenty per cent for your account and eighty per cent for ours.

If any checks, drafts, notes, acceptances, other moneyed instruments, or cash in payment of any of the accounts receivable assigned to us hereunder should come to you, they shall be received in trust and immediately turned over to us.

In the event that we shall decline to assume the credit risk on any sales submitted by you, you shall have the privilege of making such sales at your own risk and without responsibility on our part. Upon all sales so made you hereby undertake and guarantee to us payment in full of each account at the maturity date thereof and, in consideration of such guarantee, we agree to refund to you fifty per cent (50%) of our commission on each such sale. Notice of default is hereby waived by you. Should any such account be due and owing according to the terms of the sale and not be paid, we may, at our option, charge back to you in account current the amount theretofore credited to you by reason of such sale, together with interest thereon.

For our services we shall be entitled to receive commissions (based on the C. I. F. United States dollar value of the shipments) as follows:

On sales made against confirmed and irrevocable letters of credit, one half of one per cent (½ of 1%);

On sales made to foreign customers on terms not exceeding thirty (30) days sight, three per cent (3%), where terms exceed thirty days sight, three per cent (3%) plus one per cent (1%) for each additional thirty (30) days added; and

On sales made to United States exporters on terms not exceeding thirty (30) days, one per cent (1%).

This agreement will become effective only when accepted by us and signed by one of our officers in New York City, and the agreement, together with all assignments of accounts hereunder, is to be construed according to the laws of the State of New York. It will then go into effect as of the date hereof and is to continue from year to year thereafter on a calendar basis until terminated by either party on ninety (90) days' notice in writing prior to the end of any calendar year. The termination of this contract shall not affect any of your obligations with respect to accounts receivable purchased by us or any advances made by us prior to the effective date of such termination. Should either party be in default hereunder, or become insolvent, or fail to meet its debts as they mature, or commit an act of bankruptcy, this agreement shall be terminable by the other at any time.

If this agreement meets with your approval, may we ask that you kindly sign both copies of this letter and return to us. We will then sign one copy and return it to you.

Date .....

Read and agreed to:

....

(Signature of Factored Account) (Signature of Factor)

Foreign Bills Discounting Houses

A discounting house, as known in domestic business, is a financial institution that specializes in purchasing commercial papers arising out of certain business transactions.

A foreign discounting house follows a similar policy: it purchases documentary foreign bills of exchange; but in addition it performs some of the functions of the factor. For example, besides buying the draft, it assumes the credit risk of the C. I. F. value (C. I. F. as used here means the cost of the goods, plus the cost of the marine insurance, plus the costs of the freight) of the foreign sale or a portion of it. It must be added, however, that the discounting house assumes such a risk provided the foreign order has been submitted and approved beforehand by it.

Perhaps the most striking difference between the factor and the foreign discounting house is that the latter rarely assumes the risks of sales made on open account basis. In other words, the primary function of the foreign discounting house is to advance funds up to a certain percentage of the face value of a documentary draft, and without recourse. Moreover, under this arrangement, as a rule, the commercial invoice does not contain the assignment clause usually found on invoices issued by commercial houses which are factored.

Let us take a practical case: Let us assume that the exporter wishes to enter into an agreement with Jones and Company to discount his foreign bills without recourse.

The interested parties first draw *a contract,* which in substance states:

1. The exporter must submit to the discounting house for credit approval the orders he intends to ship abroad, and to be paid by the importer in U. S. Dollars only.

2. These orders will be shipped against negotiable documentary drafts on which the discounting house agrees to pay 80 per cent of the face value, which will include the cost of the goods, the cost of marine insurance, and the shipping charges.

3. The drafts will be sent for collection through banks that meet the approval of the discounting house.

4. On receipt of the proceeds of payment for the draft or drafts from abroad, the discounting house agrees to remit to the exporter a statement of his account, and a check covering whatever money might be due him, which is represented by the difference between the value of the draft less the money advanced, or 80%, and less any charges or expenses incurred, or any other deduction or deductions made from the draft by the collecting bank.

5. For this service the discounting house will charge four per cent of the face value of the draft, plus interest at the rate of six per cent per annum on the money advanced for the period this sum is outstanding. Interest on sight drafts will be waived for the first 60 days.

6. The service charge and the interest will be deducted either from the advance made against the draft or from the proceeds of payment when received by the discounting house.

7. In consideration of the 80 per cent payment made to the exporter, he agrees to pass title of ownership of the documents covering the merchandise shipped, and of the draft, both of which will be delivered to the discounting house together with the original signed order. The foreign discounting house, in turn, makes the 80 per cent payment to the exporter without recourse to him.

8. The exporter assumes all responsibility for the authenticity of the importer's order and its correct execution.

9. Each of the provisions attached to the contract is incorporated as a part of the contract.

The provisions define the method of operation and the responsibilities of both parties. The following are the most important provisions:

It is the responsibility of the exporter to comply with all the conditions specified by the importer in the order.

The exporter is fully responsible for any mistakes, errors fines, and so forth, occurring in the documents; and the acceptance of the shipping documents by the discounting house does not relieve the exporter from the responsibility stated in the preceding paragraph.

The exporter assumes all deductions made from the draft represented by out-of-pocket expenses, all collection fees incurred in handling the collection of the drafts, airmail charges, cable expenses, foreign bill

stamps, and any other deduction or deductions made from the draft, or for fines, claims, or disputes arising out of the transaction.

The exporter is responsible for any expense incurred in enforcing payment of the draft or drafts, and/or storing, insuring, reshipping, or disposing of the merchandise.

Although it is the policy of the discounting house to allow complete freedom in the relationship existing between exporter and importer, the foreign discounting house reserves the right, nevertheless, to inject itself into this relationship whenever in its opinion its interests are jeopardized.

Once the contract has been signed by Jones and Company and the exporter, the latter proceeds to submit for credit approval every order the seller receives from abroad. Those which are accepted by Jones and Company the exporter prepares for shipment; that is, the seller will draw the necessary documents which will permit him to ship the goods to the foreign buyer.

The next step is for the exporter to draw a draft in favor of Jones and Company for the full amount of the goods, plus the insurance, the freight, and other charges collectible from the importer. The draft, the corresponding shipping documents, and the original signed order are delivered to Jones and Company.

A practical transaction under this arrangement:

If we assume that the draft covering the foreign shipment amounts to $1,000, and if we further assume that the foreign discounting house agrees to guarantee 80 per cent of the face value of the bill of exchange, Jones and Company will then proceed to advance without recourse to the exporter the sum of $800. This advance is made on delivery to Jones and Company by the exporter of the following papers:

1. Documentary draft drawn on the foreign buyer, and made out to the order of Jones and Company.
2. Negotiable shipping documents.
3. The original order covering the transaction.

From this sum Jones and Company will also deduct its commission and the interest at the rate of six per cent, or whatever rate has been agreed upon, for the time the payment of $800 is made until the approximate date of arrival of the funds in New York. If, for example, the bill of exchange is drawn at sight on a concern located in Chile, and it takes about 120 days to get the proceeds of the draft to New York, Jones and Company will charge the exporter interest for 60 days at the rate of six per cent, or $80. The first 60 days the draft is outstanding are waived in accordance with the terms of the contract.

It follows, then, that when the exporter presents the draft to Jones and Company he gets $800 less interest of $80, less the commission the exporter agreed to pay for guaranteeing the payment of the foreign draft.

The remaining 20 per cent, or $200, Jones and Company will pay to the exporter after the foreign buyer honors the bill for $1,000 and the proceeds are received in New York.

If the drawee, that is, the importer, refuses to honor the sight draft, Jones and Company has the right to demand that the exporter refund the amount of money advanced, and the merchandise will be turned over to the seller. Jones and Company reserves the right to resell the goods should the exporter be unable to reimburse it for the money received, or $800.

Any deductions made by the importer representing merchandise claims against shipment, fines, and so forth, Jones and Company will deduct from the $200 it has held as security for such eventualities.

FOREIGN CREDIT INSURANCE—PRIVATE COMPANIES

The guarantees offered by credit insurance companies are entirely different from those offered by factors. The factor, besides rendering the service of the insurance companies, of assuming the credit risk, protects the exporter against the exchange risk, the market risk, and also provides him with funds immediately after the shipment is made.

Foreign credit insurance is the guarantee extended to the exporter in consideration of a premium paid to the insurer for the coverage of possible losses arising from the insolvency of a debtor.

What the insurer means by insolvency forms an integral part of the policy. Briefly stated, a foreign debtor is declared insolvent under the following circumstances:

1. The total assets of the importer are insufficient to pay for his total liabilities.
2. The debtor declares himself bankrupt in accordance with the laws of the country where he is located.
3. The debtor has actually made an assignment of his assets for the benefit of his creditors.
4. The debtor's property has been sold under judgment or decree of the Court.
5. An attachment has been executed and the debtor has insufficient assets to satisfy it.
6. The debtor has made a compromise with the majority, in number and amount, of the creditors for less than the amount of his indebtedness.
7. A receiver has been appointed and has confirmed the insolvency of the debtor.
8. The debtor has transferred or sold his assets without settling his debts.
9. The debtor has absconded.

It is plain that the policy does not protect the insured against insolvency brought about by war, earthquake, moratorium, or inability to pay because of exchange restrictions.

Rate. The rate of insurance is based principally on:

1. The credit standing of the buyer,
2. The credit conditions of the market,
3. The terms of sale, draft or open account,
4. The length of time the company carries the risk.

The insurers, as a rule, do not issue a blanket policy. Each individual shipment must be reported for coverage. The company reserves the right to accept or reject the shipment, basing its decision on the credit information it possesses on the buyer.

Insureds are also requested to submit any financial statement or other information they may have, or obtain, regarding their foreign accounts.

In closing, the value of such insurance rests first of all on the financial responsibility of the insurer, and secondly on the credit policy of the company—in other words, on whether the insurer insures only the good accounts, and rejects all others.

Self-Insurance System

The credit grantor can also protect himself against possible losses by installing a self-insurance system. In practice this is nothing more than the creation of reserves to absorb losses brought about by the fluctuations of the exchange, the "blocking" of payments made in foreign currencies, bad debts, or any other contingencies, such as war and earthquakes.

GUARANTEES

The object of a guarantee is to secure the final payment of the credit extended. This can be accomplished in three ways:

1. Buyer's guarantees. The buyer, to assure the seller that the sale will be honored, gives an acceptable and legally drawn document binding a third responsible party to honor the bill in case the buyer defaults his payment.

This is the most common type of guarantee used in commercial transactions. Similar assurance can be had in the form of a mortgage on real estate with a free title, or by means of eligible collateral represented by bonds or stocks of known value and liquidity.

In foreign trade, guarantees given by a third party should be drawn in the form of a promissory note. If a mortgage is offered with the intention of securing a debt, the document should stipulate that any income derived from the mortgaged property should be applied against the cancelation of the outstanding debt.

The general rule, in foreign credits, should be not to accept guarantees to secure new debts, but to secure contracted debts.

2. Foreign agent's guarantees. Personal guarantees volunteered by foreign agents, whose only income depends on the commissions they earn, should be discouraged entirely. The agent's function is to sell to importers who are entitled to receive credit, not to sell to poor accounts that must be guaranteed.

3. Other forms of guarantee. The other form of guarantee adaptable to exporters is that which transfers the credit hazard to another party. For example:

(a) *Discounting the draft without recourse.* As already explained, this procedure is rarely, if ever, accepted by banks. Factors often accept this type of risk.

(b) *The oriental comprador.* He is a combination broker, and guarantor, who not only sells foreign goods, but also guarantees the credit of the buyers. He is thoroughly familiar with the language of the country, its habits, and commercial practices. Clearly enough his functions, as a comprador, are those of a factor in his country, selling for foreign houses and guaranteeing the credits extended.

For the services performed the comprador charges a commission. For obvious reasons the credit man should investigate him and determine his financial responsibility and moral standing.

(c) *Del credere.* The function of *del credere* is similar to that of the comprador in the Far East, or the factor in our domestic business.

He is a foreign agent who not only sells foreign goods, but also guarantees the solvency of the foreign purchaser. For his services he charges a commission.

From the point of view of the credit grantor, such an agent should be financially responsible, capable, conversant with business practices in the territory he represents, and a man of sterling character.

Doing Business with Russia

Foreign trade in Russia is a monopoly of the state.[8] This means that the government exercises complete control over the exportation and importation of goods. The only way that such control becomes effective is by issuing a license every time the Soviet trading agency wants to sell something abroad, or needs to import some goods. These licenses are issued by the Commisariat for Foreign Trade, which in turn adheres to the program formulated by the State Planning Commission. In other words, the State Planning Commission in Moscow determines ahead of time what is to be sold to foreigners, and what is to be bought from them.

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[8] For a detailed explanation of the Soviet System of foreign trade, the reader should consult: Alexander M. Baykov's *Soviet Foreign Trade,* published by the Princeton University Press, Princeton, N. J.

Since this book is primarily interested in export credits, it will disregard the methods followed by the Soviets for exporting goods to other countries.

The agencies that actually do the buying abroad for the U. S. S. R. are called *combines.* They are corporations created by the government, and considered independent of the government. Each combine is named after the goods it imports. There is, for example, the "All Union Combine for the Importation of Machine Tools and Instruments," which, as the name infers, buys only foreign tools and instruments.

Whenever a combine needs to buy some product in a foreign country, it does so through the trade delegation or through some special corporation established abroad, and in accordance with the law of the country where the corporation is located. For example, in the United States the corporation that handles most of the purchases intended for Russia is the Amtorg Trading Corporation with offices in New York City. It was incorporated in 1924 under the laws of the State of New York, and most of the shares of its stock are held in escrow in Moscow by the Bank of Foreign Trade. This corporation may be held legally responsible for its acts.

The Amtorg (abbreviation for American Trading Company) does its own shipping and is closely associated with the Soviet merchant fleet. All cargoes shipped by this agency are insured by the State Insurance Company of Moscow.

As a rule it is the practice of this corporation to inspect all of its purchases. If there is any claim or dispute, such controversy must be settled before Amtorg issues documents and accepts the goods—the steps that permit the shipping of the merchandise for the account of Amtorg.

The terms granted are usually the terms that are granted to other exporters. Usually, however, the payment is made on presentation of the shipping documents, which are presented to a designated bank for payment.

It is important, however, for the foreign credit man to know:

1. What shipping documents are desired, ocean shipping documents or inland shipping documents.

2. The point from which the goods are to be shipped to Russia. If, for example, the payment is to be made on presentation of ocean shipping documents, and the vessel is to sail from the west coast of the United States, some time will elapse before the New York exporter would receive the shipping documents to permit him to effect collection.

As far as the foreign credit man is concerned, therefore, it will be wise for him to adjust his terms in accordance with the shipping instructions given in the order.

In negotiating its purchases, Amtorg follows the custom of asking for bids. It is important to bear in mind that the Amtorg purchasing con-

tract bears a clause that settlement of any dispute arising out of the contract of sale must be referred to the Foreign Trade Arbitration Commission of the U. S. S. R. If the contract, however, calls for the inspection of the goods by Amtorg before they are shipped, this clause is then eliminated.

The United States is the main supplier of products for Russia. Since Russia lacks dollar exchange to pay immediately for large purchases made in this country, it follows that Russia must either raise loans to pay for its imports from the United States, or buy on long terms, which are usually anywhere from one to five years.

Besides these long terms granted on machinery, the usual terms Amtorg receives are, as has been said before, the same terms extended to other exporters, or:

1. Payment on presentation of commercial invoice and common carrier bill of lading; that is, railroad or truck bill of lading.
2. Payment on presentation of ocean shipping documents.
3. Regular terms granted to an exporter, or anywhere from 10 days to 60 days date of invoice.
4. Payment against letter of credit.
5. Special terms arranged between buyer and seller.

PART 4

THE COLLECTION OF FOREIGN ACCOUNTS

CHAPTER XVI

RETAIL CREDITS AND OTHER PROBLEMS

RETAIL CREDITS

In the preceding chapter it was pointed out that to the foreign credit man each market presents a separate problem. It was also stressed that before any consideration is given to the seeker of credit, it is of paramount importance to study the conditions of the country.

This principle must be followed before deciding whether credit is to be extended to retailers.

Once this question has been settled, and the foreign credit man decides to deal with the market, each seeker of credit should be thoroughly investigated.

When considering a man's character, do not limit the investigation to essential issues reflecting on his conduct as a trader. Far from that—go further into his private life. First, find out whether the man is extravagant, or given to spending his money freely. Second, determine his standing in the community—whether he is respected and well liked.

Another condition that must be studied carefully is the retailer's paying method. Delays at times are justifiable if they are the outcome of circumstances beyond the importer's control, such as late deliveries, claims on the merchandise, and poor business conditions; but a continuous falling down in the buyer's paying methods should be a warning to the foreign credit man, demanding a close investigation.

To set rigid rules for guidance in accepting orders from retailers would be rather unwise, since the acceptance or rejection of an order depends entirely on judgment and, consequently, is subject to qualifications or modifications. Roughly speaking, the following principles may be accepted as valid:

1. Shipments should be in proportion to the investment in the business. It should be borne in mind, also, that imported merchandise is subject to duties at the ports of entry, varying anywhere from 10 per cent to 110 per cent of the value of the shipment. Naturally this expense tends to absorb the retailer's ready cash, and often is the cause for his delay in making payments.

2. Avoid granting open account terms to retailers. There is an advantage in shipping goods on a draft basis in that the bank helps in the collection of the bill. If necessary, instruct the bank to protest the draft, thus setting the liability if court action becomes necessary.

3. If the order is of some consideration, insist that the shipment be made over a period of time, or that the amount be divided into two or three drafts.

4. Make terms as short as possible. Furthermore, avoid 60 days sight or 90 days sight, and insist that the terms be "date terms," such as 30 or 60 days date.

5. If for some reason the exporter cannot follow the instructions given by the buyer, do not change them without the importer's consent.

6. Have a definite credit policy and do not deviate from it, unless you are justified in every respect.

7. The collections of retail credits demand the full co-operation of the collecting bank and the agent. Always bear in mind that merchandise disputes must be settled without delay. As soon as a draft becomes due, inquire of the bank if the item has been paid. This check, of course, requires an efficient follow-up system. It is profitable to remember the importance of pressing for payment at the time when the merchant is bound to have ready cash: at the end of the week, and at the end of the month. Another appropriate moment is when he needs goods. Under no circumstances ship additional merchandise to an importer who owes bills that have matured for some time.

Advantage of Retail Credit

It has already been noted that retail credits present an unusual risk, mainly because of the limited capital invested by most of these firms. There are, however, some advantages worth considering:

1. The business is less complicated, and the credit man is better placed to watch the trend of the account.

2. The exporter does not depend on a limited number of buyers for his sales since there are not as many wholesalers as retailers. This characteristic, of course, spreads the credit risk and it makes abnormal losses impossible.

3. At times the exporter might encounter a foreign market well controlled by European exporters who distribute their products through jobbers and wholesalers. In these circumstances the American exporter is forced to get into the market through the retail trade.

4. Merchandise reasons. Certain kinds of goods can be distributed only through specialty shops or retailers, for example, perfume, novelties, and cosmetics.

Method Used in Extending Credit to Retailers

Assuming that the product is salable, and the market is satisfactory, the question arises: "How may one deal with the retailers?" The following methods are most commonly used:

1. *Dealing directly with the retailer.* This procedure is acceptable if the credit standing of the market and the importer is fairly high.

2. *Establishing foreign depots and branches.* This method is recommended for markets fully protected by tariff walls, or for markets highly industrialized, or well developed economically.

3. *Shipping goods on consignment to a foreign representative.* This topic is fully presented later in this chapter.

4. *Distribution through foreign agents, who also assume the risk.* There are markets, such as China, where the exporter is too far away to deal directly with the merchants and must look for agents who know the language of the country, the habits of the people, and the methods of trading, and who also have the facilities to distribute the products and assume the credit risks.

During a large part of the nineteenth century, European nations resorted to this method of dealing with the United States; and they do so today, although on a lesser scale. They select agents, known as *factors,* who distribute their products and guarantee the credits extended in this market. This particular topic is presented in the chapter dealing with guarantees.

CONSIGNMENT ACCOUNTS

From the merchandise point of view, by shipping goods on consignment the manufacturer takes advantage of a means to expand his sales. Quite often it becomes necessary to ship goods in this manner because of the demand of the market. The flour mills in Chile, for example, buy cloth for bags as they require it. Naturally the exporter who has a supply of goods available in that market will have the preference over the exporters who have to manufacture the merchandise and then ship it.

From the financial point of view, consignment accounts become at times a source of additional income. For instance, if there is a demand for the currency of the country to which the goods are shipped on consignment, the foreign credit man may reap an additional profit by following the trend of the exchange and selling his foreign currency at the proper time.

Even though consignment accounts are directly under the supervision of the export manager, or some subordinate assigned to that work, there

are, nevertheless, certain details and policies for which the credit department is held responsible.

For example, it will be within its province to set a credit limit to be extended to each foreign depot. It must also decide all questions in regard to credit matters.

The first issue requires the co-operation of the export manager, who undoubtedly is well acquainted with the requirements of the market. The question of credit will be treated separately.

The Control of Credits under Consignment Accounts

Before proceeding to ship goods on consignment, the problem of exchange, banking facilities, the condition of the market, warehouses available, and insurance must be considered. It would be useless to have a foreign depot or consignments in a country where there is a shortage of foreign exchange, or in a nation where the exchange fluctuates so frequently and rapidly that the accumulated profits could be wiped out overnight.

This risk can be greatly reduced if the exporter consumes some of the commodities produced in that particular market. A practical case is the manufacturer of woolen goods with depots in Argentina; if the dollars becomes scarce, he can always buy raw wool with his "peso" balances.

As to the procedure to follow in granting credit, each concern must adopt the method most practical to its requirements and policies. The ones usually accepted are the following:

1. Give the foreign agent full authority in the extension of credit.

2. Grant the agent authority to extend credit up to a certain limit, say $1,000. Requests for credit above the set amount would then be referred to the credit department for approval.

3. Have the agent submit a list of his customers and assign a line of credit to each. Any increase beyond the limit stipulated in the list would be referred to the credit department for approval. The credits, thus assigned, are subject to periodical revision.

4. Submit all requests for credit to the head office for approval, either by cable or air mail.

5. Store the goods in bonded warehouse, and deliver the respective documents to a responsible foreign bank, giving, at the same time, instructions to release part or all of the merchandise held in their custody in one of the following ways: (a) upon a written demand from the agent; (b) on instructions issued by the head office; (c) on presentation, by the agent, of properly accepted drafts or orders from local merchants. The bank, of course, cannot be held responsible for the credits extended.

6. The foreign agent assumes the credit risk. This method has al-

ready been explained in a previous chapter under the heading of "del credere."

7. The agent assumes the risk for any increase above the limit assigned by the credit department.

In any of these arrangements, the foreign agent must play a deciding part, for it is difficult for the foreign credit man to regulate or to exert full control over the credits extended to merchants located thousands of miles away.

The Collection Problem of Consignment Accounts

The collection of bills sold from consignments must be left to a large extent to the agent and the local banks. The credit department can act only as supervisor.

The practical methods followed are:

1. To indicate on the invoices rendered to the buyers that payment of the bill should be made through a specified local bank, who in turn will transmit the funds to the head office,

2. To sell the goods in dollars and indicate on the invoice that the payment should be remitted in banker's draft on New York and mailed directly to the head office.

INSTALLMENT SELLING

In this country, installment selling has reached a high point of development. In foreign countries where industrialization has progressed and the community has prospered accordingly, the market has means to permit the profitable selling of goods on the installment plan.

Installment selling unquestionably requires that the market should possess certain financial, legal, and credit facilities to enable such a commercial venture to become a financial success. To the credit man this represents a challenge that cannot be taken until he has made an exhaustive, complete, and comprehensive analysis of the market, bearing on these essential points:

1. The purchasing power of the market, its conditions, and the demand there is for the sale of the product.

2. The means available to the community to finance such sales.

3. The legal requirements that must be filled, and the legal protection the seller will have.

The first of these three issues takes us back to Chapter V, dealing with the various factors affecting the credit risk of the nation. The second problem resolves itself into determining whether the market has the necessary machinery to finance the sales, or whether a company should

be created for that purpose. This leads to the question of allowing local capital to join in the venture.

