METHODS OF INTERNATIONAL TRADE AND PAYMENTS: THE NIGERIAN PERSPECTIVE

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ABSTRACT: *No country can exist in isolation as an island, trade wise. This is because, it cannot own all it needs or requires. It must therefore engage in some form of trade with other countries to buy what it needs and also, sell what it has. This way, it can maintain an economic balance. International Trade allows us to expand our markets for both goods and services that otherwise may not have been available to us.[1] It is for this reason that a person in Nigeria can pick between a Japanese, German or American product such as, electronics or cars. Because of international trade, there is greater competition to provide cheaper products to the consumer so as to attract more trade relationships. International trading partners or organizations conduct business today without having to meet or speak with each other. Transactional, uncertainties about the method of trade or risk of loss could be increased if there is inadequate knowledge of the payment options that are available. As a result of such uncertainties, the likelihood of trade could therefore be reduced reduced. Because of awareness of the increasing globalization of trade, private sector development programs have looked for ways to implement trade promotion initiatives, through import and export programs, production of high-value crops for export, creation of business development centers and other trade related programs which require the participants to have a good understanding of some of the most critical aspects of trade such as the nature of trade and getting paid.[2] As new technologies and advancements in communications are improving trade logistics and increasing speed and facilitation of transactions, businesses are finding new opportunities and new ways to operate. Today, payments can be made through opening of financial letters of credit, by email, commitments for foreign exchange can be made over the telephone and the purchase of large quantity of produce and their shipping costs can be charged to credit cards. Despite these new advancements most payment transactions still follow basic rules to reduce risk of loss to the barest minimum. Exporters must therefore offer their customers attractive sale terms supported by competitive payment methods to succeed in the new global market and to win sales against foreign competitors. As getting paid in full and on time is the primary 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 to get his goods at the cheapest possible rates.[3]*

KEYWORDS: export, import, international trade payments, regulations.

[1] www.investopedia.com/.../what-is-international-trade.
[2] Ibid
[3] www.export.gov/tradefinanceguide/main_methods_of_payment...

INTRODUCTION

Before the discovery of oil in Nigeria most of its exports were agricultural commodities like cocoa, palm produce, cotton and groundnuts. The success story of Nigeria was then synonymous with the groundnut pyramid of Kano which has gradually disappeared.[4] Nigeria`s Basic External Trade Profile in 1960 showed that the export earnings of Nigeria stood at 339 million Naira and by 1977, this had risen steadily to 7,881.7 million Naira[5]. This was a growth of 19 per cent within the said period.[6] Crude petroleum became a significant export commodity after its discovery in Olobiri in 1956 in large quantity.[7]By 1960, imports on the other hand were valued at 432 million naira. This increased in value in 1970 to 756 million and in 1978 to 8,132 million Naira.[8] It rose tremendously to 124,612.7 million Naira and 681,728.3 million in 1992 and 1997 respectively.[9] The increase of import of Capital goods by a country demonstrates the desire of that nation to industrialize and to acquire what others in the global world have or enjoy. Major oil activities commenced in the 1970s in Nigeria. This new source of revenue created a big boom resulting in a dichotonomy between the oil and non-oil sectors of the economy.[10]

Trade items

According to Atlas rankings, the products exported by Nigeria are in the following proportions.[11] *Crude petroleum makes up 72%, Petroleum gas 14% the remaining 14% is made up of refined petroleum, rubber, cocoa beans, milk, special purpose ships, coconuts and Brazil nuts, cashew, crustaceans and other oily seeds… Nigeria imports refined petroleum to the tune of 14%, cars 6.5%, rice 3.2%, wheat 3.1%, telephones 2.8%, others range from frozen fish, delivery trucks, raw sugar, packaged medicaments, and motor cycles.*[12]

Although the agricultural sector has now taken the back seat after oil discovery in Nigeria, it still provides employment to 70 per cent of the total working population in Nigeria.[13] Oil and gas being the most important export products in Nigeria, was said by Nigerian National Petroleum

[4] www.tribune.com.ng/.../11574-when-will-groundnut-pyraminds-return
[5] www.onlinenigeria.com/economics/growth-and-direction-of-external-trade... by Ekpo, A.H and Umoh, O.J.
[6] Ibid
[7] Olobiri is in Niger Delta region of Nigeria-now known as Bayelsa State. See www.nnpcgroup.com/NNPCBusiness/Businessinfomation/oilgas...
[8] www.online.nigeria.com Ekpo, A.H. Op cit.
[9] ibid
[10] www.economywatch.com/world-economy/nigerian/export-import...
[11] http://atlas.media.mit.edu/profile/country/nga/profile-of-exports-imports-and-trade-partners... Accessed on 10/8/2014
[12] Ibid
[13]www.economywatch.com/world-economy/nigeria/export-import...

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Company in 2007, to provide export of approximately 2.5 million barrels per day.[14] An oil and non oil dichotomy was thereby created, with the oil sector dominating export while the non oil sector dominates the imports. In terms of total oil exports, Nigeria ranks 8th in the world and as at 2009 had a reserve of about 36.2 billion barrels of oil.[15] Between 1960 -1970 and 1970-1978, oil exports grew by 44.6 percent and 31.6 per cent respectively, while non-oil exports showed a marginal growth of 1.2 per cent and 6.6 per cent respectively.[16] According to Nigeria Bureau of Statistics Report in 2012,[17]

Nigeria recorded an increase of 15.5 per cent in the value of exports from 19,440.4 billion in 2011 to 22,446.3 billion in 2012. This represented a rise of 3,006.0 billion naira and shows that the country`s growth is still determined by the export of crude oil. The contribution of crude oil to the total domestic export trade amounted to 15,531.9 billion or 69.2 percent in 2012. While mineral products accounted for 84.1 percent of Nigeria`s exports, other products that also contributed to Nigeria`s exports were plastic, rubber articles, prepared food stuff, beverages, spirit and vinegar, tobacco etc which stood at 7.1 per cent of the total exports of Nigeria during the period[18]

The bulk of the imports to Nigeria were finished and semi-finished goods. Because of the pressure to import all kinds of machinery to stimulate the industrial strategy pursued after Nigeria`s independence in 1960, unfavorable trade imbalance was noticed from 1960 to 1965.[19] From 1974 food imports became noticeable and thereafter export of crude petroleum.[20] Due to high international oil prices, Nigeria`s import trade is able to balance its export revenue thereby maintaining a favorable balance. Machinery, heavy equipments, consumer goods electrical fittings, construction materials, cars, electronics, steel, tyres and food products are the major imports.[21] According to Jan Thorhauge,[22] the managing director, of Maersk Nigeria limited, Nigeria is an import dependant economy and the ratings of container business within six months in 2012 showed a ratio of 92% import and 8% export.[23] He said that, as an import dependant country, Nigeria`s container market was dominated by imports and remained unbalanced as the

[14] www.nnpcgroup.com/.../oilproduction...
[15] www.economywatch.com op cit
[16] www.onlinenigeria.com op.cit.
[17] www.dailytimes.com.ng/article/nigeria-records-surplus-exports
[18] Ibid.
[19] www.economywatch.com op. cit.
[20] www.onlinenigeria.com/economics op cit.
[21] Ibid
[22] www.businessdayonline.com/2013/09/nigeria-international-trade-remains-92%import-8%exports-in-si-months...
[23] ibid

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volume of import continues to surpass that of export.[24] There is a need for the government of Nigeria to create market awareness for its products and make it easy for those who want to invest in export trades.

Trade partners

The United Kingdom and United States of America are the largest trade partners for Nigerian exports.[25] Nigeria`s export destinations apart from United States and United Kingdom are India, Spain, Brazil, South Africa, Netherlands, France, Germany and Japan. Nigeria imports largely from China, United States, India, Netherland, United Kingdom, Belgium, Brazil, France, Germany and South Africa.[26] According to Mbu, who quoted the National Bureau of Statistics, [27] *Details of Nigerian exports to various continents of the world showed that European countries are the highest consumers of Nigeria`s export with N8, 227.1billion or 36.7%. This was followed closely by America with N7, 196.1billion or 32.1% and Asia with N4, 347.4billion or 19.4%. Within the continent of Africa, Nigeria exported products valued at N2, 118.68 billion or 9.4% of its total export trades. However, exported products valued at N869.6 billion to the region of ECOWAS out of its total export trade to Africa… The direction of import trade by the economic region showed that Nigeria`s major imports came from Asian countries which accounted for N2, 319.9billion or 41.2% of the total imports. Other major imports of Nigeria were from Europe and America with N1, 490.4billion or 26.5% and N1, 421.9billon or 25.3%.Within the continent of Africa, Nigeria imported goods valued at N245.6billion or 4.4% out of which ECOWAS accounted for N33.8billion or 13.8%.*

About 80% of the country`s commodities are exported to markets in Western Europe, North America, Japan, and other industrialized countries.[28] The bulk of imports come from the same source. Within West African countries, Nigeria also trades with Ghana, Cote d'ivoire Senegal and Niger. The ECOWAS charter which stipulates that member country must enhance trade among themselves was also stressed upon[29] in dealing with member countries.

TYPES OF EXPORT & IMPORT CONTRACTS

Various types of export and import contracts are known throughout the World. The duties and liabilities attaching to each of the parties, that is, the buyer or the seller in any given transaction would depend on the type of contract of carriage entered into in relation to the delivery of the

[24] Ibid

[25] Ibid

[26] Ibid

[27] www.dailytimes.com.ng/article/nigeria-records-surplus-exports Elizabeth Mbu 11-03-2013

[28] www.onlinenigeria.com/economics.op cit.

[29] Ibid

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goods and when the risk is to pass. This would determine the final price of goods. Because of the peculiar nature of import and export trades the most convenient and cheapest way to transport such goods is through shipping as opposed to air arrangements. The time that property passes under the contract depends on the transport arrangement that the parties have chosen to use. The longer the risk remains with seller, the higher the price to the buyer ultimately. The contract dictates the time that the seller becomes free of any risk of loss under the contract and the stage the property in the goods pass to the buyer. The property may pass upon the goods being loaded into the ship's rail,[30] into the rail collecting vehicle or truck,[31] or even upon the delivery of shipping documents.[32] In 1936, the International Chamber of Commerce established a system of thirteen (13) International Commercial terms known as incoterms.[33] Each incoterm refers to an agreement that governs the shipping responsibilities of sellers and buyers engaged in international trade. It provides orderly contract models that are easily identified across the nations and language barriers. Each specifies who bears the risk of transit, insurance and freight as well as when the sellers obligation ends and when the buyer assumes responsibility.[34]
The following are some of the Internationally recognized export & import contracts:[35]

1. Free on Board Contracts (F. O. B.)
2. Cost Insurance and Freight Contracts (C. I. F.)
3. Ex-ship
4. Ex-works
5. Free on Rail (F. O. R.)
6. Free on Truck (F. O. T.)
7. Free Alongside Ship (F. A. S.)
8. Carriage Paid to (CPT)
9. Carriage and Insurance Paid to (CIP)
10. Delivered at Place (DAP)
11. Delivered Duty Paid (DDP)
12. Cost and Freight (CFR)
13. Free Carrier Arrangements (FCA)

They are discussed as follows;

[30] As in Free on Board contracts,

[31] Free on rail (FOR) or free on truck(FOT)

[32] Cost, insurance and freight contracts.

