PREAMBLE

Globalization and the varying human and capital resources have greatly heightened international trade as a great driver of economic growth and development. There is no country which has grown without the useful tool of trade, however the significance of international trade to economic growth relies a great deal on the conditions in which it works and the purpose it serves. It is therefore concluded that trade relationship suggests that countries need to export commodities to create revenue to be able to import those commodities which cannot be made domestically.

The international Trade Services department is poised for the provision of cutting-edge services for the bank's trade business and foreign currency transactions. The department provides support that ensures seamless processing of transactions that meet global standards practice and not nullifying all local exchange control regulations and international rules, practices, and standards.

OBJECTIVE

I. The international Trade services Standard operating policies and procedures provide the processes and standards needed for the department to have a free flow course of action(s) to succeed.

II. They will benefit the business by reducing errors, increasing efficiencies and profitability.

III. Creating a safe work environment, producing guidelines for how to resolve issues, overcome obstacles, meet regulatory requirements, and establish a chain of command.

IV. It will provide documentary guidance permitted within the ambit of standard practice accepted locally and internationally as it affects the Bank's international trading business. It is also meant to maintain consistency within the department and enhance productivity.

V. The latest edition of the CBN's Foreign exchange Manual will be maximally used in its entirety with other related circulars on case-by-case basis.

REVIEW CYCLE

This document shall be reviewed every three years, however, there could be need for change(s)if the regulatory environment demands it.

TRADE REGULATION AND CONTROL

The reasons for Trade Regulation and Control are to:

I. Conserve external reserve position
II. Maintain healthy balance of payment position
III. Achieve sustainable economic growth, employment and even income distribution
IV. Correct observed distortions
V. Expedite competitive advantage

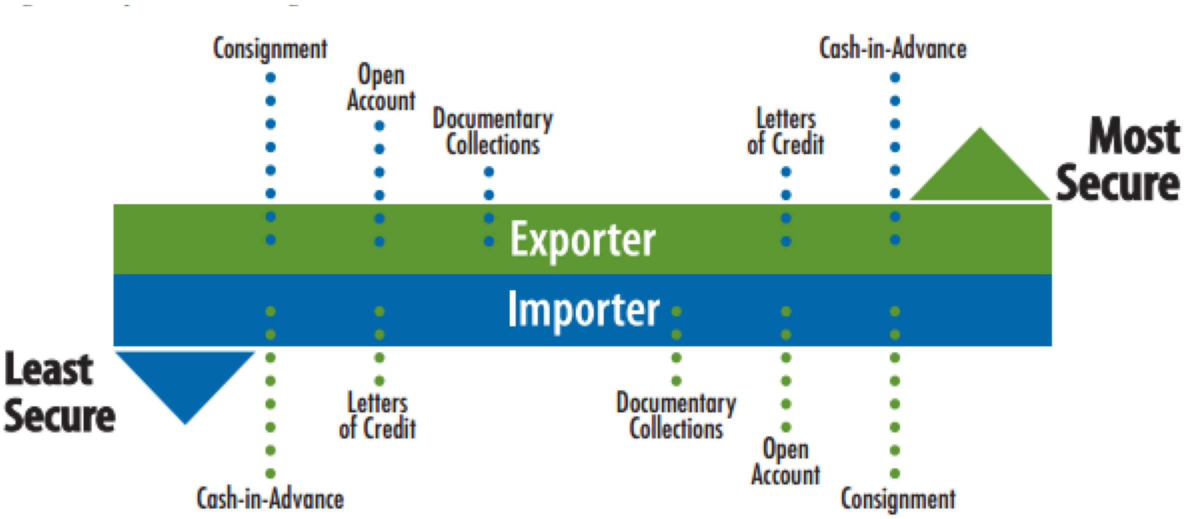
These objectives may not be realized if controls are not properly implemented. Introduction of various trade documentations is one of the several means through which Government seeks to implement controls. Expectation is that conformity with the submission of prescribed trade documentation signifies compliance with predefined prerequisites.