The third point comprises the legal aspect of the transaction, which in essence is the pivot or the heart of the whole problem. It is logical, then, to direct every effort to study the form of contract most adaptable to the market and offering the foreign credit man the greatest amount of protection. This can be accomplished only with the help of a competent local lawyer.

The Contracts

Each nation, as indicated before, has developed its own legal system to meet its own peculiar needs. This theory is proved by the various forms of contract selling, created with the purpose of satisfying the requirements of each particular country. The forms generally used are the following:

1. *Conditional sale.* This is a contract permitting a buyer to take possession of the goods bought, although he does not become the sole owner until he has paid for the purchase in full. In practice the buyer makes a down payment, usually from 25 per cent to 50 per cent of the value of the goods. The balance is paid over a period of time, anywhere from six months to two years, and, as stated above, the seller retains title to the goods until he has received the final payment from the purchaser.

The contract used for this type of sale is similar to the one shown in Illustration 70. In this case the buyer agrees to make a down payment, and on a certain day of each month he will remit a specified sum of money until the full payment for the article has been made. In countries where this type of contract cannot be used, the practice is to cover the monthly payments with promissory notes or registered receipts.

A registered receipt, as the name implies, is a document that becomes legal and binding as soon as it is registered with the proper authorities.

2. *Hire-purchase contract.* This type of contract is similar to a lease. The purchaser agrees first to make a down payment, second to liquidate the balance over a period of time, at the expiration of which the buyer is allowed to purchase the article outright for a nominal sum of money.

The difference between this contract and the previous one is that under the conditional sale the buyer is "bound by contract to complete the installment payment," whereas in the hire-purchase type he is free to discontinue making payments. In case of default the seller has the right to repossess the commodity.

3. *Chattel mortgage.* Under this agreement the buyer obtains title of ownership of the article sold, but he immediately mortgages it to the seller until the final payment is made.

4. *Special contracts.* In some countries where none of the above con-

tracts is recognized by law, the seller has recourse to this type of contract, which must be drawn with care and registered with the proper authorities to make it valid.

5. *Sales protected by personal or promissory notes.* This form for financing installment sales is used in countries where the contracts indicated above are not recognized. It is important, of course, to scrutinize the credit standing of the individual seeking credit. It should also be remembered that the only protection the seller has is to protest the defaulted notes and then to take the necessary legal action in order to recover the property or commodity.

In conjunction with this investigation, the foreign credit man should not overlook inquiring about the insurance needed, the right to repossession in case of default on the part of the buyer, and the legal status of the seller in case of bankruptcy.

Finally, a contract should not be drawn, or goods sold, on any of these terms unless such action has been approved by a capable lawyer who fully understands this type of financing and also knows the market in which the contract is to be made.

Foreign Branches

As in the case of consignment accounts, the control of credit is either delegated to the head office or transferred to the foreign representatives under the supervision of the home office. The most essential instructions to be issued concerning the control of the financial policies will deal with:

1. The transfer or disposal of funds arising from sales; that is, whether they should be remitted to the head office periodically, used for improvements, or invested in the local market.
2. Regulations concerning purchases needed by the branch office.
3. Bank borrowing to be made through the head office, or through the local banks where the branch is located.

Government Contracts

In a general way contracts from governments for the purchase of goods are subject to scrutiny of the following conditions:

1. The contract must be signed by a duly authorized person.
2. The purchase and payment must be legally authorized.
3. The specific law authorizing such expenditure must be mentioned in the contract.
4. The contract must be made in strict conformity to the bid.
5. The contract must be drawn and executed by the proper department.

It is also essential to settle the manner in which payment will be made —that is, whether the bill will be liquidated in foreign currency or in dollars. If payable in dollars, the rate of exchange must be indicated

CONTRATO DE VENTA CONDICIONAL

No._____

Celebrado hoy, día..... de..... de 19..... entre la POWER LELCIPIC CC. INCORPORATED, de..... P. R., que en adelante se denominará el Vendedor; y D ..... de..... ., P. R., que en adelante se denominará el Comprador;

El Vendedor, por la presente, vende al Comprador, por la suma de ($ .....) ....Dollars, los efectos relacionados a continuación:

CANTIDAD	DESCRIPCION	VALOR	

los cuales se obligan a entregar el día..... de..... de 19..... o por esta fecha.

El Comprador se obliga a pagar los precitados efectos en la forma siguiente: $....., en esta fecha y $..... mensuales después en los días..... de cada mes sucesivo.

Queda además entendido y convenido por ambas partes contratantes, lo siguiente:

1º Que los mencionados efectos quedan de la propiedad del Vendedor, sus herederos, cesionarios o causahabientes, hasta que el Comprador haya satisfecho el importe total de los plazos arriba estipulados, y hasta que haya cumplido todas y cada una de las condiciones a cuyo cumplimiento se hubiere obligado mediante este contrato, siendo únicamente entonces, que dichos efectos pasarán a ser propiedad del Comprador.

2º Que el Comprador conservará los mencionados efectos en perfecto estado de uso y que no podrá mudarlos de su residencia, oficina o establecimiento, donde desde un principio se hubieren instalado, como tampoco podrá prestarlos, ni arrendarlos, ni venderlos sin previo consentimiento por escrito del Vendedor, sus herederos, cesionarios o causahabientes.

Illustration 70. INSTALLMENT SALES CONTRACT.

3º Que si el Comprador dejare de pagar cualquiera de los plazos arriba estipulados, o si dejare de cumplir cualquiera de las condiciones a cuyo cumplimiento se hubiere obligado mediante este contrato, entonces el Vendedor, sus herederos, cesionarios o causahabientes podrán apersonarse en el sitio donde los mencionados efectos se encontraren y retirarlos. El Comprador conviene en que si faltare a cualquiera de las condiciones de este contrato, todo el balance no pagado del precio, y los pagarés que representen el mismo, vencerán y serán pagaderos inmediatamente. El Vendedor siempre tendrá derecho a proceder al cobro de los pagarés por medio de demanda ante los Tribunales o en cualquiera otra forma que lo estime conveniente y tales procedimientos no afectarán en nada el derecho del Vendedor para tomar posesión de los bienes de acuerdo con este contrato.

4º Que si el Vendedor, sus herederos, cesionarios o causahabientes retirasen los efectos mencionados, amparándose bajo la cláusula número 3 de este contrato; dicho Vendedor, sus herederos, cesionarios o causahabientes dejarán dichos efectos por el término de los siguientes treinta días, a la disposición del Comprador, o sus sucesores, durante el cual, éstos podrán obtenerse nuevamente mediante el pago completo del importe total de todos los plazos que aún quedaren adeudando, más los gastos que retirar y almacenar dichos efectos originase.

5º Que si el Comprador o sus sucesores no hicieren uso del derecho que les concede la cláusula número 4 de este contrato, entonces el Vendedor, sus herederos, cesionarios o causahabientes, podrán vender los efectos en cuestión, en pública subasta, durante el término de los subsiguientes treinta días, y podrán aplicar el producto que derivaren de dicha venta a cubrir el importe total de todos los plazos que el Comprador o sus sucesores quedaren adeudando, más el importe total de todos los gastos que retirar, almacenar y vender dichos efectos originase. Si dicho producto no alcanzare para cubrir todo ello, entonces el Vendedor, sus herederos, cesionarios o causahabientes tendrán derecho a cobrar la diferencia que resultare, mediante una acción judicial. Y si, una vez cubierto todo ello, de dicho producido hubiere algún sobrante, el Vendedor, sus herederos, cesionarios o causahabientes, quedarán obligados a devolver dicho sobrante al Comprador, o sus sucesores.

6º Que si el Vendedor, sus herederos, cesionarios o causahabientes, no hicieren uso del derecho que les confiere la cláusula número 5 de este contrato, en el término estipulado en la misma, entonces dicho Vendedor, sus herederos, cesionarios o causahabientes quedarán obligados a hacerse cargo de los efectos en cuestión, descontando del importe total de los plazos que el Comprador o sus sucesores, hubieren pagado, la cantidad que resulte de un cargo de $..... por el primer mes y $..... por cada mes subsiguiente que dichos efectos hubieren estado en poder del Comprador, o sus sucesores, entendiéndose que una fracción de quince días o menos no se contará y que toda fracción de más de quince días se contará por un mes, y entendiéndose además que este cargo se ha convenido por ambas partes como justo y razonable por el uso de tales efectos.

7º La falta del vendedor o sus sucesores para hacer uso de cualquiera de los derechos concedidos a él por este contrato no constituirá, ni debe interpretarse como una renuncia por parte del vendedor o sus sucesores de cualquiera de los derechos que él o ellos tienen en virtud de este contrato. Se conviene expresamente que el tiempo es un factor esencial de este contrato.

8º El Comprador reconoce y admite que esté contrato constituye el convenio único en su totalidad entre las partes contratantes y que no existe otro contrato de naturaleza alguna, ya escrito o verbal entre las partes, en relación con los efectos vendidos; y además se conviene expresamente que este contrato sólo podrá ser modificado por otro contrato escrito formalizado entre los otorgantes y contra el mismo no podrán alegarse acuerdos verbales, ni conversaciones posteriores que tiendan a desvirtuar o alterar los términos claros y terminantes de este contrato.

9º Las partes se someten expresamente a la jurisdicción y competencia de los tribunales insulares de la ciudad de San Juan, P. R., para todos los actos y diligencias a que diere lugar el presente contrato, y todos los gasto , costas y honorarios de abogado que las reclamaciones judiciales originen serán por cuenta del Comprador ecndicional

Y para constancia de ambas partes firmamos este documento por triplicado en ....

...., **P. R., a** .... **de 19** .. ..

LOVETT LLLCTPIC CC., INCORPORATED

Por.....
Presidente Secretario
Vendedor

Testigo

Testigo

Comprador

3000 11 41

Baldrich Job 14027

Illustration 70. (*Continued*).

as well as the point where settlement will be made: New York, Boston, London, or elsewhere.

Further, the contract must fully stipulate the service to be rendered or the commodity to be delivered.

Needless to say, the foreign credit man will ascertain the soundness of the government, its financial position, and—what is most important—that the appropriation made to pay for the contract is not transferable to some other department.

Finally, a reliable and competent lawyer should be engaged to attend to all the legal details pertaining to this type of business.

CHAPTER XVII

COLLECTIONS

The Importance of Prompt Collection

Profits depend to some extent on the capital turnover. This velocity is entirely regulated by the manner in which the bills are liquidated; consequently, it is beneficial for the business to promote any policy that will expedite the collections of the accounts.

Slow payments bring about a decrease in sales. Still worse, an abnormal amount of delinquent accounts is a heavy burden on the capital of the exporter. It is therefore the duty of the credit department to devise all possible effective schemes to produce the desired results of getting payments met at maturity.

Factors to Consider in the Collection of Accounts

In the collection of foreign accounts, tact and good manners go far. Unnecessary and unreasonable pressure makes people stubborn. Before deciding to use threats in pressing for the payment of matured bills, consider the following points:

1. Ascertain whether there is any claim pending. Look up the original order and see if the buyer's instructions were followed.
2. Study the conditions prevailing in the market in respect to exchange facilities.
3. Go over the credit file and determine the type of man the importer is. If necessary, revise the information and see how the debtor is paying through the trade.

Consider Facilities

Success in collecting foreign accounts depends largely on understanding the individual problems presented by each case, and on the capacity to take immediate advantage of all available facilities.

Before proceeding to address the importer requesting the liquidation of a bill, consider for a moment the particular questions that the account brings to mind. Where is he located? How far is he from the port of entry? What are the facilities to transfer funds, the firm's past paying record, and the firm's standing in the trade?

The facilities at the disposal of the credit man for the collection of the accounts are the following:

1. Letters or direct approach,
2. Cable,
3. Agent's co-operation,
4. Facilities offered by the banks,
5. The moral suasion letter of the Foreign Interchange Bureau,
6. Collecting agencies,
7. Legal action.

Classify the Accounts

The foreign credit man, through his daily contact with the trade and his own experience with accounts, becomes acquainted with the importers rather intimately. By the process of selection he also learns to differentiate his accounts and to know the ones that will be difficult to collect. It is true that delinquent importers could be eliminated, but the easiest way out is rarely satisfactory. Besides, the credit man cannot neglect a firm entirely because of its slow payments. This policy is so valid that it has been accepted as a truism. Mr. David E. Golieb [1] in his book, *Credit and Collections,* accepts this situation and proceeds to classify delinquent accounts into three categories. These qualifications are most acceptable, although in our case subject to certain modifications because of the nature of foreign business.

1. *Those who are able to pay, but dislike to part with the money.* These customers must be pressed for payment, and shipment to them should be made only against documentary draft. The collecting bank should be instructed to protest their bills for nonpayment.

2. *Those who take advantage of any technicality to withhold payment.* This type of account demands careful consideration. First look into the facts: the order, the shipping instructions, and other details. If the buyer's wishes were followed to the letter, tell him so; then insist that the open bills be paid. In dealing with these customers, the merchandise and shipping departments should always follow instructions diligently. Any alteration in the order must be authorized in writing by the customer himself.

3. *Those, who for reasons beyond their control, find it impossible to pay on time; owing to poor business conditions or lack of sales.* As to this third type, it is better to be cautious.

During critical times, the customers coming under the second heading should be entirely disregarded. Orders shipped to firms that delay their payments through force of habit should be warned that the drafts will be protested in case of nonpayment.

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[1] Richard P. Ettinger and David E. Golieb, *Credits and Collections.* New York: Prentice-Hall, Inc., 1938.

Reasons for Delay

It has already been pointed out that there are buyers who through unforeseen contingencies are compelled to postpone their payments. Sometimes the reason is local disturbances; sometimes lack of exchange, slow trade, or poor communication. In such circumstances nothing can be done but co-operate with the importer. Approach him with a sense of confidence and trust. Make him understand, however, that the debt must be honored. Always stress the fact that the obligation exists, and its liquidation is expected.

In cases where delays are caused by a technical claim, settle the question immediately. To postpone its solution is to grant the merchants additional time, which in turn might bring new excuses and further evasions.

Some Causes and Some Possible Remedies

Reputable houses, regardless of conditions, will pay their debts. As a matter of fact, even during the political disturbances when the price of the dollar increases substantially, such concerns manage to pay their bills on the due date.

As pointed out, however, there are merchants who through negligence or force of habit prefer to postpone their payments. Those are the merchants who hate to part with their money. They enjoy opening the safe and seeing it jammed with gold pieces or bills. To overcome such habits, if the sale is made on an open account, draw at sight as soon as the account is 30 days overdue, adding interest for the extra time at the rate of eight or nine per cent.

There is also the importer who trades with the exporter's money. That is, payments are delayed because the importer has loaned his available cash to local people against mortgages at exorbitant rates of interest. Sometimes such merchants command an important position in the trade and are even respected. During hard times, however, their capital is tied up, and it is difficult for them to meet their financial obligations. Accounts of this sort should be discouraged, for in the long run the creditors usually bear the burden.

Unfavorable rates of exchange, and the hope for a favorable recovery in the near future, creates one of the most delicate problems for the foreign credit man. First of all, if the drop in the exchange is caused by a temporary condition, the solution is not so difficult. Improvement will begin as soon as the crops start to move, or business resumes. But, if a number of adverse circumstances have affected the currency, improvement will come after the various forces affecting the exchange are corrected. In such circumstances the foreign credit man must use all his ingenuity to bring about an early liquidation of the matured bills.

If an extension must be granted on a draft because of unfavorable conditions of the exchange, such extension should be made for a definite period of time, and the importer must agree that, at the expiration of the extra time allowed, the bill will be liquidated regardless of the prevailing rate of exchange.

To support this arrangement the importer will deposit in the bank enough native currency to cover the dollar value of the bill. On the date the extension expires, the bank will proceed to exchange the native currency deposited by the importer into U. S. dollars. If the rate of exchange has improved in the meantime, the importer has gained; if, on the contrary, the rate of exchange has fallen, the importer must make up the difference.

It is obvious from the above that when the importer awaits an improvement in the exchange before liquidating his bills he is gambling, and consequently any favor or extension granted should be made in terms that compel him to carry the burden of the risk.

Over Extended

In domestic trade, any pronounced irregularity in the payments of a customer is immediately accepted as a danger signal to be followed very closely. In foreign trade, delays are caused by a number of circumstances that very often are beyond the importer's control, or, in themselves, carry little meaning bearing on the financial condition of the house.

There is a situation, however, which in itself presents the most significant sign of danger, and that is "over extended." To be sure, it is unsafe to deal with an importer who receives liberal credits and fails to pay promptly. Any unfavorable trend in business, such as a decline in prices or a lull in the sales, will surely undermine the stability of the house and bring about a general suspension of payments. In so far as the merchant receives credits within his own financial limits, foreign credits do not offer any unusual risk; but as soon as undue purchasing activities are noticed, and the importer conceives great plans for enlargement "à la Ford," it is time to show caution. Watch the importer's purchases, and be cautious with those receiving large credits from exporters who are anxious to expand their sales and disregard the credit risk.

Individual Treatment

In the collection of foreign accounts, it is most essential to determine the reason for delay. Once the foreign credit man is aware of the difficulty encountered by the individual merchant, he is ready to approach the customer with some intelligent plan. Therefore, study the situation, approach the collecting bank and ask for a complete report on the pend-

ing bills, inquire from all available sources about the conditions of the market, and the customer. Once the investigation is completed, appraise the difficulties, and set a plan of action.

To write letter after letter, blindly and without any definite reason, will not bring the proper results. Know the facts, act on them, and bring about a situation that will stimulate the debtor to take immediate steps.

Avoid drifting into an "impasse" from which, as a rule, there is but one escape: a settlement that usually means a loss.

It is self-evident that in foreign trade the credit man should avail himself of all opportunities to expedite the settlement of outstanding bills. The collection of foreign accounts should start as soon as the shipment is made. This rule does not mean that the foreign credit man will immediately demand payment of the bill. He merely takes advantage of the opportunity, when sending the shipping documents, to remark tactfully that he trusts that the goods are satisfactory, and that, as customary, the bill will be honored within the terms stipulated.

If the sale calls for a draft, simply notify the importer that, as agreed, a draft has been drawn for the amount of the shipment and no doubt it will be accepted and honored on the due date.

The object of these remarks is to keep present the existence of the debt, and the fact that it must be liquidated within a definite period of time.

CHAPTER XVIII

COLLECTIONS (CONT.)

Methods of Collection

It does not matter much what particular method is used in collecting foreign accounts, whether it is an elaborate or simple system, or whether the credit department relies on the bank or on the agent to do most of the collecting. The important thing is to decide on the course to pursue, and to take advantage of every facility that will assist or force the delinquent account to liquidate its debt.

It is, of course, essential to have a workable system established for the collection of accounts, especially since there is a great deal of detail attached to this kind of work and it can be done effectively only through an orderly procedure.

Strict attention must be given to mailing to the delinquent importer the customary notice as soon as a bill falls due. This precision will strike the customer as a sign of efficiency.

Follow-up systems. Any method that is practical is unquestionably good. It could be the collection tickler, the diary, or any other feasible system. The essential point is to follow the collections of accounts properly and see that the method used does expedite the work. Any system adopted should answer affirmatively these three questions:

1. Practical?
2. Easy to master?
3. Suitable to the business?

Elaborate methods as a rule increase labor and duplicate records without corresponding improvement.

Perhaps one of the simplest methods used in following the collection of bills shipped on open account is to keep a duplicate copy of the statements mailed. From time to time the foreign credit man will go over these copies, noting the action taken and deciding what further steps should be taken to settle the account. If necessary, he will separate the statements into groups, according to geographical divisions; for example, Puerto Rico, Santo Domingo, Cuba, and the British West Indies could be arranged together. This group should be revised ap-

proximately every fifteen days. Another division, let us say Brazil, Argentina, Uruguay, and Paraguay, could be examined every thirty days, and so on. Any letters written or received would be attached to the duplicate statements.

The collection of the drafts is followed through the draft book. As soon as the item falls due, it is taken from the regular draft file and placed into another drawer marked "Overdue Drafts." The drafts will also be separated by territories and followed in the same manner as outlined in the above paragraph.

The statement. As soon as the bill falls due, the corresponding statement should be mailed. It should indicate the date of shipment, the number of the invoice, the due date, and any other information needed to identify the transaction. At the same time a letter will be mailed requesting the importer to remit the amount indicated in the statement, which no doubt he will find correct. A copy of this letter and a copy of the statement should also be mailed to the agent. See the end of this chapter for samples of collection letters.

Reminder. Since the time element is very significant in export business, reminders for shipments already due should not be delayed. The tone of the second collection letter should be more direct in requesting payment of the account. The foreign credit man should not neglect to give full details of the transaction.

Collection letter. It is not a secret to say that the characteristics of the various races of the world are not identical. Even in South America with a population mostly Spanish or of Spanish decent, this diversity is quite pronounced. Chile is a striking example. Its people prefer businesslike methods, and even mild aggressiveness is proper. In Colombia such practice would be condemned. This dissimilarity must be taken into consideration when formulating the collection letter. Discriminate and narrow down the investigation until you know the type of person to whom you are making sales.

Before approaching the importer for payment, therefore, determine what sort of individual he is. Is he susceptible and touchy? Is he quarrelsome? Is he correct in his dealings? Has he paid promptly in the past? In other words, visualize the merchant; then decide on the method of approach.

In writing the letter, bear in mind that you must give a clear exposition of all the facts. If demanding payment of a draft, state the number of the item, its amount, the due date, the invoices it covers, and the name of the bank through which it was sent for collection. Add also any other details that might clarify the transaction. Failure to recite the facts will surely give the debtor an opportunity to ask for further explanation. This will result in more delays.

Collection letters should avoid argument. It always retards the

First Collection Letter

New York, New York
Date

Garcia, Mejia & Cia,
Buenos Aires,
Argentina

AIR MAIL

Gentlemen:

We are enclosing herewith a copy of your statement showing a balance due us of $1,700.00, representing our Invoice No. 1471 of January 27th of this year, shipped on the SS CLARA of the Bull Insular Line, which left this port on January 29th.

If this amount appears as unpaid in your records we would appreciate receiving your draft on New York for the value indicated, or $1,700.00.

Please accept our thanks for your kind attention, and awaiting your reply, we remain,

Very truly yours,

CC to the Agent
Enclosure

Illustration 71A. FIRST COLLECTION LETTER.

Second Collection Letter

New York, New York
Date

Garcia, Mejia & Cia,
Buenos Aires,
Argentina

AIR MAIL

Gentlemen:

On the 17th of last month we communicated with you in regard to the balance due us in the amount of $1,700.00, and representing yarn covered by our Invoice No. 1471 of January 27th, your Order No. 3700; shipped on the SS CLARA of the Bull Insular Line which left this port on January 29th.

Since this bill matured on May 27th, we would like to suggest that you kindly favor us with your draft on New York for the amount indicated, or $1,700.00.

With kind personal regards, and awaiting your early reply, we remain,

Very truly yours,

CC to the Agent

Illustration 71B. SECOND COLLECTION LETTER.

Third Collection Letter

New York, New York
Date

Garcia, Mejia & Cia,
Buenos Aires,
Argentina

AIR MAIL

Gentlemen:

Since we have not received your answer to our previous letters requesting the liquidation of the balance due us in the amount of $1,700.00, covering our Invoice No. 1471, your Order No. 3700, shipped on the SS CLARA of the Bull Insular Line, and in accordance with your instructions given in Order No. 3700 we have today drawn a draft on you at three days' sight for the amount in question, plus interest for 90 days at the rate of 6% per annum.

The draft will be presented through your banker, The Banco de la Republica, and we feel sure you will accept and honor this bill of exchange without further delay.

Very truly yours,

CC to the Agent

Illustration 71C. THIRD COLLECTION LETTER.

liquidation of an account. State the facts, retell the circumstances, present your rights, and let the customer know what is expected of him.

The tone of the letter should not be harsh, but should create the impression that the outstanding debt is an obligation that must be settled in a friendly manner. (See Illustrations 71A, 71B, and 71C.)

Language. A well-written letter in English gives a better impression than one written in poor Spanish or French. It would be preferable, however, to address the importer in his own language.

Threats. Do not threaten a debtor until you are ready to act. Remember that importers are aware of the obstacles creditors must face when using legal means. Indeed, on receipt of your threat the buyer might take the necessary steps to obstruct any legal action brought against him; therefore, engage the lawyer first, and then threaten.

