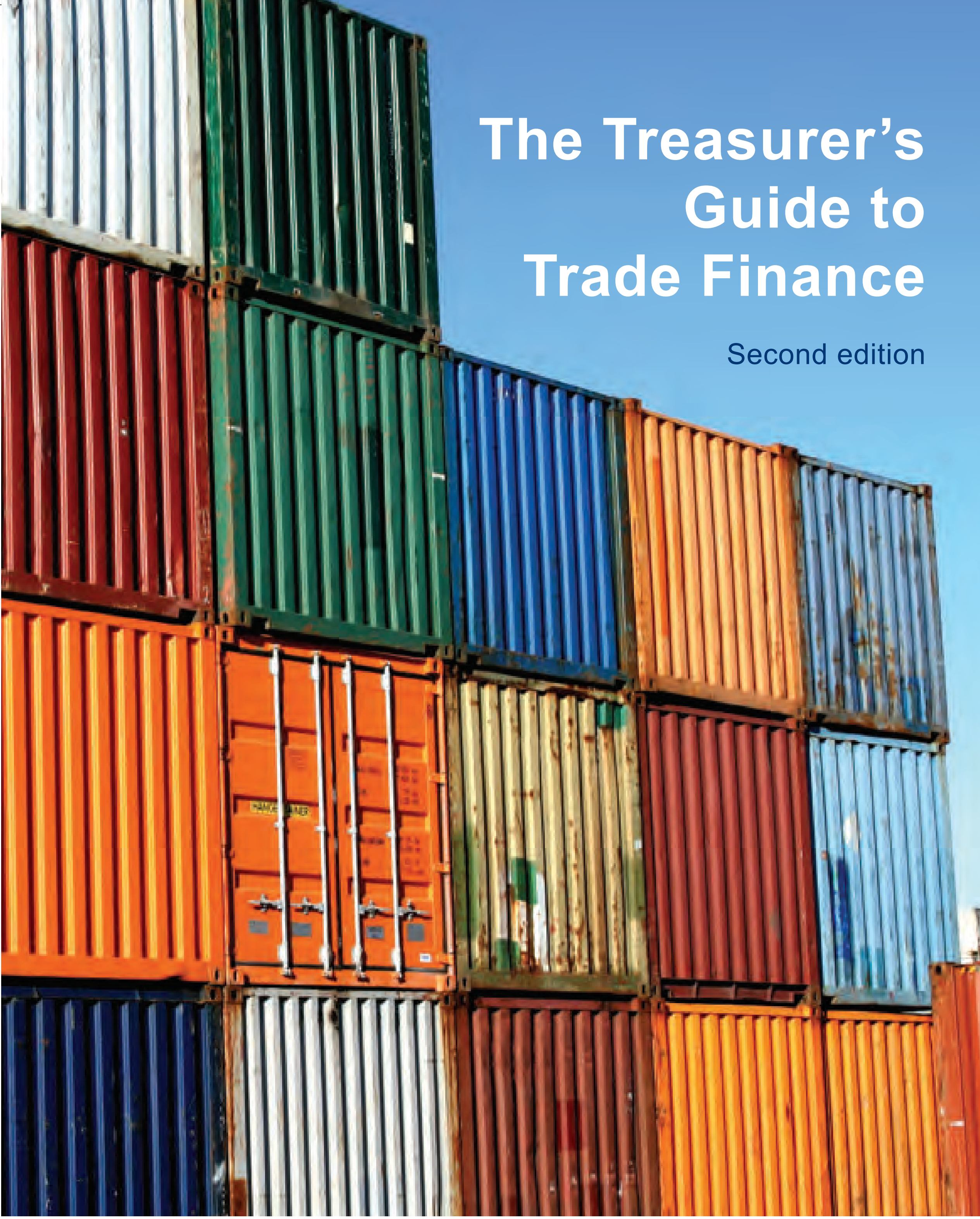
The Treasurer's Guide to Trade Finance

Second edition



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The Treasurer's Guide to Trade Finance

Second edition

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WWCP

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Foreword

The global economic downturn has focused treasurers' minds on fundamentals. Companies have been seeking to improve liquidity within their own working capital cycles because less is available following the upheaval in the banking sector. The more forward-looking are trying to inject liquidity into their wider supply chains, as suppliers have come under pressure.

Companies also increasingly need to manage counterparty, bank and country risk. Using technology to provide efficiency and information-sharing along supply chains has resulted in better trading relationships. The ever-changing regulatory environment is also altering the cost and complexity of transacting business, particularly internationally. Many governments have revamped their support for exports, in a bid to underpin economic growth. This had led to a number of innovations, for which the banks are now able to provide solutions in conjunction with organisations such as UK Export Finance.

In this context, many treasurers are taking the opportunity to focus on managing working capital as efficiently as possible. They are also looking to traditional trade techniques that offer the opportunity to both provide funding and mitigate risk.

The Treasurer's Guide to Trade Finance examines trade finance's traditional role of facilitating transactions. It assesses how technology is making it possible for treasurers to integrate trade and cash, providing the opportunity to unlock working capital and reduce costs. The guide also considers how traditional trade techniques can be used to support and finance activity along a supply chain.

This guide is designed to support treasurers who are new to the subject, or those wanting to take a fresh look, by showing how traditional techniques can be used in new and imaginative ways.

The ACT is delighted to work with RBS once again to produce this comprehensive guide to help the professional treasurer consolidate their influence in their organisations – in particular in the boardroom – offering their skills, technical knowledge and professional discretion to shape and drive their organisations. To ensure that tomorrow's treasurers are capable of taking on these responsibilities, we need to support the growth of high-potential, well-rewarded, skilled and experienced treasury professionals who use their knowledge to unlock the full growth potential of their businesses. Amongst other things, this means the ACT must continually develop its range of support products to ensure that they are up to date, in demand and deliver what our customers want. The invaluable support of RBS in producing this book is an example of the treasury community working together for everyone's benefit.

Transaction Services, RBS

Colin Tyler, Chief Executive,
The Association of Corporate Treasurers

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On behalf of WWCP, I would like to extend our thanks to all of the above.

Guy Voizey
Editor
April 2013

Introduction

During the three years following the publication of the first edition of this book, the global economic outlook has remained uncertain. Some countries, notably those in North America and Europe, have been in and out of recession. Other countries have been more fortunate, and have enjoyed some growth. Even so, all continue to be affected by the fragile nature of the global economy. There remains no clear consensus on when, or whether, a period of sustained growth will return. In this context, external opportunities for company growth may be limited. Consequently, companies are being forced to focus on achieving efficiencies, both internally and along their supply chains, to generate growth for their shareholders.

Companies are looking to enhance liquidity within their businesses and to mitigate risk as far as appropriate. Despite a trend in trade towards open account trading and away from the use of letters of credit and documentary collections, traditional trade finance techniques are increasingly being viewed by finance directors and treasurers as tools which support these objectives. This is the background in which this book has been researched and written.

The main objective of the book is to position the role of trade finance in the context of improving efficiency in the financial supply chain, in order to manage working capital more effectively. The core text has been written with the corporate treasurer and finance director in mind, although it will be of equal benefit to those in companies of all sizes with day-to-day responsibility for trade. Although most references are to companies trading goods, the analysis is equally applicable to companies trading services.

The book is divided into two core sections. The first consists of five main chapters. Chapter 1 is a general introduction to the concepts involved in the book. It explains how treasurers are now increasingly involved in supporting trade activity and managing the wider working capital of the company.

Chapter 2 explains the core elements of the working capital cycle, breaking this down into three distinct processes: a company's procurement process (purchase-to-pay), its sales process (order-to-cash), and its production process (order-to-delivery, or forecast-to-fulfil). The chapter explains how these physical activities link to the financial supply chain, and shows how treasurers can become involved in managing working capital across the company's activities.

Chapter 3 highlights the different payment terms used in international trade, and explains how these terms expose buyers/importers and sellers/exporters to different levels of risk, depending on the terms used.

Chapter 4 looks at how companies are beginning to integrate their trade and cash management activities to focus on more efficient use of working capital. It identifies three core objectives for companies when managing working capital: to improve liquidity, to mitigate risk, and to enhance sales. It shows how a more integrated approach to both cash and trade can result in improved working capital management and help companies meet some or all of these objectives.

Although it is impossible to predict with any accuracy how the trade market might develop in future years, Chapter 5 highlights a number of the trends which are evident at the time of writing and which seem likely to develop over the next couple of years. It concludes with a discussion of how e-invoicing and P-cards can be used to make supply chain finance more efficient.

The second major section is designed to be a reference guide.

Chapter 6 provides a detailed explanation of core trade concepts and instruments. This includes an analysis of important trade documents, such as invoices, bills of lading and insurance documents. The four core trade payment terms (open account trading, documentary collections, documentary credits and payment in advance) are all explained in detail.

Chapter 7 sets out explanations of all the various techniques available for financing trade and working capital. These range from the use of overdrafts and bank loans, through invoice discounting and factoring, to structured trade finance arrangements. In each case, the advantages and disadvantages of the technique are examined in detail.

The book concludes with three appendices. The first is a series of country profiles, being a particularly useful reference source that gathers together information outlining the main issues affecting trade in 59 countries. Topics covered include currency and exchange controls, documentation and licence requirements for imports and exports, and the application of taxes and tariffs on imports and exports. The second appendix is a guide to the most commonly used calculations in trade finance. The last is a glossary of trade finance terms.

We hope you enjoy reading the guide, and that you find the work as a whole to be a very useful addition to the treasury library.

A Global View on Trade Finance

Anand Pande

Global Head of Trade Finance, RBS

While the slowdown in global growth during 2011 and 2012 has had a negative impact on trade flows, the longer-term prospects for world trade are positive and are set to lead to strong demand for trade finance products and services. Innovation will become increasingly important, as investment in technology, along with standardisation and integration programmes, create new and more efficient trade finance solutions.

Growth

Global growth is expected to be sluggish and uneven in 2013, especially in Europe where the IMF predicts an uptick of just 0.7%, compared to 3.6% globally and 7.2% in developing Asia. The most immediate risk remains the eurozone crisis, despite a period of relative calm due to the European Central Bank's 'Outright Monetary Transactions' (OMT) programme, launched in September 2012. However, significant challenges still confront policy-makers, both in terms of moving towards greater fiscal and financial risk-sharing, and in breaking the negative feedback loop between sovereigns and their banking systems.

This poor economic situation in Europe, along with some weakening in domestic demand, contributed to a loss of growth momentum in emerging market economies, most notably in China, where growth slipped below 8% in 2012. Over the longer term, the developed economies (US and eurozone) are predicted to have slower growth, while the global GDP share of rapid-growth markets is set to increase from around 34% in 2010 to 48% in 2020.

Trade

Europe's recession, anaemic US growth and the slowing Chinese economy put a dampener on exports worldwide in 2012. As a result, global trade volume grew by just 3.2% (IMF estimate), compared to 5.8% in 2011 and 12.6% in 2010. Trade is projected to expand by 4.5% in 2013, assuming that a break-up of the euro is averted and an agreement is reached to stabilise public finances in the US. Any trade shift could take a big toll on the US economy, since exports have accounted for almost 50% of growth during the recovery (normally 12%). In fact with domestic markets flat across most developed economies, export trade is the major route to growth for many businesses in the west.

Outlook

Despite the short-term weakness, long-term trends point towards strong growth in, and driven by, emerging markets. Commodities and infrastructure development projects are likely to be key to this.

In fact the growth of world trade in goods and service is expected to be exponential. In constant 2010 USD terms, world trade is forecast to grow from USD 37 trillion in 2010 to USD 122 trillion in 2030, and to USD 287 trillion in 2050. This corresponds to average growth per annum of 6.1% up to 2030, and 5.2% thereafter. Most of this growth will be driven by emerging markets (EM) as opposed to advanced economies

(AE). Intra-EM trade is expected to grow from 13% to 38% of the total, while intra-AE drops from 43% to 15%. The shift of world trade from AEs to EMs will also likely manifest itself in a large regional shift in the composition of trade.

The prospects of emerging Asia stand out, with trade expected to grow by more than 10% per annum on average over the next decade, before falling rather quickly to around half that level. Other EM regions are expected to experience high growth in trade, propelled, notably in the case of the Middle East and Latin America, by growing trade relationships with EM Asia. Although trade growth in the AE world is likely to be more modest, expectation is that it will exceed AE GDP growth.

A changing landscape

The global trade finance market is worth approximately USD 10 trillion a year, and, according to WTO research, about 80–90% of world trade still relies on some form of trade finance. The market is changing, however, with a number of factors creating challenges and opportunities.

As large banks tighten lending standards, and some traditionally strong European banks decrease their trade finance exposure, room is being created for global competitors with fewer balance sheet constraints. For all banks, however, stricter regulatory requirements (Basel II and III) will increase the capital costs for trade finance, and threaten profitability.

While banks' ability to provide trade finance comes under pressure, demand is rising. Currently, approximately 75% of trade transactions are carried out on open account and only 25% are transacted as documentary trade, but the increased risk environment continues to drive a shift towards documentary trade. It is estimated that traditional trade services are growing at approximately 5% per annum.

Other factors are driving demand for trade finance. These include the expected demand from emerging economies for the commodities and infrastructure they need to facilitate further economic development. The growth in trade routes between emerging economies is another factor, particularly as many companies in these regions still rely on documentary trade finance. For the largest companies, however, the focus is on the increased integration of global supply chains. There is also a renewed interest in the fundamentals of cash management, and supply chain finance is extending to include more integrated services.

Banks rise to the challenge

In the face of this changing landscape, banks are developing innovative solutions, often in response to new regulations, technological advances or a deeper understanding of market and customer needs.

Bank Payment Obligations (BPO) are one such example, which will target open account trade business by facilitating a more efficient, lower-priced solution with greater visibility. Online channels and applications will enable banks to meet the increasing demand for faster transactions and greater visibility at all stages of the trade cycle. Platform and e-invoicing solutions for corporates, including low-price platform renting and cloud-based e-invoicing, are another key area of innovation.

Managing risk and streamlining trade processes are key priorities for corporates. At RBS we have helped a number of clients to centralise their issuance of guarantees at parent level, allowing better control over subsidiaries' activities and easier reporting. We have seen a significant increase in the uptake of supply chain receivables solutions, which are being used by buyers with strong credit ratings to help their suppliers secure better credit terms. These solutions enable buyers to strengthen their supply chain and minimise working capital needs; and as the RMB internationalisation programme gathers speed, we have also seen increasing demand for RMB-denominated export letters of credit and settlement.

Although the outlook for global trade growth looks positive, risks undoubtedly remain. Fortunately the trade finance 'toolkit' has solutions for all eventualities, enhanced by advances in technology and greater integration. For companies aiming to fulfil their objectives in challenging markets, trade finance remains a powerful ally.

Trade Trends in Asia

Manfred Schmoelz,

Head of Transaction Services, Asia-Pacific, RBS

Despite some signs of a slowdown during 2012, Asia remains the fastest-growing economic region in the world and continues to offer major opportunities for trade. While eurozone troubles and wider-reaching austerity programmes have constrained external demand for Asian goods, this has been balanced by stronger domestic demand and growing intra-Asian trade. Caution remains the watchword, however, and corporates are therefore looking to their trade finance and cash management processes to achieve the combination of working capital optimisation, efficiency improvement and risk reduction necessary to successfully navigate uncertain markets.

Intra-Asian trade

While the percentage of Asia's exports destined for the US has been declining, the proportion destined for other Asian countries has been rising – a trend that looks set to continue as China opens its doors more widely, particularly to cross-border, RMB-denominated trade. Given the preference of many Asian companies for letters of credit (LCs) over open account trading, the demand for trade finance is likely to grow. More intra-Asian trade also means that a greater number of smaller businesses are now exporting and importing within the region and, as such companies are more likely to use LCs to manage risk, this will also drive demand for trade finance. As smaller companies may not have the in-house resources to manage the administrative and legal aspects of the LC process, this is creating opportunities for banks and other providers which can offer value-added, integrated services such as document preparation (DocPrep).

The trend away from open account trading towards the use of traditional trade products was first noticed in the aftermath of the global financial crisis, but few thought that their renewed popularity would be so long-lasting. Although Asia quickly bounced back from the credit crisis, regulatory changes and continued economic uncertainty mean that the availability and cost of credit is an ongoing issue for many traders. In this environment, LCs offer buyers and sellers the liquidity and security they need, while also meeting lenders' capital requirements. So, with the current spotlight on risk management unlikely to fade, the greater use of LCs as a trade instrument – particularly for refinancing – is set to continue.

New technology platforms

The downside of traditional trade products such as LCs is that they are time-intensive, and can be subject to human error. The need to eliminate those disadvantages lies behind another trend – automation – as trade finance instruments are increasingly adapted to the digital age.

The industry move from paper-based to digital products is also likely to realise a number of other benefits for corporates, making the process not only quicker but more efficient and less risky. As the regulatory and risk environment tightens, the value of technology that can offer greater control and visibility over trade processes becomes ever clearer.

Indeed, the ‘e’ agenda is gaining increasing support from industry players, such as chambers of commerce, which in turn is helping to speed up the adoption rate. Industry associations such as Bolero and SWIFT are also helping to drive change through the creation and continued improvement of messaging standards and platforms.

Evidence of market participants working together and using technology to deliver better solutions can be seen in the development by Swift and the ICC of the Bank Payment Obligation (BPO), which can be defined as an irrevocable conditional undertaking to pay, given by one bank to another. The BPO can also be viewed as providing the benefits of a letter of credit in an automated environment, and enables banks to offer flexible risk mitigation and financing services across the supply chain to their corporate customers. By enabling banks to provide their trade finance customers with guarantees and other services, but on open account terms, the BPO clearly has great potential for Asian trade.

Cash and trade convergence

Another emerging trend is the integration of cash and trade solutions. This approach became prominent during the economic crisis and tougher credit environment. With the market landscape continuing to be uncertain, and new regulations on credit coming into effect, corporates are increasingly focusing on holistic management of their working capital.

New tools and solutions are now available in the market to help corporates achieve this goal. An integrated solution would enable corporates to combine their payables and supplier financing programmes to achieve greater efficiency and faster realisation of funds. In this area RBS is one of the industry pioneers, offering an integrated solution which allows corporates to manage their various payments through a unified delivery channel. Such platforms would also enable corporates to collaborate online with their supply chain partners around the world, driving efficiencies and maximising working capital.

Supply chain financing

Indeed, as the cost of credit rises and the availability of credit decreases, supply chain financing (SCF) is becoming ever more critical. For larger companies, the ability to leverage their superior credit rating to support buyers and suppliers during uncertain times can be crucial to long-term success, and is also likely to be rewarded, in the short term, by the ability to negotiate better payment terms. But it is important to consider that for every buyer who is taking advantage of extended payment terms offered by the supplier, there is a seller who is holding the buyer’s receivables on his balance sheet. Receivables purchase programmes are therefore also an integral part of supply chain finance and, as Asian corporates look for new funding sources, accounts receivable financing is set to become a more significant source of funding, especially for smaller companies. Managing the financial supply chain efficiently and to best advantage is therefore emerging as a key tool for corporate success.

Looking ahead

With economic conditions likely to remain uncertain for some time, companies are looking for expertise and products that can help them to deliver financial gains in difficult trading conditions. The uptake of trade finance solutions therefore looks set to grow, supported by increased intra-Asian trade. Fortunately, investment in new technology, and cross-industry initiatives such as the BPO, mean that the ability of banks to meet the evolving needs of the market is also growing.

Trade Trends in Europe, the Middle East and Africa

Paul G. Geerts

Head of EMEA Trade Finance Advisory, RBS

Despite the huge economic and cultural diversity that is a feature of the EMEA region, many of the headline challenges facing treasurers amount to business as usual: accessing and preservation of liquidity, keeping costs down, and a continuing focus on risk management.

According to the World Trade Organization,[1] Europe has the world's highest rate of intra-regional trade, making it highly vulnerable to the region's stagnant growth. In contrast, the Middle East's largest trading partner is Asia, enabling it to grow alongside the developing economies that are buying its energy and other exports. Africa, despite its relative poverty, is also benefiting from its rich energy and other natural resources and increasing trade with Asia.

In Europe, the euro crisis continues to shake business confidence and has reduced the ability of banks to provide liquidity. In the Middle East and North Africa, while the Arab Spring has curbed banks' risk appetite regarding the affected countries, the oil-rich Gulf Cooperation Council countries have been left relatively unscathed. Indeed some countries are benefiting, as their safe-haven status has attracted capital inflows. This has helped to repair post-credit crisis foreign currency liquidity shortages; but all lending tends to focus on lower-risk assets.

In terms of impact on trade finance, the Middle East continues to be an important hub for the application of commodity finance. Although traditional trade products have historically been favoured in the region, a more open attitude towards newer forms of financing such as supply chain finance (SCF) and credit insurance is developing – a shift that is being driven by an increased focus on reducing borrowing costs.

Europe's mature markets, however, are already at the forefront of trade finance innovation and are looking at achieving increased efficiencies through methods such as payment standardisation, centralised treasury operations and the integration of cash and trade platforms. However, the use of bank products to improve efficiencies in working capital processes and the finance function therein, or to leverage working capital, remains fairly modest.

Navigating the regulatory framework

Five years on, the consequences of the global financial crisis are still very much apparent, not only in terms of trade flows and an increased uptake in traditional trade products, but also in the oncoming 'sea change' as regulators implement measures designed to prevent any recurrence of such a crisis.

The greatest and most wide-reaching challenge is that posed by Basel II and III, because of not only its general impact on the ability of banks to lend, but also

1 www.wto.org/english/res_e/statis_e/its2011_e/its2011_e.pdf.

its particular treatment of trade finance. This subject is covered elsewhere in the book (page 79) but, in the context of EMEA, it is worth noting that the Basel III conditions may not be imposed uniformly throughout the world. While in Europe some countries are even considering implementing measures that go further than Basel III, in the Middle East not only is the implementation timetable likely to be later, but the conditions may be less strict. The same will apply to Asia and Latin America. In the US, the introduction of Basel III has formally been postponed. In the meantime there are also ongoing discussions between the regulators on softening certain measures or slowing their implementation, in order not to affect the slowly improving economic environment, especially in Europe.

Of more immediate and specific impact is the EU Directive 2011/7/EU on supplier credit terms in commercial transactions, which will come into force in Europe in March 2013. This aims to limit supplier credit terms to a maximum of 30 to 60 days, unless a longer period can be agreed on terms that are 'not grossly unfair to the creditor'. In EU countries, based on this directive, this approach will form part of general trade law. While this offers welcome support, particularly to SMEs who find it hardest to access bank funding, it is important to note that these new rules still allow sufficient scope for flexibility in trading procedures. Indeed, especially also in relation to these rules, the possibilities of support that banks can offer to improve the management of trade payables and receivables, and also support for the management of costs and risks in trading operations, are often not fully appreciated and thus are underutilised by corporates. Banks are able to provide effective routes to liquidity, cost and risk management, This also is where trade and cash management tools can be combined to increase efficiency and optimise working capital management.

Also in 2013 the uniform rules for the Bank Payment Obligation (BPO) are expected to be issued. This instrument will function as security for and mitigator of the payment risk to buyers in trade transactions. Not only will the BPO be complementary to Letters of Credit, it also has the potential to replace them. Although the trade operation departments of banks will be ready and able to implement the necessary policies as soon as the final rules are published, there is still little clarity about how the BPO will be treated under capital adequacy regulations – meaning that an important element in determining costs is not yet defined. All roads, it seems, lead back to Basel.

With the RMB internationalisation story progressing at such a rate that it merits its own section in Chapter 4 of this book (see page 53), it is clearly a key issue for treasurers in EMEA. Whether RMB are required for purchasing Chinese goods, earned from commodity-related sales to China or, increasingly, used in trades where both parties are based outside China, the ability to raise funds, manage risk and invest RMB is becoming essential. While the rules have been liberalised, they remain complex, and the ability to choose the option that best suits the individual corporate's objective requires deep understanding and support from the right banking partner.

While Europe can be seen as the centre of regulation, with its numerous and wide-reaching EU directives, it is worth mentioning that unique regulatory measures have also been introduced, in the form of the increased sanctions on certain countries like Iran and North Korea. Not only has this impacted trade flows, but also banks have had to develop and implement policies, processes and systems to avoid involvement in transactions that could breach these regulations and incur hefty fines. Looking ahead, the cost and risks involved may drive banks to be more selective about where they offer services, what they offer, and who they offer them to.

Outlook

While Europe's mature markets focus on maximising efficiencies through payment standardisation, and its governments leave no stone unturned in their determination to recalibrate Europe's banking sector, the Middle East and many parts of Africa and Asia are growing strongly again and gradually becoming more innovative in their approach to trade and working capital finance. Across the EMEA region, however, caution remains, as economic and political uncertainties make treasurers more careful than ever before about how they manage liquidity, optimise working capital and protect against risk. Trade finance is playing an increasingly important role in achieving these objectives.

The Role of Trade Finance in Working Capital

Introduction: the treasury's role in managing working capital

This book is targeted at all companies, whether they have significant international trade or not. Some companies will be large or complex enough to have a dedicated treasury department. Others may simply have a treasurer, whether full or part-time. Others still may not operate with a named treasury staff at all. However, all companies, large or small, have to perform the core treasury functions: making sure the company has sufficient cash, denominated in the appropriate currency, in the right place and in time to meet all of its various obligations.

At the same time, all companies need to generate cash from one source or another in order to set up and remain in business. The job titles of the people responsible for this will vary from company to company, but essentially there are two main sources of finance: cash received as the proceeds of sales, and finance arranged to support the operation of the business, whether in the form of shareholder equity, bank loans and overdrafts, or non-bank originated finance.

For the purposes of this book we will refer to the treasurer and the treasury department when referring to these functions, although in many companies it may be someone with a different title who has the responsibility of performing these tasks.

Changing role of the treasury

In the past the treasurer's role in some cases was predominantly a reactive one. The treasurer took control of incoming cash when it was received by the accounts receivable team, and arranged for cash to be available to meet payment obligations to, for example, existing suppliers, when advised by accounts payable. The treasurer played a more active role when arranging finance to support the business or when investing any short-term surplus cash.

In this scenario the treasurer had very little direct input into the wider running of the business. There was some opportunity to use cash efficiently, perhaps by using techniques such as a lockbox designed to speed the collection of payments.

The level of sophistication within treasury departments varied significantly. Some treasurers used cash forecasts to reduce the level of idle balances in bank accounts and to minimise the level of external borrowing required or maximise the level of surplus cash available for investment.

Over time this role has changed and broadened, with a focus on risk management becoming more central to the role of treasury. The core function described above remains the same, but the tools available to support the treasurer are now much more sophisticated. Information from all sources is much more readily available – companies of all sizes have access to end-of-day cash balances and transaction reports, with many more having access to data in real time. Banks increasingly offer products which allow companies to use this information to pool cash and minimise external borrowing or maximise overnight investment.

At the same time, information about activities within the wider company is more generally available to the treasurer, as technology collates data on future sales and projected production levels. By accessing this data, the treasurer is able to gain visibility of activity, trends and projections throughout the whole financial supply chain. Armed with this information, the treasury department is now able to take a much more proactive approach towards managing working capital within the company.

In an environment in which all companies are under pressure to use their working capital as efficiently as possible, the ability of the treasury department to use its skills to support the whole organisation is increasingly welcome.

The central importance of trade

One example of the way the treasurer's role has expanded is in support of trade. Companies exist to sell their products or services to somebody else. The treasurer's primary responsibility is to ensure the company has sufficient cash to finance the production of the goods to be sold or the services to be provided. Converting these sales into cash is another central task, with the treasurer key to the process of recycling that cash back into the business. This cash is then available to be used to buy the raw materials or finished products which will become next week's sales. Again, the treasurer is central to the process, in this case, of ensuring suppliers are paid and ensuring the production of the next cycle of goods or services can be financed.

On both sides of this equation each company's challenge is different. Retail companies, for example, focus on generating a high number of relatively low-value sales to a relatively large number of customers, certainly when compared say to shipbuilders, which may make a small number of high-cost ships every year. Yet, despite these differences between businesses, the core treasury function is the same: to finance the production and the sales process until such time as cash is received from the sale. The timescales will vary, but the principles are the same.

Trade is domestic as well as international

Most companies are located in the same country as the majority of their customers. Of the rest, some companies are primarily export-focused and others are part of large multinational groups that carry out a lot of intercompany, and therefore international, transactions. Many companies choose to try to expand their exports, either as a means of achieving growth, or as a way of managing their foreign exchange risk.

Order to cash

In all cases, though, these core trade relationships represent a critical risk that the company needs to manage. Retail companies are always exposed to the risk that their competitors may produce a better product, or that their own will simply fall out of fashion. Companies whose core business is to supply other companies are both indirectly exposed to the same end risk and directly exposed to the risk that their core customers may choose to refocus their businesses. Companies providing services are often susceptible to the risk that their clients may choose to do the work in-house. Wherever a company finds itself on the final product supply chain, it is dependent on matters that are outside its direct control when making a sale. Ultimately there are two risks: that the company fails to agree a transaction, or alternatively that, once a transaction has been agreed, the counterparty fails to pay the agreed price. Managing these two core risks is central to the business of the company.

The nature of inputs will also vary according to the nature of the company's operations. Food retailers often pay their suppliers weeks after the produce has been bought and paid for by their own customers. House builders, on the other hand, may have to source and pay for raw materials months in advance, making them reliant on external borrowing to finance construction. Again, the critical task is to ensure the company has sufficient finance in place to get the products, or services, to market or to the customer, and access to sufficient cash to continue its production process.

Purchase to pay

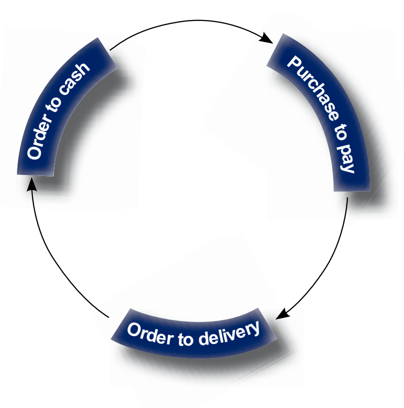
On the supply side, the risks are reversed. The supplier will want to manage the risk that its customer will not pay the agreed amount on the agreed date. The customer, though, will want to ensure the right goods are delivered at the right time (performance risk), otherwise this would represent a risk to its own operations. For the efficient operation of the supply chain it is important that the customer maintains good working relationships with its suppliers. Many supplier relationships are considered to be strategic partnerships. In reality this means supply chains compete with each other.

These represent two parts of the three-part working capital cycle. The order to cash process takes a company from the process of accepting an order to receiving payment, via billing/invoicing, collection and accounts receivable, to bank reconciliation. The purchase to pay process takes the company through the process of identifying and paying for inputs necessary to produce the company's outputs.

Order to delivery

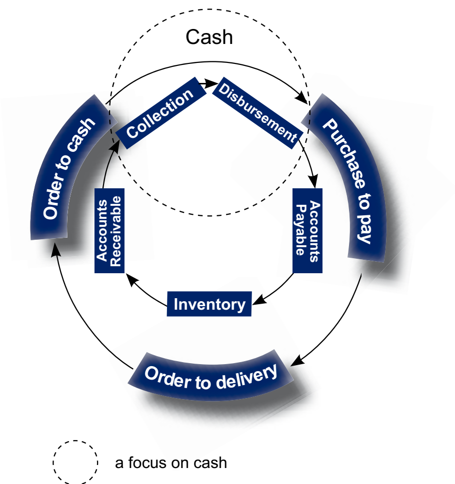
The third element of the working capital cycle is the order to delivery process. This takes the company through the process of designing, producing and delivering its products. There are not the same external risks during this stage. Nevertheless, the treasurer will need to work to ensure sufficient finance is available to fund this process.

The working capital cycle



In the past, the treasurer would participate only at the ends of the order to cash and purchase to pay processes. In the order to cash process, the treasurer would be involved in the final collection of cash, and any onward cash management process. In the purchase to pay cycle, the treasurer would be required to ensure funds were available to meet the payment obligations. In both cases, some form of cash forecast reports would probably be prepared.

The treasurer's historic involvement in the working capital cycle



Today it is much more likely that the treasury department will use its expertise to improve the efficiency of the company's operation in all three cycles. The management of working capital and financial risk is central to the treasurer's task. Understanding where risk arises and where funding is needed means they can be accurately measured and priced. In turn this will help the company to price its activities accordingly, so as to truly reflect the costs of inputs and the risk of trade.

Linking trade to the working capital cycle

Traditionally, trade finance has been seen as a discrete tool, used by some exporting companies to finance and support sales into foreign markets and by some importers to finance or pay for the purchase of goods. With the development of technology and the integration of the treasury department within the company as a whole, trade finance tools can now be used to finance parts of every stage in the working capital cycle.

For the treasurer, the core of any financing decision is whether it helps to reduce the company's reliance on external borrowing overall, to diversify the sources of external borrowing on which the company can draw, or to achieve better pricing. In some circumstances, depending on the company's cash position, using trade finance could result in a greater cash surplus being available for reinvestment or to be returned to shareholders in the form of a dividend payment or a share buyback.

At the same time, the company as a whole, together with the finance team, will look to trade finance techniques as a way to reduce or manage some of the transaction risks associated with appropriate sales, such as performance risk, bank risk, country risk and counterparty credit risk.

Together, this focus on both cash and risk will allow the company to use its working capital more efficiently, generating spare capacity which might allow the company to expand into new markets, invest in research and development or simply reduce the cost of its products to its customers.

There are other ways in which the treasurer's skills can be used to improve efficiency within the company as a whole. Financial risk management is a central treasury task. This involves identifying and quantifying exposure to financial risk before deciding how best to manage such exposure. These risk management skills can be used in other areas of the business at all three stages of the working capital cycle.

In the order to cash process, the treasurer's risk management skills can help the company's sales force to evaluate the credit risk associated with potential and existing customers. For example, when seeking to close a sale, risk management techniques can be used to evaluate creditworthiness before offering a payment discount or an extension of credit terms. If a sale is arranged such that payment is due in a foreign currency, the treasurer's foreign exchange risk management skills can help to ensure the appropriate exchange rate is quoted, or hedge identified, before a price is agreed. In the case of a company providing a service, a schedule of payments may be agreed to help to minimise the counterparty risk.

In the purchase to pay process, the company's production process is only as strong as the financial strength of its suppliers. The treasurer can help the procurement department to evaluate potential and existing suppliers to avoid a disruption to production in the event that a supplier ceases trading. This support can include working with the supplier by offering some form of supply chain finance.

In the order to delivery process, the treasurer can also work to ensure that resources are used efficiently and that sufficient finance is available. Treasurers can build a more detailed understanding of the financial costs of the production process by calculating the cost of each input throughout the development and production phases. A clearer understanding of costs can help the operations department identify where efficiencies need to be made. For example, these calculations can help the company to decide whether to install new machinery or implement a whole new production process.

Involving the treasurer in such activities throughout the business will allow the company to operate more efficiently. At the same time, because the treasurer will have access to greater levels of information about a wider range of activities, the finance director will have greater visibility, and therefore the means to exert greater control over the business as a whole.

Extending finance beyond the single company

Companies are increasingly looking to improve not only their own operational efficiency, but also that of their supply chain partners. For example, companies recognise that their own suppliers are critical to operational efficiency, given that low-quality raw materials will result in low-quality output, and late receipt of raw materials will result in delayed delivery of the output. On the other side, if a supplier's customer uses raw materials inefficiently, the final product will be unnecessarily expensive, ultimately resulting in reduced orders for the supplier.

Large companies sometimes seek to control the efficiency of the supply chain by acquiring subsidiaries along its length. Whilst superficially attractive, this can result in significant managerial challenges, as subsidiary entities typically still operate independently. Other companies, especially in the retail sector, try to impose strict terms, conditions and controls on their suppliers, seeing this as a technique which will ensure stability of supply. Yet this model is more one of the larger companies using their financial muscle to impose their own will on their suppliers. Smaller companies still face the risk that the larger companies may refuse to pay. Smaller companies also face financial demands, as their larger customers constantly put pressure on prices, whilst their operating costs remain unchanged. Most particularly, smaller companies have fewer options for working capital finance, meaning they often are forced to take what finance they may be able to arrange, rather than having a selection of funding alternatives at rates the buyer may be able to access. Ultimately these financial pressures on smaller companies will and do put the larger companies' supply chains at risk, potentially increasing the financial cost embedded in the ultimate purchase price.

Instead of seeing each individual participant along the supply chain as separate, the participants should be seen as interdependent. So as well as each company operating its working capital as efficiently as possible, the challenge is to operate the whole supply chain as efficiently as possible. From the treasurer's perspective there are two elements here. First, there are all the inherent risks associated with every transaction, ranging from foreign exchange risk to the risk that the counterparty will default. (However much the participants along the supply chain cooperate, there is still a risk that one of them will fail.) Second, there is the cost of financing the supply chain. Just as the treasurer in the standalone company wants to minimise the cost of external financing, so all the participants along the supply chain will benefit from an overall reduction in the cost of funds.

Trade finance techniques offer a solution. Instead of viewing a supply chain as a series of discrete transactions and processes, it is possible to use trade finance as the means to link a supply chain together. If the supply chain as a whole needs external financing, the entity with the strongest credit may be able to arrange at least some of that funding at the lowest cost. Whilst other entities will not want to become wholly dependent on the source of stronger credit, careful use of trade finance techniques, ranging from varying payment terms to the use of guarantees, will allow the stronger companies to finance the weaker entities, to the ultimate benefit of the overall supply chain.

The next two chapters look in more detail at, first, the concept of working capital finance and, second, the different forms of trade finance.

Chapter 2

Understanding working capital management

At the heart of any company's activity is its control over working capital. Every company needs to ensure it has sufficient cash available to continue to finance its short-term obligations. These include making debt repayments and paying suppliers and employees.

Within this context, the first challenge for the treasurer is to ensure sufficient funding is available to meet the short-term obligations as they arise. This means working closely with the accounts payable personnel to establish what these obligations are, before arranging any funding required from external sources, from both bank and non-bank sources.

The second challenge is to ensure all available cash, including cash converted from sales, is recycled back into the business as quickly as possible. For an international company, this may involve sophisticated cash and liquidity structures to enable the cash to be collected from the customer and repatriated to the home office. By working to ensure that cash is recycled more quickly via improvements to the efficiency of the cash and liquidity management structures, less external funding will be required.

In the past, the treasurer's role in managing working capital might well have ended there. Today, companies recognise the importance of managing the cash that is tied up in the whole working capital cycle, or internal supply chain. Broadly speaking, the working capital cycle describes the processes within the company, from making the decision to produce a quantity of products or to provide a range of services, paying for all the raw materials and other inputs, through manufacturing the products and delivering them, to taking an order from a customer and collecting the payment.

Alongside this physical process there is an interrelated financial process. This recognises that cash is needed to pay for all raw materials and other inputs. Moreover, these funds remain tied up in inventory and receivables until such time as the receivable is converted back into cash as a result of a completed sale.

Treasurers increasingly have a role in trying to finance the working capital cycle as efficiently as possible. This means ensuring that assets are appropriately financed. For example, raw materials (which can often be more easily sold, in the event of a 'fire sale') may be purchased using specialist commodity finance, and sales invoices, once raised, can be discounted to speed the conversion into cash. Relatively expensive overdraft facilities can then remain free, to be used only for emergency shortfalls or very short-term peak funding requirements.

To be able to accomplish this, treasurers need to understand how the business as a whole operates. Only on that basis can the treasurer identify at what stages funding is required, and how different funding techniques may meet these needs. As with many aspects of the treasurer's role, there will probably not be one ideal solution. Rather, there may a number of different funding strategies, all of which might help to make the use of working capital more efficient.

The first stage in this process is to understand the working capital cycle.

The three elements of the working capital cycle

The working capital cycle can be broken down into three distinct elements:

- Purchase to pay.
  This is a company's procurement process, ending in the company's accounts payable department.
- Order to cash.
  This is a company's sales process, ending in the accounts receivable department.
- Order to delivery.
  Sometimes referred to as the forecast-to-fulfil cycle, this concerns the process of manufacturing products and delivery to the final point.

We will look at each of these in turn.

Purchase to pay – accounts payable

The procurement process in any company must be such as to ensure that all the required inputs to the manufacturing process are in place when needed on the factory floor.

In order to reduce operational cost, many companies have moved towards the 'just-in-time' approach to ordering, for a number of reasons. First, with the increasing sophistication of electronic communication, inventory and the procurement process can be managed more efficiently. In other words, 'just-in-time' processes can work. Second, because 'just-in-time' can work, the benefits associated with it can be achieved. Cash no longer needs to be spent, and tied up, in inventory until that inventory is needed. Because lower inventory levels are required, there is no local cost of storage, either in terms of the storage facility or insurance. (The cost to the overall supply chain may be lower too, as the provider of the materials may benefit from economies of scale, especially in the case of the storage of perishable goods.) Note, though, that many supply chains operating on a 'just-in-time' basis came under increasing pressure as a result of the withdrawal of trade credit as a consequence of the stress in the financial markets in 2008.

At the other end of the process, treasurers can make savings by improving the efficiency of their accounts payable process, primarily in three ways. First, by controlling disbursement processes to reduce float and the level of funds held in idle cash balances. Second, by utilising the payment terms effectively. Third, by using technology to automate processes so as to reduce manual intervention, with the additional benefit of a reduction in the risk of error and fraud.

The physical purchase to pay cycle

1. Identify production levels.
   The first stage for all companies is to plan future production. How a company decides to do this will be dependent on the type

of manufacturing process it operates. In most cases this requires some degree of anticipation of future demand, although some companies manufacture to order. Even in the case of companies which manufacture to order, there will need to be some degree of demand forecasting to allow the company to anticipate, for example, likely staffing requirements and necessary warehouse space.

2. Identify production inputs.
   Once the company has produced a forecast of demand, it needs to identify its required production inputs. This will also vary from company to company and across industry sectors. The lead time for semi-finished inputs may be greater than the lead time for other inputs. The key is for all producers to plan for predicted demand.
3. Determine approved suppliers.
   Most companies will maintain a list of approved suppliers. To appear on the list, suppliers may have to commit to providing goods in a particular format and to a specific standard. Most companies will encourage dynamic changes in the approved supplier list as a critical tool to protect against unnecessary counterparty risk. No company will want to be dependent on a single supplier. On the other hand, a company may decide to guarantee a certain level of purchases from suppliers on its approved list as a tool to maintain the relationship and as an incentive for the supplier to invest in equipment or processes to ensure minimum standards can be met.
4. Select supplier.
   For each transaction the company will need to select its supplier. If the company operates an approved suppliers list, there are many different approaches to selection. Some will simply select on price, on the assumption that all approved suppliers will guarantee the prescribed quality level. (Depending on the nature of the supplier relationship, buyers from the company may inspect goods in the supplier's warehouse before goods are accepted.) Others will ensure all suppliers on the approved list receive a minimum level of orders over the course of the year, perhaps by offering contracts in strict rotation. Company policy may dictate that competitive tendering is used. For public authorities or quasi-public bodies within the EU, there is a legal requirement for an open procurement process and publication in the Official Journal (OJ).
5. Agree credit terms.
   Once the preferred supplier has been selected, credit terms will need to be agreed. If an approved supplier is chosen, it is likely the credit terms will have been pre-agreed. If a new supplier is selected, negotiations may take longer, especially if the transaction is international. The company's ability to enforce preferred credit terms on its suppliers relies on the relative strengths of the two parties.
6. Authorise procurement of goods.
   The previous few stages can be concentrated into an automated process, although this will depend on the nature of the goods and the relationship between the parties. However, once the preferred supplier has agreed credit terms, there does need to be a clear process for the authorisation of the procurement of the goods. Care should be taken at this point, as there is the potential for fraud. Companies will often have rigorous procedures around payments. In fact, the placing of an order sets in train the obligation to make a payment, so should be subject to equally tight controls. This authorisation should be entered into the cash flow forecasting system as an expected cost – although the precise timing may not be available.
7. Accept delivery.
   The company needs to have an appropriate procedure for accepting delivery of the goods. This should include a check of the goods before delivery is accepted, to include a process for ensuring no damage has been suffered in transit. (In some cases, such as textiles, the quality control process may be undertaken at the supplier's warehouse.)

8. Receive invoice.
   The next stage is to receive the invoice. On open account terms, this will usually give the purchaser a period of time in which to pay. If the goods are being imported, there may be a requirement for a bill of exchange to be accepted before the goods can be dispatched. The receipt of an invoice should trigger a change in the status of due payments in the cash flow forecasting system.
9. Process payment.
   Whichever form of payment is used, there needs to be a robust process for authorising payment, with an adequate separation of duties. If payments are initiated automatically, perhaps through the use of electronic invoice presentment, a clear process should be in place to ensure payments cannot be initiated without appropriate authorisation. This should be subject to spot checks. There is a risk of fraud when an insider knows the authorisation limits of individuals within the accounts payable or treasury department. With more and more payments being made electronically between banks, control over supplier bank account details in the database is another important area for tight controls.
10. Perform back office duties.
   The final part of the process is to perform the full range of back office duties, including reconciliation and recording of the payment. Proper reconciliation of payments is important as it allows treasury staff to perform analysis of the efficiency of the accounts payable department.

The financial purchase to pay cycle

On the financial side, there are three critical points. First, the treasurer must ensure there are, or will be, sufficient funds available to pay the supplier. In addition, although the treasurer needs to ensure funds are available on the due date, these should only be released once the appropriate authorisations have been made. This process may include a documentation check, especially if the transaction is international.

Second, when agreeing credit terms or contemplating making an early payment to take advantage of a discount, the cost of funds should be properly evaluated. Ideally the treasurer should be able to prevent the procurement team from agreeing to early payment before the impact on cash flow has been calculated. At the very least, procurement should be provided with a tool which will allow them to calculate the potential benefit of any early payment discount and to compare it with the company's current cost of funds.

Finally, once credit terms have been agreed, the transaction should be entered into the company's cash flow forecasting system as an actual, rather than predicted, item. This will help the treasurer plan for future cash requirements.

Order to cash – accounts receivable

The order to cash cycle deals with the process from the receipt of a potential sales request, through the delivery of the item, to the final receipt and reconciliation of the payment.

On the order side, technology has also changed the possibilities for marketing and selling products. Most notably in the retail sector, companies are now able to sell internationally with perhaps only a relatively small investment in an online marketing presence. In other, non-consumer-facing industries, technology has improved communication between companies and their suppliers, using the same 'just-in-time' techniques outlined earlier.

At the other end of the process, the treasurer must be able to improve the efficiency of the accounts receivable process. First, this means establishing a mechanism for collecting payment which is both efficient (in the sense that bank accounts are not opened unnecessarily, for example) and convenient (in the sense that customers are able to pay easily). Where the company has an online selling tool, this will mean making it easy for potential customers to pay online. Second, there must be an effective process for chasing non-payment and also to alert the sales team about both non-payers and weakening credits.

The physical order to cash cycle

1. Receive sales request.
   In most industries, sales requests will be sent out to companies on a customer's existing approved supplier list; approved supplier lists are not always used, however. A sales request may be a discrete document for a specific order, or it may be part of a regular ongoing contract. For retail companies a sales request may be an individual enquiry.
2. Respond to sales request.
   However the sales request is received, the company needs to respond to the request by quoting a price. Again, the way in which the company responds will vary according to the nature of the industry. Part of the response process will have been predetermined. For example, a company may decide to establish an internet transaction tool – either retail-facing or as part of an industry collaboration. By producing the appropriate functionality, the company's initial response to a sale request may be an automated response, perhaps allowing the sale to be completed. At the very least, the response to the sales request can be a confirmation that goods are in stock, or may allow the items to be placed on order.
3. Negotiate credit terms.
   Just as in the purchase to pay cycle, the company receiving a sales request will want to negotiate appropriate credit terms. In this case, the seller will want to try to ensure as short a payment term as possible, to allow the sale to be converted into cash as quickly as possible. At the same time, the seller will want to minimise its exposure to counterparty risk (in this case, that when goods are shipped the customer cannot, or refuses to, pay). For international transactions this may include negotiating the use of a letter of credit. For other sales (e.g. online sales to retail consumers), payment in advance may be appropriate.
4. Accept contract to supply.
   Once appropriate credit terms have been agreed, the company will accept the contract to supply. Where the company is already an approved supplier, the terms of the contract to supply may already have been agreed as part of the approval process. In this case steps 1 to 4 may be automated (perhaps as part of an online order management process).
5. Deliver goods.
   The supplier must ensure goods are delivered in accordance with the contract, otherwise issues will arise with regard to payment. This is particularly the case when a letter of credit is used. Where there is an unforeseen delay, communication with the customer is vital both for this sale and for the future sales relationship. It is important to remember that during times of economic uncertainty the counterparty will be examining every problem for any sign of weakening credit status. (The customer will not want to be tied into a relationship with a supplier whom it expects to fail. This is not just because of the risk of financial loss

on one contract, but also the risk of a consequent loss if a vital input into the production process is not delivered.)

