

Exporting Goods

Although Fit - for - Life will be selling to domestic customers it will in the future rely on sales to foreign customers. Goods (sometimes called visibles) and services (sometimes called invisibles), which are sold to foreign customers, are known as **EXPORTS**. Fit - for - Life will sell products to foreigners this could be trainers and other sportswear. Fit - for - Life (a British company) receives the money from the sale of the trainers. So the trainer is an exported good as it is a good sold to foreigners.

Exchange Rates

A British customer is likely to pay for a Fit - for - Life product in pounds sterling. However a French customer is likely to pay in Euros.

The price of euros for pounds, the **EXCHANGE RATE**, is frequently changing. The changes can have a vital effect on Fit - for - Life.

The exchange rate at present is $\text{€}1.50 = \text{£}1$. This means that $\text{€}1.50$ can be exchanged for $\text{£}1$. A $\text{£}40.00$ pair of Nike Cortez trainers from Fit - for - Life will therefore cost a French customer $\text{€}60.00$ ($\text{£}40.00 \times \text{€}1.50$).

If the exchange rate fell, the value of the pound may also fall, so that $\text{€}1 = \text{£}1$. Fit - for - Life will now have to decidewhether to change its prices. If it chooses to keep the price at $\text{£}40.00$ the price in Euros will fall. The price of the same trainer in Euros will be $\text{€}40.00$ ($\text{£}40.00 \times \text{€}1$). This new lower price should encourage more French consumers to buy more Fit - for - Life goods. In theory a fall in the value of the pound means that foreigners can but British goods more cheaply and should buy more.

However if the value of the pound rises, so that $\text{€}2 = \text{£}1$, then the trainers would be more expensive in France. They would cost $\text{€}80.00$ ($\text{£}40.00 \times \text{€}2$) this would disencourage French customers to buy the trainers, less products will be brought, thus allowing more competition to arise from other businesses in France.

The Government

The UK like other countries has to pay its way in the world. Exports have to equal import over time. If imports were greater than exports, the difference would have to be borrowed by foreigners. To repay it, the exports would have to be greater than imports.

The values of UK imports and exports are shown on the **BALANCE OF PAYMENTS**. The Balance of Payments is a record of all the money coming into and going out of the UK. The **BALANCE OF TRADE** is the difference between values of exports and imports of goods only. The difference between the values of exports and imports of both goods and services is called the **CURRENT BALANCE**.

If at any point the imports are greater than the exports the government may try to correct it by:

- Forcing down the value of the pound, making it easier for UK businesses to export making imports more expensive.
- Pushing up the interest rates. This should lead to a fall in spending in the UK and so lead to a fall in imports. However, a fall in spending could lead to a **recession** in the economy, which would be bad for UK businesses.
- Increasing tariffs and quotas, although this would be difficult because of membership of the European Union.

Procedures

Before exports can be flown from one country to the other, a **Letter of Credit** must be opened. This is a letter from the importer's bank, addressed to the exporter giving the Bank's promise to pay a named sum to the named exporter for goods ordered by the importer. A Letter of Credit is important to both the importer and the exporter. When the cargo has arrived the importer must produce documents, before the cargo undergoes clearance the sum of money that has to be paid is put into the bank. Once the importer has checked the goods at the cargo office and is satisfied with the merchandise only then is the money transferred to the exporters account.

For the exporter it is important that he/she ask for **Irrevocable Letters of Credit**, as the importer cannot alter them. Irrevocable Letters of Credit are the most secure and also most expensive, as they carry two banks' charges for taking commercial risk.

However the exporter must be aware that if he/she asks for a **Revocable Letter of Credit** their terms are not safe as the documents could be changed by the importer or the importer's bank without the exporter's consent.

Payments

There are three types of payments that are given when exporting goods. The first is the cost of **packaging**- the goods must be packed accordingly so that during the flight they are not damaged and the same products are kept together. The second payment is for **transport**- once the goods have been packaged they must be transported from the warehouse to the airport, usually by lorry, therefore the lorry company must be paid for their services. The third payment is for the air cargo property. At the Cargo Office the exports must be weighed and the airline charges at a fixed rate per kilo. This is known as the **House Airway Bill** (HAWB). When this has been done an **AIR WAY BILL** (AWB) is issued- for goods sent by air. The Air Way Bill is issued in a set, which contains originals for Shipper, Carrier, and Consignee and several copies. The Consignee's original travels with the goods in the carrying aircraft and is used to effect clearance at the destination airport. The AWB also contains conditions, limitations of liability, shipping instructions, description of commodity, and applicable transportation charges.

Exporting is good for country as more foreigners by exported goods, as they are cheaper due to the Exchange Rate. Exporting is also vital for the country because if there are more imports then more money is going out of the country, thus leaving the UK in debt. It is important that exports equal imports so as to keep the UK economy from

falling.