Cables. When used with discretion, a cable is a very practical method to bring in payments from delinquent accounts. It is most effective when properly timed. For instance: after making a co-ordinated demand for payment through the agent and the bank, follow this move with a tersely worded cable demanding the liquidation of the bill. Do not abuse this method, however, for it is costly and becomes ineffective if used too frequently.

Moral suasion service. Although the Foreign Interchange Bureau of the National Association of Credit Men does not have, in its true sense, a collection department, nevertheless the members may avail themselves of the "Moral Suasion Service." There is no extra charge, except for the cost of translation.

The procedure is as follows: when submitting a delinquent account for the Bureau's attention, the foreign credit man relates the full story of the transaction and also states his future attitude toward the importer. Then the case is referred to the Adjustment Committee, who will study the case and decide upon the proper course.

Using the bank. For the proper and effective method of collecting foreign delinquent accounts, the credit department must depend on the accumulative efforts of all available facilities at its command. The foreign credit man should not rely on his collecting abilities alone, especially with troublesome accounts. He should muster all available agencies, such as the importer's broker, the foreign agent, and the bank, thus exerting through these facilities a concerted pressure forcing the debtor to liquidate the matured bill.

In cases where the account is covered by a draft, the foreign credit man should use the bank to its full capacity. When requesting the collecting bank to press for payment, he should approach the customer with a similar request and also ask the agent to co-operate with the bank in forcing the drawee to honor the draft.

Legal action. Those who have had experience in foreign trade are

aware of the obstacles confronted when legal action is taken against a merchant. Sooner or later, however, the foreign credit man must take recourse in the courts to force the debtor to pay. If such step is necessary, it would be advisable:

1. To ascertain the financial situation of the customer.
2. To make a final attempt through the agent to collect the debt.
3. To determine the possibilities of success in the event that the matter is taken to court.

If legal action is agreed upon, great care should be taken in the selection of a capable and responsible lawyer. The Legal Division of the Department of Commerce will submit on request the names of local lawyers and their personal histories. The agent could also offer similar services. If this method is not acceptable, refer the case to a reputable American law firm with branches or correspondents in foreign cities.

The effect of resorting to legal action must be taken into consideration. It is a fact that litigation proceedings are costly, long drawn out, and at times harmful to the name of the importer; yet occasionally it becomes imperative to take such action as an indication that the exporter is ready to protect his interests at all costs.

The agent as a collector. It is true that the main function of the agent is to sell merchandise; but it is equally true that his efficiency is also measured by his skill in keeping all of his accounts in good condition. This consideration, of course, compels him to direct some of his efforts to collecting delinquent accounts. Indeed, without the agent's assistance it would be almost impossible for the foreign credit man to succeed in collecting chronically slow-paying customers' accounts. The agent's timely calls always bring good results.

To facilitate the agent's work in collecting past due bills, he should receive, at least once a month, a list of all delinquent accounts located in his territory. He should also receive a copy of the drafts drawn in his market, and a copy of every letter sent to his customers. In turn he will report his recommendations on action to be taken concerning the delinquent accounts.

When to draw a draft against an open account. In cases where the terms call for an open account, and the customer disregards all demands for payment, it is practical to draw at sight or three days sight for the full amount of the bill. When the balance due is of some consideration, draw several drafts, a few days apart, say, 5-, 10-, and 15-day intervals. Instruct the bank at the same time to protest for nonpayment if the drafts are accepted.

The customer will be notified of the action taken, and a statement will be submitted itemizing the various invoices due plus the interest accrued.

Invoices to the agent. It is customary to mail the foreign agent a

copy of each invoice, covering every shipment made to his territory. It will be practicable to indicate on the bill its due date, or the number of the draft drawn covering the bill, and the name of the collecting bank. With this information the agent should have no trouble in aiding in the collection of his own accounts.

The merchandise department as a collector. There are accounts that will tax the imagination of the foreign credit man to the utmost. He needs to be sagacious, more so when the account appears to be hopeless or unforeseen conditions arise affecting the financial standing of the importer. It may be that the commercial activity of the market has quieted down, and all indications point out that the merchant will pay only when conditions improve—which may take a long time.

In other words, what is needed is some action to break the impasse, and nothing awakens a merchant's attention more than the prospect of an immediate profit. Consequently, consult the merchandise department with the purpose of getting out an offer of some low-priced commodity, easily salable in that particular market. As soon as the customer becomes interested in buying, approach him for the settlement of the matured bills. Present him with a plan: for example, advise him that the new merchandise offered could be shipped on short terms provided the old balance is paid; or suggest that the order could be released in three different lots. To each draft covering the new shipment will be added a portion of the old debt. Be sympathetic and helpful, threats and legal action will not help.

The export manager as collector. From time to time the matter of delinquent accounts should be discussed with the export manager, with the purpose of planning and applying different methods in collecting matured bills. For instance, he might address a personal letter to the most troublesome accounts or exert stronger pressure on the agents.

It is worth repeating that the most effective methods of collecting foreign bills are to use all available facilities, and to start collecting the account as soon as the shipment is made.

Trade Abuses

As in domestic trade, the foreign credit man will find customers taking excessive or unearned discounts, refusing to pay interest for extra time taken, or making unfair deductions.

In such circumstances the foreign credit man will review the transaction, look up the original contract, and assure himself that the customer is not entitled to the deduction, and then proceed to outline his demands. To put it bluntly: it is fatal in export business to permit practices that are not in accord with business policies. Among the most common abuses are:

1. To liquidate the bill with the debtor's currency instead of paying

in dollars. Such practice can be reasonably understood if the government has forbidden the sale of exchange. In any case, the foreign credit man should insist on having the bill liquidated in dollars.

2. To pay in dollars with checks drawn on banks located abroad. For example, buyers located in Cuba or England could pay in dollars with checks drawn against banks located in Havana or London. If the exporter accepts the payment in this manner, he will have to assume all collection charges, and lose the interest for the time it takes to collect the check.

To avoid this situation, indicate on the invoices as well as on the drafts that the payment of the bill must be made:

"Payable by approved Bankers' Draft drawn
at sight on New York in U. S. Dollars."

3. To make deductions for insurance claims not collected. The attitude of the foreign credit man in similar cases should be that the bill must be paid as rendered and whatever is collected from the insurance will be credited or remitted to the importer in due time.

CHAPTER XIX

THE LEGAL ASPECTS OF FOREIGN CREDIT

Considering the Problem

It would be unfair to require that the foreign credit man be fully conversant with the complicated system of laws regulating business procedure in every nation of the world. Indeed, it would be as wise to expect him to be fully familiar with the business laws enacted by the forty-eight States of the Union. At the same time he cannot neglect acquainting himself with the most common legal principles affecting business transactions, especially in those countries with which he deals actively.

The brief comments presented in this chapter represent the salient topics that deserve the attention of the credit department. To be sure, they form merely a general outline, briefly indicating the principal problems related to the vast subject of foreign commercial laws. It is of utmost importance that the foreign credit man study the various publications issued by the Division of Commercial Laws, under the Department of Foreign and Domestic Commerce of the United States Department of Commerce, dealing with the legal phases of foreign credits, he should also consult a competent legal adviser.

Common Law and Codes of Law

Generally speaking, commercial transactions in the United States and England are governed by common law, which is based on courts' decisions and statutes.

In most of the European countries, as well as in Central and South America, the courts are ruled by codes of law, which contain the laws dealing with civil, commercial, and criminal Cases.

The commercial code governs subject matters pertaining to business transactions such as the organization of commercial enterprises, negotiable instruments, contracts, agencies, registration of foreign companies, bankruptcy, and similar topics.

Registration

At the inauguration of business, it is generally expected that merchants register their business enterprises. Such action is optional in a few

countries, but failure to do so robs the merchant of certain privileges prescribed by law. The most important is that in case of suit the trader must prove to the court his right to be classified as a merchant; consequently, it goes without saying that he prefers to register his business. The Registry is the legal place where individual business, powers of attorney, dissolution, liquidation of businesses, deeds, and mortgages are certified. This is also the office to which married women must go to obtain authority to engage in business.

Set of Books Required

It is the common provision in almost every country to demand that all business organizations keep books of accounts as well as a record of all correspondence pertaining to the business. This rule is especially in force throughout Latin America, where it is even compulsory to preserve the books for a definite number of years. Furthermore, in these countries all permanent records pertaining to a business must be submitted to the court for certification. The books commonly required are:

1. Journal—which contains entries of daily transactions,
2. Inventory book—where all purchases and sales are recorded,
3. Ledger—where a summary of accounts is preserved.

In some European countries where the law does not demand that the merchant keep a set of books, the state penalizes the firm that becomes insolvent and has neglected to keep its records properly. Directly or indirectly, therefore, merchants all over the world are compelled to provide a method of keeping a record of their dealings. Their books, of course, must be kept in the language of the country.

Notary

A notary is a public functionary in countries governed by code law. He may be a lawyer or an individual learned in the law of the land, who is empowered to execute contracts and other commercial instruments in order to make them legally effective. He executes deeds and mortgages, attends to the protest of drafts, and legalizes all commercial documents. He performs some of the duties ordinarily referred to a lawyer in this country.

Commercial Organization

It has been shown that in the majority of cases it is mandatory for merchants to register and keep certain sets of books. Furthermore, the registration must be accompanied by a public document clearly defining the domicile, the nature of the business, its duration, the owners, capital, how the profits and losses will be shared, and other details. Since it is a public instrument, a third party has the privilege of examining it, and to note the facts set forth therein.

There are various types of commercial organizations throughout the world. The most commonly known are:

Partnership. This method of doing business is similar to the general partnership existing in this country. Its members are liable jointly and severally for the company's debts; in fact their full resources, in and out of business, are open to satisfy creditors' claims.

In most countries the agreement must be registered and should contain: name of company, names of partners, address of company, provisions for the distribution of profits and losses, duration of agreement, and conditions under which it will be liquidated.

Limited partnership. The striking feature of this type of commercial company is that the general partners are jointly and severally liable for all debts incurred by the firm, whereas the silent partner is responsible only for the amount he has invested in the business, provided, however, he does not take an active part in the business. Furthermore, the silent partner's name must not appear in the firm name.

In Spanish speaking countries, the abbreviation *S en C* (Sociedad en Comandita) must be added after the name of the firm to indicate this type of commercial organization.

Corporation. This type is universally known. The capital of the firm is represented by shares of stock, and the liability of the shareholders is limited to the amount of capital subscribed. Its main features are:

(a) Its life is independent of its members.
(b) Stockholders are liable only to the extent of capital invested.
(c) The corporation operates under definite rules.

The *"Sociedad Anonima"* (S.A.) so frequently found in Spanish-speaking countries is similar to the corporation and possesses the features common to that type of business organization. It is identified by placing the initials "S. A." after the name of the firm.

Industrial Partners

Industrial partners are not required to contribute any capital; but if such contribution is stipulated in the contract, they will receive a share of the profits. Their activities, as a rule, are limited to the management of the business. This right is extended by means of the power of attorney issued in their favor by the firm. Industrial partners receive the authority to sign contracts and accept drafts or other instruments in the name of the firm. Their signatures are accepted as legally binding on the firm.

Incorporating the Business Abroad

The fact that each country has its own commercial laws, which, among other things, define the requirements and methods for incorporating a business venture, makes it impossible, if not unwise, for any one person to give a detailed procedure to follow when incorporating any sort

of business abroad. It would be useless, also, for any American lawyer to draw the papers for incorporating a firm, say in Bolivia or in Spain, without having a complete knowledge of the commercial laws of the particular nation.

There is only one way to incorporate abroad:

1. Let the owner or his lawyer draw up in general terms the conditions under which the business is to be constituted. It might be an establishment for the importation and exportation of merchandise, to be incorporated with a certain amount of capital, the stock to be distributed equally among the various individuals who will supply the money. Their names might be Jones and Smith, and the business might be located at Calle del Sol, No. 77, in Lima, Peru.

2. Then have a lawyer or a notary public, a native of the country where the business is to be incorporated, draw the necessary documents and obtain the necessary licenses, so that when the establishment opens its doors to the public it will do so under the requirements of the laws of the land.

Bills of Exchange or Drafts

The legal requisites of bills of exchange are the same all over the world. They must contain the following facts and wording to become valid:

1. The words "bill of exchange," which must appear on the face of the document,
2. The place where it is drawn,
3. The date it is drawn,
4. The date and terms upon which payment must be made,
5. The name of the payee—or to whose order the payment must be made,
6. The amount to be paid,
7. The name of the drawer,
8. The signature of the drawer,
9. The name of the drawee,
10. The address of the drawee,
11. Indication whether one, two, or more copies of the bill have been issued,
12. The place where the draft must be paid.

The bill may be drawn to order or in the name of another party. If issued to order and sent for collection, it must be endorsed in blank or to the name of the party who will collect the bill.

The endorsement on a bill of exchange as a rule should be dated, for the date guarantees subsequent endorsers. It must contain the signature of the endorser and the statement that the endorsement is for "value received," "value on account," or "value understood."

"Pagaré," or Promissory Note

A *Pagaré* is similar to a promissory note, and it becomes a negotiable instrument if it contains the following:

1. The term *Pagaré* (promissory note), which must be inserted in the body of the document,
2. The date of issuance,
3. The amount to be paid,
4. The time of payment,
5. The name of payee,
6. The place where payment will be made,
7. The signature of the party contracting the obligation to pay.

Illustration 13 gives an example of a *Pagaré.* This instrument is freely used in Spanish-speaking countries.

Protesting the Draft

The most effective method to force the payment of a commercial bill of exchange is to instruct the collecting bank to protest the accepted draft if the drawee refuses to honor it at maturity. This will permit the drawer to take what is known as *executive action,* which in turn extends to the exporter the right to attach the debtor's property as soon as legal action is taken against him.

Once the drawee has accepted the draft, his liability is established, thus permitting the bank, if so instructed, to protest for nonpayment. It is useless to protest a nonaccepted draft, and it is a waste of money and effort to protest a draft because the drawee declines to accept it.

The foreign credit man should consider the cost of protest in various countries since this action becomes rather expensive when there is no notary available in the town where the drawee is located.

In South and Central America, reaccepted drafts are not subject to protest. Therefore, when the drawee requests an extension of a duly accepted draft, care should be taken to issue a new draft for his acceptance.

Power of Attorney

Power of attorney may be general, in which case authority is conferred on another party to conduct all affairs of the grantor; or it may be limited, in which case it is drawn to permit the performance of one or more specific acts.

The expiration of the general power of attorney occurs when the authority is revoked. In the limited type, the authority expires as soon as the occasion for which it was issued is closed or settled.

Unless expressly forbidden in the power of attorney, transfer is permitted.

Like all legal documents, power of attorney must be registered. To become valid, it must first be sworn to before a notary public, then taken to the county clerk to certify the signature of the notary. The next step is to have it certified at the consulate, and if necessary it should be legalized once more by the country's embassy in Washington.

In order to avoid delay, powers of attorney should be issued in conformity with the laws and in the language of the land where they are to be used.

The Endorsement as a Collection Weapon

In many countries, Argentina, Venezuela, and Colombia, for example, it is absolutely necessary to issue a power of attorney to bring about a court proceeding. In other countries, such as Peru, Nicaragua, and Haiti, the endorsement may be used to force the collection of bills. This action is called *executive action.* For instance, in case of a troublesome account which has not been collected through the customary methods, the protested draft could be used as a collection weapon, replacing the customary method of issuing a power of attorney. The procedure is to instruct the collecting bank to endorse the protested bill to a specified lawyer to whom the foreign credit man has already given authority to proceed to take any action he might deem necessary in order to collect the debt.

Sales Contract

A contract, to become effective in the event that legal action must be taken, must cover the following essentials:

1. The parties to the agreement must be legally competent to arrange the contract.
2. An offer must have been made.
3. The offer must have been accepted.
4. The object of the contract must be clearly defined and may not be contrary to the law of the land.

In export business, offers and acceptances are most frequently made by letters or cables, and do not require any special form. If the agreement is arranged by telephone or cable, however, it is the practice to confirm such agreement in writing.

When selling raw materials, such as cotton, sugar, tobacco, wheat, and oil, or, for that matter, in any sale involving a substantial sum of money, the rule should be to close the deal by means of a contract that defines the responsibilities of the contracting parties.

The contract should specify, among other things, the right to arbitrate any disputes arising from the transaction; the manner in which the arbitrator will be selected; the quality and price of the commodity; the point and day of delivery; terms of sale; packing; insurance; and any

other information clarifying the rights and obligations of the interested persons.

Indent

Indents (Illustration 72), although frequently accepted by exporters as orders, in their true sense cannot be considered as binding as sales contracts. As a matter of fact, the real purpose of the indent is to request a foreign buyer (the indentee) to inquire whether the articles desired may be obtained at the prices specified.

For example: if an importer located in South Africa wished to buy knives, and he estimated that in order to make a profit on the article he should not pay more than 10 cents per knife, he would then request the indentee to buy, say, 100 knives at the price indicated, or 10 cents each. If the purchasing agent is able to supply the goods as requested, and confirms the price and conditions, then the indent becomes a bona fide order.

Trade Disputes

Disputes in foreign trade. Disputes between buyer and seller are bound to occur. Every credit man in the domestic business knows from experience that hard times are always accompanied by a series of disputes and claims. The foreign credit man will surely encounter similar experiences. In his case, the problem is made more difficult and complicated by the differences in business practices, customs, and trade methods.

There are other factors in export trade that increase the probabilities of possible losses followed by claims. One is the unavoidable necessity of carrying the merchandise over long distances that expose the shipments to rapid changes in weather, unavoidable delays, and similar difficulties. Another is the nature of export business, which compels the seller to rely on the services and offices of others, such as inland transportation or warehousing. The interest these others have in the transaction is momentary, and although their services are necessary, they are also instrumental in increasing the possibilities of accidents and damages.

Although these possible contingencies cannot be eliminated, since they are an integral part of international trade, the exporter can, nevertheless, accomplish or put into practice certain policies and procedures that will assist in diminishing the chances of claims and disputes.

First, he must select reliable, swift carriers for transporting the goods to the port and ultimately to the consignee. Second, the exporter must exert his utmost care in the selection of foreign agents. The agent is the one direct contact between the buyer and seller, who can eliminate the probabilities of disputes by selecting as customers merchants who

INDENT NO. 5422

G. H. MARTINSEN & COMPANY
7, CORPORATION STREET, CAPE TOWN

Mark: GHM

30th October 194—.

To Messrs. Iselin Jefferson Company, Inc.,
90 Worth Street,
NEW YORK, U. S. A.

Prices:	F. O. B. New York	Discounts: 3% Cash.
Payment:	Richard Talbot & Co., Inc., 357 Fourth Avenue, New York, N. Y.	Approximate Value: £314.

SHIPMENT TO: CAPE TOWN

Shipping: Richard Talbot & Co., Inc.

Confirms Order C 2902 placed with Mr. L. C. Smith

BRISTOL 50/52" FANCY UPHOLSTERY FABRIC @ 1.25 yd.

1 piece each:	14	Dk. Rose
	8	Blue
	7	Green
	11	Lt. Rose
	5	Plum

FERNWOOD 50/52" FANCY UPHOLSTERY FABRIC @ 1.45 yd.

1 piece each:	2	blue
	5	rose
	3	grey
	9	Dk. Rose
	4	green

WEDGEWOOD 50/52" FANCY UPHOLSTERY FABRIC @ 1.45 yd.

1 piece each:	7	Green
	3	Blue
	11	Rose
2 pieces each:	15	Biscuit

(all pieces 60 yds.)

PERMIT NUMBER WILL BE CABLED AS SOON AS RECEIVED.

Please send set of samples.

Illustration 72. INDENT.

are well known for their integrity in business dealings. He can also do his utmost to convey clearly to the home office the wishes of the importer. Furthermore, when taking the order he should exert great care in setting down correctly:

1. The quantity ordered by the foreign buyer.
2. The price per unit of the commodity.
3. The packing requested by the merchant.
4. The buyer's marks.
5. Instructions as to when the goods are to be shipped.
6. The most direct route by which to ship the goods.
7. Detailed shipping instructions.
8. Terms.
9. Customs declaration to be inserted with the documents.
10. The marine insurance requested by the buyer, if any.
11. Any other remarks that might help to checkmate the likelihood of possible errors and omissions.

American firms which have branches abroad can readily appease a hotheaded South American or an annoyed European who complains about deliveries, cost of transportation, and what not, by promptly establishing the rightfulness of the claim or by explaining the difficulties and giving the assurance that such irregularities will be eliminated.

If, on the other hand, the American concern relies on the efforts of its foreign agent to adjust disputes that may arise, it would be advantageous (and should be done whenever possible) to give the agent as much authority as possible, which will permit him to settle quickly any discord that may occur with any of his clients.

When it is necessary for the foreign agent to refer all disputes to the head office, it should be the duty of the seller to consider immediately the nature of the claim, study the facts, and render a decision with the utmost speed. The settlement should be as liberal as possible, and whatever concession is granted should be granted graciously.

In summary, the agent can help to eliminate disputes through friendlier and closer acquaintance with the importer, and by carefully following the instructions of the buyers. The exporter himself can further assist in the effort to avoid claims: by closely adhering to the instructions and wishes of the buyer in regard to the quality and type of goods ordered, and in regard to deliveries; by refusing to make any changes in the contract without the written approval of the buyer.

The causes of controversies. In the previous paragraphs, some of the minor and less complicated causes of controversies between buyer and seller were presented. The discussion dealt with fairly tangible situations. If, for example, a chemical house sells some of its products abroad, and the buyer disputes the quality of the article received, the veracity of his assertion can be readily determined by a chemical analysis.

If a shipment of hosiery is not received on time, an immediate adjustment can be made by the seller.

There are other controversies, however, which are not so readily adjustable. Among them are:

1. The interpretation and meaning of the clauses of a contract. The differences in business practices among nations brings about differences in the interpretation of the wording of a contract. For example, when the price of an article is quoted C. I. F., it would seem that the price includes the cost of the goods, the insurance, and the freight. Some buyer interprets this term to mean that the insurance taken by the seller should cover all risks. This view is not generally accepted as correct, since the ordinary insurance taken on C. I. F. quotations does not cover war risk, among others. It is up to the buyer to request such coverage, and any additional coverage he wants. To avoid any misunderstanding, it would be advisable for the exporter to inform his foreign agent that the insurance coverage on a C. I. F. quotation does not include war risk. The agent should in turn pass the information to the buyer. At any rate, the importer must be notified what risks are not included in the insurance when quoting a C. I. F. price.

2. The ownership and protection of patent rights. Disputes in this field can be violent and acute, and are generally brought about by the diversity among the patent laws of the different nations of the world. Add to this the interest that governments have in patents as a source of national security, and the problem takes on a graver outlook as far as the settlement of disputes is concerned.

3. Trade marks and copyrights. These present another source of dispute, although not so acute as that of a patent.

4. Shipping Claims. For lack of a better term, it is necessary to adopt the name of "Shipping Claims" for any dispute, complaint, or litigation that might arise because of faulty shipping documents. For example, if the exporter makes a wrong declaration on the consular invoice, his mistake will mean that the importer will have difficulties with the customs inspector. In fact, the chances are that he will be fined for the error. The buyer, fully justified, will naturally insist that the exporter refund the amount of the penalties or fines to him.

5. Other controversies. Even among dealers of prime commodities, such as sugar, cotton, wool, and others, which are well regulated by common agreements and standardized by procedures that are the outcome of years of experience, traders still find causes for claims and disputes.

In conclusion, it appears that there are three distinct groups within which may be classified most of the claims and disputes that arise in international trade. They are:

1. Disputes among the dealers of raw materials and manufactured goods.

2. Disputes because of faulty ocean shipping documents.
3. Disputes about the rights and ownership of industrial properties.

Measures and remedies to avoid disputes and controversies. The task of eliminating disputes starts the moment the agent walks into the importer's establishment to sell. He accomplishes it by offering exactly the type and quality of merchandise he sells. When he refrains from disguising the product and making promises which he cannot fulfill, he is definitely aiding the avoidance of causes for future disputes. He further bars the likelihood of controversies by forwarding to the head office precise instructions as to how to pack the goods, and by giving correct shipping instructions.

The seller can assist in this task by checking every instruction and making sure that the wishes and desires of the buyer can be fulfilled.