[33] Smallbusiness.chron.com/difference-between-cif-and-fob…

[34] International Chamber of Commerce see Icc Incoterm 2010, the World Business Organization No. 715 P.15-75

[35] Central.ucv.ro/…/INCOTERMS.doc

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F.O.B contracts: Free on Board (F.O.B) contracts as its name signifies mean that the seller becomes free from liability relating to the goods once they have been put on board the ship by placing them on the ship's rail usually at a named port of shipment. For example, if goods are to be shipped from Lagos they will be transported F.O.B. Lagos. In the strict sense of this contract, the seller is required, at his own expense, to place the goods on board a ship nominated by the buyer. The risk passes to the buyer as soon as the goods pass the ship's rail, so that if the goods are lost at sea, the buyer would still be bound to pay for them.[36] Sometimes, goods are sent 'FOB point of origin' as opposed to point of shipment. This is done when the price of the shipping is negotiated separately from the price of goods, when the goods are extremely large or heavy or have more favourable shipping terms negotiated[37]

Duties of the seller: The seller is required to do the following:
(a) Place the goods on board a ship nominated by the buyer,
(b) Pay all handling and transport charges in connection with the goods until they are put on the ship's rail.
(c) Give notice to the buyer so as to enable him insure the goods. The goods will be deemed to be at the seller's risk during transit if he fails to notify the buyer as provided by S. 32(3) of the Sale of Goods Act. In **Wimble V Rosenberg[38]** an argument arose as to whether the seller's liability should depend on the effect of his failure to supply information or the buyer's intention to insure. For example, would they have insured if they had any information about the goods? It has been suggested that if the buyer has sufficient information to enable him effect such a policy, the seller will not be liable. It has, however, been pointed by Buckley and Vaughan L.J.J. that the buyer will not be prevented from relying on S. 32(3) merely because he could have effected a general cover policy. It is therefore important that the buyer is notified that the goods are at his disposal.

Another question that would arise will be on whom the responsibility of insuring in an F.O.B contract is.[39] The answer lies in the provision of Section 32(7) which stipulates as follows:
Unless otherwise agreed, where goods are sent by the seller to the buyer by route involving sea transit, under circumstances in which it is usual to insure, the seller must give such notice to the buyer as may enable him to insure them during their sea transit,…

In the absence of this, the goods are sent at the seller`s risk until delivery.

[36] ICC Incoterms 2010, op cit Act S.20 Sale of Goods Act 1893 is applicable in Nigerian

[37] www.definitions.uslegal.com/c/contracts-fob/law&legal...

[38] (1913) 3 K.B 743

[39] K.I Igweike opt cit g 207

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(d) Limiting the seller to only his strict duties under F.O.B. contracts is sometimes commercially impossible. It is therefore common to find contracts for F.O.B. which impose additional duties on the seller, e.g., to obtain shipping space, make contract of carriage and to insure. Unless such an extra agreement is entered into, however, a seller must restrict himself to the strict duties imposed by F.O.B. contracts under the INCOTERMS.

Duties of the buyer: The Buyer has the following duties as stipulated by Lord Hewart L.C.J. in **J & J Cunningham Ltd V Robert Munro & Co Ltd**[40]
in the following words;
Under such an agreement, it was the duty of the purchaser to provide a vessel at the appointed place, Rotherdam, at such a time as would enable the vendors to bring the goods alongside the ship and put them over the ship's rail so as to enable the purchaser to receive them within the appointed time,… it is therefore his duty;
(a) To nominate a ship and advise the seller in good time so that he does not become liable to the seller for failure to accept delivery, and therefore be liable to him for the price or damages.
(b) To secure shipping space in the vessel
(c) To pay all charges subsequent to the goods crossing the ships rail, e.g., freight, insurance, unloading charges, import duties and other charges or duties which may become due on arrival of the ship at the port of destination.
(d) To pay the price quoted on the invoice to the seller.
(e) To pay the freight to the carrier.

The passing risk: The risk passes once the goods have crossed the ships rail, and are therefore legally or commercially on board. The property in the goods pass at the same time as the risk. Thus, any loss or damage which occurs on the goods after they have been put on board, will be borne by the buyer. For example, he bears the risk of loss or damage during loading or carriage by sea. Where the goods are unascertained in that they form part of a larger bulk, no property passes until they have been ascertained,[41] but the risk may nevertheless pass as soon as the goods are handed over the ship's rail. In such a case, the buyer may bear the risk of loss even though property has not passed to him. This, like other aspects of sale, is also subject to the intention of the parties. The crucial difference between FOB and CIF agreement is the point at which responsibility and liability transfer from the seller to buyer. With FOB shipment, this occurs when the goods for shipment reach the port or other facility designated as the point of origin. With CIF, the seller pays cost and assumes liability until the documents relating to the goods

[40] (1922) 20 Comm. Cas 42
[41] Section 16 SGA, 1893

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reach the buyer`s chosen destination.[42] Once the buyer receives the documents, it becomes immaterial that the goods do not eventually reach him.

Cost, Insurance & Freight (C.I.F) Contracts: While goods are F.O.B. shipment ports, they are C.I.F destination ports. Thus, if goods are to be sent from Lagos to London the documents will read C.I.F London. This is a contract for the sale of documents of title, namely the insurance cover, the bill of lading, and invoice. The cost is reflected in the invoice, insurance in the policy of insurance and freight in the bill of lading. The contract of sale is performed by the delivery of such documents to the buyer. Once the documents are given to him, he must pay the price whether or not the goods are lost, but he may thereafter, claim from the insurance company covering the security of the goods. The delivery of those documents to the buyer serves as the transfer or delivery of the goods to him. Thus, if the contract does not possess this “Sale of Documents” character, it will not be C.I.F contract even though the parties call it so.

In **Comptoird’Achar V Luis de Ridder**[43], some Argentinian sellers sold rye to Belgian buyers “C.I.F. Antwerp for payment in exchange for documents”. The agreement added, however, that the documents did not entitle them to possession of rye until a number of conditions were satisfied. When the delivery order was sent to the buyers they paid the price but while the rye was on its way to Antwerp, the Germans intercepted it and sold it off to Lisbon. The buyers sought a refund on the ground that property had not yet passed to them until they fulfilled the conditions specified. It was *Held* - that this was not a true C.I.F contract since it did not allow title to pass to the buyer upon the documents being tendered or payment. The additional requirement that certain conditions were to be fulfilled before property could pass meant that unless those conditions were satisfied the buyer was not liable on the contract and if he had already paid, as in this case, he could recover the price for non-delivery of goods. The buyer had paid the price for the goods not for the documents and since the goods could not be delivered, he was entitled to a refund. The nature of C.I.F contract was described by Lord Porter as follows:

The obligations imposed upon a seller under a C.I.F contract are well known and in the ordinary case include the tender of a bill of lading covering the goods contracted to be sold and no others, coupled with an insurance policy in the normal form and accompanied by an invoice which shows the price and as in this case, usually contains a deduction of the freight which the buyer pays before delivery at the port of discharge. Against tender of these documents, the buyer must pay the price. In other words, the shipping documents include the bill of lading, the marine

[42] Smallbusiness.chron.com/difference-between-cif-and-fob…

[43] (1949) 1 ALL E.R. 269

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insurance policy cover, and the invoice showing the price. Once these are tendered, it serves as delivery of goods to the buyer. The sale is more of documents than of goods.

Property passes when the documents are transferred.

C.I.F was explained by Wright J. in the case of **Loders & Nucoline Ltd V The Bank of New Zealand**[44] as follows:

It is perfectly true that in the contract price, there are included both cost, freight and Insurance, that is to say, that the seller has not only to provide the goods…

Duties of the seller: These were summarized as follows in the case of **Biddell Brs V Clemens Horst Co**[45]**:** To ship goods of the contract description within the agreed time or if no time is agreed, within a reasonable time. Note that time of delivery is of essence even though time of payment is not[46] and the seller has the following duties;

1.To procure a contract of carriage of goods by sea under which the goods will be delivered at the destination contemplated by the contract.

2. To insure the goods with reputable insurers under a marine insurance policy which will be available for the buyer and cover the transit contemplated by the agreement. The policy must be no less favourable than those current in the trade.

3.To make an invoice which normally will debit the buyer with the agreed price or the actual cost, commission, charges, freight and insurance premium, and credit him for the amount of the freight which he must pay to the ship owners on delivery of the goods at the port of destination.

4.To tender these documents to the buyer so as to enable him recover delivery of the goods if they arrive or recover for their loss or damage during voyage.

Duties of the buyer: The buyer has the following duties;

1. To bear the risk of goods from the time they pass the ship's rail at the port of shipment
2. To accept shipping documents when presented in accordance with the agreement.
3. To pay for the goods even before receipt of them or examination thereof and must pay whether or not they arrive since he can have recourse to the insurance company for loss or damage.
4. To take delivery at the port of destination and bear the cost of unloading and dock charges.
5. To procure any licence or similar document which he may require for the purpose of importing the goods.
6. To bear the cost of customs clearance or duties and all taxes or charges payable by reason of importation.

[44]Cited Per Cotton L.J in Mirabita V Imperial Ottoman Bank (1878) 3 EX D, 164, 172 – 173.

[45] (1911) 1K.B 214, 220

[46] Section 10 SGA and section 29 SGA

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Passing of Risk and Property: Risk passes to the buyer as soon as goods cross the ship's rail as in F.O.B contracts, i.e., whether or not the property in them has passed under the ordinary rules of contract by delivery of documents. The risk in the property generally remains with the buyer in respect of goods that have been shipped[47]. In **Okereke V Arique Nig. Ltd**,[48] the plaintiff bought second-hand clothing to be shipped overseas and to be delivered C.I.F at a particular place. Subsequently, the Nigerian Civil War broke out and the Harbour was blocked and the good got lost in transit. The plaintiff sued in an action for damages and the Court held that the risk is on the ship owner and insurers under the policy of insurance.

This is an exception to the general rule that risk passes with ownership of property.[49] It is usual in practice for sellers to include in the contract a clause reserving a right of disposal[50] so that unless the buyer actually honours the bill of lading by paying the price, no property passes to him upon the mere tender of documents. Where there is no such restriction, however, the property passes upon the tender of documents. The buyer's right of rejection of goods is not defeated by the fact that he had accepted the documents. He may reject the goods if he discovers upon delivery that they do not conform with the implied terms of the contract preserved by sections 10 to 15 of the Sale of Goods Act, 1893.

