

Overseas debts – overblown doubts?

Clive Pacey examines common concerns connected with export trade

For any lender or credit manager, overseas debt has always presented a very particular challenge. In fact, for some people, the very idea that goods or services could be exported to a far-away land sends a shiver through their spines, and Belgium is viewed by them as every bit as exotic as Papua New Guinea.

There is an in-built apprehension about the risk of uncollectible debts in overseas locations and there exists a natural inclination to favour the local and familiar, but is this justified?

In times past, most export transactions involved the movement of goods and brought into play instruments such as letters of credit and maybe insurance from the old ECG. Times have changed. We have progressed into a fast-moving world with looser borders, where the trade is rather more likely to be IT services than steel girders, and these quickly-demanded services generate a natural demand for open credit.

Of course, open credit has inherent risks and would certainly not be recommended for certain transactions but, on the other hand, there can be a tendency to generalise about certain markets. It might be high-risk to leave open significant exposure in certain sub-Saharan states, as well as in Russia or China, and it would be true that you should generally sleep easy if you have exposure to Scandinavian business, but the key remains that, in a flexible world, the business should be examined before its location.

There is also a standard view with regard to collectibility. You would not wish to initiate

a legal action in India, or Italy, but surely the understanding is that, if you have reached that point in any country, then you already have a problem. We have a fairly decent legal system but it does not guarantee results. In fact, far from it. The point is that, if you are of a belief that this route is going to be necessary, against some of the world's most reliable and powerful corporations, then perhaps you need to look a little closer at whom you are dealing with.

My long experience of just about every blue chip you can name is that, wherever they are located, collection does not require every threat and action under the sun. However, this is where I often find myself at loggerheads with lenders and there is perhaps

a divergence from the prevailing view in the commercial sector.

To provide an example, if, as a credit manager, I were asked by the board of my employers for my

opinion on a credit facility for a multi-billion turnover US business, which is producing superb results and has an excellent reputation, it would take some brass neck for me to say that we should limit the transactions to, say, 30% of our turnover. In fact, they might consider that I needed a holiday or perhaps a new career...

It would also be seen as certifiable were I to maintain that this debt was risky simply because it was export. Continuing the scenario, were I to suggest that the debt would be better spread across three British retail chains, they might request that I cleared my desk without delay.

However, what would a lender's view be? I think many of you know the answer



Clive Pacey

to that. The point here is that too frequently the address on the invoice is the first consideration, rather than the balance sheet of the debtor.

Overseas trading can entail risk, of course. Yet, so can the UK. In fact, the view of many overseas suppliers to the UK is that our bankruptcy laws are too lax and bad debt is too easily incurred. Many are incredulous at the nature of our pre-packed administrations. Naturally, that is another debate but this whole issue should be seen in context.

Returning to the issue of the invoice address, we have in recent years seen an increasing requirement for invoicing to be sent to one location, while the contract and services are delivered elsewhere, including domestic addresses. Unsurprisingly, this trend is most likely to be seen with genuine multinationals, but are we really going to start worrying ourselves to a standstill about an invoice to Microsoft Netherlands rather than Microsoft UK?

No, I didn't think so. We should not worry and neither should the lenders. However, sadly, many do.

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Clive Pacey

e-mail: cpcm@live.co.uk

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