Both the foreign agent and the seller should develop friendly relations from the start of business contacts with the buyers. They should exert the utmost care in being exact in carrying out their promises at all times. Furthermore, they should avoid too much bargaining and bickering back and forth about any dispute or difference. Remember these things: Give a fair hearing to all complaints. Facts are stubborn. They speak for themselves and cannot be twisted. Do not try to justify errors with flimsy explanations. If any error has been made, admit it and take the consequences. The importer, too, is a businessman, and he expects honest and straightforward business methods.

The mediator. There may come a time when neither the buyer nor seller can agree on the settlement of a claim. Their ideas may clash because their interpretations of the facts are not the same. The large majority of buyers and sellers do not argue for the sake of proving that the other is wrong. Each one defends what he conceives is right, and it may be that their differences are not so wide apart as they may seem from their attitude.

At this point either the agent or a mutual friend of the buyer and seller may suggest letting a third person become acquainted with the facts and be permitted to render an opinion. This friendly person is known among merchants as a *mediator*. Sometimes he is a highly respected businessman, or just a friend known to both the buyer and the seller; he may be a government employee, a consul or a commercial attaché, or, in fact, any person who is trusted by the interested parties.

This method of adjusting claims has been used in the textile trade to settle disputes about the quality of the merchandise. It can be used in cases where the contract does not specify what procedure the buyer or seller should take in the case of disputes. The method is simple, and it serves very nicely in solving a delicate situation through conciliatory methods. It is practical, friendly, and inexpensive.

Arbitration. It may be recalled that in discussing the foreign order

it was stated that the contract itself should carry, whenever possible, a clause specifying that:

> Every dispute of whatever character arising out of the contract *must* be settled by arbitration in New York City, and be conducted in the manner prescribed in the contract or set forth by some particular trade association.

In other words, if a dispute arises about the quality of the goods, the weight of the product, or the yield of raw wool, such dispute must be settled by arbitration, in accordance with the rules set by the Raw Wool Association of New York.

Frequently the contract does not mention that disputes arising out of the contract will be submitted to arbitration. In that case the interested parties can agree, after the dispute has arisen, to submit their differences to arbitration. The interested parties, that is, the vendor and buyer, will then select the arbitrators and set the rules of procedure.

Arbitration, for our own purposes, may be defined as the method of settling commercial disputes and differences in which American exporters and foreign importers are involved, thus ignoring recourse to legal process. It proceeds on the correct assumption that traders here and abroad have faith in one other, and on the belief that their interests are quite identical. It is a businesslike method of voluntarily adjusting differences arising between importer and exporter.

The method of arbitration. By a further reference to the contract which stipulates that disputes are to be settled by arbitration, it will be seen that the clause also states three other things:

1. That the dispute will be settled in New York City, or whatever other locality is designated.
2. That arbitration will be conducted in the manner provided by the arbitration rules.
3. That the loser will bear all arbitration expenses "unless otherwise decided by the arbitrators."

It is the practice that each association, representing a particular trade, select an arbitration board for a period of time. In other instances the arbitrators are selected at the time the dispute arises, and the selection is made by both parties. This is the method used in the textile trade in the United States.

At this point it must be emphasized that arbitration is used mainly among traders of raw materials. It is more adaptable to this business than to the traders of manufactured goods. There is a wide diversity in the latter field, which is not found when dealing in raw commodities.

In practice, disputes arising out of the sale of manufactured goods are primarily settled by the buyer, the seller, and the agent.

Every important trade center of the world has its own board of arbitra-

tion, and each board sets its own rules of procedure. The men composing the boards are experts in their own fields of business, and must enjoy an excellent reputation. The decisions of any arbitration board are considered final.

Among the most important associations in this country that have become known in international trade arbitration are the International Chamber of Commerce, the North American Export Grain Association, Inc., The National American Wholesale Lumber Association, The American Cotton Shippers' Association, The Dried Fruit Association of California, to name a few. For a complete list of these commodity exchanges or associations it would be helpful to obtain the *Year Book on Commercial Arbitration in the United States.* This publication is issued by the American Arbitration Association. It includes the rules by which the associations are governed as well as the facilities they offer to their respective trades.

Miss Frances Kellor in her article entitled "Coordination of Commercial Arbitration Systems," reprinted in the *Arbitration Journal,* Summer 1946, Volume I, No. 2, states that there are four organized trade arbitration systems: The London Court of Arbitration of the London Chamber of Commerce; the Soviet Union System of Commercial Arbitration; The International Chamber of Commerce; and the Western Hemisphere System of Arbitration.

The last named is further subdivided into four different systems, namely:

a. The American system, which administers foreign trade arbitrations in the United States under the rules of the American Arbitration Association.

b. The Inter-American System, which provides the facilities for settling disputes between nationals and residents of the different republics of North and South America.

c. The Canadian American System, which provides the means of settling claims or disputes between Canada and this country.

d. The Western Hemisphere System, which differs from the other three "in that the American Arbitration Association, which is the coordinator of the three Western Hemisphere systems enters into joint arrangements with organizations in other countries, under which joint trade arbitration commissions are established."

If the interested parties wish to arrange for arbitration, under any of these four systems, they do so by using the following clauses in the contract.

The American System:

Any controvery or claim arising out of or relating to this contract, or the breach thereof, shall be settled by arbitration in accordance with the Rules,

then obtaining, of the American Arbitration Association. The Association is authorized to make arrangements for this arbitration to be held under these Rules in any locality or territory agreed upon by the parties or as designated by the Association. This agreement shall be enforceable and judgment upon any award rendered by all or a majority of the arbitrators may be entered in any court of any country having jurisdiction.

Inter-American Commercial Arbitration Commission:

Any controversy or claim arising out of or relating to this contract, or the breach thereof, shall be settled by arbitration, in accordance with the Rules, then obtaining, of the Inter-American Commercial Arbitration Commission. This agreement shall be enforceable and judgment upon any award rendered by all or a majority of the arbitrators may be entered in any court having jurisdiction. The arbitration shall be held in ..... or wherever jurisdiction may be obtained over the parties.

Canadian American Commercial Arbitration Commission:

Any controversy or claim arising out of or relating to this contract, or the breach thereof, shall be settled by arbitration, in accordance with the Rules of procedure, then obtaining, of the Canadian-American Commercial Arbitration Commission, established by the American Arbitration Association and the Canadian Chamber of Commerce, and judgment upon the award rendered may be entered in any court having jurisdiction thereof.

Western Hemisphere System of Arbitration:

Any controversy or claim arising out of or relating to this contract, or the breach thereof, shall be settled by arbitration in accordance with the Rules, then obtaining, of the American Arbitration Association. Any such arbitration shall be held in the United States, at the City of ..... unless, by agreement, the parties hereto select another location. If by such agreement of the parties, the arbitration is held in any of the Latin American Republics, then the Rules of the Inter-American Commercial Arbitration Commission shall apply. Or if such arbitration is to be held in the Dominion of Canada, then the Rules of the Canadian-American Commercial Arbitration Commission shall apply. Or if the arbitration is to be held at any point outside of the above described areas, then whatever Rules the parties agree to shall apply. Judgment upon the award rendered may be entered in any court having jurisdiction in any country.

Trade-Marks

It has been the regrettable experience of some American firms, when they decided to sell abroad, to find it impossible to use their trade-marks or even their trade names. Some irresponsible or unscrupulous persons, aware of the value of these American trade-marks had proceeded to acquire their ownership without compunction, by registering them in their own names. When, at a later date, therefore, the American houses decided to sell their products in that particular foreign market, they were deprived of using their own industrial property.

The American firms, could, of course, have taken legal action to

recover their rights, but the procedure would have been lengthy and costly. The only recourse open, then, in these circumstances, was to buy back the trade-marks.

Another consideration that must be given by the exporter in regard to the trade-mark is the meaning it may have in a foreign country. It is possible that, although the trade-mark carries some significance in the United States, when translated into another language that significance is entirely lost. In fact it might be damaging to the product. It is known that the trade-mark of a well-known American manufacturer is also a Spanish word, which has a rather Rabelaisian meaning. In other words, to avoid any possible embarrassment the exporter should use for foreign markets a trade-mark that conveys some meaning and significance to the natives, one that is adaptable in every respect to the requirements, feeling, and ethics of the people of the country where it is to be used.

Protecting trade-marks. In the preceding discussion, it was brought out that the exporter will experience difficulties if he fails to protect his trade-mark in foreign markets.

Above all it is worth remembering that, when a merchant registers his trade-mark in the United States, such registration does not mean that he is entitled to demand and receive full protection abroad. The contrary is the truth. He can receive protection only after he has fulfilled all the requisites demanded by the laws of the foreign countries in which he wishes to sell his product. This procedure is the one method available to the exporter for safeguarding his trade-mark rights. It must be borne in mind also that each nation has its own laws and has established its own machinery for the direct purpose of protecting the "industrial rights" of its own people, as well as those of foreigners. It is essential, therefore, for the exporter wishing to enter a foreign market and wishing to use his own trade-mark, to call on the proper government official from whom he can obtain the required protection.

It must be added, too, that the common-law concept of the property rights in trade which prevails in this country, Great Britain, its Dominions and Colonies, does not apply to other parts of the world. And because of these differences trade-mark ownership can be sustained only if the owner establishes in each country his legal rights to that ownership.

It would be impossible for any one person, except a legal expert in the procedure of establishing trade-mark rights, to set forth the various methods of creating ownership of "industrial property" all over the world. For those who wish to follow the study in a more detailed manner, it is suggested that they consult a valuable publication issued by the United States Department of Commerce, and written by James L. Brown, entitled: *Industrial Property Protection Throughout the World.*

In a general way, it may be said that before registering a trade-mark abroad it should be first registered in this country.

In most countries, the ownership of the trade-mark is granted to whoever first registers the trade-mark with the proper authority. In a few countries, however, proof of ownership determines the right to use the trade-mark, and registration, although advisable, is not entirely necessary.

The cost of registration varies in every country. It may be from $100 up. The limitation of industrial property ownership also differs in every country. Usually it varies from ten to twenty years. Renewal in most cases is granted if the owner proves that he has used the trade-mark for a certain period of time.

In countries that have not enacted any laws for the protection of trade-marks, it is advisable to file the claim, which in a way is a sort of registration, with some government official. Notice of the filing is then published in the daily newspapers of the country.

The technicalities, the multitude of regulations and red tape involved in establishing the ownership of a trade-mark, leads to one conclusion: those merchants desiring to protect their trade-marks abroad should seek the services of a competent lawyer who knows thoroughly the intricacies of the laws dealing with industrial property in foreign countries.

Patents

The problem of patent rights and ownership is as complicated, if not more complicated, than that of trade-marks. The reason is that at times the question deals not only with the right of an individual, but also occasionally with the security of a nation. To this may be added that patent rights rest primarily on proving the utility as well as the novelty of the invention.

The economic aspect of the patent must also be considered. Unlike the trade-mark, registration of a patent is very costly.

Patent rights should be obtained only in countries where the invention can be used profitably. There is no use in registering an invention in Venezuela, for example, for a heating apparatus. The machine may be used once, but it will never be possible to create a great demand for it in that country since it could have no universal use.

The application for a patent, in all foreign countries, is made by the inventor himself, although in some countries an assignee may apply after he obtains the legal consent of the inventor by means of a power of attorney. The signature of the inventor must also be presented.

When the application for registration must be made varies in every nation. In some countries the application must be filed before the publication of any illustration or description of the invention is made public, or before the invention has been used or exhibited.

Once the applicant has proved the novelty of his invention and has successfully registered ownership rights, he must also comply with the requisites of some countries to the effect that the invention must be exploited; that is, that the article for which the invention was created must be put to use, produced, or manufactured, and sold.

The usual period granted for the exploitation of a patent, after the patent rights have been granted, varies anywhere from one to five years. Furthermore, if the inventor fails to work the patent a year after he has started to manufacture, he may have his patent canceled.

It is also the practice in some countries, when the invention is not exploited, to compel the inventor to grant a license to any person wishing to commercialize the patent. The owner of the invention will, of course, receive a royalty, but the royalties received by the inventor are subject to taxation in most countries.

All patent rights are granted for a limited number of years. The life of the patent varies in different countries and may be from five to twenty years.

From the above it is evident that the only way an inventor can protect his patent rights abroad is to engage the services of a competent and thoroughly reliable attorney.

Copyrights

Intellectuals and artists in general who wish to protect their property rights can enjoy the same privilege, here and abroad, as the merchant or the inventor who legally safeguards his industrial property. The procedure by which the author protects his property rights on his work, which is his intellectual or artistic production, is called a *copyright.*

Like the laws protecting trade-marks and patents, the laws of copyrights are not uniform; but in a general way it can be said that foreign countries do recognize the ownership of an original creation, known all over the world as copyright.

For example, there exists such a recognition among the countries of North and South America. Most of these republics have mutually agreed upon and signed a treaty by means of which a copyright obtained in one country is automatically accepted in another. When a book is copyrighted in Uruguay, say, or in the United States, and the work carries the statement reserving the property rights, such work is well protected within the two Americas.

This country also has reciprocal arrangements with other nations outside the Americas, but they do not include the automatic protection extended by the nations of the Western Hemisphere.

In countries where the United States has no reciprocal copyright relations, then the copyright protection must be obtained by fulfilling the requirements set forth by the laws of the country in question, and the

only person capable of taking care of this matter would be a competent attorney acquainted with this branch of the law.

American Foreign Trade Definitions

On July 30, 1941, a joint committee representing the Chamber of Commerce of the United States, the National Council of American Importers, Inc., and the National Foreign Trade Council adopted and issued "Revised American Foreign Trade Definitions—1941." In the foreword to these definitions the committee specifically states as follows:

> These revised definitions have no status at law unless there is specific legislation providing for them, or unless they are confirmed by court decisions. Hence, it is suggested that sellers and buyers agree to their acceptance as part of the contract of sale. These revised definitions will then become legally binding upon all parties.

In the "General Notes of Caution" the committee stresses the following points that should be accepted by every exporter:

1. As foreign trade definitions have been issued by organizations in various parts of the world, and as the courts of countries have interpreted these definitions in different ways, it is important that sellers and buyers agree that their contracts are subject to the *Revised American Foreign Trade Definitions—1941*, and that the various points listed are accepted by both parties.
2. In addition to the foreign trade terms listed herein, there are terms that are at times used, such as Free Harbor, C. I. F. & C. (Cost, Insurance, Freight, and Commission), C. I. F. C. & I. (Cost, Insurance, Freight, Commission and Interest), C. I. F. Landed (Cost, Insurance, Freight, Landed), and others. None of these should be used unless there has first been a definite understanding as to the exact meaning thereof. It is unwise to attempt to interpret other terms in the light of the terms given herein. Hence, whenever possible, one of the terms defined herein should be used.
3. It is unwise to use abbreviations in quotations or in contracts which might be subject to misunderstanding.
4. When making quotations, the familiar terms "hundredweight" or "ton" should be avoided. A hundredweight can be 100 pounds of the short ton, or 112 pounds of the long ton. A ton can be a short ton of 2,000 pounds, or a metric ton of 2,204.6 pounds, or a long ton of 2240 pounds. Hence, the type of hundredweight or ton should be clearly stated in quotations and in sales confirmations. Also, all terms referring to quantity, weight, volume, length, or surface should be clearly defined and agreed upon.
5. If inspection, or certificate of inspection, is required, it should be agreed, in advance, whether the cost thereof is for account of seller or buyer.
6. Unless otherwise agreed upon, all expenses are for the account of seller up to the point at which the buyer must handle the subsequent movement of goods.
7. There are a number of elements in a contract that do not fall within the scope of these foreign trade definitions. Hence, no mention of these is made herein. Seller and buyer should agree to these separately when negotiating contracts. This particularly applies to so-called "customary" practices.

DEFINITIONS OF QUOTATIONS

(I) EX *(POINT OF ORIGIN)*

"EX FACTORY," "EX MILL," "EX MINE," "EX PLANTATION," "EX WAREHOUSE," etc. *(Named point of origin)*

Under this term, the price quoted applies only at the point of origin, and the seller agrees to place the goods at the disposal of the buyer at the agreed place on the date or within the period fixed.

Under this quotation:

Seller must

(1) bear all costs and risks of the goods until such time as the buyer is obliged to take delivery thereof;

(2) render the buyer, at the buyer's request and expense, assistance in obtaining the documents issued in the country of origin, or of shipment, or of both, which the buyer may require either for purposes of exportation, or of importation at destination.

Buyer must

(1) take delivery of the goods as soon as they have been placed at his disposal at the agreed place on the date or within the period fixed;

(2) pay export taxes, or other fees or charges, if any, levied because of exportation;

(3) bear all costs and risks of the goods from the time when he is obligated to take delivery thereof;

(4) pay all costs and charges incurred in obtaining the documents issued in the country of origin, or of shipment, or of both, which may be required either for purposes of exportation, or of importation at destination.

(II) F. O. B. *(FREE ON BOARD)*

Note: Seller and buyer should consider not only the definitions but also the "Comments on All F. O. B. Terms" given at the end of this section, in order to understand fully their respective responsibilities and rights under the several classes of "F. O. B." terms.

(II—A) "F. O. B. *(named inland carrier at named inland point of departure)*"

Under this term, the price quoted applies only at inland shipping point, and the seller arranges for loading of the goods on, or in, railway cars, trucks, lighters, barges, aircraft, or other conveyance furnished for transportation.

Under this quotation:

Seller must

(1) place goods on, or in, conveyance, or deliver to inland carrier for loading;

(2) provide clean bill of lading or other transportation receipt, freight collect;

(3) be responsible for any loss or damage, or both, until goods have been placed in, or on, conveyance at loading point, and clean bill of

lading or other transportation receipt has been furnished by the carrier;

(4) render the buyer, at the buyer's request and expense, assistance in obtaining the documents issued in the country of origin, or of shipment, or of both, which the buyer may require either for purposes of exportation, or if importation at destination.

Buyer must

(1) be responsible for all movement of the goods from inland point of loading, and pay all transportation costs;

(2) pay export taxes, or other fees or charges, if any, levied because of exportation;

(3) be responsible for any loss or damage, or both, incurred after loading at named inland point of departure;

(4) pay all costs and charges incurred in obtaining the documents issued in the country of origin, or of shipment, or of both, which may be required either for purposes of exportation, or of importation at destination.

(II—B) "F. O. B. *(named inland carrier at named inland point of departure)* FREIGHT PREPAID TO *(named point of exportation)*"

Under this term, the seller quotes a price including transportation charges to the named point of exportation and prepays freight to named point of exportation, without assuming responsibility for the goods after obtaining a clean bill of lading or other transportation receipt at named inland point of departure.

Under this quotation:

Seller must

(1) assume the seller's obligations as under II—A except that under (2) he must provide clean bill of lading or other transportation receipt, freight prepaid to named point of exportation.

Buyer must

(1) assume the same buyer's obligations as under II—A, except that he does not pay freight from loading point to named point of exportation.

(II—C) "F. O. B. *(named inland carrier at named inland point of departure)* FREIGHT ALLOWED TO *(named point)*"

Under this term, the seller quotes a price including the transportation charges to the named point, shipping freight collect and deducting the cost of transportation, without assuming responsibility for the goods after obtaining a clean bill of lading or other transportation receipt at named inland point of departure.

Under this quotation:

Seller must

(1) assume the same seller's obligations as under II—A, but deducts from his invoice the transportation cost to named point.

Buyer must

(1) assume the same buyer's obligations as under II—A, including payment of freight from inland loading point to named point, for which seller has made deduction.

(II—D) "F. O. B. *(named inland carrier at named point of exportation)*"

Under this term, the seller quotes a price including the costs of transportation of the goods to named point of exportation, bearing any loss or damage, or both, incurred up to that point.

Under this quotation:

Seller must

(1) place goods on, or in, conveyance, or deliver to inland carrier for loading;

(2) provide clean bill of lading or other transportation receipt, paying all transportation costs from loading point to named point of exportation;

(3) be responsible for any loss or damage, or both, until goods have arrived in, or on, inland conveyance at the named point of exportation;

(4) render the buyer, at the buyer's request and expense, assistance in obtaining the documents issued in the country of origin, or of shipment, or of both, which the buyer may require either for purposes of exportation, or of importation at destination.

Buyer must

(1) be responsible for all movement of the goods from inland conveyance at named point of exportation;

(2) pay export taxes, or other fees or charges, if any, levied because of exportation;

(3) be responsible for any loss or damage, or both, incurred after goods have arrived in, or on, inland conveyance at the named point of exportation;

(4) pay all costs and charges incurred in obtaining the documents issued in the country of origin, or of shipment, or of both, which may be required either for purposes of exportation, or of importation at destination.

(II—E) "F. O. B. VESSEL *(named port of shipment)*"

Under this term, the seller quotes a price covering all expenses up to, and including, delivery of the goods upon the overseas vessel provided by, or for, the buyer at the named port of shipment.

Under this quotation:

Seller must

(1) pay all charges incurred in placing goods actually on board the vessel designated and provided by, or for, the buyer on the date or within the period fixed;

(2) provide clean ship's receipt or on-board bill of lading;

(3) be responsible for any loss or damage, or both, until goods have been placed on board the vessel on the date or within the period fixed;

(4) render the buyer, at the buyer's request and expense, assistance in obtaining the documents issued in the country of origin, or of shipment, or of both, which the buyer may require either for purposes of exportation, or of importation at destination.

Buyer must

(1) give seller adequate notice of name, sailing date, loading berth of, and delivery time to, the vessel;

(2) bear the additional costs incurred and all risks of the goods from the time when the seller has placed them at his disposal if the vessel named by him fails to arrive or to load within the designated time;
(3) handle all subsequent movement of the goods to destination:
  (a) provide and pay for insurance;
  (b) provide and pay for ocean and other transportation;
(4) pay export taxes, or other fees or charges, if any, levied because of exportation;
(5) be responsible for any loss or damage, or both, after goods have been loaded on board the vessel;
(6) pay all costs and charges incurred in obtaining the documents, other than clean ship's receipt or bill of lading, issued in the country of origin, or of shipment, or of both, which may be required either for purposes of exportation, or of importation at destination.

(II—F) "F. O. B. *(named inland point in country of importation)*"

Under this term, the seller quotes a price including the cost of the merchandise and all costs of transportation to the named inland point in the country of importation.

Under this quotation:

Seller must

(1) provide and pay for all transportation to the named inland point in the country of importation;
(2) pay export taxes, or other fees or charges, if any, levied because of exportation;
(3) provide and pay for marine insurance;
(4) provide and pay for war risk insurance, unless otherwise agreed upon between the seller and buyer;
(5) be responsible for any loss or damage, or both, until arrival of goods on conveyance at the named inland point in the country of importation;
(6) pay the costs of certificates of origin, consular invoices, or any other documents issued in the country of origin, or of shipment, or of both, which the buyer may require for the importation of goods into the country of destination, and, where necessary, for their passage in transit through another country;
(7) pay all costs of landing, including wharfage, landing charges, and taxes, if any;
(8) pay all costs of customs entry in the country of importation;
(9) pay customs duties and all taxes applicable to imports, if any, in the country of importation.

Note: The seller under this quotation must realize that he is accepting important responsibilities, costs, and risks, and should therefore be certain to obtain adequate insurance. On the other hand, the importer or buyer may desire such quotations to relieve him of the risks of the voyage and to assure him of his landed costs at inland point in country of importation. When competition is keen, or the buyer is accustomed to such quotations from other sellers, seller may quote such terms, being careful to protect himself in an appropriate manner.

Buyer must

(1) take prompt delivery of goods from conveyance upon arrival at destination;

(2) bear any costs and be responsible for all loss or damage, or both, after arrival at destination.

Comments on All F. O. B. Terms

In connection with F. O. B. terms, the following points of caution are recommended:

1. The method of inland transportation, such as trucks, railroad cars, lighters, barges, or aircraft should be specified.

2. If any switching charges are involved during the inland transportation, it should be agreed, in advance, whether these charges are for account of seller or the buyer.

3. The term "F. O. B. (named port)," without designating the exact point at which the liability of the seller terminates and the liability of the buyer begins, should be avoided. The use of this term gives rise to disputes as to the liability of the seller or the buyer in the event of loss or damage arising while the goods are in port, and before delivery to or on board the ocean carrier. Misunderstandings may be avoided by naming the specific point of delivery.

4. If lighterage or trucking is required in the transfer of goods from the inland conveyance to ship's side, and there is a cost therefor, it should be understood, in advance, whether this cost is for account of the seller or the buyer.

5. The seller should be certain to notify the buyer of the minimum quantity required to obtain a carload, a truckload, or a barge-load freight rate.