Ex-Ship:
In this type of contract, the seller only makes delivery to the buyers after the ship has arrived at a named port.The risk remains with the seller until the goods are delivered after they have left the ship. That is why they are called ex-ship contract.[51]

This type of contract must be distinguished from the above discussion of C.I.F contracts. In doing that, recourse must be given to the intention of the parties and the surrounding circumstances[52]. In **ComptoirdAchat et de Ventedite Boren Bond Belge S.A V Luis de Ridder Limitada (The Julia)[53]**, the House of Lords held that the contract in this case was not a c.i.f. but an ex-ship one. In discussing duties of the seller, the House of Lords in the afore quoted case explained:

[47] K.I.Igweike opt cit Pg. 208

[48] (1984) 3 KB All ER 438

[49] Section 20 SGA

[50] Section 19 SGA

[51] central.ucv.ro/…/INCORTERMS.doc

[52] Mustapha & Co. V S.C.E 121 NCR 69

[53].Igweike K.I opt citPg 210

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To cause delivery to be made to the buyer from a ship which has arrived at the port of delivery, and has reached a place therein which is usual for delivery of goods of the kind in question. The seller has therefore to pay the freight or otherwise to release the owner's lien and to furnish the buyer with an effectual direction to the ship to deliver.

As it can be seen in this type of contract, there is generally no duty on the buyer until the seller has performed his or her duty[54]. The duty on the seller is:
1. To pay the freight and deliver the goods at his own risk.
2. To take all the necessary policies to cover such risk

Buyer's duties:
The buyer has the duty to accept and pay for goods when they are delivered. It is only after delivery that the property and risk pass to the buyer. Thus, if the property is lost during transit, the seller bears the risk of loss. If an advance payment had been made, it could be recovered upon failure of the goods to arrive. Although this is safer for the buyer in terms of passage of risk, in terms of cost, it is usually more expensive for him.

Ex-Work: Where under a contract for the sale of goods the goods are to be made at a future date, no property shall pass until the goods have been made and placed at the disposal of the buyer. The contract is said to be ex- the place where the goods were situated or made, e.g., store, warehouse, mill or plantation. Ex works means that the seller delivers when he places the goods at the disposal of the buyer at the sellers premises or another named place.
Under S. 18 Rule 2,[55]where goods are subject to anything to be done to place goods in a deliverable state, goods will not pass until that thing is done. In the same vein, even when goods are in a deliverable state, goods will not pass until they have been unconditionally appropriated under Section 18 Rule 5.
The buyer would bear all costs involved and risk for taking goods from the seller's premises.

The Seller's duties involve the following:
1. To provide goods of the contract description and place them at the disposal of the buyer at the time and place stipulated in the contract,
2. Notify the buyer in writing that the goods are at his disposal and must bear the cost of so placing the goods.
3. Assist the buyer to obtain any document required in the seller's country for export of those goods, e.g., export licence.

[54] Ibid
[55] Sale of Goods Act 1983

The Buyer on the other hand;

1. Must take delivery of the goods as soon as they are placed at his disposal.
2. Must bear the risk and pay all expenses due from that time onwards e.g., freight, custom duties, taxes, export duties, licence, e.t.c.

Property and risk will usually pass to the buyer when the goods are unconditionally appropriated to the contract.[56]

Free on Rail (F.O.R) Contract

Goods are sent F.O.R a named departure place. This is a contract which requires the seller to deliver the goods to the railway authority.[57] According to railway regulations the seller has the following duties:

1. To load the goods onto the railway authority's collecting vehicle
2. He must, at his own expenses, give notice to the buyer that the goods have been loaded.

On the part of the buyer

1. He must make his own arrangements for carriage from the point of delivery to the railway authority
2. He must pay the freight, and inform the seller of the destination of the goods.

Free On Truck (F.O.T.) Contracts

goods are send FOT a named departure place This is the same as F.O.R contracts except that the seller is bound at his own expense to load the goods unto the truck and not the collecting vehicle.

Free Alongside Ship (F.A.S) contracts: This is a contract whereby the seller is under a duty to place the goods at his own expense, alongside a ship or vassel named by the buyer. On the part of the buyer, he must nominate a ship and give adequate notice to the seller The loading of the goods onto the ship is also the buyer's responsibility. Property and risk pass when the goods have been placed alongside a ship. Unless otherwise agreed, the term F.A.S. when used in respect of a named vessel is a delivery term under which the seller must at his own cost and risk deliver the goods along side the vessel in the manner usual in that port or dock designated or provided by the buyer.[58] He must also obtain and tender a receipt for the goods in exchange for which the carrier is under a duty to issue a bill of lading.

[56] Section 18 Rule 5 SGA

[57] www.freightgate.com/.../incoterms_lookup...

[58] www.law.cornell.edu/ucc/fob-and-fas-terms-legal-information-institute.

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Free Carrier Arrangements (FCA)
FCA occur where the seller delivers the goods to the carrier or another person nominated by the buyer at the seller's premises or another named place. It as an arrangement where the cost, risk and responsibility shift from the seller to the when the goods are turned over to the buyer at the designated place. The buyer designates the place to which the seller must delver the goods.[59]

Carriage Paid To (CPT)
CPT means that the seller delivers the goods to the carrier or another person nominated by the seller at an agreed place and such seller must contract for and pay the cost of carriage necessary to bring the goods to the named place of destination. Goods are sent CPT the place of destination.

Carriage and Insurance Paid To (CIP)
CIP requires the seller to deliver the goods to the carrier or other person nominated by him and the seller must contract for and pay the cost of carriage necessary to bring the goods to the named place of destination. He also contracts for insurance cover against the buyer's risk of loss or damage to the goods during carriage. The buyer should note that, under CIP, the seller is required to obtain insurance only on the minimum cover. If the buyer requires more protection, he must reach an express agreement with the seller or make his own extra agreement.

Cost and Freight (CFR)
CFR requires the seller to arrange for the carriage of goods and deliver goods on board the vessel or procure the goods already so delivered. The risk of loss or damage passes when the goods are on board the vessel. The seller must therefore pay the cost of goods and freight necessary to bring the goods to the named port of the destination. Since the point that the risk passes may be different from the port of shipment, parties must especially specify point of shipment if they intend that goods and risk pass together. When CPT, CIP, CFR or CIF are used, the seller fulfils its obligation to deliver when it hands the goods over to the carrier in the manner specified in the chosen rule and not when the goods reach the place of destination. Under CRF the seller does not have to procure insurance against risk of loss or damage to goods during transit.[60]

Delivered At Terminal or Place (DAT OR DAP)
DAT agreements require the seller to deliver the goods, once unloaded from the arriving means of transport and are placed at the disposal of the buyer at the named terminal or place of destination.[61] This is used when there is more than one transport mode. Terminal here includes

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[59] Financial-dictionary.thefreedictionary.co.free-carrier…

[60] www.investopedia.com/terms/c/cfr.asp...

[61] www.asmara.com/trade.../incoterms/...

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quay, warehouse, container yard, rail or air cargo terminal. The seller bears the risk involved in bringing the goods to and uploading them at the terminal.

Delivered Duty Paid (DDP)

Means, the seller delivers the goods when the goods are placed at the disposal of the buyer, cleared for import and ready for unloading. The seller bears all the costs and risks involved in bringing the goods to the place of destination and has an obligation to clear the goods not only for export but also for import.[62] He also to pays the duty for both and carry out all custom formalities.

This method shifts the maximum obligation in the seller to clear, unload and pay duties. If the seller is unable to obtain import clearance or pay duties, he should be advised to use DAP.

Time of Payment:

International trade presents a variety of risk causing uncertainties over the timing of payments between the exporter (seller) and importer (foreign buyer). While, the exporter wants payment as soon as possible, preferably as soon as an order is placed or before the goods are sent to the importer, the importer on the other hand, wants to receive the goods as soon as possible, but to delay payment for as long as possible, preferably until after the goods are resold to generate enough income to make payment to the exporter.[63] To exporters, any sale is a gift until payment is received since this may or may not occur, but, to importers, any payment is a donation until the goods are received.[64] While export and import trade could take place between nations, it could also take place between individuals across nations. The choice as to which category of bank is to be approached for loan or payment is dependent on the person engaging in the trade and the amount involved.

The World Bank is an international financial institution that provides loans to developing countries for capital programs.[65] Since the World Bank`s official goal is reduction of poverty, all of its decisions must be guided by a commitment to promote foreign investments, international trade, and facilitate capital investment.[66] The International Bank for Reconstruction and Development (IBRD) lends to governments of middle income and credit worthy low income countries, while the International Development Association (IDA) provides interest free loans

[62] Ibid

[63] Charu Rastogi,methods of payment in international trade export and import finance online on www.slide share.net/charurastogi/5-methods-of-payments-in-internatinal-trade…

[64] Ibid

[65] En.m.wikipedia.org/wiki/world-Bank...According to Jim Yong Kim the 12th President of the World Bank group.

[66] www.worldbank.org/en/about/history

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called credits and grants to governments of the poorest countries.[67] The World Bank was created in 1944 at the end of World War II which lasted from 1939 to 1944, to rebuild post war Europe and Asian countries through provisions of loans and advice.[68] Nigeria has benefitted from this foresight and program by way of loans for energy development,[69] health care financing[70] and agricultural support.[71] Investors can therefore tap into the best mode of finance or support for payments in international transactions.

TOOL OF PAYMENT FOR EXPORT AND IMPORT TRADE

Money performs certain functions in all societies. It is the acceptance of these functions by the society that gives money its credibility. It has been found over centuries that wherever money has lost its credibility in the society in which it functions, the money system collapses. Such a collapse was witnessed by history when the rulers of Rome debased the silver coins to such an extent that coins bought less and less until the merchants and farmers refused to accept the coins as a form of money.[72] In Nigeria although coins exists as a currency, it has been so devalued that no one accepts it any more. Nothing sells for the value of coins and sellers do not see the need to give back change nor do buyers see the need to receive same where the amount is in coins.[73] Thus in petrol filling stations and market places, Nigerians have openly rejected change in coins.[74] In Russia when people had to take a basket full of money to buy a loaf of bread,[75] money lost its value. The most important issue to understand in an economy is that the money-system is based on trust and every system must strive to enshrine such trust and confidence in its people

Functions of money:

Generally, economists have identified four functions of money.[76] They are as follows;

i. It is a medium of exchange
ii. It is a measure of value

[67] http://wordnet.princeton.edu/perl/webwn.worldbank...

[68] www.investopedia.com/.../worldbank.asp

[69] www.worldbank.org/en/.../nigeria/projects/and/programs...

[70] www.m.topix.com/world/nigeria/millions-to-benefit-from-the-worldbank-healthcare...