6. Raise invoice.
   Once the goods have been delivered, the company will also need to raise the invoice. This may need to be accompanied by a range of other documentation, depending on the terms of the transaction.
7. Collect payment.
   The credit terms and any accompanying documents will determine when payment should be expected. The company should ensure it has appropriate procedures and structures in place to make it as easy as possible for the customer to pay. This may include having bank accounts in the customer's location, appropriate processes for collecting credit card payments, or being prepared to negotiate accepted bills of exchange. A process should exist to follow up on overdue amounts.
8. Perform back office duties.
   It is important at the end of the process to fully reconcile and record the received payment. This acts as a means to protect the company against fraud, whilst also providing the company with the tools to evaluate a range of metrics, from the counterparty risk to the efficiency of the company's order to cash cycle. Finally it is a critical element in improving the accuracy of the company's cash flow forecasting model.

The financial order to cash cycle

On the financial side there are four crucial elements:

Negotiate price in response to sales request. The scope for negotiation will vary across industries and will be determined by a range of factors, including the nature of the relationship between the two parties, any specific buyer requirements, as well as overall market conditions. International transactions may require taking a view on foreign exchange movements, especially if the contract is over a period of time or for payment at a point in the future.

Agree credit terms. This will require the company to know its internal costs of production and to ensure that any discount or credit terms are calculated using appropriate interest rates, such that these costs are adequately covered. Again, for international transactions the company may consider it necessary to hedge future cash inflows, although this can be difficult as the precise timing of the inflows may be uncertain.

Collect payment. The accounts receivable function needs to be structured in such a way that it is both convenient for the customer to pay, and easy for the group to direct cash into its liquidity management structure. The core objective is for the seller to be able to use the cash as quickly as possible once it has been received. Again, this will vary according to the location of the company's bank accounts. It may be simply a case of diverting received cash into an account paying higher interest. On the other hand, it may mean repatriating the cash to the home office as quickly as possible.

Use data to evaluate counterparties. Using data that is generated by the order to cash cycle is a critical function. Proper recording of transactions, including recognition of any delay in payment, or the nature of any dispute, is a vital help to improving the quality of the company's own internal review of counterparty credit. In particular, awareness of any slight lengthening of the time it takes a counterparty to pay can indicate a weakening of that party's credit or trading position. All companies should have internal procedures to assess their counterparty's financial position.

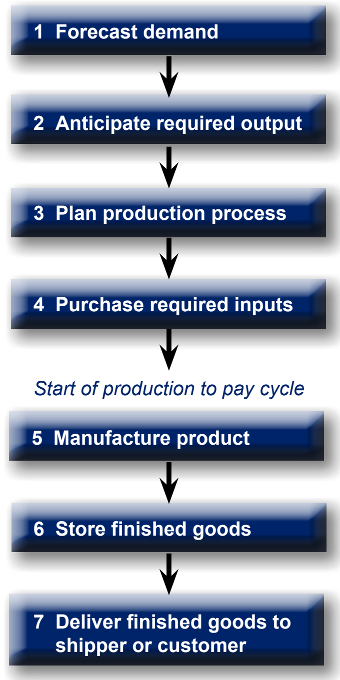
Order to delivery – inventory

The order to delivery cycle deals with the company's internal production process, running from the forecast of demands, through the production of the product, to the storage and onward delivery of the final output.

The use of technology, especially 'just-in-time' and similar production methods, has opened the production process to wider financial scrutiny, as production processes, timelines and inputs can all be clearly measured.

In the past, a treasurer would not have been able to engage in the production process in any meaningful way. However, with increased information about processes available, the treasurer is able to assist the company by calculating the cost of every stage in the production process. By focusing on itemised costs, the company can work to improve the efficiency of the overall production process, minimising the amount of cash tied up in inventory, and thus the amount of working capital financing which may be required.

Inventory optimisation is a specialist skill in its own right. Too little stock of raw materials for production, or of finished goods for sale, can result in lost production and lost sales. On the other hand, too high a level of stock results in higher costs of financing and of physical storage. Other factors can affect optimal stock levels: these include discounts on bulk deliveries, the risk of deterioration in storage or even obsolescence, changes in customer preferences and the wider market place, as well as potential benefits from fixing input costs and security of supply. Some organisations use complex mathematical modelling to refine their calculations. Base models include the Economic Order Quantity formula and the Baumol and Miller Orr models.



The physical order to delivery cycle

1. Forecast demand.
   The first stage in any manufacturing process is to forecast demand for goods. This can be a function of last year's output, or a simple response to existing orders.
2. Anticipate required output.
   Once a view has been taken on expected demand, the company will need to quantify this to anticipate the precise nature of the items which need to be produced. (Depending on the production process, this may be as detailed as anticipating colour trends for cars, for example.)
3. Plan production process.
   The task of planning the production process is a critical element in ensuring working capital is not left idle. Ideally, the company will plan a production process which allows the company to use purchased inputs as they are received into the factory, and for the manufactured output to be sent to the customer straight off the production line. In reality, such a level of efficiency is almost impossible to achieve, as allowances have to be made for logistical problems, emerging labour issues, and breakdowns on the factory floor. However, identifying the most efficient production timeline, incorporating likely delays and setbacks, is critical in minimising the amount of cash tied up in inventory.
4. Purchase required inputs.
   Once the process has been planned, the production to pay cycle can be initiated (see above).
5. Manufacture product.
   Manufacturing the product is the core function of the company. However, goods need to be manufactured to the satisfaction of current and future customers. Therefore this process must

include effective quality control measures. In some cases, this stage includes inviting customers in to review the manufactured goods prior to completion, or to allow goods to be customised before finishing. Many international standards are now in place across a variety of industries.

6. Store finished goods.
   Finished goods need to be stored before being sent in fulfilment of an order. There can be significant costs associated with storage, ranging from the cost of warehousing (which may include the cost of temperature control in certain circumstances) and insurance. Some items perish or have use-by dates, so there is a risk that goods will remain unsold, in which case there will be additional costs arising from the disposal of unsold or damaged items. Many companies now have regional distribution centres both domestically and internationally to enable more efficient fulfilment.

7. Deliver finished goods to shipper or customer.
   The final stage is to ensure goods are delivered, undamaged, in a timely fashion to the end customer or to the shipping company. The process used will depend on the nature of the manufactured goods, and the location of both the producers and the end customers. Where international trade is included, there will be a focus on ensuring appropriate documentation is in place to allow the passage of the goods through customs and to ensure appropriate protection of the producer's interests through insurance and, possibly, the issuing of letters of credit.

The financial order to delivery cycle

On the financial side it is important for the company to ensure the appropriate costs are assigned to the various stages of the inventory cycle. It is possible, for example, to calculate the costs of storage of both inputs and finished goods, as well as the cost of processes in between. This will require some judgement, particular when assessing the actual, rather than the accounting, cost of depreciation of materials, and when trying to assess the true cost of employing staff on the production line.

The company should be able identify the true costs of production. Moreover, the company will also want to identify the marginal costs of production. In some companies the marginal cost will be relatively constant, but a point may be reached where existing facilities (such as warehousing) or production capacity (such as machinery) are fully utilised, resulting in a significant increase in the marginal cost of any further production at that point.

Providing production managers with this information may enable them to prioritise processes. For example, it may be appropriate to consider outsourcing certain activities, perhaps by splitting the production process into two, or by warehousing semi-finished goods with a specialist. It is, though, vital that any changes in production methods should only be made after an assessment of all the operational risks those changes might pose.

Whether or not the cost of production can be reduced, the fundamental challenge for the treasurer is to finance the process from the point at which inputs have to be paid for until such time as cash is received. This gap in working capital finance can be financed in a variety of ways – through bank loans or overdrafts, from cash generated by the business, or from non-bank finance, ranging from commercial paper issuance to factoring and invoice discounting. When arranging finance, the treasurer will want to ensure it as efficient as possible, whilst simultaneously representing the lowest risk to the company. We will address both of these in turn.

First, raising cash as efficiently as possible is clearly central to the company's ability to maintain competitiveness for its products. Different companies have access to different forms of finance, depending on the nature of their business, their location and the size of their operation. (There is more detail on the different forms of finance on page 104.) The treasurer's primary role in this regard is to determine the most efficient mix of financing for the company as a whole. For example, it may be possible for the company to arrange a cheap overdraft by pledging a building or an invoice stream as security. However, it may be more cost effective to arrange a longer-term bank loan, using the building as security, discounting an invoice stream for regular finance, whilst arranging a more expensive, but unsecured, overdraft for emergency short-term finance. For companies operating internationally, there is the additional opportunity to arrange financing in more than one country. This can include a decision on whether to take advantage of cheaper funding costs in one country, whilst accepting a foreign exchange transaction risk. The overall challenge is not to see each production process as a discrete activity that needs to be financed, but to arrange company-wide financing as efficiently as possible, freeing the company's assets to be used as appropriate security where necessary. The key is being able to compare like with like when reviewing the overall cost of funds.

Second, a key priority, wherever possible, is to ensure the company is not reliant solely on a single source of finance. This applies whether the source of finance is a committed bank loan, an overdraft facility or a factoring arrangement. Events over recent years have shown how banks and other finance providers can change their lending criteria at very short notice. This can result in existing financing arrangements being withdrawn or not renewed, again potentially at very short notice.

To avoid this risk, companies ideally need to enter into relationships with more than one financing provider. This may mean trying to arrange credit lines using more than one set of assets as security, even perhaps when this is not currently necessary. Circumstances make it easier for some companies than others. Larger companies, with good credit ratings, have the opportunity to arrange commercial paper issuance programmes, as well as more traditional bank finance (which may itself be diversified in the form of a syndicated loan), without giving security. Companies with overseas subsidiaries can arrange finance centrally as well as locally. Smaller companies are likely to have a choice of arranging bank loans and discounting invoices or using trade finance techniques. (See page 117 for more on invoice discounting.)

The treasurer's challenge is to arrange the level of finance needed both currently and into the foreseeable future. At the same time, this funding strategy must be flexible enough to ensure that a sufficient level of finance can still be raised in the event, for example, of an existing provider changing its lending criteria at some point in the future. The key is to identify all possible sources of finance and find a combination of funding sources that provides for as much future liquidity as possible. Using other parties along the supply chain to help is an increasingly popular and appropriate tool.

The working capital cycle touches many different areas of specific management responsibility, from procurement, production and sales to accounting and treasury. It is common to find fostering the necessary multi-disciplinary teamwork to be an organisational challenge. The use of key performance indicators can help, but only if they are carefully aligned: otherwise objectives across the company can be different. Whatever organisational system is used, visible endorsement from the highest levels of management will help.

Techniques to improve the efficiency of the working capital cycle

There are plenty of techniques available to improve the efficiency of the working capital cycle. Below are brief examinations of three particular techniques which improve the visibility and speed of the collection of cash, which together help to improve the efficiency of working capital. First, an efficient cash flow forecasting system allows the treasurer to anticipate future cash requirements. Second, an effective cash and liquidity management structure supports the movement of cash around a business, to ensure cash is where it is most needed. Finally, electronic invoicing reduces the cost of processing invoices, whilst simultaneously improving the collection of information.

Cash flow forecasting

Companies seeking to manage their working capital more efficiently will almost certainly benefit from implementing a cash flow forecasting system. Cash flow forecasts help the treasurer to predict the likely cash receipts and disbursements. From this the treasurer can then predict the likely cash balances, anticipating when cash will need to be raised from external sources.

Calculating the cash flow forecast can be a complex task. Smaller companies can usually develop an effective cash flow forecast using a spreadsheet. Larger companies, with more complex bank account and liquidity management structures, will need to implement a more sophisticated cash flow forecast. Introducing a cash flow forecast will provide a significant benefit for all types of companies – either through a lower cost of funding or, for cash-rich companies, higher potential returns on investment.

For companies trading internationally, developing a cash flow forecast will also help them to understand cash flows in different countries, improving the management of foreign currency payments and the associated foreign exchange risk.

Many different techniques are used to develop a cash flow forecast. A receipts and disbursements forecast identifies all the anticipated future cash inflows (sales receipts, for example) and cash outflows (loan repayments and supplier payments, for example) for a particular time period. These are aggregated and combined with the starting cash position to provide the forecast cash position for the time period. Statistical techniques including moving averages and distribution forecasts are also used, often as part of a receipts and disbursements model, to predict likely future cash positions. For longer-term forecasts, balance sheet modelling is often an appropriate tool.

By implementing a cash flow forecasting system, the treasury department will be able to exercise greater visibility, and usually control, over subsidiaries, as long as the subsidiaries are required to feed data into the system. With greater visibility over current and future trends, the treasury can play a greater role in managing working capital effectively, by identifying where cash is needed and where cash can be moved from to fund cash-poor group entities, ultimately resulting in lower external cash borrowing requirements.

How a company chooses to use its cash flow forecasting system will depend on its particular requirements. At the very least, the treasurer will want to make sure funding lines are in place to meet anticipated peaks in requirements, especially in the short term. Clearly the timescales for the accuracy of the systems will also vary according to the nature of the product life cycle. However, demonstrating good control and understanding of current and future cash flows will help the treasury negotiate efficient rates for any external borrowing, as long as the bank or other finance provider understands and trusts the cash flow forecasting system.

Liquidity management techniques

Another way treasurers can help to improve the management of working capital is through the effective use of liquidity management techniques. In general terms there are two main issues for the treasurer to resolve. First the treasurer needs to identify where bank accounts should be held by the company, and in which currencies they should be opened. Second, the treasurer then needs to identify the most efficient way of linking the bank accounts, so the company has access to as much of the cash as possible.

Companies trading internationally need to consider carefully whether they need foreign bank accounts to speed collections and manage disbursements. In effect, an exporting company will need to decide whether it is possible to collect payment from international customers using their home country bank account. Much will depend on the nature of the transactions and the identity of the company's international clients, as well as the way the exporter operates outside its home country. If sales are made through a subsidiary organisation, it will usually be more appropriate for the subsidiary to open local bank accounts in its country of operation. The challenge for the exporter is to make it as easy as possible for customers to pay, whilst operating a cost efficient liquidity management structure which does not result in cash lying idle in numerous bank accounts around the world.

The other issue for cash managers and treasurers is to determine how best to structure the company's bank accounts. The degree of central control is typically established by company culture, and can range from highly centralised structures, with accounts held in the name of the group treasury, to completely decentralised structures, where each group subsidiary manages its own arrangements.

This is changing in Europe, where the introduction of the Single Euro Payments Area (SEPA) should result in companies opening fewer accounts across the European Union. Instead of needing a minimum of one bank account per country, many companies will be able to manage their EUR-denominated collections and disbursements from a single bank account, once there has been significant take-up of SEPA instruments. However, despite the three main elements of SEPA (credit transfers, payment cards and direct debits) being available since November 2009, it is taking longer than anticipated for users to switch to these instruments. As at August 2012, SEPA credit transfers represented 29.9% of all credit transfers in the eurozone. For direct debits, the equivalent figure was 1.9%, representing both the later introduction of SEPA direct debits and the greater challenges in the transition from legacy to SEPA instrument. (There is more on SEPA in Chapter 5.)

When establishing the company's liquidity management structure, one of the challenges is to try to implement a structure which allows cash to be moved as easily as possible between group entities. Where exchange controls exist, this is likely to be difficult, although typically the proceeds of sales can usually be repatriated as long as documentary evidence of the transaction is provided. Treasurers will also want to take care to avoid having to arrange cross-guarantees (to implement notional cash pools, for example) wherever possible, as these will restrict the company's ability to arrange credit for other purposes.

However a company structures its liquidity management, the implementation of a structure will provide the treasury with greater visibility over cash flows. This in itself will help improve the management of working capital, as the treasury staff will be able to identify cash flow patterns. In addition, a clearly designed liquidity management structure should streamline internal processes, such as the authorisation of payments, and will result in more efficient payments including, for example, the introduction of weekly or monthly disbursement cycles. A combination of any of these changes should help to reduce operating costs within the treasury and accounts payable and receivable departments.

The use of technology to collect information

One technique which is increasingly being used to collect information is electronic billing and invoicing. Electronic bill presentment and payment (EBPP) and electronic invoice presentment and payment (EIPP) allow companies to collect funds from customers and collate sales information without significant manual intervention at the accounts receivable stage.

Both EBPP and EIPP are increasingly popular, as they allow bills and invoices to be raised electronically and presented online, reducing the time taken to deliver the invoice. Moreover, the data can be integrated into a company's enterprise resource planning (ERP) system (where there is one), giving all parties within the organisation greater visibility of the use of working capital. From an efficiency perspective, both systems result in less manual intervention, reducing the risk of error and increasing the efficiency of back office work. This technique also helps the treasury department understand how working capital is being used, as more data can be captured. This is particularly the case when the EBPP/EIPP system links to an ERP and/or treasury management system.

Both parties to a transaction benefit from the process of electronic billing/invoicing. The seller benefits because the process of invoicing to collection and reconciliation can all be automated, reducing the time and cost of this process and accelerating the receivables cycle.

The buyer benefits because the corresponding accounts payable activities can also be automated. EIPP/EBPP allows companies to automate their authorisation process as well, ensuring that payment is only initiated when approved by the appropriate individuals, cutting down on costly manual intervention, and protecting against error and fraud. Data on each transaction, such as the invoice and other material, can be accessed electronically when payment is authorised. This information, which may for example call for payment in 30 days, can also be automatically entered into the company's cash flow forecast at authorisation, improving the quality of the forecast.

This type of system may also support the implementation of a supply chain financing programme where provision of electronic invoice information is important.

Case study

London Borough of Camden: supporting e-invoicing in the Public Sector

As part of a project to streamline purchase to pay operations, the London Borough of Camden is using RBS's Accounts Payable e-invoicing service, which is fully integrated with their Cedar Enterprise Resource Planning (ERP) system.

Camden's Head of Purchase to Pay, Andrew Coulson, says the move is a win-win both for the Council and its suppliers. 'Ending manual handling of paper invoices has reduced our costs by over GBP 250,000 per annum. It speeds up processing of invoices, so suppliers get paid promptly and ensures their invoices are compliant with our requirements.'

Approximately 90% of the suppliers Camden initially identified for e-invoicing are now submitting their invoices electronically. With e-invoicing, critical mass is important to achieve maximum benefits, but on-boarding suppliers can sometimes be a challenge for organisations. The bank's service eases the path by offering connection options to suit suppliers with varying IT capabilities, as the service is ERP and data format agnostic. Suppliers can upload invoices from their existing system or EDI provider or use one of the e-invoicing service's applications to create electronic invoices.

The bank provides comprehensive on-boarding support and does not charge suppliers to use the service. Users can view documents on the e-invoicing hub at any time, via the internet.

To assist buying organisations in maximising their paper reduction and process efficiencies, the bank also offers a complete invoice scan and capture service. Suppliers send their invoice to a PO box address, where the paper invoice is scanned, validated and enriched and, if necessary, referred to a manual acceptance desk to resolve queries. Camden has recently implemented this service with 4,300 suppliers as it also helps to migrate many of them to full electronic invoicing.

Compliance matters

E-invoicing is helping Camden to embed contractual compliance into its accounts payable process. Invoices received through the service are secure, digitally signed and compliant with HMRC VAT requirements. To be accepted, the invoices must also meet Camden's purchase order requirements. One feature of the bank's service strengthens the control over document content and quality for both sides to the transaction. Suppliers may view pro forma invoices in the system before submitting and buyers are able to approve, reject or query invoices after receipt in their inbox.

Camden has been extremely proactive in promoting e-invoicing to their supply chain. Invoices are now delivered electronically, directly into Camden's ERP system, enabling greater visibility and faster payment processing.

The average implementation time for the e-invoicing solution is three months, and Camden achieved return on its investment in well under a year. Now all incremental savings go straight to the bottom line, supporting the provision of public services in the borough.

Conclusion

Understanding the company's working capital cycle is a core challenge for the treasurer. At the very least, it allows the treasurer to anticipate more accurately likely future cash requirements and to establish more efficient liquidity management structures.

By becoming more involved in the operation of the business, the treasurer can also gain a better appreciation of the nature of the company's supply chain, with a view to supporting crucial trade relationships from the perspectives of both supplier and customer. We examine the core elements of trade in the next chapter.

Understanding trade

The concept of trade

Irrespective of their field of activity, all companies act at some point or another as both a buyer and a seller. Every company relies to a certain extent on supplies, whether in the form of raw materials, machinery, semi-finished goods or a final product. At the same time, all companies need to sell their goods or services, in order to realise cash from that investment. Both when sourcing supplies and when selling the products, a company is exposed to risk. Such risks cannot be avoided if a company is to continue to transact, and still greater risks must be taken if a company is to grow.

The challenge for all companies is to understand the risks inherent in any transaction, so that they can be managed as necessary. The treasurer's skill in evaluating risk is central to any management of working capital finance.

From the seller's perspective, there are two core risks associated with any trade:

- Does the company have the necessary resources to fulfil the sales contract?
  The treasurer's responsibility is to ensure that the company has the financing in place to allow all necessary procurement to take place, to fund production and then to cover the cost of holding inventory and finished stock until such time as cash is collected from the customer.
- Will the customer pay according to the terms agreed?
  The second core responsibility is to support the accounts receivable team in collecting payment from the customer. To be most effective, this should start from the point at which a transaction is being negotiated, as the treasurer will have skills to evaluate counterparty risk, through to providing advice on the preparation and delivery of documentation, and then collecting payment through the company's bank account and liquidity management structures.

From the buyer's perspective, there are also two core risks:

- Will the supplier deliver the goods or service to the standard agreed in the contract?
  Any disruption to the company's production process is likely to be costly, in terms of both potential lost sales and idle capacity. Just as with evaluating the counterparty risk posed by customers, the treasurer has a role to play in helping to evaluate the financial strength of the company's suppliers.
- Does the buyer have the finance in place to meet its obligations as a result?
  The treasurer's second task is to ensure the company has the means to meet its obligations according to the terms of the transaction. This may include, for example, evaluating any reduction in price in return for early payment.

Domestic

For a variety of reasons, ranging from ease of logistics, familiarity with customs and legal procedures, as well as many consumers' desire to support domestic companies, the majority of sales made by most companies are domestic (within country, rather than cross-border) transactions. It is important for treasurers to recognise this, as trade finance techniques are equally applicable to domestic transactions. It would be a mistake to only consider trade finance as supporting international transactions.

Even the largest multinational companies tend to make most final sales on a domestic basis, via various branch or subsidiary structures established to manage sales outside their home markets. (Intragroup transactions may well be international transactions in these organisations.) In these organisations, the treasurer will have the additional responsibility of establishing an efficient liquidity management structure to ensure cash can be moved around the group as effectively as possible, and a netting structure to ensure efficient settlement.

International

That said, even companies with a purely domestic focus will almost certainly rely on at least some imported inputs. These may be indirectly imported, for example in the case of energy, imported via a distributor, or direct imports, whether in the form of raw materials or as finished goods.

Where a trade does have a direct international element, the import/export relationship will clearly be more complex than a purely domestic transaction. Not only will both parties be concerned with counterparty risk, but they will also be concerned with a range of other factors as a result of the international component of the transaction. Any transaction involving parties resident in more than one jurisdiction gives rise to additional country risks. These range from understanding the local legal system in case it becomes necessary to enforce the terms of a contract, to the complexity of managing the passage of goods through the respective customs controls. In addition there will be challenges such as the management of transport logistics, which will simply be more complicated, a requirement for customs bonds and the need to handle any foreign exchange risk.

These points all suggest that an international treasurer faces greater challenges than the treasurer working in the domestically focused company. However, the international treasurer's fundamental responsibilities are no different to those of his domestic counterpart: ensuring that the company has the resources in place to meet its obligations under the terms of the contract (whether the means to pay, if an importer, or the ability to produce and deliver the goods, if an exporter), and assessing whether the counterparty can deliver its side of the bargain (the agreed goods, if a supplier, or correct and timely payment, if a customer).

The types of payment terms

As can be seen then, both parties to a transaction have to assume at least some risk when entering into a contract. The treasurer has a degree of expertise in evaluating many of the risks associated with particular transactions. These include having the skills to help manage any counterparty risk and any financial risks that arise as a result of the terms and conditions of any particular transaction.

A critical part of agreeing any contract between an importer or buyer and an exporter or seller is to agree the payment terms between the two parties. Although both parties to a transaction have a mutual interest in it being successful, especially if they have established a successful trading relationship, their respective interests are, at least with respect to payment terms, very different.

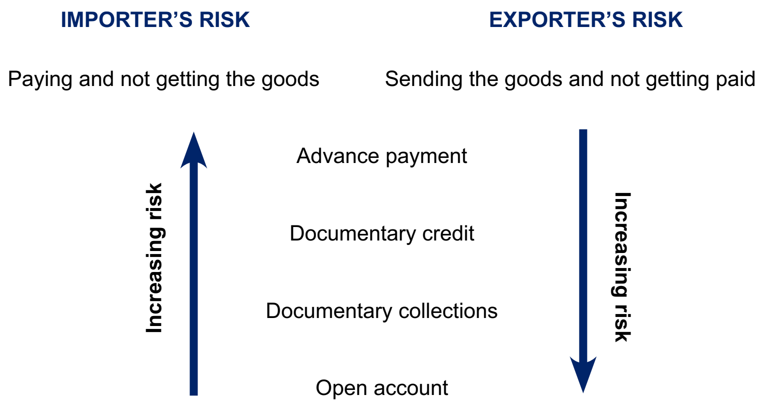
From the perspective of the seller or exporter, the object of trade is to dispatch the goods or provide the service, and ensure payment is received in return. Clearly, the best way to ensure that payment is made is for the seller only to dispatch the goods or provide the service once payment has been received from the buyer. Yet, from the buyer or importer's perspective, this might represent a significant or even unacceptable risk and cost to its business. The buyer will be concerned with the cash flow implications of the transaction, as shipping could take some time, whilst there is the risk that the seller may not release the goods (either through dispute over payment or as a result of insolvency, for example), or provide a substandard service.

The buyer, therefore, would be much more comfortable with terms that only require payment to be made once the goods have been received and inspected, whereby the seller would assume a significant risk to its business. The seller would be concerned with the cash flow implications, as there may be a significant delay in the collection of cash from the buyer. (Shipping may take time, extending the payment term, and the buyer would be under less internal pressure to pay, as the goods would already be in the buyer's possession.) This assumes the buyer does indeed pay – after inspection of the goods, the buyer may choose not to.

The position is similar in the case of the provision of a service. However, once the service has been performed, the supplier might have greater difficulty in reclaiming payment from a customer who is unable to pay. Where physical goods are involved, the supplier may have legal recourse to the supplied goods, in the event of the customer's failure to pay.

In essence there are four main terms of payment in trade, each of which represents a slightly different balance of risk between importer and exporter. This is often shown diagrammatically as a 'payment risk ladder'.

A payment risk ladder



The following table outlines how the different types of payment term affect the main participating parties.

Payment term	Importer	Exporter	Role of bank
Open account	No risk to importer as goods or services are received before payment is made.	Riskiest term of payment for exporter, as they could ship goods or deliver service but receive no payment in return.	None.
Documentary collection delivery against payment	Shipping documents are only released on payment. Importer may be able to arrange inspection of goods before making payment.	This method of documentary collection requires shipping documents to be exchanged for payment. The importer can refuse to accept the goods.	The exporter's and importer's banks act as intermediaries for the transmission of documents. Neither bank offers a guarantee of payment. The importer's bank will release documents to the importer when payment is made.

Payment term	Importer	Exporter	Role of bank
Documentary collection delivery against acceptance	Delivery against acceptance allows the importer to defer payment. Again, the importer may be able to arrange inspection of goods before accepting the obligation to pay.	Exporter can usually raise finance against the acceptance, which is also evidence of the importer's debt.	As for delivery against payment, except the importer's bank will release documents to the importer when the importer accepts the bill of exchange. The importer's bank will then hold the bill of exchange until maturity and present it to the importer for payment. Again, neither bank offers a guarantee of payment.
Documentary collection delivery against acceptance pour aval	The importer's credit status will determine whether the bank is prepared to avalise the bill, as the avalisation is a contingent liability.	As delivery against acceptance, but the exporter has a guarantee of payment. However, it will be exposed to the (importer's) bank, which has avalised the bill.	As delivery against acceptance, with the importer's bank (or another bank) guaranteeing accepted bill before documents are released to the importer.
Documentary credit	The importer will be required to pay, as long as the exporter meets the terms of the letter of credit. The importer will need to arrange a credit facility to support issuance of letters of credit.	The exporter has an effective guarantee of payment from a bank, as long as it can meet the terms of the letter of credit. The exporter is exposed to the creditworthiness of the bank issuing the letter of credit.	An issuing bank issues a letter of credit on behalf of an importer. The bank will pay the exporter if the terms of the letter of credit are met. The importer will need to arrange a credit facility with the issuing bank before a letter of credit can be issued.
Payment in advance	The riskiest term of payment for the importer, as it could pay but receive nothing in return. The importer may be able to negotiate a better price, however.	Payment is received before goods are shipped so there is no risk to the exporter. The importer is funding the exporter's working capital.	None.

We shall examine the nature of each term of payment from the perspective of both the importer and the exporter. These terms of payment are also applicable for domestic transactions. There is a more detailed examination of the documentation required in Chapter 7.

Open account trading

Open account trading is the least secure method of payment, from the perspective of the exporter. Despite this, the proportion of international trade done on open account trading has been growing in recent years, and now represents approximately 75% of volumes.

Under open account trading, an exporter will ship goods to the importer and, at the same time, send a request for payment by the date agreed in the contract. The agreed time might be immediately, or within 30 days or 90 days, the timing usually being determined by standard practice either in the industry or in the importer's home country. The exporter often has to accept payment according to the normal payment terms in the importer's home country, especially if no specific agreement has been reached.

In most markets, the buyer will have a choice of suppliers. This gives the buyer the ability to demand a credit period prior to payment. In these circumstances, any supplier wanting payment on delivery would be at a competitive disadvantage to those prepared to offer credit.

Risks and advantages for buyers/importers

A central benefit for the importer is that they control the timing of the payment for the goods. Although the importer should pay within the agreed term, the importer will have some flexibility in chosing the precise date of payment. This suits companies with weekly, fortnightly or even monthly disbursement cycles for non-urgent payments.

Where the importer pays on open account it is likely that the importer will have at least some use of the goods before having to pay. From a working capital management perspective, this effectively means the exporter is funding the importer. In this context the importer will need to consider whether this is appropriate, a decision which will depend on the creditworthiness of the exporter and the importance of the exporter as a supplier to the importer. When negotiating terms, the importer will want to consider both its own interests and the financial strength of the exporter. If the exporter's cash flow is under pressure, it may be prudent for the importer to reduce the payment term, or use another trade finance technique, to accelerate cash flow to the exporter.

Risks and advantages for sellers/exporters

Under open account trading the exporter has to accept the risk that the importer may not pay. In the event of a counterparty failure the importer will have control of the goods, making it difficult for the exporter to obtain cash.

Open account trading is most commonly used when exporting to customers located in jurisdictions where the exporter has confidence in the legal system, as for instance between parties located in both the Western European and North American markets. Confidence in the legal system is important in the event that the exporter has to seek adjudication in a dispute.

In some cases exporters may be forced either by accepted market practice or the threat of competition to trade on open account terms.

On the positive side, where there is a clear record of the importer paying promptly, the exporter may be able to arrange working capital finance on presentation of the invoices, whether via an invoice discounter or a supply chain financing structure. For more on these techniques, see page 117.

More generally, open account trading does not rely on documentation to the same extent as documentary collections or documentary credits. As a result, it remains a relatively cheap way for both parties to transact.

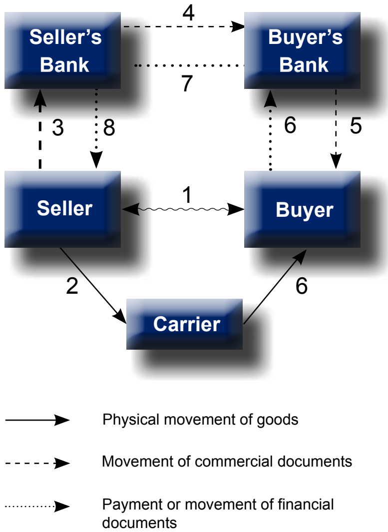
Documentary collection

A documentary collection offers more security to the exporter than trading on open account.

Under a documentary collection both parties use their banks as intermediaries to the transaction. Although the exporter will still ship the goods before receiving payment, this will be to an agent or shipping line in the importer's country. At the same time, the exporter will send a collection order to its bank that will include the appropriate transport document as well as details of the terms and conditions of the transaction.

The exporter's bank (known as the remitting bank) will then forward the collection order to its correspondent bank in the importer's country (known as the collecting bank), which will collect payment from the importer (or the importer's bank). The collecting bank will not release the shipping documents until receipt of payment or acceptance of payment.

Documentary collection



1. Parties agree contract of sale
2. Seller ships goods to buyer
3. Seller sends collection documents to its bank
4. Seller's bank sends documents on to buyer's bank
5. Documents presented to buyer by its bank
6. Buyer pays (collection against payment) or accepts bill (collection against acceptance)
7. Buyer's bank sends payment to seller's bank, if payment received, or a notice of acceptance, if bill accepted
8. Seller's bank pays seller, if payment received, or holds accepted bill until maturity, if bill accepted

The importer will either make a payment or will promise to pay the collection order through the signing of a bill of exchange. This is a pledge to pay on a set future date, perhaps in 30, 60 or 90 days (the usance period), depending on the initial agreement between the importer and exporter. In return the importer will receive the title documents from the collecting bank, enabling it to take control of the goods.

The collecting bank will then pay the remitting bank the funds either immediately (if a cash payment was made by the importer) or in the future (if the delivery of the documents was against an acceptance). The remitting bank then pays the exporter. In this process the banks offer no guarantee of payment, unless the collecting bank avalises the bill (see below).

Collection against payment

Under the terms of collection against payment, the importer is required to pay, before the documents of title are released. From the exporter's perspective there is a risk that the importer will refuse to pay. In these circumstances the importer will not usually be able to take delivery of the goods, meaning the goods will need to be stored and insured at the port while the dispute between the parties is resolved. Exporters usually include a standard 'store and insure' provision in the contract, as protection against such events.

Collection against acceptance

Under the terms of collection against acceptance, the importer is able to take delivery of the goods on acceptance of a bill of exchange, so the risk of a dispute resulting in the need to store goods at the port is reduced, compared to collection against payment (although the importer could refuse to take delivery of the goods for other reasons).

In contrast to open account trading, the exporter at least holds an accepted bill of exchange as security, although in both cases the importer does hold title to the goods and is effectively using the exporter to finance working capital.

Although the exporter should be able to anticipate the collection of funds at the end of the accepted bill's term, there is still a risk that the importer will refuse to honour the bill. In these circumstances the exporter will need to pursue payment through the courts in the importer's jurisdiction. In effect, the exporter's security is dependent on the likelihood of the importer's jurisdiction honouring obligations under a bill of exchange if the importer decides not to pay.

Despite passing across the documents of title against receipt of the bill, it is still possible for the sales contract to have a reservation of title clause, which then provides potential access back to the goods in the event of any non-payment.

Delivery against acceptance pour aval

It is possible for the exporter to strengthen its position under collection against acceptance. This is to use delivery against acceptance pour aval. Under avalisation, the importer's bank must guarantee an accepted bill for payment before documents are released to the importer. Under these circumstances, the exporter is exposed to the importer's bank, which must then be assessed for counterparty risk. The fees for avalisation are based on a percentage of the bill amount, and are usually paid by the importer, although this will depend on the nature of the relationship between the importer and exporter.

Risks and advantages for buyers/importers

Trade using documentary collections is slightly more onerous for the importer, compared with open account trading. The importer's main risks are that the goods are damaged in shipment, or that the shipment was incorrect, or that the goods are detained by customs. The importer will usually be able to appoint a third party to inspect the goods prior to making payment, although this should be agreed with the exporter as part of the terms of the collection.

Preparation of the documentation is central to the process. Negotiation of terms whilst the transaction is being agreed will ensure the documentation is as accurate as possible, reducing the risk of confusion or dispute later. At this stage the importer needs to be confident in its ability to meet the requirements of the collection process. This adds cost to the procurement process, as resources will need to be committed to the scrutiny of the appropriate documents and to ensure any relevant import licences are in place. Note that the latter process would still need to be followed on an open account transaction.

As with open account trading, the importer can still defer payment (using the exporter as a source of finance) by using collection against acceptance, rather than collection against payment. Offering an acceptance may make it easier for the exporter to raise finance in the period before the importer pays, which should be a consideration for an importer looking to strengthen its supply chain.

Risks and advantages for sellers/exporters

As with open account trading, the exporter faces a risk of non-payment after the delivery of the goods, as it can still be difficult to get cash in the event of counterparty failure. Collection against payment offers greater protection than collection against acceptance.

The exporter still has a counterparty credit risk in the case of a usance collection. However, it will have evidence of a debt, which will normally make it easier to pursue through any local legal system.

As with other payment terms, there is a country risk. In this context the major risk is that it can be difficult to pursue non-payment in the importer's jurisdiction. Even if it is possible to pursue non-payment through the local courts, this will take time and have an impact on the exporter's cash flow.

It is important that the exporter is aware of the appropriate local rules. For example, some countries apply stamp duty on bills of exchange, so it is important to factor in the additional cost to any pricing.

All documentation needs to be prepared carefully, so the exporter will have to devote sufficient resource to this process. This is not simply to ensure that documentation is accurate to allow for the collection of payment, but also to minimise the risk of goods being kept in customs, especially if import licences are required.

On the other hand, the exporter should be able to plan collection of the payment – either on delivery, if a cash payment is agreed, or at term, if a bill of exchange is used (although in both cases this will depend on the time taken for payment to be sent from the collecting bank to the remitting bank). The circumstances will vary slightly, depending on whether collection against payment or collection against acceptance is used.

Documentary credit

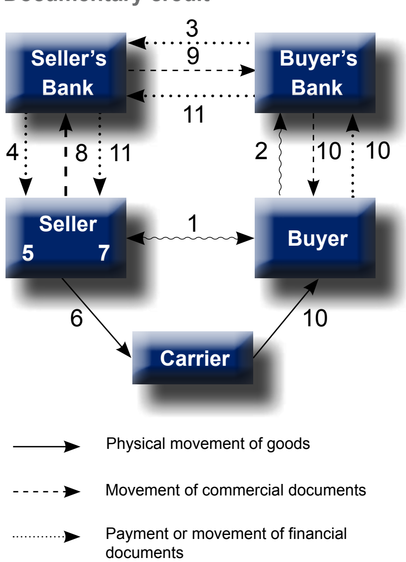
A documentary credit, or letter of credit, offers greater security still to the exporter, compared with both open account trading and documentary collections.

Just as with a documentary collection, both parties to a documentary credit use their banks as intermediaries. However, in contrast to the documentary collection, under the terms of a documentary credit the importer's bank guarantees payment to the exporter, as long as the terms of the credit are met.

If the two parties agree to use a documentary credit, the importer's bank will issue a letter of credit in respect of the importer. The importer's bank (the issuing bank) will forward a copy of the letter of credit to the exporter's bank (the advising bank), which will advise the exporter of its existence and detail its terms and conditions. Assuming that there are no discrepancies between the terms agreed in the commercial contract and those detailed in the documentary credit, the exporter will then arrange shipment to the importer in accordance with the agreed shipment plans. At the same time, the exporter, or its shipping agents, will prepare the documents required under the terms of the letter of credit, which would normally include the bills of lading or other shipping documents. The exporter will then present these documents to its bank, which will examine them and may (if compliant with the terms of the documentary collection, and negotiation and payment is set to be 'at the exporter's bank') pay the exporter.

The advising bank will then forward the

Documentary credit



1. Parties agree contract of sale
2. Buyer asks its bank to open a letter of credit
3. Buyer's bank issues letter of credit to seller's bank
4. Seller's bank advises seller of receipt of letter of credit documents onto buyer's bank
5. Seller checks detail of received letter of credit
6. Seller ships goods to buyer
7. Seller prepares required documents
8. Seller sends prepared documents to its bank
9. Seller's bank checks received documents and sends them to buyer's bank
10. Buyer's bank checks documents and arranges payment
11. The buyer's bank will then pay the seller's bank

documents to the importer's bank, which will also examine the documents. If satisfied, the importer's bank will release the documents to the importer (including any documents of title) in exchange for payment or the acceptance of a bill of exchange. The importer's bank will pay the exporter's bank direct (or via a negotiating bank, if there is an extra bank in the chain to purchase or negotiate documents presented by the exporter). The exporter's bank will then pay the exporter (if payment has not already been made).

Risks and advantages for buyers/importers

Compared with open account trading and documentary collections, documentary credits shift the balance of assumption of risk towards the importer. This is because, as long as the terms of the letter of credit are met by the exporter, the importer is required to pay.

Banks play an important role in the documentary credit process; however, their role is solely linked to the checking of documents. Banks do not check the goods themselves. This can result in importers being forced to pay even when goods are damaged in transit or the wrong type have been shipped, as long as the exporter has met the terms of the letter of credit associated with the transaction.

Because a letter of credit represents a financial commitment on the part of the importer to pay, the importer will need to arrange an appropriate credit facility with the bank arranging the letters of credit, before one can be issued. This facility will normally place a restriction on the time and number of letters of credit outstanding at any one time. In turn, this places a constraint on the quantity of goods which the importer can purchase at any one time without amending such a facility. The cost of a letter of credit is based on a percentage of its amount and tenor, and any resultant drawing.

Case study

UK provider of workwear for large UK corporations

A UK SME sources and imports manufactured workwear for large UK corporations. Large corporations tend to change employee workwear about every 12 months. The provider has to source the workwear, arrange a supplier and deliver the finished workwear to the corporation within a three to four-month cycle. The cost of manufacture is approximately GBP 1.5–2 million per cycle.

Because the importer is an SME, it does not have access to sufficient cash to cover the requirement for this three to four-month cycle. However, because it holds a confirmed purchase order from a UK blue chip company, banks are prepared to finance the importer.

Before offering finance, the importer's bank needed to understand the importer's business cycle. This process included identifying the point at which the goods become available, the payment mechanism(s) used to pay the supplier, and the time frame within which the blue chip client pays in the UK.

Once the bank understood the business, it offered financing in the form of import letters of credit, supported by import loans. This provided assurance to the supplier that it will be paid. The importer is then required to repay the import loans when funds are received from the blue chip company, according to the agreed payment terms of 60 days after date of delivery.

Understanding the business cycle is critical to this transaction. The importer approached its bank when looking to tender for the blue chip contract. It understood it ran a significant risk to its reputation if it had won the tender and then found it could not finance the deal.

The bank was prepared to support the importer because it had supported the company on smaller, sample deals, and had helped the importer build up a track record of steady working relationships with its suppliers in Asia.

The importer controls the opening and issuance of the letter of credit. This means the importer has the responsibility for arranging the appropriate terms and conditions, which should be agreed when the two parties initially contract. In many cases the exporter will send the importer a set of terms and conditions to include in the letter of credit to minimise the risk of confusion or dispute later and ensure goods are able to be cleared through customs efficiently.

The customer, the importer, often has the ability to dictate the timing of the payments. Broadly speaking, there are four alternatives under the terms of a letter of credit:

- Sight. This means payment is made at the point the title documents are presented to the importer (applicant). This can be done without a bill of exchange, but a sight bill is usually used. (Note that under a sight transaction, where a full set of bills of lading is required, the bank will have effective title, as the bills would normally be to order and blank endorsed. If the bank has control in this way, it may be more comfortable with the underlying credit and provide a more competitive rate.)
- Deferred payment. This means payment is made a set period of time after presentation of the title and other documents to the importer. A bill of exchange is sometimes used.
- Acceptance. For payment to be made, the terms of the letter of credit must be met and the accepting bank will accept a bill of exchange at that point. Payment will then be made according to the terms in the letter of credit – which could be on a specified date or a set period after presentation of the letter of credit or acceptance of the bill. (This can normally be discounted at the request of the beneficiary.)
- Negotiation. If a negotiable letter of credit is issued, the issuing bank pays the bank which negotiates the bill of exchange.

Finally, the importer can often choose the currency of payment, although this will depend on the relationship between the two parties.

Risks and advantages for sellers/exporters

Exporters face a reduced risk by using a documentary credit compared with documentary collections, because they effectively have a guarantee of payment from a bank. This does rely on the exporter complying with the terms of letter of credit, so care needs to be taken in the preparation of the documentation. As with a documentary collection, it is important that the exporter has sufficient resource to be able to prepare and present documents in accordance with the terms of the letter of credit.

However, there is still a risk that the bank may not honour the terms of the letter of credit. There is also a country risk, in the sense that payment under the letter of credit may be affected by any debt rescheduling for that particular country.

Local customs rules also apply, and the exporter will need to ensure that the shipment does not breach the terms of any local import rules or restrictions and, if necessary, an appropriate import licence is obtained.

Because of the central role of banks in the process, the treasurer will also want to assess the creditworthiness of the counterparty bank. This applies particularly when exporting to a new market where the local banks are not well known to the exporter. One solution is for the exporter to ask its bank to confirm the letter of credit issued by the importer's bank, although this will be at additional cost. This further mitigation of risk effectively removes bank and country risk in the importer's country.

Finally, even if the terms of the letter of credit are well negotiated, it may be that the exporter may not have access to all the required documentation to meet those terms. In these circumstances it is usually possible to work through the two banks to seek resolution. This is on the basis that both parties want the transaction to be completed (the reason they both entered into the contractual relationship in the first place).

However, if a disputed letter of credit is pursued through the local courts, then any discrepancies may make it difficult for the exporter to receive payment. See page 99 for more details on the use of documentary credits, including the use of the International Chamber of Commerce Uniform Customs and Practice for Documentary Credits (UCP 600).

Payment in advance

Payment in advance is the most secure term of payment for the exporter, and the least secure method for the importer. Under payment in advance the exporter will only ship the goods after it has received the funds. In many cases an exporter is able to request part-payment in advance, perhaps on the signing of the contract.

Risks and advantages for buyers/importers

This is the riskiest term of payment for an importer. In effect, the importer risks making payment to the exporter but receiving nothing in return. In this event recourse is usually via the legal system in the exporter's home country, although this will not protect the importer against insolvency of the exporter. To pursue such a claim it will be important for the importer to ensure an appropriate contract is in place before payment is sent, as otherwise it will be difficult to prove a claim. It may also be difficult to seek redress in the event that the goods are damaged in transit. To protect against this, the importer should ensure that adequate insurance is in place.

There are cash flow disadvantages for the importer with this term of payment too, as the importer would be financing the exporter for a period of days or even weeks, depending on the nature of the transaction and the shipping time. However, for a cash-rich company, extending credit to its suppliers may be an appropriate way to utilise surplus cash effectively and negotiate preferential buying arrangements.

Risks and advantages for sellers/exporters

From the perspective of the exporter, payment in advance offers the greatest level of security. Risks are low for the exporter, as the funds will already have been received before the goods are shipped.

From a cash flow perspective, the exporter benefits, as the importer is effectively funding the exporter's working capital.

Companies don't work in isolation

The assumption behind the payment risk ladder is that both participants view themselves in isolation. In reality, both the exporter and the importer are reliant on each other. The exporter needs to receive cash from the importer to recycle back into its business. The importer wants a streamlined procurement process to facilitate an efficient production process or, if the importer is a retailer, to allow goods to meet customer demand.

As a result, it is not always in a company's best interests to require its counterparty to accept severe payment terms. Making a supplier wait for payment will mean that it will need to find alternative sources of funds to purchase its own inputs. If these funds are more expensive (likely, if the supplier is a weaker credit, or if its local funding sources are limited), this will result in the supplier being forced to increase its prices in due course. On the other hand, if the supplier cannot raise the funds, it may be forced to reduce production or cease trading, putting the importer's physical supply chain at risk.