6. Under F. O. B. terms, excepting "F. O. B. (named inland point in country of importation)," the obligation to obtain ocean freight space, and marine and war risk insurance, rests with the buyer. Despite this obligation on the part of the buyer, in many trades the seller obtains the ocean freight space, and marine and war risk insurance, and provides for shipment on behalf of the buyer. Hence, seller and buyer must have an understanding as to whether the buyer will obtain the ocean freight space, and marine and war risk insurance, as is his obligation, or whether the seller agrees to do this for the buyer.

7. For the seller's protection, he should provide in his contract of sale that marine insurance obtained by the buyer include standard warehouse to warehouse coverage.

(III) F. A. S. *(FREE ALONG SIDE)*

Note: Seller and buyer should consider not only the definitions but also the "Comments" given at the end of this section, in order to understand fully their respective responsibilities and rights under "F. A. S." terms.

"F. A. S. VESSEL *(Named port of shipment)*"

Under this term, the seller quotes a price including delivery of the goods along side overseas vessel and within reach of its loading tackle.

Under this quotation:

Seller must

(1) place goods along side vessel or on dock designated and provided by, or for, buyer on the date or within the period fixed; pay any heavy lift charges, where necessary, up to this point;

(2) provide clean dock or ship's receipt;

(3) be responsible for any loss or damage, or both, until goods have been delivered along side the vessel or on the dock;
(4) render the buyer, at the buyer's request and expense, assistance in obtaining the documents issued in the country of origin, or of shipment, or of both, which the buyer may require either for purposes of exportation, or of importation at destination.

Buyer must

(1) give seller adequate notice of name, sailing date, loading berth of, and delivery time to, the vessel;
(2) handle all subsequent movement of the goods along side the vessel:
  (a) arrange and pay for demurrage or storage charges, or both, in warehouse or on wharf, where necessary;
  (b) provide and pay for insurance;
  (c) provide and pay for ocean and other transportation;
(3) pay export taxes, or other fees or charges, if any, levied because of exportation;
(4) be responsible for any loss or damage, or both, while goods are on a lighter or other conveyance along side vessel within reach of its loading tackle, or on the dock awaiting loading, or until actually loaded on board the vessel, and subsequent thereto;
(5) pay all costs and charges incurred in obtaining the documents, other than clean dock or ship's receipt, issued in the country of origin, or of shipment or of both, which may be required either for purposes of exportation, or of importation at destination.

F. A. S. Comments

1. Under F. A. S. terms, the obligation to obtain ocean freight space, and marine and war risk insurance, rests with the buyer. Despite this obligation on the part of the buyer, in many trades the seller obtains ocean freight space, and marine and war risk insurance, and provides for shipment on behalf of the buyer. In others, the buyer notifies the seller to make delivery along side a vessel designated by the buyer and the buyer provides his own marine and war risk insurance. Hence, seller and buyer must have an understanding as to whether the buyer will obtain the ocean freight space, and marine and war risk insurance, as is his obligation, or whether the seller agrees to do this for the buyer.

2. For the seller's protection, he should provide in his contract of sale that marine insurance obtained by the buyer include standard warehouse to warehouse coverage.

(IV) C. & F. *(COST AND FREIGHT)*

Note: Seller and buyer should consider not only the definitions but also the "C. & F. Comments" and the "C. & F. and C. I. F. Comments" in order to understand fully their respective responsibilities and rights under "C. & F." terms.

"C. & F. *(named point of destination)*"

Under this term, the seller quotes a price including the cost of transportation to the named point of destination.

Under this quotation:

Seller must

(1) provide and pay for transportation to named point of destination;
(2) pay export taxes, or other fees or charges, if any, levied because of exportation;
(3) obtain and dispatch promptly to buyer, or his agent, clean bill of lading to named point of destination;
(4) where received-for-shipment ocean bill of lading may be tendered, be responsible for any loss or damage, or both, until the goods have been delivered into the custody of the ocean carrier;
(5) where on-board ocean bill of lading is required, be responsible for any loss or damage, or both, until the goods have been delivered on board the vessel;
(6) provide, at the buyer's request and expense, certificates of origin, consular invoices, or any other documents issued in the country of origin, or of shipment, or of both, which the buyer may require for importation of goods into country of destination and, where necessary, for their passage in transit through another country.

Buyer must

(1) accept the documents when presented;
(2) receive goods upon arrival, handle and pay for all subsequent movement of the goods, including taking delivery from vessel in accordance with bill of lading clauses and terms; pay all costs of landing, including any duties, taxes, and other expenses at named point of destination;
(3) provide and pay for insurance;
(4) be responsible for loss of or damage to goods, or both, from time and place at which seller's obligations under (4) or (5) above have ceased;
(5) pay the costs of certificates of origin, consular invoices, or any other documents issued in the country of origin, or of shipment, or of both, which may be required for the importation of goods into the country of destination and, where necessary, for their passage in transit through another country.

C. & F. Comments

1. For the seller's protection, he should provide in his contract of sale that marine insurance obtained by the buyer include standard warehouse to warehouse coverage.

2. The comments listed under the following C. I. F. terms in many cases apply to C. & F. terms as well, and should be read and understood by the C. & F. seller and buyer.

(V) C. I. F. *(COST, INSURANCE, FREIGHT)*

Note: Seller and buyer should consider not only the definitions but also the "Comments" at the end of this section, in order to understand fully their respective responsibilities and rights under "C. I. F." terms.

"C. I. F. *(named point of destination)*"

Under this term, the seller quotes a price including the cost of the goods, the marine insurance, and all transportation charges to the named port of destination.

Under this quotation:

Seller must

(1) provide and pay for transportation to named point of destination;
(2) pay export taxes, or other fees or charges, if any, levied because of exportation;
(3) provide and pay for marine insurance;
(4) provide war risk insurance as obtainable in seller's market at time of shipment at buyer's expense, unless seller has agreed that buyer provide for war risk coverage. (See Comment 10 (c) under "C. & F. and C. I. F. Comments.")
(5) obtain and dispatch promptly to buyer, or his agent, clean bill of lading to named point of destination, and also insurance policy or negotiable insurance certificate;
(6) where received-for-shipment ocean bill of lading may be tendered, be responsible for any loss or damage, or both, until the goods have been delivered into the custody of the ocean carrier;
(7) where on-board ocean bill of lading is required, be responsible for any loss or damage, or both, until goods have been delivered on board the vessel;
(8) provide, at the buyer's request and expense, certificates of origin, consular invoices, or any other documents issued in the country of origin, or of shipment, or both, which the buyer may require for importation of goods into country of destination and, where necessary, for their passage in transit through another country.

Buyer must

(1) accept the documents when presented;
(2) receive the goods upon arrival, handle and pay for all subsequent movement of the goods, including taking delivery from vessel in accordance with bill of lading clauses and terms; pay all costs of landing, including any duties, taxes, and other expenses at named point of destination;
(3) pay for war risk insurance provided by seller;
(4) be responsible for loss of or damage to goods, or both, from time and place at which seller's obligations under (6) or (7) above have ceased;
(5) pay the cost of certificates of origin, consular invoices, or any other documents issued in the country of origin, or of shipment, or both, which may be required for importation of the goods into the country of destination and, where necessary, for their passage in transit through another country.

C. & F. and C. I. F. Comments

Under C. & F. and C. I. F. contracts, the seller and the buyer should be in complete agreement on the following points at the time that the contract is concluded:

1. It should be agreed upon, in advance, who is to pay for miscellaneous expenses, such as weighing or inspection charges.

2. The quantity to be shipped on any one vessel should be agreed upon, in advance, with a view to the buyer's capacity to take delivery upon arrival and discharge of the vessel, within the free time allowed at the port of importation.

3. Although the terms "C. & F." and "C. I. F." are generally interpreted to provide that charges for consular invoices and certificates of origin are for the

account of the buyer, and are charged separately, in many trades these charges are included by the seller in his price. Hence, seller and buyer should agree, in advance, whether these charges are part of the selling price, or will be invoiced separately.

4. The point of final destination should be definitely known in the event the vessel discharges at a port other than the actual destination of the goods.

5. When ocean freight space is difficult to obtain, or forward freight contracts cannot be made at firm rates, it is advisable that sales contracts, as an exception to regular C. & F. or C. I. F. terms, should provide for shipment within the contract period to be subject to ocean freight space's being available to the seller. They should provide also that changes in the cost of ocean transportation between the time of sale and the time of shipment be for account of the buyer.

6. Normally, the seller is obligated to prepay the ocean freight. In some instances, shipments are made freight collect and the amount of the freight is deducted from the invoice rendered by the seller. It is necessary to be in agreement on this point, in advance, in order to avoid misunderstanding, which arises from foreign exchange fluctuations that might affect the actual cost of transportation, and from interest charges that might accrue under letter of credit financing. Hence, the seller should always prepay the ocean freight unless he has a specific agreement with the buyer, in advance, that goods can be shipped freight collect.

7. The buyer should recognize that he does not have the right to insist on inspection of goods prior to accepting the documents. The buyer should not refuse to take delivery of goods on account of delay in the receipt of documents, provided the seller has used due diligence in their dispatch through the regular channels.

8. Sellers and buyers are advised against including in a C. I. F. contract any indefinite clause at variance with the obligations of a C. I. F. contract as specified in these definitions. There have been numerous court decisions in the United States and other countries invalidating C. I. F. contracts because of the inclusion of indefinite clauses.

9. Interest charges should be included in cost computations and should not be charged as a separate item in C. I. F. contracts, unless otherwise agreed upon, in advance, between the seller and buyer; in which case, however, the term "C. I. F. and I." (Cost, Insurance, Freight, and Interest) should be used.

10. In connection with insurance under C. I. F. sales, it is necessary that seller and buyer be definitely in accord upon the following points:

(a) The character of the marine insurance should be agreed upon in so far as being "W. A." (With Average) or "F. P. A." (Free of Particular Average), as well as including any other special risks that are covered in specific trades, or against which the buyer may wish individual protection. Among the special risks that should be considered and agreed upon between seller and buyer are theft, pilferage, leakage, breakage, sweat, contact with other cargoes, and others peculiar to any particular trade. It is important that contingent or collect freight and customs duty should be insured to cover Particular Average losses, as well as total loss after arrival and entry but before delivery.

(b) The seller is obligated to exercise ordinary care and diligence in selecting an underwriter in good financial standing. However, the risk of obtaining settlement of insurance claims rests with the buyer.

(c) War risk insurance under this term is to be obtained by the seller at the expense and risk of the buyer. It is important that the seller be in definite accord with the buyer on this point, particularly as to the cost. It is desirable

that the goods be insured against both marine and war risk with the same underwriter, so that there can be no difficulty arising from the determination of the cause of the loss.

(d) Seller should make certain that in his marine or war risk insurance there be included the standard protection against strikes, riots, and civil commotions.

(e) Seller and buyer should be in accord as to the insured valuation, bearing in mind that merchandise contributes in General Average on certain bases of valuation which differ in various trades. It is desirable that a competent insurance broker be consulted in order that full value be covered and trouble avoided.

(VI) EX DOCK

(VI) "EX DOCK *(named port of importation)*"

Note: Seller and buyer should consider not only the definitions but also the "Ex Dock Comments" at the end of this section, in order to understand fully their respective responsibilities and rights under "Ex Dock" terms.

Under this term, seller quotes a price including the cost of the goods and all additional costs necessary to place the goods on the dock at the named port of importation, duty paid, if any.

Under this quotation:

Seller must

(1) provide and pay for transportation to named port of importation;
(2) pay export taxes, or other fees or charges, if any, levied because of exportation;
(3) provide and pay for marine insurance;
(4) provide and pay for war risk insurance, unless otherwise agreed upon between the buyer and seller;
(5) be responsible for any loss or damage, or both, until the expiration of the free time allowed on the dock at the named port of importation;
(6) pay the costs of certificates of origin, consular invoices, legalization of bill of lading, or any other documents issued in the country of origin, or of shipment, or of both, which the buyer may require for the importation of goods into the country of destination and, where necessary, for their passage in transit through another country;
(7) pay all costs of landing, including wharfage, landing charges, and taxes, if any;
(8) pay all costs of customs entry in the country of importation;
(9) pay customs duties and all taxes applicable to imports, if any, in the country of importation, unless otherwise agreed upon.

Buyer must

(1) take delivery of the goods on the dock at the named port of importation within the free time allowed;
(2) bear the cost and risk of the goods if delivery is not taken within the free time allowed.

Ex Dock Comments

This term is used principally in United States import trade. It has various modifications, such as "Ex Quay," "Ex Pier," and so forth, but it is seldom, if ever, used in American export practice. Its use in quotations for export is not recommended.

APPENDIX

Table of Foreign Terms

There is no standard of terms set on foreign accounts located in the same territory. It is true that throughout the West Indies, for example, textiles and rayons are sold on terms of 60 and 70 days from date of invoice, which, incidentally, conform to the terms prevailing in the domestic market for these products; but it is equally true that the very same merchandise is sold, in the same territories, on terms of sight draft.

In a detailed study made by Mr. A. O. Stanley [1] on foreign terms, it is clearly brought out that the same product is sold on different terms in the same market. These are what are commonly known in export business as *short terms,* which is another way of saying that consumer goods command short terms of anywhere from sight draft with documents attached, to 120 days sight (rarely used), to 180 days date.

Heavy goods, on the other hand, are usually sold on *long terms,* which comprise anywhere from one to five years. Even within this group the standard is broken, however, and sales are made against commercial letter of credit or cash with order.

In presenting the list given below, we have selected only the principal products exported by this country.

Cotton. Most of the raw cotton sold by this country goes to European markets. The terms as a rule are: Documentary Letter of Credit, sight draft against delivery of documents, or 7 days sight draft documents delivered against acceptance.

Food. Within the food line are grain, coffee, corn and wheat, as well as canned goods. The grain is usually sold on sight draft or payment against letter of credit.

Canned goods throughout South America are sold anywhere from sight draft to 60 days open account.

Paper. Under normal conditions the export of paper to Europe is not of great importance. It goes mostly to Central and South America, and the terms are anywhere from sight draft to 90 days open account.

Rayon. Europe buys little rayon from the United States; as a matter of fact, even Argentina, Brazil, and Mexico import negligible quantities of rayon from this country. It is sold mostly throughout Central America and the West Indies, Colombia, Venezuela, Ecuador, and Peru, on terms varying from sight draft with documents attached, to 60 days date, and 60 days sight.

[1] For a more complete list of terms granted by exporters to Latin America, see A. O. Stanley's *Approach to Latin American Markets,* issued by Dun & Bradstreet, Inc., New York.

Textiles and cotton fabrics. Most of these products go to Central America, some of the South American republics, South Africa, and the Far East. The terms vary from sight draft with documents attached to 90 days sight draft delivery upon payment. The latter terms are used entirely in the Far East. Central America under normal conditions usually receives terms of 60 days date, 60 days sight, and, rarely, 90 days date.

Yarn. There are four main types of yarn:

Cotton. Cotton is sold throughout South America on terms of letter of credit, sight draft, and 90 days open account, and on draft basis. The tenor of the drafts varies anywhere from 30 days date to 90 days sight. The latter terms are granted in Chile, Peru, and Uruguay.

Silk. Most silk yarn is sold on letters of credit, sight draft with documents attached plus a deposit. Excellent houses receive more liberal terms, such as 90 days open account or 90 days sight draft.

Rayon and nylon yarn. The same terms as silk yarn.

Wool yarn. The same terms as silk yarn.

Abbreviations and Definitions of Export Terms

C.A.D.	Cash against documents. The shipping papers are mailed directly to the importer, who immediately remits the value indicated on the invoice.
C.A.D.N.Y.	Cash against documents in New York. Payment is effected by a bank or some designated individual on presentation of shipping documents.
Cd. Sl.	Conditional sales.
C.I.A.	Cash in advance. The cost of goods, marine insurance, and transportation charges are remitted before the goods are shipped.
C. in N.Y.	Cash in New York. This generally means payment through a confirming house or a similar arrangement.
C.B.R.M.	Cash by return mail. The buyer is supposed to pay on receipt of documents or commercial invoice.
C.R.M.	Cash on receipt of merchandise. The shipping documents are sent directly to the buyer, but he does not pay until the merchandise is received.
C.R.S.	Cash by return steamer. The documents go directly to the buyer and payment is made by return steamer.
C.W.O.	Cash with order. Same as cash in advance.
30/180 D/D	30 to 180 days date draft. Maturity of the bill of exchange counts from date of draft.
DFT/a	Draft attached. The draft and the documents are sent to the collecting bank with instructions to release them against payment or acceptance of the draft, as the case may be.
10 E.O.M.*	Open account terms with maturity ten days after the following month from the date of the invoice. Ordinarily this means about 30/40 days' credit.

* E.O.M. and M.O.M. (middle of the month) terms are uncommon in foreign trade and should be replaced by terms that are fully recognized and understood abroad. If, for example, the domestic sales are on the basis of E.O.M. and the credit man wants to keep the export and domestic terms uniform, instead of writing on the foreign invoices "Terms E.O.M.," he could insert next to terms the following phrase: *"This invoice is due on _____ (date)"* which will be the equivalent of E.O.M. terms, and will be understood and accepted by importers.

E.O.S.*	Season's dating. Payment is effected at the end of the season.
Irrev. L/C	Irrevocable Letter of Credit. The sales must be financed by means of an irrevocable letter of credit.
L/C	Letter of Credit. The sales must be financed by a letter of credit.
O/A	Open Account. This could be 30, 60, 90, and, rarely, 120 days date.
S/D D.A.	Sight draft, documents attached. The draft with documents attached is sent to the collecting bank with instructions to release them upon payment of the draft.
S/D D/P	Sight draft, delivery against payment. Same as sight draft, documents attached.
30/180 S/D	30 to 180 days sight draft. The documents are attached to the draft and are released upon the acceptance of the draft. The maturity period of the bill begins from the date the draft is accepted by the drawee.
Dft/c	Draft clean. The documents are sent directly to the consignee or buyer, whereas the draft is remitted to the collecting bank for payment or acceptance.

List of Overseas Branches of American Banks

THE NATIONAL CITY BANK OF NEW YORK, 55 Wall Street, New York 15, N. Y.

Argentina
- Buenos Aires
- Rosario

Brazil
- Rio de Janeiro
- Pernambuco
- Santos
- São Paulo

Canal Zone
- Balboa
- Cristobal

Chile
- Santiago
- Valparaiso

China
- Hong Kong
- Shanghai
- Tientsin

Colombia
- Bogotá
- Barranquilla
- Medellin

Cuba
- Havana
- Caibarien
- Cardenas
- Manzanillo
- Matanzas
- Santiago

* See footnote on previous page.

England
London
India
Bombay
Calcutta
Mexico
Mexico City
Peru
Lima
Philippine Commonwealth
Manila
Puerto Rico
San Juan
Arecibo
Bayamon
Caguas
Mayaguez
Ponce
Republic of Panama
Panama
Straits Settlement
Singapore
Uruguay
Montevideo
Venezuela
Caracas

CENTRAL HANOVER BANK AND TRUST COMPANY, 70 Wall Street, New York 15, N. Y.
England
London

CHASE NATIONAL BANK OF THE CITY OF NEW YORK, Pine Street, corner of Nassau, New York, N. Y.
Canal Zone
Balboa
Colon
China
Shanghai
Hong Kong
Tientsin
Cuba
Havana
England
London
France
Paris
Puerto Rico
San Juan

FIRST NATIONAL BANK OF BOSTON, Boston, Massachusetts.
Argentina
Buenos Aires
Cuba
Havana

GUARANTY TRUST COMPANY OF NEW YORK, 140 Broadway, New York, N. Y.
Belgium
Brussels
England
London
France
Paris
J. P. MORGAN & COMPANY, INC., New York City.
England
London
France
Paris

List of Foreign Banks with Offices in the United States, with Location of Head Office

Belgium
Banque Diamantaier Anversoise, S. A., 630 Fifth Avenue, New York, N. Y.
Antwerp
Canada
Bank of Montreal, 64 Wall Street, New York, N. Y.
Montreal
Bank of Nova Scotia, 49 Wall Street, New York, N. Y.
Toronto
Barclays Bank, (Canada), 120 Broadway, New York, N. Y.
Montreal
Barclays Trust Company of Canada, 120 Broadway, New York, N. Y.
Montreal
Quebec
Royal Bank of Canada, 68 William Street, New York, N. Y.
Montreal
Canadian Bank of Commerce, Exchange Place & Hanover Square, New York, N. Y.
Toronto
The Dominion Bank, 49 Wall Street, New York, N. Y.
Toronto
China
Bank of China, 40 Wall Street, New York, N. Y.
Shanghai
Chungking
Hong Kong and Shanghai Banking Corporation, 72 Wall Street, New York, N. Y.
Hong Kong
Colombia
Banco Comercial Antioqueno, 40 Exchange Place, New York, N. Y.
Medellin
Czechoslovakia
Prague Credit Bank, 67 William Street, New York, N. Y.
Prague

England

Bank of British West Africa, Ltd., 67 Wall Street, New York, N. Y.
London

Bank of London and South America, Ltd., 34 Wall Street, New York, N. Y.
London

Banque Belge Pour L'Étranger (Overseas) Ltd., 67 Wall Street, New York, N. Y.
London

Barclays Bank, Ltd., 120 Broadway, New York, N. Y.
London

Barclays Bank (Dominion, Colonial & Overseas), 120 Broadway, New York, N. Y.
London

Chartered Bank of India, Australia & China, 65 Wall Street, New York, N. Y.
London

Lloyds Bank, Ltd., 34 Wall Street, New York, N. Y.
London

Mercantile Bank of India, Ltd., 64 Wall Street, New York, N. Y.
London

Midland Bank, Ltd., 44 Wall Street, New York, N. Y.
London

National Provincial Bank, Ltd., 67 Wall Street, New York, N. Y.
London

Standard Bank of South Africa, Ltd., 67 Wall Street, New York, N. Y.
London

France

Société Générale pour favoriser le developpement du Commerce et l'Industrie en France, 60 Wall Street, New York, N. Y.
Paris

French American Banking Corporation, 31 Nassau Street, New York, N. Y.

Greece

Hellenic Bank and Trust Co., 139 William Street, New York, N. Y.
(Agent for the National Bank of Greece)

North Ireland

A. W. Beamand, 1 Wall Street, New York, N. Y.
(Representative of Westminster Bank, Ltd., London
Westminster Foreign Bank, London
Ulster Bank, Ltd., Belfast, Ireland.)

Italy

Banco Commerciale Italiana, 14 Wall Street, New York, N. Y.
Milan

Credito Italiano, 67 Wall Street, New York, N. Y.
Milan

Mexico

Banco Nacional de Mexico, 70 Wall Street, New York, N. Y.
Mexico City

Netherlands

Nederlandsche Handel-Maatschappij, N. V., 40 Wall Street, New York, N. Y.
Amsterdam

A. Phillippe Von Hemert, 42 Broadway, New York, N. Y.
Amsterdam

Norway

Hallvard Hillestad, 2 Wall Street, New York, N. Y.
Oslo
Agent for the Bank of Norway

Philippine Commonwealth

Philippine National Bank, 25 Broadway, New York, N. Y.
Manila

Poland

Bank Polska Kasa Opieki, 32 Pearl Street, New York, N. Y.
Warsaw

South Africa

Standard Bank of South Africa, 67 Wall Street, New York, N. Y.
London. (This bank has branches throughout South Africa.)

Switzerland

Swiss Bank Corporation, 15 Nassau Street, New York, N. Y.
Basle

Credit Suisse, New York Agency, 30 Pine Street, New York, N. Y.
Zurich

TABLE 1

Notes to Documentary Requirements for Freight Shipments to Latin America

General Notes:

In general, commercial invoices should always carry the notation, signed by the shipper, that the products and prices as stated are true and correct. See specific notes above when special statements or certifications must be made on commercial invoices. Commercial invoice notations apply only when it is required that they be submitted to the Consulate for visa or stamping.

C. S.—Commercial stationers
Cons.—Consulate
Fr.—French
Sp.—Spanish
Eng.—English
Port.—Portuguese

Specific Notes:

[1] Combined with Consular Invoice (with certain exceptions in Argentina).

[2] Honorary Consuls in United States collect a fee of 2½ percent ad valorem, the remaining 3½ percent being collected by Bolivian Customs.

[3] Consular invoice on all shipments exceeding $25. Commercial invoice required in duplicate only when value is less than $25.