[71] www.nairaland.com/.../world-bank-approves...for-agricultureNigeria

[72] Mehta Rupa and Mehta Rohinton, Credit Cards: A Legal guide. 2nd Edn. (New Delhi: Universal Law Publishing Co. Pvt. Ltd., 2009) P.1

[73] www.allafrica.com/stories/nigeria-new-notes-would-ruin-the-economy...

[74] Ibid

[75] Mehta Rupa op.cit

[76] www.preservearticles.com/.../4-essential-functions-of-money-...

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iii. It is a store of value
iv. It is a standard of deferred payment.

Money facilitates exchange of goods and services. It provides a convenient medium of exchange as compared to say a goat or bag full of cola nuts. It would be difficult to exchange a goat for a hand full of kola nuts; This is because, only a part of the goat need be cut and the rest of the goat will not be of much use to the owner especially if he doesn't want it dead. Over the years money has taken various forms ranging from cowry shells, whaels, beads and even cows.[77]

Money also acts as an intermediary step in exchange of goods and services where one person sells something and obtains money in exchange and then uses that money to buy something for himself which the person who sold to him does not have. In the 1960s, the musical play 'cabaret' used the phrase 'money makes the world go round.' [78] For this very reason, many will love to have money grow on trees behind their homes rather than having to work hard day in and day out to earn it. But…for the natives of San Blas Island of Panama, money does grow on trees…literally! Because coconuts serve as money for these natives.[79] This is not so for the rest of us who have other sources of revenue. Without money, buying and selling transactions can be greatly stalled.

PAYMENTS METHODS

There are four primary methods of payment for international transactions, which could take place during or before contract negotiations. Parties are required to consider which method is mutually acceptable to both the exporter and importer before the contract. The primary and secondary payment methods and risks, as well as considerations for selecting the payment method, will be discussed in this article. Due to the physical distance between the buyer and the seller and the fact that the transaction may, have been made without the two parties actually meeting, minimizing exposure to risk places worries on the minds of both parties.[80] Thus while the buyer wants to make sure that they receive their order in acceptable condition and on time, the seller needs to know that they would get paid for it and soon. Payment could be made by cash, bill of exchange or banker's commercial credits or by way of assignment to a factor. The payment methods are highlighted as follows;

[77] www.sthovisfed.org/.../functions-of-money...

[78] www.ukessays.co.uk/essays/.../money-makes-the-world-go-round. Also see R Kelly on www.azlyrics.com/.../ money-makes-the-world-go-round…

[79] Mehta Rupa and Mehta Rohinto, Credit cards: Legal guide 2nd Edn (New Delhi Universal Law Publishing Co Ltd), 2009 p.1

[80] www.wouxun.com/two-way-radio-/service-payment-terms.htm

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Cash-in-advance

This is the simplest and most common method of payment for small transactions. This method also known as prepayment method, reduces the risk of failure to pay and provides the seller with a reasonable certainty of payment. A seller may insist on payment in cash by providing contracts which require “cash against documents” or “cash on delivery”.[81] The importer pays the exporter by using telegraphic transfer or international cheque before the exporter ships the goods. The parties may even agree on “cash on order” so that payment in fact precedes the sale or require credit transactions where large amounts of money are involved.

With this method of payment, the exporter can avoid credit risks, since payment is received prior to the transfer of ownership of the goods. Wire transfers and credit cards are the most commonly used cash-in-advance options available to exporters. Wire transfer or credit transfer is a method of transferring money from one person or institution (entity) to another.[82] A wire transfer can be made from one bank account to another bank account or through a transfer of cash at a cash office. However, requiring payment in advance is the least attractive option for the buyer, as this method creates cash flow problems.[83] Foreign buyers are also concerned that the goods may not be sent if payment is made in advance. Thus, exporters that insist on this method of payment as their sole method of doing business may find themselves losing out to competitors who may be willing to offer more attractive payment terms.

Cash-in-Advance Terms can be used under the following circumstances,[84] where;

- The importer is a new customer and/or has a less-established operating history.
- The importer’s creditworthiness is doubtful, unsatisfactory, or unverifiable.
- The political and commercial risks of the importer’s home country are very high.
- The exporter’s product is unique, not available elsewhere, or in heavy demand.
- The exporter operates an Internet-based business where the use of convenient payment methods is a must to remain competitive.

The risk level for this form of payment is quite high for the importers since he has to pay for the goods before the exporter ships them. For the exporter, this provides the lowest form of risk since he gets paid fully before he sends the goods.

[81] www.export.gov/tradefinanceguide/methods-of-payment_...
[82] www.uwcu.org/.../wiretransfes.aspx
[83] www.export.gov.op.cit.
[84] www.investopedia.com/.../cashinadvance-definition...

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Bill of Exchange

The seller here draws a bill of exchange on the buyer payable to the order of the seller or his agent. Such bills are usually payable at a future date. For example, "30 days after sight, pay X or order the sum of ₦ X". The goods or the documents of title to the goods are released to the buyer when the bill is accepted. The advantage of this method is that it allows the buyer a period of credit during which he can collect the goods resell them or part of them and pay back to the seller. The seller also has the option to make the bill payable on demand or give a discount for immediate cash payment upon acceptance of the bill. Although the system of sending goods along with bills of exchange is still widely used, it has one defect from the seller's point of view, namely, the practical difficulties that might arise if the buyer fails to honour the bill of exchange. These difficulties could be considerable if the goods had already been shipped and the market was falling. To eliminate this risk the practice of payment by banker's commercial credit was evolved so as to enable the exporter, that is, the seller to look up to the bank rather than the individual to whom he was selling.

Banker's Commercial Credit.

The usual feature of banker's commercial credit is that the buyer arranges with a bank to pay the seller. The bank will then be reimbursed by the buyer for whom it had acted. The obvious advantage of this to the seller is that his payment by the bank is guaranteed. The seller is under this contract required to deliver the shipping documents to the bank, and the bank thereupon pays, accepts or negotiates bills of exchange drawn by the seller on the buyer or on the bank. The bank will then look to the buyer for reimbursement. Bankers' commercial credit can take the form of documentary collection, open account or letters of credit.

Documentary Collections D/C

A documentary collection is a transaction whereby the exporter entrusts the collection of a payment[85] to the remitting bank (exporter's bank), which sends documents to a collecting bank (importer's bank), along with instructions for payment.[86] Funds are received from the importer and remitted to the exporter through the banks involved in the collection, in exchange for those documents. Documentary collections involve the use of a draft that requires the importer to pay the face amount either on sight (document against payment—D/P) or on a specified date in the future (document against acceptance—D/A).[87] The draft lists instructions that specify the documents required for the transfer of title to the goods. The importer would need the shipping documents to clear goods on arrival. In documentary sight collection, the bank holds the documents until the importer pays for the goods, while in documents against acceptance it holds

[85] Charu Rastogi Op.cit

[86] www.export.gov/tradefinanceguide eg...

[87] Ibid

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the documents until the importer undertakes to pay for the goods at a later date.[88] Risk levels for the importer under sight or term payments are low under these procedures. For sight payment the importer has assurance that the exporter has shipped the goods before he pays, while in term payment, he would have received and inspected the goods before payment at a later date. For exporters, the risk in sight payment is medium since the goods are not released to the importer until he pays. Under term payments, the risk could move from medium to high since the goods are released to the importer upon his undertaking to pay at a later date. Such importer may or may not honour the undertaking if he experiences payment difficulties. Although banks act as facilitators for their clients under documentary collections, it offers no verification process and has limited recourse in the event of nonpayment. Drafts are generally less expensive than letters of credit. In both situations, the importer pays the exporter after he ships the goods. DC may take the form of Documents against Payment (D/P) Collection or Documents against Acceptance (D/A) Collection.

a) Documents against Payment (D/P) Collection[89]

Under a D/P collection, the exporter ships the goods, and then gives the documents to his bank, which will forward them to the importer's collecting bank, along with instructions on how to collect the money from the importer. In this arrangement, the collecting bank releases the documents to the importer only on payment for the goods. Upon receipt of payment, the collecting bank transmits the funds to the remitting bank for payment to the exporter. In this transaction, payment is made

after shipment, but before documents are released. Goods are therefore not transferred until after payment is made on sight. If draft is unpaid, the risk to the exporter is that, goods may need to be disposed.

b) Documents against Acceptance (D/A) Collection[90]

Under a D/A collection, the exporter extends credit to the importer by using a time draft. In this case, the documents are released to the importer to receive the goods upon acceptance of the time draft. By accepting the draft, the importer becomes legally obliged to pay at a future date. At maturity, the collecting bank contacts the importer for payment. Upon receipt of payment, the collecting bank transmits the funds to the remitting bank for payment to the exporter. In this transaction,

time of payment is determined by maturity of draft at a specified future date

transfer of goods take place before payment, but upon acceptance of draft.

Exporter has no control of goods and stands the risk that he may not get paid at the due date.

The procedure for D/C Transaction is as follows;[91]

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[88] www.nab.com.au/business/international/international-trade-payment...

[89] www.exportfinance.gev.au/.../documentary-collection...

[90] Ibid

[91] www.bussinessdictionary.com/.../what-is-documentary-collection...

- The exporter ships the goods to the importer and receives in exchange the documents.
- The exporter presents the documents with instructions for obtaining payment to its bank.
- The exporter's remitting bank sends the documents to the importer's collecting bank.
- The collecting bank releases the documents to the importer upon receipt of payment.
- Or the collecting bank releases the documents on acceptance of draft from the importer.
- The importer then presents the documents to the carrier in exchange for the goods.
- Having received payment, the collecting bank forwards proceeds to the remitting bank.
- Once payment is received, the remitting bank credits the exporter's account.

DC is recommended for use in established trade relationships and in stable export markets. The exporter is exposed to more risk since D/C terms are more convenient and cheaper than letters of credit (LC) to the importer. It has the advantage of bank assistance in obtaining payment and the process is simple, fast, and cheaper than LCs. However, banks' roles are limited and they do not guarantee payment, or verify the accuracy of the documents.

Open Account

This is the sale where goods are shipped and documents are remitted directly to the buyer, with a request for payment at the appropriate time which could be immediately, or at an agreed future date. An exporter has little or no control over the process, except for imposing future trading terms and conditions on the buyer. An open account transaction means that the goods are shipped and delivered before payment is due, usually in 30,60 or 90 days.[92] Obviously, this is the most advantageous option to the importer in cash flow and cost terms, but it is consequently the highest risk option for an exporter[93] who releases goods upon a promise to be paid later. Open account trading should only be considered when an exporter is confident that payment will be received. In certain markets, such as Europe, buyers will expect open account terms to enable them spread their payment period. The financial risk of the exporter can often be mitigated by obtaining a credit insurance policy to cover the possible insolvency of a customer to provide reimbursement up to an agreed financial limit. This would certainly create an additional burden on the exporter. Because of the intense competition for export markets, foreign buyers often press exporters for open account terms since the extension of credit by the seller to the buyer is more common abroad.[94] Exporters who are reluctant to extend credit therefore may face the possibility of the loss of the sale to their competitors. However, while this method of payment will definitely enhance export competitiveness, exporters should thoroughly examine the political, economic, and commercial risks, as well as cultural influences to ensure that payment will be received in full and on time. Using this method, the goods, along with all the necessary

[92] www.exportfinance.gov.au/.../openaccount-exportfinance...