Basic guides to foreign trade and its documentation requirements are drawn by the Bank from the:

I. Foreign Exchange Manual (A publication of the Trade and Exchange Department Central Bank of Nigeria latest revision)
II. Uniform Customs and Practice for Documentary Credits, 2007 Revision (ICC Publication no. 600)
III. Uniform Rules for Collection (ICC Publication no. 522)
IV. Uniform Rules for Demand Guarantees (ICC Publication no. 758)
V. Uniform Rules for Standby Letters of Credit (ISP98)
VI. CBN Monetary Policy Guideline (Current version)
VII. Customs Excise & Tariff book otherwise known as the Green Book or H.S. Code Book
VIII. CBN Circulars
IX. The Bank's Internal Policies and Procedures

PAYMENT METHODS IN INTERNATIONAL TRADE

To succeed in today's global marketplace and win sales against foreign competitors, exporters must offer their customers attractive sales terms supported by the appropriate payment methods. Since getting paid in full and on time is the goal for each export sale, an appropriate payment method must be chosen carefully to minimize the payment risk while also accommodating the needs of the buyer. As shown in the diagram below, there are five primary methods of payment for international transactions. During or before contract negotiations, one should consider which method in the figure is mutually desirable for the exporter and the customer.



Key Points

I. International trade presents a spectrum of risk, which causes uncertainty over the timing of payments between the exporter (seller) and importer (foreign buyer).

II. For exporters, any sale is a gift until payment is received.

III. Therefore, exporters want to receive payment as soon as possible, preferably as soon as an order is placed or before the goods are sent to the importer.

IV. For importers, any payment is a donation until the goods are received.

V. Therefore, importers want to receive the goods as soon as possible but to delay payment, if possible, preferably until after the goods are resold to generate enough income to pay the exporter.

Cash-in-Advance

With cash-in-advance payment terms, an exporter can avoid credit risk because payment is received before the ownership of the goods is transferred. For international sales, wire transfers and credit cards are the most used cash-in-advance options available to exporters. However, requiring payment in advance is the least attractive option for the buyer because it creates unfavorable cash flow. Foreign buyers are also concerned that the goods may not be sent if payment is made in advance. Thus, exporters who insist on this payment method as their sole manner of doing business may lose to competitors who offer more attractive payment terms.

Letters of Credit

Letters of credit (LCs) are one of the most secure instruments available to international traders. An LC is a commitment by a bank on behalf of the buyer that payment will be made to the exporter, provided that the terms and conditions stated in the LC have been met, as verified through the presentation of all required documents. The buyer establishes credit and pays his or her bank to render this service. An LC is useful when reliable credit information about a foreign buyer is difficult to obtain, but the exporter is satisfied with the creditworthiness of the buyer's foreign bank. An LC also protects the buyer since no payment obligation arises until the goods have been shipped as promised.

Documentary Collections

A documentary collection (D/C) is a transaction whereby the exporter entrusts the collection of the payment for a sale to its bank (remitting bank), which sends the documents that its buyer needs to the importer's bank (collecting bank), with instructions to release the documents to the buyer for payment. Funds are received from the importer and remitted to the exporter through the banks involved in the collection in exchange for those documents. D/Cs involve using a draft that requires the importer to pay the face amount either at sight (document against payment) or on a specified date (document against acceptance). The collection letter gives instructions that specify the documents required for the transfer of title to the goods. Although banks do function as facilitators for their clients, D/Cs offer no verification process and limited recourse in the event of non-payment. D/Cs are generally less expensive than LCs.

Open Account

An open account transaction is a sale where the goods are shipped and delivered beforepayment is due, which in international sales is typically in 30, 60 or 90 days. Obviously, thisis one of the most advantageous options to the importer in terms of cash flow and cost,but it is consequently one of the highest risk options for an exporter. As a result of intensecompetition in export markets, foreign buyers often press exporters for open account termssince the extension of credit by the seller to the buyer is more common abroad. Therefore,exporters who are reluctant to extend credit may lose a sale to their competitors. Exporters can offer competitive open account terms while substantially mitigating the risk of non-payment by using one or more of the appropriate trade finance techniques covered laterin this Guide. When offering open account terms, the exporter can seek extra protection using export credit insurance.

Consignment

Consignment in international trade is a variation of open account in which payment is sentto the exporter only after the goods have been sold by the foreign distributor to the end user or customer. An international consignment transaction is based on a contractualarrangement in which the foreign distributor receives, manages, and sells the goods for the exporter who retains title to the goods until they are sold. Exporting on consignment isvery risky as the exporter is not guaranteed any payment and its goods are in a foreign country in the hands of an independent distributor or agent. Consignment helps exportersbecome more competitive based on better availability and faster delivery of goods. Selling on consignment can also help exporters reduce the direct costs of storing andmanaging inventory.

The final choice of a payment method will depend on the nature of the underlying transactions, the relationship between the trading parties, negotiation skills, political and cross border risks as well as the prevailing exchange control regulations etc.