[4] Drafts drawn in Brazil must have commercial invoices certified by Chamber of Commerce.

[5] Proof of origin may be (1) an authenticated invoice of the manufacturer of the merchandise, or (2) an authenticated certificate of the Customs or of the Chamber of Commerce of the country of origin of the merchandise.

[6] Certificate of origin need not be legalized when applying to goods on which no conventional duty rates have been granted in Chile.

[7] Sworn declaration as to origin is embodied in the Consular Invoice.

[8] A signed declaration that the values are true and correct is needed.

[9] Commercial invoices need not be furnished to Consulate on express shipments.

[10] Special Certificates-of-Origin are necessary for textiles, vegetable oils, fats, potatoes, and flour milled from wheat grown in the United States.

[11] Required on all goods subject to preferential treatment.

[12] The requirement for Consular Visa is temporarily suspended.

[13] Certificate-of-Origin for values in excess of $50.

[14] When valued at more than $50, and for all goods subject to preferential treatment.

[15] Three copies of a packing list should also be furnished to the customhouse broker.

[16] When valued at more than $50 for each shipping mark even if to one consignee.

[17] On freight shipments valued at $50 or more, four copies of the commercial invoice are required. On those valued at less than $50, nine copies.

[18] Only required for Articles in List I of the United States—Nicaraguan Trade Agreement.

[19] Four copies required. Some shipping lines require an extra copy.

[20] Six copies of consular invoices for shipments of drugs and pharmaceuticals, and foodstuffs, and five copies for all other goods. Commercial invoice in duplicate except on drugs and pharmaceuticals, and foodstuffs, when three copies should be submitted.

[21] Proof of origin must be shown either on the commercial invoice, notarized, or on a special form obtainable from commercial printers. When on the special form, must be signed by Chamber of Commerce, but no commercial invoice need be furnished to the Consulate.

	Currency used	Consular Invoice					Commercial Invoice						Certificate of Origin						
		Consular Invoice	Number of copies	Obtained from	Consular Visa	Language	Commercial Invoice	Number of copies	Special certification	Chamber of Commerce certification	Consular Visa or stamp	Language	Certificate of Origin	Special form	Obtained from	Chamber of Commerce certification	Consular Visa	Language	Consular fees paid in
Argentina	Peso	Yes	4	C. S.	Yes	Sp.	Yes	2	Yes	No	Yes	Sp.	(1)	Yes	C. S.	No	Yes	Sp.	Arg.
Bolivia	Boliviano	Yes	5	Cons.	Yes	Sp	Yes	5	No	No	Yes	Eng.-Sp.	No						(2)
Brazil	Cruzeiro	(3)	5	C. S.	Yes	Port.-Eng.	(3)	4	Yes	Yes [4]	Yes	Port.-Eng.	Yes	No		(5)	Yes	Port.-Eng.	U. S.
Chile	Peso	No					Yes	1	No	No	No	Eng.	Yes	Yes	C S.	Yes	Yes [6]	Sp.	U. S.
Colombia	Peso	Yes	5	Cons.	Yes	Sp.	Yes	2	No	No	Yes	Sp.	(7)						U. S.
Costa Rica	Colon	No					Yes	3	(8)	No	No	Sp.	No						C. R.
Cuba	Peso and dollar	Yes	5	Cons.	Yes	Sp -Eng	(9)	2	Yes	No	Yes	Sp.-Eng.	(10)						U. S.
Dominican Republic	Dollar	Yes	6	Cons.	Yes	Sp	Yes	2	No	No	Yes	Sp.	No						D. R.
Ecuador	Sucre	Yes	6	Cons	Yes	Sp.	Yes	1	Yes	No	Yes	Sp.	(11)	Yes	Cons.	Yes	Yes	Sp.	U. S.
El Salvador	Colon	Yes	8	Cons	(12)	Sp.	Yes	3	No	No	Yes	Sp.	(12)	Yes	C. S.	Yes	Yes	Sp.	El S.
Guatemala	Quetzal	No					Yes	5	Yes	No	Yes	Sp.	(14)	Yes	Cons.	Yes	Yes	Sp.	Gua.
Haiti	Gourde	Yes	7	Cons.	Yes	Fr.-Eng.	No						No						U. S.
Honduras	Lempira	Yes	5	Cons.	Yes	Sp.	Yes	2	No	No	Yes	Sp.	No						U. S.
Mexico	Peso	No					(15)	8	No	No	No	Sp.-Eng.	No						Mex.
Nicaragua	Cordoba	(16)	8	Cons	Yes	Sp.	Yes	(17)	No	No	Yes	Sp.	(18)	Yes	Cons.	Yes	Yes	Sp.	U. S.
Panama	Balboa	Yes	5	Cons.	Yes	Sp.	Yes	4	Yes	No	Yes	Sp.	No						Pan.
Paraguay	Guarani	Yes	(19)	Cons.	Yes	Sp.	Yes	1	No	No	Yes	Sp.	No						U. S.
Peru	Sol	Yes	(20)	Cons.	Yes	Sp.	Yes	(20)	No	No	No	Sp.	No						Peru
Uruguay	Peso	Yes	4	C. S.	Yes	Sp.	Yes	1	No	No	No	Eng.	(1)	Yes	C. S.	Yes	Yes	Sp.	U. S.
Venezuela	Bolivar	Yes	5	Cons.	Yes	Sp.	(21)	1	No	No	Yes	Sp.	(21)	(21)	C. S.	(21)	Yes	Sp.	Ven.

TABLE 2

Notes to Documentary Requirements for Air Express Shipments to Latin America

General Notes:

An airwaybill is required on all air express shipments to Latin America.

Five copies of the United States Shippers Export Declaration, 7525–V, not notarized, required on all air express shipments.

Four copies of the United States Shippers Export Declaration, 7525–V, not notarized, required on all air express shipments to Argentina.

Specific Notes:

[1] Combined consular invoice and certificate of origin only on shipments valued in excess of 550 paper pesos (approximately $125).

[2] Commercial invoices required when value exceeds 550 pesos (approximately $125).

[3] Consular invoices required when valued in excess of $36 50. Commercial invoices required in one copy only when valued at less than $36.50.

[4] Commercial invoice required only in 2 copies when valued at less than $25.

[5] For shipments exceeding $100, in value.

[6] Certification that prices are true and correct must be made.

[7] On exports valued at more than $50, commercial invoices are necessary.

[8] Only when shipped from places where there is a Consul and only when valued at more than $125.

[9] Required for all goods subject to preferential treatment.

[10] When valued at more than $100.

[11] A commercial invoice is not required, but the country of origin and all other pertinent details should be shown on the airwaybill.

[12] Valued at $100 or more, and only required for articles in List J of United States-Nicaragua Trade Agreement.

[13] A commercial invoice with special Spanish statement should be furnished although no consular visa is necessary.

[14] A commercial invoice must accompany all shipments regardless of value. If f. o. b. value exceeds $100, the invoice must be visaed by the Consul.

[15] Combined consular invoice and certificate of origin required if value exceeds 100 Uruguayan pesos.

[16] In addition to the certificate of origin, a special declaration must be prepared on the shipper's letterhead, in English, in four copies. No certificate of origin required for shipments covering newspapers, samples, and merchandise of small value.

	Consular Invoice					Commercial Invoice						Certificate of Origin					
	Consular Invoice	Number of copies	Obtained from	Consular Visa	Language	Commercial Invoice	Number of copies	Special certification	Chamber of Commerce certification	Consular Visa or stamp	Language	Certificate of Origin	Special form	Obtained from	Chamber of Commerce certification	Consular Visa	Language
Argentina	(1)	4	C. S.	Yes	Sp.	(2)	2	Yes	No	Yes	Sp.	(1)	(1)	C. S.	No	Yes	Sp.
Bolivia	(3)	5	Cons.	Yes	Sp.	(3)	2	Yes	No.	No	Eng.-Sp.	No	.....	.....	.....	.....	.....
Brasil	No	.....	.....	.....	.....	(4)	4	Yes	Yes	Yes	Port.-Eng.	No	.....	.....	.....	.....	.....
Chile	No	.....	.....	.....	.....	Yes	3	No	No	No	Eng.	Yes	Yes	C. S.	Yes	Yes	Sp.
Colombia	No	.....	.....	.....	.....	Yes	3	Yes	No	No	Sp.	No	.....	.....	.....	.....	.....
Costa Rica	No	.....	.....	.....	.....	(5)	3	(6)	No	No	Sp.	No	.....	.....	.....	.....	.....
Cuba	No	.....	.....	.....	.....	No	.....	.....	.....	.....	.....	No	.....	.....	.....	.....	.....
Dominican Republic	No	.....	.....	.....	.....	(7)	1	No	No	No	Eng.	No	.....	.....	.....	.....	.....
Ecuador	(8)	6	Cons.	Yes	Sp.	Yes	1	No	No	No	Sp.-Eng.	(9)	Yes	Cons.	Yes	Yes	Sp.
El Salvador	Yes	8	Cons.	Yes	Sp.	(10)	1	No	No	Yes	Sp.	(10)	Yes	C. S.	Yes	Yes	Sp.
Guatemala	No	.....	.....	.....	.....	(11)	.....	.....	.....	.....	.....	No	.....	.....	.....	.....	.....
Haiti	No	.....	.....	.....	.....	No	.....	.....	.....	.....	.....	No	.....	.....	.....	.....	.....
Honduras	No	.....	.....	.....	.....	Yes	3	.....	.....	No	Sp.	No	.....	.....	.....	.....	.....
Mexico	No	.....	.....	.....	.....	No	.....	.....	.....	.....	.....	No	.....	.....	.....	.....	.....
Nicaragua	No	.....	.....	.....	.....	Yes	5	No	No	Yes	Sp.	(12)	Yes	Cons.	Yes	Yes	Sp.
Panama	No	.....	.....	.....	.....	(13)	.....	.....	.....	.....	.....	No	.....	.....	.....	.....	.....
Paraguay	No	.....	.....	.....	.....	No	.....	.....	.....	.....	.....	No	.....	.....	.....	.....	.....
Peru	No	.....	.....	.....	.....	(14)	4	No	No	(12)	Sp.	No	.....	.....	.....	.....	.....
Uruguay	(15)	4	C. S.	Yes	Sp.	Yes	1	No	No	No	Eng.	(15)	Yes	C. S.	Yes	Yes	Sp.
Venezuela	No	.....	.....	.....	.....	No	.....	.....	.....	.....	.....	(16)	Yes	Cons.	Yes	Yes	Eng.

TABLE 3

Notes to Documentary Requirements for Parcel Post Shipments to Latin America

General Notes:

In general, commercial invoices should always carry the notation, signed by the shipper, that the products and prices as stated are true and correct. See specific notes when special statements or certification must be made on commercial invoices. Commercial invoice notations apply only when it is required that they be submitted to the Consulate for visa or stamping.

One copy Shippers Export Declaration 7525–V required on all packages valued in excess of $25, and on all shipments requiring an individual export license from the Foreign Economic Administration. Sealing of packages is compulsory in the case of all countries.

Postage of 14 cents per pound or fraction thereof applicable in the case of every country, plus transit charges where indicated.

[a] Parcels may be 4 feet long, provided that parcels more than 42 and not in excess of 44 inches do not exceed 24 inches in girth, parcels more than 44 and not in excess of 46 inches in length do not exceed 20 inches in girth, and parcels more than 46 inches in length do not exceed 16 inches in girth. Parcels which are 3½ feet or less in length may measure 6 feet in length and girth combined.

[b] Maximum size 3 feet 6 inches in length, 6 feet in length and girth combined

[c] Greatest combined length and girth 7 feet.

Specific Notes:

[1] If value exceeds 550 paper pesos (approximately $125), 3 copies are required; if less than 550 pesos, only one copy required.

[2] Commercial invoices required when value exceeds 550 pesos.

[3] Consular invoice required when more than $36 50 in value. When less than $36.50, only one copy of Commercial invoice required, certified by the Consul

[4] Honorary Consuls collect fee of 2½ percent ad valorem, the remaining 3½ percent being collected by Bolivian Customs.

[5] To La Paz and other cities served by rail, 44 pounds; 22 pounds and 11 pounds to other places.

[6] Consular invoices required when value exceeds $25 Commercial invoices required only in duplicate when less than $25 Drafts drawn in Brazil must have commercial invoices certified by Chamber of Commerce.

[7] Proof of origin may be (1) an authenticated invoice of the manufacturer of the goods, or (2) an authenticated certificate of the Customs or Chamber of Commerce of the country of origin of the merchandise.

[8] Pelotas, Porto Alegre, Rio de Janeiro, Rio Grande, Santos, and Sao Paulo, 44 pounds; all others, 22 pounds.

[9] Certificate of origin need not be legalized when applying to goods on which no conventional duty rates have been granted in Chile.

[10] For shipments valued at more than 50 pesos (approximately $28.50).

[11] A certification of the commercial invoices serves as Certificate of Origin.

[12] On all parcel post shipments valued in excess of $25.

[13] A certification that prices are true and correct must be made.

[14] Parcels sent from cities where there is no Cuban Counsel may be shipped with a filled-out Consular Invoice stating "There is no Cuban Consular Office located in the place where the sender of this mail parcel resides nor where the post office of mailing to Cuba is located." The original of the invoice should be enclosed in the package, and two exact copies sent to the addressees who will present them when claiming the package.

[15] Packages containing samples should be accompanied by original commercial invoices.

[16] Rates include surcharges. Delivery charge of 15 cents per package collected in Dominican Republic.

[17] Required only for parcel post valued in excess of $40 when mailed from cities where there is a Consul.

[18] Required for all goods subject to preferential treatment.

[19] Consular fees collected in Ecuador when mailed from cities where there is no Consul.

[20] Certificate of Origin required when more than $50 in value.

[21] When valued at more than $50. Goods subject to special duty rates even when less than $50 in value should be covered by certificates of origin.

[22] Consular invoice and commercial invoice required when value exceeds $30, or the importer may substitute a copy of the postal import declaration for the commercial invoice in the package.

[23] To Amapala, Tegucigalpa, San Pedro Sula, Puerto Cortez, Tela, Ceiba, Puerto Castillo, Olenchito, Progreso, and Comayagua, 44 pounds; all other places, 22 pounds.

[24] When more than $10 in value. Invoices not to be legalized when value is less than $10 but copy should be included in package.

[25] Some consulates require certificate of origin only for goods subject to preferential duties.

[26] A special sworn statement in Spanish should appear on invoices for parcel post even though they do not have to be presented to the Consulate.

[27] In any one week, groups of packages mailed at the same time may total 70 pounds.

[28] Required only when parcel post shipments exceed $25 in value. Four copies of consular invoice required. Some shipping lines require one extra copy.

[29] On parcel post valued at more than $49. Six copies for shipments of drugs and pharmaceuticals, and foodstuffs; five otherwise.

[30] Three copies for shipments of foodstuffs, drugs and pharmaceuticals; two otherwise.

[31] For Arequipa, Chiclayo, Lima, Talara, Paita and Trujillo, 44 pounds; all other places, 22 pounds.

[32] For parcel post shipments valued in excess of 100 Uruguayan pesos.

[33] Combined consular invoice and certificate of origin.

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	Consular Invoice					Commercial Invoice						Certification of Origin						Miscellaneous										
	Consular Invoice	Number of copies	Obtained from	Consular Visa	Language	Commercial Invoice	Number of copies	Special certification	Chamber of Commerce certification	Consular Visa	Language	Certificate of Origin	Special form	Obtained from	Chamber of Commerce certification	Consular Visa	Language	Consular fees paid at	Weight limit, pounds	Size limit	Transit charges	Customs Declaration 2966	Dispatch Note 2972	International parcel post sticker 2922	Registration	Insurance	Group shipments	C. O. D. service
Argentina	Yes	(1)	C. S.	Yes	Sp.-Eng.	(2)	2	Yes	No	Yes	Sp.	Yes	(1)	C. S.	No	Yes	Sp.-Eng.	Arg.	44	(a)	No	2	1	1	No	Yes	Yes 3	No
Bolivia	(3)	5	Cons.	Yes	Sp.	(3)	5	(3)	No	Yes	Eng.-Sp.	No						Bol. (4)	(5)	(a)	Yes	2	No	1	Yes	No	No	No
Brazil	(6)	5	C. S	Yes	Port.-Eng	(6)	4	Yes	(6)	Yes	Port.-Eng.	Yes	No		(7)	Yes	Eng.-Port.	U. S.	(8)	(a)	Yes	2	1	1	Yes	No	No	No
Chile	No					Yes	1	No	No	No	Eng.	Yes[9]	Yes	C. S.	Yes	(9)	Sp.	U. S.	22	(a)	Yes	2	No	1	Yes	No	Yes	No
Colombia	(10)	5	Cons.	Yes	Sp.	Yes	2	Yes	No	Yes	Eng.	(11)	(11)			Yes	Eng.	U. S.	44	(b)	Yes	2	1	1	No	Yes	Yes 3	Yes
Costa Rica	No					(12)	3	(12)	No	No	Sp.	No						C. R.	44	(a)	No	1	No	1	Yes	No	No	No
Cuba	(14)	5	Cons	Yes	Eng.-Sp.	No						No						U. S.	22	(a)	No	1	No	1	Yes	No	No	No
Dominican Republic	No					(15)						No						D. R.	44	(a)	(16)	1	No	1	Yes	No	Yes	No
Ecuador	(17)	6	Cons	Yes	Sp.	(17)	1	Yes	No	Yes	Eng.-Sp.	(18)	Yes	Cons.	Yes	Yes	Sp.	(19)	44	(a)	Yes	1	No	1	Yes	Yes	Yes	No
El Salvador	No					Yes	5	No	No	Yes	Sp.	(20)	Yes	C S	No	Yes	Sp.	El S.	44	(a)	Yes	2	1	1	Yes	No	Yes	No
Guatemala	No					Yes	5	Yes	No	Yes	Sp.	(21)	Yes	Cons	Yes	Yes	Sp.	Guat.	44	(a)	Yes	1	No	1	Yes	No	Yes	No
Haiti	No					Yes	1	No	No	No	Fr.-Eng.	No						U. S.	44	(a)	Yes	1	No	1	Yes	No	No	No
Honduras	(22)	5	Cons	Yes	Sp.	(22)	3	No	No	No	Sp.	No						Hond.	(23)	(a)	No	1	No	1	Yes	No	No	No
Mexico	No					Yes	4	No	No	No	Sp.-Eng.	No						Mex.	44	(a)	No	1	No	1	Yes	No	Yes	Yes
Nicaragua	No					(24)	7	No	No	Yes	Sp.	(25)	Yes	Cons	Yes	Yes	Sp.	U. S.	44	(a)	No	1	No	1	Yes	No	No	No
Panama	No					Yes		(26)		No		No						Pan.	70	(c)	Yes	1	No	1	Yes	No	(27)	No
Paraguay	(28)	(28)	Cons.	Yes	Sp.	Yes	1	No	No	Yes	Sp	No						U. S.	44	(a)	Yes	1	1	1	Yes	No	Yes	No
Peru	(29)	(29)	Cons.	Yes	Sp.	Yes	(30)	No	No	No	Sp.	No						Peru	(31)	(a)	Yes	1	No	1	Yes	No	No	No
Uruguay	(32)	4	C. S.	Yes	Sp.	Yes	1	No	No	No	Eng.	(33)	Yes	C S.	Yes	Yes	Sp.	U. S.	44	(b)	No	1	1	1	Yes	No	Yes	No
Venezuela	No					No						No						Ven.	44	(b)	Yes	4	1	1	Yes	No	Yes 3	No

Rules of Procedure of the Inter-American Commercial Arbitration Commission

For the Arbitration of Future Inter-American Disputes

The Inter-American Commercial Arbitration Commission recommends the following arbitration clause for insertion in commercial contracts:

Any controversy or claim arising out of or relating to this contract or the breach thereof, shall be settled by arbitration, in accordance with the Rules, then obtaining, of the Inter-American Commercial Arbitration Commission. This agreement shall be enforceable and judgment upon any award rendered by all or a majority of the arbitrators may be entered in any court having jurisdiction. The arbitration shall be held in ..... or wherever jurisdiction may be obtained over the parties.

For the Arbitration of Future International Disputes

The Inter-American Commercial Arbitration Commission recommends the following arbitration clause for insertion in commercial contracts, providing for arbitration in the Western Hemisphere:

Any controversy or claim arising out of or relating to this contract or the breach thereof shall be settled by arbitration in accordance with the Rules then obtaining of the American Arbitration Association. If, however, one or more of the parties to this agreement is domiciled in one of the Republics of Latin America, the Rules of the Inter-American Commercial Arbitration Commission shall apply. If one or more of the parties to this agreement is domiciled in Canada, the Rules of the Canadian American Commercial Arbitration Commission shall apply. Should any question arise as to which Rules are applicable under this provision, the Joint Arbitration Committee established by these organizations shall have power to determine which Rules shall be applicable. Judgment upon the award rendered may be entered in any court of any country having jurisdiction.

For the Submission of Existing Disputes

We, the undersigned parties, hereby agree to submit to arbitration under the Commercial Arbitration Rules of the Inter-American Commercial Arbitration Commission the following controversy: (cite briefly). We further agree that the above controversy be submitted to (one) (three) Arbitrators selected from the panels of Arbitrators of the Commission. We further agree that we will

faithfully observe this agreement and the Rules and that we will abide by and perform any award rendered pursuant to this agreement and that a judgment of the Court having jurisdiction may be entered upon the award.

The following organizations have by formal resolution recommended the use of the Commission's arbitration clause and facilities:

Permanent Council of American Associations of Commerce and Production
Thirty-First National Foreign Trade Convention
The Inter-American Bar Association

Inter-American Commercial Arbitration Tribunals

The Inter-American Commercial Arbitration Commission has established, maintains and administers an inter-American system of Commercial Arbitration Tribunals. The system covers the principal cities of the 21 American Republics, where the Commission has available for service members of an inter-American panel of arbitrators. These Tribunals acquire their jurisdiction from the parties who confer their powers by mutual agreement. Such agreements may be of two kinds: written submissions which refer to existing disputes, and arbitration clauses in contracts which refer future disputes to arbitration.

Organization. The Inter-American Commercial Arbitration Commission is the outcome of the joint thought and purpose of the 21 American Republics. After a long period of investigation, discussion and study of the possibilities of establishing an inter-American system for the arbitration of commercial controversies, such a system was authorized by resolution of the Seventh International Conference of American States, at its meeting at Montevideo in December, 1933.

Resolution XLI adopted by the Conference, provides as follows:

"That, with a view to establish closer relations among the commercial associations of the Americas, entirely independent of official control, an inter-American agency be appointed, in order to represent the commercial interests of all Republics and to assume, as one of its most important functions, the responsibility of establishing an inter-American system of arbitration."

Under its constitution the functions of the Inter-American Commercial Arbitration Commission are strictly limited to the settlement of controversies between the nationals of different Republics. They do not apply to disputes arising in the domestic trade within any one Republic.

Administration. The members of the Commission represent all of the 21 American Republics. Nominations for members of the Commission are approved by the Pan American Union and the members are men whose names and standing in the different countries are representative of leadership in inter-American interests.

The practical operation of the Commission is conducted by National Committees appointed in each Republic. The members of these Committees represent the various business and professional interests of the Republic wherein they reside, always with a view to the importance of such interests in inter-American relations. These National Committees have three functions: To organize panels of arbitrators; to improve existing arbitration laws and practice and to harmonize them with standards approved by the Seventh International Conference of American States; and to educate business and professional men in their own Republics in the use of arbitration.

Panels of arbitrators are appointed from nominations made by members of these Committees. They are business and professional men located in the more

important cities and may be residents in or citizens of any one of the 21 American Republics. The members of the panels thus constitute links from one country to another and, through their business connections, frequently these links extend into several countries.

The Commission has standard Rules of Procedure which are sufficiently elastic to be applicable under the laws of any of the 21 American Republics. These Rules may be administered by the Arbitration Committee of the Commission at its headquarters, or by the Arbitration Committees of the National Committees, in the Republics where such have been appointed.

But in addition to actual arbitrations, under standard rules, the Commission also provides a service for the adjustment of misunderstandings. Through members of its National Committees or members of its panels, the Commission frequently achieves, as a result of personal contact and conference, results which parties in dispute are unable to achieve by direct correspondence or negotiation.