[93] Ibid

[94] www.export.gov/tradefinanceguide/eg_main _

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documents, are shipped directly to the importer who agrees to pay the exporter's invoice at a future date, usually within 30 to 90 days.[95] It is important also, that the exporter is absolutely confident that the importer will accept shipment and pay at the agreed time and that the importing country is commercially and politically secure. In order to mitigate the risk of non payment, open account terms may be offered in competitive markets with the use of one or more of the following trade finance techniques to enable them have access to finance production for export and provide credit while waiting to be paid. (1) Export Working Capital Financing, (EWCF) (2) Government-Guaranteed Export Working Capital Programs, GGEWCP (3) Export Credit Insurance, ECI (4) Export Factoring, EF and (5) Forfaiting.[96]

Letters of credit

An LC, also referred to as a documentary credit, is a contractual agreement whereby a bank in the buyer's country, known as the issuing bank, acting on behalf of its customer (the buyer or importer), authorizes a bank in the seller's country, known as the advising bank, to make payment to the beneficiary (the seller or exporter) against the receipt of stipulated documents.[97] It 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 have been met, as verified through the presentation of all required documents.[98] LC is a separate contract from the sale contract on which it is based and, therefore, the bank is not concerned whether each party fulfills the terms of the sale contract. The bank's obligation to pay is solely conditional upon the seller's compliance with the terms and conditions of the LC. In LC transactions, banks deal in documents only, not goods. LCs are among the most secure instruments available to international traders. An LC is useful when reliable credit information about a foreign buyer is difficult to obtain, but you are satisfied with the creditworthiness of your buyer's foreign bank. This method also protects the buyer, since no payment obligation arises until the documents proving that the goods have been shipped or delivered as promised are presented. However, since LCs could present many opportunities for discrepancies, they should be prepared by well-trained drafters or documenters or the function may need to be outsourced. The buyer pays its bank to render this service. An LC is useful when reliable credit information about a foreign buyer is difficult to obtain, but you are satisfied with the creditworthiness of your buyer's foreign bank. An LC also protects the buyer since no payment obligation arises until the goods have been shipped or delivered as promised.

[95] Ibid

[96] All these will be considered under trade financing in fra under 1.9

[97] www.export.gov/trdefinanceguide/eg_main_043221.asp methods of payment in international trade.

[98] Ibid

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(i) Procedure:[99] Usually the contract provides for the opening of a letter of credit within a specified time.[100] The banks open LCs according to instructions they have received from importers. The stages to be followed in executing this contract are as follows:[101]

- The importer pays the exporter by arranging for the issuing bank to open an LC in favour of the exporter.
- The issuing bank transmits the LC to the advising bank, which forwards it to the exporter.
- The exporter forwards the goods and documents to a freight forwarder.
- The freight forwarder dispatches the goods and submits documents to the advising bank.
- The advising bank checks documents for compliance with the LC and pays the exporter.
- The importer's account at the issuing bank is debited.
- The issuing bank releases documents to the importer to claim the goods from the carrier.

The first stage starts from the contract of sale between a seller and a buyer. This usually provides for payment by banker's commercial credit, and may require the buyer to open a credit within a certain period of time. In many cases the type of credit is also provided or specified. For example, whether it is a revocable, irrevocable, unconfirmed or confirmed credit, etc. The exact obligations of the buyer depends on the working of the contract. In the absence of express stipulation as to time the buyer must open the credit within reasonable time, having regard to the date fixed for shipment. Where the seller is given a choice to ship during a certain period, the credit must be available throughout the whole of that period. If the buyer is unable to open a credit, the validity or otherwise of the contract would depend on the wording of the contract. If the contract is expressed to be subject to the opening of a credit then there is no contract if the credit is not obtained. Where the contract does not make this stipulation, the buyer will be liable in damages for breach of his contractual obligation to open the credit. Such damages may be higher than damages for non-acceptance of goods and may include the seller's loss of profit under the transaction since they are not governed by S. 50(3) of the Sale of Goods Act, 1893 in Nigeria.

Secondly, the buyer communicate to his bank requesting the bank to open a credit in favour of the seller. The buyer signs a form of application[102] addressed to the banker specifying the type of

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[99]www.banking.about.com.od/.../lettersofcredit.ht...

[100] www.howtoexportimport.com/how-to-open-an-Lc...

[101] www.nab.com.au/business/international/international-trade-payment...

[102] Ibid (displays 2 sample forms.)

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credit, the amount and full details of the documents to be handed over by the seller. The form also contains the following:

(a) An undertaking by the buyer to reimburse the bank
(b) A statement that the bank is entitled to hold the documents as security for repayment of the principal sum, interest, commission and charges.
(c) A clause conferring on the bank a power of sale in order to realize the security.

The bank which has been instructed by the buyer then notifies the seller that the credit has been opened. This arrangement is sometimes inconvenient to the seller who would naturally prefer to deal with a bank in his own country. To meet this situation, the buyer (or issuing bank) appoints as its agents a bank in the seller's country, and it is this bank, known as the intermediary or correspondent bank which deals with the seller. The relationship between the issuing and the correspondent bank is that of principal and agent so that if the correspondent bank has paid in accordance with instruction it is entitled to be indemnified by the issuing bank.

Finally, there is a communication by the issuing or corresponding bank to the seller that a credit has been opened in his favour, setting out conditions for its operation. The buyer who negotiates the credit is, for some purposes, the seller's agent, and he makes an offer on behalf of the seller to hand over the shipping documents and conclude the contract as soon as the bank communicates the acceptance of this offer to the seller by sending him the letter of credit. The bank will honour this agreement by payment upon delivery of the shipping documents.[103]LC is recommended for use in new or less-established trade relationships where the seller is satisfied with the creditworthiness of the buyer's bank. Risk is evenly spread between seller and buyer provided all terms and conditions are properly followed. Although , LC process is complex and labor intensive, and is relatively expensive in terms of transaction cost, it has the advantage of payment after shipment,[104] and there are a variety of payment financing and risk mitigation options.

Types of Letters of Credit

There are various types of letters of credit and each is dependant on the obligation undertaken by the bank. The type of credit to be opened depends upon the terms of contract. They are distinguished by their different types of use. The most common types are as follows;[105]

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[103] www.letterofcredit.biz/letter-of-credit...
[104] www.export.gov/tradefinanceguide/eg_main_...
[105] www.ask.com/typesof+letter+of+credit; Also see www.credit-suisse.com/ch/en/unternehmen/types-of-letter-of-credit.

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(a) Revocable and irrevocable credit:[106] LCs can be issued as revocable or irrevocable. The distinction between revocable and irrevocable credit is fundamental from the seller's point of view since this will determine whether or not the bank is undertaking to pay. In a revocable credit,[107] the bank merely informs the seller of the opening of account but it could be cancelled by the buyer without prior notification to the beneficiary. Neither the issuing bank nor advising bank enters into a commitment of payment to the seller. If payment is not made, the seller can only look up to the buyer for a remedy. Revocable letters of credit are therefore unconfirmed since neither issuing nor advising bank enters into a commitment to the seller. Most LCs are irrevocable, which means they may not be changed or cancelled unless both the buyer and seller agree. If the LC does not mention whether it is revocable or irrevocable, it automatically defaults to irrevocable. Revocable LCs are occasionally used between parent companies and their subsidiaries conducting business across borders. While revocable LCs are usually unconfirmed, irrevocable LC may be confirmed or unconfirmed. When a buyer arranges a letter of credit, they usually do so with their own bank known as the issuing bank. The seller will usually want a bank in their country to check that the letter of credit is valid. For extra security, the seller may require that the letter of credit is confirmed by the bank that checks it. By confirming the LC, the second bank agrees to guarantee payment if the issuing bank fails to make it.

(b) *Confirmed and Unconfirmed Letter of Credit*[108]

When buyers arrange a letter of credit, they usually do so with their own bank known as the issuing bank. The seller would usually want the bank in his own country to check that the LC is valid. For extra security, the seller may require that the LC is confirmed by the bank that checks it. By confirming the LC the second bank in his own country agrees to guarantee payment if the issuing foreign bank fails to pay it. A greater degree of protection is given to the exporter when an LC issued by a foreign bank (the importer's issuing bank) is confirmed by the exporter's advising bank. This confirmation means that the exporter's bank adds its guarantee to pay the exporter to that of the foreign bank. This is a second guarantee, in addition to a letter of credit, that commits to payment of the letter of credit.[109] If an LC is not confirmed, the exporter is subject to the payment risk of the foreign bank and the political risk of the importing country. Exporters consider confirming LCs if they are concerned about the credit standing of the foreign bank or when they are operating in a high-risk market, where political upheaval, economic collapse, devaluation or exchange controls could put the payment at risk. It is typically used when the issuing bank of the letter of credit may have questionable credit worthiness and the

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106 www.letterofcredit.biz/revocable-vs-irrevocable-letter-of-credit...

107 www.businessdictionary.com/.../revocable-letter-of-credit...

108 www.investopedia.com/.../confirmed-letter-of-credit

109 www.gov.uk/letters-of-credit-for-importers-and-exporters...

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seller seeks to get a second guarantee to assure payment. Where there are no second guarantee and the exporter relies on the foreign bank, the LC is unconfirmed.

(c)Special LCs

LCs may also take special forms depending on the nature of protection required. They are as follows;

Transferable LC

Transferable LC can be passed from one beneficiary to another. They are used when there are intermediaries in a transaction When an LC is issued as transferable,[110] the payment obligation under the original LC can be transferred to one or more "second beneficiaries."

Revolving LC[111] This is a single LC that can be used several times over a long period and is used for regular shipments of the same commodity to the same importer. With a revolving LC, the issuing bank restores the credit to its original amount once it has been drawn down. It could cover multiple shipments over a long period of time.

Standby LCs[112] These can be used in lieu of security or cash deposits as a secondary payment mechanism. It is an LC opened for non-performance of some activity. It therefore provides an assurance from a bank that a buyer is able to pay a seller. The seller will therefore not need to draw on the letter of credit to get paid.

Back to the back LC:

This is an arrangement where one irrevocable LC serves as the collateral for another.[113] The advising bank of the first LC becomes the issuing bank of the second LC. In contrast to a transferable LC, permission of the ultimate buyer or that of the issuing bank is not required in a back to back LC.