It works the other way, too. If a supplier tries to force a customer to pay earlier, this will put pressure on the customer's cash flow. In response, the customer may choose to source from a competitor offering better payment terms, putting the supplier's business under threat, especially if the counterparty is a core customer. However, the supplier will need to consider any information that its customer's creditworthiness may be weakening, in which case an attempt to make them pay earlier may be the most prudent course.

Certainly it is important that companies protect their own interests in trade. However, as technology allows companies to collect and collate more information about their counterparties and also to share information along the supply chain, it is increasingly possible for all participants in a supply chain to cooperate to their mutual advantage. Companies increasingly see the physical and the financial supply chains as a set of cooperative processes, where all parties are able to agree mutually beneficial terms.

The next chapter looks at ways companies can cooperate to improve the efficiency of both supply chains, allowing the end product to be as competitive as possible in the market.

Integrating cash and trade

Introduction

Every corporate treasurer has slightly different objectives when managing working capital or establishing a new transaction process. Given the complexities of many organisations, it is often appropriate for a treasurer to view cash management and trade finance as discrete activities. Improving an inefficient liquidity management structure, for example, will often deliver significant benefits to the company as a whole. So too will making each activity as efficient as possible.

Yet cash management and trade finance can be viewed as part of a wider working capital whole. It is possible to identify ways to improve the efficiency of both cash management and trade finance by understanding how the two activities interact and relate to each other, with a potentially boost to working capital. Integrating systems, for example, provides the opportunity for information to flow more smoothly through an organisation, resulting in better decisions and less scope for error.

Yet this approach to integrating cash and trade only supports the company in isolation. It does not reflect the fact that companies need to interact with other parties on a regular basis just to achieve their objectives. In today's environment there are opportunities to look beyond a company's own direct areas of control to provide greater efficiencies and therefore value across the whole supply chain. On the one hand, improvements in technology provide opportunities for suppliers and customers to view the same information about invoices, for example, in real time. On the other hand, the experience of the 2008 contraction in available credit in Europe and North America led all companies to consider the strength of their own supply chains. For both reasons, companies are increasingly looking to work with their suppliers and customers to make efficiency savings along the length of the financial supply chain.

Whether the treasurer looks to improve a single process, to integrate cash and trade or to look at the whole financial supply chain with suppliers and customers, there are three core objectives which can be targeted: improving liquidity, mitigating risk, and enhancing sales.

Improving liquidity

The first objective is to improve liquidity, whether for the individual company or along the entire length of the supply chain. As a result of the 2008 contraction in credit, almost all European and North American companies experienced a reduction in the availability of liquidity or, at the very least, an increase in the cost of funds. Asian markets were less directly affected. Most Asian companies did experience some form of indirect effect, however, either through their European or North American customers, or as part of the consequent downturn in world trade levels. The changes in 2008 were sudden and dramatic. In the following years, the availability of credit began to improve, although bank lending remains relatively stringent following widespread re-regulation of the banks to make them safer.

The circumstances surrounding the banking crisis forced all companies to refocus on ensuring the robustness of their liquidity streams. The impact was particularly marked on those companies which had previously enjoyed easy access to credit. Many companies also experienced problems when their suppliers or end customers got into difficulties as a result of a contraction or withdrawal of facilities by their respective banks.

The problems were not just related to bank finance. Larger companies that relied on commercial paper programmes to fund working capital found these could not be rolled over. Equity financing was equally difficult, with the number of IPOs dropping significantly compared with previous years. (The number of global IPOs in 2011 remained below the pre-2008 peak.) Smaller companies saw banks withdraw overdraft facilities completely, or at least to a much reduced limit. In short, external financing of working capital was much harder to obtain.

Mitigating risk

The second objective for companies involved in trade is to mitigate the associated risks. For domestic transactions, in addition to the liquidity risk highlighted above, there is the risk for the buyer that the goods delivered will not be as expected (performance risk); for the supplier there is the risk that the buyer does not pay on time or, at worst, at all (counterparty risk).

For international transactions there is the additional risk of payment or the goods themselves being captured by changing regulations (country risk), or that the economics of the transaction will be adversely affected by changes in the exchange rate (foreign exchange risk).

Enhancing sales

The third objective for companies is to enhance sales. There are two main focuses here: demonstrating creditworthiness and providing support to existing and prospective customers.

First, companies may have to demonstrate their creditworthiness when bidding to become a supplier to another company. This primarily affects companies in two different types of situation: when tendering for participation in large-scale contracts with long lead times and, in the case of small and medium-sized enterprises, when seeking to become a supplier to larger companies. However, it is likely that any company seeking to be listed on a counterparty's approved supplier list will need to demonstrate a degree of financial strength before such status is awarded.

Second, stronger companies may want to offer finance to their existing and prospective customers, to support sales. This is particularly the case where the supplier has significantly stronger credit than its target customers. In these circumstances the stronger company will typically have access to more funds at, critically, much lower rates than its customers. Where the company is simply viewing its own actions in isolation, it can extend payment terms to its customers to reduce or eliminate the working capital finance they need to arrange. Where a wider supply chain view is taken, more sophisticated supply chain financing techniques are available.

Case study

Supporting Kingspan's growth in Australia

Kingspan Group Plc is a global leader in low-energy building solutions and in recent years has expanded across its four key areas of activity: insulation panels, insulation boards, access floors and environment. Australia has seen some of the biggest growth, with insulation board sales alone rising 32% in the first six months of 2012, helping to push group half-year revenues to GBP 757 million.

Such strong growth has a significant impact on financing arrangements, with Kingspan's Australian business unit having an increasing requirement to issue bank guarantees in support of their contracts. The guarantees needed to be arranged through a local bank, with the company's local management team having to arrange each transaction and consider the implications of the requested wordings.

This not only added to the workload locally, it also made it more difficult for Kingspan's treasury team, based in County Cavan, Ireland, to leverage the Group's multiple global banking relationships effectively and maintain optimum efficiency and control.

As RBS has a longstanding relationship with the company, the Kingspan treasury team responsible for reviewing the wider Group's overall transaction banking requirements approached RBS, to discuss their requirements in Australia.

After discussing the problem in detail, the bank suggested a solution which could both centralise the transaction application process at the company's headquarters in County Cavan, include an electronic link with their local subsidiary in Australia when required, and ensure fast and effective processing of each new bank guarantee by the bank's office in Sydney.

'We asked our trade finance bank in the UK to arrange to issue the guarantee in the name of their Australian subsidiary, with a counter indemnity to the bank from our UK company. All costs are then recharged back to local subsidiary, which works for us in terms of cost and control,' says Kingspan Group Treasurer Kevin Deery. 'It means we have our guarantees issued by our relationship bank and can oversee the contracts agreed by our international subsidiaries.'

Initially the system has been implemented manually, but plans are in place to migrate to the bank's online platform, MaxTrad.

'With us being so remote from Australia in terms of time and geography, it can be hard for us to keep track of everything,' Deery says. 'Now they can come to us in their own time zone and know that the guarantee will be issued in a few days. We can then manage that guarantee through its life cycle.'

With the Australian process now up and running, Kingspan is considering rolling out the system to subsidiaries in Western Europe, the Middle East and Russia, Deery says. The company has made several acquisitions recently, including the Construction Group of ThyssenKrupp Steel Europe, and Dubai-based Rigidal Industries LLC.

'The RBS solution has helped us manage costs and increase control, supporting our growth,' Deery says. 'As we continue to expand, the bank's capabilities in all jurisdictions are a great benefit.'

The bank has worked with Kingspan for a number of years and was able to build on that to provide a solution that would not only cover the company's requirements in one country, but was also scalable, given their continued overseas expansion. A similar model can be rolled out to assist with their transaction banking requirements in business units around the world.

Meeting objectives in isolation

As discussed, companies choose to try to meet these objectives in a variety of ways. The most straightforward method is simply to focus on the core objective and identify areas of inefficiency which might prove easy to improve. This applies for each of the three core objectives, although the degree to which improvements can be achieved will clearly depend on the company's current processes and activities.

Improving liquidity

Given the focus on liquidity since the demise of Lehman Brothers et al., many treasurers will want to maximise their own organisation's access to liquidity.

For many companies, changing internal operations can improve liquidity within the organisation as a whole. There are many different ways to do this, including:

- Negotiate better payment terms.
  For a company seeking to manage its own position, agreeing better payment terms, whether by paying suppliers later or collecting payment from customers earlier, will improve working capital within the organisation. Whether this is possible will depend on the relative bargaining positions of the company and its counterparties. For example, supermarkets and other large retailers are often able to impose strict payment terms on their suppliers. Whilst this might improve a company's own liquidity, it will inevitably weaken that of its counterparties.
- Offer early payment discounts.
  Where better payment terms with customers cannot be agreed, some companies offer early payment discounts to accelerate cash collection. Care should be taken to ensure sales teams only offer discounts that have been agreed with the treasury.
- Reduce exceptions and manual interventions.
  One of the most significant ways a company can improve its liquidity is to reduce delays in the receipt of payment as a result of invoice or letter of credit error. Any manual intervention in any process will increase the time taken to prepare the invoice and consequently the time to collect payment. Treasurers should consider measures aimed at reducing errors in the preparation of documents and payment instructions. This may include automating or outsourcing certain activities.
- Standardise processes as far as possible.
  Although it can prove difficult to arrange, standardisation of processes is one technique to improve liquidity. Instead of having a number of different processes and systems, standardisation usually reduces both the headcount required to administer an activity and, if automated, the cost of operating different systems. For example, accessing all bank account information through a single platform with common authorisation procedures is much more effective in terms of managing balances and protecting against fraud, than operating a number of different proprietary electronic banking systems.
- Improve management of inventory.
  Using ERP data and other information to improve the management of inventory, so that unnecessary items are not bought (thus having to be stored), can allow a company to streamline its physical production processes, reducing the level of working capital committed to inventory. This is not always possible, especially when the company has already streamlined its processes, or where demand levels are uncertain or supply lead times unreliable. However, when improvements can be made in the management of inventory, gains quickly feed through to working capital.
  In a similar vein, taking advantage of improved tracking of goods in transit will both improve the use of inventory and reduce the associated transit risk.
- Restructure liquidity management processes.
  At the other end of the scale, treasurers can be tempted to invest significant time and effort into improving the efficiency of domestic and/or international liquidity management structures. The larger and more complex the organisation, the more scope there is for gains. However, this will need to be set against an increase in costs in terms of both the time and resource that such a project will require. A liquidity management restructuring is most likely to provide improvements where a group has significant numbers of bank accounts in a number of locations and where there is scope to reduce reliance on external borrowing by using cash-rich group entities to fund cash-poor ones.

Companies may also be able to arrange additional external financing, whether from banks (in the form of a loan or an overdraft facility), the money or bond markets or from the sale of equity. If successful, all of these would improve the company's liquidity position. However, these choices are dependent on market appetite, and funding rates will be determined by the individual company's credit rating. Because lender appetite can be changeable, companies tend to take advantage of receptive funding markets, even if it means carrying surplus cash for a period.

Managing risk

To manage risk effectively, the treasurer's first job is to understand the risks to which the company is exposed. Having understood this, the treasurer then needs to decide how best to manage that risk.

Counterparty risk

In most cases the most reliable information a company can have on its counterparties is that which it can build up itself over time. Trends (on, for example, the time each counterparty takes to pay) will become apparent over time, as long as the company has the tools to capture that information. ERP and sales management systems can be set up to report statistics on individual counterparties. These reports can indicate developing problems and the need to change the company's approach to that counterparty. However, this technique only works for established trading partners.

To assess counterparty risk for both existing and prospective trading partners, it can help to develop an internal credit-scoring model to help to assess counterparty risk. There are a number of different factors to consider when evaluating the strength of a counterparty, including:

- the company's name and location, any publicly available annual reports or other filings, and the ultimate beneficial owners of the company, including the use of any central treasury or shared services centre;
- the likely or agreed payment terms, the currency of payment, the use of any trade instruments or techniques (factoring etc.), and the nature of the counterparty's other trading relationships; and
- any established payment track record. For prospective customers, it may be appropriate to seek references.

Together this information can be used to assess and monitor current and potential trading partners. It is always important that any changes in metrics are fully understood. For example, a counterparty could show an increased DPO value (days payable outstanding), which might suggest a weakening credit. However, if it is participating in a supplier finance scheme operated by its main customer, this figure might be misleading.

As well as assessing counterparty risk internally, there are a number of different entities providing risk management services, including credit rating and credit checking agencies.

Credit rating agencies

Credit ratings can help in managing counterparty risk, as they provide an indication of likely credit default. Credit ratings provide a measure of the likelihood of default and the severity of loss on financial obligations. They are an opinion on the relative ability of a financial obligor to meet its financial commitments, such as interest, repayment of principal, insurance claims or counterparty obligations. Ratings are intended to be easily understood measures that differentiate between debt instruments on the basis of their underlying credit quality.

Credit ratings can help a company to assess the creditworthiness of a particular counterparty. However, it is important to recognise their limitations. The ratings process has come under a lot of criticism in recent years, especially since its failure to predict the credit contraction and the associated collapse of a number of banks, notably Lehman Brothers and three Icelandic banks in 2008, as well as the difficulties which AIG, for instance, experienced. The agencies have also been criticised for being slow to identify problems with corporate entities – Enron was a well-publicised example of this. When treasurers use credit ratings to support their evaluation of credit risk in a transaction, such cases highlight the importance of understanding the scope of credit ratings. In particular, ratings analysts do not always have access to specific data on trade – there may be not even be specific data – and in any event they are not assessing the likelihood of a company refusing to make payment in a particular contract. Rather, they are considering the likelihood of the company defaulting on its particular bond interest or other security obligations.

The second weakness of credit ratings is that they may only cover a small number of a company's potential counterparties. Most particularly the credit rating agencies are unlikely to cover smaller entities in smaller, emerging markets. Privately owned companies that do not raise finance on the external bond or money markets do not generally attract a credit rating. Even subsidiaries of larger organisations which do have a credit rating will not usually have their own credit rating, unless they operate in the markets on their own account. It is important to establish the rating or financial strength of the exact legal entity with which the company is dealing. A strong parent has no obligation to support a failing subsidiary, unless specific guarantees have been obtained.

The key point is that, because of the approach credit rating analysts take, companies should not rely solely on the rating reports when assessing credit risk. However, some of the information provided by credit rating agencies, notably the detail in published credit rating reports, will flag risk factors and may give advance warning of a counterparty's problems and, especially, its exposure to particular markets. In summary, credit ratings are usually only a relatively blunt instrument to use to assess the likelihood of being paid for a specific contract.

Credit checking agencies

A second source of information when assessing potential counterparty risk is specialist credit checking agencies. For a fee, companies can access credit reports prepared by specialist providers. Their focus is on providing commercial, rather than financial, counterparty risk analysis. A typical report will cover a range of information including:

- Company details.
  These will include former trading names as well as company addresses. Both are useful as protection against fraudulent transactions. Some agencies include detailed reports on the company's directors and its senior management. These will include details of any court judgments made to order the company to make a payment.
- Company valuation and capitalisation.
  Details of company share ownership, indicating the existence of its subsidiaries and also, where applicable, the identity of a company's beneficial owner, whether it is operated as part of a group or with private equity investor ownership.
- Financial analysis.
  This will include an analysis of the company's core financial reports (balance sheet, income statements and other filings, although for smaller entities these may be unaudited), as well as the presentation of core working capital ratios, including DPO, to give an indication of the speed at which the company pays. These reports also provide liquidity and gearing ratios, which show the level of cash available and the company's reliance on external borrowing.
- Financial report.
  Depending on the agency, there may also be a commentary about the company in the report. This may simply be a digest of publicly available information (e.g. press reports). Alternatively it may include a more detailed analysis of figures, ratios and trends presented elsewhere in the report.
  The report might include a comparison of key data with other companies in the same industry.
  Finally, the report may include an overall score, often expressed in the form of a ranking amongst the population covered rather than an absolute measure.

These reports can be very helpful to companies seeking to transact with new counterparties. There is a small number of international credit check agencies which provide information on companies located in most of the larger trading countries around the world. One benefit of these agencies is they use the same methodology when conducting credit checks (although there can be differences in the information available from country to country). There are also national credit check agencies in a number of countries, which only provide information on domestic entities. Companies trading internationally may find these agencies do not provide coverage for the most risky counterparties, as a result of a lack of geographical coverage.

Although the coverage is better than for credit ratings, credit check agencies cannot provide cover in every location or for every counterparty. They may also not cover recently established potential counterparties (although there may be access to information on a new entity's directors, for example). Although they are probably quite effective as indicators of short-term payment track records, and are a good place to start, companies should not rely solely on credit check reports when evaluating a counterparty.

Outsource credit support

A third alternative for companies is effectively to outsource counterparty risk advice. This applies when companies choose to factor their invoices, as they hand over control of their sales management process to a third party. Specialists in factoring companies can identify trends among a company's existing customers, and highlight potentially weakening credits. (In the case of invoice discounting, the company's sales management process will be scrutinised by the invoice discounter, which may also provide advice on the management of customers.)

References from a customer's bank can be sought with the customer's assistance. However, these tend to be very vague, using statements such as 'We believe this customer is good for GBP 50,000', which do not convey much useful information.

In all three cases, the information provided from external sources will only be an indication of any weakening of credit. The treasurer and other officers will still need to perform their own credit checks on these counterparties. Most importantly, though, the company should always maintain a dialogue between all its current and prospective counterparties. Any suggestion of a weakening credit should trigger a follow-up conversation with the counterparty as soon as possible, and certainly before another contract is agreed.

Action to manage counterparty risk

Having identified where the company is exposed to counterparty risk, the treasurer will want to evaluate the risk before assessing what to do.

Essentially, any risk is a combination of the loss to the company if a particular event occurs and the likelihood of the event occurring. For counterparty risk it can be relatively straightforward to identify the direct cost of a failure. However, it may be more difficult to assess indirect costs, especially if an event affects a company's reputation. For example, if a company sells into a foreign company via an import agent who sells goods on to the retailer, any failure of the import agent may result in the goods being delayed in delivery to the retailer or the final customer. This may affect future sales, although the impact will be very difficult to quantify.

If a treasurer identifies a problem with a current or potential counterparty, it has four alternative courses of action to follow.

- Continue trading.
  All transactions involve a degree of risk. As long as the treasurer assesses the risk of counterparty failure as tolerable (perhaps on the basis that the impact of a counterparty failure would not result in the failure of the company), it may be appropriate to continue without implementing any particular changes. The company may try to negotiate better payment terms by, for example, moving from open account terms to using letters of credit, although this is clearly subject to negotiation as well as the availability of facilities on the buyer side.
- Cease or reduce trading.
  On the other hand, the treasurer may consider the potential impact of a counterparty failure to be too great, given the likely reward. In these circumstances, if the terms of the transaction cannot be renegotiated, the company might be better

served to downscale or end its relationship with that counterparty.

- Insure against loss.
  The third alternative is to arrange some form of credit insurance. Credit insurance is available from both commercial insurers and export credit agencies (see below).
- Work with counterparty to improve creditworthiness.
  The final alternative is to work with the counterparty to reduce the chance of failure. In the case of strong credits, this can include arranging a supply chain finance structure to support suppliers and/or end customers (see below).

Country risk

The second broad type of risk that companies face when trading internationally is country risk. This is the risk that action by the government or regulator in one of the parties' jurisdictions results in a counterparty not being permitted to pay, or a company having difficulty in repatriating funds from one jurisdiction to another. Companies must also be aware that it may be difficult to pursue redress through local courts in the event of non-payment. (This is most likely when a company has not taken sufficient care or advice over the preparation of contracts to meet the local jurisdiction's standards. In some jurisdictions, political interference may affect the ability of the company to seek redress. Finally, in certain circumstances, uncertainty over the likelihood of getting redress may make the cost of funding legal action prohibitive.)

Companies must also recognise that in today's environment there is a much greater focus on counter-terrorist financing and money laundering. This will add cost to the process of establishing local bank accounts, which may otherwise make collecting payment easier.

Action to manage country risk

Treasurers will want to assess the country risk associated with a particular transaction before agreeing a contract. Official export credit agencies, in particular, tend to grade countries according to their risk, providing an opportunity to identify a clear charge for the goods or service. In most cases a company would become exposed to country risk when it is considering expanding operations to a new jurisdiction. However, a treasurer should always monitor government activity; for example, it is possible that the company's goods could be caught in an emerging trade protection dispute. Any change in government should also be assessed.[1]

In the case of country risk, the company has three main choices.

- Start or continue trading.
  The first option is to continue to trade or to pursue any plans to expand into a particular jurisdiction, factoring in a sufficient return to compensate for the risk.
- Cease trading.
  A decision to cease trading could be made. However, it might be difficult to resume trading at a later time in that country, as competitors will have been able to replace the company in that market.
- Arrange insurance.
  The third option is to arrange some form of insurance to protect against loss.

The use of insurance to manage counterparty and country risk

It is possible to take out insurance against credit and country risk. The cost of doing so will be related directly to the insurer's evaluation of the company's likely loss and the cost of loss. In other words, for the same sum insured, when a company is likely to claim against a policy the premium will be higher than when a claim is unlikely. The key point when assessing the cost of credit insurance is to evaluate the cost of the premium against the impact of a loss if uninsured. Where a company faces likely losses, it might be more appropriate to self-insure, probably by charging the end customer a higher price to reflect the risk. The big danger with reliance on credit insurance is that a loss event may prove to be exempt from the insurance policy, and the insurer may be able to avoid paying.

Insurance is usually available from two

1 Aswath Damodaran provides a range of data that quantifies country risk and other measurements. It can be found at http://pages.stern.nyu.edu/~adamodar/, with the data sets accessible from the 'updated data' section on the main menu, then look for 'risk premiums'.

sources: commercial insurers and official export credit agencies. The availability of cover from both sources varies from jurisdiction to jurisdiction, especially with relation to any official export credit agency.

Commercial insurers are able to offer protection against standard trade transactions. They are typically used to protect the trade of consumer and some commodity goods. Trade in services can usually be insured as well, often in the form of a service guarantee. This insurance is available for domestic transactions as well as international transactions.

Specialist insurance brokers also offer protection against the wider credit risks associated with trade. These cover the immediate credit risks: the failure of a counterparty to pay as a result of insolvency or default. In addition, they cover the political risks which can prevent a counterparty from paying. These can include government or regulatory decisions, such as the imposition of trade sanctions and exchange controls, market conditions, such as a lack of available currency, and other political or environmental events, such as war or earthquakes. Cover can usually be arranged for a specific transaction or on a rolling basis to protect an ongoing trade relationship. The level of cover varies but is typically arranged as a proportion of the value of a specific contract or the company's turnover.

Export credit agencies only insure international transactions, but do offer protection against both country and counterparty risk, as long as the requirements of the programme are met. This insurance can be particularly appropriate for longer-term transactions, such as a company's participation in a long-term infrastructure project abroad, or for transactions with parties located in areas not usually covered by commercial insurers (where standard policies do not apply), or where credit check agencies have little or no coverage.

Credit insurance can also play an important role in the financial supply chain. If suppliers are able to arrange credit insurance against their customers, the credit insurance acts in a similar way to a bank guarantee. The suppliers can be confident that they will be paid, so they may be prepared to extend credit terms to those customers. In contrast, if the credit insurer refuses to offer protection against a specific customer, then the suppliers may insist on cash on delivery or cash in advance, as a condition of trade. Such a change can have a dramatic impact on the customer's cash flow. The withdrawal of credit insurance for Woolworths' suppliers in the UK was a key factor in precipitating the retailer's insolvency in 2008.

There is more detail on the use of credit insurance and export credit agencies on page 140.

Foreign exchange risk

Many companies need to manage foreign exchange risk as part of the process of agreeing a trade. In most cases the foreign exchange risk will be a clear element in the transaction, as the company will be required to invoice or be invoiced in a currency other than its operating currency. In either circumstance there is a clear foreign exchange risk to be managed.

For other companies there may well be an underlying foreign exchange risk in a transaction. This arises from the pricing of certain inputs in another currency affecting the price of the good or the cost of production. This is most common in the case of the cost of oil, which indirectly affects the cost of production through energy and distribution costs.

There are three different forms of foreign exchange risk that can affect companies: transaction risk, translation risk and economic risk.

- Transaction risk.
  This is the most apparent risk to those engaged in international trade. This is the risk that the exchange rate will change, adversely affecting either the funds received or the sum to be paid out. This applies in a variety of situations. It can be easily understood in an international transaction, where a company may find that the value of a foreign invoice changes so that it ends up paying more when importing, or receiving less when exporting, than it had originally

expected. It also affects a company which raises funds in foreign currencies, and it impacts on its underlying costs, especially energy costs. Companies tendering to provide services to an overseas project will also be subject to foreign exchange risk, as they are exposed to the risk once they commit to making a tender.

- Translation risk.
  This is primarily an accounting risk which arises when a company is translating assets and liabilities denominated in one currency into its reporting currency when preparing company reports and other documents. It arises primarily when reporting on foreign operations or longer-term projects, or where relatively high levels of inventory are held in a foreign currency. Where this has an impact on the balance sheet, the treasurer will need to explain why the impact arose. Any impact on the balance sheet could have a wider impact on the company, as banks, credit analysts and other counterparties will review balance sheet strength as part of the process of evaluating the strength of the company. Where the company is operating close to any limits set in any covenants, this translation risk needs careful management, as changes could affect its ability to borrow, and the cost of that borrowing.
- Economic risk.
  This is the risk that changes in the exchange rate could affect the economics behind a company's business decision. This is most likely to affect international companies that decide to expand into a new market. If the exchange rate moves against them, the underlying economics behind the decision makes it less attractive. It will also affect international companies exporting to countries where there are local competitors for similar products.

There are a number of techniques for managing foreign exchange risk. Companies effectively have three choices once they have identified an exposure:

- Do nothing – appropriate when the company has natural hedges in place. This is where the effects of exchange rates on the company as a whole (rather than on a specific transaction) are assessed as being broadly neutral. This can arise when, for example, a company sells into and sources supplies from the same country.
- Fix the exchange rate, either by entering into a foreign exchange transaction immediately or by contracting to buy foreign exchange at a fixed point in the future through a forward outright agreement.
- Fix a worst-case rate by purchasing a foreign exchange option. The company will have to pay a premium to agree a foreign exchange option, which can be expensive. Even so, options are very effective in providing protection where the company still faces some uncertainty, such as when tendering in a foreign currency. Options can also be used to give cover against economic risk where to fix an exchange rate at the wrong rate can be as damaging as not fixing at all.

For longer-term agreements it may also be appropriate to enter into a currency swap, which swaps one set of expected cash flows in one currency for a set of cash flows in another. This can apply, for example, when a company enters into a forfaiting agreement (see page 126), or as a mechanism to create a synthetic borrowing to be used to hedge a foreign currency asset.

There is no general requirement on a company to transact all foreign currency receipts into operating currency immediately. Indeed, in some countries such activity is prohibited or made very difficult by exchange control rules. Instead companies can structure their cash management activities to protect themselves against foreign exchange risk. This may be by operating bank accounts in those locations where there are significant cash inflows and outflows in the same currency. Where the company relies on local currency borrowing, local currency cash inflows can be used to meet future repayment obligations.

When approaching foreign exchange risk management, the treasurer should have a clear idea of the company's objectives. These will depend on the company's activities, including their geographic spread, as well as a wider approach to risk.

RMB: the road to internationalisation

In the next five years China is set to overtake the USA as the world's largest economy, yet at present less than 1% of world trade is settled in RMB (Swift 2012). This is a situation that the People's Republic of China (PRC) has been working hard to change by introducing a series of internationalisation measures to offer businesses outside China the opportunity to settle trade, invest and raise funds in RMB.

The RMB is unusual in that the PRC is seeking to internationalise it without it being fully convertible. This route has been chosen in order to avoid the exchange rate shock and 'hot' money flows that could result from full currency and capital liberalisation. Instead, the Chinese solution has been a gradual, co-ordinated internationalisation programme designed to allow capital flows and convertibility only through clearly defined, controllable channels. At the heart of this solution is the distinction between RMB traded onshore (in mainland China), which is referred to as CNY, and RMB that is traded offshore (mainly in Hong Kong), referred to as CNH. So, while the RMB remains a single currency, it trades in two different forms, at two differing exchange rates, depending on where it is traded.

A dual approach

China has deployed a two-pronged strategy, encouraging the use of the RMB to settle trade, while at the same time experimenting with the use of an offshore market in Hong Kong that allowed non-residents to hold RMB in their portfolio. This seeks to address at least two of the three requirements of an international currency: that it is used globally as a unit of account, invoicing and medium of exchange for cross-border trades; and that it establishes itself as an investment currency worth holding for non-trade uses. The third and final requirement, that it is an international reserve currency, should then follow in time. Indeed, several Asian countries are reported to be holding RMB reserves already.

So, to expedite this plan, in June 2009 an RMB cross-border trade settlement scheme was launched, linking five mainland cities with Hong Kong, Macau and the ASEAN countries. This was rapidly expanded until, in March 2012, RMB trade settlement extended to all Chinese companies with import/export scope and the whole of the rest of the world. As a result, we have seen spectacular growth in the use of the RMB. In the first quarter of 2012 alone, China's RMB-denominated trade amounted to over RMB 500 billion, considerably higher than the figure for the whole of 2010. Yet there is still further potential for growth. While in Q1 2012, 10.5% of mainland China's trade was settled in RMB, this was way behind the percentage of trade settled in the local currency in other major economies: Japan 32%; EU 50–60%; and USA 80–90%.

The RMB opportunity

As a result of this growing trend, Chinese companies are increasingly asking for trade business to be conducted in RMB. The advantage is that they no longer have to face the difficulty of sourcing the EU or USD funds to pay regional or global customers, nor do they need to take or hedge the risk in holding such currencies. Foreign firms ready to do business on this basis with Chinese companies can benefit too, because trading in RMB may help them to negotiate favourable terms with their partners in China, as well as potentially mitigating their own 'natural' currency risk. Companies may further benefit from adding an extra currency to their portfolio, one that has so far demonstrated greater resilience than the existing major trading currencies: while the US dollar and the euro both showed weakness during the financial crisis, the RMB remained relatively stable.

With liquidity supported by strong offshore CNH issuance and increasingly large bilateral swap agreements – such as the RMB 200 billion deal between the People's Bank of China and the Reserve Bank of Australia in 2012 – the Chinese 'experiment' has been an almost unqualified success. Further expansion therefore looks certain, with Hong Kong's role as an offshore centre being complemented by offshore hubs such as London and Singapore that will help to take internationalisation further into Asia and the west. The growth of the RMB as an international currency will also be accompanied by the expansion of RMB-denominated instruments, including hedging tools that will enable companies to better manage their RMB liquidity.

Navigating the RMB landscape

So what has this meant for treasurers? While the adoption of the RMB as a settlement currency has deepened corporates' access to China's rapidly expanding economy and simplified some of the processes, there are complexities too. In common with Asia in general, Chinese traders still rely heavily on letters of credit, and these are checked very strictly by Chinese banks: even minor discrepancies can result in delayed payment. Local knowledge is therefore vital to supplement global expertise. While regulations have loosened, they still require careful consideration, both individually and in terms of the whole regulatory framework, so that the best strategy can be chosen not only for making and receiving payments but for the repatriation of profits and repayment of loans. For treasurers not based in the region, banks that have already guided their clients on such matters can offer valuable expertise.

The offshore CNH market can provide exciting opportunities for non-Chinese companies looking to make investments into China. By raising funds in the so-called 'dim sum market', they can use the proceeds to build their enterprise in China, then use the income from this new venture to pay back the coupon – all without the need to trade or exchange a single euro or US dollar. Arbitrage opportunities are also very much to the fore, as discrepancies between onshore and offshore pricing can provide opportunities to maximise revenue, particularly for commodity companies that have structured their operations optimally.

Despite some unique challenges and opportunities, however, the treasurer will generally find the processes familiar as they attempt to mitigate FX risk, proactively support their supply chain, and manage their cash and liquidity. In each of these areas banks are working hard, both locally and globally, to make these processes easier and more efficient, while also acting in an advisory role to ensure that a viable, well-structured RMB strategy is implemented. This can offer support across a number of areas, such as unlocking and redeploying working capital to maximise returns, reducing external financing needs, understanding and managing operational and credit risk and improving the visibility of cash positions.

Looking ahead

There is little doubt that the creation of an offshore CNH market has been a success and has facilitated much greater use of RMB among western corporates and investors. Although the utilisation of CNY for international trade remains restricted and regulated, there are signs that it is beginning to fulfil its potential to become Asia's regional currency.

Yet opinions are divided about just how far, or how fast, internationalisation will go, and the Chinese proverb, 'cross the river by feeling the stones', may be the best way to sum up China's cautious and methodical attitude. There can be little doubt, though, that with China set to become the world's largest economy during this decade, its currency still has some catching up to do.

Enhancing sales

When a company is seeking to demonstrate its creditworthiness to become a supplier to another company, bank support can be critical. Bank support can come in two main forms: first, bonds and guarantees to support an exporter, especially when tendering for participation in large-scale contracts, and second, more general support for exporters when their credit is being evaluated by a potential customer.

The use of bonds and guarantees

For larger, typically infrastructure, projects, companies may be required to provide bonds as part of their tender. These effectively work to guarantee that a company will commit to a project if it is awarded the contract. A bank would provide a bond (against an indemnity signed by the company) to the organisation running the tender. Under the terms of the bond, the bank must make a payment of a pre-agreed percentage of the contract in the event that the company withdraws after the contract is awarded. This would cover the cost, for example, of retendering for a project.

For long-term projects, once awarded the contract, contractors often have to arrange performance guarantees. A performance guarantee is a commitment from a bank (again against an indemnity signed by the contractor) to make a payment in the event that the contractor has not performed a particular activity by a particular date. A contractor may have to arrange a series of performance bonds to cover each stage of a particular construction contract.

Case study

The use of bank guarantees when tendering for infrastructure contracts

Companies engaged in infrastructure projects are usually asked to give bank guarantees at various stages during the tender process.

The buyer may want an initial bank guarantee for, say, 5–10% of the tender value of the contract. If the company then wins the tender, the buyer may then require a bank-issued performance guarantee. This performance guarantee provides reassurance to the buyer of the financial capability of the supplier, and the ability to call on the issuer of the guarantee for an agreed percentage of the contract in the event that the company fails to perform or otherwise withdraws from the contract.

These instruments are critical to the infrastructure business. They offer longer-term guarantees which reflect the nature of the risks. They are also essential to companies tendering for business. Holding a bank guarantee is seen by the awarders of contracts as evidence of a potential contractor’s ability to raise finance, and its seriousness in pursuing the tender.

Bonds and guarantees are used in both domestic and international transactions. Obtaining a bank’s backing is an important part of proving creditworthiness, which is critical to longer-term contracts where alternative suppliers may be difficult to identify.

Case study

An international construction company tendering for a new transport infrastructure project

An international construction company, with experience of projects in both Europe and the North America, needed financial support (the equivalent of GBP 60 million) for a large transport infrastructure project in Asia.

At the end of 2011, the company started to plan its tender for the business. The company needed advance payment guarantees and performance bonds, both for terms of four years. The company's bank used its local in-country office to issue the instruments on its behalf.

Support from the company's bank helped the company to become preferred bidders on the tender. This support was critical, as it gave the buyers confidence that the company could deliver according to the terms of the contract. As this was the company's first tender for business in that country, the bank's local branch also supported the company by helping with the terms and conditions of the contract.

It is important to remember that these instruments are issued 'on demand'. This is in contrast to surety bonds provided by the insurance market, typically used in a number of western markets, especially the USA.

Bank support for exporters

Small and medium-sized enterprises also may need to be able to demonstrate their creditworthiness to potential customers, whether domestic or international. Banks and accounting firms can support exporting firms by providing references to potential customers, although the wording and commitment can be very limited in the current environment. Where a company is a subsidiary of a larger entity, the group headquarters may provide its own letter of comfort. Banks can also guarantee payments for specific transactions through the use of documentary credits (see page 38).

Banks can also help exporters establish a presence abroad, perhaps by introducing the company to a local bank, enabling the company to open bank accounts there.

Financial support for customers

Companies with stronger credit may be able to offer credit to support their customers. This is particularly the case where the supplier has better access to credit than its customers. Financing arranged in this way will be cheaper than any which the customer can arrange in its own name. Supply chain financing is increasingly popular, as stronger companies look to support their own suppliers and customers. (For more on supply chain financing, see page 121.)

Managing cash and trade as part of working capital

Instead of improving individual aspects of activity with a view to achieving these objectives, it is increasingly possible to integrate cash and trade under a broader working capital management umbrella. Treasurers now have the opportunity to become more involved in their businesses, instead of simply concentrating on the core cash and liquidity management areas.

It is increasingly possible to automate core processes, often with the support of banks and other providers, so less manual intervention is required to manage the day-to-day traditional treasury activities. This has freed time for treasurers to become more involved in the work of the wider company, and especially in the management of working capital.

Why integrate cash and trade?

For the international company, in particular, there are significant potential benefits from taking an overarching view of working capital.

- Improve liquidity.
  From the perspective of liquidity, funding lines can be made more efficient by looking at the trade cycle as a whole. Where external finance is needed, companies can avoid having unused bank lines to support letters of credit and separate unused working capital lines. In all cases, a more integrated cash flow forecast can ensure any external financing is minimised. A forecast can also help to ensure any surplus funds generated in one part of the business are made available to other entities with a funding requirement. It may also be worth creating letter of credit forecasts in the same way.
- Manage risk.
  From the perspective of risk management, identifying natural hedges across a company can reduce the need for costly external hedges to be put in place. Any improvement here will benefit the company's overall liquidity and reduce the cost of arranging expensive insurance against discrete events. Better interaction between sales and treasury, allowing information to be shared on, for example, counterparty payment practices, will improve the company's ability to assess its exposure to counterparty risk. Companies can also use data generated across the business to support their own internal credit analysis. The skill set resident in the treasury department can be used to understand these exposures better, and to take more appropriate, often longer-term, action.
- Enhance sales.
  Making the working capital cycle more efficient will reduce the need for external and internal financing, and therefore the total cost of production, allowing the company to offer a more competitive price to its customers.

Financing working capital

By looking at cash and trade under the working capital umbrella, treasurers can help to improve the efficiency of funding across the business. It is possible to take a more strategic approach to funding over all time periods, whilst simultaneously ensuring that funds are available to meet short-term requirements, support letters of credit programmes, and for more permanent working capital requirements.

At the same time, a working capital perspective helps to ensure that each stage in the production process is financed appropriately, with finance costs matched to the elements they are supporting and the risks being assumed. In this scenario it is appropriate, for instance, for companies to see trade finance as an extension of other working capital finance. That is not the same as disbanding any traditional trade financing structures, such as the use of letters of credit. However, treasurers are increasingly able to view cash and trade from the same position.

There is no single correct way to establish the most appropriate technique for financing a company's activities. There is a wide range of alternative sources of finance, to which companies may or may not have access. This varies from traditional bank finance, in the form of loans and overdrafts, to debt instruments, such as commercial paper, trade documents and bond issues, to pure equity financing. Access to these sources of finance, and others, will depend on circumstance, the appetite of the market, and the size of the operations. (There is more detail on individual financing techniques in Chapter 7.)

These funding decisions have to be taken in the context of the company's wider activities. Whilst the cheapest funding source might be appropriate for a company, the funding cost is not the only factor in this decision. Treasurers will want to ensure that a funding strategy meets as many of the company's objectives as possible.

- Liquidity.
  Central to any funding decision is the need to ensure that the company has sufficient liquidity to support all its activities, both now and into the foreseeable future. This applies to procurement as well as supporting sales. For example, a treasurer will often prefer a funding solution which can grow as the company grows – a large, committed loan facility may provide guaranteed funds to support future development, but it may be more convenient to arrange to finance invoices or other trade documents as and when the business materialises. As far as possible, the treasurer will want to avoid reliance on one or two funding sources.

Case study

SCF programme eases cash flow pinch for technology firm

A US-based technology equipment manufacturer sources parts from between 15,000 and 20,000 suppliers globally. Under the contracts with the suppliers, the company has to pay within very short periods, often 15 days. However, when selling the finished products on to its customers, it may have to accept payment terms of 60 days. This results in a significant mismatch in the company's use of working capital, with average time delays between paying suppliers and receiving customer payment of about 70 days, reflecting the stock holding and manufacturing period.

To resolve this gap, the manufacturer has entered into a supply finance programme with its bank. Under the terms of the programme, the suppliers are paid within 15 days as before, while the manufacturer only has to pay after 90 days, giving time for payment to be collected from its customers. Although it is similar to a revolving credit facility, the company prefers the structure, because it is viewed more positively by credit analysts.

The structure does not include all 20,000 suppliers, but focuses on the manufacturer's most important suppliers. When it receives an invoice from one of the participating suppliers, the manufacturer approves it for payment. These approved invoices are then uploaded to the bank in a file generated by the manufacturer's ERP system. Under the terms of the agreement the bank then purchases these approved receivables from the suppliers. The suppliers receive cash under the terms of that transaction, with the bank being repaid by the manufacturer after 90 days.

Under the programme, suppliers continue to receive payment according to existing payment terms, while the manufacturer benefits from a liquidity boost, a critical concern to a company that uses cash very quickly.

- Manage risk.
  As well as managing liquidity risk, the treasurer will also want to manage the associated trade risks. The use of a letter of credit facility or supplier finance programme will help to both finance trade and reduce counterparty risk. Linking funding to particular assets also helps in understanding changing counterparty risk exposure, as the funding stream and the receivable are directly related. Finally, the choice of currency when raising funds can also help to manage foreign exchange risk.

- Enhance sales.
  On one level, reduced funding costs will mean the company's end product should be cheaper. However, treasurers may also be able to consider funding that allows their sales teams to offer better payment terms to their customers, either in the form of early payment discounts or as an extension to payment terms.

Evaluation of different techniques

There is a range of different funding tools available to companies seeking to finance their trade transactions and wider working capital. The particular tools will vary between companies, depending on their local markets, size, activities and available assets. Larger group entities will typically have more tools available, although they may also have greater funding requirements.

Broadly speaking, a company will need to identify, first, what tools are available, before evaluating which tool, or combination of tools, to use. There are a number of variables which will help the treasurer identify the best course of action.

- Working capital funding gap.
  At the heart of any funding decision there is a requirement to identify precisely what needs to be funded. Aside from a degree of precautionary or backstop credit lines, treasurers will usually want to avoid raising unnecessary working capital funding from external sources.

- Internal funding.
  For this reason treasurers will look internally to identify sources of working capital funding. Restructuring a group's cash and liquidity management activities may offer the opportunity for cash-rich group entities to fund the working capital requirements of sister companies. This can be a complex, time-consuming and expensive process, so care should be taken before embarking on such a policy. It is most likely to be possible in groups which have a range of products at different stages in their respective product life cycles.

- Change in business approach.
  More generally, companies may be able to restructure their business activities to free working capital. This may include adopting a more streamlined approach to inventory management, changing suppliers or making accounts payable and receivable departments more efficient.

- General or specific funding.
  A critical question is for the treasurer to determine whether funding should be arranged for general working capital purposes (perhaps through a bank line of credit or a commercial paper programme) or for specific activities targeted at financing a particular stage of the production process (pre-shipment finance or invoice discounting, for example).

- Short, medium or longer term.
  Depending on the company's cash forecasts, the funding can be put in place with different maturities. A temporary peak borrowing requirement, such as financing stock in a retail business just before Christmas, may only need a short-term facility. Funding a longer-term investment with the return generated over many years requires longer-term finance.

- Other funding arrangements.
  This decision needs to be taken in the context of the company's wider funding arrangements. A highly leveraged company, with a high ratio of debt to equity, will find it harder to arrange additional debt funding than a less leveraged company of the same size. The treasurer will need to identify which assets may be available for sale and for use as security for financing, especially if

existing lenders are relying on unpledged assets, such as receivables, for comfort of unsecured overdraft facilities. The treasurer will also want to look into the future when establishing a funding structure to ensure that the decision does not constrain future growth or other plans.

- Size of company.
  The size of the company and its country (countries) of operation will determine some of the funding opportunities available. Commercial paper programmes are usually only available to the largest companies, although in certain countries, such as France, local markets are available to smaller companies on the basis of name, rather than ratings. Other financing tools may not offer the level of funding required by larger companies. Factoring and, to a certain extent, invoice discounting fall into this category. Creditworthiness has been seen to be a factor in determining access to funds, especially over the last five years.
- Central funding or local funding.
  For international companies, treasurers will need to identify whether it is appropriate to try to arrange funding centrally, and then to fund the subsidiaries either directly or through a liquidity management structure. Central funding will usually be cheaper (assuming the group has the highest credit rating), although it can be difficult to arrange the level of funding needed by the group as a whole. Depending on the location of group entities, exchange controls can make central funding strategies difficult to manage, as it can be difficult to repatriate cash to meet debt repayment requirements from certain locations. Allowing or requiring local entities to raise funds locally may be more expensive for the group as a whole, and it can result in inefficiency where some group entities are cash-rich and others cash-poor. On the other hand, arranging funding locally can have significant benefits for a company seeking to arrange local support for letters of credit, for instance, as local bank relationships will develop. More generally, treasurers are often nervous about arranging all funding centrally, as it does represent a significant funding risk to the group as a whole.
- Local funding opportunities.
  Companies are also constrained by the liquidity of their local markets. This is a particular issue in trade, where local subsidiaries, suppliers or customers may operate in countries where access to local finance is particularly difficult. Treasurers need to think carefully about how to support transactions with entities based in these locations. Export credit support is available for certain markets. It may also be appropriate for companies to enter into countertrade agreements in some circumstances.
- Guarantees.
  Where funding is arranged locally, central treasury will need to establish whether it is going to support local entities by guaranteeing their local borrowing. This will reduce the cost of borrowing across the group, but at the cost of taking on more risk for the parent and reducing the central treasury's ability to raise funds at the group level.
- Tax, accounting and other regulatory requirements.
  Finally, all funding decisions need to be taken after the impact of tax, accounting and other regulatory requirements (e.g. exchange controls) is considered. For multinational operations, these implications can be complex.

Although some companies may have very limited choice, whether because of their location, creditworthiness or size, all these variables should be considered as part of the wider working capital funding decision.

Integrating the supply chain

The final opportunity is to view the supply chain as a whole, rather than see each entity's participation in isolation. Assessing this against the three key objectives outlined above, there are some definite advantages to viewing the supply chain as a whole.

- Liquidity.
  From the liquidity perspective, supply chain financing offers funding to participants at every stage on the supply chain at rates achievable by the strongest credit. Depending on where the strongest credit sits in the supply chain, this can be customer or supplier finance, or a combination of the two. It also supports entities within a supply chain which may have difficulty in accessing financing at all. Establishing reliable and lower-cost funding streams along the supply chain minimises the risk of disruption at every stage. The result is that each participant can then rely on input from its suppliers at every stage, potentially allowing them to operate with lower inventory levels and, therefore, costs. Ultimately more reliable and cheaper funding should result in a cheaper end product.
- Risk management.
  When managing risk, viewing the supply chain as a whole does change every participant's perspective. Instead of viewing each supply chain transaction as a risk to be managed, the two entities can work together to their mutual benefit. Supply chain financing techniques typically involve the sharing of information about invoices and involve company representatives taking a more proactive part in its suppliers' activities to ensure they deliver what is needed. Linking the supply chain together through financing structures fundamentally changes the nature of that supply chain. The stronger credit provides a financial commitment to the weaker ones, allowing the weaker ones to invest for the future.
- Enhancing sales.
  Finally, a customer financing programme can certainly help companies to enhance their sales, especially when their customers have difficulty accessing finance.

At first sight there would seem to be few disadvantages to the concept of supply chain finance. Companies need security of inputs at a price they can afford. They also need to ensure their customers stay in business to be able to pay. There are potential benefits for the customers and suppliers of the stronger credit too – they get access to cheaper, more reliable funds, and a stronger relationship along their supply chain.

Yet there are some criticisms. Some stronger companies consider the best way to cut costs is simply to put pressure on their suppliers to produce inputs more cheaply. This is most common where the strongest company in the chain retails to consumers, has a significant market share, and is not over-dependent on any one supplier (allowing it to dictate terms to smaller suppliers).