RELATION BETWEEN COMMISSION AND NATIONAL COMMITTEES. The headquarters of the Commission are at 9 Rockefeller Plaza, New York, where it maintains an executive office and staff and hearing rooms for its Tribunals. It is the communications center for work with National Committees in the different Republics. Its activities consist of educational work for the advancement of the use of arbitration in each Republic and for advancing cooperation and goodwill through its good offices.

This work includes familiarizing business and professional men with the Rules and Tribunals of the Commission and their use in each Republic; expansion of the use of arbitration provisions in commercial contracts, education and training of members of panels; educational work through law and commercial schools, business and economic organizations; and use of trade and other publicity channels.

INSTRUCTIONS FOR PROCEEDING UNDER RULES. It is necessary for the parties voluntarily and mutually to agree in writing to submit a matter to arbitration. The Commission, when called upon to do so by the parties, will facilitate the making of this agreement in the proper form.

An arbitration agreement may be inserted in a written contract at the time it is made, providing for the arbitration of disputes arising subsequently under the contract. Under the United States Arbitration Law and under 15 State Laws in the United States and under the Law of the Republic of Colombia, such an arbitration provision is specifically recognized as valid and enforceable. Under the Laws of other Republics it is necessary to supplement such a clause by a written agreement to submit the existing controversy to arbitration. However, the inclusion of an arbitration clause in contracts usually is regarded as a moral obligation on the part of the respective parties to submit their disputes to arbitration, and the clause greatly facilitates the submission of an existing controversy. A standard form of arbitration clause is provided by the Commission.

An arbitration agreement may be made when the dispute arises, and this takes the form of a written submission signed by the parties in the manner required by the prevailing arbitration law. Such submission will be prepared by the Commission upon request of a party.

A party desiring arbitration may communicate with the Commission (or with the Secretary of its National Committee where such Committee has been established). Such communication should contain: (a) the names and addresses of both parties; (b) a brief statement of the controversy; (c) a copy of the arbitration clause or submission, if any exists, or a copy of any letter or statement indicating that the opposing party has consented to arbitration.

ADJUSTMENTS OF CLAIMS. Not all differences or misunderstandings that arise in the course of inter-American trade go to a hearing and award, for upon examination and negotiation and with the goodwill existing in inter-American trade, they are often readily adjusted by correspondence or in conference. To facilitate this function of the Commission, established and responsible business firms, trade associations and import and export publications in the western hemisphere have formed an Inter-American Business Relations Committee of the Commission. This Committee acts as a center to receive and handle any information or questions with a view to their prompt and friendly adjustment or to take such action as may be necessary to their solution.

The Committee does not attempt to settle all problems referred to it, but functions in such manner as may appear most practical; after study and analysis it may refer such problems as it deems advisable to the Commission or to cooperating organizations both in the United States and in Latin America which are best equipped to handle them.

ARBITRATION CLAUSE. In the belief that the surest way of obtaining an amicable and speedy settlement of a dispute, when it arises, is to insert an arbitration clause in the commercial contract, the Commission has approved the following standard form which it recommends for use in such contracts:

"Any controversy or claim arising out of or relating to this contract or the breach thereof, shall be settled by arbitration, in accordance with the Rules, then obtaining, of the Inter-American Commercial Arbitration Commission. This agreement shall be enforceable and judgment upon any award rendered by all or a majority of the arbitrators may be entered in any court having jurisdiction. The arbitration shall be held in ..... or wherever jurisdiction may be obtained over the parties."

In presenting this clause, the Commission observes that the legal effectiveness of a clause may depend upon the ability of the appropriate court to obtain jurisdiction over the parties. It is suggested, therefore, that the clause include an additional provision in which the party or parties name an attorney-in-fact, resident within the Republic whose laws govern the arbitration, to accept service of papers in any arbitration proceedings authorized under the agreement.

I. RULES A PART OF THE ARBITRATION AGREEMENT

1. *Agreement of parties.* The parties shall be deemed to have made these Rules a part of their arbitration agreement whenever, in the Submission or other written agreement, they have provided for arbitration by the Inter-American Commercial Arbitration Commission or under its Rules. These Rules and any amendment thereof shall apply in the form obtaining at the time the arbitration is initiated.

II. TRIBUNALS

2. *Name of Tribunal.* Any Tribunal constituted by the parties for the settlement of their dispute under these Rules, shall be called the Inter-American Commercial Arbitration Tribunal, hereinafter referred to as Tribunal.

3. *Administrator.* When parties agree to arbitrate under these Rules or provide for arbitration by the Inter-American Commercial Arbitration Commission and an arbitration is initiated thereunder, they thereby constitute the Commission the Administrator of the arbitration. The authority and obligations of the Administrator are limited in the manner prescribed in the agreement of the parties and in these Rules.

4. *Executive Duties.* The duties of the Commission may be carried out through such officers of the Commission or such Clerks, Committees or Agents as the Commission may direct, and the Commission may designate the notary wherever the prevailing law requires the intervention of such official.

5. *Panels of Arbitrators.* The Commission shall establish and maintain Panels of Arbitrators and shall appoint Arbitrators therefrom in the manner prescribed in these Rules, and such Arbitrators shall hereinafter be referred to as "Panel Arbitrators."

6. *Office of Tribunal.* The general office of a Tribunal is the headquarters of the Commission, or such agency as it may designate.

III. Initiation of the Arbitration

7. *Initiation under an Arbitration Provision in a Contract.* Any party to a contract containing a clause providing for arbitration by the Commission or under its Rules, or any party to a contract containing a general arbitration clause, when the parties have agreed, by stipulation or otherwise, to arbitrate under the Rules of the Commission, may commence an arbitration in the following manner:

(a) By such party giving written notice to the other party of intention to arbitrate (Demand), which notice shall contain a statement setting forth the nature of the dispute, the amount involved if any, the remedy sought; and

(b) By filing with the Commission at any of its offices two copies of said notice, together with two copies of the contract or such parts thereof as relate to the dispute, including the arbitration provisions.

The party upon whom the demand for arbitration is made may, if he so desires, file an answering statement with the Commission at least three days prior to the date set for the hearing, in which event he shall also send a copy of his answer to the other party. If no answer is filed within the stated time, it will be assumed that the claim made is denied. Failure to file an answer shall not operate to delay the arbitration.

After the filing of the claim, and answer if any, if either party desires to make any new or different claim such claim shall be made in writing and filed with the Commission and a copy thereof mailed to the other party who shall have a period of fifteen days from the date of such mailing within which to file an answer with the Commission.

However, after the Arbitrator is appointed no new or different claim may be submitted to him except with the consent of the Arbitrator and all other parties.

8. *Initiation under a Submission.* Parties to any existing dispute may commence an arbitration under these Rules by filing at any office of the Commission two copies of a written agreement to arbitrate under these Rules (Submission), signed by the parties, and containing a statement of the matter in dispute, the amount of money involved if any, and the remedy sought.

9. *Administrative Fee.* The Initial Fee in the amount prescribed in the Schedule in Rule IX shall be paid to the Commission by each of the parties at the time of initiating the arbitration.

10. *Fixing of Locality.* The parties may mutually agree on the locality where the arbitration is to be held. If the locality is not designated in the Submission, or other agreement, or if within fifteen days from the date of filing the demand or Submission, the parties do not notify the Commission of such designation, it shall have power to determine the locality and its decision shall be final.

IV. Appointment of Arbitrator

11. *Qualifications.* No person shall serve as an Arbitrator in any arbitration if he has any financial or personal interest in the result of the arbitration, unless the parties, in writing, waive such disqualification.

12. *Appointment from Panels.* If the parties have not appointed an Arbitrator and have not provided any other method of appointment, the Arbitrator shall be appointed in the following manner: Immediately after the filing of the Submission or copy of a Demand, as required under Rule III, the Commission shall submit simultaneously to each party to the dispute, an identical list of names of persons chosen from the Panels. Each party to the dispute shall have fifteen days from the date of the mailing of such lists in which to examine said list, cross off any names to which he objects and number the remaining names indicating the order of his preference, and return the list to the Commission. When any party or both parties fail to return the list within the time specified all persons named therein shall be deemed acceptable. From among the persons who have been approved on both lists, and in accordance with the designated order of mutual preference if any, the Commission shall endeavor to obtain the acceptance of an Arbitrator to serve. If the parties fail to agree upon any of the persons named or if those named decline or are unable to act, or if for any other reason the appointment cannot be made from the submitted lists, the Commission shall have power to make the appointment from other members of the Panels without the submission of any additional lists.

13. *Direct Appointment by Parties.* If the Submission or other agreement of the parties names an Arbitrator or specifies any direct method by which an Arbitrator is to be appointed, that designation or method shall be followed. These rules recognize as valid any method for the appointment of the Arbitrators mutually chosen by the parties, that is in conformity with the governing arbitration law. The notice of appointment, with name and address of such Arbitrator, shall be filed with the Commission by the appointing party. Upon the request of any such appointing party, the Commission shall submit a list of members of the Panels from which the party may, if he so desires, make the appointment.

If the Submission or other agreement specifies a period of time within which an Arbitrator shall be appointed, and any party fails to make such appointment within that period, the Commission shall have power to make the appointment.

If no period of time is specified in the Submission or other agreement, the Commission shall notify the parties to make the appointment and if within fifteen days thereafter such Arbitrator has not been so appointed, the Commission shall then have power to make the appointment.

14. *Appointment of Additional Arbitrator by Named Arbitrators.* If the parties have named their Arbitrators or either or both of them have been named as provided in Section 13, and have authorized such Arbitrators to appoint an additional Arbitrator within a specified time and no appointment is made within such time or any agreed extension thereof, the parties, under these Rules, authorize the Commission to appoint such additional Arbitrator who shall act as Chairman.

If no period of time is specified by the parties within which such Arbitrators are to appoint an additional Arbitrator, a period of fifteen days from the date of the appointment of the named Arbitrator last appointed, shall be allowed for their appointment of the additional Arbitrator. In the event of their failure to make the appointment within such fifteen days, the parties, under these Rules, authorize the Commission to appoint such additional Arbitrator

who shall act under the agreement with the same force and effect as if he had been appointed by the named Arbitrators and he shall act as Chairman.

If the parties have agreed that their named Arbitrators shall appoint the additional Arbitrator from the Panels, the Commission shall furnish to the named Arbitrators, in the manner prescribed in Section 12, a list selected from the Panels and the appointment of the additional Arbitrator shall be made as prescribed in such Section.

15. *Designation of Number of Arbitrators.* If the arbitration agreement does not specify the number of Arbitrators, the dispute shall be heard and determined by one Arbitrator, unless the Commission in its discretion specifically directs that a greater number of Arbitrators be appointed, provided that the number of Arbitrators shall be uneven.

16. *Notice of Appointment to Arbitrator and Parties.* Notice of the appointment of the Arbitrator, whether appointed by the parties or by the Commission, shall be mailed to the Arbitrator by the Commission and the signed acceptance of the Arbitrator shall be filed with the Commission prior to the opening of the first hearing. Together with such notice to the Arbitrator, the Commission shall enclose a copy of the Rules and call attention to the requirements of Sections 11 and 17 of these Rules.

17. *Disclosures by Arbitrator of Disqualification.* At the time of receiving his notice of appointment, the prospective Arbitrator is requested to disclose any circumstances likely to create a presumption of bias or which he believes might disqualify him as an impartial Arbitrator. Upon receipt of such information, the Commission shall immediately disclose it to the parties who, if willing to proceed under the circumstances disclosed, shall, in writing, so advise the Commission. If either party declines to waive the presumptive disqualification, the vacancy thus created shall be filed in the same manner as the original appointment was made.

18. *Vacancies.* If any Arbitrator should resign, die, withdraw, refuse or be unable or disqualified to perform the duties of his office, the Commission shall, on proof satisfactory to it, declare the office vacant. Vacancies shall be filled in the same manner as the original appointment was made and the matter shall be reheard by the new Arbitrator.

V. Procedure for Oral Hearing

19. *Time and Place.* The Commission shall fix the time and place for each hearing. The Commission shall mail at least five days prior thereto notice thereof to each party, unless the parties by mutual agreement waive such notice or modify the terms thereof.

20. *Representation by Counsel.* Any party may be represented by counsel. A party intending to be so represented shall notify the other party and file a copy of such notice with the Commission at least three days prior to the date set for the hearing at which counsel is first to appear. When the initiation of an arbitration is made by counsel, or the reply of the other party is by counsel, such notice is deemed to have been given.

21. *Taking of a Stenographic Record.* The Commission shall make the necessary arrangements for the taking of a stenographic record of the testimony whenever such record is requested by one or more parties. The requesting party or parties shall deposit the estimated cost of such record with the Commission.

22. *Interpreters and Translators.* The Commission shall make the necessary arrangements for the services of an interpreter or translator upon the request

of one or more of the parties who shall deposit the cost of such service with the Commission.

23. *Attendance at Hearings.* Persons having a direct interest in the arbitration are entitled to attend hearings. It shall be discretionary with the Arbitrator to determine the propriety of the attendance of any other persons. The Arbitrator shall have the power to require the retirement of any witness or witnesses during the testimony of other witnesses.

24. *Adjournments.* The Arbitrator for good cause shown may take adjournments upon the request of a party or upon his own initiative and shall take such adjournment when all of the parties agree thereto.

25. *Oaths.* Before proceeding with the first hearing, or with the examination of the file as provided under Rule VI, each Arbitrator may take an oath of office, and if required by law, shall do so. The Arbitrator may, in his discretion, require witnesses to testify under oath administered by any duly qualified person, or, if required by law or demanded by either party, shall do so.

26. *Majority decision.* Whenever there is more than one Arbitrator, all decisions of the Arbitrators may be by majority vote. The award may also be made by majority vote unless the concurrence of all is expressly required by the arbitration agreement or by law.

27. *Order of Proceeding.* A hearing shall be opened by the filing of the oath of the Arbitrator, where required, and by the recording of a Minute. The Minute shall set forth the place, time and date of the hearing, the presence of the Arbitrator and parties, and counsel if any, and the receipt by the Arbitrator of the Submission or of the statement of the claim, and answer if any.

Exhibits, when offered by either party, may be received in evidence by the Arbitrator, and when so received shall be numbered and made part of the record.

The complaining party or his counsel shall then present his claim and proofs and his witnesses who shall submit to questions or other examination. The defending party or his counsel shall then present his defense and proofs, and his witnesses who shall submit to questions or other examination. The Arbitrator may in his discretion vary this procedure but shall afford full and equal opportunity to all parties for the presentation of any material or relevant proofs.

28. *Arbitration in the Absence of a Party.* Unless the law provides to the contrary, the arbitration may proceed in the absence of any party, who, after due notice, fails to be present or fails to obtain an adjournment. An award shall not be made solely on the default of a party. The Arbitrator shall require the other party to submit such evidence as he may require for the making of an award.

29. *Evidence.* The parties may offer such evidence as they desire and shall produce such additional evidence as the Arbitrator may deem necessary to an understanding and determination of the dispute. When the Arbitrator is authorized by law to subpoena witnesses or documents, he may do so upon his own initiative or upon the request of any party. The Arbitrator shall be the judge of the relevancy and materiality of the evidence offered and conformity to legal rules of evidence shall not be necessary. All evidence shall be taken in the presence of all of the Arbitrators and of all the parties except where any of the parties is absent in default or has waived his right to be present.

30. *Evidence by Affidavit and Filing of Documents.* The Arbitrator may receive and consider the evidence of witnesses by affidavit, but may give it only such weight as he deems it entitled to after consideration of any objections made to its admission.

All documents not filed with the Arbitrator at the hearing but which are arranged at the hearing or subsequently by agreement of the parties to be

submitted, shall be filed with the Commission for transmission to the Arbitrator. All parties shall be afforded opportunity to examine such documents.

31. *Inspection or Investigation.* Whenever the Arbitrator deems it necessary to make an inspection or investigation in connection with the arbitration, he shall advise the parties and obtain their consent in writing before such inspection or investigation may be made. The Arbitrator shall set the time and shall notify the parties thereof. Any party who so desires may be present at such inspection or investigation.

32. *Conservation of Property.* The Arbitrator, with the consent of the parties, may issue such orders as may be deemed necessary to safeguard the subject matter of the arbitration, without prejudice to the rights of the parties or to the final determination of the dispute.

33. *Closing of Hearings.* The Arbitrator shall specifically inquire of all parties whether they have any further proofs to offer or witnesses to be heard. Upon receiving negative replies, the Arbitrator shall declare the hearings closed and a Minute thereof shall be recorded. If briefs are to be filed, the hearings shall be declared closed as of the final date set by the Arbitrator for the receipt of the briefs. If documents are to be filed as provided in Section 31 and the date set for their receipt is later than set for the receipt of briefs, then such later date shall be the date of closing the hearing. The time limit within which the Arbitrator is required to make his award shall commence to run, in the absence of other agreement by the parties, upon the closing of the hearings.

34. *Reopening of Hearings.* The hearings may be reopened by the Arbitrator on his own motion, or upon application of a party for good cause shown, at any time before the award is made. If the reopening of the hearings would prevent the making of the award within the time agreed upon by the parties, hearings shall not be reopened unless the parties agree upon the extension of such time limit. When hearings are reopened the effective date of closing the hearings shall be the date of the closing of the reopened hearings.

VI. Procedure for Other Than Oral Hearings

35. *Waiver of Oral Hearing.* The parties by written agreement may submit their dispute to arbitration by other than oral hearing. The arbitration shall be conducted under these Rules except such provisions thereof as are inconsistent with this Rule.

If no method is specified by the parties, the Commission shall notify the parties to present their proofs in the following manner: The parties shall submit to the Commission their respective contentions in writing, including a statement of facts duly sworn to, together with such other proofs as they may wish to submit. These statements and proofs may be accompanied by written arguments or briefs. All documents shall be submitted within fifteen days from the date of the notice to file such statement and proofs in such number of copies as the Commission may request. It shall forthwith transmit to each party a copy of the statement and proofs submitted by the other party. Each party may reply to the other's statement and proofs, but upon the failure of any party to make such a reply within a period of fifteen days after the mailing of such documents to him, he shall be deemed to have waived the right to reply.

If, after such due notice, a party fails to present his contentions in writing, a statement of the facts or proofs within the said period of fifteen days, he shall be deemed in default and the Commission shall proceed with its determination of the controversy. The Commission, however, may open the default for sufficient cause at any time prior to the filing of the award.

The Commission shall then transmit all proofs and documents to the Arbitrator who shall have been appointed in any manner provided for in Rule IV. The Arbitrator shall have ten days from the date of their mailing or delivery to him within which to request a party or parties to produce additional proof. The Commission shall notify the parties of such request and the party or parties shall submit such additional proof within fifteen days from the date of the mailing of such notice. The Commission, upon receipt thereof, shall forthwith transmit to each party a copy of the additional statement and proofs submitted by the other party. Each party may make a reply to such statement and proofs, but upon the failure of any party to make such a reply within a period of fifteen days after the mailing to him of such documents, he shall be deemed to have waived the right to reply.

Upon mailing or delivery to the Arbitrator of all documents submitted as provided above, the arbitration shall be deemed closed and the time limit within which the Arbitrator shall make his award shall begin to run.

VII. Special Provisions

36. *Adjustments and Voluntary Settlement.* The agreement to arbitrate under these Rules shall not preclude any of the parties before resorting to arbitration from having recourse to inquiries and impartial investigation or from amicably adjusting their controversy.

The Commission, at any stage of the dispute, may in its discretion communicate with the parties for the purpose of obtaining a negotiated or voluntary settlement of the controversy. The Commission may further make or authorize inquiries into the facts for the purpose of facilitating a settlement of the controversy or making recommendations to the parties. The Commission may use its good offices for the above purposes without charge to the parties and in the interest of good inter-American relations.

37. *Waiver of Rules.* Any party who proceeds with the arbitration after knowledge that any provision or requirement of these Rules has not been complied with and who fails to state his objection thereto in writing, shall be deemed to have waived his right to object.

38. *Extensions of Time.* The parties may modify any period of time by mutual agreement. The Commission for good cause may extend any period of time established by these Rules, except the time for making the award. The Commission shall notify the parties of any such extension of time.

39. *Serving of Notices.* Each party to a Submission or other agreement which provides for arbitration under these Rules shall be deemed to have consented and shall consent that any papers, notices or process necessary or proper for the initiation or continuation of an arbitration under these Rules and for the entry of judgment on an award made thereunder may be served upon such party (a) by mail addressed to such party or his attorney at his last known address or (b) by personal service, within or without the State wherein the arbitration is to be held (whether such party be within or without the United States of America); provided that reasonable opportunity to be heard with regard thereto has been granted such party.

VIII. The Award

40. *Time.* The award shall be rendered promptly and, unless otherwise agreed by the parties, or specified by law, not later than thirty days from the date of closing the hearings, or if oral hearings have been waived, then from

the date of transmitting the final statements and proofs to the Arbitrator.

41. *Form.* The award shall be in writing and shall be signed either by the sole Arbitrator or by a majority if there be more than one. It shall be executed in the manner required by law.

42. *Scope.* The Arbitrator in his award may grant any remedy or relief which he deems just and equitable and within the scope of the agreement of the parties, including, but not limited to, specific performance of a contract. The Arbitrator, in his award, may assess the arbitration fees and expenses in favor of any party or of the Commission.

43. *Award upon Settlement.* If the parties settle their dispute during the course of the arbitration, the Arbitrator, upon their request, may set forth the terms of the agreed settlement in an award in his discretion.

44. *Delivery of Award to Parties.* Parties shall accept as legal delivery of the award (a) the placing of the award or a true copy thereof in the mail by the Commission, addressed to such party at his last known address or to his attorney, or (b) personal service of the award, or (c) the filing of the award in any manner which may be prescribed by law.

45. *Release of Documents for Judicial Proceedings.* The Commission shall, upon the written request of a party, furnish to such party at his expense, certified facsimilies of any papers in the Commission's possession that may be required in judicial proceedings relating to the arbitration.

46. *Notice of Compliance.* The Commission, for the purpose of closing the record, may request either party to notify it of compliance with the award or of a voluntary settlement by the parties.

IX. Fees and Expenses

47. *Schedule of Administrative Fees.* An administrative fee in the amount prescribed in the following schedule shall be paid to the Commission by each of the parties at the time of initiating the arbitration:

Where Amount involved is disclosed:

Initial Fee:

$10.00 plus 1% of the amount involved up to $25,000;
plus ½% of the amount involved in excess of $25,000 up to $100,000;
plus ¼% of the amount involved in excess of $100,000 up to $200,000;
plus 1/10% of the amount involved in excess of $200,000.

The fee is based upon the amount of the claim as disclosed when the arbitration is initiated, and such fee is payable by each party. If, however, a claim in a larger amount is disclosed in the answer or in any amendment of the claim or answer filed later, an additional fee in accord with the above schedule shall be paid by the claimant for such larger amount.

Where Amount involved is not disclosed:

Initial Fee:

$50.00 subject (a) to adjustment with the Commission
or (b) subject to adjustment in accordance with preceding schedule if an amount is subsequently disclosed.

For Second and Subsequent Hearings:

(Payable before each hearing)

$30.00 or 50% of Initial Fee—whichever is lower amount.

Adjournment Fee:

$5.00 (Payable only by party causing adjournment of hearing duly called by notice.)

Overtime Fee:

$2.00 per hour payable by each party (Chargeable after 6:00 P. M. weekdays or 12 noon Saturdays.)

Apportionment of Fees:

The Arbitrator may award to either party and against the other, an amount equal to the fee, or any part thereof, which was paid by such party to the Commission.

Fee when Arbitration is withdrawn:

The minimum initial fee of $10 will not be returned or waived, but one-half of any fee paid in excess thereof may be returned or cancelled if the arbitration is withdrawn before the date set for the first hearing.

48. *Fee When Oral Hearings Are Waived.* Fee where all Oral Hearings are waived under Section 35 shall be the Initial Fee as determined under Section 47 hereof.

49. *Expenses.* The expenses of witnesses for either side shall be paid by the party producing such witnesses.

The total cost of the stenographic record, if any is made, and all transcript thereof, shall be prorated equally among all parties ordering copies, unless they shall otherwise agree among themselves.

All other expenses of the arbitration including required traveling and other expenses of the Arbitrator and Commission, and the expenses of any witness or the cost of any proofs produced at the direct request of the Arbitrator, shall be borne equally by the parties unless they agree otherwise, or unless the Arbitrator in his Award assesses such expenses or any part thereof against any specified party or parties.