This could be used when an intermediary is involved but a transferable letter of credit is unsuitable especially where the intermediary wishes to hide the entity of the actual supplier or manufacturer.

TRADE FINANCING AND SELECTION OF THE PAYMENT METHOD

The decision of the seller to choose a payment method is usually based on the degree of confidence or understanding between the parties and on a frank assessment of his risk tolerance.[114] Answering some basic questions at the beginning could help avoid catastrophe later

[110] www.businessinfo.co.uk/types-of-letters-of-credit...
[111] www.thelawdictionary.org/revolving-letter-of-credit...
[112] www.besttradesolution.com/.../veiwtopic.php?stanbylc...
[113] www.businessdictionary.com/definition-of-back-to-back LC...
[114] www.iptu.co.uk/.../paymentmetods.pdf.

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on. [115] For example, why should you import or export? How will you get paid? Can the business afford the loss if it is not paid for and how soon will payment be made? Will extending credit and the possibility of waiting several months or years for payment still make the sale profitable? Can the sale only be made by extension of credit? How long has the buyer been operating and what is his credit history? Are there reasonable alternatives for collecting his payment if the buyer does not meet his obligations? If shipment is made but not accepted can ready alternative buyers be found?[116] Can it afford an insurance to cover any loss caused by failure to pay? Can the seller or buyer withstand loss of goods in transit? Can he make an alternative arrangement for such possible loss? Being able to get finance in respect of a prospective customer can make the difference in winning a deal. In selecting the mode of payment, parties must weigh the type of risk associated with that method. The following are some of those risk considerations;

Cash-in-Advance and risk to the exporter

Under this system, full or significant partial payment is required from the buyer usually through credit card or bank/wire transfer, prior to the transfer of ownership of the goods. Cash-in-advance, especially wire transfer, is the most secure and favorable method of international trading for exporters and, consequently, the least secure and less attractive option for importers. Both the credit risk and the competitive landscape of this method are important. Exporters who insist on this method could lose customers to competitors who are willing to offer more favorable payment terms to foreign buyers in the global market.[117] Creditworthy foreign buyers, who prefer greater security and better cash utilization, may find cash-in-advance terms unacceptable and may simply walk away from the deal. Cash-in-Advance payment method is recommended for use in high-risk trade relationships or export markets, and is ideal for Internet-based businesses. An exporter is exposed to virtually no risk as the burden of risk is placed nearly completely on the importer.[118] It gives the advantage of getting payment before shipment and it eliminates risk of nonpayment. However, it may lose customers to competitors over payment terms and can not give additional earnings through financing operations. The three types of cash-in-advance methods are as follows.

(a) Wire Transfer

It is a card holder initiated transaction using a credit or a debit card to effect payment through and electronic fund transfer.[119] Exporters should provide clear routing instructions to the importer when using this method. For example, by including the name and address of the

[115] www.importexport.about.com/.../factors-to-consider-when-choosing...
[116] www.austrade.gov.au/.../financing-your-export-business...
[117] www.austrade.gov.au/.../export-payments-methods-and-options...
[118] ibid
[119] www.wikipedia.org/wiki/wire_transfer...

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receiving bank, the bank's SWIFT, Telex, and RTN numbers, and the seller's name and address, bank account title, and account number. This option is usually more costly to the importer than other options of cash-in-advance method. This is because, the fee for an international wire transfer is usually paid by the sender. In some cases you don't need to have a bank account to send money online of receive same.[120] This is the most secure and preferred cash-in-advance method. An international wire transfer is commonly used and has the advantage of being almost immediate.

(b) Credit Card

This is a viable cash-in-advance method, offered by banks to buyers through credit card services on line to facilitate small or substantial purchases. Exporters who sell directly to the importer may choose credit cards as a preferable method of cash-in-advance payment, especially for consumer goods or small transactions.[121] Exporters are required to check with their credit card company for specific rules on international use of credit cards since the rules governing international credit card transactions differ from those for domestic use. International credit card transactions are usually prone to fraud since they are typically placed via online, telephone, or fax methods. Proper precautions should therefore be taken to determine the validity of transactions before the goods are shipped.[122] Although this option may help the business grow because of its convenience, the fees charged by the credit card companies are sometimes quite high and can place a higher burden on the purchaser.

Some banks now offer buyers special lines of credit that are accessible via credit card to facilitate even substantial purchases. While this can be very convenient for both parties the seller should confirm the discount percentage that the bank will charge him for using the service and bear in mind how the laws that govern domestic credit card transactions differ from those that govern international use.

(c)Payment by Cheque

This is an on demand payment method through which the issuer (drawer) authorizes an individual or institution as recipient to withdraw available funds at a financial institution (drawee).[123] Advance payment using an international cheque is a less-attractive cash-in-advance method and may result in a lengthy collection delay of several weeks or months. Therefore, this method may defeat the original intention of receiving payment before shipment.[124] If the cheque

[120] www.westernunion.com/.../send-money-online...
[121] www.bankofamerika.com/credit-card...
[122] Ibid
[123] www.empressas.bankia.es/.../insurance-of-cheques-in-international-payments...
[124] www.trade.gov/.../trade_finance_guide_cash_in_advance...2007

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is in the currency of the country or drawn on a bank, the collection process is the same as any other cheque. But, if the cheque is in a foreign currency or drawn on a foreign bank, the collection process is likely to become more complicated and can significantly delay the availability of funds. The seller also, runs a risk that a cheque may be dishonoured due to insufficient funds in the buyer's account. This method of payment is based on the existence of proper trust between the parties.

Export Working Capital Financing

Export Working Capital Financing (EWC) is extended by commercial banks to allow exporters to purchase the goods and services they need to support their export sales. Where the seller gets an unexpected large export order or many incremental export orders, it can place challenging demands on his working capital. EWC financing helps to ease and stabilize the cash flow problems of exporters while they fulfill export sales and grow competitively in the global market.[125] A facility can support a single export transaction (transaction specific short-term loan) or multiple export transactions (revolving line of credit) on open account terms. This is especially so, when they lack sufficient internal liquidity to process and acquire goods and services to fulfill export orders and extend open account terms to their foreign buyers.[126] EWC funds are commonly used to finance three different areas: (1) materials, (2) labor, and (3) inventory. But they can also be used to finance receivables generated from export sales and/or standby letters of credit used as performance bonds or payment guarantees to foreign buyers[127]. The term of a transaction specific loan is generally up to one year and a revolving line of credit may extend up to three years.[128] Short-term loans, are appropriate for large and periodic export orders, and are usually used in situations where the outflow and inflow of funds are accurately predictable in time.[129] These loan contracts can be made for 3, 6, 9, or 12 months and the interest rates are usually fixed over the requested tenures. Revolving lines of credit, on the other hand, are appropriate for a series of small fractional export orders as they are designed to cover the temporary funding needs that cannot always be predictable. These revolving lines of credit have a very flexible structure so that you can draw funds against your current account at any time and up to a specified limit.

A government guarantee may be needed to obtain a facility that can meet your export needs. In order to offer open account terms confidently in the global market, risk mitigation may be needed. Export working capital facility is usually offered by commercial banks for export

[125] www.exim.gov/products/workingcapital/..

[126] www.businessdictionary.com/.../revolving-letter-of-credit

[127] www.besttradedesolution.com/veiwtopic...standby LC..

[128] www.businessdictionary.com/.../revolving-letter-of-credit

[129] www.tradeport.org/index.php/trade.../68

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activities. To qualify, exporters generally need to (1) be in business profitably for at least 12 months (not necessarily in exporting), (2) demonstrate a need for transaction-based financing, and (3) provide documents to demonstrate that a viable transaction exists.[130] To ensure repayment of a loan, the lending bank may place a lien on the assets of the exporter, such as inventory and accounts receivable. In addition, all export sale proceeds will usually be collected by the lending bank before the balance is passed on to the exporter. Fees and interest rates are usually negotiable between the lender and the exporter.

Guarantee of export working capital facilities

In the United States of America (U.S), small business administration and the United States Export-Import Banks offer programs that guarantee export working capital facilities to exporters on behalf of U.S.[131] With these programs, exporters are able to obtain needed facilities from commercial lenders when financing is otherwise not available or when their borrowing capacity needs to be increased. Advance rates offered by commercial banks on export inventory and foreign accounts receivables are not always sufficient to meet the needs of exporters. In addition, some lenders do not lend to exporters without a government guarantee due to repayment risks associated with export sales. They can extend up to 5million dollars in loan to fund transactions.[132] Such financing could require funding of all manners of activities such as drugs as well as massive investments in training.[133] It could also have the effect of unifying the tolls of private and public clouds. IT resources developed inside and outside an organization can therefore be harmonized in the area of power security and savings in such a way as to provide end user freedom.[134]

Although export working capital financing will certainly make it possible for exporters to offer open account terms in today's highly competitive global markets, the use of such financing may not necessarily eliminate the risk of nonpayment by foreign customers. Some risk mitigation may therefore be needed to offer open credit terms more confidently in the global market. For example, the bank may require the exporter to obtain export credit insurance as a condition precedent for export providing working capital financing.

[130] ibid

[131] www.exim.gov>products

[132] www.sba.gov/.../export-working-capital-program...

[133] www.itnews.com.au/...156329.newsat-...

[134] ibid

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Government-Guaranteed Export Working Capital Programs

Financing rates offered by commercial banks on export inventory and foreign account receivables are not always sufficient to meet the needs of exporters.[135] In addition, some banks are reluctant to extend credit due to the repayment risk associated with export sales. In such cases, government-guaranteed export working capital facilities can provide the exporter with the cashflow to accept new business, help grow export sales, and compete more effectively in the global marketplace.

Export Credit Insurance

Export Credit Insurance (ECI) allows an exporter to increase his export sales by limiting his international risk by protecting him against the risk of nonpayment by a foreign buyer.[136] ECI therefore, significantly reduces the payment risks associated with doing business internationally by giving the exporter conditional assurance that payment will be made in the event that the foreign buyer is unable to pay. With an ECI policy, exporters can protect their foreign receivables through insurance against a variety of risks, which could result in nonpayment by foreign buyers.[137] The policy generally covers commercial risks such as insolvency of the buyer, bankruptcy or protracted defaults (slow payment), and certain political risks like war, terrorism, riots, and revolution, as well as currency inconvertibility, expropriation, and changes in import or export regulations.[138] The insurance is offered either on a single-buyer or portfolio multi-buyer basis for short-term (up to one year) and medium-term (one to five years) repayment periods. While it offers credit to international buyers, it also provides the seller, access to working capital fund.

