

Many Australian companies find themselves in an interesting situation with their exports originating in other countries so the goods don't actually touch the Land of Oz.

There are typically two reasons for this:

1. The existing exporter who was manufacturing in Australia but found that it became cheaper to outsource that manufacturing to overseas companies. They have retained their existing export customers, and because of cheaper costs have been able to price more keenly and possibly attract more export customers.
2. The accidental exporter who sources product from overseas for the Australian market, and has developed a comprehensive website describing their products. The web knows no boundaries and they have started to receive genuine enquiries from overseas which they turn into export sales.

Regardless of how it came about, there are potential pitfalls which the exporter needs to be aware of to avoid disasters. For example, ensuring that the supplier's and buyer's identities are kept from each; matching the purchase trade terms to the sales trade terms; matching the purchase and sales payment arrangements to not impact adversely on the exporter's finances.

The exporter should select an Incoterm which puts them in control at all times. Buying at their usual CIP price and selling FCA is a mismatch because the exporter is paying their supplier for freight and insurance typically to an Australian port but their customer wants to arrange and pay for the freight themselves and cover their own insurance. If the exporter decides to keep the customer happy and changes the buying term to FCA then they have just invited disaster. An FCA sale will almost invariably mean that the buyer will appoint their own freight forwarder, and that forwarder will need to be in contact with the supplier to take delivery of the goods at origin and clear them for export. The only documents which the supplier can make available to the buyer's forwarder are those they prepare for their sale to the exporter. So the exporter's buying price immediately becomes available to their customer's forwarder and typically the supplier's documents will be sent on to the forwarder's office in the customer's country. The supplier's price to the exporter might simply cover material and fabrication, with the exporter's selling price calculated by adding a margin, design and marketing costs. Therefore there is likely to be a considerable disparity between the exporter's buying and selling costs and it would be embarrassing if not disastrous for the buyer to find out the exporter's supply costs, as well as exactly who the supplier is.

If the exporter tries to avoid this by making their export invoice available to the buyer's forwarder, they must remember that export formalities in the supply country will be carried out in the supplier's name and in many countries quite likely against an export permit with an export value attached. The authorities in the supplier's country might therefore expect that higher amount of money to come into the country or might suspect the supplier of circumventing that country's exchange control measures. And the supplier will then be made aware of the exporter's price and think that with such an seemingly high margin taken by the exporter they should charge the exporter a higher price next time.



It is also important to match the destinations. In a recent example, the exporter was buying CIP to a port but then selling DAP to an inland destination a long way from the port. The supplier's insurance would only cover the sea leg and the insured value would be based on the supplier's selling price to the exporter. The supplier uses their own forwarder and paid freight only to the port. The exporter found themselves at the last minute under-insured and inland freight not covered. The supplier's forwarder was asked to quote and as the goods were already on the water thought they had the exporter over a barrel and quoted triple the real price. The solution was to tell the supplier not to insure (which in theory should have reduced the price by a fraction of a percent but was generously allowed to the supplier), instruct the supplier's forwarder that the shipping line's bill of lading was to be consigned to the exporter's Australian forwarder. This forwarder took over the transaction and co-ordinated with the shipping line to extend their transport of the containers all the way to the inland place, and paid the line for the inland transport. Certainly messy but many times exporters in such circumstances find that they have accidentally tied themselves into awkward knots which are sometimes difficult to unravel.

Unless the exporter has sufficient finances behind them, they may well need to ensure that they have longer payment terms from their supplier than they are giving their buyer. Ideally they will be paid in advance but more likely they will receive an L/C from their customer. Beware the pitfalls of transferable L/Cs because the buyer and seller will very soon know who they each are. Also the buyer might not be happy to rely on an L/C from a third country under which they will only be paid by the exporter's bank when they in turn obtain reimbursement from the issuing bank. But what happens if the supplier gives the exporter say 30 days terms and the buyer wants 60 days? Messy for sure but workable. The buyer arranges issue of an L/C to the exporter say for drafts at 60 days after shipment. The exporter arranges with their bank to issue a Letter of Assignment to the supplier in which the exporter's bank promises to pay the supplier as soon as they discount the drawing (ie pay it out before due date) which they do upon receipt of the issuing bank's acceptance. The surplus of the payment from the buyer in excess of the payment to the supplier, less bank charges, is then credited to the exporter's account.

The most workable strategy is to buy freight collect (FCA) and sell freight prepaid (CPT/CIP). This way the exporter arranges with their own freight forwarder to handle the shipment from the supplier's country to the buyer's country, and arranges that they pay the freight from Australia. The forwarder will arrange export clearance on the supplier's invoice to the exporter but will not pass it on to the buyer's country. The supplier will not know who the exporter's buyer is. Also the forwarder will arrange a House Bill of Lading (HBL) showing the exporter as the shipper so that the buyer does not find out who the supplier is. The seller needs the services of a knowledgeable and experienced freight forwarder who has put in place procedures with their agents in the supply countries and destination countries to allow the Australian forwarder to issue their HBLs as soon as the vessel has departed. Most forwarders treat this as too hard or simply aren't interested but there are some good ones out there.

The beauty of these three country or "triangle" shipments is that they generally involve no additional outlay of capital and can push the exporter's buying prices even lower because of increased volumes. With the right strategic planning and the right advice from the outset, they can become very profitable for Australian companies sourcing their specialised products from overseas.

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