The Arbitrator may award to the Commission any expenses advanced or incurred by it and any fees due and remaining unpaid by any party responsible therefor.

50. *Arbitrator's Fee.* If the parties desire to compensate the Arbitrator but do not agree upon the rate or amount of the compensation, it shall be fixed by the Commission.

Any arrangements for the compensation of a panel arbitrator shall be made through the Commission and not directly by him with the parties.

51. *Deposits.* The Commission may require the parties to deposit in advance with the Commission such sums of money as it deems necessary to defray the expenses of the arbitration, including the Arbitrator's Fee if any, and shall render an accounting to the parties and return any unexpended balance.

X. Interpretation and Application of Rules

52. *Interpretation and Application of Rules.* The Arbitrator shall interpret and apply these Rules insofar as they relate to his power and duties. When there is more than one Arbitrator and a difference arises among them concerning the meaning or application of any such Rules it shall be decided by majority vote. If that is unobtainable either an Arbitrator or a party may refer the question to the Commission for final decision. All other Rules shall be interpreted and applied by the Commission.

53. When, under an arbitration agreement which mentions these Rules in conjunction with the Rules of the Canadian American Commercial Arbitration Commission and/or the Rules of the American Arbitration Association, a question arises among the parties which they are unable to resolve by mutual agreement, as to which of these Rules shall be applicable, the Joint Arbitration Committee appointed by the Commission in conjunction with the American Arbitration Association and the Canadian American Commercial Arbitration Commission shall have power to decide the question.

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INDEX

A

Abuses (*see* Trade, abuses)
Acceptance, bank, 27, 256
Account, current, 241
Accounts:
  blocked or frozen, 105, 227
  classification, 340
  delinquent, 340–1
  list of, 94
  trend of, 105
Agent:
  as collector, 350
  comments, 75
  contract, 92
  credit recommendations, 90, 92
  foreign credit man and, 94
  functions, 86
  guarantee, 90
  instructions, 92, 130
  invoices to, 350
  legal advisors to, 86
  monthly report, 86
  policies of firm and, 92
  power, 91
  qualifications, 86
  recommendations, 75, 90
  report by, 76, 87, 90, 184
Air freight and air express:
  advantages, 192
  air trade and, 189
  airwaybill, 203–5
  documents issued by:
    exporter, 201
    insurance company, 201
    U. S. Government, 199
  documents required for, 205
    Argentina, 206
    Australia, 212
    Bolivia, 206
    Brazil, 207
    Canada, 205
    Chile, 207
    Costa Rica, 210
    Colombia, 207
Air freight and air express (*Cont.*):
    Cuba, 207
    Ecuador, 210
    El Salvador, 210
    Guatemala, 210
    Honduras, 210
    Jamaica, 210
    New Zealand, 211
    Nicaragua, 210
    Panama, 211
    Peru, 211
    Uruguay, 211
    Venezuela, 211
  Insurance:
    coverage, 198
    rate, 198
  letter of instructions, 202–3
  limitations, 191
  routes, 191
  rules, 212
  specific commodity rates, 195
  transportation charges, 195
Airlines, documents issued by, 199
Airwaybill, 203–5
All risks, 117
American Arbitration Association, 365–6 (*see* Appendix)
American Foreign Credit Underwriters Corporation, 167
  Exporter's Digest, 170
  Market Guide for Latin America, 170
  report, 167
American Foreign Trade Definitions, 370
Amtorg (American Trading Company), 324
Arbitration, 363–5
  mediator, 363
  methods, 364
  Year Book on Commercial Arbitration in the U.S., 365
  western hemisphere system, 365
Arbitration Journal, 365
Assignable letter of credit, 271, 281
Assignment clause, 315–6 (*see also* Factor)
Auction sales, 214

Authority:
banker's credit and, 27
to draw, 272
to negotiate, 272
to pay, 272
to purchase A/P, 21, 272
Average, 117

B

Balance of international payments:
credits and debits, 219
explained, 218
visible and invisible items, 218
Balance of trade, 105
Bank:
acceptance by, 27, 256
charges of, 239, 247
credit information, interpretation, 178
facilities, 102
foreign bills and, 251
foreign buyer and, 130
in case of need, 247
information and services, 178
instructions to collecting, 247
policy, 130
publications, 86, 146
Bank book record, 82
Bankers' Association for Foreign Trade, 195
Banker's draft, 27
Barter, 3, 229
agreement, 231
system of, 9
Bill of exchange, 27
Bill of Lading, 30, 295, 300, 304
forwarding agents', 296, 301
functions, 30
types:
clean, 301
forwarders' or House, 29, 296, 301
ocean, 30, 300
on board, 301
order, 301
straight, 31
Bimetalism, 221
Blocked accounts, 127, 226–7
remedies, 227
Bonded warehouse, 101–2
Branches, foreign, 331, 335

C

"C's" of credit, 95, 135
Cable remittance, 258
Canadian American Commercial Arbitration Commission, 366
Capacity of importer, 136
Capital, 106–7, 136
Carrier's liability, 116
Cash:
by return mail, 241
with order, 258
Chamber of commerce, local, 148
Character of importer, 135
Charges:
bank's, 239, 247
factor's, 312, 314
insurance, 116, 118
Certificate of manufacture, 27
Certificate of origin, 302
Chattel mortgage, 334
Check, 27
Codes of law, 353
Collection:
accounts to be classified, 340
action needed, 351
agent and, 350
bank and, 349
cables and, 349
delay in, 341–2
draft drawn against open account, 350
endorsement and, 358
export manager and, 351
facilities, 339–40
follow-up systems, 344
foreign credit man and, 340
individual treatment, 342
invoices to agent, 350
language, 349
legal action, 349
letter, 345
merchandise department and, 351
methods, 344–5
moral suasion service and, 349
over-extended, 342
protest of non-payment, 350
rates of exchange and, 341
reminder, 345
shipment and, 343
statement, 345
threats, 349
Commerce and Industry Assn. of N.Y., 148–9
Commerce Year Book—Foreign Countries, 145
Commercial bill of exchange, 27
Commercial invoice, 27, 304
Commercial paper, 20
Commercial policy, 64
Commercial treaties:
aims, 3, 12
free traders advocate, 12
friendly relations and, 12
Comprador, 323
Confidence as basis of credit, 135

Confirmed letter of credit, 270
Confirming house, 258
  letter of confirmation, 260
  order paid by, 46, 258
Consignee, 240–1, 245
Consignment accounts, 239, 331–3
  collection problems of, 333
  control of credits, 332, 335
  granting credits on, 332
Consular invoice, 302, 304
Contract:
  hire-purchase, 335
  special, 334
Contract of sale (*see* Order)
Controversies (*see* Disputes)
Copyrights, 369
Corporation, defined, 355
C. & F. (Cost and Freight), 376–7
C.I.F. (Cost, Insurance and Freight), 377–8
Credit, 135
  basis, 135
  card, 78
  clean, 269
  exporter's policies, 129
  extension of, 16
  domestic, 95
  foreign, 95, 142
  foreign agent's recommendation, 90
  fundamentals, 16
  importer's, 95
  importer's nationality and, 134
  instruments, 20, 27
  limit, 132, 142
  problems in foreign, 144
  refused, 78
  reports, 160, 168, 170, 177
  responsibility, 75
  revising line of, 143
Credit agencies' reports from abroad, 177
Credit dept. and merchandise dept., 133
Credit file, 78, 80–2
Credit risk:
  character, 135
  exporter's policy, 128
Currency (Money):
  differences in, 12
  gold exchange standard, 221
  gold standard, 221
  local, 97
  paper, 97
  remitted by mail, 241
  silver standard basis, 97
  specified in letter of credit, 270
  value, 97
  world, 222
Current account, 241
Customs Union, 63

D

Debt:
  external, 105
  foreign (*see* foreign debt)
  internal, 105
Del credere, 323
Delinquent accounts, 340–1
Delivery (*see also* Order):
  as soon as possible, 46
  immediate, 46
  prompt, 46
Department of Commerce:
  Bureau of Foreign and Domestic Commerce, 145
Department of Commerce report, 177
Department of State, 147
Discount, extra cash, 239
Discounting drafts, 215, 252, 254
  with recourse, 252
  without recourse, 252
Discounting house, foreign bills, 318
Dishonoring draft:
  classifying accounts, 340
  protesting, 249, 350
  reasons for, 341
Disputes, 359–63 (*see also* Arbitration)
  avoidance of claims and disputes, 359, 363
  causes, 361–2
  in foreign trade, 359
  mediator, 363
  shipping claims, 362
Dock receipt, 27
  payment against, 260
Documentary credit, 269
  delivered to bank with draft, 245
Documents, release of:
  against draft acceptance, 245
  against payment, 242, 245
  against receipt in trust, 309
  against trust receipt, 251
  to consignee, 240–1
  to obtain foreign exchange, 244
Documents, stale, 305
Dollars, obtaining, 5
Domestic and foreign credits, difference, 16
Downtown Group, Inc., 182
Draft, 27
  acceptance, 249
  bank discounts, 254
  clean, 245
  collection charges, 247
    sending for, 246
  commercial, 27
  date, 212
  discounting, 27, 251
  dishonoring, 249, 340–1, 350

Draft (*Cont.*):
documentary, 245
documents attached, 245
drawee, 27, 242
drawer, 27, 241
endorsement, 245
form, 27
honored, 242, 341
in duplicate, 27
in foreign currency, 252
instructions to collecting bank, 247
interest, 249
language, 242
legal requisites, 356
maturity, 242
notice to customer, 249
payee, 242
payment against, 241
protest of, 249, 357
sight, 242
60 or 90 days, 251
tenor, 242
to be discounted, 251
to be sent for collection, 251
with recourse, 252, 315
without recourse, 21, 252, 315
Draft book, 82
Draft file, duplicate, 82
Drawback, 85
Dun & Bradstreet's Foreign Credit Services:
analysis of foreign report, 162
credit report, 160
Dun's *Review*, 157
"Latin America Sales Index," 157, 160
publications, 163
sales index rating and agency report, 160
Trade Index of U. S. Manufacturers, 160

E

Endorsement:
in blank, 20
in full, 20
special, 20
Exchange:
medium of, 3, 12
rate, 216–7
Ex dock, 380
Ex factory, 371
Ex mill, 371
Ex mine, 371
Ex plantation, 371
Ex warehouse, 371
Exchange houses, 214
Exchange of commodities, 3
Exchange risk, 125–6, 215
Expense bill, 27, 240
Export dept., 150–1
Export financing, 9
Export-Import Bank of Wash., 58–60
aims, 58
applicants, 60
application for loan, 60
bills discounted, 60
capital stock, 58
financing:
exporters, 58
exports, 59
importers, 58
limitations, 59
purpose, 58
services to small business, 60
Export business (*see* Foreign trade)
Export license, 27
Export Managers' Club, 182
Export sales:
banker's acceptance and, 256
factor, 311
investment house, 255
Exporter as importer, 232
Exporters' Digest, 170
External debt, 105
Extra cash discount, 239

F

Factor, 311–16
as selling and financial agent, 311
assignment clause, 312, 316
charges, 312
commission, 312
contract, 314, 316
credit guarantee and, 312
guarantee of foreign sales and, 314
invoices and, 315
method of operation, 312
notification of, 311
procedure, 234
rate, 314
services, 311
shipping and, 313
shipping documents and, 313
title to merchandise and, 313
Factoring, types of, 314
Far East clause, 240, 251
Financial statement, analysis of, 137, 141
Financing:
long-term, 50
short-term, 50, 238
Firm order (*see* Order)
Five "C's" of credit, 95
"Force Majeure," 43
Foreign agent (*see* Agent)
Foreign and domestic trade compared, 12

Foreign bills discounting house, 318
charges, 320
contract, 318–9
factor and, difference, 318
risks assumed by, 318
Foreign branches, 335
Foreign business, increase of, 3
Foreign buyer:
activities in U.S. market, 134
bank of, 130
Foreign commerce, regulation of, 9
Foreign competition, 7
Foreign credit insurance, 321
Foreign Credit Interchange Bureau, 170–7
consultation service, 177
moral suasion service, 177
report, 170
Round Table Conferences, 173
trade group meetings, 176
Weekly Bulletin, 173
Foreign credit man, 68–76, 94, 99
importer and, 69
market analysis by, 69, 74
marketing areas and, 99
objective, 68
qualifications, 69
responsibility, 77
training, 68
Foreign currency, sales made in, 216, 249
Foreign debt:
settlement, 215
transfer risk and, 125–6, 215
Foreign exchange, 217
clearing agreement, 230
compensation or barter agreement, 231
control, 226–7
facilities to raise dollars and, 127
fluctuation, 216
free market, 226
future contracts, 222
markets lacking, 229
payment agreement, 231
protection against, 15
rate of, 216–7
reciprocal trade agreement and, 231
regulations, 11, 106
risk, 16, 125–6
sources of supply, 216
stabilization, 217
transfer risk and, 125–6
Foreign investments, 106
classification, 108
types, 108
Foreign loans, 107
capacity to borrow and repay, 109
four stages of, 109
interest of U.S. in, 110
state monopoly, 9
Foreign trade:
government restrictions, 228
patterns of, 61
risks, 95
Stock Exchange and, 66
Foreign Trade Bureau, Dallas, Texas, 182
Foreign Trade Bureau and St. Louis Chamber of Commerce, 182
Foreign trade financing:
five "C's" of, 95
five methods for, 237
terms of sale, 237
Forwarder's bill of lading, 29
F.A.S., 375–6
Free economy, 15
F.O.B., 371, 375
vessel, 373
Free ports (*see* Free zone)
Free trade, 9
Free trader, 5, 7
Free zone, 101
bonded warehouse differs from, 102
types, 101
Frozen accounts, 127, 226–7

G

Gold Exchange standard, 221
Gold standard, 221
Goods, financing, 279
Government contracts, 335
Government restrictions and foreign trade, 228
Guarantees:
buyer, 322
comprador, 323
Del credere, 323
factor, 311
foreign agent, 90, 323
object, 322

H

Hanson's *Latin American Letter,* 149
Hire-purchase contract, 334
Hot money, 109
House bill of lading, 29
Hypothecation, letter of, 30, 252

I

Immediate delivery, 46
Importers:
classification, 134
finance purchases, 258, 260
nationality, 134
Imports:
customs procedure, 233
financing, 234

Imports (*Cont.*):
organizing for, 233
transportation of goods, 233
Incorporation of business abroad, 356
Indent, 29, 359
Industrial partners, 355
Information (*see also* Chapter IX):
agencies' reports, 29, 160, 168, 170, 177
agent's report, 184
error, causes of, 156
required, 156
revision of, 145
scope and character, 144
verified, 156
Inquiry, 31
Instalment selling:
chattel mortgage, 333–4
contracts, 334
hire-purchase, 334
special, 334
personal or promissory note and, 335
Insurance (*see* Marine insurance)
Insurance certificate, 198
"Inter-American Bank," 66
Inter-American Commercial Arbitration Commission, 366
Interest, 239–40, 249
Internal debt, 105
International Bank for Reconstruction and Development, 54–8
aims, 54
capital, 55
charges, 57
loans, 56–7
membership, 55
quotas, 55
International Chamber of Commerce, 365
International Monetary Fund, 50–4
aid from, 52
charges, 53
exchange controls, 53
exchange rates and, 52–3
information required from members, 52
membership, 51–2, 54
purpose, 50
scarce currency and, 53
subscription to, 51–2
withdrawal from, 54
International money order, 29, 241
International payments (*see* Balance of international payments)
International trade, 3
barometer of, 150
classified, 214
collapse, 48
control, 9
executive orders and, 11
national systems, 9
principles, 1–12
International Trade Organization, 64–6
exchange restrictions, 65
commercial policy, 64
membership, 66
Intervening parties, 300
Investigation, start of, 155
Investments:
advantages, 107
borrower, effect on, 108
factors affecting, 108
political aspect, 110
sales financed by investment houses, 255
tying clause, 108
types, 107
Invoice, 27, 300
collection charges, 352
commercial, 27, 304
consular, 312
credit stipulation and, 297
examination, 304
preparation, 297
Irrevocable letter of credit, 270

J

Journal of Commerce, 149

L

Latin America Letter, Hanson's, 149
Legal action, 349
Letter of confirmation (*see* Confirming house)
Letter of credit, 29, 268, 279, 287, 293–9, 306
acceptor, 29
advantages, 269
amending, 305
assignable (transferable), 271, 281
authority:
differs from letter of credit, 274
to draw, 272
to negotiate, 272
to pay, 272
to purchase A/P, 272
bank and, 268, 284, 305–6
beneficiary, 268, 291
certificate of manufacture, 27, 280, 291
classification of terms or tenor, 270
clean credit, 269
commercial documentary credits, 293
commercial invoice, 27, 300
confirmed, 270
confirming bank, 268
discrepancies, 305–6
documentary, 269
documents required by, 269
draft:
acceptance, 299

Letter of credit (*Cont.*):
negotiating, 299
payment, 299
establishment, 260
examination, 292, 302
expiration, 305
extension, 280
foreign currency, issued in, 275
guarantee, 306
irrevocable, 270, 293
issuer, 268
letter of guaranty, 272
negotiator, 268
non-assignable, 281
notifier, 268
opener, 268
orders against, 279
payment, 306
precautions, 275
presentation, 298–9
recourse, 273, 274
revocable, 270, 293
"Red Clause," 289
shipping documents, 280
discrepancies, 305
intervening parties, 300
stale documents, 305
straight credit, 269
trust receipt, 283–4
types:
assignable (transferable), 271, 281
clean, 269
confirmed, 270
documentary, 269
irrevocable, 270
non-assignable, 281
revocable, 270
revolving credit, 272
special, 287
unconfirmed, 270
warehouse receipt and, 280, 291
Letter of delegation, 30
Letter of inquiry, 184
Letter of instructions, 30, 202–3
Letter of hypothecation, 30, 252
Liability, carrier's, 116
License, export, 27
Licenses, 11
Lien, 253
Limited partnership, 355
Loans:
against foreign bills, 252
external, 107
government foreign, 107
internal, 107
London Court of Arbitration, 365
Long-term financing, 50
Long terms, 238

M

Mail time, 239
Manifest, 117
Marine insurance, 117, 296, 304
air cargo, 202
all risks, 117
average, 117
broker, 118
cargo, 117
certificate, 119, 202, 304
claims against, 122, 302, 352
endorsement, 121
collecting claims, 123
costs, 117
freight, 117
general average, 118
liability, 116
manifest, 117
open policy, 119
particular average, 118
premium, 116, 118
rider, 118
shipment:
buyer and, 117
single, 122
sight draft sales, 117
survey, 123
warehouse to warehouse, 122
Marine risks, 113, 116
types, 116
Market, 97, 129, 132
analysis of risk, 105
areas, 98, 152
credit limit, 132
factors affecting, 113
foreign exchange and, 229
information on, 144
pattern, 96
report on, 87
resources, 95
risks, 97, 104
size, 151
trend of, 131
Market Guide for Latin America, 170
Marks, 40
Mediator, 363 (*see also* Arbitration)
Merchandise risk, 128
Money (*see* Currency)
Money, hot, 109

N

National Assn. of Credit Men, 146
National Foreign Trade Council, 147–9
Nationalism, 7
Newspaper, value of, 148
New York free zone, 101
Non-dumping certificate, 302

Non-payment (*see* Accounts, delinquent *and* Draft, dishonoring)
Notary, 354

O

Ocean bill of lading, 30, 300
Ocean routes, 187
Ocean trade, 186
Ocean traffic, 188
Open account, 241
Order (Contract of sale), 32, 40, 339, 358, 361
  approval of home office, 40
  by cable, radiogram, or telephone, 31
  cancellation, 43
  checking, 75
  clauses, 41
  conditional, 334
  confirming house, paid by, 46
  contents, 40
  delivery, 46
  firm, 40
  foreign agent and, 92
  form, 41–7
  government, 335
  hire-purchase, 335
  inquiry, 31
  refused, 77–8
Over-extension, 342

P

Pagaré, 30
  contents, 357
Particular average, 116
Partnership, 355
Patents, 368
Payments, received, 84
Political conditions, 104
Population and credit, 104
Ports of entry, 103–4
Postal receipt, 30
Power of attorney, 357
Price risk, 123
Private sales, 214
Promissory note, 30–1, 357
Protectionists, 7, 12
Protesting draft, 249, 341, 350
  classifying accounts, 340
  expenses, 249
Puerto Rico, 63, 98

R

Rate of exchange, 216–7
Receipt in trust, 309
Recourse (letter of credit), 21, 252, 273, 315
"Red Clause," 289
Reports from agencies, 29, 160, 168, 170, 177
Resources of market, 95
Retail credit:
  advantages, 330
  collection, 330
  extended, 329
  methods, 331
  retailer:
    buying method, 330
    orders from, 329
    paying method, 329
Revocable letter of credit, 270
Rider, in marine insurance, 118
Risks, 95, 312
  credit, 128
  exchange, 16, 125–6
  foreign credit transaction, 113, 312
  marine, 113
  market, 16, 97
  merchandise, 128
  price, 123
  transfer, 125–6, 215
  war, 122
Routes, trade:
  air, 191
  ocean, 187
Russia, 7, 62
  doing business with, 323
  terms of sale to, 61

S

Sales contract (*see* Order)
Sales made in foreign currency, 216, 249
Scarce currency and International Monetary Fund, 53
Self-insurance system, 322
Seyd & Co., Ltd., London, England, 177–8
Shipments, control of, 78
Shipping claims, 362
Shipping documents:
  certificate of manufacture, 27, 280
  certificate of origin, 302
  commercial invoice, 27, 300
  consular invoice, 302
  expense bill, 27, 240
  export license, 27
  marine insurance certificate, 119, 202, 304 (*see also* Air Freight)
  non-dumping certificate, 302
  ocean bill of lading, 30, 295, 300–1, 304
Shipping marks, 40
Short-term financing, 50, 238
Sight draft, 27
  acceptance, 242, 245
  bill of lading and, 244
  customs regulations and, 242

Sight draft (*Cont.*):
documents attached, 245
exchange control, 214
price fluctuations and, 244
release of documents before payment, 310
Silver standard, 221
Sociedad Anonima (S.A.), 355
Sociedad en Comandita (S. en C.), 355
Soviet Union Commercial Arbitration, 365
Stabilization fund, 217
Stale documents, 305
State monopolizes its foreign trade, 9
Statement, financial, 137, 141
Sterling area, 62, 225
Sterling block, 221
Stock Exchange and foreign trade, 66

T

Tariffs:
control by, 12
denounced, 5
home industry and, 7
imposition, 7
protective, 5
Terms of sale:
against draft:
clean, 245
date, 242
documentary, 245
sight, 242
cash:
by cable, 258
by return mail, 241
with order, 258
compliance of customer, 241
confirming house payment, 46, 258
current account, 240
instalment, 333
letter of credit, 258
open account, 241
risks, 237
Three "C's" of credit, 135
Time drafts, 27
date, 242
sight, 242
Totalitarian states, 11, 228
Trade, 3, 15
abuses, 351
balance of, 105
centers, 98
debit balance of, 105
on credit, 16
Trade groups, 182
Trade Index of U.S. Manufacturers, 157, 160
Trade, international, 186, 214
Trade marks, 366–7
Trade papers, 86
Trade routes (*see* Routes, trade)
Traders, free, 5
Transfer risk, 125–6, 215
Transferable letter of credit, 271
Transportation facilities, 102, 104
air, 103
foreign credit man's interest in, 103
land, 103
sea, 103
types, 103
Transportation of goods, 103
Transportation risk, 116
Trust receipt, 31, 251, 283, 309
in Europe, 310
in Far East, 309
in Latin America, 309
issued by forwarding agent, 284
legal status, 309
precautions, 251, 306
release of shipping documents against, 309
types, 309

U

Unconfirmed letter of credit, 270
U.S. Chamber of Commerce, 149

W

War risk, 122
Warehouse, bonded, 101
compared with free zone, 102
Warehouse entry, 102
Warehouse receipt:
to order, 31
to specified person, 31
Warehouse withdrawal for consumption entry, 102
Warrant, 31, 310
World Trade Bureau, Los Angeles, California, 184
World trade patterns, 61

Y

Year Book on Commercial Arbitration in the U. S., 365

Z

Zacharoff, Lucien, *Vital Problems of An Commerce*, 194
Zones, free, 101