More generally, parties should always consider potential disadvantages before offering, or participating in, a supply chain finance programme. These include:

- Internal effects.
  There will be an impact on both the accounts payable and accounts receivable departments within an organisation. Where a company is extending credit to its customers for longer periods, the accounts receivable team will incur cost managing counterparty risk. On the accounts payable side, there will be additional processing costs from accepting suppliers into the programme or as suppliers make enquiries about the programme. These relationships will also need to be managed. Careful structuring of the programme will be needed, to ensure that accounts payable are not reclassified by the auditors as loan finance.
- Reduced access to formal financing.
  Suppliers participating in a supply chain finance programme will find it more difficult to access more formal financing from banks or other finance providers. This may not be a problem for a company seeking to expand through its existing relationships, but it may make arranging finance to support a new project difficult. This is because the most liquid assets will already be committed to the existing programme.
- Over-dependence on strong credit.
  Suppliers, in particular, can be sceptical about the benefits of tying themselves into a particular customer, especially

when they become dependent on that customer for both financing and purchasing their product. Because of the difficulty in accessing other forms of finance, a participant is taking a significant counterparty risk in committing to a particular customer through a supply chain finance programme. However, any risk of overdependence on one credit in this way has to be set against the risks associated with other forms of financing, such as invoice discounting.

The use of technology

As well as a change in attitude towards the importance of strengthening the supply chain, technological improvements have made supply chain finance programmes possible. Technology has benefited treasury in a number of ways: automation has reduced processing time and costs; information can be collected, collated and analysed more effectively; and this information can be also shared between different organisations, building trust between them.

Processing efficiency

Technology improvements in recent years have allowed companies to downsize their corporate treasuries. Tasks which used to take significant personnel involvement can now be automated completely, or initiated by a single person. The reduction in manual intervention in a whole host of areas has freed the treasurer’s time to be able to act more strategically across the business.

There are a number of areas in which technology has improved the operational efficiency of corporate treasuries.

- Accounts receivable.
  Electronic invoicing offers efficiencies in the preparation and presentment of invoices to customers and then in the reconciliation process when payment is received. Lockbox facilities have been available for some time, but increasingly these provide opportunities for companies to collect information electronically. Where permitted, a lockbox also allows a company to maintain a local collection presence without the cost of maintaining a local office.
- Accounts payable.
  Here too, electronic invoicing offers opportunities for efficiencies for the purchaser. It is particularly useful for entities with large numbers of suppliers. Being able to process and approve invoices and then initiate payment electronically reduces the risk of error and fraud, whilst simultaneously allowing accounts payable to operate with fewer staff members. The electronic collection of data also allows companies to manage their disbursement of payments, whether to suppliers or for payroll, more efficiently, perhaps on a weekly or a monthly cycle.
- Inventory management.
  There are opportunities too for improvements in inventory management. ERP systems are much more sophisticated, allowing the tracking of inputs at every stage. Common processing standards also allow information to be shared along supply chains through services such as Bolero, so companies can manage their production processes more efficiently.
- Improved efficiency of trade documents.
  As with other areas, letters of credit can now be prepared electronically. This allows data to flow much more quickly between organisations, providing the opportunity for discrepancies to be managed more quickly. However, the use of electronic trade documents has not grown as quickly as some might have expected, partly because the improvements in efficiency have reduced the opportunity to use trade documents for pre-sales financing. (The reduced transaction costs associated with electronic documentation does not compensate for the loss of accelerated cash flow for those companies which rely on that funding stream.)

  With documents such as bills of lading prepared electronically, it is also possible for companies to outsource the preparation of trade documents to banks or a shared services centre. By outsourcing this activity the company will minimise the risk of errors, and thus discrepancies, resulting in an acceleration of the collection of payment as a result.

Case study

An Asian retail buying group wanting to streamline the process for submitting letters of credit (L/Cs) to its banks

A European retail multinational set up a subsidiary buying group in Asia to act as a central procurement hub for the group. The purpose of establishing this unit was primarily to improve communications with key local suppliers – i.e. to be in the same time zone and able to respond more efficiently to customer queries and new business opportunities. Since starting operations the subsidiary has opened thousands of L/Cs with the group's Asian suppliers. The company quickly recognised that improving the efficiency of this process could produce significant benefits for the group as a whole.

The company approached its bank to identify which improvements could be made. Because of the volume of L/Cs the subsidiary was opening, the company was wasting significant time having to log on to each of its bank's trade platforms. This was solved by getting a direct feed (host-to-host connectivity) from its back office accounting system to the bank's trade platform. This allowed information to flow between the two systems, without the need for manual intervention. New workflow was also introduced to accept bill settlement instructions by encrypted email.

In addition, specialist trade advisors at the bank identified ways to simplify the structure of the L/Cs being issued to the company's suppliers, thereby reducing the time spent, and errors incurred, in the process.

Finally, the company was able to integrate its trade activities into wider working capital management programmes, allowing it to improve cash flow, reconcile payments and improve the efficiency of its foreign exchange activities. All of these techniques represented improvements in the company's use of working capital.

- Improved reporting.
  Automation of processes (and outsourcing) also ensures improved management reporting, as data can be interrogated in many different ways. This allows treasury to maintain a clear view of activities in often disparate organisations. In addition, this also provides a much clearer audit trail compared with paper documents, which can provide significant benefits when reporting under Sarbanes-Oxley or similar requirements.

Interaction with other parties in the supply chain

The other key element to the success of financing along a whole supply chain is the opportunity for companies to share data between themselves.

Electronic invoicing is perhaps the first step towards integration. This allows companies to interact electronically on both accounts payable and accounts receivable to cut the time and cost involved in processing and reconciling invoices and payments. Figures from the European Banking Association suggest a paper invoice costs between EUR 4 and EUR 70 to process. This can be cut significantly through electronic invoicing to an average processing cost of less than EUR 1. Electronic invoicing is offered by both banks and specialist electronic invoicing providers. It works by linking the data submitted by a company's suppliers or sent to its customers into the company's accounting or ERP platform, with manual intervention only necessary on the relatively few invoices which need to be queried. Ultimately, this interaction also means information provided by other parties can be used by the company to improve other aspects, such as the management of inventory.

The next stage is for companies to exchange documents on a third-party platform. The Bolero Trusted Trade Platform, for example, allows for the electronic exchange of trade documents between parties. It is most commonly used in certain industry sectors, such as automobiles, where a practice of interaction has developed. SWIFT's Trade Services Utility is a service which allows banks to exchange trade-related data using XML standard messages, and then to match documents on behalf of their customers. Its new Bank Payment Obligation (BPO) is a bank guarantee of payment made by the buyer's bank for a specific amount to a specific bank (the seller's bank) on a specific date. The BPO was developed by SWIFT as a partial extension to the TSU. (There is more information on these technologies in the next chapter.)

The final stage is for companies to share information with each other on the status of invoices and other trade-related documents. Banks and specialist providers have developed services that allow suppliers to view the status of invoices submitted to their customers. By doing so, suppliers can, at the very least, know when to expect payment from their customers, reducing their need to arrange precautionary finance. This technology is also used by banks to manage supply chain financing programmes, where they may allow a participating company to raise funds on the strength of an approved invoice. The sharing of information between companies is crucial, in that it builds trust between the entities and thus allows financing programmes to work.

Techniques to finance the supply chain

The principle behind supply chain finance is to use the strongest credit within the chain as the guarantor of finance to other participants. This is appropriate when suppliers or customers only have access to funding at much higher rates than the strongest credit can access, or when they have difficulty in arranging any form of financing at all. These techniques work equally well for domestic and international transactions, although international financing structures will be more complex to arrange. (Exchange controls may make such a structure effectively impossible to implement in some locations.)

Below, there are two case studies which illustrate how supply chain finance can work. The company acting as the guarantor of the programme must ensure it meets at least one of the core objectives outlined above. Before participating, a supplier or customer must consider whether the programme is appropriate. In particular it must identify whether the risk of further integration with its counterparty is outweighed by the relationship benefit and lower cost of funds the programme affords.

This first case study shows how a company used a supply chain finance solution to improve its working capital position. It also shows how automating existing processes helped to improve efficiency.

Case study

Subsidiary of a major multinational wanting to improve its working capital position

A European subsidiary of an international telecommunications equipment manufacturer was seeking to improve its working capital position by extending its DPO (days payable outstanding). It operated on 45 DPO, but wanted to extend that to beyond 90 DPO. In addition, it wanted to make its supply chain more robust.

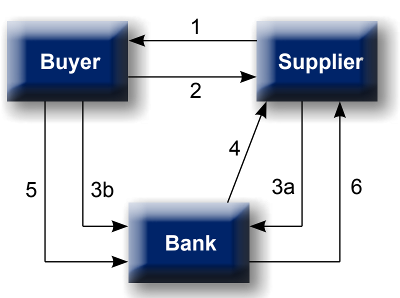
Its solution was to work with its bank to create a supply chain finance solution. The subsidiary concentrated on its core suppliers (about 15% of its original suppliers) and provided them with the opportunity to access cheaper funding via a supply chain finance programme, using the group's superior credit rating.

A key challenge was to automate the processes. Invoices approved by the subsidiary are automatically uploaded to the bank's own proprietary trade finance platform. Once uploaded, the platform sends an automated notification to the suppliers. The suppliers can then choose whether to discount the approved invoices. If they decide to do so, they receive payment from the bank. If not, the platform initiates an automatic payment of invoices on the maturity date.

The subsidiary has now extended its DPO to 90–100 days, while mitigating the impact on its key suppliers via the supply chain finance programme. Its suppliers are able to accelerate receipt of cash by receiving a discounted payment shortly after the buyer has approved the invoice. As well as extending DPO, the automation process required an improvement in efficiency leading to a reduction in operational costs.

Given its success in achieving its objectives, the programme is being extended to other subsidiaries within the group.

Process diagram



1 Delivery of goods, invoicing documents

2 Goods received and transfer of rights

3a Agreement on sale of receivables, transfer of rights, etc.

3b Acknowledgement of assignment and payment confirmation

4 Payment less discount interest

5 Payment of the total invoice value

6 Payment of the undiscounted invoices on the value date

The next example shows how a supply chain finance solution can provide significant benefits to a company's suppliers, whilst also allowing the company to improve its own working capital position. The exact structure of the programme needs to be designed with care. There is a risk that, if the purchaser is extending its own payables timings and increasing creditors, trade payables can get recategorised as borrowings instead. IAS 39 (paragraph 40 supplemented by AG62) introduces rules to determine when a liability has been significantly modified. The exact application will need to be confirmed with the auditors.

Case study

UK fashion retailer importing products from abroad

A leading UK fashion retailer sources many of its products from overseas, notably Asia. Its suppliers are on contracts offering payment terms of 30–90 days. As with all companies, retailers, who traditionally already operate under tight margins, are under pressure to improve their working capital position. Perhaps the easiest way to do this is to try to extend payment terms from 30 days out to perhaps 60 days or longer. However, this could put their suppliers under significant cash flow and working capital pressure, risking their businesses and therefore the retailer's supply chain, which in turn could risk the retailer's reputation for fair trade.

Supplier finance has proved to be particularly beneficial in accommodating the needs of both retailers and suppliers when the retailer extends its own terms as it simultaneously offers the suppliers accelerated cash receipts at a cheaper cost of finance.

Once the goods have been shipped and the retailer has accepted the supplier's invoice, they will upload it to the bank's invoice purchase system. The bank will offer to pay the supplier the face value of the invoice, less a margin based on the retailer's cost of credit. This enables the supplier to accelerate the funds due any time from acceptance of the invoice until the maturity by requesting to discount.

The invoice is settled by the retailer with the bank at the agreed maturity date.

The suppliers benefit because the bank offers a discount on the whole value of the invoice (rather than the 70–80% typically offered by invoice discounters). Furthermore the recourse in the event of default is against the retailer, not the supplier. By choosing to discount, the suppliers receive funds earlier, at a discount rate that is typically cheaper than the suppliers' own cost of credit, being based on the retailer's risk. The acceleration of cash also enables them to liquidate receivables and free-up credit limits for further sales opportunities.

Future developments

Although it is not possible to predict with any accuracy how the trade market might develop in future years, this chapter highlights a number of the trends which are evident at the time of writing and which are likely to develop over the next couple of years.

Impact of Basel III on Trade Finance

Introduction

The Basel III Accord is the third in a series of capital accords developed by the Basel-based Bank for International Settlements. It complements, rather than replaces, the previous Basel II Accord. In the EU, Basel III is being implemented through the Capital Requirements Directive IV (CRD IV) with the European Banking Authority (EBA) deciding on various detailed implementation matters.

There are four main components to Basel III. They are to be phased in by 2019. See diagram below.

Amendments are being made to the level of capital that banks must hold. These

The Basel Accords

Accord	Lever 1	Lever 2	Lever 3
Basel I **Published: 1988**	**Capital** Flat rate 8% of exposure	▪ Rules across international banks ▪ Minimum base of own funds in every bank	
Basel II **Published: 2004**	**Capital** 8% of Risk Weigted Assets	▪ Risk differentiation – more capital for higher risk ▪ Also for operational risk, besides credit and market ▪ Range of implementation approaches (Standard, Foundation, Advanced)	
Basel III **Published: 2010–13**	**Capital** More and better capital	**Liquidity** More liquidity / better long term funding	**Leverage** Prevents execcive build-up of leverage
	Minimum Capital Standards (2013–19) Basel III strengthens capital adequacy in all three components – capital resources, risk-weighted assets (including CVA , FI AVC) and capital ratios (phased requirement to hold 7% of RWAs in CET1 capital).	**Liquidity Coverage Ratio (2015)** **Net Stable Funding Ratio (2018)** Basel III introduces a regime that promotes resilience to short-term (30 day) and longer term (1 year) liquidity shocks.	**Leverage Ratio (2018)** Basel III introduces a regime that constrains leverage in the banking sector to 33 x Core Tier One capital and mitigates risk through non-risk-based measures.

mean banks will have to hold 7% of risk-weighted assets in Common Equity (or Core Tier One capital) (inclusive of a new capital conservation buffer of 2.5%, which banks may deplete in times of financial stress). Banks that are classified as 'Systemically Important Banks' (SIBs) will be required to hold between 1% and 2.5% above the minimum Common Equity requirements. During periods of credit growth an additional counter-cyclical capital requirement of up to 2.5% may be imposed by local regulators. (This will have a significant, albeit indirect, effect on the way banks decide to offer particular products, including trade finance.) These changes are being phased in from January 2013.

When CRD IV comes into force (either in January or July 2014), there will be changes to the calculation of risk-weighting to be applied to some exposures (e.g. the Financial Institution Asset Valuation Correlation (FI AVC)), as well as new risk-weighted asset (RWA) requirements (e.g. the Credit Valuation Adjustment (CVA)).

A liquidity coverage ratio (LCR) will be introduced from January 2015, under which banks will have to hold a liquidity buffer of unencumbered, high-quality liquid assets to cover net cash flows over a modelled stressed scenario of 30 days. The full LCR will be phased in between January 2015 and January 2019 using regulatory minimum levels in each year.

In addition to the LCR, a net stable funding ratio (NSFR) will be enforced from January 2018, requiring banks to fund the illiquid portion of their asset book with funding of more than one year residual maturity.

A new leverage ratio of 3% is due to become mandatory in 2018, although public disclosure of the ratio is required by 2015. This seeks to ensure banks apply adequate capital to all their exposures, including those off balance sheet, and without applying any risk weightings. This will have a significant impact on banks without diversified business portfolios (e.g. trade services focused or mortgage focused).

Upgrading Basel II

In 2004, Basel II introduced a risk-sensitive calculation to the existing requirement for banks to hold 8% of their exposures as regulatory capital, resulting in their needing to hold 8% of RWAs as regulatory capital instead. Basel III adds to these requirements, by focusing on loss-absorbing Common Equity rather than regulatory capital. It introduces revisions that will result in increased risk weightings for some exposures (e.g. FI AVC), and introducing additional risk components, such as the CVA capital charge, that cater for credit migration of the portfolio.

However, whereas Basel II (and Basel II.5) primarily focused on capital as a prudential measure, Basel III moves beyond this to consider the broader shortcomings in the global financial system, addressing the need for stable liquidity and reduced leverage.

Basel III changes a bank's cost base with extending trade facilities as well as when taking deposits. As a result, the market will have to find a new equilibrium to finance the revised cost base, either through price or finding innovative ways to meet customers' needs.

To understand how Basel III will affect trade finance, we need to examine three separate measures: the introduction of the asset value correlation multiplier for large financial institutions, and the new liquidity and leverage ratios.

Financial Institution Asset Value Correlation (FI AVC)

The FI AVC is one of the Basel III measures intended to address the risks stemming from the interconnectedness of the global financial system.

It affects the cost of financing of a bank's exposure to the world's largest regulated financial institutions (with over EUR 70 billion of assets), as well as all unregulated financial institutions, as the RWAs on such counterparties will increase by 20–35%. From a trade perspective this would impact trade products, namely export letters of credit, guarantees and the short-term bilateral trade finance facility with such financial institutions.

Liquidity Coverage Ratio (LCR)

The LCR is being introduced to ensure financial institutions hold sufficient High-

Quality Liquid Assets (HQLA) to cover expected net cash withdrawals during a 30-day period of stress. The LCR is driven by regulator-assumed cash withdrawal rates based on a combination of product and client factors over a 30-day stress period.

Whilst the final requirements are subject to revision by the BCBS,[1] they will include liquidity buffer requirements for core trade finance products, e.g. contingent obligations (in the form of import/export letters of credit and guarantees), undrawn credit and undrawn liquidity facilities.

LCR requirements for the treatment of contingent obligations, which are most relevant for trade finance, are expected to be set by local regulators (for European banks, this will be the EBA). It remains to be seen whether current UK liquidity regulations (e.g. FSA Individual Liquidity Guidance (ILG)) and planned CRD IV outflows are aligned for trade finance contingent obligations.

The Basel Committee has recommended that low cash withdrawal rates are assigned to trade finance transactions. Both banks and clients have to evaluate the consistency of how national regulators are implementing this recommendation.

In the meantime, it is important that banks and their clients work to review existing facilities and limits, ensuring that they are correctly classified (e.g. as contingent obligations, credit or liquidity facilities).

Leverage Ratio

Distinct from the FI AVC and LCR provisions, the Leverage Ratio is designed to prevent excess leverage, which was identified as one of the causes of the recent financial crisis. Set at 33 times qualifying Tier 1 Capital, this is a non-risk-based measure aimed at ensuring the application of adequate capital to all exposures, including off balance sheet, e.g. trade and undrawns.

In practice, it is expected to be applied at a legal entity and bank group level (i.e. not at a product level). Whilst this would currently include (low-risk) off balance sheet trade instruments (e.g. guarantees count as equivalent to bringing on balance sheet 100% of the exposure), there may be some revisions in the final CRD IV legislation.

Other regulatory pressures

There are also other regulatory pressures on banks, which may have an effect on trade. In the UK, the Independent Commission on Banking (ICB) has proposed ring-fencing some core banking services. It is not yet clear how these proposals will affect trade services: much depends on which side of any ring fence trade services fall. However, just as with the Basel proposals, any local regulatory changes will force banks to reassess resultant impact business strategy and portfolio mix, given an evolving market place.

Conclusions

While the release of the final Basel III and CRD IV rules in 2013 will allow market participants to understand the detailed application of the legislation, the spirit and intent of the banking regulators globally is already clear. There will be a negative impact on trade products, despite their inherently higher liquidity and lower risk profiles. There are some strategies available to banks to mitigate the effects of the FI AVC and LCR, and the appropriate analysis will provide the best foundation to explore new business and product opportunities in the ever-evolving financial marketplace.

1 Basel Committee on Banking Supervision, final rules expected early 2013.

European Union Payments: the next steps

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For the European corporate treasurer, the impact of current and forthcoming EU payments legislation is likely to be significant.

In particular, three parallel initiatives stand out: the Single European Payments Area (SEPA), the review of the 2009 Payment Services Directive, and the EU consultation over the future landscape for payment cards, internet and mobile payments. Individually, each initiative has the potential to make a major impact on corporate treasury and trade activities. Collectively, they have the potential to have a transforming effect on key aspects of the EU payments market.

SEPA

The implementation of SEPA now has a mandatory migration end-date of 1 February 2014, thanks to EU Regulation 260/2012. This means that all legacy retail credit transfer and direct debit payment schemes for the euro will have to be phased out and replaced by SEPA schemes.

As an EU Regulation, SEPA is legally binding across all EU member states (unlike an EU directive, which first has to be translated into local legislation). Given the importance of a common understanding of the Regulation's requirements, banks in Europe have been working through the European Banking Federation to develop a common view of best practice interpretations, with a view to maximising the harmonisation and efficiency benefits on offer to all stakeholders.

Member states have a degree of flexibility under the Regulation regarding the timing of certain elements of the migration process, such as being able to grant an additional transition period until 1 February 2016 for certain 'niche' payment schemes. All countries were required to confirm how they intend to use these various options by 1 February 2013, after which time the remaining details on the pathway to implementation will be much more certain.

Review of PSD

The review of the Payment Services Directive (which was adopted in 2009) had originally been expected to be completed in November 2012, but it looks like this is now more likely to be completed in the first quarter of 2013. From a corporate treasury perspective, this review is important because the legislation is much broader in scope than SEPA (for example, it covers payments in all EU/EEA currencies), while at the same time acting as the legal basis which underpins SEPA. This review could potentially result in some significant amendments to current rules and practices, including what payment types are covered.

Payment cards, internet and mobile payments

The third parallel initiative is the European Commission's recent consultation (green) paper on the use of payment cards and internet and mobile payments. The European Commission is trying to identify the potential barriers to innovation, efficiency and competition in these specific areas before potentially bringing forward targeted legislative proposals some time in early 2013. There is significant overlap with both SEPA and the PSD, so it will be interesting to see whether the European Commission decides to try to incorporate some of these proposals as part of the wider PSD review process.

Next steps

The European Commission's stated objective underpinning SEPA, the PSD and the most recent consultation is for the EU to become the most competitive market for payments. These three parallel initiatives offer a great opportunity to develop a single unified vision for the future payments environment in the EU, maximising the potential gains for corporate treasurers as well as consumers.

There is enough certainty on the future direction of SEPA for corporate treasurers to be making and implementing concrete plans with their banks and other partners now. On the other two initiatives, much is still under review. There is plenty of opportunity for corporate treasurers to have input, either directly or via trade and professional bodies, including the ACT.

Bank Payment Obligation: a new direction for trade?

The Bank Payment Obligation (BPO) was developed by SWIFT as a partial extension to the Trade Services Utility (TSU) matching service it launched in 2007. The BPO was launched in 2009 (it was first used in 2010) and was designed to meet two key objectives: to minimise the continued counterparty risk associated with open account trading, while avoiding the expensive processing associated with letters of credit.

SWIFT had launched its TSU service as a way of enabling banks to match payment and sales orders on behalf of their clients and link them to the associated electronic funds transfer. From the banks' perspective, this offered the opportunity to develop additional services around the TSU, including financing solutions. Because banks linked to the TSU separately, the additional services were developed in a proprietary way, offering limited standardisation benefits for corporate treasurers.

The BPO is a bank guarantee of payment made by the buyer's bank for a specific amount to a specific bank (the seller's bank) on a specific date. The trigger for payment is specified electronically matched data in the TSU. There are five key stages in a BPO transaction:

- Sale agreement.
  The buyer and seller will agree a contract, including payment terms. The seller requires some form of payment guarantee.
- Buyer requests its bank to arrange a BPO.
  The buyer will specify to the bank the information the seller must provide to trigger payment. This will be data which can be captured and matched by the TSU, such as information from transport documents, for example.
- Buyer's bank issues BPO.
  As long as the buyer's bank agrees to the buyer's request, it will issue a BPO to the seller's bank.
- Seller's bank advises seller.
- Seller provides data required under BPO.
  Once goods have been shipped, the seller will provide data required under the BPO to its bank. This data is then matched with the requirements of the BPO in the TSU. As long as the two match, the seller will be guaranteed payment (subject to the creditworthiness of the participating banks).

This process differs from a letter of credit, crucially, in that the core trade documents are transferred between buyer and seller. There is no need for either bank to physically check and transmit documents, as occurs under a letter of credit. The critical details (which are agreed between buyer and seller as part of the payment terms) are transferred electronically between banks and matched in the TSU. As a result, the process is much quicker and more cost-effective.

Unlike open account trading, where only the payment element is processed by the banks, the banks do play a role in transferring information, with the buyer's bank offering a guarantee similar to that available via a letter of credit.

This exchange of information also allows banks to use the BPO as the basis for a wider range of financing solutions, including pre- and post-shipment financing, as well as other services, such as risk management.

However, despite the potential advantages, there has been limited take-up of the BPO since the Bank of China became the first user in 2010. The BPO is most commonly used between banks in China and Japan. As the next step towards trying to develop its use, the International Chamber of Commerce is working to develop a set of standards (similar to UCP 600 for letters of credit) to provide an accepted set of global rules. An ICC working group is expected to publish a set of rules (URBPO) in early 2013.

The BPO is not intended as a replacement for the letter of credit, although the effective bank guarantee and the use of banks as intermediaries suggest that role. Instead, the BPO is viewed as a new product to sit alongside existing letters of credit. The development of ICC-sponsored international standards may give the BPO the boost required to expand market awareness and, consequently, use.

Anti-money laundering and economic sanctions

The ICC Banking Commission has also established a working group to assess the impact of economic sanctions on trade finance. Because sanctions can affect the ability of banks to process payments, they can have the effect of preventing settlement under an otherwise compliant letter of credit. Some banks want to protect their own positions (primarily with respect to reimbursement due to other banks nominated to pay on their behalf) by inserting sanctions clauses into letters of credit. Sellers should not accept sanctions clauses, as they override the basic principle of a letter of credit: that a bank has no option but to pay if a compliant letter of credit is presented.

The Banking Commission is reviewing other anti-money laundering and sanctions regulations, with a view to updating guidance on a range of interconnected issues. These include checks under know-your-customer requirements and as a protection against false documentation (designed to circumvent sanctions).

Technology

The evolution of technology continues to offer many potential efficiency gains which can improve the use of working capital. The gains come from two main improvements. First, if used appropriately, technology is able to reduce processing costs, notably by the replacement, and possible redesign, of manual processes. Second, technology can also improve the visibility of activity along a supply chain. Instead of a paper trail which may only be visible to one participant at any particular time, technology offers the opportunity for different companies (and departments within those companies) to review the progress of a transaction at the same time. This greater visibility offers many benefits, including a stronger relationship between customer and supplier, and more financing opportunities.

E-invoicing

The concept of electronic invoicing is no longer new, although there remain a number of different market definitions. In the purest sense, e-invoicing is a process in which an invoice is raised, sent, received, processed and archived electronically, although some practitioners may refer to e-invoicing if some of these steps are performed manually. These definitional differences emerge from the wide range of solutions currently available in the market.

EU Second Directive on VAT Invoicing

EU Directive 2010/45/EU was adopted in 2010 for implementation at the beginning of 2013. Among its objectives was that of increasing the use of e-invoicing by simplifying and harmonising VAT invoicing rules, particularly by treating paper and electronic invoices the same, and by removing the need for electronic invoices to be authenticated either by an advanced electronic signature or EDI. This should make it easier for small and medium-sized enterprises to invoice electronically, and reduce barriers to cross-border electronic invoicing in the EU. However, although the European Commission has issued guidance to Member States, there remains significant scope for different interpretations of the Directive and the guidance as the Directive is translated into national legislation.

Companies are likely to gain from e-invoicing in three main areas:

- Efficient processing.
  One of the initial attractions of e-invoicing is the opportunity to reduce processing costs associated with preparing, sending and processing paper documents. Where invoices can be automatically approved, via an inbuilt validation process, this will reduce costs even further.
  However, a partial e-invoicing solution (where paper documents are involved in the process) may reduce process costs at one point, but increase cost elsewhere. For example, the Danish government's decision to accept e-invoices led to the emergence of scanning bureaux, shifting the burden of processing from the government to its suppliers.
- Improved visibility.
  One of the main benefits of e-invoicing across a supply chain comes from the improved visibility of status it can offer. Because a document is prepared electronically, it can be more easily tracked via the invoicing platform. This allows suppliers to know when an invoice has been approved, and when to expect payment. It also allows all parties to dispute any items more quickly, allowing for a faster resolution, and ultimately reducing the cost of unnecessary shipments.
- Opportunities for financing.
  Finally, the use of e-invoicing offers opportunities for more varied invoice-based financing. Because e-invoicing accelerates invoice approval, it extends the time in which an approved invoice can be financed. Whether e-invoicing is performed on a bank platform or on a third-party service, banks will be able to see whether an invoice has been approved much more quickly, and without the need for any further documentation; at this point, funds can be released to suppliers against the approved invoice. Solutions are also available which prepare an electronic bill of exchange from the e-invoicing solution, allowing a supplier to raise funds from any party prepared to discount the bill.

The evolution of the e-invoicing environment is in its early stages. There is, though, little doubt that all of these potential gains will materialise over time. At present, a lack of standardisation means there are still many different solutions in the market place. These will rationalise over time, as competition coalesces the market around a smaller number of solutions.

Ensuring an efficient supply chain: integrating cards, e-invoicing and supply chain finance

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Mark Ling: *Economic commentary across Europe is the same. There is no expectation that we will return to pre-2008 economic growth in the near future, if at all. The news from economies further afield is that UK and European companies cannot expect to be able to increase exports rapidly either. So, to increase profitability, companies have a powerful incentive to try to identify ways to make current processes much more efficient.*

Improving the efficiency of the supply chain is one way that corporate treasurers can work to add value to their businesses. In this discussion, we will look at three elements – supply chain finance, the use of purchasing cards and e-invoicing – to identify ways in which these techniques can be used to add value across the length of a supply chain.

Terminology

The term 'supply chain finance' means different things to different people. For the purposes of this discussion, we are concentrating on a buyer-led proposition, where the buyer arranges the financing which its suppliers can use.

Purchasing or procurement cards (P-cards) are normally used by businesses to pay for smaller-value items (the average value item is GBP 200), although they can also be used to pay for higher-value items.

Electronic invoicing (e-invoicing) is another concept which has a range of meanings. In this discussion, we will use the concept of e-invoicing to mean a fully automated process, from invoice generation, through its submission by the supplier to the buyer, to the receipt, processing, approval and final archiving of the invoice. In this definition, there is no paper or manual process.

Description of market place

As with any financial transaction, supply chain financing is made against the perceived risk. Each time this perceived risk changes is a potential trigger point at which an asset could be financed. For example, it is possible to differentiate the level of risk assumed by a lender against shipped goods: there are significant differences between non-audited shipments, externally validated shipments, and those in which all items have RFID tags.

This perception of risk affects whether lenders are prepared to offer financing and, if so, at what cost. For example, although the provision of finance against a purchase order currently represents too high a level of risk for most lenders, lenders' perceptions of, or appetite for, risk may change in the future. Today, the most common form of supply chain finance is made against an invoice approved for payment by the buyer. It may also be that buyers are prepared to share in some of this risk going forward, to make the proposition more acceptable to the lenders.

Michael Hyltoft: *We know that supply chain finance works. There are established techniques and structures which have been in place for some time. Most of the world's largest banks (48/50) offer a form of supply chain finance to their corporate clients.*

However, there are still a number of barriers to expansion. Chief of these is cost. There is a required minimum annual expenditure to a supplier of GBP 1 million for a supply chain finance structure to be cost-effective. Banks currently earn relatively low margins on these structures, so they need to have a reasonable volume to generate a sufficient return. This may change as the regulatory treatment of the structures is standardised. There is also a significant cost of implementation, especially in terms of incorporating suppliers into the structure.

Second, the accounting treatment remains unclear. IAS 39 (paragraph AG63) is vague, meaning there is no common approach by auditors. The practice has developed such that auditors are now familiar with the concept of supply chain finance. However, to confirm accounting treatment, treasurers will still need to engage with external auditors as soon as possible, and certainly at the beginning of the planning process.

Third, there are still many different ways in which local rules and regulations can affect the availability or viability of supply chain finance. For example, in the UK there are unwritten laws: it is bad practice to extend payment terms beyond 30 days for fresh goods. In Poland, an SME cannot be placed on payment terms beyond 60 days, but there is no legal definition of a Polish SME. In France, the Law for the Modernisation of the Economy (LME) requires French companies to reduce payment terms to 60 days (or 45 days from the end of the month), down from the terms they previously had that were above the new legislation: the result has been that a number of French companies have moved their purchasing departments to nearby countries to avoid the legislation.

The late payment directive (2011/7/EU) also has the potential to disrupt existing supply chain finance programmes.

E-invoicing techniques

E-invoicing can help improve efficiency by increasing visibility over the supply chain. This visibility can help to reduce uncertainty over, for example, invoice approval, and thereby mitigate any financing risk for a lender.

E-invoicing suffers from the same definitional problems as supply chain finance. Some estimates suggest there may be 500 different solutions available in the market, with uptake of about 15% in Europe. However, not all initiatives aid efficiency.

MH: *For example, the Danish government required all invoices to be submitted electronically. Instead of an increase in electronic invoice generation, Denmark saw the introduction of scanning bureaux which took paper invoices and turned them into electronic items suitable for submission to government. While this improved efficiency for the Danish government, it had the effect of increasing costs for its suppliers, with little benefit for the supply chain as a whole.*

Saeed Rezavi: *The bank's perspective is to link e-invoicing with the financing. In general terms, any delay in the receipt and approval of an invoice reduces the window of opportunity for supply chain financing. For example, from the point a paper invoice is raised to receipt by the buyer usually takes about three and a half days. It can then take a further six to 12 days to approve the invoice. Because invoice approval is a key trigger to attract financing, this represents a significant reduction in the opportunity to raise funds. So in these circumstances, if payment terms are 30 days, the process up to approval can take half that time.*

Mark Ling: *Financing this pre-approval period is important for suppliers. It is not just about paying invoices promptly. For example, although the UK public sector tries to pay within ten days of invoice approval, it can take 60 days to process an invoice, adding cost for the supplier.*

MH: *To give an illustration of what is possible: one buying company developed an invoice matching system across SAP. In this system, a manufacturer can generate an invoice, receive it, and it is auto-matched and automatically approved by the buyer in under 13 seconds. Achieving this level of efficiency is expensive, and there are many barriers to this type of interaction, especially on a cross-border basis. At this point, such systems are only realistic considerations for the biggest suppliers.*

By improving the efficiency of the invoice flow, it should then be possible to finance the supply chain more effectively too. By incorporating validation into e-invoicing, this reduces the requirement for intervention in the process, accelerating approval.

Helping small suppliers

Because of cost barriers, supply chain finance can only typically be applied to between 20 and 40% of a buyer's procurement spending. Companies also want to consider how to help those suppliers whose volumes are not large enough to be included in the supply chain finance structure.

Tom Kelly: *P-cards are a solution which can assist here. Unlike supply chain finance and e-invoicing, there is an established set of standards via Visa and MasterCard. P-cards are also widely accepted, meaning they can be used to make a wide range of purchases. The use of P-cards also generates data which can be used to analyse procurement spend and to do a retrospective audit.*

P-cards also offer enhanced levels of security for the buyer, compared with other payment types. Suppliers that accept cards payment have already been validated by their acquiring bank. Moreover, an issuing bank can exercise chargeback rights in certain circumstances. The card processing method also means, unlike an invoice, that it is not necessary to individually pre-approve any P-card transaction.

Additionally if a supplier has HMRC VAT approved software, it does not issue VAT invoices for P-card purchases. Instead, buyers are sent VAT reports electronically by their issuing bank. These reports can be used to reclaim VAT. They also include line item detail which gives buyers a greater level of management information for spend analysis.

P-cards can work well for low-value transactions. In the UK, the average transaction size is GBP 200. It is also possible to use P-cards for higher-value transactions (up to GBP 100,000). Transactions limits can be set at individual cardholder level for added control.

The merchant fee paid by suppliers is a fixed percentage of the value of the transaction unlike the costs of supply chain financing, which vary according to risk and the funding term.

Using the two together

For a corporate treasurer looking to implement a solution for the whole purchase-to-pay solution, the two financing techniques do not currently provide a complete solution. The largest suppliers (between 20 and 40% of spend) can be brought into a supply chain finance structure, with P-cards suitable for the smallest suppliers (generally about 2% of spend). However, suppliers between the two are not supported: the P-card is too expensive, but they are not big enough for supply chain finance. Some companies use gains from supply chain finance to support these suppliers, often by offering settlement discounts.

ML: *The challenge for all participants is to develop a solution which bridges the gap between the two extremes. Should banks try to develop a solution which covers the full range of payments? Can this be a single solution? Or will it be a solution which includes different payment paths, where the transaction size determines the process?*

Banks also need to be aware of a potential reputational risk if they withdraw from offering supply chain finance solutions. To get desired balance sheet treatment, supply chain finance is uncommitted. If a bank withdraws from the market, any supply chain funding lines it offers will collapse.

Ultimately, any successful solution will give the supplier a degree of flexibility. The supplier will want to be able to control the timing of the payment and, crucially, the level of merchant fee or other financing costs.

What corporate treasurers can do now

One of the biggest challenges for a corporate treasurer is to decide whether, and how, to approach a realignment of the purchase-to-pay cycle. There is certainly a compelling efficiency argument for combining supply chain finance, P-cards and e-invoicing. In the current environment, some treasurers may also take the view that they have a social responsibility to use supply chain finance to free up cash for their suppliers.

Corporate treasurers will, though, have a number of concerns before committing to realignment. For example, treasurers will be concerned over the degree to which they may become embedded with a bank. Large corporations may be able to establish supply chain finance programmes with more than one bank; this option may not be practical for mid-market companies. Treasurers will also be concerned about the long-term commitment of selected banks to providing supply chain finance, and whether funding levels will grow to continue to match an expanding supply chain.

A lack of clarity over the future development of e-invoicing solutions will also prevent treasurers committing to a particular solution. They will not want to invest time and resource to building a supply chain finance structure, only to see the software supplier withdraw from the market. The issue of connecting the various strands of a supply chain solution is a crucial part of ensuring a process which improves efficiency throughout the supply chain. Even if these questions are resolved satisfactorily, a treasurer cannot act alone to realign the purchase-to-pay cycle.

MH: *As a strategic project, the company will need to ensure key performance indicators are aligned across the company, so that departments are assessed on a similar basis; different departments cannot have conflicting objectives. To achieve this, a project will need to have CEO and board-level support, to get the active involvement of all relevant departments needed for success.*

Conclusion

This discussion has shown how the three non-competitive techniques of supply chain financing, e-invoicing and the use of P-cards can be combined to improve efficiencies in the supply chain. It has also indicated that these techniques are not yet sufficiently developed to offer a solution which can incorporate the whole supply chain.

It is likely that no single, best solution will emerge. The challenge over coming years is to develop solutions which give suppliers choice over which financing solution to adopt.

A Reference Guide to Trade Finance Techniques

The use of documents in trade

This chapter examines the different terms of payment used in trade and explains how documents are used in each context. In particular, it concentrates on how documents can be used by both the buyer and the seller to manage the risks associated with each term of payment.

The four types of payment term

In any trade there is a risk to the seller or exporter and the buyer or importer. The four main types of payment term (discussed in Chapter 3) represent different balances of this risk between the two parties.

Open account trading

Under open account terms, the seller assumes the majority of the risk in the transaction. The goods or services are provided in advance, with the buyer promising to pay within a pre-agreed period. Once the goods have been dispatched, the seller has very little control over the contract, as the buyer will have control of the goods. In the case of the provision of a service, the provider has even less control, as the buyer will already have consumed the service before payment is made.

Documentary collection

Under the terms of a documentary collection, the seller's exposure is reduced, compared with open account trading. The seller prepares a set of documents which are forwarded to the seller's bank. The seller's bank forwards these documents to the buyer's bank, together with instructions for payment. The buyer's bank will exchange the documents for either a cash payment or future payment by way of a bill of exchange, drawn on the buyer. The buyer exchanges the collection documents for the shipped goods. The risk to the seller varies according to whether payment is made in cash or by acceptance of the bill of exchange. In both cases, once the buyer has title to the goods, the seller will either have cash or a signed bill of exchange as evidence of payment or a promise to pay.

Documentary credit

Under the terms of a documentary credit (or letter of credit, L/C), the balance of the risk assumed shifts more towards the buyer (the applicant), compared with both open account terms and a documentary collection. A documentary credit is a legal obligation of the bank that has issued the credit to pay funds to the seller (the beneficiary) upon receipt of certain specified documents. As long as the seller provides the bank with these documents, the bank will pay the agreed funds. However, the buyer does derive some benefit from the use of a documentary credit, as the seller will need to ensure the terms of the credit are met in order to receive payment.

Payment in advance

At the other end of the scale, the buyer assumes the majority of the risk in the transaction. The seller will only dispatch the goods on receipt of settled funds from the buyer. Once the buyer has submitted the funds to the seller, the buyer is exposed to a range of risks associated with the transaction, from insolvency of the seller to failure to deliver the goods or provide the service.

Shipping terms

Incoterms

International Commercial Terms (Incoterms) were developed by the International Chamber of Commerce to help both parties to an international transaction understand precisely which portion of the transportation process they are responsible for, and which stages they should arrange and insure. The use of a particular Incoterm can be agreed by both parties to a transaction and will then be applied in the event of a dispute. (Most countries recognise Incoterms, although a small number do not.) The latest version of Incoterms was launched in 2010, effective 1 January 2011, and is outlined below.

Core characteristics

The 11 different Incoterms can be divided into four main groups, each of which relates to a different point at which responsibility for the goods transfers from the seller to the buyer. Most of the Incoterms are suitable for any mode of transport, although four (FAS, FOB, CFR and CIF) are suitable for sea and inland waterway transport only.

Group E – Departure Terms

Under the terms in this group, the buyer assumes responsibility for the transportation of the goods from the seller's warehouse. Correspondingly, the seller's responsibility for the goods ends at the point at which the buyer picks up the goods.

Term	Seller	Buyer
EXW (Ex Works)	Required to make the goods available to the buyer either at the seller's own warehouse or at another place named in the contract.	Responsible for loading and removing the goods from the point of delivery. Solely responsible for arranging all relevant documentation, including import and similar licences, for insuring the goods in transit and for all transportation costs. This is the only Incoterm which requires the buyer to arrange for export clearance.

Group F – Main Carriage Unpaid

Under the terms in this group, the seller is responsible for delivering the goods to the buyer's shipping company. The buyer is therefore responsible, through the contract with the shipping company, for the goods once they have been received by the shipping company. The buyer meets the main costs of shipment.

Term	Seller	Buyer
FCA (Free Carrier) *Used for all forms of transport.*	Required to deliver the goods to a shipping company named by the buyer at the place named in the contract. Responsible for delivery of the goods to the named point. Arranges export clearance.	Responsible for all other documentation, for insuring the goods in transit and for all transportation costs from the named point to the final destination.
FAS (Free Alongside Ship) *Used only for goods shipped by water (including inland waterways).*	Required to deliver the goods alongside a ship at a port located in the seller's own country. Responsible for delivery of the goods to the named ship. Usually responsible for arranging export clearance.	Responsible for all further transportation costs, from the loading of the goods onto the ship to the final destination, for all other documentation and for insuring the goods in transit.

Term	Seller	Buyer
FOB (Free on Board) *Used only for goods shipped by water (including inland waterways).*	Required to deliver the goods onto a ship at a port located in the seller's own country. Responsible for delivery and for loading the goods onto the named ship. Usually responsible for arranging export clearance.	Responsible for all further transportation costs to the final destination, for all other documentation and for insuring the goods in transit.

Group C – Main Carriage Paid

Under these terms, the seller arranges shipment of the goods to the buyer. The seller is responsible for the main costs of shipment.

Term	Seller	Buyer
CFR (Cost and Freight) *Used only for goods shipped by water (including inland waterways).*	Required to deliver the goods to a named port located in the buyer's own country. Responsible for ensuring the delivery of the goods to the destination port. This includes arranging export clearance and any other export requirements. Not obligated to arrange any transit insurance for the goods, although many exporters choose to arrange their own insurance.	Assumes any risk of loss once the goods have been loaded on board the ship at the port of origin, so should arrange transit insurance for the goods. Takes control of the goods at the destination port and is responsible for managing the import process.
CIF (Cost, Insurance and Freight) *Used only for goods shipped by water (including inland waterways).*	Required to deliver the goods to a named port located in the buyer's own country. Responsible for ensuring delivery of the goods to the destination port. This includes arranging export clearance and any other export requirements. In contrast to CFR, the seller assumes the risk of loss or damage to the goods until they are unloaded at the port of destination, and should arrange any transit insurance for the goods.	Does not assume any risk of loss until such time as the goods are unloaded at the destination port, but many importers nevertheless choose to arrange their own insurance of the goods whilst in transit. Takes control of the goods at the destination port and is responsible for managing the import process.
CPT (Carriage Paid To) *Used for all forms of transport.*	Required to deliver the goods to a named port located in the buyer's own country. Pays for delivery of the goods to the destination port. This includes arranging export clearance and any other export requirements. Not responsible for any loss or damage in transit, so is not required to arrange any transit insurance for the goods, although many exporters choose to arrange their own insurance. Responsibility for the goods ends once the goods have been accepted for carriage by the shipping company.	Assumes any risk of loss, once the goods have been loaded on board the ship at the port of origin (or otherwise been accepted for carriage), so should arrange transit insurance for the goods (although this is not required). Takes control of the goods at the destination port and is responsible for managing the import process.

Term	Seller	Buyer
CIP (Carriage and Insurance Paid To) *Used for all forms of transport.*	Required to deliver the goods to a named port located in the buyer's own country. Responsible for ensuring delivery of the goods to the destination port. This includes paying for all transit costs, as well as arranging export clearance and any other export requirements. Is obligated to arrange any transit insurance for the goods.	Assumes any risk of loss once the goods have been loaded on board the ship at the port of origin (or otherwise been accepted for carriage). Although the seller arranges transit insurance, many importers choose to arrange their own insurance for the goods in transit. Takes control of the goods at the destination port and is responsible for managing the import process.

Group D – Arrival Terms

Under these terms the seller is responsible for the delivery of the goods to their final destination. The seller assumes all costs and risks involved in delivering the goods to their final destination.

Term	Seller	Buyer
DAP (Delivered at Place) *Used for all forms of transport.*	Required to deliver the goods to a named destination, usually in the buyer's own country. (This term can be used for delivery to any named place.) Responsible for ensuring delivery of the goods to the named destination point. This includes arranging export clearance and any other export requirements. Responsible for any loss or damage to the goods in transit, so should arrange insurance (although are not required to do so).	Takes control of the goods at the named destination. Manages the import process, including the unloading of goods, and transportation of the goods to their final destination.
DAT (Delivered at Terminal) *Used for all forms of transport.*	Required to deliver and unload the goods to a named terminal (this can include a named warehouse or quay) located in the buyer's own country. Responsible for ensuring delivery of the goods to the terminal. This includes arranging export clearance and any other export requirements. Responsible for any loss or damage to the goods in transit, so should arrange insurance (although are not required to do so). Responsible for meeting the costs of unloading.	Takes control of the goods at the terminal and is responsible for managing the import process.
DDP (Delivered Duty Paid) *Used for all forms of transport.*	Required to deliver the goods to the final destination selected by the buyer. Responsible for ensuring delivery of the goods to their final destination. This includes arranging export clearance and any other export requirements. This is the only Incoterm which places responsibility for managing the import process and paying costs of import on the seller. Responsible for any loss or damage to the goods in transit, so should arrange insurance (although are not required to do so).	Takes delivery of the goods at the final destination. Not responsible for managing the import process, but may need to provide the seller with certain documents to comply with import regulations.

Benefits

Where used, Incoterms clearly identify which party is responsible for the goods at each stage of the shipping process. Because Incoterms are widely accepted throughout the world, they can be used for the overwhelming majority of trades. As international standards they can also be transmitted electronically using EDI, as long as both parties agree, reducing the cost of preparing and using paper documentation.

Potential problems

As with most internationally agreed standards, there are some circumstances which are not covered by Incoterms. In addition, both importer and exporter should ensure Incoterms are recognised in the counterparty's country, as the terms are not recognised in some locations. Even in situations or locations not covered by Incoterms, they can still be used, although there is scope for confusion between the parties over the division of responsibilities. Moreover, disputes may be difficult to resolve in court, should the need arise. In these circumstances both parties may benefit from arranging their own additional insurance to cover their positions.