Export Factoring

Export factoring means purchase, funding, management and collection of short term account based on goods and service provided to foreign buyers. It is a complete financial package that combines export working capital financing, credit protection; foreign accounts receivable bookkeeping and collection services.[139] A factor is a bank or a specialized financial firm that performs financing through the purchase of invoices or account receivables. Export factoring is offered under an agreement between the factor and exporter, in which the factor purchases the exporter's short-term foreign account receivables for cash at a discount from the face value, normally without recourse, and assumes the risk on the ability of the foreign buyer to pay, and handles collections on the receivables. Factoring foreign accounts receivables can be a viable alternative to export credit insurance, long-term bank financing, expensive short-term bridge

[135] www.export.gov/.../eg_main_government_guaranteed_export_working_capital_loan_programs...
[136] www.exim.gov/.../exportcreditinsurance/...
[137] www.danskebank.com/tradefinance...
[138] www.trade.gov/neil/export-financing.asp
[139] www.factoringkbcz/.../export-factoring...

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loans or other types of borrowing that will create debt on the balance sheet. By virtually eliminating the risk of nonpayment by foreign buyers, factoring allows the exporter to offer open accounts, improve liquidity position, and boost competitiveness of exporters in the global marketplace.[140]

Forfaiting

This is a financial transaction involving the purchase of receivables from exporters by a forfaiter and must not be confused with forfeiting.[141] Forfaiting is a method of trade finance that allows exporters to obtain cash by selling their medium term foreign account receivables at a discount on a “without recourse” basis.[142] A forfaiter is a specialized finance firm or a department in banks that perform non-recourse export financing through the purchase of medium-term trade receivables.[143] While giving the exporter a cash payment, forfaiting allows the importer to buy goods for which it cannot immediately pay in full.[144] Forfaiting is similar to factoring, and virtually eliminates the risk of nonpayment, once the goods have been delivered to the foreign buyer in accordance with the terms of sale. However, unlike factors, forfaiters work with the exporter who sells capital goods, commodities, or large projects and need to offer periods of credit from 180 days to up to seven years. In forfaiting, receivables are normally guaranteed by the importer’s bank, allowing the exporter to take the transaction off the balance sheet to enhance its key financial ratios.[145] Forfeiting on the other hand refers to something surrendered or subject to surrender as punishment for a crime, an offence, an error or a breach of contract.[146]

Government Assisted Foreign Buyer Financing

International sale of high-value capital goods or services or exports to large-scale projects, which require medium or long-term financing, often pose special challenges to exporters as commercial banks may be reluctant to lend large sums to foreign buyers, especially those in developing countries, for extended periods. As the official export credit agency, Export-Import (Ex-Im) Bank supports the purchases of goods and services by creditworthy foreign buyers who are unable to obtain the financing they need through traditional commercial sources.[147] Ex-Im Bank does not compete with commercial banks but provides products that fill gaps in trade financing

[140] En.m.wikipedia.org/…/factoring_(finance…
[141] www.en.m.wikipedia.org/wiki/forfaiting
[142] www.investopedia.com/.../forfaiting.asp
[143] Ibid
[144] ibid
[145] Ibid
[146] www.thefreedictionary.com/-/dict.aspx?forfeit...
[147] www.trade.gov/.../trade_finance_guide_government_assisted_foreign_buyer...

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by assuming country and credit risks that the private sector is unable or unwilling to accept.[148] With Ex-Im Bank's foreign buyer financing, exporters can turn their business opportunities into real transactions and get paid cash on delivery and acceptance of the goods or services.

Consignment

This is a transaction method to receive payment only for sold portion of the goods after the local exporter exports the goods to the foreign importer and re-imports the goods that are not sold within the period. The consignment method requires that the seller ships the goods to the buyer, broker or distributor but not receive payment until the goods are sold or transferred to another buyer.[149] Sometimes even the price is not pre-fixed and while the seller can verify market prices for the sale date or hire an inspector to verify the standard and condition of the product, he ultimately has very little recourse. Although this is not technically, a method of payment, its use in international trade cannot be overlooked as this is the riskiest sort of transaction common in the trade of fresh produce, artwork, clothing, books, and wears of various categories.

Countertrade and Barter

Countertrading is often the most used in transactions between private companies in developed nations and the governments of developing countries. Countertrade requires that the buyer compensates the seller in a manner other than transfer of money such as goods or services. There are many forms of counter trading which range from a simple barter agreement to other complex agreements involving compensatory practices with respect to the buyer.[150]

Barter involves the exchange of goods or services of equal value without the use of currency.[151] Countertrade or barter is often used when the buyer lacks access to convertible currency or finds that rates are quite unfavorable or that he can exchange for products or services desirable to the seller.[152] Barter is the exchange of goods or services between two parties.[153] Without involving the use of currency, the exchange must take place simultaneously otherwise, some form finance may be required

[148] www.exim.gov/foreign_buyer_financing...

[149] www.tradegoods.com/.../eximport_29_procedure...consignment_method

[150] www.referenceforbusiness.com/.../countertrading...

[151] Ibid

[152] www.bizmove.com/expor/mtm.ntm.emport_and_export_payment_methods...

[153] Web.worldbank.org/…/o,,contentMDK:basic_trade_finance_tools…

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NIGERIAN TRADE POLICIES ON IMPORTS AND EXPORTS

All goods shipped for export or imports are subject to certain pre-shipment inspection or pre-importation rules so as to avoid receiving or exporting substandard goods.[154]. These rules as provided by the Pre-shipment Inspection Act specify in Section 12 and 4 respectively that no goods to which this Act applies shall be exported from or imported into Nigeria unless an inspection agent so appointed has issued inspection certificate to the oversea buyer or seller of goods. A clean report of findings shall be issued if the goods are found to be compliant and not of substandard value. On February 1, 2013, COTECNA, one of the world`s leading international testing, inspection and certification companies, was officially appointed by the Standard Organization of Nigeria (SON), to join Nigeria`s revised Standard Organizations of Nigeria Conformity Assessment Program (SONCAP).[155]

The federal government of Nigeria has replaced the current pre-shipment inspection scheme with a destination scheme known as Pre-Arrival Assessment Report (PAAR) and has moved from the Brussels definition of value to a system based on World Trade Organization WTO Agreement.[156] The PAAR system helps users to perform assessment of goods imported by classifying and valuing them to generate a report for analyzing risks involved during the import procedure until final clearing of goods. Customs valuation is a custom procedure applied to determine the custom value of imported goods. Custom duties can be specific or ad valorem or a mixture of the two. If the rate of duty is ad valorem, the customs value is essential to determine the duty to be paid on an imported good. Where it is specific duty, a concrete sum is charged for a quantitative description of goods. The customs value of the goods need not be determined since the duty is not based on the value of the goods but on other criteria. In such a case, no rules on custom valuation are needed and the valuation agreement does not apply. In the case of ad valorem, the customs valuation is multiplied by an ad valorem rate of duty e.g. 5% in order to arrive at the amount of duty payable on imported items.

The General Agreement on Tarrifs and Trade (GATT) laid down the general principles for an international system of valuation. It stipulated that the value for custom purposes in relation to imported goods should be based on actual value of the imported goods. This gave room for differing methods of valuing such goods thereby giving room to grand father clauses' which permitted old standard clauses which did not meet the new standard[157]. In 1950s, custom duties adopted the Brussels definition of value (BVD). This procedure used a normal market price

[154] Cap P.25 and P.26 Laws of the Federation of Nigeria.
[155] www.export-nigeria.com/cotecna/son...
[156] http://www.shipperscouncil.com/trade_information.htm
[157] www.custom.go.th/...WTO_valuation...

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defined as the price that the goods would fetch in an open market between a buyer and a seller independent of each other. Factual derivations from this value could only be considered if the declared value turned out to be higher than the listed value or if they are new and rare products.

In 1979, Tokyo Round Table Valuation Code[158] or the agreement on the implementation of article vii of GATT established a positive system of custom valuation based on price paid or payable for the imported goods. Based on the "transaction value," it was intended to provide a fair, uniform and neutral system for the valuation of goods for custom purposes conforming to commercial realities.

The World Trade Organizations (WTO) Agreement on implementation of GATT replaced the Tokyo Round Table Code [159]in 1994 following conclusion of the Uruguay Round Table.[160] This agreement is almost the same as the Tokyo Round Table valuation code and applies to the valuation of imported goods for the purpose of levying ad valorem duties on such goods. It does not contain obligations concerning valuation for purposes of determining export duties or quota administration based on the value of goods nor does it lay down conditions for the valuation of goods for internal taxation of foreign exchange control. All the WTO members are members of the custom valuation agreement.[161] In Nigeria value added tax of 5% applies to both domestically produced and imported goods;[162] and excise duties, ranging from 20% to 40%, are applied on certain imports.[163] Additional duties are payable for purposes such as ports development and import supervision. Government has also increased the number of goods on the import prohibition list,[164] to include items like live or dead birds, poultry, pork, beef, eggs, refined vegetable oils e.g. caster oil, olive, spaghetti, aspirin, soap, tooth picks, spirits etc. Although Nigeria has not imposed any trade defense measure, the authorities have indicated the need to protect local industries from dumping and unfair competition within the WTO frame work.

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[158] ibid

[159] ibid

[160]ibid

[161] http://www.shipperscouncil.com/trade_information.htm

[162] Value Added Tax Act 2004 section 4

[163] Http://www.shipperscouncil op cit

[164] www.foramfera.com/.../import-and-export-prohibition-list...

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MEASURES DIRECTLY AFFECTING IMPORTS

The Nigerian shippers' council highlights the following extracts from trade policies and practices, as measures affecting imports.[165]

Customs procedures and valuation

The importation of goods to Nigeria is governed by Customs and Exercise Management Act and Exercise Notices; and Guide lines set out by Federal Ministry of Finance. Registration with the Corporate Affairs Commission under the Companies and Allied Matters Act of 2004 is a requirement for importation of regulated goods. Any person wishing to import goods into Nigeria shall first process an e-form known as form M which is an important declaration form.[166] Other required documents include: an attested invoice, bill of entry, copy of bill of lading/airway bill, a packing list, certificate of insurance, a bank receipt for import duties, a clean report of finding after inspection issued by the preshipment inspection agent.[167] According to the Shippers Council document,[168] reforms to custom services are one of the core components of the Government`s current reform program to bring efficiency to customs administration. The Following are the objects of the reform, to modernize and speed up custom clearance, simplify and rationalize tariffs, duties, and waivers, improve revenue collection by customs; and strengthen and professionalize custom services. To be effective, there has been a downward reduction in port taxes, levies, and elimination of some unnecessary port security agencies. There is also the establishment of a unit to fight corruption in the provision of customs services as well as administrative changes to management and operation of NCS. The effort to modernize and professionalize the Nigerian custom service and the Nigeria port authority have helped to reduce port congestion and clearance rate, particularly at Lagos Apapa port, which handles over 40% of Nigerian`s trade.[169]

Custom tariffs

To enhance accelerated integration amongst ECOWAS member states, Nigeria is committed to adjusting from its high and dispersed tariffs to the ECOWAS common external tariff CET, ranging from zero to 20% with a four band tariff structure as at 2007.[170] Alignment with the ECOWAS CET is aimed to bring about liberalization and rationalization of Nigeria`s current tariff regime and help simplify customs administration.[171] As part of Nigerians automotive

[165] Ibid
[166] www.unpan.i.un.org/.../unpan_determinants_of_imports_in_nigeria...
[167] www.customs.gov.ng/.../guidelines...
[168] www shipper`s council...opcit
[169] Ibid
[170] www.shipperscouncil.com/trade
[171] www.customs.gov.ng/tarrif/nigeria_customs_admin...

