



M&T Bank

Doing Business in China:
What Your Small Business Should Know
US Department of Commerce/Maryland-China Business
Council, Inc.

July 10, 2003

Exporting to China
Payment & Financing Methods



M&T Bank

- \$50 billion assets (#18 in U.S.)
- More than 700 branches & 1,500 ATM's in DC, DE, MD, NY, PA, VA, W.VA
- Acquired Allfirst Bank (Baltimore) in 2003
- 22.5% owned by Allied Irish Banks
- SBA "Preferred Lender"





International Banking Group

- Main office in Baltimore (30 persons)
- Other international offices in NY, PA & VA
- 2,000 foreign correspondent banks
- Presidential Export "E" Award winner (1995)
- 2nd largest Ex-Im Bank medium term lender in U.S. in 2001 (55 deals) and 2002 (47 deals)
- 23 years experience with China trade



Agenda

- Foreign Exchange Issues
- The Role of Licensed Trading Companies
- Credit Information
- Payment Methods
- Guarantees & Standby L/C's
- Ex-Im Bank & China

Foreign Exchange Issues

- Buyer may ask to pay some or all in RMB
- Imports, by law, must be paid in foreign currency
- Difficult for exporter to receive and convert RMB (not a fully “convertible” currency)
- Various exchange controls
- L/C's are not issued without FX approval
- Otherwise must be contract signed by FTC with payment in US \$.

The Role of Licensed Trading Companies

- Authorized FTC's as intermediary required by Chinese regulations
- Licensed by MOFCOM (former MOFTEC)
- <20 in 1978, now many thousands
- Since 1999 private FTC's permitted
- Contact MOFCOM or CCPIT to determine legitimacy & scope



Credit Information

- COFACE/Veritas
 - 800-929-8374 or 7301
 - www.coface-usa.com
- Huaxia International Business Credit Consulting Co. Ltd. (Beijing, China)
 - Established 1993
 - MOFCOM approved
 - www.huaxiacredit.com
 - Also available through www.rnd.com.hk
- Provided for information only - no M&T Bank recommendation or opinion



Payment Methods

- Cash in Advance
 - Not usually allowed by State Admin. of Foreign Exchange (SAFE) FX Rules
 - If allowed, likely to require Standby L/C as Advance Payment Guarantee
- Letters of Credit
 - Generally do not allow confirmation
 - Payable in China (no U.S. reimbursement) resulting in approx. 2 week payment delay



Payment Methods

- Letters of Credit (cont'd)
 - Presentation Risk
 - Get documents 100% right the first time
 - Don't stop with the L/C documents, make sure the goods and shipping are done right as well
 - Avoid buyer designated freight forwarders
 - Often difficult to get L/C more than 30 - 60 days in advance of shipment because of FX controls
 - Don't count on final XX% against Acceptance Certificate



Payment Methods

- Letters of Credit (cont'd)
 - Write L/C terms into contract
 - China L/C templates (key points):
 - Available with any bank by negotiation
 - State time L/C tenor from B/L date
 - Beneficiary's Certificates
 - 21 - 30 day presentation period
 - No shipping marks
 - No designated forwarder
 - Acceptable banks/branches



Payment Methods

- Documentary Collections
 - L/C's tough on buyers
 - SAFE approval
 - Cash collateral
 - Time L/C's don't really give credit terms
 - D/P or D/A terms a possible alternative
 - Creditworthy, long time customers only (start with agents/distributors)



Payment Methods

- Documentary Collections (cont'd)
 - Contract signed by FTC, payable in US\$
 - Drafts drawn on FTC
 - Ask for copy of import license (if required) before shipping
- Open Account
 - Same requirements as documentary collections but less secure



Guarantees & Standby L/C's

- Advance Payment Guarantees, Bid Bonds & Performance Bonds
- Standby L/C's vs. Bank Guarantees
- Direct vs. Back to Back
- Exporter protection
 - Advance Payment L/C not operative until funds received by exporter's bank
 - Performance L/C requires copy of advance notice fax to exporter as a required document



Ex-Im Bank & China

- Short term Multi-buyer Policy
 - Recently began accepting non-L/C risk
 - For L/C risk Exporter takes Presentation Risk
- Bank L/C Policy
 - Non recourse commitment to purchase documents
 - Bank takes Presentation Risk



Ex-Im Bank & China

- Working Capital Guarantee Program
 - Pre/post export short term supplier financing
 - Also useful for advance payment, bid and some performance L/C's (25% collateral)
 - Generally requires L/C from buyer
- Medium Term Guarantee Program
 - “Technically” available to private buyers (3 years audited financials, import license, SAFE approval) but few true private deals concluded
 - Otherwise, most such loans to Chinese bank who on-lends to buyer



Ex-Im Bank & China

- Medium Term Guarantee Program (cont'd)
 - Tough to get Chinese approvals (Bank of China and Provincial/State Planning Councils) for loans less than \$10MM
 - Three track approach (bank, buyer & seller) crucial
 - Below market rates often required (“Loan Buydown” method)



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QUESTIONS?
