

Introduction

Opportunities, Risks, and Trade Finance

Welcome to the second edition of the *Trade Finance Guide: A Quick Reference for U.S. Exporters*. This guide is designed to help U.S. companies, especially small and medium-sized enterprises (SMEs), learn the basic fundamentals of trade finance so that they can turn their export opportunities into actual sales and achieve the ultimate goal of getting paid—especially on time—for those sales. This guide provides general information about common techniques of export financing. Accordingly, you are advised to assess each technique in light of specific situations or needs. This edition includes a new chapter on foreign exchange risk management. The *Trade Finance Guide* will be revised and updated as needed. Future editions may include new chapters that discuss other trade finance techniques and related topics.

Benefits of Exporting

The United States is the world's largest exporter, with \$1.5 trillion in goods and services exported annually. In 2006, the United States was the top exporter of services and second largest exporter of goods, behind only Germany. However, 95 percent of the world's consumers live outside of the United States. So if you are selling only domestically, you are reaching just a small share of potential customers. Exporting enables SMEs to diversify their portfolios and insulates them against periods of slower growth in the domestic economy. Free trade agreements have opened in numerous markets including Australia, Canada, Chile, Israel, Jordan, Mexico, and Singapore, as well as Central America. Free trade agreements create more opportunities for U.S. businesses. The *Trade Finance Guide* is designed to provide U.S. SMEs with the knowledge necessary to grow and become competitive in foreign markets.

Key Players in the Creation of the *Trade Finance Guide*

The International Trade Administration (ITA) is an agency within the U.S. Department of Commerce, and its mission is to foster economic growth and prosperity through global trade. ITA provides practical information to help you select your markets and products, ensures that you have access to international markets as required by U.S. trade agreements, and safeguards you from unfair competition such as dumped and subsidized imports. ITA is made up of the following four units: (a) **Commercial Service**, the trade promotion unit that helps U.S. businesses at every stage of the exporting process; (b) **Manufacturing and Services**, the industry analysis unit that supports U.S. industry's domestic and global competitiveness; (c) **Market Access and Compliance**, the country-specific policy unit that

A QUICK GLANCE

Trade Finance Guide

A concise, simple, and easy-to-understand guide for trade finance that is designed especially for U.S. small and medium-sized exporters.

Trade Finance

A means to turn export opportunities into actual sales and to get paid for export sales—especially on time—by effectively managing the risks associated with doing business internationally.

Opportunities

- Reaching the 95 percent of customers worldwide who live outside the United States
- Diversifying customer portfolios

Risks

- Non-payment or delayed payment by foreign buyers
- Political and commercial risks as well as cultural influences

keeps world markets open to U.S. products and helps U.S. businesses benefit from our trade agreements with other countries; and (d) **Import Administration**, the trade law enforcement unit that ensures that U.S. businesses face a level playing field in the domestic marketplace. Visit www.trade.gov for more information.

Partnership and Cooperation

The *Trade Finance Guide* was created in partnership with FCIB, an Association of Executives in Finance, Credit, and International Business. FCIB is headquartered in Columbia, Maryland, and is a prominent business educator of credit and risk management to exporting companies of every size. FCIB's parent, the National Association of Credit Management, is a non-profit organization that represents nearly 25,000 businesses in the United States and is one of the world's largest credit organizations. This *Trade Finance Guide* was also created in cooperation with the U.S. Small Business Administration, the Export-Import Bank of the United States (Ex-Im Bank), the International Factoring Association, and the Association of Trade & Forfeiting in the Americas. Contact information for these organizations can be found throughout this guide.

For More Information about the Guide

The *Trade Finance Guide* was created by ITA's Office of Finance, which is part of ITA's Manufacturing and Services. The Office of Finance is dedicated to enhancing the domestic and international competitiveness of U.S. financial services industries and to providing internal policy recommendations on U.S. exports and foreign investment supported by official finance. For more information, contact the project manager for the guide, Yuki Fujiyama, tel.: (202) 482-3277; e-mail: yuki.fujiyama@mail.doc.gov.

How to Obtain the *Trade Finance Guide*

The *Trade Finance Guide* is available online at Export.gov, the U.S. government's export portal. You can obtain printed copies from the Trade Information Center at 1-800-USA-TRAD(E) (8723), and from the Commercial Service's global network of domestic Export Assistance Centers and overseas posts. To find the nearest Export Assistance Center or overseas Commercial Service office, visit www.export.gov or call the Trade Information Center.

Where to Learn More about Trade Finance

As the official export credit agency of the United States, Ex-Im Bank regularly offers trade finance seminars for exporters and lenders. Those seminars are held in Washington, D.C., and in many major U.S. cities. For more information about the seminars, visit www.exim.gov or call 1-800-565-EXIM (3946). For more advanced trade finance training, FCIB offers the 13-week International Credit and Risk Management online course, which was developed with a grant awarded by the U.S. Department of Commerce in 2001. For more information about the course, visit www.fcibglobal.com or call 1-888-256-3242.