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policy, the federal government in November 2013 raised duties and levies on imported cars by 50 percent from 20 percent to discourage importation of cars. The duty on buses was also raised by 10%[172]

Duty exemptions and concessions

The Nigeria import Duty exemptions and concessions guidelines provide for exemptions from duties on a number of goods, such as, aircraft, their parts and ancillary equipments; life saving appliances; all goods imported for the official use of a Consular Officer, (where the Government of the country represented, grants similar privileges;) furniture and personal effect of diplomats; goods obtained free as technical assistance materials from donor international organizations or countries; personal and house hold effects in passengers` baggage; and military hardware and uniforms.[173] Import bans affect poor people in Nigeria more since there is a price gap between the product affected by a non tariff measure and that on which there is a tariff.[174]

Various tarriff concessions are also in place to attract investments. [175] For example, Duty concessions are granted on certain raw materials used by manufacturers in the communication, telecommunications, glass, baby napkin, motor cycle and bicycle industries, by virtue of their status as “Bonafide” manufacturers[176]. Various special duty concessions have also been guaranteed to the British America Tobacco Company to enable it set up a tobacco plant in Nigeria. Tarriff concessions also apply on fertilizers, in support of the agricultural sector[177].

Preferential tarriffs

Nigeria operates a non preferential rule of origin as contained in Customs Duties Act and the ECOWAS under which a finished product has community origin. Nigeria being a member of ECOWAS also provides the same tariff preferences to other ECOWAS member states.

Other duties and taxes

Nigeria imposes other duties and charges on all imports which include: a port development levy of 7% of the duties payable; an ECOWAS community levy of 5%; a Comprehensive import Supervision Scheme charge of 1% on the f.o.b. value of imports, a national automotive council levy of 2% on vehicles and parts; and a levy of 10% on the importation of sugar and rice.[178]

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[172] http://leadership.ng/business...FGdumpsnew_tariff_regime_on_auto_imports...

[173] www.shippercouncil...opcit.

[174] Web.worldbank.org/trade_imports_bans_in_nigeria_create_poverty…

[175] www.shipperscouncil...opcit

[176] www.wto.org/english/.../147-3_e.doc-Report-by-the-Secretariat...

[177] www.nipc.gov.ng/opportunities.html

[178] Ibid

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Prohibition and controls[179]

It is important to know that, in order to export goods and services from Nigeria, the exporter must understand certain basic issues. For example;[180]How to obtain Export Certificate in Nigeria, Detailed export training an exporter must have, step by step procedures to follow to become a successful Exporter, Organization to work with as an Exporter, determining your export objectives, choosing your exportable products, formular to follow in securing export contracts, studying/ identifying locations of various exportable products in Nigeria, Easy steps to follow in sourcing any exportable product in Nigeria, export documentation, understanding export business chains and profiting from them, choosing reliable clearing and forwarding agent to work with, source of trade information, how an exporter can work from home, export Incoterms-FOB,CIF, C&F and other terms of trade, how to use Letter of Credit and other international payment terms and many more. Under Nigerian`s Export Prohibition Act, certain exports are prohibited for purposes of domestic food security, value-added considerations, and preservation of cultural heritage. Currently, Nigeria prohibits importation of 24 groups of items which covers raw hides and skins, timber (rough or sawn), scrap metals, unprocessed rubber latex and rubber lumps, rice, yams, maize, beans and artifacts and antiquities. The current list of banned products comprises of [181] 1. Live or dead birds including frozen poultry, 2.Pork, beef 3.Bird eggs, 4.Refined vegetable oils and fats, 5. Cocoa butter, powder and cakes, 6.Spagetti noodles, 7.Fruit juice in retail parks, 8.Waters, including mineral waters and aerated waters, 9.Bagged cement, 10. Certain medicaments, including Paracetamol tablets and syrups, Asprin tablets, Ointment-Penecilin/Gentamycin, intravenous fluids, 11.Waste Pharmaceuticals, 12. Soaps and detergents, 13.Moquito repellant coils, 14.Sanitary wares of plastic 15. Rethreaded and used pneumatic tyres 16.corrugated paper and paper boards, cartons, boxes and cases made from corrugated paper and paper boards, cartons, boxes and cases made from corrugated paper and paper boards, toilet paper, cleaning or facial tissues, 17. Telephone re-charge cards and vouchers, 18.Textile fabrics, 19.All types of footwear and bags including suit cases of leather and plastics, 20. Glass bottles of a kind used for packaging of beverages by breweries and other beverage and drink companies 21. Used compressors, air conditioners and used fridges/freezers, 22. Used motor vehicles more than 15years from the year of manufacture, 23.Furniture, 24.Ball point pens. It is estimated that,[182] $5 billion worth of imports are smuggled through Cotonou alone and that 50 per cent of the value of smuggled goods is textile products. Replacing bans on textile by a 15 percent tariff would render smuggling unprofitable and result in a yearly gain of $200 million to the Nigerian Treasury. [183]

[179] www.shipperscouncil op cit

[180] http://exportfromnigeria.info/thread/1218/secure-export-contract

[181] www.foramfera.com/.../import-and-export-prohibition-list

[182]Volker Treichel, Mombert Hope et al cited online http://web.worldback.org/website/external/countries/africa/trade/import-ban-in-afrixa-create-poverty...

[183] ibid

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The use of import prohibitions in Nigeria is part of a trade policy regime that seeks to protect existing domestic industries and reduce the country's perceived dependence on imports. The bans are often justified on the grounds of preventing importation of all products that the county is deemed to be capable of producing itself. Those protected by the bans argue that the countries' lack of infrastructure, especially energy, means that they cannot compete effectively with imports without protection. Removing the bans and replacing them with tariffs set at a level of those applied to similar products would allow more than 4 million Nigerians to exit poverty[184]**.** The use of import bans creates an incentive to circumvent the restrictions and indeed substantial volumes of goods are smuggled into the country via porous borders with Benin and other neighbors. At the same time, for specific products substantial amounts of goods are imported under import licenses that are granted for the import of these "banned" products. Nigerian customs actually record imports of many of the banned products despite the prohibition list[185].

The price gap approach can also be used to estimate the impact of the import prohibitions on different regions across the country. Since prohibited goods can be obtained in practice through smuggling, there is a price gap between cities close to the Beninese border and cities further away.

The removal of import bans will have a negative impact on those domestic producers who are currently protected by the bans and those who make large profits by smuggling banned products or who are given licences to import them officially. If the import bans have just allowed the owners of domestic firms to make higher profits, and there has been little investment and job creation, then their removal will simply entail redistribution from higher income to poor people. On the other hand, if the import bans have led to increased output and employment their removal could result in job losses with a consequent impact on poverty.[186] This will offset, but cannot exceed, the benefits for the population from the removal of import bans. However, government programs to assist those that become unemployed would then be essential. An issue on which the World Bank could bring global expertise regarding the most efficient program design.

An exporter must study the list to ensure that the subject matter of contract is not in violation of the list.

[184] ibid
[185] ibid
[186] ibid

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EXPORT INCENTIVES

The various incentive schemes available to exporters may somewhat reduce the anti-export bias resulting from protection of domestic markets by high tariff and import prohibitions.[187] The exporter should therefore acquaint himself with incentives in favor of his transaction, such as the following;

(a) Export subsidies and finance

The Export Expansion Grant Fund scheme (EEGF) provides cash inducement to exporters who have exported a minimum of N500,000 of processed products. Exporters of processed products are entitled to 4% grant on their total annual export turn over, subject to receipt of confirmation of repatriation of exports proceeds from the CBN and presentation of a performance bond from any of the recognized financial institutions.[188] The objective of the scheme is to stimulate exporters to expand the volume of exports, diversify their product and market coverage

(b) duty drawback, and manufacture-in-bond schemes

A draw back schemes allows for duties (including other levies) charged on raw materials used in the manufacture of products to be refunded upon the export of the final products. The scheme is to provide automatic refunds for up to 60% upon the initial screening by the Duty Drawback Committee; the balance of the fund is granted upon final processing of the application.[189] To be eligible, applicants must be companies incorporated in Nigeria. Under the manufacture-in-bond scheme, raw materials may be imported duty-free for the production of export goods, on the basis of a bond issued by a recognized financial institution. The bond is discharged upon production of proof of export and repatriation of foreign exchange. The purpose of this scheme is to encourage manufacturing of exports.

(c) Export promotion and assistance

The export development fund (EDF) was set up by the government to help finance certain activities of the private exporting companies. These include: participation of training courses, symposia, seminars, and workshops; advertising and publicity campaign in foreign markets; product design and consultancy; participation in trade mission, buyer oriented activities, oversea trade fairs, exhibitions, and sales promotion; collection of trade information; organization of export groups; and studies in respect of setting up export-oriented industries. The maximum

[187] http//exportfromnigeria.info op.cit

[188] www.shipperscouncil...op.cit

[189] Ibid

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grant per company of each activity is 50% of the total direct cost approved, up to maximum of N200, 000.[190]

(d) Export Processing Zones (EPZ)

The law establishing EPZs was enacted in 1992 and supports the establishment of industrial businesses within democratic zones, principally for export purposes. EPZs are also used to address the infrastructure and regulatory deficiencies inhibiting export-oriented companies in Nigeria.[191]

CONCLUSION

To indulge in import or export trades, it is important to know import and export regulations of transacting countries as this will aid knowledge of which goods may or may not be dealt with. The nature of goods and cost of transportation will also determine what manner of incoterm is to be applied. Getting paid for providing goods or services is a critical consideration for any business. This can be a very cumbersome and tasking experience for an international transaction (also commonly known as "export receivables"). The main factor in considering how an exporter expects to be paid for a transaction is the potential risk that they and their customer are willing to face together or individually. There are always two sides to any coin. There are different types of risk that an exporter may face. It is often a good idea, during, or even before contract negotiations, to consider where, on the risk picture, you and your customer will be comfortable in placing yourselves. If the risk is beyond you, it might be wise to seek assistance of a financier or insurance company. If doing this will result in a loss rather than a profit then the business is not a viable one. It might be best to look else where.

[190] Ibid

[191] ibid

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