There are additional costs which are not covered by Incoterms. Depending on the term used, this might include the cost of insuring the goods and the cost of shipping goods from the factory to the shipper, or from the port to the importer's warehouse. Both parties need to consider these additional costs when, in the case of the exporter, setting the price or, in the case of the importer, agreeing the contract.

Assessment

Incoterms ease the process of agreeing the detail of a contract to supply a consignment of goods, by identifying clearly which party is responsible for each stage of the shipping process. Although some Incoterms make clear which party is responsible for the goods at every stage, there is not always a requirement for that party to arrange insurance. Both parties should therefore consider arranging their own insurance for the whole process.

Insurance

Trade, especially international trade, exposes both exporter and importer to a range of risks, all of which need to be understood and, possibly, managed.

There are essentially three risks: that the goods will be damaged or lost in transit; that there will be an economic, political or regulatory change (new exchange controls or import licence requirements, for example) in the other country (country risk) which results in loss to one or other party; and that the counterparty to the transaction will fail.

The risk of loss or damage in transit can be managed by arranging some form of transit insurance. Both parties may want to consider arranging their own insurance against this loss, as the effect of any consequent loss will be different for the exporter and importer. The exporter will have to accept an impact on cash flow (except in the case of payment in advance). The importer may have to cut back on production whilst an alternative source of supply is found.

The risk of loss from country risk is more complex, as it requires an assessment of the likelihood of the counterparty's government imposing new trade restrictions (such as exchange controls or import restrictions). It is possible to arrange insurance to protect against loss caused by regulatory change from both export credit agencies and private insurers.

The risk of loss as a result of counterparty failure varies according to the payment terms used. Under open account terms, much of the risk is faced by the exporter. The importer's creditworthiness is central to the risk of the transaction. Chief of this is the risk that the importer will receive the goods but either will not pay, will not pay in full, or pays late (possibly incurring costs for the exporter's accounts receivable team). If the importer fails before title of the goods is exchanged, the exporter's position is stronger, but only if an alternative customer can be found. This depends in part on the lifetime of the goods being sufficient for that to happen (difficult with certain items, such as perishable foods) and on there being alternative customers (difficult in highly specialised industries). The exporter of a service is in a particularly weak position in the event of the counterparty failing after a service has been provided.

In the event the importer takes control of the goods, but refuses to pay, the exporter has to rely on pursuing a claim through the appropriate courts. This effectively means the exporter is exposed to a country and a contract risk. The exporter effectively has two contracts: one with the importer to pay for the received goods, and one with the shipping company (or a series of companies) to deliver the goods to the correct place undamaged.

This second contract (or contracts) also represents a significant risk for the exporter. Because payment is on open account, the importer will only pay on receipt of undamaged goods listed in the invoice. If there is a problem with shipping, either in terms of delay, or due to loss or damage to some or all of the consignment, the importer is likely either not to pay or to only pay part of the final amount invoiced. The exporter needs to be aware of this risk, and to be confident of being able to seek redress through the courts or recompense from an insurance policy.

However, in all cases where there is a dispute, the exporter, under open account terms, needs to be aware that there will be a delay in seeking a resolution, whether through legal proceedings or via a claim against an insurance policy. This will inevitably result in a delay in the receipt of payment, which will have an impact on cash flow and working capital levels.

Benefits

Transit insurance

Both parties can arrange insurance to cover a variety of risks. The use of Incoterms or a letter of credit may indicate which party should arrange a particular level of cover, and what evidence of cover is required against loss or damage in transit.

For regular exporters, rolling insurance policies can be arranged which cover all exports over the term insured. Under such policies, individual cover notes or certificates then need to be issued for each individual consignment. Responsibility for the issuance of the cover notes will be listed in the insurance policy, although the exporter must always check that appropriate insurance is in place before the goods are handed over to the shipper. This is most appropriate to cover regular consignments of the output of the exporter's core business.

For particular transactions, insurance can also be arranged on a one-off basis. This is appropriate where additional cover is required (perhaps for a large consignment) or where the trade is with a new counterparty or into a new country where there is additional risk.

Finally, either party may decide to arrange cover even when Incoterms are used and state that the other party is responsible. This will provide cover in the event of the counterparty failing to meet the terms of the agreement, and is particularly appropriate when the relationship with the counterparty is new, or the counterparty is located in a jurisdiction where the exporter has little experience of trading.

Credit insurance

Exporters will often seek to arrange credit insurance. Depending on the policy chosen, credit insurance can provide protection against a range of risks associated with trade. It is available to protect against credit risk associated in the provision of services as well as goods.

Broadly speaking, credit insurance can be arranged to protect against both counterparty and country risk.

- Counterparty risk.
  Common counterparty risk events for which credit insurance can be arranged include counterparty insolvency, refusal to pay, and failure to accept goods or services provided in accordance with the contract.
- Country risk.
  Common country risk events for which credit insurance can be arranged include changes in government policy that prevent completion of the contract, or payment in settlement of the contract, natural disasters, war or terrorist activity that prevents completion of the contract

(subject to named exclusions), and withdrawal of an export licence after the contract has been agreed.

The challenge here is to identify the most appropriate source of cover. Credit insurance can be available from both commercial insurers and the local export credit agency. The coverage offered by export credit agencies varies significantly between countries and is typically subject to strict limits. Commercial insurers usually have the flexibility to offer more tailored coverage, depending on requirements.

Potential problems

There are a number of potential problems with the insurance of goods in transit.

- In the event of the loss of or damage to a shipment, there may be a dispute over who is responsible for the goods and the insurance. This risk can be eliminated through careful drafting of the policy.
- Where an unforeseen circumstance occurs, the insurance policy may not cover the consequential loss. For example, if a consignment of goods is damaged, the importer may fail to meet its contracts to supply. The importer's customers may then look to competitors to provide the goods, leading to the loss of a customer and resultant long-term sales. It is possible to insure against consequential loss; however, the insurance company's definition is likely to be narrow and may not cover longer-term reputation loss.
- In other cases the insurance company may argue that a particular circumstance, e.g. loss caused by terrorism, is excluded from the coverage offered by the policy, and may refuse to pay.
- Finally, insurance is cheapest for those events which are least likely to happen, while it can be expensive to obtain insurance cover to protect against the most common causes of loss. In these circumstances the exporter will need to decide whether it is appropriate to continue with the transaction, whether to charge the importer a higher price (effectively a risk premium), or whether to change the way the exporter does business in order to minimise risk.

As with other documents, care needs to be taken to ensure appropriate insurance is arranged for the period of coverage required. In particular, care should be taken to ensure each separate shipment is covered (important in the case of annual insurance policies), with an appropriate cover note or certificate in place. This cover note or certificate should detail the precise nature of the goods being shipped, the date and method of shipment, and should match the descriptions on other associated documentation.

As with general insurance, there are also limits to credit insurance.

- Coverage under export credit agency rules may not be available, as its qualifications can be limiting. For example, credit insurers (whether export credit agencies or private insurers) only provide coverage up to a maximum proportion of a contract (this may be 90% of the value of the contract in the case of counterparty failure, and 80% of the value of the contract in the case of specified country risks).
- Credit insurance may also be limited to companies with minimum or maximum annual turnovers, or to transactions on the basis of particular payment terms.
- Finally, there can be a delay in the settlement of a credit insurance claim. For example, credit insurers are unlikely to settle a claim against a payment default (rather than documented insolvency) for a number of months, resulting in cash flow problems for the seller.

Assessment

Insurance can provide a relatively easy way for both parties to protect against core losses. Under certain Incoterms, arranging insurance cover for goods in transit is compulsory for one party. However, in general it is up to the individual companies to decide whether and when it is appropriate to arrange insurance. Modelling both the likelihood of an event taking place and the impact of such an event on the business as a whole will help the company decide whether arranging insurance is a cost-effective solution for each particular risk.

Documents used in open account trading

There are a number of specific documents that are used in all forms of trading, including open account trading.

The challenge for the seller under open account terms is to manage the two core risks. First, there is the risk that the buyer does not pay, either as a result of insolvency or refusal (credit risk), or is prevented from paying, as a result of exchange controls or other regulation (country risk). Second, there is the risk that the goods are damaged in transit.

The first stage for the seller under open account terms is to find out as much as possible about their counterparty, both from its own trading records (if these exist) and from specialist credit risk agencies, if available. Country risk can be evaluated using information from banks, accountancy firms and other specialist agencies.

The second stage is to ensure there is appropriate documentation in place for each transaction to provide evidence of the trade, should it be necessary to pursue redress through the courts. This will require accurate invoices and bills of lading, for example, to be provided.

The final stage is to consider arranging appropriate insurance to cover both credit and country risk, as well as any transit risk.

Invoice

An invoice is the core document in any transaction, as it is often the only document that represents the contract between the buyer and the seller. Technically an invoice is a formal request from the seller asking the buyer to pay a specified amount in exchange for the items or service listed on the invoice. This applies whether it refers to a domestic or an international trade.

Core characteristics

All invoices should include a range of detail about the transaction. At the very least, there should be a description of the goods or service and the amount payable by the buyer. (This should be denominated in the currency of the transaction.) There should also be a date and other appropriate reference information, as well as the names and addresses of the buyer and seller.

Details of the shipping arrangements (including, sometimes, the cost) are often included on the invoice. If so, the detail should match that provided in any waybill or bill of lading. The invoice should also detail any relevant tax information for customs clearance or tax reclamation purposes. (In the EU, this will be a VAT number.)

In some industries and sales relationships it is acceptable for invoices to be prepared electronically. There are significant potential cost and control advantages to using electronic invoicing, especially when integrated with electronic bill payment.

Special invoices

When selling to countries which impose exchange controls, it may be necessary for the exporter to produce a pro-forma invoice before a sale is agreed. This is because the importer may only be able to get approval for a foreign currency transaction on production of a request to pay.

Where a country imposes anti-dumping controls, an exporter may have to arrange for pre-approval of the invoice where a consular official (from the importer’s country) approves an invoice prior to the agreement of the sale. An invoice signed by a consular official is known as a legalised invoice. Some countries prepare their own forms authorising imports which are also available from consulates. These are similarly countersigned by a consular official, and are known as consular invoices.

Benefits

- The invoice is clear evidence of a sale. As such, it is possible for the exporter to arrange working capital finance by discounting the invoices either with a bank or with a special invoice discounter (see next chapter).
- The invoice is also a critical trade document, as it provides clear identification of the traded goods along with the price of sale. The production of an invoice is a core requirement for any goods to pass through customs in the destination country.
- As discussed above, an invoice may also

be necessary for exchange control or other import control purposes.

Potential problems

Care needs to be taken over the preparation of the invoice. A number of critical mistakes can easily be made that can result in problems, especially when a documentary collection or a documentary credit is used. It is always important to check the details on any invoice:

- The invoice amount should agree with any letter of credit or bill of exchange, if used, and the currency used must be the correct one.
- The description and price of the goods should also match those used in other documentation.
- The overall price, shipment terms and any additional charges must be correct.
- Any declarations, notarisations, signatures or certifications required must also be present.

Assessment

All transactions require an invoice at some stage. The critical point from the exporter's perspective is to ensure that the details on the invoice match both the shipped consignment and, if terms other than open account are used, any accompanying or necessary documentation, otherwise payment may not be made.

From the importer's perspective it is equally important to ensure the details on the invoice are correct, especially that the details match the content of the consignment and any accompanying or necessary documentation. Importers should not pay out if there are discrepancies in the documentation, as to do so could result in an additional demand to pay. Instead, the importer should require the exporter to prepare a new invoice with the correct details listed.

Bill of lading

A bill of lading is a receipt issued by a shipping company, stating that it has accepted a consignment of goods from a seller (typically, but not exclusively, an exporter) for carriage to a named recipient (typically an importer or an importer's agent).

Bills of lading are usually required when trading under all payment terms. Where a letter of credit (L/C) is used, it will specify which form of bill of lading (see below) is required.

Core characteristics

All forms of bill of lading provide evidence that the goods described on the bill have been accepted by a shipping company for carriage from one point to another. The shipping company will prepare and sign two or more bills of lading, which they will give to the seller (or the seller's agent) on receipt of the goods to be shipped. The seller will send the original bills to the importer (its bank, if presented under a letter of credit, or importer's agent), usually under separate cover. The shipping company will only release the goods to the importer (or importer's agent) on presentation of the bill of lading.

A bill of lading is also recognised as a document of title. This means the shipping company can use the bill to assist them to clear the goods through customs procedures at the port of entry.

A bill of lading will contain details of the company sending the shipment, the shipping agent or carrier and the consignee or importer of the goods. It will state how the goods are to be transported (usually the name of the ship and the ports of departure and arrival). It will contain a brief description of the goods and the number of packages, and will indicate whether the freight cost has been paid.

There are different forms of bills of lading, each with slightly different characteristics.

- Non-negotiable bill of lading.
  Also referred to as a straight bill of lading, this consigns the goods to a named person or company, and cannot be negotiated.
- Negotiable bill of lading.
  Also referred to as an order bill of lading, this allows the original consignee to endorse the bill for delivery to a different consignee. To be accepted as a negotiable bill of lading, the bill needs to include a clear statement to that effect.
- Bearer bill of lading.
  This allows for delivery of the goods to the bearer of the bill. If a negotiable bill has no consignee, it is treated as a bearer bill.
- Surrender bill of lading.
  A surrender bill of lading is used

alongside a letter of credit, where payment is made on the maturity of the draft. When the bill of lading is handed over to the importer, ownership of the goods passes to the importer, who is then permitted to sell the goods even if payment (under the terms of the associated draft) has not yet been made.

When preparing a bill of lading, the seller will usually prepare a number of copies of the document. Signed sets of the bill of lading will usually give title to the goods. Any unsigned copies are only used as records as they cannot be documents of title.

Benefits

There are a number of advantages to the use of bills of lading.

- They are evidence of the contract of shipping. This is particularly important to the seller trading on open account, who loses control of the goods once they are shipped.
- The bill also provides full details of the shipment and the parties to the shipment. Under the terms of some contracts, the importer will demand the right to inspect goods prior to shipment to check they match their description in the bill. If this check is performed, the inspector will usually seal the shipment.
- Finally, as a document of title, it facilitates import and export of goods by easing the passage of the goods through any customs controls.

Potential problems

Users of bills of lading also need to be aware of some of the potential problems which can and do arise.

- Because the bill of lading is the document of title, its loss can cause significant problems for the importers of the goods. At the extreme, the loss of a bill of lading will mean the importer cannot take delivery of the goods. If the bill of lading is not available, this often means the importer will be faced with significant storage costs (known as demurrage). Because of this risk it is normal practice to forward more than one signed copy of the bill of lading to the importer (although this differs if the transaction is made using letters of credit).
- Any delay or refusal of delivery can also pose problems for the importer. This is because the importer is not a party to the contract signified by the bill of lading, which is between the exporter and the carrier.
- Bills of lading provide no protection in the event of any damage to, or loss of, the goods. Importers may need to arrange insurance to cover the effect of damage or loss in transit (see Incoterms, above).

Great care should be taken in the preparation of bills of lading, as errors can cause serious problems for the importer who needs to take control of the shipment. Common errors include discrepancies in detail between the bill of lading and other accompanying documentation (especially where a letter of credit is used), alterations made to the bill of lading without appropriate authorisation and authentication, absence of the exporter's endorsement if the bill of lading is drawn to order, and shipped on board notation not having been completed by the shipping line or agent.

Waybills

Waybills are a form of bill of lading typically used by shipping companies (sea waybills) or air cargo companies (air waybills – AWB). Where land transportation is used, a similar consignment note is used.

Core characteristics

The air or sea waybill sets out the conditions of transport between the shipper and the airline or shipping company. In the case of air transport, the Cargo Services Conference (CSC) of the International Air Transport Association (IATA) sets a series of standards covering many of the elements of air cargo. One of these covers AWB specifications. Under the terms of CSC resolution 600b, which lists IATA's preferred conditions of contract and which became effective in 2010, international air shipments are subject to limits of liability.

As with a regular bill of lading, sea and air waybills are evidence of the shipping contract. The waybills include a full description of the goods and all the applicable charges. Waybills also acknowledge receipt of the goods for shipping by the airline or shipping company. For record-keeping purposes a minimum of three copies of waybills are usually issued.

Unlike bills of lading, air and sea waybills are not documents of title and they are also non-negotiable. Because they are not documents of title, the consignee (the importer or importer's agent) does not need the waybill in order to take possession of the goods.

If a freight forwarder service is used, a forwarder's air waybill will be used. If a shipment is to be carried by more than one means of transport to its final destination, a multimodal transport document is used.

Benefits

There are a number of benefits to the use of waybills.

- As a document, they provided a clear contract of shipping (whether by sea or by air). A waybill will show the route taken (in the case of air freight, the airports used) and the carrier (in the case of shipping, the name of the ship). Unlike bills of lading, waybills are not documents of title, so the importer does not need to produce one to take collection of the goods.
- The waybill represents an agreed set of terms and conditions of carriage, together with any additional limits of liability.
- The waybill provides evidence of consignment (which may be necessary when a letter of credit is used), as it carries the date on which the consignment was accepted for carriage. Waybills, particularly AWBs, can usually be tracked electronically.
- Waybills also aid the passage of the consignment through customs in both the country of final destination and any transit countries. This is because the waybill includes a description and valuation of the goods. These should match other accompanying documents.

Potential problems

As with other trade documents, there are potential problems that can arise.

- Waybills are not documents of title, so the importer is likely to have to produce other documentation to secure release of the goods. This can cause difficulties if the associated documents are lost or late being delivered.
- Waybills provide limited protection to either party in the event of the loss of a shipment, especially where the limits of the shipper's liability are below the value of the shipment.
- Similarly, the importer may face additional costs if the shipment is delayed (resulting in lost production time or lost sales) which are not protected by the waybill.

Certificate of origin

Certificates of origin often accompany imported goods to show the provenance of the imported items.

Core characteristics

Many companies require that all imported goods, or goods in categories which attract import tariffs or other restrictions, are accompanied by a certificate of origin. These certificates are inspected by customs officials to ensure import rules are applied. Countries also use certificates of origin when import quotas apply and also, in some cases, as a tool to compile trade statistics.

Benefits

- Certificates of origin are important tools for the exporter, especially when there are import restrictions, as they help the passage of goods through customs control.
- Where certificates of origin are not required by the importing country's customs department, they can be a useful sales tool for both the exporter and importer, depending on the nature of the goods.

Potential problems

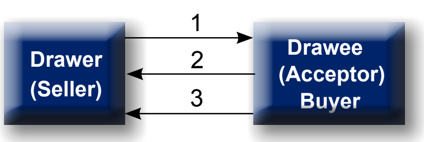
- One of the biggest problems, especially for manufactured goods, is establishing the precise origin of the exported items. Different countries apply different standards for the compilation of certificates of origin.
- It can also be complex to meet regulatory requirements when a free trade agreement is in place between the exporter's and importer's countries. The importer's country, in particular, will be keen to see that the terms of the free trade agreement are not abused.
- In some cases, formal documents may be required to support the certificate of origin. This will add time and cost to the trade

process, especially when the documents need authentication by a third party.

Documentary collection

A documentary collection shifts the balance of risk from the exporter slightly towards the importer, compared with open account terms. Unlike the latter, where the goods are exchanged on presentation of the appropriate document of title, under a documentary collection the importer takes control of the goods on presentation of an appropriate document of title (typically, the same documents which would be presented under open account terms) together with some form of commitment to pay (typically a bill of exchange). (See page 111 for more information on how a bill of exchange works.)

A bill of exchange



1. Drawer writes bill of exchange on drawee (a bank or the drawer's customer) and sends it to drawee
2. Drawee accepts bill (and becomes acceptor) and sends bill back to drawer
3. On due date, drawee will honour the bill by paying the face value to the drawer

The document exchange is usually administered through the importer's bank. The bank has the responsibility of ensuring the documents presented match the documents required under the terms of the contract.

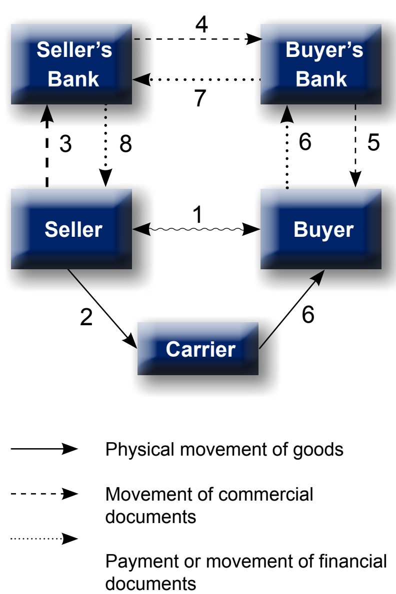
Broadly speaking, there are two different types of collection.

- Collection against payment.
  Under these circumstances the documents are exchanged for immediate (sight) payment. This provides relative security of payment for the seller, as long as the required documents are in order, and allows the seller to predict the timing of the collection of payment.
- Collection against acceptance.
  Under these circumstances the documents are exchanged for a bill of exchange. The bill of exchange will have been accepted (signed) by the importer, indicating payment will be made on the future date indicated on the bill of exchange. This allows the importer to manage its cash flow, whilst providing additional security to the seller in the form of the accepted bill. This also allows the seller to predict the timing of the collection of payment.

Note: in some cases, a clean collection process is used whereby only the bill of exchange is passed between the banks. The documents of title are sent directly from the seller to the buyer and there is no link between the two. A clean collection is therefore more like open account trading, as the seller can take title of the goods without committing to making a payment.

Understanding the documentary collection process

The process of documentary collection



1. Parties agree contract of sale.
   As far as possible, the details of the contract of sale should be negotiated to cover all possible circumstances. This should minimise the risk of problems at a later date.

   The contract terms and conditions should include a description of the goods, the price (including currency) and the payment terms (whether the documents will be exchanged for payment or an accepted bill). Both parties will also need to address how to meet any export/import controls, including the procurement of any licences and the compliance with any exchange controls.

   The details of the delivery of the goods should also be agreed. Factors to agree include the timing of the delivery of the goods, the means of transport to be used, the point of delivery, insurance, and the use of a specific Incoterm. Agreement should also be reached on what should happen in the event of delays in shipping, or at the customs points.

   Both parties should also consider clauses to protect their specific interests. For the seller these will concentrate on the situation in the event of non-payment or non-acceptance and will include points such as the retention of title and the process of protesting an unpaid accepted bill of exchange. (Protesting is the legal process involving the presentation of the bill for payment, normally through a notary public or other legal party.) For the buyer, these will concentrate on the situation in the event of damaged or substandard goods being provided. In both cases, specialist legal advice will be needed.

   Finally, the two parties must confirm which documents should be required to be exchanged under the terms of the collection itself.

   The final agreement should comply with the Uniform Rules for Collections (published by the International Chamber of Commerce).

2. Seller ships goods to buyer.
   This should be in accordance with the terms agreed in the contract. Appropriate insurance should also be arranged.

3. Seller sends collection documents to its bank.
   The seller should send all the documents required to collect payment under the terms of the agreement to its bank (the remitting bank). The seller will want to ensure there are no inconsistencies in the documentation, as this can delay or prevent payment being made. Common discrepancies include differences in the description of goods being used on different documents and in the dates used. Care should also be taken over the payment terms offered, as the buyer's bank will use those stated in the collection documents to collect payment.

4. Seller's bank sends documents on to buyer's bank.
   The seller's bank will check the documents provided against those required in the collection schedule, and then send them on to the buyer's bank (the presenting or collecting bank). The banks do not usually check the detail of the documents, rather they check the presence of documents as outlined in the seller's instructions and schedule of documents.

   This has historically been a paper process, although it is increasingly common for documents to be prepared and presented electronically. The process used should be agreed as part of the contract, although it is usually the exporter's decision to take. In some cases the seller will forward the documents direct to the buyer's bank (with a copy to the seller's bank). This is known as a direct documentary collection.

5. Documents presented to buyer by its bank.
   Once it has received these from the seller's bank, the buyer's bank will advise the buyer of the details. Under the terms of a documentary collection, the buyer's bank's responsibility is to ensure the documents are only released to the buyer when the buyer meets its obligations as described in the collection documents.

6. Buyer pays or accepts bill.
   Under the terms of the collection documents, the buyer will be required to either settle the transaction immediately, by paying cash, or accept a bill of

exchange, which is a commitment to pay at the maturity of the bill. Once the buyer has fulfilled its obligations to either pay or accept the bill, the buyer's bank will release the documents to the buyer, giving the buyer control of the goods.

If the buyer accepts a bill, the buyer's bank will hold the bill until maturity and then present it to the buyer for payment. Under a documentary collection, the buyer's bank does not guarantee payment of an accepted bill, unless the bill is avalised.

Case study

The use of avalisation to remove payment risk

A UK company was asked by foreign supplier to accelerate payment. The supplier needed to receive cash by the end of the financial year to show an improved balance sheet position.

The solution chosen was a traditional one. The supplier drew a bill of exchange on the UK company with a future date for payment. The UK company accepted the bill of exchange and asked its bank to avalise the paper, i.e. to guarantee payment on the due date. Avalisation removed the payment risk associated with the bill of exchange, which now became a marketable instrument. The UK company's bank offered to accelerate the cash to the supplier, less a discount, which was accepted.

Both parties benefited from the transaction. The supplier received the accelerated cash and the UK company was able to negotiate improved payment terms when agreeing the transaction.

Avalisation

The seller can reduce the risk of non-payment by asking the buyer's bank to guarantee an accepted bill of exchange. This is known as avalisation. In these circumstances the seller is then exposed to the credit risk of the buyer's bank, rather than that of the buyer itself.

7. Buyer's bank sends payment to seller's bank, if payment received, or a notice of acceptance, if bill accepted.
   The buyer's bank will forward payment to the seller's bank, perhaps through a correspondent bank, once received from the buyer. This will be either at sight or after payment of an accepted bill.

8. Seller's bank pays seller, if payment received, or holds accepted bill until maturity, if bill accepted.
   The seller's bank will credit the seller on receipt of payment from the buyer's bank. If issued, the seller's bank will hold an accepted bill until maturity.

What can go wrong?

Under the terms of a documentary collection, the banks are only concerned with the exchange of documents. They offer no guarantee of payment, unless the buyer's bank avalises an accepted bill of exchange. As a result, the most significant risk to the seller is that of non-payment.

If the documents are due to be released in exchange for a sight payment and payment is not received, the buyer's bank will refuse to release the documents to the buyer. In this case, the buyer's bank will ask the seller's bank for further instructions. Even if the situation is resolved between the buyer and the seller, the seller will face a delay in the receipt of payment and additional storage costs. If the buyer refuses to pay, the seller will face further costs, either in the form of transportation to a new buyer or the cost of disposal of the goods if a new buyer cannot be found. This also applies if the buyer refuses initially to accept a bill of exchange.

If the documents are released on the buyer's acceptance of a bill, but the buyer refuses to pay on maturity, the seller is in a weaker position. The buyer's bank will still seek further instructions from the seller's bank. In this case, the buyer's bank may pursue payment of the bill of exchange through the legal system. (However, this position is preferable to an unpaid open account transaction, as the seller has evidence of the debt which any court would assess prior to making a judgment.)

International standards

Most internationally applied letters of credit conform to the Uniform Rules for Collections (URC) standardised by the International Chamber of Commerce. The current version of the standards is known as the URC522, which came into force on 1 January 1996.

To avoid confusion, the version of URC standards that is used should be stated on the collection documents.

Documentary credit

A documentary credit, or letter of credit (L/C), shifts the balance of risk even further from the seller towards the buyer, compared with both open account terms and a documentary collection. As with a documentary collection, the importer takes control of the goods on presentation of an appropriate document of title (typically, the same documents which would be presented under open account terms). However, the documentary credit is also a bank guarantee that the buyer will pay the seller, as long as the documents presented by the seller meet the terms of the letter of credit.

As with a documentary collection, a documentary credit is administered by banks, which have the responsibility of ensuring that the documents presented match the documents required under the terms of the contract. As the importer's bank (the issuing bank) will have effectively guaranteed payment under the terms of the letter of credit, as long as the exporter presents documents which match the requirements of the L/C, payment will be made by the importer's bank to the exporter. This is the case even if the goods do not meet the importer's expectations (whether through damage in transit or poor original quality). On the other hand, if the exporter does not provide the documents as set out in the L/C, there is no obligation on behalf of the importer's bank to pay, even though the bank-issued L/C is a guarantee of payment.

Case study

Making efficiencies by centralising trade management

The treasurer in a rapidly growing company wanted to centralise management of its trade financing across all its operations. Growth has been achieved mainly through worldwide acquisitions, so understanding the group's positions was a fundamental driver for this project. A centralisation project also offered the treasurer the opportunity to negotiate better end-pricing and to make internal savings by adopting single operational processes for managing letters of credit, documentary credits and bank guarantees.

The company now has a single central framework agreement with its bank. As well as the core products this also covers contingent liabilities, and offers standard terms and conditions. The treasurer no longer has to negotiate with multiple local banks around the world. The margin has been agreed centrally, so any deal is the same, whether it is initiated in Shanghai or Singapore.

The bank provides a single consolidated bank guarantee facility and a personalised trade finance portal for the company and its subsidiaries worldwide. As part of the move, the company has created a new trade finance support organisation, with national co-ordinators in major countries and a central desk assisting smaller markets. This is important, because trade and project finance is tied closely to local contracts and local businesses.

There are a number of different types of letter of credit:

Terms of payment

- Sight payment.
  Under these circumstances, the documents are exchanged for immediate (sight) payment. In some cases, payment will be made against a bill of exchange, although this will depend on the agreement between the parties. This provides relative security of payment for the seller, as long as the required documents are in order, and allows the seller to predict the timing of the collection of payment.
- Payment at term.
  Payment will be made at a specified date in the future. This is usually calculated from the date the documents are presented to the issuing bank or the date on the bill of lading, depending on the terms on the letter of credit.
- Acceptance.
  Payment will be made at a future date, as described in the L/C, against an accepted bill of exchange.
- Negotiation.
  Payment will be made to the beneficiary by the seller's bank when it receives the appropriate documents from the seller. However, the bank will be able to charge the seller interest on the advanced funds until such time as it receives payment from the buyer's bank. Unless the L/C is confirmed by the seller's bank, it will also be able to reclaim funds from the seller in the event that funds are not received from the buyer's bank.

Revocable or irrevocable

Any letter of credit issued under the terms of UCP 600 (the Uniform Customs and Practice for Documentary Credits, issued by the International Chamber of Commerce) is assumed to be irrevocable. This means the bank issuing the L/C must pay the seller according to the terms of the L/C, as long as the buyer presents the required documents. Changes can only be made to these terms with the consent of all participants.

An issuing bank (or the buyer) can change the terms of a revocable L/C without the consent of the other party. This clearly weakens the effect of the guarantee of payment for the supplier. For this reason revocable letters of credit are usually only used between companies within the same group.

Confirmed or unconfirmed

A confirmed letter of credit is one in which payment is guaranteed by a second bank (i.e. in addition to the commitment to pay from the issuing bank). An exporter may ask its bank (or another bank in its own jurisdiction) to confirm an L/C, to help to manage the risk of non-payment by the original issuing bank. This is most common where the exporter is concerned over the creditworthiness of the original issuing bank, or lacks confidence in the ability of the legal system in the issuing bank's jurisdiction to ensure an unconfirmed L/C will be honoured.

Case study

UK SME supplying valves in the construction of the water and sewage system in Abu Dhabi

The company needed GBP 500,000 to fulfil a GBP 2 million order. Because the company was providing products as part of a much larger capital contract, there was a long lead time in which to source and manufacture the valves. The company received a confirmed letter of credit in its favour.

Although the confirmed letter of credit offered the company a guarantee of payment, this was conditional on the terms of the letter of credit being met. However, in order to be able to meet the terms of the L/C, the company needed to finance the sourcing and manufacturing of the valves. The company approached its bank to ask it to finance production of the valves.

Before offering the necessary finance, the bank needed to be sure the company had the ability to fulfil the contract. Critically, the bank needed to ensure that not only was the company able to manage a contract of this size and manufacture the valves, but it would also be able to present the necessary documents under the terms of the L/C. Once satisfied on both counts, the bank provided a facility using the confirmed L/C (which was a commitment from the buyer's bank) as security. A funding structure was provided which enabled the company to fund payments to key component suppliers.

As a result of the success of this structure, the UK company was able to tender for a contract worth GBP 15 million.

Other types of letters of credit

- Transferable.
  This is used where a supplier sells the product to the buyer through a third party. This allows the third party to provide payment under the letter of credit issued by the buyer's bank and also, if necessary, to keep the identities of the supplier and the ultimate buyer confidential from each other. This works when there is no difference between the terms and conditions used when the goods are first sold by the supplier to the third party and then subsequently sold by the third party to the ultimate buyer. There are two major exceptions: the price of the goods will be lower for the transaction between the supplier and the third party (and the value of the L/C will usually reduce when transferred to the supplier), to account for the profit made by the third party, and the dates will differ, to take into account the different shipment periods and time frames for the presentation of documents. A transferable letter of credit must be explicitly stated as such (using the word 'transferable') at the time of issue.
- Back-to-back.
  A back-to-back L/C is sometimes used when there are three parties to a transaction, but a transferable letter of credit is not suitable. It is in effect two separate L/Cs. The first is issued by the ultimate buyer's bank to the seller. The second is then issued by the seller's bank to its supplier. The arrangement is considered a 'back-to-back' L/C if the first L/C is used as security by the seller's bank for the second L/C. In contrast to the transferable L/C, the

intermediary is liable for the second credit and will need to arrange its own credit lines with its bank.

- Revolving.
  If the two parties enter into a contract with regular shipments, it may be easier and more cost effective to arrange a revolving letter of credit. A revolving L/C can be drawn against for each shipment (as long as the overall sum outstanding remains below the maximum agreed value). The buyer will need to evaluate whether this is an effective use of its borrowing capacity, as it will need to have committed finance to cover the L/C facility at all times, even when the L/C is not drawn against. A revolving L/C is most likely to be appropriate when the parties are engaged in regular and frequent transactions, such that most of the committed funds are drawn against most of the time.
- Standby.
  Standby letters of credit provide the seller with a guarantee against default by its counterparty within a specified time frame. These can be used as protection for most debts and other obligations. They are not limited to protection against a failure to pay for a consignment of goods. In the case of protection against trade debts, the buyer would arrange a standby L/C with its bank, which will act as a guarantee of its future payments to the counterparty until the standby L/C expires. The buyer's bank (the issuing bank) will charge a fee for this service (whether or not any payment is made) and will usually require some form of security against the contingent liability. The standby L/C will state the documents required to trigger a payment, as well as the maximum value of any payment, the date of expiry, and which parties will pay fees to the advising and issuing banks.

Case study

The use of standby letters of credit to provide liquidity

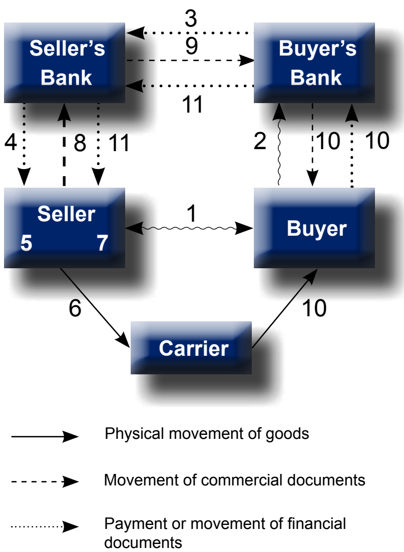
Standby letters of credit are being used to reduce costs for traders holding accounts with exchanges and clearing houses. Arranging standby L/Cs allows a trader to withdraw cash from accounts held with the exchange. This cash is then available to meet any of the trader's other liquidity requirements. Any cash requirements arising from a trade at central counterparts can then be met by drawing against the standby L/C facility.

Banks will typically charge an arrangement fee as well as annual commissions for the standby L/C facility. However, if the trader commits to holding some of the cash balances with the bank offering the standby facility, these fees can be negotiated down, or the return on any cash held can generate a slightly higher return.

Current low rates of interest may make these solutions more expensive, even though the technique, especially the reduction in credit risk, is still valid. In addition, beneficiaries of standby L/Cs may experience pressure on counterparty limits as a result of falls in banking sector credit ratings. The impact of current market conditions, and any changes, will need to be considered carefully in any solution developed.

Understanding the documentary credit process

The process of documentary credit



1. Parties agree contract of sale.
   As far as possible, the details of the contract of sale should be negotiated to cover all possible circumstances. This should minimise the risk of problems at a later date. One way to do this is to use a set of terms and conditions prepared by the seller as the basis for negotiations. The finalised version can then be used by the buyer when asking its bank to open the letter of credit.

   The contract terms and conditions should include a description of the goods, the price (including currency) and the payment terms. Depending on the currency chosen, one or other party may want to consider hedging the associated foreign exchange risk. Both parties will also need to address how to meet any export/import controls, including procurement of any licences and compliance with any exchange controls.

   The details of the delivery of the goods should also be agreed. Factors to agree include the timing of the delivery of the goods, the means of transport to be used, the point of delivery, insurance, and the use of an Incoterm. Agreement should also be reached on what should happen in the event of delays in shipping, or at the customs points.

   Both parties should also consider clauses to protect their specific interests. For the seller, these will concentrate on the creditworthiness of the bank issuing the letter of credit on behalf of the buyer. This will include getting precise information about the issuing bank (in some locations there will be a number of different entities operating as part of the same group). If concerned about either the credit risk of that bank or the country risk of the bank's location, the seller should consider whether it is appropriate to ask its bank to confirm an issued letter of credit. There will be a cost associated with the confirmation, so this should be factored into the cost of sale.

   The buyer will need to agree a credit facility for the issuing of letters of credit. This facility will need to be large enough to allow the buyer the flexibility to make purchases as necessary, whilst recognising that any unused portion of the facility will use up the company's scarce credit capacity. Working capital ratios will help the treasurer to identify the appropriate size of the credit facility.

   Finally, the two parties must confirm which documents should be required to be exchanged under the terms of the letter of credit itself. The final agreement should comply with the UCP 600. The seller, in particular, will need to be confident it will be able to produce all the documents as agreed under the terms of the letter of credit, both accurately and within the agreed timescale.

2. Buyer asks its bank to open a letter of credit.
   This should be in accordance with the terms agreed in the contract, using the template terms and conditions negotiated between the two parties, if appropriate.

3. Buyer's bank issues letter of credit to seller's bank (note this is not necessarily the account-holding bank).
   As long as the buyer has a sufficient credit line in place, the buyer's bank (the issuing

bank) will issue a letter of credit in favour of the seller. This is sent to the seller's bank (the advising bank).

4. Seller's bank advises seller of receipt of letter of credit documents from buyer's bank.
   The seller's bank receives the L/C from the buyer's bank. The seller's bank will then check the content of the L/C before passing it to the seller.
   Depending on the circumstances, the seller's bank (or another bank) will confirm the L/C before passing it to the seller.
5. Seller checks detail of received letter of credit.
   The seller should check the detail of the received L/C (see checklist, page 102). If there are discrepancies between the terms agreed in stage 1 and the detail of the L/C, the seller should ask the buyer to amend the L/C, otherwise the seller is running the risk of non-payment. Only the buyer has the authority to ask its bank to amend the L/C.
6. Seller ships goods.
   Once the seller is happy with the terms and conditions of the L/C, it will ship the goods according to the terms of the contract, as listed on the L/C. This may be to a named warehouse or storage facility close to the buyer's location.
7. Seller prepares required documents.
   Once the goods have been sent, the seller must also prepare all the necessary documents for submission to its bank. These documents need to be presented in the form required by the L/C so that they match the terms and conditions. Under the terms of a documentary credit, the buyer's bank's responsibility is to ensure payment is only made when the seller provides documents which match those listed on the L/C.

   Common errors include the following:

   - An incorrect number of, or wrongly titled, documents presented.
     No additional documents should be presented, and the seller should take care to provide the agreed number of originals and copies of the required documents.
   - Inconsistent details across the different documents required.
     The goods must be correctly and fully described on the invoice to match the description given on L/C. The transport document must accurately describe the method of transport used, including details of all parties to the shipment. The insurance document must show the appropriate cover (usually starting on or before the date of shipment). Any bill of exchange should be drawn in line with the terms and conditions of the L/C, for the correct amount and with appropriate endorsements. All documents should be dated.
   - Unauthorised changes made to documents.
     If any changes have been made to any documents, they must be properly authenticated.
8. Seller sends prepared documents to its bank.
   Once prepared, the documents must be forwarded to the seller's bank. The seller must ensure the documents are received by the bank by the expiry date on the letter of credit. This must also be within any limits established either by the transport documents (usually 21 days, unless otherwise stated) or by any import licence requirements.
   The seller should also confirm its settlement instructions for this transaction.

Case study

Large multinational outsourcing the preparation of documents to its bank

As with many companies, this large Asian-based subsidiary of a European electronics manufacturer faced staffing pressure. It found it did not have the correct skill set among existing staff to prepare the full set of documents needed to support letters of credit. With the company preparing about 2,000 sets of documents a year, the proportion of errors resulted in a large number of discrepancies in the documents which the company presented to the bank. As a result, the company saw a serious adverse impact on its days sales outstanding (DSO) and decided to outsource this non-core activity to its bank.

The bank had specialist teams responsible for originating and checking all such documents, and today the bank prepares the full set of documents for the company. The solution was implemented in a short time frame to the company's satisfaction, using dedicated resources at the bank. Not only did the bank improve efficiency by using its own expertise in the preparation of documents, it was also able to reduce the risk of discrepancies, by simplifying the company's own internal processes.

As a consequence the company has effectively shortened its collection cycle, resulting in an improvement in the company's DSO of three to four days. Moreover, when establishing the outsourced arrangement, the bank's trade advisors also reviewed the company's processes, leading to further operational savings and reduced staff costs.

Thus, this move had both cost and revenue benefits. The company started by outsourcing trade documents prepared by at least one of its divisions to the bank. It is now considering opportunities to further expand this service.

9. Seller's bank checks received documents and sends them to buyer's bank.
   The seller's (advising) bank will check the received documents against the requirements of the letter of credit.
   If the advising bank approves the documents, it will forward them to the buyer's (issuing) bank. Depending on the agreed payment terms (if payment is at the exporter's bank), the advising bank may then also pay the seller.
   If the advising bank identifies differences between the presented and required documents, it may advise the seller to amend and represent the documents. This course of action is only appropriate if the seller can present new documents within the timeframe shown on the letter of credit. If this is not possible, or if the differences are minor and there is a good relationship between the buyer and seller, the advising bank may ask the issuing bank to authorise payment despite the differences.
   The alternative is for the advising (seller's) bank to send the documents to the issuing (buyer's) bank 'on inspection'. This protects the seller's interests, because the issuing bank will still hold the title to the goods until the buyer authorises payment.

However, the issuing bank is only required to make payment if authorised by the buyer, who may refuse to accept delivery of the goods, or may seek to reduce the purchase price in exchange.

10. Buyer's bank checks documents and arranges payment.
If the buyer's bank is happy there are no differences between the presented and required documents, it will arrange for payment by the buyer in exchange for the release of the documents. The release of documents to the buyer allows the buyer to take ownership of the goods.
In the event of discrepancies, the buyer's bank will take instructions from the buyer, depending on the circumstances.

11. The buyer's bank will then pay the seller's bank.
If the seller has not already been paid by its bank, it will receive payment at this stage as well. This is usually when 'payment is at the importer's bank' (i.e. when the documents are presented to the importer's bank).

Checklist for the letter of credit

The following points should be negotiated between the parties and then checked by the seller on receipt of the L/C from its bank:

- The details of the parties to the contract – both should be listed correctly, as otherwise payment could be withheld.
- Face value of credit – both parties need to agree the value of the L/C to be issued. This will be the invoice value (less any negotiated discount) plus any additional costs (not bank charges). It should be stated in the currency of the transaction.
- Bank charges – only the agreed charges should be listed on the L/C.
- Payment terms – at sight, or after a specified period; arrangements for payment (at what point will the buyer's bank pay the buyer – when documents are presented to the exporter's bank, or to the importer's bank?).
- Shipment terms – again, these need to match the agreed transportation arrangements, otherwise payment may be withheld.
- Time limit – both parties must agree the time limit for the operation of the L/C. The seller must be able to present the all the required documents by the deadline listed on the L/C, otherwise payment could be withheld. This time limit should be agreed to allow for the compilation of all the documents as well as the production and shipping of the consigned goods. Any export and import processes, such as getting appropriate licences, should also be considered before the time limit is agreed.
- Revocability – L/Cs agreed under UCP 600 rules are irrevocable, unless otherwise stated.
- Confirmation – the seller will also want to consider whether to ask its bank to confirm the L/C.

What can go wrong

Under the terms of a documentary credit, the banks are only concerned with the exchange of documents. Although the buyer's bank does offer a guarantee of payment, this is on receipt of agreed documents, rather than on receipt of a certain set of goods. The significant risk to the buyer is therefore that the received goods are not as expected. The significant risk to the seller is that it does not submit the required documents either accurately or in time, or that the buyer's bank does not honour the letter of credit. The seller can protect itself against dishonour by the buyer's bank by asking its bank to confirm the letter of credit.

International standards

Most internationally applied letters of credit conform to the Uniform Customs and Practice for Documentary Credits (UCP) standardised by the International Chamber of Commerce. The current version of the standards is the sixth, known as the UCP 600, and was adopted on 1 July 2007. Alongside these standards there is a set of standards for banks to follow when assessing the compliance of documents to UCP 600, the International Standard Banking Practice for the Examination of Documents under Documentary Credits (ISBP).

Recognising the increased use of electronic channels for the exchange of documents, the ICC has also developed eUCP. These have not yet been formally incorporated into the latest version of the UCP, reflecting the continued use of established techniques.

To avoid confusion, the version of UCP standards used should be stated on the letter of credit.

Payment in advance

Payment in advance is the least secure for the buyer and, correspondingly, the most secure for the seller.

Core characteristics

Few companies can insist on other companies paying in advance, as they will always be vulnerable to competitors offering even marginally better payment terms.

It is, however, relatively common for companies to ask for partial payments in advance, either as a deposit or as a more formal mechanism to fund the purchase of initial raw materials or other costs associated with the transaction.

Advance payment terms can be incorporated into a letter of credit, which allow the seller's bank to advance a proportion of the value of the L/C on presentation of certain documents.

It is also relatively common for service-based agreements, especially longer-term ones, to include pre and part-payment at various stages of the relationship. Telephone contracts, for example, usually involve an initial set-up fee and a minimum contract term in order to attract lower call costs in the longer term.

Assessment

This technique is most appropriate when selling to consumers over the internet, where convenient payment methods (primarily payment cards and electronic funds transfers) can be integrated into the sales engine.

Payment in advance is also appropriate where the trading relationship is new and the counterparty's credit status cannot be reliably assessed, or the buyer is located in a country which itself represents a significant risk.

Finally, some companies may be able to insist on payment in advance, especially where they have few direct competitors or there is a relatively high demand for the product.

Chapter 7

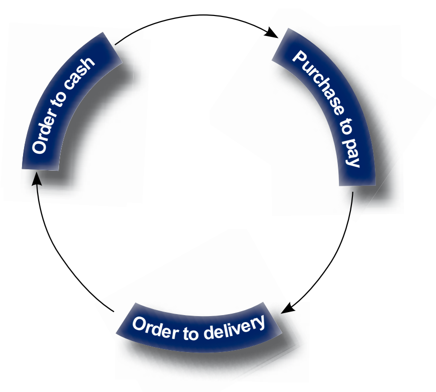
Trade financing techniques

Introduction

There are many different techniques that a company can use to finance trade. These generally fall into either of two main approaches.

One approach is to finance trade from the company's general working capital facility. For example, an overdraft or general bank line of credit will support any working capital requirement that arises, including the time between the payment to a supplier and collection of payment from its customer.

Working capital



The alternative is to finance each transaction separately. For example, a company could choose to discount the invoices, or negotiate the trade documents associated with each distinct transaction.

