SECTION I

Business Opportunities for Canadian Exporters through Canadian Financing Institutions

A. Canadian Chartered Banks

Canadian exporters have historically relied on the Canadian chartered banks as a key resource to finance their export sales.

The Canadian banks began, more than a hundred years ago, to build an international network of branches, subsidiaries and representative offices to gain the international contacts, expertise and the local know-how to smooth the flow of business between exporters and importers.

In keeping with their policy of maximum support for Canadian exporters, the banks have comprehensive trade information and documentation services available to help with the increasingly complex international environment. This support is particularly valuable to exporters seeking new markets or sources. Drawing on their international networks, the Canadian banks provide information on:

- prospective buyers, sellers and partners overseas;
- forthcoming trade fairs, missions, seminars and exhibitions;
- reports and advice on market and economic conditions in foreign countries;
- help with finance and payment arrangements;
- reports on the creditworthiness of overseas customers;
- specialized services of the banks' branches, subsidiaries, representatives and affiliated companies in foreign markets; and
- services of thousands of correspondent banks worldwide.

The Canadian chartered banks can provide a number of techniques for financing export sales and can assist the exporter in selecting the appropriate financing facility.

1. Short Term Financing Mechanisms

Open Account

This is a simple method that underlies much of Canada's export sales to the United States and to various European countries. The exporter and importer arrange for the importer to settle his debts directly with the exporter at a specified future date. The seller finances the transaction with his own funds, engaging whatever excess liquidity he has until payment is received from the importer.

In order to assist the exporter in receiving immediate cash for his sale, rather than waiting for the funds to be received from the foreign buyer, a number of Canadian banks have established means to purchase invoice acceptances from the exporter on a non-recourse basis, subject to the normal exceptions of a trade dispute, or non-compliance with the terms and conditions of export credit insurance if such coverage is held. This service works as follows:

Foreign Accounts Receivable Purchases (Invoice Acceptances)

An exporter can convert his foreign accounts receivable into an immediate cash sale by allowing a bank to purchase them outright. With its purchase, the bank assumes the commercial and political risks underlying the transaction. It also assumes the responsibility of collecting payment from the foreign obliger, relieving the exporter of this routine.

The purchase by the bank of invoice acceptances provides the exporter with three advantages:

1. immediate cash;
2. credit risk protection; and
3. collection services.

Collections

Documentary collections consist of a draft or bill of exchange drawn on the importer and accompanied by commercial documents covering the shipment of goods. (Drafts unaccompanied by shipping documents are considered as "Clean Collections".)

The bill of exchange and documents are forwarded by the exporter to the importer through their respective banks for final settlement; the timing of which being dependent on the tenor of the bill. If the bill of exchange is drawn at sight, payment should be received when the documents are released to the importer. Conversely if it is a term bill, documents are released against acceptance of the bill by the importer and payment is due at the designated maturity date. Under this type of collection, the exporter is extending credit to the importer, according to the tenor of the bill. Under certain circumstances, the bank may similarly extend credit prior to payment of the accepted drafts by either discounting them or taking them as collateral security.

Documentary Credits (Letter of Credit)

A documentary credit, otherwise know as a commercial letter of credit (L/C), is an instrument or letter issued by a bank at the request of an importer in favour of a supplier/exporter, for the purpose of financing the importation of goods or services.

By opening the documentary credit on behalf of the importer, the bank lends its own name to the transaction and thereby obligates itself to pay the supplier, provided the terms and conditions of the credit have been fulfilled.

The bank opening the L/C will instruct its branch or correspondent bank in the exporter's country -- in the case of Canadian export sales, it will instruct a Canadian chartered bank -- to make payment to the Canadian supplier/exporter on the condition that the documents the exporter presents to the Canadian bank comply with the stated terms and conditions of its documentary credit and the Canadian bank is satisfied with the foreign bank credit risk.

a) Sight Documentary Credits

The drafts drawn on the paying bank may be either sight or time drafts. A documentary credit calling for a sight draft means that the exporter is entitled to receive payments at sight or presentation of his drafts to the opening bank, once the documents have been examined and found in order.

b) Term Documentary Credits

In instances where documentary credits have been drawn on a time basis, with drawings allowed over 30, 60, 90-day or longer periods, the seller of the goods is granting terms to the buyer. The drafts, which are the actual instruments used to effect the drawings, are "accepted" by the importers bank rather than "paid" upon presentation. Therefore, when the beneficiary presents his draft and documents to the paying bank, he does not