As with any financing decision, there are advantages and disadvantages to each technique. Some techniques will not be available to some companies, depending on their location, creditworthiness or size. Selecting one technique to finance some trade transactions may have other implications for the business as a whole. For example, discounting liquid invoices may result in cheaper financing of a particular transaction, but may prompt a bank to require additional security on assets protecting another line of credit. Similarly, using general working capital facilities to finance trade may reduce the company's liquidity metrics, and push it close to breaching covenants on other loans.

There is no single right way to finance trade. Each company will usually have a variety of options (although circumstance may make only a small number of these realistic). It is, though, important to consider financing options in the context of their potential impact on the company's overall cost of funds.

	Nature of financing	Availability	Suitability
Overdraft	Allows a company to run its current or checking account with a debit balance. However, may be repayable on demand.	Available in most locations, although they are prohibited in some jurisdictions.	Relatively flexible and usually available (where permitted) to companies of all sizes. Easy to establish and operate.
Bank line of credit	Offers more secure financing than an overdraft. Can be in the form of either a term loan or a revolving facility.	Available in every location.	Widely available and can be used for a variety of activities. Critical for treasurers to negotiate appropriate terms and conditions with lender.
Negotiable trade document	Allows the holder of a trade document, such as a bill of exchange, to arrange finance by discounting it with a third party.	Usually easy to arrange, although dependent on market conditions and the credit status of the document's acceptor.	Allows holder of document to accelerate cash flow, so is a useful source of working capital finance. However, it can be an expensive source of short-term finance.
Factoring	Allows a company to raise finance against invoiced receivables. Invoices are sold to a factor, which then collects invoiced receivables from the company's customers.	Available in most locations under a longer-term arrangement. Requires company to disclose the arrangement to customers, as factor will collect receivables.	Most suited to small and medium-sized companies where the company has a relatively large number of customers all trading on the same terms.
Invoice discounting	Similar to factoring, in that the company raises finance against invoiced receivables. However, the company retains responsibility for collecting receivables from its customers.	As with factoring, available in most locations. Will require the company to open its accounts receivable process to the invoice discounter before funding can be arranged.	Suitable for companies with a relatively large number of customers all trading on the same terms (as factoring), but which want to retain control over their sales ledger.
Supply chain finance	A technique which allows companies to facilitate the provision of credit to their suppliers. It allows stronger credits to leverage their own credit status so that finance can be provided to suppliers at lower rates than they can usually access themselves.	For a supply chain finance structure to work, one entity in a particular supply chain must have a significantly stronger credit status than most of its suppliers.	For a programme to be successful, there must be an established trading relationship between both parties, who must each feel confident that the structure is in their mutual interest, both in the short and longer terms.
Forfaiting	A similar technique to invoice discounting, although the finance is usually arranged on presentation of a debt instrument, rather than an invoice.	Only available against a transferable debt instrument.	Usually arranged against receivables over a period of two or more years, although shorter terms can be possible.

	Nature of financing	Availability	Suitability
Commodity financing	Often used where the underlying goods are raw materials, sometimes perishable, easily moved and saleable in their current state (rather than as a finished product), tradable and where a terminal market exists to hedge price risk.	The nature of the commodity being financed usually determines whether the financier wants to take control of the commodity itself as security for the finance and also what sort of financing is required.	A useful technique which significantly reduces credit risk between a commodity's producer, a trader and the ultimate buyer.
Leasing	A technique allowing a company to have access to a particular asset without necessarily having to hold the full value of the asset on the company's balance sheet.	Leases are commonly available in almost all locations.	An attractive technique for companies seeking to ensure the use of a particular asset for a set period of time.
Project finance	Usually arranged to finance large-scale construction and manufacturing projects, via a separate entity which is established to manage and fund the project.	A variety of different techniques are available to provide project finance to reflect the requirements of the various participants.	Best suited where a discrete project can be identified and where a number of different companies will be participating in the construction process.
Structured trade finance	This refers to many different techniques offered by banks and other providers to support a supply chain. These techniques can be used to support both domestic and international trade. Common forms include: pre-export (pre- and post-shipment) finance, warehouse finance, prepayment finance, and limited recourse financing.	There is no standard technique for structured trade finance. Availability depends on the nature of the entities in a particular supply chain and the relationships the company is seeking to support.	Solutions can be tailored to meet almost any set of circumstances.
Trade-related escrow	An escrow account is used when a buyer and a seller both want to protect themselves against counterparty risk.	Availability is dependent on both parties agreeing to use the same bank (or other provider) to provide the escrow account.	Best suited where the two parties are unknown to each other.
Export credit schemes	These provide a range of support for companies seeking to expand their export sales.	Most countries operate some form of export credit scheme. The scope of the different schemes varies from country to country.	Suitability will vary according to the terms of the scheme offered in the relevant country. In most cases, a scheme will provide support to smaller companies seeking to expand its exports and project finance for larger companies engaged in foreign infrastructure projects.

Overdrafts

Overdrafts can be an effective way to finance working capital. Where offered, they are usually relatively flexible, although this will depend on any terms and conditions applied by the bank offering the facility.

How it works

An overdraft facility allows a company to run its current or checking account with a debit balance. Overdraft facilities should be pre-arranged and are sometimes offered by banks without the need for formal security. Where available, overdrafts are usually renewable on an annual basis, although in certain jurisdictions a bank may require funds to be repaid before a facility is renewed. In some locations it is common practice to turn an informal overdraft into a committed facility after a period, often a month (see next section).

Advantages

- Overdrafts are easy to operate. Because they are often unsecured, overdraft facilities can be set up fairly quickly without the need for complex legal documentation.
- They provide an additional comfort barrier for companies operating internationally that face a degree of uncertainty in the timing of the receipt of payments from their counterparties. However efficient a company's collection process, there is always the risk that a payment due will be received later than expected. An overdraft facility means payments can still be disbursed on the strength of an anticipated collection, without the risk of dishonour by the bank.
- They often do not require formal security. This means assets can be used as security for other financing opportunities. However, the overdraft provider may restrict the company's ability to assign its more liquid assets to other lenders.
- Overdrafts can be arranged by companies of all sizes.

Disadvantages

- Overdrafts are not available everywhere, through either market practice or regulation. Some countries prohibit companies from arranging any unsecured overdrafts. In Venezuela, for example, account holders are prohibited from writing cheques with insufficient funds to support them.
- Their availability may be restricted to short periods. Some banks may only offer unsecured overdrafts for periods up to about a month; for longer periods, they may insist on converting the arrangement to secured borrowing. In some countries, such as Poland, banks require companies to clear their overdraft facilities once a year.
- Banks can withdraw overdraft facilities on demand. A bank is most likely to withdraw such facilities from a company which relies on them, simply because such companies represent the greatest counterparty risk to the bank. In 2009 a number of UK companies reported that their banks had withdrawn part of their overdraft facilities when the UK government arranged a moratorium on the payment of VAT. However it occurs, any withdrawal of overdraft facilities from a company which relies on them (whether as a permanent source of funds or as the funding of last resort) will put significant pressure on that company's cash flow. This is particularly the case when the bank gives very short notice of the withdrawal of facilities, as the company has little time or opportunity to arrange alternative funding.
- Because they are unsecured, overdrafts are often a relatively expensive method of arranging finance. For example, overdrafts in Mexico are usually charged at more than double the prevailing rate on treasury bills.
- The regulatory treatment of overdrafts is less favourable than other techniques, such as invoice discounting. To cover the capital costs associated with such a facility, banks are more likely to impose a facility fee and a non-utilisation fee.
- They can indicate a degree of inefficiency within the company's treasury department. The existence of overdraft facilities can weaken pressure on treasurers to manage cash tightly,

especially in a weakening trading environment. On the other hand, if there is no overdraft facility, a subsidiary may have to keep a larger precautionary cash balance to cover uncertainty. An overdraft 'just in case' enables the subsidiary to remit more cash to the centre.

Evaluation

Overdrafts can be an important tool for companies managing their working capital. They are particularly useful to manage short-term peak cash requirements and to provide liquidity in the event that anticipated cash receipts do not materialise. Because they can be withdrawn on demand, overdrafts are less suitable as a more permanent source of working capital finance. However, most companies use overdrafts for at least some portion of their financing.

Bank lines of credit

As an alternative to an overdraft facility, companies can arrange lines of credit with one or more of their banks. These are appropriate when the company requires greater security of finance, or in locations where overdraft facilities are prohibited or not available.

How it works

The company can arrange a line of credit with a bank, which it can draw against as necessary. This will require formal documentation to be drawn up between the company and the bank, so a line of credit will take longer to arrange than an overdraft facility. The bank will charge an arrangement fee (for establishing the facility), a commitment fee (for putting funds aside for the company's use) and a margin on all funds actually drawn down from the facility.

Different credit lines are available. Some will require all the committed lines to be drawn down at the start of the facility and then repaid over the term (a 'term loan'). Others will allow committed funds to be drawn down and repaid as often as necessary (a 'revolving' facility), as long as the maximum level of the commitment is never exceeded at any one time. Banks require all committed funds to be repaid at the end of the facility, although it can be possible to roll one facility into another without repayment.

Case study

A company using revolving credit facility to finance working capital

A UK commodities trading company specialises in the international physical trade of dried edible pulses (sesame seed, lentils, kidney beans, etc.). Recently, the company has seen a noticeable increase in demand, and approached its bank to discuss an increased facility that could meet the consequent anticipated increase in the working capital needs of the business over the following 12–18 months.

One particular concern for the customer was to avoid incurring an unnecessary increase in costs associated with an increased facility that might not see full utilisation at the outset, but with the anticipation that utilisation would rise as additional demand and/or higher prices kicked in. The bank's solution was to replace the existing overdraft structure, which had suited the ongoing operational needs of the business thus far, with a smaller overdraft combined with a new revolving credit facility arranged with core facility limit to be available immediately, but with a further two tranches available at the customer's election within 30 days of two specific pre-agreed dates, to coincide with the forecast increase in demand.

From the bank's point of view, the restructured facility better reflected the amount of debt required, whilst the customer could confidently seek out new business opportunities in the knowledge that additional financing would be available as and when required, with the added benefit of only paying for the level of facilities actually being used.

Advantages

- Lines of credit provide committed funds. This means a company has access to those funds for the term of the facility. However, the company will need to be aware that its bank may refuse to renew a line of credit at the end of the term.
- This form of bank finance is available in all locations, including those where overdrafts are not available or not permitted.
- Committed funds are generally available at a lower cost than an overdraft facility.
- If they wish, an international company can diversify its sources of funding by encouraging local subsidiaries to access their local markets. This allows the international group to diversify away from reliance on the funding arranged at the corporate centre. This is also useful in locations which apply strict exchange controls (making funding into and out of the country difficult).

Disadvantages

- The entire loan has to be repaid or renegotiated at maturity (although amortisation features can be included). There is a risk that changed market or business conditions may mean that the company's banks decide to cease lending to them, whether as an individual counterparty or as part of a wider withdrawal from their industry. If the funds are not needed, this can be an expensive element of security. This is because the company will need to pay both an arrangement fee and then a commitment fee on the undrawn funds.

Evaluation

Bank lines of credit are widely available to companies of all sizes. As such they are often a core source of working capital finance, especially for smaller companies and foreign subsidiaries of large international groups. Where possible, treasurers need to be able to negotiate appropriate terms, which do not place too many inappropriate restrictions on the company's operations. They also need to be aware of their lender's future plans, especially if there are signs the bank may withdraw from, or want to reduce its exposure to, their particular market, in which case facilities should be renegotiated or replaced well before their final end date.

A bank line of credit can be provided on an uncommitted basis, in which case its availability is in many ways no more reliable than that of an overdraft. The draw down mechanics will be different, in that loans are usually taken for set periods, often a month at a time, rather than simply varying continuously like an overdraft.

Negotiable trade documents

Companies can arrange finance by negotiating trade documents, such as bills of exchange, promissory notes and other instruments. As long as the document is negotiable, the holder of the document can use it to raise finance without notifying the issuer.

This is a relatively straightforward financing technique that the holder of the document can arrange quickly, as long as it can find a party prepared to accept it. Under a negotiation, the previous holder of the document transfers all rights (including future payments) relating to that document to the new holder. The new holder is entitled to seek payment from the issuer of the document under the same terms as it was originally drawn.

How it works

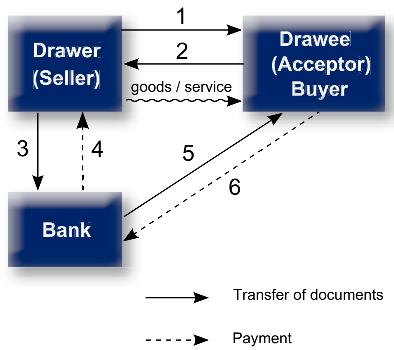
There are two main forms of negotiable trade documents.

- Promissory note.
  This is a promise by the issuer (maker) of the note to pay a specified sum to the bearer or named payee on a set date or on demand. A promissory note is originally a two-party transaction.
- Bill of exchange.
  Also known as a draft, this is a three-party transaction. There is an instruction from one party (the drawer) to another party (the drawee, the drawer's customer or a bank) to pay a specified sum to the drawer or a third party (the bearer or named payee) on a set date or on demand. The drawee must 'accept' the bill before they become liable under it (and may then be referred to as the acceptor).

As long as the document is negotiable, the holder (bearer) can use it to raise funds by transferring its rights to a third party. The original beneficiary forgoes any right to claim the funds promised in the document. In return, the third party will pay the original holder the face value of the instrument, less a discount to recognise the time value of money, and a margin representing the cost of funds and the credit rating of the drawee.

The method of negotiation varies according to the nature of the document.

A discounted bill of exchange



1. Drawer writes bill of exchange on drawee (a bank or a drawer's customer) and sends it to the drawee
2. Drawee accepts the bill (becomes the acceptor) and sends the bill back to the drawer
3. Drawer sends the accepted bill to a bank for discounting
4. Bank pays drawer the bill's face value less a discount
5. On the due date, the bank presents the bill to the acceptor
6. The acceptor pays the bank the face value of the bill

If the document is a bearer instrument ('pay the bearer'), the holder can transfer the document to the third party (a bank or another company) simply by giving the document to the third party. If the document is an order instrument ('pay a named entity'), the holder can transfer the document to the third party by endorsing (signing) and then giving the document to the third party.

Once an instrument has been negotiated, the entity to which the instrument has been transferred (the lender) becomes the payee. The new payee is then entitled to seek payment from the drawee/acceptor of the note or bill under the same terms as enjoyed by the original beneficiary.

Advantages

There are a number of advantages for a company seeking to raise finance by negotiating trade documents.

Case study

Construction needing cash flow acceleration

A company completed a construction project in January 2012. Under the terms of the contract, the company was not due to be paid until January 2013. As it was fully entitled to do, the counterparty declined the company's request to pay before the due date. The company sought an alternative method of accelerating cash flow, to avoid cash being tied up for a year.

The company used a bill of exchange, which was backed by a quasi-governmental organisation, to accelerate the cash flow. Using the credit status of the quasi-governmental organisation, the bank advanced just under EUR 20 million to the company by the end of the first half of 2012.

- It is relatively easy to negotiate trade documents. As it is a standard practice, there is no significant legal cost involved.
- It is, in practice, a method to accelerate the collection of cash, allowing it to be recycled back into the business.
- Trade documents can be negotiated as necessary. The borrower does not need to enter into any long-term commitment to negotiate trade documents. As a result, commitment fees are not payable.
- The original accepting party of the document will provide the cash to repay the borrower's source of finance at term. The original holder of the document plays no further part in the transaction once its interests have been transferred. (Only in the event of some kind of fraud might the holder have a claim on the original holder or one of the intermediate holders. This might apply, for example, if the drawee could show that value had already been paid to a previous endorser of the bill.)

Disadvantages

As with any form of financing, there are disadvantages for the borrower.

- Financing can be expensive. The bank or other institution offering the finance will discount the trade document. The amount of discount will reflect a variety of factors, including the creditworthiness of the issuer and the ease with which it expects to be able to collect payment. If the document is issued abroad there may be an additional charge for this process.
- It may not always be possible to negotiate a particular draft. Market conditions and the identity of the document's acceptor may make it difficult for a company to borrow against it.
- Negotiating trade documents can impact a company's ability to raise finance from other sources. For example, when considering an application from a company for an overdraft or formal loan facility, a bank will consider the presence of any trade documents when assessing a company's liquidity and thus its ability to repay the facilities.

Evaluation

Negotiating trade documents can provide a company with a steady and accelerated cash flow. Depending on the company's financing structure, this can free up other assets to be used as security for other income streams (for example, buildings can be used as security for longer-term bank loans). However, the treasurer will need to ensure that negotiating trade documents is an effective means to raise funds.

Factoring

Debt factoring is a technique that allows a company to raise finance against the anticipated cash inflows expected from sales. The finance raising company, usually a small to medium-sized entity, sells its invoices to a factor (the entity offering the finance). In return, the factor will manage the process of collecting the invoiced receivables from the company's customers.

Factoring services are available from both specialist factoring companies as well as bank subsidiaries.

How it works

Factoring is a long-term arrangement between the company seeking to raise finance and the factor. It is typically used to effectively speed up cash collection, reducing the reliance on loan finance to bridge the gap between the issue of the invoice and the receipt of cash. Because the management of the sales ledger is effectively outsourced to the factoring company, the company also benefits from reduced internal administration costs, although this arrangement may give rise to customer service problems.

When seeking to establish a factoring arrangement, the company will need to identify whether it can proceed, especially if alternative funding arrangements, such as overdrafts or term loans, are in place. This is because pledging invoices to the factoring company will affect the way the company's liquidity is viewed by the other finance providers. A term loan agreement may also explicitly limit or prohibit a factoring arrangement.

In order to be suitable for a factoring arrangement, the factoring company will want to explore the company's business, including its cash flow, before entering into an agreement. In general terms, companies with high volumes of standard invoices are more suitable for factoring than companies which generate small and infrequent numbers of high-value invoices. This is because the risk to the factor of the standard invoices can be more easily assessed. Moreover, where the company seeking finance is in a specialised industry, or the items being factored are perishable, the factor will be nervous of being left with the assets if invoices remain unpaid. (This is because in such industries it can be difficult to find an alternative purchaser for these assets, especially if the items have to be recovered first.) In all cases, factoring is available to companies trading on some form of credit, with a delay between the issuance of the invoice and receipt of the cash.

The company should perform its own credit check of the factoring company. If the factoring company fails, the agreement is likely to leave any moneys due to the factor, not the company raising finance. Failure of the factor may result in failure of the company.

The factoring company will also set limits to the agreement. At the very least, the factor will set a limit with regard to the maximum advance relative to the value of the invoices. This will vary, but will typically be in the range 80–90%. In addition, the factor may impose a limit to the absolute level of credit that it is prepared to advance to the company.

The agreement should consider whether the factor will have recourse to the borrower in the event of non-payment. Non-recourse factoring represents a greater risk to the factor, so it is more expensive than recourse factoring. In addition, a factor may only offer recourse factoring, for example if there is a pattern of non-payment, or the factor considers the risk of non-payment to be too great.

It is important to negotiate appropriate terms with the factor before entering into the agreement. In particular, the process through which the factor goes to approve invoices for factoring needs to be appropriate, ensuring the company benefits from being able to raise cash on the greatest number of invoices. Any credit limits imposed by the factoring company should be assessed for the same reason.

The factor's method of advancing payment must also be understood. If recourse factoring is agreed, the two parties must agree the point at which a debt is considered unpaid.

Finally, the company must understand the nature of the agreement period, especially the notice that both parties must give to end the agreement (bear in mind the factor may also decide to end the agreement).

The factoring process

The factoring process is as follows.

- The company raises an invoice.
- The invoice is sent to the customer, with instructions to pay funds to the factor, and is copied to the factor.
- The factor approves the invoice and pays the agreed proportion to the company.
- The factor collects payment from the customer. This may include action to chase payment.
- Once payment is received, the factor will pay the balance between the funds advanced and the payment, less any fees and late payment charges that apply.

On some occasions the factor will be unable to collect the payment from a customer. What happens next is determined by whether the factoring agreement gives the factor recourse or not.

- Recourse factoring.
  Where recourse factoring has been agreed, the factor is able to claim any unpaid debts from the company. The factor will also levy interest charges and the usual fee. Interest charges will be set at a pre-agreed margin over the relevant local base rate. Fees are usually a function of the company's turnover (anything from under 1% of turnover to over 3%) and perhaps the number of customers or invoice cycles per year, which may be stepped to adjust for a company's growth. The company has the right to chase payment from its creditors.
- Non-recourse factoring.
  With non-recourse factoring the factor will not be able to reclaim any unpaid debts from the company, although the company may have to pay interest on unpaid items for the period determined in the agreement. The factor will have the right to seek payment from the creditors.

Recourse also has accounting implications for the company. If the factor does not have recourse to the company, the risks and rewards associated with the factored invoices are usually transferred to the factor. If so, the transaction can usually be accounted for in the same way as a sale of receivables. However, if the factor does have recourse to the company, the risks and rewards are not usually transferred to the factor, so the transaction may be accounted for as a loan. Because of the potential complexity of individual transactions, specialist accounting advice should always be sought.

Export factoring

The same factoring technique can be used to raise finance from international transactions, although it will depend on the international capabilities of the factor. In effect, for export factoring to be available from a factor, that factor needs to be able to collect payment from the importer. This may require the factor having a presence in that country responsible for collection of payment. This may be through one of its own subsidiaries or branches, or via a correspondent partner in that country.

When arranging an export factoring transaction, the company will need to consider carefully whether the cost of factoring represents the best method of financing. In particular, because factoring involves the outsourcing of accounts receivable, the company will want to ensure the factor has sufficient economies of scale to be able to provide that service more efficiently than the company itself could.

From the factor's perspective, the cost charged could vary significantly with the volume of sales for the same reason. Much will depend on the location of the exporter and the markets into which the exporter is selling. For example, the costs to the factor will tend to be lower for a UK company exporting to other European countries than when exporting to Latin America or Asia.

If the company is considering export factoring it is important to try to identify the best possible transaction. For example, export factoring may offer the company the opportunity to manage foreign exchange risk, by agreeing a contract with the importer in the importer's local currency (for ease of sales) but accepting financing in either the company's operating currency or in the currency in which the company has to pay for raw materials. It is important that the opportunity cost of this foreign exchange risk management is considered when evaluating the cost of export factoring.

In terms of the overall conditions, export factoring works in the same way as domestic factoring. The factor may advance a lower proportion of the finance because of the associated risk. Again, this opportunity cost needs to be evaluated by the company before agreeing the relationship. The company may be required to arrange additional credit risk insurance as further protection for both parties. This also needs to be incorporated into the evaluation, bearing in mind that the company may arrange credit risk insurance anyway.

Advantages of factoring

There are a number of advantages from factoring.

- Factoring provides clear working capital finance at the time it is needed, not according to the terms of a loan agreement or overdraft.
- Finance is provided against invoices so, subject to any credit limit being imposed, finance can be available as a company grows.
- Invoices are reserved for short-term working capital financing, meaning other assets such as property are available to secure other, perhaps longer-term, financing.
- The company has access to cash once an invoice has been raised, allowing it to be invested back into the business. There is no requirement to use overdrafts or other unsecured funding to bridge a delay in payment terms.
- Factors employ specialist accounts receivable teams, effectively outsourcing this activity. This reduces operational costs within the borrowing company. At the same time, the factor's expertise will help to identify worsening credit risks amongst the company's customer base, reducing the risk of potential future loss.

Disadvantages

As with any other form of financing, there are disadvantages to the use of factoring.

- Invoices are among the most attractive formal or informal sources of security for lenders. It may be difficult to raise other, especially short-term, finance if invoices are already committed to a factor.
- Factoring can be relatively expensive, although the service does effectively include a debt collection/accounts receivable team.
- Factoring is disclosed to the company's customers, which can weaken the trading relationship between the parties. There is also a reputation risk: for example, if the factor is particularly aggressive in its dealings with the company's customers, the company could lose sales to a rival supplier.
- By analysing customers' payment practices, the factor could put pressure on the company to reduce sales to certain of them.
- In a weak trading environment, increasing proportions of the company's cash will be spent on interest payments to the factor.
- If the factor fails, this could cause serious problems for the company.
- It can be difficult to end a factoring relationship, as the company will rely on the cash from the factor to fund working capital. Even finding the resources for gradual replacement of a factoring arrangement can be difficult.

Evaluation

Factoring certainly provides some companies with the ideal way of funding working capital. It works best for small and medium-sized companies where the company has a relatively large number of customers, all trading on the same terms.

It is less effective where the company is reliant on a small number of customers (or one major customer), or where each customer has negotiated its own terms. Although large numbers of standard invoices are appropriate as a basis for factoring, the relationship is less likely to work if the invoice values are too small.

Finally, a factoring relationship works best and is most effective when the factor has to do little work to collect payment. The more effort taken by the factor to collect payment, the higher the interest charges and fees the factor will apply.

When comparing the cost of factoring against, for example, overdrafts, it is important to recognise that factoring includes the credit management element, although it does require the company to sell invoices to the factor. The finance charge (the interest) may be lower for factoring than for an overdraft, because the factor has security in the form of the invoice.

Invoice discounting

Invoice discounting is similar to factoring, in the sense that the finance is provided against the sale of a company's invoices. Unlike factoring, there is no credit management service, so the company retains responsibility for collecting payment from customers and maintaining the company's sales ledger.

Like factoring, invoice discounting allows the company to receive cash very shortly after raising an invoice. However, this arrangement is not usually disclosed to customers, as the company retains responsibility for collecting the payments and chasing bad debts, and the invoice discounter has no direct relationship with the company's customers at all. That said, the invoice discounter will assess the quality of the company's customer base before agreeing to offer finance.

Invoice discounting is commonly available to slightly larger companies than can access factoring. This is partially because the invoice discounter will want to be confident in the company's track record of collecting on the invoices.

Invoice discounting is available from subsidiaries of banks as well as from specialist providers.

How it works

Invoice discounting is a long-term financial arrangement between the company seeking to raise finance and the invoice discounter. As with factoring, it is used to accelerate cash collection, reducing the reliance on loan finance to bridge the gap between issuing the invoice and receipt of cash.

When seeking to discount invoices, the company will need to identify whether it can proceed, especially if alternative funding arrangements, such as overdrafts, are in place. This is because pledging invoices to the invoice discounter will affect the way the company's liquidity is viewed by the other finance providers, or may breach undertakings given to other providers of finance.

In order to be suitable, the invoice discounter will want to explore the company's business, including its cash flow, before entering into an agreement. In general terms, companies that are suitable for financing by a factoring company (see above) are also suitable for invoice discounting. However, the invoice discounter will also assess the quality and effectiveness of the company's accounts receivable processes before entering into an agreement, as these will remain under the control of the company.

The invoice discounter will also set limits to the agreement. At the very least, the discounter will set a limit on the maximum advance relative to the value of the invoices. This will vary, but will typically be in the range 80–90%. In addition, the discounter may impose a limit on the absolute level of credit it is prepared to advance to the company. As with factoring, the invoice discounter will seek security from the underlying assets. If these may be difficult to recover and sell to other parties in the event of non-payment, an invoice discounter may refuse to agree terms, or may only do so on a lower proportion of the invoice value.

It is important to negotiate appropriate terms with the invoice discounter before entering into the agreement. In particular, the process by which the discounter approves invoices needs to be appropriate, ensuring the company benefits from being able to raise cash on the most number of invoices. Any credit limits imposed by the invoice discounting company should be assessed for the same reason. The discounter's method of advancing payment must also be understood. Finally, the company must understand the nature of the agreement period, especially the notice which both parties must give to end the agreement. (Bear in mind the discounter may also decide to end the agreement.)

As with factoring, the company should also perform its own credit check of the invoice discounter. However, because the company retains control of the sales ledger in invoice discounting, the impact of the invoice discounter's failure would be less devastating than a factor's failure. This is because the company's customers still make payments through the company (rather than to the invoice discounter). In the event of the failure of the invoice discounter, the company would face the loss of its working capital finance. (Under a factoring arrangement, the company would face the loss of both the receivables, taken as security, and the revenue stream from its customers.) The accounting treatment will vary according to the terms of the agreement. In most cases, invoice discounting agreements do not fully transfer the risks and rewards associated with the invoices to the discounter, so the company has to account for the funding as a loan. Because of the potential complexity of individual transactions, specialist accounting advice should always be sought.

The invoice discounting process

A typical invoice discounting process is as follows.

- The company raises an invoice.
- The invoice is sent to the customer and copied to the invoice discounter.
- The invoice discounter approves the invoice and pays the agreed proportion to company.
- The company collects payment from its customer, with the cash going into a designated account over which the discounter has priority rights. Once payment is received, the company refunds the invoice discounter, including fees and interest charges. In some cases payment will be advanced on a monthly basis. If the value of invoices issued has increased over the month, the discounter will pay the company. If the reverse is the case, the company will repay the discounter. This will be at the same proportionate discount rate as initially agreed.

The invoice discounter will levy interest charges and a fee. Interest charges will be set at a pre-agreed margin over the relevant local base rate, and will be charged on the amount outstanding. Fees are usually a function of the company's turnover (anything from under 1% of turnover to 2%), and perhaps the number of customers or invoice cycles per year, which may be stepped to adjust for a company's growth.

Since 2008, invoice discounting services have become available via internet-based auction sites. These differ from traditional invoice discounting services as the borrower is not committed to a particular invoice discounter. Instead, participants in the auction bid against each other on both the proportion of the value of the invoice and the discount charge, to the benefit of the borrower, as long as a lender is available to lend against the invoice. At present, these services are only suitable for SMEs, with financing primarily provided by high-net worth individuals and hedge funds.

Advantages

There are a number of advantages from invoice discounting.

- It provides clear working capital finance at the time it is needed, not according to the terms of a loan agreement or overdraft.
- Finance is provided against invoices so, subject to any credit limit, finance can be available as a company grows.
- Invoices are reserved for short-term working capital financing, meaning other assets such as property are available to secure other, perhaps longer-term, financing.
- Once the invoice has been approved, the company has access to cash which can then be recycled back into the business. There is no requirement to use overdrafts or other unsecured funding to bridge delay in payment terms.
- The scrutiny of the invoice discounter can help to improve the company's credit management policies and accounts receivable processes.
- Unlike factoring, invoice discounting is usually not disclosed to the company's clients, meaning the company maintains the critical trading relationship with its customers throughout the sales process.

Disadvantages

As with any other form of financing, there are disadvantages to the use of invoice discounting.

- Invoices are among the most attractive formal or informal sources of security for lenders. It may be difficult to raise other, especially short-term, finance if invoices are committed to an invoice discounter.

- By analysing customers' payment practices the invoice discounter could put pressure on the company to reduce sales to certain of them.
- In a weak trading environment, increasing proportions of the company's cash will be spent on interest payments to the invoice discounter.
- If the invoice discounter fails, this can cause serious problems for the company as the company is dependent on it for working capital finance.
- It can be difficult to end a discounting relationship as the company will rely on the cash from the invoice discounter to fund working capital.

Evaluation

Invoice discounting works best for companies where the company has a relatively large number of customers all trading on the same terms, and where the accounts receivable function can be demonstrated to be effective and efficient.

It is less effective where the company is reliant on a small number of customers (or one major customer) or where each customer has negotiated its own terms. Although large numbers of standard invoices are appropriate as a basis for invoice discounting, the relationship is less likely to work if the invoice values are too small.

Invoice discounting will be cheaper than a factoring arrangement, although it is important to recognise that factoring does include the credit management element. The finance charge (the interest) may be lower for invoice discounting than for an overdraft, because the discounter has security in the form of the invoice.

Many companies prefer to use invoice discounting than factoring, because the company continues to manage the customers and the sales ledger. However, companies will need to be prepared for the invoice discounter to examine their accounts receivable and credit management processes before agreeing to extend finance.

Auction-based invoice discounting is still a new product. It does offer the opportunity for better financing rates without the risk associated with a commitment to a single invoice discounter. However, the flexibility comes with the risk that funding against any particular invoice (or set of invoices) may not be available at very short notice, or only at very high cost.

It should be noted that both factoring and invoice discounting receive more favourable treatment than an overdraft, under the Basel regulatory regime.

Securitisation of receivables

Larger companies that generate a sufficient volume of receivables may be able to raise finance through securitisation. The following case study is an example of how this technique can be used. It also shows how the proceeds from a transaction can be used in a variety of ways.

Case study

International chemicals distribution group

The group wanted to open a EUR 250 million funding facility by securitising trade receivables denominated in EUR and USD. The receivables were originated by the group's operating subsidiaries in the USA and a number of European countries.

The group's bank and another two banks arranged for the establishment of a special purpose vehicle (SPV) in Ireland. Using funds raised via the issue of A1/P1-rated commercial paper (CP) into the asset-backed commercial paper (ABCP) market, the SPV purchases the receivables directly from the company (indirectly in the case of Italy and the USA). The structure is operated without recourse to the company, which receives funds at the cost of the CP issuance plus a credit-related margin on any drawn funds. This facility has freed cash for the distribution company and allowed it to refinance some acquisition financing.

Supply chain finance

Supply chain finance is a technique which allows companies to facilitate the provision of credit to their suppliers. It allows stronger credits to leverage their own credit status, so that finance can be provided to suppliers at lower rates than they can usually access themselves. It has developed because companies are focusing on the need to support other parties in their supply chain, for two related reasons: to ensure their own operational activities run smoothly, and to be protected from the risk of a crucial supplier failing financially. At the same time, technological changes have made it possible for companies to share information along a supply chain, making supply chain finance more available. It is now easier, for example, for suppliers to see the status of submitted invoices.

How it works

For a supply chain finance structure to work, one entity in a particular supply chain must have a significantly stronger credit status than most of its suppliers. In effect, the bank or other financial firm (the 'financier') provides finance to the suppliers on the strength of the credit standing of the buying company. The counterparties benefit because the funds are made available at rates which they cannot access themselves (this may be due to a poor credit rating or a lack of liquidity in their home markets).

The buying company can create supply chain finance structures to support its suppliers and achieve a mutual benefit. Companies recognise that if one of their suppliers fails, this will have an operational impact on their own production and may result in their own failure to meet obligations.

Most supply chain finance structures involve financiers extending credit to their suppliers on the strength of approved invoices. Under such a structure the company would agree normal supply contracts with a number of suppliers. The company's core suppliers would be invited to participate in the supply chain programme. Assuming the supplier did agree, it would have to meet certain conditions to participate, such as the ability to upload invoices electronically to a dedicated platform. Once the supplier has been accepted into the programme, it could start to access financing.

Under the terms of a typical structure, the supplier would supply the company in line with their contract. At the same time, it would invoice the company, usually by uploading an invoice electronically onto the company's trade platform. The invoice would be processed by the company's accounts payable team and, within an agreed period, either be listed as approved on the platform, or queried with the supplier.

Once the invoice is listed as approved, the supplier would have the choice whether to raise finance against that invoice in the programme. If the supplier decides to raise finance through the supply chain finance programme, it will receive payment from the financier within a set time period. This payment will be at a discount to the face value of the invoice, but will be in full and final settlement of the contract. This discount, i.e. the interest charge, will be set relative to the sponsoring company's credit rating, which will be better than the rate the supplier could achieve if it approached an invoice discounter on its own behalf. If the supplier does not decide to participate in the programme on this occasion, it will be paid the full invoice amount on the payment due date.

Under the terms of the programme, the financier will effectively lend funds to participants along the supply chain. If a supplier does participate in the structure, the company will be required to pay the face value of the invoice to the financier after the normal pre-agreed period from the approval of the invoice. In the event the company does not pay, the bank usually has no recourse to any supplier participating in the structure.

A supply chain structure provides a financing solution that is intended to run for the longer term. It will require significant investment in technology platforms by the company offering the solution, although much can be outsourced to a bank or other specialist provider. Suppliers need to be able to submit invoices electronically, which may also impose an additional cost.

Advantages

There are a number of advantages for a company to extend finance along its supply chain.

- There are significant cash flow benefits to all participants. The strongest credits will still have access to bank and other external funding when markets reduce the availability of liquidity to weaker credits.
- By exchanging information on approved invoices, all participants have greater visibility along the supply chain. This builds trust between all the participants and allows for disputes to be resolved more quickly. Together, this helps to reduce the trade risks associated with the transaction.
- Because the flow of information is improved, all participants can manage their cash flows more efficiently. Suppliers can anticipate more accurately when they can expect payment from their customers. In the case of participation in the programme, the suppliers will be able to arrange payment usually within two or three days of submitting an invoice. Whether they choose to participate or not, the suppliers only need to participate in the supply chain finance programme when it suits them, not as a precaution.
- The buying company has greater confidence that its suppliers will have access to liquidity, helping to minimise the risk of supplier insolvency.
- Because this financing is arranged on invoices, suppliers are free to use other assets to secure other borrowings, potentially a more efficient use of assets.
- The buying company may also be able to amend its purchase contract terms so as to improve its own working capital position or pricing.
- In accounting terms, the supplier can achieve cash earlier than normal, and record that as settlement of a receivable rather than as new borrowings
- Finally, these improved efficiencies will result in more efficient production, improving the product's competitiveness in the end market. Fewer resources need to be set aside to manage risk. Working capital funding at almost every stage will be cheaper.

Disadvantages

As with any other form of financing, there are disadvantages to the use of supply chain finance.

- Participants may face a significant initial set-up cost, although this may be reduced if technology changes are included as part of a wider project.
- Suppliers may be nervous about committing to a financing structure operated by a core customer, especially when they have limited access to other sources of finance. They may be wary of sharing too much information with their counterparts, and be suspicious that once they are tied into the structure, the customer will try to negotiate further discounts in price.
- The buying company will need to take care when establishing the structure to ensure that its trade creditors are not reclassified as a debt to the financier.
- The company sponsoring the structure may find it more difficult to raise other finance, as some of its credit capacity in the market will be used up in effectively supporting finance provided to other entities.

Evaluation

As long as all parties are happy with the concept of supply chain finance and its requirement for sharing information, it can provide a significant number of benefits for all participants.

For a programme to be successful, there must be an established trading relationship between both parties. Both parties must feel confident that the structure is in their mutual interest, in both the short and longer terms.

If structured appropriately, a supply chain finance programme will improve liquidity along the supply chain, mitigate risk between the participating parties and enhance sales indirectly via a more efficient use of financial resources in the production process.

As a theoretical concept, supply chain finance should be attractive to all parties involved. Although the number of supply chain finance programmes continues to grow, overall the take-up remains relatively low. When programmes have been established, it can be difficult to bring suppliers 'on board', as a result of a combination of suppliers' suspicion and work required to permit them to participate. In July 2010 a working group set up by the Bank of England and chaired by the ACT concluded that growth in this technique would be slow and would benefit from increased standardisation of the product and a better level of background understanding amongst companies. In October 2012, David Cameron provided further backing for supply chain finance as a way to support small and medium-sized enterprises. A group of 38 companies supported a Supply Chain Finance scheme, recommended by the Breedon Taskforce on Non-bank Lending.

It is possible to arrange a similar structure without using a third party supplier through the use of early payment discounts or dynamic discounting. These would have to be initiated by the supplier and effectively result in the buyer funding the supplier for the period covered by the discount. This is effective for the supplier as long as the discount rate is less than its external funding rate. The buyer benefits by strengthening its suppliers' cash flows in a similar way to a supply chain finance structure.

All these factors together suggest a greater role for supply chain finance in the future. At present, supply chain financing structures are being developed largely at the behest of the largest companies. As discussed elsewhere in this book, the motivations for developing such structures are varied, whether to improve liquidity in the supply chain, to mitigate risk or, in some cases, to enhance sales.

The following case study illustrates how one company has used a supply chain finance structure to manage its own working capital more efficiently, while reducing risk along its supply chain at the same time. Critically, the solution includes a significant integration of cash management and trade finance activity, which is made possible by improvements in technology over recent years. Over time, as it becomes easier to share information between companies as electronic messaging is standardised through the use of XML and other technologies, this form of cooperative working will become common.

Case study

European division of major international retail company implementing a cash and trade solution

The European division of this major international company wanted to improve the efficiency of its cash management structure, improve its working capital (via an extension to its days payable outstanding) and strengthen its supply chain to reduce the risk of disruption.

The solution involved the division centralising its treasury operations and establishing a true end-to-end payables solution, including a supply-chain finance (SCF) programme. As part of this process, the company was able to automate a number of its cash and trade processes, including its accounts payable function. Central to the success of the SCF is the way the company has minimised its involvement in the accounts payable process. The company uploads all of its approved invoices (payables) automatically from the company's ERP system to its bank on a daily basis. Invoices relating to suppliers which participate in the SCF programme are filtered by the bank on receipt to its trade platform. Other invoices are forwarded directly to the bank's cash management system.

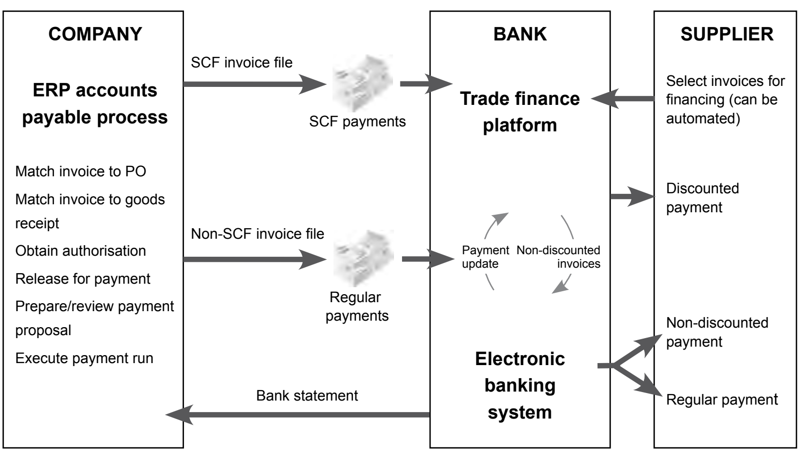
Once the invoices from suppliers in the SCF appear on the bank's trade platform, suppliers have the option of selling them to the bank to accelerate cash receipt. If the supplier chooses a discounted payment, the bank pays on a next-day basis. The bank then collects payment from the company's cash management account on the invoice due date.

If the supplier does not discount the invoice, payment information is uploaded to the bank's cash management system. This then initiates payment from the company's account to the supplier on the invoice due date. Invoices relating to suppliers not participating in the SCF programme are paid via the bank's cash management system as normal. From the company's perspective, only one file is uploaded to the bank, which then manages the entire payables process, including those suppliers participating in the SCF. This reduces the company's workload and minimises the touch points between bank and corporate.

The bank's cash management system generates a series of reports back to the company, giving the latter visibility on all the flows it requires. Once the system has executed the payment run on behalf of the company, all payments are automatically reconciled, whether the supplier is part of the SCF programme or not.

As a result of implementing the SCF programme, the company strengthened its relationships with its strategic suppliers, all of which were able to participate. With the bank placing the credit risk on the company when financing its suppliers, the company was able to reduce the risk of supplier default. At the same time, this supply-chain financing element allowed the division to mitigate the impact on suppliers from extending days payable outstanding (DPO) by up to 90 days (thereby improving its working capital). Finally, the automated solutions and the reduction in the number of bank relationships have given the regional treasury much greater visibility and control over the group's European operations.

Cash management and accounts payable process with supply chain finance



As part of the process of implementing a supply chain financing structure, companies will also have the opportunity to improve their own internal operations. A key component of many such structures is the ability to share information between companies along the same supply chain. Giving the supplier an opportunity to review a submitted invoice online allows that supplier, first, to know when to expect to receive funds (whether through a financing arrangement or simply as a straightforward payment), and second, to review the recorded invoice for accuracy. It allows dispute resolution to take place much earlier in the process, resulting in a more efficient accounts payable department on the customer side and faster cash collection on the supplier side. The following case study shows how one company has been able to incorporate these benefits into a wider supply chain financing solution.

Case study

Mexican household goods manufacturer

A Mexican household goods manufacturer wanted to improve its balance sheet management and working capital position through a reduction in days sales outstanding (DSO), whilst simultaneously expanding its overseas sales. Its sales outside its home market are mainly concentrated in the Americas and are managed through a network of subsidiary companies.

The company opted for an approximate MXN 900 million revolving receivables purchase programme, in which all receivables are sold on a non-recourse basis. Eligible receivables are investment grade debtors (with a minimum credit rating of BBB –). To be considered as eligible for purchasing under the programme, the tenor of any receivable cannot be more than 120 days.

Under the programme, the company sells eligible receivables to the bank at a discount to the face value. The company then collects payment from its debtors, via a centralised bank account, which it then uses to credit the bank on the agreed payment date. This project has enabled the company to improve its DSO via a 90% utilisation rate. This has also allowed the company to meet its balance sheet and working capital objectives.

The bank has also been able to provide a USD 100 million supplier finance solution. So far, the company has introduced more than 60 of its core suppliers (from different countries around the globe) who are able to view purchase orders and invoices online via the bank’s electronic trade platform. This has improved the efficiency of the accounts payable side by reducing errors and delays, whilst simultaneously building trust with the company’s core suppliers and extending its DPO.

These case studies show how larger companies can benefit from supply chain finance solutions. There are other examples in this book showing how smaller companies, especially SMEs, without as much access to finance solutions can also benefit from supply chain finance solutions. As with any financing structure, there are operational risks which all parties need to consider before deciding to participate. However, it does seem likely that uncertainty in the banking sector, combined with technological improvements, will result in a greater use of supply chain finance.

Forfaiting

Forfaiting is a similar technique to invoice discounting, and is usually applied to international trade, although it is possible to arrange it on domestic transactions as well. Unlike invoice discounting, the finance is usually arranged on presentation of a debt instrument, rather than an invoice. Instruments suitable for forfaiting include bills of exchange, promissory notes and other similar documents that are a legally enforceable obligation to pay. (In other words, with invoice discounting the finance is arranged against an instrument provided by the seller, usually an invoice; in forfaiting the finance is arranged against an instrument provided by the buyer, such as a bill of exchange.) To be suitable for forfaiting, the instrument must be transferable.

Because forfaiting is arranged using the payment obligation as the security, rather than the invoice itself, forfaiting is always offered without recourse to the seller/exporter (which sells the debt to its bank or finance company, the forfaiter). However, in most cases the debt is supported by some form of bank guarantee, providing extra security to the forfaiter. The bank guarantee can be in a variety of forms, including a standby letter of credit facility, an avalised bill of exchange or an explicit guarantee. The forfaiter assesses its exposure to risk on the basis of the credit status of the bank providing the guarantee.

Forfaiting is usually arranged against receivables over a period of two or more years, although shorter terms can be possible. Forfaiting transactions are usually arranged in an international currency, typically EUR or USD, with a typical minimum transaction of EUR 100,000/USD 100,000, up to a maximum of a few hundred million in either currency.

How it works

As with factoring and invoice discounting, for forfaiting to be available, the underlying transaction will need to be arranged on credit terms.

Whilst in the process of arranging the transaction with the buyer/importer, the seller/exporter will need to approach a forfaiter and to disclose the details of the transaction, shipping and the importer. In addition, the forfaiter will want to know the credit terms agreed, including whether any guarantees support the importer (in the form of a letter of credit, for example) before offering details of the likely charges.

The next stage is for the forfaiter to agree to purchase the debt instruments associated with the transaction. Once the forfaiter makes a commitment to do so, the exporter is also committed to the sale. It is important therefore that the detail of the sale of the debt instruments is carefully negotiated. In particular, care must be taken to describe accurately the nature of the underlying transaction in the agreement. This must match the detail provided in the debt instrument and other documents the forfaiter will want to see before settling the commitment.

At the same time, the details of the forfaiting agreement must be agreed. This will include the precise detail of the instrument to be purchased, the process by which the forfaiter will assess accompanying documents before releasing funds, any interest charges (these can be floating or fixed), the denomination of the payment from the forfaiter to the exporter, and the deadline for the submission of documentation by the exporter.

Once agreement with the forfaiter is reached, the exporter can agree and finalise the contract of trade with the importer. Depending on the nature of the transaction, a letter of credit or other guarantee may be used in the contract. After shipping the goods, the exporter will receive documents from the importer (or the importer's agent). On receipt, the exporter will forward these documents to the forfaiter. The forfaiter will examine the documents against the terms of the commitment to purchase the debt obligation. If the forfaiter is satisfied, the funds will be released to the exporter. The forfaiter then collects payment from the importer, with the debt obligation (and, where used, bank guarantee) acting as security.

Advantages

There are a number of advantages for the exporter in raising funds through forfaiting.

- The exporter accelerates the collection of cash and the facility is without recourse, so it does not have to accept a contingent liability.
- There are potential cash flow benefits for the whole supply chain, as the exporter can offer the importer longer payment terms, subject to the agreement with the forfaiter.
- The exporter is able to transfer the risk associated with the transaction to the forfaiter. This includes managing the country risk associated with the importer's jurisdiction and the credit risk associated with the importer.
- At the same time, the exporter is able to fix the exchange rate associated with the transaction and manage the interest rate. Forfaiting agreements are usually based on fixed interest rates, as the rate of discount of bills is usually fixed for the term of the contract.
- There can be accounting benefits associated with shifting accounts receivable to the forfaiter. These will depend on the terms of the agreement.
- The forfaiter collects payment from the importer under a financial instrument rather than an invoice. This means the forfaiter is immune from any dispute over the contents of the consignment such as, for example, whether faulty products were supplied.
- The forfaiter is responsible for accounts receivable, so this function is effectively outsourced. The exporter will benefit from the forfaiter's expertise in managing accounts receivable, especially with respect to achieving early warning of potential counterparty problems.

Disadvantages

As with any other form of financing, there are disadvantages to the use of forfaiting.

- Forfaiting can be relatively expensive, although the service does effectively include a debt collection/accounts receivable team.
- Forfaiting is disclosed to the company's customers, which may weaken the relationship. The company may find it difficult to build a relationship with the importer over time, leading to reliance on the forfaiter.
- Care needs to be taken over the preparation of the documentation. The forfaiter may refuse to release funds if there are discrepancies within the documentation.
- For usual transactions (where the entity issuing the documents to be discounted does not enjoy a very high credit rating), an institution needs to guarantee the documents before a discounter will be interested. Without such a guarantee, forfaiting may not be possible.

Evaluation

Forfaiting is a useful technique for raising finance whilst also managing many of the risks associated with international trade. The costs of forfaiting can be quite high, especially if the exporter's customers represent a significant credit risk. Because it is an established technique, structures can be documented and agreed quickly.

Commodity financing

Commodity financing is a technique employed by companies to finance the importation of raw materials or other critical input for production. As with other trade finance techniques, the core process is designed to finance the working capital which would otherwise be tied up in the raw materials or other inputs.

Commodity financing is often used where the underlying goods are raw materials, sometimes perishable, easily moved and saleable in their current state (rather than as a finished product), tradable and where a terminal market exists to hedge price risk. Metals and oil-related products are both typically financed this way.

How it works

There are many different ways of structuring a commodity financing transaction. At its simplest, commodity financing allows one party to purchase a commodity from the producer and hold it until the goods can be sold on. It eliminates credit risk for parties along the supply chain, as the financier acts as the trusted party to provide payment to the producer and guarantee payment from the final recipient. The financier is protected by taking security over the commodity for the period it is being financed.

The nature of the commodity being financed usually determines whether the financier wants to take control of the commodity itself as security for the finance, and also what sort of financing is required.

When arranging commodity finance, both parties must take care over a number of details.

- Whether security is required by the financier. If so, will title over the commodity suffice, or does additional security need to be arranged? A number of banks secure the financing on a pledge of the goods. This means the borrower fulfils the transaction, but the bank retains ownership in the event that the transaction is not repaid. (Technically this is not the same as taking title.) This would, though, give the bank the option of selling the commodity in the event of default.
- Insurance will also need to be arranged. Identifying the potential risks which need to be insured against needs careful attention, especially when a commodity is being transported internationally. This is particularly the case when goods are being exported to new markets, where local business practices and customs regulations may differ. Where warranties or pledges form part of a transaction, both parties must take care to comply with the details, otherwise insurance companies may refuse to pay, in the event of loss.

Advantages

- Third-party finance frees up working capital otherwise tied up in commodities and raw materials. This has potential benefits throughout the supply chain, especially where finance may be needed to extract the resources, whilst the entity extracting the raw material may have a poor or limited credit history and access to limited local finance. It is particularly beneficial to traders in these commodities, as traders typically have limited equity bases and therefore limited opportunity to access other more traditional sources of finance.
- Commodity finance typically involves financing stock at the outset. This then converts into a receivable. When the receivable is repaid, this brings the transaction to a close. In effect, this structure closely aligns the funding to the commodity being financed.
- Banks and other financiers may be happier to lend against unprocessed materials, as they have a wider potential market if they need to realise the security to repay the loan.
- Finance is available on a whole range of commodities, from agricultural products through precious and non-precious metals to oil-related products.

Disadvantages

- If the price of the commodity is volatile, it can be difficult to arrange finance for its purchase (without also tying in a hedge of the underlying commodity).

Case study

Using letters of credit in commodity trading

Trading of commodities is a truly global business, with goods constantly being shipped from one side of the world to the other, and to all points in between. Typically, UK-based commodity traders will act as middlemen, sourcing goods from one country or region and selling them in another, adding value by providing logistics and other services to facilitate the transaction.

Sales can often be to buyers in emerging, developing or economically challenging countries, where the risk of non-payment is a major concern for the seller. The value of individual commodity shipments can be relatively high (often in millions of USD), and a failure to collect the sale proceeds can have a serious effect on the seller's own financial condition.

One way to mitigate this risk is for the seller to insist that the buyer arranges for its bank to issue a letter of credit (L/C) in favour of the seller prior to shipment of the goods. Payment under the L/C is conditional upon the seller, through its bank, presenting the required documents; these typically include, amongst others, bills of lading (or other title documents), invoice, certificate of origin, certificate of weight/quality, etc. This arrangement provides a degree of comfort to both parties; the seller can arrange for goods to be shipped, in the knowledge that they will be paid for provided that the appropriate documents are presented as required under the L/C; and the buyer can refuse payment if the documents presented do not conform to the requirements of the L/C, e.g. the certificate of quality indicates that the goods are not of the correct specification.

However, it should be remembered that the L/C is a bank-to-bank instrument, and whilst it does provide comfort in respect of the buyer's ability to pay (albeit with the support of the bank), it does not protect the seller in the event that the buyer's bank is unable to make the required payment on the due date as a result of, for example, its own liquidity problems, or situations outside its control, such as the imposition of foreign exchange controls, etc. Also, buyers increasingly require extended credit terms, such that they pay for the goods at some agreed future date (e.g. 60, 90 or 180 days from the date of shipment), which puts pressure on the seller's cash flow and ability to do more business.

By adding its 'confirmation' to the L/C, the seller's bank agrees that, providing the correct documents are presented (the seller's bank will check the documents before sending them overseas), it will pay funds to the seller on the due date in the event that the buyer's bank is unable to do so – thereby effectively removing the bank and country risk factors for the seller. If the L/C allows for payment at an agreed future date, the seller's bank may also agree to discount the proceeds, i.e. advance funds to the seller (less an agreed discount) ahead of the actual due date, thereby improving the seller's cash flow.

- One or other party may need to fix the price of the goods by purchasing an option or entering into a futures contract, increasing the complexity of the arrangement.
- If the commodity is perishable, storage costs are potentially higher. This might also reduce the resale value if the bank or finance provider requires a forced sale.

Evaluation

Commodity finance is a useful technique which significantly reduces credit risk between a commodity's producer, a trader and the ultimate buyer. It is also an efficient technique which aligns the provided finance with the asset which needs to be financed.

Consignment stock

A variation on commodity finance is for a company to arrange to hold stock from its suppliers as consignment stock. In this case the stock held on the company's premises remains owned by the supplier until such time as the company uses it. At that point the supplier invoices the company (this can be via a self-billing mechanism). Under such an arrangement the supplier is effectively financing the company's holdings of stock. Any unused stock is returned to the supplier.

Leasing

Leasing is a technique which allows a company to have access to a particular asset, while paying for it over an extended period (rather than up front). The precise accounting treatment, including whether the asset is recorded in full on the balance sheet along with a notional financing loan, depends on the way the prevailing local accounting rules view the terms of the lease agreement (i.e. whether the agreement is considered a finance lease or an operating lease). From a working capital perspective, this means cash is available for other purposes.

How it works

All leases allow the borrower (lessee) to use a particular asset, which is owned by a specialist finance company (lessor) for the term of the lease.

There are essentially two types of leases, finance leases and operating leases, which have slight differences between them. Generally speaking, an asset used on an operating lease will have a significant residual value at the end of the term. This allows the lessor to sell the asset to the borrower or a third party at the end of the term. On the other hand, a finance lease tends to be structured in such a way that the lessor recoups its investment in the asset over the term of the lease, at the end of which the asset has very little residual value. These differences result in the borrower assuming different risks depending on the type of lease used.

Under the terms of a finance lease, the borrower is usually responsible for maintenance of the asset under the agreement. As a result, the borrower assumes most of the risk associated with the transaction. Under an operating lease, the finance company can be responsible for maintenance. Because the contract will be structured such that the asset has a significant residual value at term, the finance company needs to be able to realise that value, whether by selling the asset to the borrower or a third party. Consequently the finance company is assuming much of the risk associated with the contract under the terms of an operating lease.

The precise distinction between finance and operating leases is determined by the local accounting rules. Under International Financial Reporting Standards (IAS17), a finance lease is a lease contract which fulfils one or more of the following conditions.

- The borrower takes ownership of the asset at the end of the term.
- The borrower has the option of buying the asset for below its fair market value.
- The term of the lease represents almost all the economic life of the asset.
- The net present value of future payments by the borrower at the beginning of the lease under the terms of the lease is equal or close to the fair value of the asset.
- The asset cannot be used by another borrower unless major changes are made to the asset.

A finance lease will have a larger impact on a company's balance sheet than an operating lease, reflecting the fact that the borrower is assuming most of the risk of the transaction. The effect of a finance lease is to increase both assets and liabilities on the balance sheet. There will also be an impact on the cash flow statement, with both the interest charge and the asset value being recognised.

However, proposals first issued by the International Accounting Standards Board in 2009 will change the distinction between finance leases and operating leases. These proposals will mean that operating leases will also be capitalised on the balance sheet of the lessee along with the recognition of a corresponding liability. A second exposure draft is due to be released in 2013. In this draft, the accounting treatment is expected to be determined by the extent to which the lessee consumes the asset. For example, a property lease (where the asset value does not change significantly over the lease term) should be accounted for differently than an equipment lease (which may have a low residual value).

Leasing can be used to facilitate trade. The further element for the borrower is to establish whether to lease from a local finance company or on a cross-border basis.

Cross-border leasing arrangements can be established to take advantage of different local accounting and tax treatment of leases between the two countries. This may be appropriate where there are differences in the application of VAT or sales tax between the two jurisdictions. Companies should always seek specialist tax advice before entering into a cross-border leasing arrangement.

Advantages

There are a number of advantages to leasing.

- Because there is usually no significant initial cash commitment, there are major cash flow benefits for the lessee. In effect the lessee is paying for the asset as it is used, rather than having to arrange finance in advance of the asset's procurement. This then frees the company's other assets to be used as security against other borrowing, if necessary.
- There is a degree of risk mitigation, depending on the type of lease used. Under the terms of an operating lease, the lessee is protected against any failure of the asset to perform, via the maintenance contract, and the finance company assumes any depreciation risk. Under a finance lease, the lessee assumes a greater risk.
- The lease agreement can be tailored to the life of the asset in the case of a finance lease.
- There are potential tax and accounting advantages. These vary from jurisdiction to jurisdiction, but may result in a reduced tax liability.

Disadvantages

As with all transactions, there are potential disadvantages.

- Because of the risk profile, finance leases are usually recognised on the lessee's balance sheet. This can then reduce the lessee's ability to raise funds elsewhere, as it will affect the company's debt-to-equity ratio.
- Finance leases, in particular, expose the lessee to much the same risks as simple ownership of the asset. Companies will also need to ensure they comply with any terms and conditions under an operating lease, which may place restrictions on an asset's use. For example, a fleet lease may limit the annual mileage of a vehicle under a scheme.

Evaluation

Leasing is an attractive technique for companies seeking to ensure the use of a particular asset for a set period of time. In particular, its impact on cash flow can have significant working capital advantages. Before entering into any lease agreement, however, the company should carefully consider the impact of any restrictions on its potential use of the asset.

Project finance

Project finance is usually arranged to finance large-scale construction and manufacturing projects, including roads, mineral extraction plants, power stations and pipelines, as well as ships and aeroplanes. Because of the nature of the assets or even business that is being financed, project finance is not always defined as a trade finance technique.

The scale of these projects, which typically involve a large number of different companies, means a separate entity is usually established to manage and fund the project.

How it works

The underlying principle is that the separate entity is legally independent from all the participants. This entity accepts funds from banks and other sources. In turn, it funds the various participants to perform their tasks. The entity will enter into contracts with those participants, who will commit to providing a set service by a predetermined date. If the contractors do not complete their work by that date, the entity will have recourse to them.

Once the project has been completed, the financiers will receive revenue from its ongoing operation. There is no further recourse to the contractors.

There are variants of project finance structures which are particularly suitable to financing projects in developing countries. 'Build–operate–transfer' schemes involve the same underlying structure, a legally separate entity established to build the project, but this is granted the right to operate the completed project for an agreed period of time, before control of the project is transferred to the government or other body for a specified sum (sometimes zero).

Countertrade is a feature of some projects in developing countries. Again, the underlying structure is the same, with a separate legal entity being responsible for delivery of the project. In this case, the financiers will be repaid by taking control of the output of the project. For example, in the case of a project to build a mine to extract copper, the financiers would receive the raw copper, which they could then sell on the open market. This could be subject to an output limit, for example the financiers have control of 25% of the output, and/or a time limit, for instance up to ten years. The remainder is controlled by a new entity which will take ownership of the project after the time limit has been reached. In the case of countertrade, the country which is seeking to finance the project will not need to find the funds to construct the original project.

Advantages

- Because the project is managed by a separate legal entity, participants are able to keep those activities separate and at arm's length from the rest of the company.
- Funds do not have to be arranged locally. Because of the existence of a separate legal entity, funds can usually be arranged on international markets, either through loans or bond issues. These funding streams are not dependent on the appetite of individual local markets, which is especially important for infrastructure-type projects in relatively small countries.
- The separate legal entity also helps to manage the country risk associated with any project, especially when significant funds are injected into the project from abroad.

Disadvantages

- Despite the arm's-length structure, it can be difficult to manage country risk. This is particularly the case for high-profile infrastructure projects, where the local government may be tempted to interfere in the progress and operation of the project.
- Project finance relies on significant legal documentation to protect the interests of all participants. This can take some time to agree initially. In the event that one party does not meet its commitments, seeking resolution can also be difficult and costly in terms of time and money.

Evaluation

Project finance is best suited where a discrete project can be identified and where a number of different companies will be participating in the construction process.

For companies seeking to participate in a construction project abroad, it provides the mechanism to hold the project at arm's length, reducing country risk.

Structured trade finance

Structured trade finance refers to many different techniques offered by banks and other providers to support a supply chain. These techniques can be used to support both domestic and international trade. At the heart of most structured trade finance transactions is a desire to improve cash flow along a supply chain to strengthen suppliers and facilitate sales.

How it works

As its name implies, there is no standard technique for structured trade finance. A specific structure depends on the nature of the entities in a particular supply chain and the relationships the company is seeking to support.

Broadly speaking, structured trade finance transactions will look to achieve one or more of the following objectives.

- Increase liquidity and manage cash flow. The primary objective of many companies arrangeing structured trade finance solutions is to gain access to cash. This has been especially true since 2008, when

Case study

A UK manufacturer of tin cans for the food and beverage sector

One of the company's large strategic suppliers wanted to be paid faster as part of its cash management strategy.

The European supplier had previously been supplying materials on 105 days open account terms. It approached the UK company with a request for earlier payment. The UK company agreed to consider the request because it recognised the importance of the supplier to its own business.

The UK company's bank worked together with both companies to develop a EUR 10 million supply chain finance solution. Under the terms of the structure, the European supplier submits its invoices, as before, to the UK company. The UK company approves the invoice and then uploads it to the bank's proprietary platform. Both companies have access to the platform, which allows them both to verify which invoices have been approved.

On receipt of the approved invoices, the bank pays the supplier the full face value of the invoice, less an agreed discount. This means the supplier now receives cash immediately. The structure has also benefited the UK company's cash flow, as it was able to negotiate improved payment terms to 165 days, at which point it pays the full amount of the invoice amount to the bank to complete the payment circle. In this instance the solution remains trade payable in the UK company's books.

This structure is based on leveraging the creditworthiness of the UK company, which means the European company has access to funding at rates which it may not be able access. Furthermore, the bank has no recourse to the European supplier in the event of default by the UK company. Both companies benefit from the arrangement by seeing improvements in cash flow and working capital metrics. The structure has also strengthened the trading relationship between the two companies and their respective supply chains.

access to liquidity became harder. With suppliers wanting payment sooner and customers taking longer to pay, in both cases because of their own weakening liquidity positions, any structure which accelerates cash into a company's business will reduce pressure on raising finance elsewhere.

- Mitigate risk.
  Many companies look to structured trade finance to help them mitigate the risks associated with trade. Chief of these risks is that of non-payment at some point along the supply chain. Transactions can be structured to protect against non-payment, perhaps by transferring risk to the strongest credit in the supply chain. For international trade, the other major risk to manage is that of foreign exchange risk. Again, transactions can be structured in such a way as to minimise the impact of foreign exchange risk.
- Enhance sales.
  The third major objective is for a company to finance its customers via a structured transaction with a bank. This can allow the company to extend payment terms to its customers, which may be helpful in an environment where their cash flow is under pressure. At the same time, the finance deal may accelerate the inflow of cash to the company, allowing it to shorten payment terms for its suppliers.

Case study

A large US-based multinational company enhancing sales with a customer financing programme

To protect and grow its share of market, an industry-leading company asked its bank to develop a programme that would provide competitive financing for key customers.

Designed to strengthen the company's relationship with key customers who were having difficulty accessing credit to finance their purchases at reasonable cost, the programme was a defensive play against predatory competitors offering extended financing. At the same time, the programme had the potential to grow market share by providing customers with more competitive financing terms than they could obtain on their own.

At the heart of the programme was the company's overarching payment guarantee. The company understood that no bank would be able to undertake the credit risk of each of its customers worldwide, especially smaller, thinly capitalised companies that did not meet minimum bank lending standards. Therefore, to make the deal commercially viable, the company provided a corporate guarantee of its buyers' obligations to the bank.

The company identified the programme's core participants, mostly large local or regional distributors that were typically under pressure from rising interest rates in their markets and, in some cases, having difficulty accessing financing at any price. Each participant was approached individually to participate in the programme. After the bank performed its necessary know-your-customer compliance checks, each buyer then signed an individual agreement with it.

All of the company's sales to these customers are on open account terms under a variety of tenors ranging from 30 to 60 days. The programme was structured to offer additional terms of up to 180 days. The company is still paid on its standard terms of 30–60 days from invoice/onboard bill of lading date. The bank takes ownership of the receivables at this time and finances the buyers for the difference between the original and extended tenors. Both parties benefit from this arrangement. First, the company's customers benefit from financing at very favourable rates compared to local rates. Second, the company benefits from no impact to its days sales outstanding (DSO) and not having to carry the receivables on its balance sheet for extended periods. Instead, the receivables are carried as a contingent liability in the footnotes. Obviously, this form of financing does not qualify for a true sale opinion under existing accounting standards, but it does move the receivables off the balance sheet and into the notes.

The company's side-guarantee may or may not be disclosed to buyers in the financing agreement they sign with the bank. However, in the event of non-payment by one of the buyers, the bank follows up directly with the buyer for payment, after notifying its customer of the delinquency. The bank and the company have developed a mutually agreeable arrangement for follow-up on late payments, including when the exercise of any drawing under the guarantee may occur. Late interest is billed to the buyers but is also ultimately the company's responsibility.

The structure took about three months to negotiate. Initially launched to support US customers, the programme was later expanded to Western Europe and Latin America as it became clear it would benefit customers around the world, especially those in countries with very high interest rates. The programme currently operates in two currencies, USD and EUR, though it can operate in more.

The company has noted the goodwill the programme has engendered with its customers. Another, unexpected, benefit is that in paying the bank rather than the company, the customers appear to be more disciplined in making timely payment.

Structured trade finance means different things to different people. However, here is a list of the more common techniques being used.

- Pre-export finance.
  An exporter can arrange finance accelerating the receipt of cash. It is an effective technique for accelerating cash payments to a supplier to support working capital. It reduces a supplier's reliance on external funding, which may well result in it being able to reduce its cost of supply. There are two main forms. Pre-shipment finance finances the production of goods. It usually requires evidence of an established trading relationship before funds are advanced. Post-shipment finance is available to an exporter/seller on evidence that the goods have been shipped. Availability and charges for such a facility will be determined by the creditworthiness of the importer/buyer.
- Warehouse finance.
  This finances goods sitting in a warehouse awaiting shipment. The lender will usually secure the finance against the goods, so it is most suitable for commonly traded commodities that maintain their value in the event of default by the borrower. Its simplest form is commodity financing (see above).

- Prepayment finance.
  Another technique to provide funds to a supplier is prepayment finance. As the name suggests, this is a credit facility which is linked to a sales or export contract. Borrowers will want to avoid committing to a contract that exposes them to liability under the structure.
- Limited recourse financing.
  Exporters/sellers may seek to arrange limited recourse financing, which establishes the terms under which the lender can seek repayment. From the borrower's perspective it reduces their liability such that, in the event of default, the borrower is only liable for any debts up to the limit established in the agreement. Because the borrower will not be liable for the full repayment, limited (or non-) recourse financing can be expensive, with interest charges based on the borrower's creditworthiness.

Advantages

- As with any structured product, a structured trade transaction can be designed to meet the party's objective, whether this is to improve cash flow, reduce risk or support customers and/or suppliers. Even if the primary objective is not to enhance sales, managing risk at a more accurate price will usually result in lower costs being carried along the supply chain. This is particularly likely where the financing is arranged off the strongest credit in the supply chain.
- Financing can be put in place to meet the specific funding gap, in contrast to general working capital financing, which may be underutilised at times.
- Depending on the structure used, this form of finance can support an international supply chain. Where this includes suppliers and/or customers, it will strengthen the relationships between the various parties, building trust over time. This is particularly likely where participants share information about, for example, the status of approved invoices.

Such structures free participants to use other assets to secure other borrowing.

Disadvantages

- The strength of a structured trade finance transaction is usually dependent on the credit rating of one entity in the supply chain. Although such agreements typically strengthen the supply chain, all participants retain a residual risk against that counterparty. The biggest risk to the supply chain is that the finance provider will decide to withdraw financing facilities or reduce its exposure to the counterparty.
- Where the finance provider has recourse to the strongest credit in the supply chain, this entity will usually have to report a contingent liability.
- These structures can take a significant amount of time to agree, and may include significant set-up costs in terms of both legal and administrative fees and management time.

Evaluation

Structured trade finance solutions can be tailored to meet almost any set of circumstances. They are best when entities along the supply chain find it difficult to access finance at a reasonable cost. This applies particularly to international transactions, where the liquidity of the loan markets in different countries varies quite significantly. However, it is just as applicable for a company seeking to strengthen its domestic supply chain.

Trade-related escrow

An escrow account is used when a buyer and a seller both want to protect themselves against counterparty risk. In the case of the buyer, an escrow account allows the company to protect itself against the risk that it pays for substandard goods. In the case of the seller, an escrow account provides the company with a guarantee of payment. The bank at which the escrow account is established acts as the intermediary between the two parties, minimising the risk of loss to both.

Escrow accounts are most commonly used in new trading relationships where two parties are not well known to each other and third-party credit assessments are not readily available.

How it works

An escrow account can be established by either party, which then asks the counterparty to transact through that account. The two parties will then enter into an escrow agreement with the bank (or other provider) that will set out the terms and conditions under which the bank will release cash (or deposited documents) to the seller. When the bank receives cash from the buyer it will advise the seller. The seller will then send the goods or perform the service under the terms of the contract. On receipt of advice from the buyer that the seller has met the conditions of the transaction, the bank will then release the cash or documents to the seller. The documents needed by the bank will be listed in the escrow agreement and may include a delivery note, proof of acceptance and/or an inspection certificate.

The bank will charge an initial fee for arranging the escrow account and further fees for every release of payment under the agreement. Such fees will vary according to the sums released and the complexity of the conditions which have to be met for release to be made.

Case study

An escrow account used by a Malaysian rubber producer selling into Europe

After the escrow arrangement and the contract are agreed, a German client prepays the funds into the escrow account. The exporter ships the goods to the German warehouse and sends its bill of lading to the bank managing the escrow account. On receipt of the bill of lading, the bank releases it to the German company, which then takes control of the goods. At the same time the bank forwards the funds in escrow to the Malaysian exporter. In the event of non-delivery of the bill of lading, according to the terms of the contract, the funds in escrow would be returned to the German importer.

Advantages

There are a number of advantages to the use of escrow accounts.

- Terms and conditions can be negotiated to suit buyer and seller. Both parties can require specific terms designed to protect their interests.
- The third-party intermediary reduces credit risk for both parties. As long as the third party (usually a bank or other specialist provider) is trusted by both parties, the escrow account minimises the risk of loss for both buyer and seller.
- Buyers can continue to earn interest on

balances held in an escrow account, subject to the agreement between the three parties.

- As long as the initial agreement permits, an escrow account can be used to manage a series of ongoing transactions between the same buyer and seller.
- The initial escrow agreement can be used to establish a long-term trading relationship between two unknown parties. Escrow accounts can be used to manage online transactions, for example.
- Sellers can send goods or perform a service, knowing that funds have been deposited in the escrow account by the buyer.
- Buyers can refuse to permit the bank to release payment if the received goods are wrong, faulty or substandard.

Disadvantages

As with any technique, there are some disadvantages.

- Escrow accounts can be difficult to set up quickly.
- The arrangement is only as secure as the third-party provider. Both buyer and seller should evaluate the credit risk of the bank (or other provider) before entering into an escrow arrangement.
- The agreement can give rise to cash flow problems. Some banks may only pay interest on balances held in an escrow account for a specified period of time, for example a month. During this period, neither the buyer nor the seller has access to that cash, and no compensatory interest is being earned by either party. This additional cost should be included when evaluating the potential benefits of an escrow agreement.
- Residual counterparty risk remains. Although the escrow arrangement reduces the counterparty risk, events outside the arrangement can occur that result in loss to one or other party. For example, the buyer may be delayed in authorising the release of payment, or may refuse to pay at all, adding cost to the seller. On the other hand, the buyer may discover problems with the consignment after the release of the cash.
- Escrow arrangements offer no protection against damage in transit. Both parties will want to arrange transit insurance to protect against the consequential loss in the event of the goods being damaged in transit.

Evaluation

Escrow agreements provide both parties with the opportunity to reduce the risk of loss as a result of counterparty failure. They are best suited where the two parties are unknown to each other. As the two parties get to know each other, reliance on the escrow agreement can be ended.

Export credit schemes

Most countries have a range of government-backed export credit schemes, provided by an official export credit agency (ECA). Depending on the government's particular objectives, the schemes will provide a range of support to exporters which meet different criteria. Generally, ECAs focus on one or more of the following activities.

- Finance for domestic SMEs starting to export.
- Longer-term (two to ten years) finance for domestic companies needing to manage country risk.
- Longer-term project finance for foreign infrastructure projects to support the contracting of domestic companies.
- Finance for foreign buyers to allow them to finance the majority of a large-value contract with a domestic company.
- Support for a foreign bank to guarantee payment by a foreign buyer of goods or services supplied by a domestic company.
- Export credit insurance, specifically to protect against certain export-related risks, including country risk and counterparty risk. (See Chapter 5 for more information on credit insurance.)

As well as government-backed export credit schemes, a number of commercial providers also provide similar services. These tend to be available for the more straightforward international transactions, such as the export of consumer goods. ECAs tend to provide finance and insurance for projects or transactions for which commercial insurance is either not readily available or is prohibitively expensive.

How it works

Official export credit agencies in a number of OECD countries (Australia, Canada, the EU, Japan, New Zealand, Norway, South Korea, Switzerland and the USA) operate rules set out by the Arrangement on Officially Supported Export Credits. This has established limits on the terms and conditions of export credits provided by these agencies (in terms of interest rates, payment terms and fees).

Under the terms of the OECD Arrangement, there are a number of minimum conditions.

- Importers supported by ECA credit must make a minimum 15% downpayment to become eligible for export credits.
- Maximum credit terms vary according to the destination country. Support for exports to OECD countries must be repaid within five years (although this can be extended to eight and a half years in certain circumstances). Support for exports to non-OECD countries must be repaid within ten years. Support for project finance must be repaid within 14 years.
- Support offered via fixed rate loans must be made with reference to commercial interest reference rates (CIRR). (These rates are usually 100 basis points above the relevant base rate, which is calculated according to a system set out in the Arrangement.)
- ECAs are required to charge a risk premium, which is set as a percentage of the principal amount. This is based on a 'minimum premium rate' for country and sovereign credit risk of the importer's country. (This rate is determined by a methodology set out in the Arrangement.)

Within these constraints, each ECA offers a slightly different range of products and services to companies they are permitted to support. As an illustration, the UK's ECA is UK Export Finance (UKEF) (the trading name of the Export Credits Guarantee Department), which provides the following services:

Medium/Long-term

- Buyer Credit Facility.
  Under this scheme, UKEF provides guarantees to banks making loans to a foreign purchaser of UK exports. The loan must be for a minimum term of two years and in support of a contract with a minimum value of GBP 5 million. The buyer must make a downpayment of at least 15% of the value of the contract. The loan can be arranged with a fixed or floating interest rate. Premium will be charged based on the country and credit

risk of the buyer and the horizon of risk. UKEF takes the documentation risk and will provide an unconditional guarantee to the financing bank. UKEF usually has recourse to the exporter in the event of a default caused by the non-performance of the exporter.

- Supplier Credit Financing Facility.
  Under this facility, UKEF provides guarantees to banks which have purchased any bills of exchange or promissory notes issued to a UK exporter on behalf of or by the importer, or where the bank has provided a loan to the importer. The contract between the exporter and importer must have a minimum value of GBP 25,000 or its foreign currency equivalent. Credit can be extended to buyers up to a maximum 85% of the contract value, and the payment period must be at least two years. Premium is payable based on the country and credit risk of the buyer and the horizon of risk. UKEF does not take the documentation risk.
- Lines of Credit.
  UKEF can provide a guarantee to a bank of a qualifying loan issued to an overseas bank to support a foreign purchaser of UK exports. The loan must be for a minimum of two years and in support of a contract with a minimum value of USD 25,000. The buyer must make a downpayment of at least 15% of the value of the contract. If the borrower defaults, UKEF makes payment to the financing bank. A premium is charged by UKEF.
- Project Financing Facility.
  UKEF offers a guarantee to banks providing loans to a major infrastructure project abroad. The guarantee is on a similar basis to that offered under UKEF's buyer credit facility (see above).
- Bond Insurance Policy.
  This provides protection against an 'unfair' call under the terms of a bond or guarantee or in the event a call is made as a result of actions by the foreign government (such as the withdrawal of an export licence).
- Overseas Investment Insurance.
  This provides protection against loss of equity investments in, or loans provided to, foreign entities by a UK entity, as a result of war, expropriation, the imposition of new exchange control restrictions or a breach of government undertakings. Protection is offered up to a maximum of 90% of the amount insured.

Short-term

- Letter of Credit Guarantee Scheme.
  This is accessed through an exporter's bank. This allows a UK exporter's bank to share the credit risk with UKEF when confirming a letter of credit issued by a bank in a number of emerging markets.
- Bond Support Scheme.
  This scheme provides a guarantee to a bank that it will receive amounts it has paid to a bondholder if a bond is called and it cannot recover the amount paid in full from the exporter. UKEF shares the risk with the bank for up to 80% of the value of the bond.
- Export Working Capital Scheme.
  This provides a guarantee to a bank to meet a proportion of losses it may suffer if the exporter fails to repay a working capital facility made available to fulfil a specific export contract. UKEF is able to provide cover for up to 80% of the value of the facility.
- Export Insurance Policy.
  This provides protection against an importer's failure to pay under the terms of an agreed contract. It also protects against certain specified political risks. Most types of goods and services can be covered, although for exports of non-capital goods and services, the exporter must be unable to receive cover from the commercial insurance market. Protection is available for up to 95% of the contract value.

Under all of its facilities, UKEF requires a minimum of 20% of the contract value to be sourced from the UK. Subject to risk capacity, the balance can be considered for support.

As an indication of the differences between ECAs, the US ECA (the Export-

Import Bank of the United States) offers the following services:

- Pre-export financing to US exporters of certain qualifying goods and services;
- A range of export credit insurance policies;
- A variety of loan guarantees;
- Guarantees to international lessees who lease US-produced capital goods via finance leases, up to a contract value of USD 10 million; and
- Direct fixed rate loans for terms of over seven years to international buyers of US capital equipment and services, usually with a minimum contract value of USD 10 million, up to a maximum 85% of the contract's value (or 100% of the value of the US content of the contract). A downpayment of 15% of the contract value must be made by the buyer before the loan can be extended.

Advantages

- ECAs provide significant support to exporters in their jurisdiction. It is particularly useful for companies exporting for the first time (especially if they are SMEs). It is also useful to companies exporting to a new country, especially where counterparty risk or country risk is difficult to evaluate, or where commercial insurance or support is relatively expensive.
- Most ECAs provide a range of different services to support the export of capital goods or services, typically in circumstances where commercial insurance is difficult to arrange.

Disadvantages

- The rules governing a specific country's ECA can be restrictive and difficult to meet. As a result the ECA's offering may not match the exporter's needs.
- Obtaining ECA support can be time-consuming, depending on the nature of the contract which needs support.

Evaluation

Export credit support can be an invaluable support to exporters seeking to manage counterparty and country risk when exporting to a new country. It often provides support in situations where commercial insurance or credit support is prohibitively expensive.

However, it can be difficult to establish compliance with the often very strict rules ECAs apply. For instance, some ECAs require exported goods to meet country of origin requirements. This can be difficult in the case of manufactured goods, where the inputs are sourced from many different locations around the world.

Case study

Using the UK Export Finance Bond Support Scheme and a letter of credit to fulfil an export contract

Cambridge Glasshouse is a UK producer of commercial glasshouses, retail structures and associated equipment. As a medium-sized business, it needed both financial backing and guidance when it won its largest-ever contract, a USD 13 million project in Qatar.

Steve Hinch, Cambridge Glasshouse's Financial Director, wanted to obtain working capital finance from a USD 2.6 million advance payment. (An advance payment is sometimes held by a bank as security.) He worked with his bank, NatWest (part of RBS Group), to access an advance payment guarantee under the UK Export Finance's (UKEF) Bond Support Scheme. Under the terms of this guarantee, UKEF provided security to Cambridge Glasshouse's bank for 80% of the value of the advance payment. The bank guided Hinch and his team through UKEF's application process, and then approached the buyer's bank in Qatar to negotiate the terms of the bond. As a result, the bank was able to provide Cambridge Glasshouse with USD 1.8 million of working capital finance.

Cambridge Glasshouse also used its bank to maximise the benefits from the approximately USD 10 million letter of credit the buyer's Qatari bank had opened in the company's favour. First, NatWest confirmed the letter of credit in the UK, removing the risk of non-payment. Second, the bank provided additional working capital finance by accelerating the release of funds to Cambridge Glasshouse. Instead of having to wait the full 45-day credit period from the date of shipment, the bank advanced the funds, less a discount and without recourse, from the date of shipment. Finally, the bank's specialist document preparation team worked with Hinch and his team to ensure there were no discrepancies when they had to present documents under the terms of the letter of credit.

'Working with our bank was crucial to the success of this project,' says Steve Hinch. 'They both helped us to navigate the complex process to access UKEF support and provided additional working capital. Their support was also vital when it came to preparing the documents required under the letter of credit. As a medium-sized business, we did not have the expertise in-house. Using the bank's specialists saved us time and eliminated the very real risk of non-payment under the letter of credit.'

Appendices

Country Profiles

Common Calculations

Glossary

Argentina

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	448 bn
GDP per capita (USD)	10,993
GDP volume growth (year-on-year)	+ 8.9%
Population	40.77m
MMR (year average)	9.98%
Exchange rate ARS / USD (year average)	4.1101
BoP (goods, services & income) as % of GDP	0

	Trade 2011 (USD billion)	
Goods	Exports	83
	Imports	71
	Net	+ 13
Services	Exports	14
	Imports	16
	Net	– 2

Source: *IFS*, IMF, January 2013

International/Regional memberships

Mercado Común del Sur / Southern Cone Common Market (Mercosur): founding member since 26 March 1991.

International Monetary Fund: since 20 September 1956.

World Trade Organization: since 1 January 1995.

Government trade policy

- Argentina has reversed its trade liberalisation policy and is currently moving towards a more closed economy. The government has frequently resorted to protectionist measures over the last few years, including both export and import restrictions as well as foreign currency controls.
- Argentina implements the relevant Mercosur (www.mercosur.int) trade regulations and customs policies.
- Argentina benefits from preferential trade with its fellow Mercosur customs union members (Brazil, Paraguay, Uruguay and Venezuela) as well as with Mercosur's associate members.
- Mercosur has trade agreements with Bolivia, Colombia, Ecuador, Peru, Chile, Mexico, Israel and Cuba. Negotiations for a regional trade agreement between the EU and Mercosur are due to resume in 2013.
- National export credit insurance provider: CESCE Argentina (www.casce.com.ar), owned by CESCE Internacional, covers commercial risk as well as political risk in conjunction with the government.
- The Fondo Federal de Inversiones / Federal Investment Fund (FFI), the financial branch of the Federal Investment Council (www.cfired.org.ar) operates a state-supported export credit programme, as does the Banco de la Nación Argentina (BNA — www.bna.com.ar) and the Banco de Inversión y Comercio Exterior (BICE — www.bice.com.ar).
- The BICE also operates the Export Credit Insurance Regime for extraordinary commercial and political risks.
- Argentina maintains nine free trade zones, including Córdoba, La Plata, Mendoza, San Luis and Tucumán. Tierra del Fuego is a Special Customs Area, licensed until 2013, which permits the duty-free imports of capital goods for use in designated high-priority industries and goods to be assembled locally for sale in Argentina. Other imports are taxed at half the normal rate.

Currency and exchange controls

Official currency: Argentine peso (ARS).

Exchange rate arrangement: floating (de jure exchange rate arrangement).

The Central Bank of the Argentine Republic (BCRA — www.bcra.gov.ar), Argentina's central bank, may intervene in the foreign exchange market to stabilise the peso exchange rate.

- The BCRA establishes foreign exchange regulations.
- The BCRA authorises financial institutions for the settlement of certain types of forward contracts and other derivatives transactions involving non-domestic financial institutions. Different exchange controls apply to different types of financial institution.
- Individuals exporting over the equivalent of USD 10,000 in foreign currency are required to gain prior approval from the BCRA.
- Export proceeds are required to be fully repatriated within15, 90 or 360 consecutive days from the date of shipment depending on the goods or services exported, and sold in the foreign exchange market within 15 business days from the date of collection abroad. An extension to the repatriation period may be granted in certain cases.
- All exchange transactions must be made through authorised entities, including banks, exchange agencies, houses or offices, and financial companies.
- Proceeds from invisible transactions and current transfers are required to be repatriated and sold in the foreign exchange market within 15 business days.
- Argentina requires financial credits from a non-resident to a resident to be repatriated and sold in the foreign exchange market. There is a minimum indebtedness period of one year.
- Financial credits to non-residents from residents are generally capped at USD 2 million per month. Investments exceeding the cap require BCRA approval.
- Businesses and individuals are required to obtain prior authorisation from AFIP, the federal tax agency, in order to purchase foreign currency. The sale of foreign currency to non-residents and credit and debit cards transactions outside Argentina are exempt from the requirement.

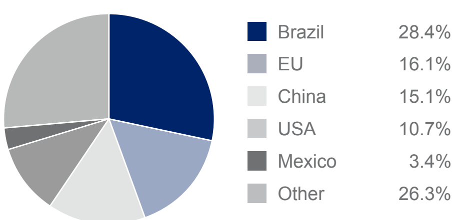
Bank accounts

- Resident companies can hold local currency (ARS) bank accounts outside Argentina.
- Resident companies can hold foreign currency bank accounts within and outside Argentina.
- Non-resident companies can hold local currency bank accounts within and outside Argentina.
- Resident and non-resident companies can hold USD and EUR-denominated time deposits and, with prior approval from the BCRA, deposit accounts in other foreign currencies as long as identification requirements are met.

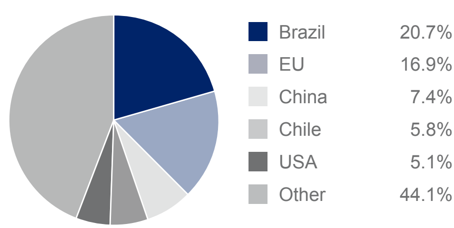
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Argentina

Principal exports

Petroleum and gas, vehicles and grains – corn, soybeans, wheat.

Documentation

Imports

- Commercial invoice (original plus three copies in Spanish, with complete description of goods to be imported), bill of lading and, sometimes, packing list and a certificate of origin.

Exports

- Commercial invoice (with complete description of goods to be exported), bill of lading, packing list and, sometimes, a certificate of origin.

Licences

Imports

- There are two types of licences in Argentina: automatic and non-automatic.
- Non-automatic licences are required for bicycles.
- Import licences with quotas: automotive-related products from Brazil.
- Argentina requires that importers request and receive approval from AFIP prior to importing consumer goods from abroad.

Exports

- Armaments, sensitive goods and military equipment.
- Export licences with quotas: endangered animal species.

Tariffs/Taxes

Imports

- Tariffs are applied, ad valorem, on imports from outside Mercosur at rates between zero and 20 percent. A maximum tariff of 35 percent may be levied on imports not listed in the Mercosur Common Code. Argentina is allowed to keep a list of exceptions to the common external tariff until December 2015. Following an agreement to restrict Brazilian imports that threaten local industries, imports in excess of quotas are taxed at 90% of the rate applied to goods outside Mercosur.
- Although capital goods, including computers and telecommunications products, are generally zero-rated, imports of some computer and telecoms products are charged at a rate of 16 percent.
- All goods, except those imported from other Mercosur countries, are subject to a 0.5 percent statistical import tariff surcharge.

Exports

- Export taxes are levied on all goods. Rates range between 5 and 35 percent.
- A fluctuating rate based on international reference prices, with a minimum threshold of 45 percent, is levied on crude petroleum.

Financing requirements for imports/exports

- None.

Prohibited items

Imports

- Items that may harm public health or national security, tyres, certain used capital goods and second-hand clothing.

Exports

- Items that are restricted include some fish species and exports of natural gas to Uruguay and Chile.

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	1,490 bn
GDP per capita (USD)	65,914
GDP volume growth (year-on-year)	+ 2.4%
Population	22.61m
MMR (year average)	4.69%
Exchange rate AUD / USD (year average)	0.9695
BoP (goods, services & income) as % of GDP	– 2.2%

	Trade 2011 (USD billion)	
Goods	Exports	272
	Imports	243
	Net	+ 28
Services	Exports	52
	Imports	61
	Net	– 9

Source: *IFS*, IMF, January 2013

International/Regional memberships

Pacific Islands Forum: founding member since 1971. All Pacific Islands Forum member states, i.e. Australia, New Zealand and 13 Pacific Island nations, are currently signatories of the Pacific Agreement on Closer Economic Relations (PACER).

Asia-Pacific Economic Cooperation (APEC): since 6–7 November 1989.

Association of South East Asian Nations (ASEAN): dialogue partner.

International Monetary Fund: since 5 August 1947.

World Trade Organization: since 1 January 1995.

Government trade policy

- Australia has negotiated bilateral free trade agreements with New Zealand (ANZCERTA – Australia New Zealand Closer Economic Relations Trade Agreement), Chile (AC-FTA – the Australian-Chile FTA), Malaysia (MAFTA), Singapore (SAFTA), Thailand (TAFTA) and the USA (AUSFTA). The bilateral free trade agreement between Australia and New Zealand is one of the most extensive in global trade and encompasses free trade in services.
- Australia and New Zealand established a free trade agreement with ASEAN in February 2009.
- Australia has also negotiated bilateral preferential trade agreement with Canada (CANATA) as well as trade and economic framework agreements with approximately 40 other countries, including China and Japan.
- Free trade negotiations are ongoing with China, the Gulf Co-operation Council (GCC), India, Indonesia, Japan and South Korea.
- National export credit insurance provider: Export Finance and Insurance Corporation (EFIC – www.efic.gov.au).
- EFIC also provides state-supported medium to long-term export finance for capital goods/services mainly produced/provided in Australia, and to locally based foreign companies for capital goods and services partially derived from Australia.
- Australia is not currently home to any free trade zones or special economic zones.

Currency and exchange controls

Official currency: Australian dollar (AUD).

Exchange rate arrangement: free floating.

Australia imposes few foreign exchange controls.

- An Australian financial services licence is usually required for residents to carry out foreign exchange transactions.
- The Australian authorities must usually be notified of securities transactions by non-residents in Australia.
- Australia applies controls to financial and commercial credits from residents to non-residents.

Australia

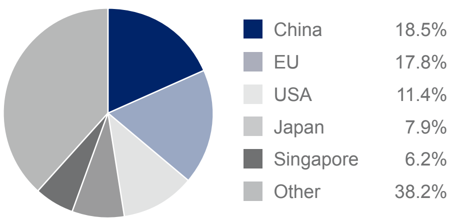
Bank accounts

- Resident companies can hold local currency (AUD) bank accounts outside Australia.
- Resident companies can hold foreign currency bank accounts both within and outside Australia.
- Non-resident companies can hold local currency bank accounts both within and outside Australia.
- Non-resident companies can hold foreign currency bank accounts in Australia.

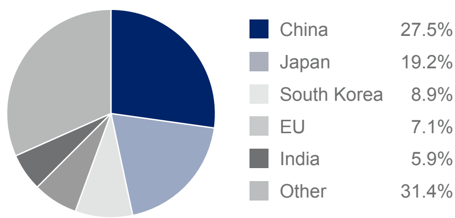
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Coal, iron ore, gold, meat, wool, alumina, wheat, machinery and transport equipment.

Documentation

Imports

- Commercial invoice, customs declaration, bill of lading, packing list and, sometimes, a certificate of origin.

Exports

- Commercial invoice, customs declaration, bill of lading, packing list and, sometimes, a certificate of origin.

Licences

Imports

- Various primary products, rough diamonds, narcotics, psychotropic and therapeutic substances, armaments, various chemical products and other dangerous items.

Exports

- Licences are required for unprocessed wood exports.
- Licences from the Department of Agriculture, Fisheries and Forestry: livestock, cattle, sheep and goat meat.
- Permits from the Australian Radiation Protection and Nuclear Safety Agency: radioactive materials.
- Permits from the Department of Industry, Tourism and Resources: nuclear and related materials.
- Exports of dairy products, beef and sheep meat to the European Union and USA are subject to restrictions.

Tariffs/Taxes

Imports

- 46% of imports are tariff exempt.
- An average tariff of 2.9 percent is levied on imports.
- A maximum 5 percent import tariff applies to most manufactured goods.
- Tariffs of up to 10 percent apply to shoes, textiles and clothing products (5% from 1 January 2015).
- Tariff concessions are usually possible for products for which there is no domestic manufacturer.
- No tariffs are levied on imports from New Zealand.
- Imports from East Timor and the world's least developed countries may be exempt from duty or attract preferential rates.
- In accordance with the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), non-reciprocal preferential tariffs are applied by Australia and New Zealand to imports from their 13 fellow Pacific Islands Forum member states.

Exports

- None.

Financing requirements for imports/exports

- None.

Prohibited items

Imports

- Imports that are prohibited in accordance with UN Security Council resolutions, such as items deemed a threat to fauna and flora and national security or those deemed as morally dubious.

Exports

- Exports that are prohibited in accordance with UN Security Council resolutions.

Austria

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	418 bn
GDP per capita (USD)	49,701
GDP volume growth (year-on-year)	+ 2.7%
Population	8.41m
Interest rate (for corporations funding stocks up to one year)	2.95%
Exchange rate EUR / USD (year average)	0.7194
BoP (goods, services & income) as % of GDP	+ 1.2%

	Trade 2011 (USD billion)	
Goods	Exports	170
	Imports	175
	Net	– 6
Services	Exports	59
	Imports	45
	Net	+ 14

Source: *IFS*, IMF, January 2013

International/Regional memberships

European Union (EU): since 1 January 1995. Austria is also a member of the European Economic Area (EEA).

International Monetary Fund (IMF): since 27 August 1948.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- Austria implements the trade regulations, commercial policies and customs code of the EU (ec.europa.eu/trade).
- Austria trades freely with its fellow EEA member states as well as Switzerland.
- The EU has in place bilateral trade agreements with 36 countries and regional trade agreements with a number of trading blocs.
- National export credit insurance provider: Oesterreichische Kontrollbank (OeKB — www.oekb.at).
- The OeKB also offers the exports financing scheme (EFS) to domestic and foreign banks in Austria, enabling them to provide export credit.
- The EU maintains 74 free trade zones, but none in Austria.

Currency and exchange controls

Official currency: Euro (EUR).

Exchange rate arrangement: free floating.

Austria does not impose foreign exchange controls.

- Capital transactions must be reported in certain circumstances.
- Austria applies controls to the foreign currency assets of resident private pension funds, which are not permitted to exceed 30 percent of the fund's total assets.

Bank accounts

Permission to hold currency accounts

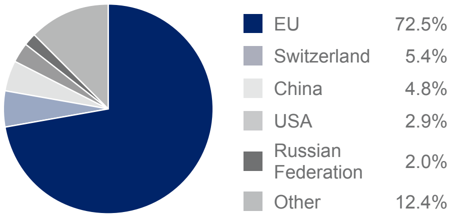
	Within Austria		Outside Austria	
	EUR	Foreign currency	EUR	Foreign currency
Resident company	✔	✔	✔	✔
Non-resident company	✔	✔	✔	N/A

Austria

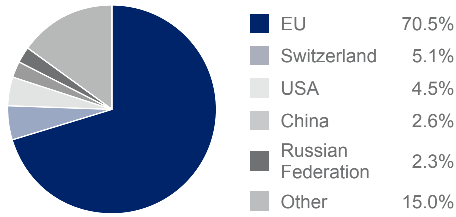
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Machinery and equipment, motor vehicles and parts, paper and paperboard, metal goods, chemicals, iron and steel, textiles, and foodstuffs.

Import/Export documentation

Within the EU: no documentation requirements, but a commercial invoice is typically included.

Outside the EU: commercial invoice, customs declaration, bill of lading, packing list and, sometimes, a certificate of origin.

Licences

Imports

- Licence from the Federal Ministry for Economic Affairs: industrial products.
- Licence from the Ministry of Agriculture and Forestry: agricultural products.
- Various consumer products from China.
- Items subject to statistical surveillance under the European Coal and Steel Community (ECSC) Treaty.

Exports

- Goods/items that are subject to international controls.

Tariffs/Taxes

Imports

- Tariffs on imports from outside the EU are set according to the EU's common customs code, with higher rates for agricultural imports.

Exports

- None.

Financing requirements for imports/exports

- None.

Prohibited items

- Imports that are prohibited in accordance with EU regulations and UN Security Council resolutions, such as items deemed a threat to fauna and flora and national security.
- Exports that are prohibited in accordance with EU regulations and UN Security Council resolutions.

Kingdom of Bahrain

Economic and trade overview

Key figures

Economy 2011

GDP (USD) (2010)	21,929 m
GDP per capita (USD) (2010)	17,404
GDP volume growth (year-on-year) (2010)	+ 4.5%
Population	1.32m
MMR (year average)	0.60%
Exchange rate USD / BHD (year average)	2.6596
BoP (goods, services & income) as % of GDP (2010)	+ 11.0%

Trade 2011 (USD billion)

Goods	Exports	20
	Imports	12
	Net	+ 8
Services	Exports	3
	Imports	2
	Net	+ 2

Source: *IFS*, IMF, January 2013

International/Regional memberships

Gulf Cooperation Council (GCC): since 25 May 1981.

International Monetary Fund (IMF): since 7 September 1972.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- Much of Bahrain's trade policy is directed through its membership of the GCC (www.gccsg.org/eng/index.php).
- As a GCC member, Bahrain is able to trade with other GCC member states (Qatar, Kuwait, Oman, Saudi Arabia and the UAE) without investment and service trade barriers.
- Through the GCC common market, launched in 2008, Bahraini businesses and citizens receive national treatment in all GCC countries.
- The GCC also operates a customs union in which members are subject to unified customs duties.
- GCC member states have signed several bilateral trade agreements and negotiations are ongoing with a number of other countries, along with with the EU and the Association of Southeast Asian Nations (ASEAN). The GCC has also signed a free trade agreement with the European Free Trade Association (EFTA).
- Bahrain also has around 60 independent bilateral trade agreements, including a free trade agreement with the USA that has caused tension among other GCC members, particularly Saudi Arabia.
- National export credit insurance provider: the Islamic Corporation for Insurance of Investments and Export Credits (ICIEC – www.iciec.com). ICIEC provides investment and export credit insurance for Islamic countries, including Bahrain. ICIEC is part of the Islamic Development Bank.
- Bahrain International Investment Park operates as a free trade zone, offering a zero tax rate for 10 years and duty free access to all GCC markets.

Currency and exchange controls

Official currency: Bahraini dinar (BHD).

Exchange rate arrangement: conventional peg to the USD at a rate of BHD 0.377 per USD 1.

Bahrain does not impose foreign exchange controls.

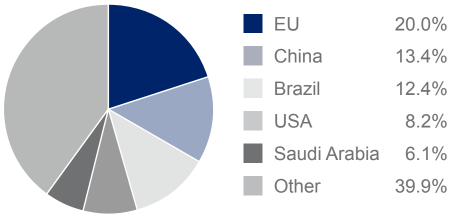
Bank accounts

- Resident companies can hold local currency (BHD) bank accounts outside Bahrain.
- Resident companies can hold foreign currency bank accounts within and outside Bahrain.
- Non-resident companies can hold foreign currency and local currency bank accounts in Bahrain.

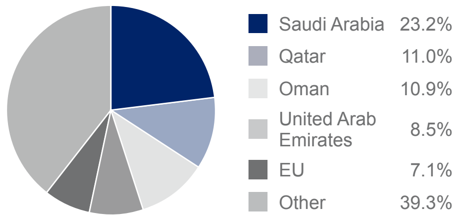
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Petroleum and petroleum products, aluminium and textiles.

Documentation

Imports

- Bill of lading, certificate of origin, commercial invoice, customs import declaration, delivery order, packing list and a technical standard or health certificate.

Exports

- Bill of lading, certificate of origin, commercial invoice, customs export declaration, packing list and a technical standard or health certificate.

Licences

Imports

- Alcohol, arms and ammunition.

Exports

- Some goods are subject to export documentation requirements in accordance with the GCC Common Customs Law.

Tariffs/Taxes

Imports

- A customs duty of 5 percent exists for goods, excluding vegetables, fruit, fish, meat, books and magazines.
- Rates of 100 percent are applied on tobacco products and 125 percent on alcoholic drinks.
- Imports from GCC member states are exempt from duties.

Exports

- None.

Financing requirements for imports/exports

- None.

Prohibited items

Imports

- Items can be prohibited for reasons of health, public policy and national security. Imports of cultured pearls and all imports from Israel are also prohibited.

Exports

- All exports to Israel are prohibited.

Belgium

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	514 bn
GDP per capita (USD)	47,831
GDP volume growth (year-on-year)	+ 1.8%
Population	10.75m
Interest rate (for corporations funding stocks up to one year)	3.13%
Exchange rate EUR / USD (year average)	0.7194
BoP (goods, services & income) as % of GDP	+ 0.4%

Trade 2011 (USD billion)		
Goods	Exports	324
	Imports	336
	Net	– 12
Services	Exports	96
	Imports	92
	Net	+ 4

Source: *IFS*, IMF, January 2013

International/Regional memberships

European Union (EU): founding member since 25 March 1957. Belgium is also a member of the European Economic Area (EEA).

International Monetary Fund (IMF): since 27 December 1945.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- Belgium implements the trade regulations, commercial policies and customs code of the EU (ec.europa.eu/trade).
- Belgium trades freely with its fellow EEA member states as well as Switzerland.
- The EU has in place bilateral trade agreements with 36 countries and regional trade agreements with a number of trading blocs.
- National export credit insurance provider: Belgian Export Credit Agency (Office National Du Ducroire/ONDD — www.ondd.be)
- The EU maintains 74 free trade zones, though none is located in Belgium.

Currency and exchange controls

Official currency: Euro (EUR).

Exchange rate arrangement: free floating.

Belgium does not impose foreign exchange controls.

- Belgium applies controls to financial credits from residents to non-residents with maturities exceeding three months if they form over 10 percent of a resident insurance company's technical reserves.

Bank accounts

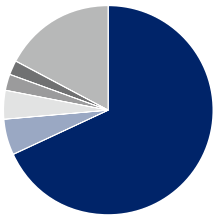
Permission to hold currency accounts

	Within Belgium		Outside Belgium	
	EUR	Foreign currency	EUR	Foreign currency
Resident company	✔	✔	✔	✔
Non-resident company	✔	✔	✔	N/A

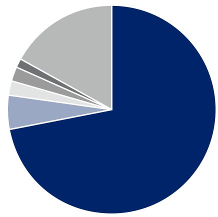
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Machinery and equipment, chemicals, finished diamonds, metals and metal products, and foodstuffs.

Import/Export documentation

Within the EU: no documentation requirements, but a commercial invoice is typically included.

Outside the EU: commercial invoice, customs declaration, bill of lading, packing list and, sometimes, a certificate of origin.

Licences

Imports

- Diamonds, armaments, and various textiles and steel products from outside the EU.
- Import licences with quotas: various steel products from Russia and Kazakhstan; and various textiles from Belarus and North Korea.

Exports

- Diamonds, weapons and strategic items.

Tariffs/Taxes

Imports

- Tariffs on imports from outside the EU are set according to the EU's common customs code, with higher rates for agricultural imports.

Exports

- None.

Financing requirements for imports/exports

- None.

Prohibited items

- Imports that are prohibited in accordance with EU regulations and UN Security Council resolutions, such as items deemed a threat to fauna and flora and national security.
- Exports that are prohibited in accordance with EU regulations and UN Security Council resolutions.

Brazil

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	2,477 bn
GDP per capita (USD)	12,594
GDP volume growth (year-on-year)	+ 2.7%
Population	196.66m
MMR (year average)	11.66%
Exchange rate BRL / USD (year average)	1.6728
BoP (goods, services & income) as % of GDP	– 2.2%

	Trade 2011 (USD billion)	
Goods	Exports	256
	Imports	226
	Net	+ 30
Services	Exports	38
	Imports	76
	Net	– 38

Source: *IFS*, IMF, January 2013

International/Regional memberships

Mercado Común del Sur / Southern Cone Common Market (Mercosur): founding member since 26 March 1991.

International Monetary Fund: since 14 January 1946.

World Trade Organization: since 1 January 1995.

Government trade policy

- Brazil implements the relevant Mercosur (www.mercosur.int) trade regulations and customs policies.
- Brazil benefits from preferential trade with its fellow Mercosur customs union members (Argentina, Paraguay, Uruguay and Venezuela) as well as with Mercosur's associate members.
- Mercosur has trade agreements with Bolivia, Colombia, Chile, Ecuador, Peru, Mexico and Cuba. Negotiations for a regional trade agreement between the EU and Mercosur have been put on hold.
- National export credit insurance provider: IRB-Brasil Resseguros SA (www2.irb-brasilre.com.br/site/), a majority state-owned reinsurance company, covers political and extraordinary risks.
- Banco do Brasil (BCB — www.bb.com.br) operates the state-supported export credit programme, Proex, while the Brazilian National Development Bank (BNDES — www.bndes.gov.br) operates BNDES-Exim, a pre and post-shipment financing programme.
- Brazil maintains four free trade zones: Manaus, Tabatinga, Macapá/Santana and Guajará-Mirim.

Currency and exchange controls

Official currency: Brazilian real (BRL).

Exchange rate arrangement: floating.

The BCB administers exchange controls on capital transactions and the National Monetary Council is responsible for foreign exchange policy.

- Banks can trade foreign exchange on a forward basis, but must settle an interbank or export transaction within 1,500 days and, for all other transactions, within 360 days.
- Brazil applies a financial transaction tax (IOF) on certain foreign exchange transactions, usually at a rate of 0.38 percent.
- There is a 6 percent exchange tax applied to the repayment or interest inflows resulting from external loans with a minimum maturity of up to 360 days. There is a 6.38 percent tax applied to remittances relating to the obligations of credit card administration companies to pay for client purchases.
- A number of transactions are subject to a zero-rate exchange tax, including the inflow of export proceeds, foreign capital returns, interbank transactions between institutions authorised to operate in the foreign exchange market; outflows of interest on

owners' equity, and dividend remittances.

- Individuals importing or exporting over the equivalent of BRL 10,000 in cash or cheques are required to notify customs (www.receita.fazenda.gov.br).
- Foreign direct investment into certain economic activities is restricted and all foreign direct investments must be registered with the BCB.
- Export proceeds have not been required to be repatriated or surrendered since March 2008.
- Financial institutions may not lend to non-residents.

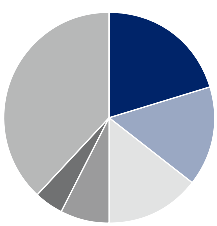
Bank accounts

- Resident companies can hold local currency (BRL) bank accounts outside Brazil.
- Foreign currency bank accounts can be held by the following resident persons or entities in Brazil: authorised foreign exchange dealers, Brazilian citizens abroad, the Brazilian Post Office Administration, credit card companies, companies involved in energy sector projects, tourist agencies that are not permitted to deal in foreign exchange, insurance companies, re-insurance companies and re-insurance brokers.
- Non-resident companies can hold local currency bank accounts in Brazil.
- Foreign currency bank accounts can be held by the following non-resident persons or entities in Brazil: foreign citizens travelling through Brazil, international organisations, embassies, foreign delegations, foreign transportation companies and re-insurance companies.

Trade information

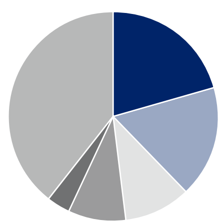
Key trading partners

Imports by origin



EU	20.5%
USA	15.1%
China	14.5%
Argentina	7.5%
South Korea	4.5%
Other	37.9%

Exports by destination



EU	20.7%
China	17.3%
USA	10.1%
Argentina	8.9%
Japan	3.7%
Other	39.3%

Source: WTO, September 2012

Principal exports

Transport equipment, iron ore, soybeans, footwear, coffee and cars.

Documentation

Imports

- Customs declaration, commercial invoice (with complete description of goods to be imported), bill of lading, packing list, pro-forma invoice (for imports that require a licence), import registration and, sometimes, a certificate of origin. Importers must also register with the SECEX (Secretariat of Foreign Trade) and be listed in the Importer and Exporter Register.

Exports

- Customs declaration, commercial invoice (with complete description of goods to be exported), bill of lading, packing list, export registration, international shipment notification and, sometimes, a certificate of origin.

Brazil

Licences

Imports

- Most imports are subject to automatic licences. Some require non-automatic licences. Some imports require authorisation from the relevant agency or ministry. Licences usually expire after 90 days.
- There are no import licences required for items from fellow Mercosur member countries, except for cars and sugar.

Exports

- Licences are required from SECCX for exports animals, plants, tobacco, minerals and weapons.

Tariffs/Taxes

Imports

- Tariffs are applied, ad valorem, on imports from outside Mercosur at rates between zero and 20 percent. A tariff of 35 percent may be levied on automotive imports. Clothes and dairy products may be subject to a 26 percent or 28 percent import tariff.

Exports

- Export taxes are levied on relatively few items.
- A duty of 9 percent is applied to raw hides.
- A duty of 150 percent is applied to exports of cigarettes to Latin American countries as well as weapons and ammunition to Central and South America (excluding Argentina, Ecuador and Chile) and the Caribbean.

Financing requirements for imports/exports

- Neither exports nor imports are subject to financing requirements.

Prohibited items

Imports

- Items that may harm public health and national security, such as agrochemicals, weapons and unlicensed drugs.

Exports

- For environmental reasons and compliance with UN resolutions and international agreements, certain items cannot be exported.

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	1,737 bn
GDP per capita (USD)	50,566
GDP volume growth (year-on-year)	+ 2.4%
Population	34.35m
MMR (year average)	1.00%
Exchange rate CAD / USD (year average)	0.9895
BoP (goods, services & income) as % of GDP	– 2.6%

	Trade 2011 (USD billion)	
Goods	Exports	462
	Imports	461
	Net	+ 2
Services	Exports	76
	Imports	102
	Net	– 25

Source: *IFS*, IMF, January 2013

International/Regional memberships

North American Free Trade Agreement (NAFTA): since 1 January 1994.

International Monetary Fund: since 27 December 1945.

World Trade Organization: since 1 January 1995.

Government trade policy

- Canada pursues a policy of free trade and seeks trade agreements either bilaterally or through NAFTA.
- As a member of NAFTA, Canada benefits from free trade arrangements with Mexico and the USA. Under NAFTA, most tariffs have been eliminated or are being phased out among the three countries. A trade agreement on agriculture was negotiated separately between Canada and Mexico, and Canada and the USA.
- Canada has negotiated bilateral and regional trade agreements with a number of countries and trading blocs.
- National export credit insurance provider: Export Development Canada (EDC — www.edc.ca).
- EDC also operates Canada's state-supported export credit programme.
- Under the Export Distribution Centre (EDC) Programme, firms operating within an EDC can purchase Canadian goods on a tax-free basis and import foreign goods on a tax and duty-free basis if the goods are primarily intended for export/re-export.
- There are no designated free trade zones in Canada. However, a number of government incentive programmes are available, including the Duty Deferral Program (DDO), which entitles qualified companies to postpone or refund duties and taxes normally paid on imported goods.

Currency and exchange controls

Official currency: Canadian dollar (CAD).

Exchange rate arrangement: free floating.

Canada does not impose foreign exchange controls.

- Individuals entering or leaving Canada with the equivalent of CAD 10,000 or more in domestic or foreign currency are required to notify a border services officer.

Bank accounts

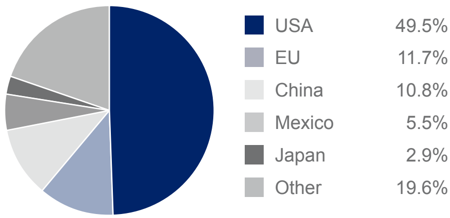
- Resident companies can hold local currency (CAD) bank accounts outside Canada.
- Resident companies can hold foreign currency bank accounts within and outside Canada.
- Non-resident companies can hold local currency bank accounts within and outside Canada.
- Non-resident companies can hold foreign currency bank accounts in Canada.

Canada

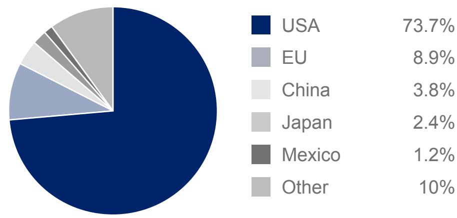
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Motor vehicles and parts, industrial machinery, aircraft, telecommunications equipment, chemicals, plastics, fertilisers, wood pulp, timber, crude petroleum, natural gas, electricity and aluminium.

Documentation

Imports

- Commercial invoice or Canada Customs invoice, cargo control document, bill of lading, packing list and, sometimes, a certificate of origin.

Exports

- Export declaration, which can be made via the Canadian Automated Export Declaration (CAED) system or the G7 Electronic Data Interchange (EDI) Export Reporting system, or the B13A paper form. The B13A paper form is being phased out.
- Commercial invoice and customs declaration.

Licences

Imports

- Strategic items, certain endangered animal and plant species, certain drugs, some agricultural products and natural gas.

Exports

- Goods/items that are subject to international controls, some strategic and agricultural items. The Canadian government publishes a full Export Control List.
- Export licences with quotas: exports of softwood lumber products to the USA.

Tariffs/Taxes

Imports

- Import taxes are generally low, except for taxes on agricultural imports, such as dairy products, eggs and poultry, and imports of clothing, footwear, textiles and ships.

Exports

- There are generally no taxes on exports, although there is a tax on the export of softwood lumber products to the USA and on the export of some tobacco products.

Financing requirements for imports/exports

- None.

Prohibited items

Imports

- Items that are prohibited in accordance with UN Security Council resolutions.

Exports

- Items that are prohibited in accordance with UN Security Council resolutions.

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	249 bn
GDP per capita (USD)	14,394
GDP volume growth (year-on-year)	+ 6.0%
Population	17.27 m
MMR (year average)	4.67%
Exchange rate CLP / USD (year average)	483.67
BoP (goods, services & income) as % of GDP	– 2.3%

	Trade 2011 (USD billion)	
Goods	Exports	81
	Imports	71
	Net	+ 11
Services	Exports	12
	Imports	15
	Net	– 2

Source: *IFS*, IMF, January 2013

International/Regional memberships

Mercado Común del Sur / Southern Cone Common Market (Mercosur): associate member since 1 October 1996.

Comunidad Andina / Andean Community of Nations (CAN): associate member since 20 September 2006.

International Monetary Fund: since 14 January 1946.

World Trade Organization: since 1 January 1995.

Government trade policy

- Chile implements open and competitive trade practices oriented towards free trade and the promotion of its exports (www.direcon.cl).
- As an associate member of Mercosur, Chile aims to eliminate tariffs with Mercosur member states (Argentina, Brazil, Paraguay, Uruguay and Venezuela) by 2014.
- Chile also has in place bilateral economic complementation agreements with several countries, including Argentina, Bolivia, Ecuador and Venezuela, as well as free trade agreements with Colombia, Peru, EFTA (the European Free Trade Association), China, South Korea, Malaysia, Turkey, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, countries in NAFTA (the North American Free Trade Agreement), Japan, Panama, and Australia. It has additional agreements with the EU, P-4 (New Zealand, Singapore and Brunei Darussalam), Cuba and India. It has also signed free trade agreements with Vietnam and Hong Kong, but the agreements have not come into force yet.
- National export credit insurance provider: Corporación de Fomento de la Producción (Corfo — www.corfo.cl).
- Corfo operates Chile's state-supported export credit programme. ProChile (www.prochile.cl) is Chile's official export promotion agency.
- Chile maintains free trade zones in Iquique and Punta Arenas.

Currency and exchange controls

Official currency: Chilean peso (CLP).

Exchange rate arrangement: free floating.

Chile abolished foreign exchange controls in 2001, though restrictions on some cross-border transactions and foreign investments by commercial banks and institutional investors remain.

- Export proceeds are not required to be repatriated or surrendered, but profit remittances must be settled either annually or quarterly.
- Individuals importing or exporting over the equivalent of USD 10,000 in cash are required to notify customs (www.aduana.cl).
- Chile requires capital transactions effected by residents in foreign currency, CLP-denominated foreign credit transactions (but payable in foreign currency), and import/export-related payments equal to or exceeding USD 50 million per year to be reported to the central bank.

Chile

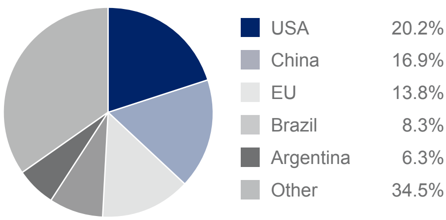
Bank accounts

- Resident companies can hold local currency (CLP) bank accounts outside Chile.
- Resident companies can hold foreign currency bank accounts within and outside Chile, though a certification of domicile is required for foreign currency accounts held with commercial banks.
- Non-resident companies can hold local currency bank accounts in Chile, but require a certification of domicile and a tax identification number (RUT).

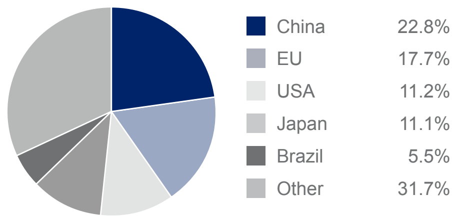
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Copper, fruit, fish products, paper and pulp, chemicals, and wine.

Documentation

Imports

- Customs declaration, commercial invoice (four copies in English or Spanish, including a full description of the imported goods), a bill of lading (two copies), a packing list and, sometimes, a certificate of origin and a technical standard/health certificate.

Exports

- Customs declaration, commercial invoice (including a full description of the exported goods), a bill of lading, a packing list and, sometimes, a certificate of origin and a technical standard/health certificate.

Licences

Imports

None, though imports greater than USD 3,000 must be reported to customs (www.aduana.cl).

Exports

- None.

Tariffs/Taxes

Imports

- Most imports from countries that do not have a free trade agreement with Chile are charged import tax at the rate of 6 percent.
- Imports are subject to a VAT rate of 19 percent.
- Wheat, wheat flour and sugar are subject to a price band system.

Exports

- None.

Financing requirements for imports/exports

- None.

Prohibited items

Imports

- Items that may harm public health or national security, or for moral reasons or industrial policy.
- Used cars and tyres are restricted.

Exports

- Endangered species and historical relics.
- Government approval is necessary for armaments, ammunition and hazardous chemicals.

People's Republic of China

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	7,298 bn
GDP per capita (USD)	5,416
GDP volume growth (year-on-year)	+ 9.4%
Population	1,347.6m
Bank rate (end 2011)	3.25%
Exchange rate RMB / USD (year average)	6.4615
BoP (goods, services & income) as % of GDP	+ 2.4%

	Trade 2011 (USD billion)	
Goods	Exports	1,812
	Imports	1,570
	Net	+ 242
Services	Exports	185
	Imports	239
	Net	– 54

Source: *IFS*, IMF, January 2013

International/regional memberships

Asia-Pacific Economic Cooperation (APEC): since 12–14 November 1991.

International Monetary Fund (IMF): since 27 September 1945. (Taiwan occupied China's seat at the IMF until 1980.)

World Trade Organization (WTO): since 11 December 2001.

Government trade policy

- Since becoming a WTO member in 2001, China has been engaged in reforming its trade regulations to conform to WTO standards. However, some barriers still remain in place.
- Before a business is permitted to trade into or out of China it must be authorised by the Foreign Trade Administration (english.mofcom.gov.cn) and registered with the State Administration for Industry and Commerce (www.saic.gov.cn).
- China signed its first bilateral trade agreement with an Asian country as late as October 2008, but it has now entered into a number of other international bilateral trade agreements, including a major trade deal with the Association of Southeast Asian Nations (ASEAN).
- National export credit insurance provider: China Export and Credit Insurance Corporation (Sinosure — www.sinosure.com.cn).
- The state-owned Export-Import Bank of China (China Eximbank — english.eximbank.gov.cn) operates under direction from China's State Council to support Chinese exports and provide export credits and guarantees.
- There are currently 13 approved free trade zones in China for imports and an additional 64 export processing zones.

Currency and exchange controls

Official currency: Chinese renminbi (RMB).

Exchange rate arrangement: managed floating arrangement. The rate is determined by reference to a basket of international currencies (USD, EUR, JPY, HKD, CAD, MYR, RUB, GBP and AUD), within a narrow floating band of 1 percent above or below the central rate (3 percent against most non-USD-linked currencies except the RUB and MYR, which is 5%).

China's central bank, the People's Bank of China (PBC — www.pbc.gov.cn/english), is responsible for maintaining the renminbi's stability.

- Despite a relaxation in recent years, China continues to implement exchange controls.
- The State Administration of Foreign Exchange (SAFE — www.safe.gov.cn) administers foreign exchange controls in China.
- SAFE publishes a list of fees and expenses that do not require its advance approval for settlement in foreign currency.

People's Republic of China

- China has reduced restrictions on the number and type of firms permitted to conduct forward and interbank forward transactions. Firms wishing to invest in forward and interbank forward earning are subject to approval from SAFE.
- Interbank RMB foreign exchange forward transactions are permitted by qualified interbank foreign exchange market participants, who may also participate in foreign exchange swap transactions six months after they have received authorisation. Qualified interbank foreign exchange market participants may also apply to carry out RMB and foreign exchange currency swaps.
- Foreign owned companies are permitted to retain the proceeds from exports in a foreign exchange account at foreign exchange banks specified by SAFE. However, export proceeds beyond a specified limit must be sold off within five days in the local foreign exchange market. Domestic entities may repatriate foreign exchange income domestically or abroad.
- The proceeds from invisible transactions and current transfers are required to be repatriated, but, according to their operational needs, domestic institutions may retain foreign exchange receipts from current account transactions in foreign exchange current accounts.

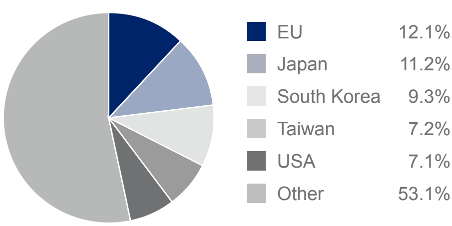
Bank accounts

- Local currency (RMB) bank accounts cannot be held outside China by resident companies. Non-resident companies can open RMB trade current accounts outside China with domestic banks for the purposes of cross-border RMB settlement.
- Non-resident companies can also hold local currency bank accounts within China.
- Subject to approval from SAFE, resident companies can hold foreign currency bank accounts both within and outside China.

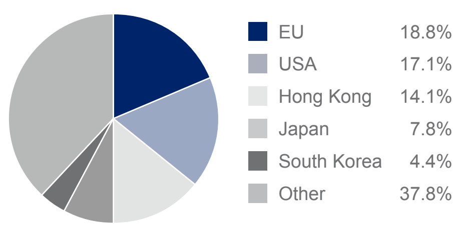
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Electrical and other machinery, including data processing equipment, apparel, textiles, iron and steel, and optical and medical equipment.

Documentation

Imports

- Bill of lading, certificate of origin, commercial invoice, customs import declaration and packing list.

Exports

- Bill of lading, cargo release order, foreign exchange form, station receipt, certificate of origin, commercial invoice, customs export declaration, packing list and terminal handling receipts.

Licences

Imports

- The Chinese government monitors the import of some goods that require licences, such as controlled chemicals.
- Automatic licensing may be enforced by the Chinese authorities for any goods they wish to examine. The licence is valid for six months and can be used for up to six shipments.
- All importers must gain approval from the Foreign Trade Administration and must be registered with the Administration for Industry and Commerce.

Exports

- Export permits are required from the Ministry of Commerce (MOFCOM) for certain commodities, including some agricultural products, various metals and chemicals and vehicles.
- Both foreign and domestic companies are subject to export licensing requirements.

Tariffs/Taxes

Imports

- China's overall tariff level fell from 15.6 percent in 2000 to 9.8 percent at the start of 2012 as a result of its WTO commitments to reduce tariff rates.
- Imports are subject to one of four classifications of tariff rates: most favoured nation (MFN) – for countries that have established an MFN agreement and WTO member states; preferential tariff – for countries that have signed a preferential tariff agreement with China; conventional tariff – for delegations that have concluded a regional trade agreement from a preferential tariff clause; and the general tariff rate, which covers all other imports.
- Under the China-ASEAN Free Trade Area (CAFTA), goods imported from ASEAN member states have an average tariffs of 0.1 percent

Exports

- Many goods are subject to taxes or tariffs upon export from China in the form of export duties.
- Apart from a certain fertiliser products, which carry an export duty of 75 percent, export tariff rates are set between 5 percent and 40 percent.

Financing requirements for imports/ exports

- For advance import payment, importers must complete the relevant trade credit registration procedures.

Prohibited items

Imports

- Items prohibited for moral and cultural reasons and for issues of national security.

Exports

- Items prohibited for moral and cultural reasons and for issues of national security.

Colombia

Economic and trade overview

Key figures

Economy 2011

GDP (USD)	333 bn
GDP per capita (USD)	7,100
GDP volume growth (year-on-year)	+ 2.5%
Population	46.93m
MMR (year average)	4.03%
Exchange rate COP / USD (year average)	1,848.1
BoP (goods, services & income) as % of GDP	– 4.5%

Trade 2011 (USD billion)

Goods	Exports	58
	Imports	52
	Net	+ 5
Services	Exports	5
	Imports	9
	Net	– 5

Source: *IFS*, IMF, January 2013

International/Regional memberships

Comunidad Andina / Andean Community (CAN): founding member since 26 May 1969.

International Monetary Fund (IMF): since 27 December 1945.

World Trade Organization (WTO): since 30 April 1995.

Government trade policy

- Trade policy is implemented by the Ministry of Trade, Industry and Tourism (MinCIT — www.mincomercio.gov.co).
- Colombia implements the ad valorem common external tariff (CET) of the Andean Community (CAN — www.comunidadandina.org) to its imports.
- National export credit insurance provider: Segurexpo de Colombia (Segurexpo — www.segurexpo.com).
- Banco de Comercio Exterior de Colombia (Bancoldex — www.bancoldex.com) operates Colombia's state-supported export credit programmes.
- Colombia maintains 24 free zones, including Barranquila, Bogotá, Cartagena and Cali.

Currency and exchange controls

Official currency: Colombian peso (COP).

Exchange rate arrangement: floating.

The Banco de la República, the Colombian central bank, (www.banrep.gov.co) formulates foreign exchange policy. The Banco de la República, the Ministry of Finance (www.minhacienda.gov.co), the Financial Superintendency (www.superfinanciera.gov.co) and the National Customs and Tax Directorate (DIAN — www.dian.gov.co) are responsible for the enforcement of exchange controls.

- The average gross risk exposure over three business days by exchange market intermediaries participating in the forward foreign exchange markets may not exceed 550 percent of their total capital.
- Foreign exchange transactions of USD 200 or more require an exchange declaration to be made.
- There is a foreign currency cash limit of USD 10,000 for individuals entering or leaving the country.
- Export proceeds are required to be repatriated and must be surrendered to authorised intermediaries within six months. Exporters are allowed to retain proceeds in accounts abroad registered with the central bank.
- The Financial Superintendency has to approve acquisitions equal to 10 percent or more of domestic financial institutions.

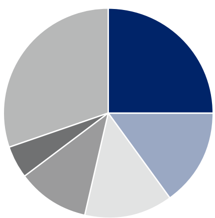
Bank accounts

- Foreign currency bank accounts can be held by the following resident persons or entities in Colombia: companies located in free trade areas, international transport companies, travel agencies, port and airport service companies, non-resident companies and their employees, multilateral entities and their employees as well as diplomatic missions.
- Residents can hold foreign currency accounts overseas, although certain transactions (i.e. debt payments, investments in financial assets, purchases of derivatives and trade-related transactions) can only be effected on accounts registered with the central bank.
- Non-resident companies can hold local currency and foreign currency bank accounts in Colombia. However, COP accounts can only be used for trade-related operations.

Trade information

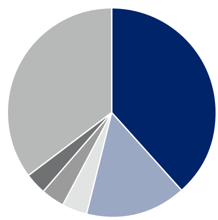
Key trading partners

Imports by origin



USA	25.0%
China	15.0%
EU	13.7%
Mexico	11.1%
Brazil	5.0%
Other	30.2%

Exports by destination



USA	38.5%
EU	15.6%
Chile	3.9%
China	3.5%
Panama	3.4%
Other	35.1%

Source: WTO, September 2012

Principal exports

Petroleum, coffee, coal, nickel, emeralds, apparel, bananas and cut flowers.

Documentation

Imports

- Commercial invoice (with complete description of goods to be imported), bill of lading, packing list and, sometimes, a certificate of origin.
- Importers must also file a customs declaration with DIAN and provide transport documentation.
- An additional sanitary certificate from the National Institute for Surveillance of Foods and Medicines (www.invima.gov.co) is required for imports of processed foods, cosmetics and insecticides.
- Most imports equal to or exceeding USD 5,000 also require an (Andean) customs value declaration (*declaración de valor en Aduanas*).

Exports

- Commercial invoice (with complete description of goods to be exported), bill of lading, packing list and, sometimes, a certificate of origin.

Licences

Imports

- Most products can be imported freely upon registration with the Ministry of Trade, Industry and Tourism.
- Armaments, ammunition and explosives, pharmaceutical and chemical products, poultry parts, tyres, items that claim customs duty exemptions, second-hand and irregular goods, goods subject to the annual licensing system and goods imported by official institutions, with the exception of petrol, urea and other fuels, require import licences.

Colombia

Exports

- A permit from the National Federation of Coffee Growers is required for exporting coffee.
- Export licences with quotas: standing cattle and substances that deplete the ozone layer.

Tariffs/Taxes

Imports

- Colombia implements the ad valorem common external tariff (CET) of the Andean Community to its imports. The average tariff applied is 6.8 percent.
- VAT of 16 percent is applied to most imports. VAT of 16, 20, 35, 45 or 60 percent is applied to vehicles.
- Most imports are subject to a 1.2 percent customs surcharge (special customs services tax).
- Locally produced raw materials and intermediate goods are subject to tariffs of between 5 and 10 percent; finished and consumer goods are subject to tariffs of 15 percent; cars are subject to a 35 percent tariff; and most agricultural products are subject to a 20 percent tariff.

Exports

- Generally none.
- Taxes of 0.6, 1 and 1.6 percent are applied to the exploitation of coal, natural gas and nickel respectively.

Financing requirements for imports/exports

- Neither exports nor imports are subject to financing requirements.

Prohibited items

Imports

- Items that may harm public health or national security, certain used goods and second-hand clothing, weapons, narcotic substances, and toxic and environmentally hazardous waste.

Exports

- Archaeological artefacts and endangered species.

Czech Republic

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	217 bn
GDP per capita (USD)	20,615
GDP volume growth (year-on-year)	+ 1.9%
Population	10.53m
MMR (end period)	1.17%
Exchange rate CZK / USD (year average)	17.696
BoP (goods, services & income) as % of GDP	– 3.0%

	Trade 2011 (USD billion)	
Goods	Exports	131
	Imports	127
	Net	+ 4
Services	Exports	24
	Imports	19
	Net	+ 5

Source: *IFS*, IMF, January 2013

International/Regional memberships

European Union (EU): since 1 May 2004. The Czech Republic is also a member of the European Economic Area (EEA).

International Monetary Fund (IMF): since 1 January 1993.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- The Czech Republic implements the EU's trade regulations, commercial policies and customs code (ec.europa.eu/trade).
- The Czech Republic trades freely with fellow EEA member states as well as Switzerland.
- The EU has in place bilateral trade agreements with 36 countries and regional trade agreements with a number of trading blocs.
- National export credit insurance provider: Export Guarantee and Insurance Corporation (EGAP — www.egap.cz).
- EGAP, the Ministry of Industry and Trade (www.mpo.cz), the Czech Export Bank (www.ceb.cz) and the national trade promotion agency, CzechTrade (www.czechtrade.cz), together take part in the state export support programme.
- The EU maintains 74 free trade zones, with ten located in the Czech Republic.

Currency and exchange controls

Official currency: Czech koruna (CZK).

Exchange rate arrangement: free floating, but the Czech National Bank (www.cnb.cz) is permitted to intervene to control volatility in the exchange rate.

- The Czech Republic imposes few foreign exchange controls. Controls are imposed by CNB and the Ministry of Finance (www.mfcr.cz).
- The Czech Republic applies controls to financial credits from residents to non-residents if they represent part of a resident insurance company's technical reserves, or if they are granted by resident private pension funds to non-residents other than OECD member state governments or central banks.

Bank accounts

Permission to hold currency accounts

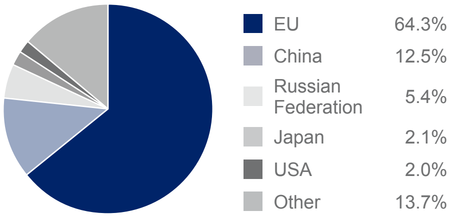
	Within the Czech Republic		Outside the Czech Republic	
	CZK	Foreign currency	CZK	Foreign currency
Resident company	✔	✔	✔	✔
Non-resident company	✔	✔	✔	N/A

Czech Republic

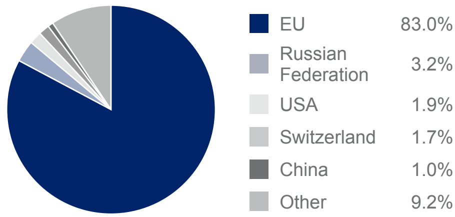
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Machinery, transport equipment, raw materials, fuel and chemicals.

Import/Export documentation

Within the EU: no documentation requirements, but a commercial invoice is typically included.

Outside the EU: commercial invoice, customs declaration, bill of lading, packing list and, sometimes, a certificate of origin.

Licences

Imports

- Import licences with quotas: various agricultural imports (in line with the Common Agricultural Policy); various textile and clothing imports from Belarus, North Korea and Uzbekistan; and various steel imports from Kazakhstan, Russia and Ukraine.

Exports

- Various agricultural products.
- Security licence: certain armaments.

Tariffs/Taxes

Imports

- Tariffs on imports from outside the EU are set according to the EU's common customs code, with higher rates for agricultural imports.

Exports

- None.

Financing requirements for imports/exports

- None.

Prohibited items

- Imports that are prohibited in accordance with EU regulations and UN Security Council resolutions, such as items deemed a threat to fauna and flora and national security.
- Exports that are prohibited in accordance with EU regulations and UN Security Council resolutions.

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	332 bn
GDP per capita (USD)	59,605
GDP volume growth (year-on-year)	+ 0.8%
Population	5.57m
MMR	1.06%
Exchange rate DKK / USD (year average)	5.369
BoP (goods, services & income) as % of GDP	+ 7.5%

	Trade 2011 (USD billion)	
Goods	Exports	111
	Imports	100
	Net	+ 10
Services	Exports	67
	Imports	59
	Net	+ 8

Source: *IFS*, IMF, January 2013

International/Regional memberships

European Union (EU): since 1 January 1973. Denmark is also a member of the European Economic Area (EEA).

International Monetary Fund (IMF): since 30 March 1946.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- Denmark implements the EU's trade regulations, commercial policies and customs code (ec.europa.eu/trade).
- Denmark trades freely with its fellow EEA member states as well as Switzerland.
- The EU has in place bilateral trade agreements with 36 countries and regional trade agreements with a number of trading blocs.
- National export credit insurance provider: Eksport Kredit Fonden (EKF — www.ekf.dk).
- EKF also operates Denmark's state-supported export credit programmes.
- The EU maintains 74 free trade zones, including one in Denmark: the Freeport of Copenhagen.

Currency and exchange controls

Official currency: Danish krone (DKK).

Exchange rate arrangement: conventional pegged arrangement.

- Denmark participates in the European Exchange Rate Mechanism (ERM II), and maintains the spot exchange rate between the DKK and the EUR within margins of 2.25 percent around the central rate. The central rate of the Danish krone is DKK 7.46038 per EUR 1.
- The DKK has fluctuated in a narrow band of less than 1 percent in recent years.
- Denmark does not impose foreign exchange controls.
- Individuals importing or exporting the equivalent of EUR 10,000 or more in domestic or foreign currency from or to a country outside the EU are required to notify customs (www.skat.dk).

Bank accounts

Permission to hold currency accounts

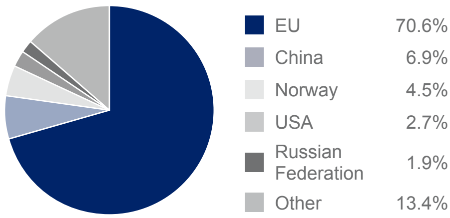
	Within Denmark		Outside Denmark	
	DKK	Foreign currency	DKK	Foreign currency
Resident company	✔	✔	✔	✔
Non-resident company	✔	✔	✔	N/A

Denmark

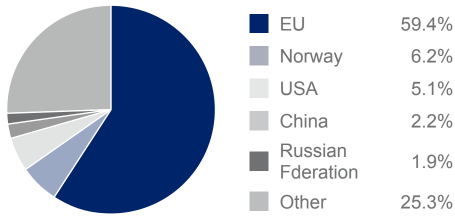
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Machinery and instruments, meat and meat products, dairy products, fish, pharmaceuticals, furniture, and wind turbines.

Import/Export documentation

Within the EU no documentation requirements, but a commercial invoice is typically included.

Outside the EU: commercial invoice, customs declaration, bill of lading, packing list and, sometimes, a certificate of origin.

Licences

Imports

- Most iron and steel imports from outside the EU, and certain agricultural goods.
- Import licences with quotas: certain agricultural goods; textiles imports from Belarus, Uzbekistan and North Korea.

Exports

- Goods/items that are subject to international controls.

Tariffs/Taxes

Imports

- Tariffs on imports from outside the EU are set according to the EU's common customs code, with higher rates for agricultural imports.

Exports

- None.

Financing requirements for imports/ exports

- None.

Prohibited items

- Imports that are prohibited in accordance with EU regulations and UN Security Council resolutions, such as items deemed a threat to fauna and flora and national security.
- Exports that are prohibited in accordance with EU regulations and UN Security Council resolutions.

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	230 bn
GDP per capita (USD)	2,781
GDP volume growth (year-on-year)	+ 1.8%
Population	82.54 m
Discount rate (end period)	9.50%
Exchange rate EGP / USD (year average)	6.0169
BoP (goods, services & income) as % of GDP	– 9.0%

	Trade 2011 (USD billion)	
Goods	Exports	28
	Imports	47
	Net	– 19
Services	Exports	19
	Imports	14
	Net	+ 5

Source: *IFS*, IMF, January 2013 and World Bank Data

International/Regional memberships

Common Market of Eastern and Southern Africa (COMESA): since 6 January 1999.

International Monetary Fund (IMF): since 27 December 1945.

World Trade Organization (WTO): since 30 June 1995.

Government trade policy

- Egypt partly directs its trade policy through a series of bilateral and multilateral trade agreements.
- Egypt is also signatory to COMESA (www.comesa.int), a free trade zone between Egypt and 19 other signatories. COMESA also operates a customs union, standardising customs tariffs for trade with external countries. In 2008 COMESA incorporated the East African Community and theSouthern Africa Development Community.
- Egypt has in place bilateral and regional trade agreements with a number of countries and trading blocs.
- National export credit insurance provider: Export Credit Guarantee Company of Egypt (ECGE — www.ecgegypt.net).
- Other export credit insurance providers: the Islamic Corporation for Insurance of Investments and Export Credits (ICIEC — www.iciec.com) provides investment and export credit insurance for Islamic countries, including Egypt. The ICIEC is part of the Islamic Development Bank; the Arab Investment and Export Credit Guarantee Corporation (DHAMAN — www.dhaman.org) provides export credit insurance and export credit for Arab countries, excluding Comoros.
- Egypt maintains nine free trade zones (Alexandria, Nasr City, Port Said, Suez, Ismailia, Damietta, Shebin El Kom, Keft and Media) and one special economic zone (North West Suez).

Currency and exchange controls

Official currency: Egyptian pound (EGP).

Exchange rate arrangement: floating.

Egypt does not impose foreign exchange controls.

Bank accounts

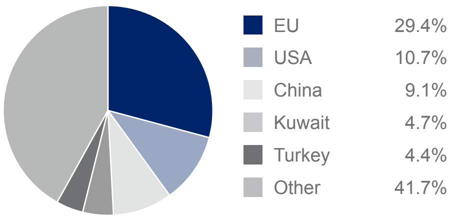
- Resident companies cannot hold local currency (EGP) accounts outside Egypt.
- Resident companies can hold foreign currency bank accounts both within and outside Egypt.
- Non-resident companies can hold local currency and foreign currency bank accounts in Egypt.

Egypt

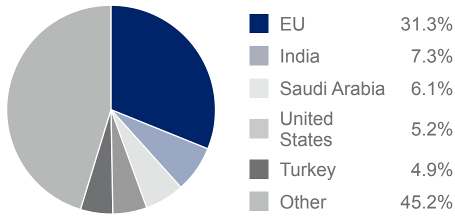
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Crude oil and petroleum products, processed food, cotton, textiles, metal products and chemicals.

Documentation

Imports

- Commercial invoice, customs import declaration, packing list, terminal handling receipts, customs procedural certificate, delivery order, Annex 4 Form (if for trading or production purposes), inspection report, bill of lading and a cargo release order.

Exports

- Bill of lading, certificate of origin, commercial invoice, customs export declaration, customs procedural certificate, export statistical form, packing list and technical standard certificate.

Licences

Imports

- All importers are required to register with the General Organisation for Export and Import Control (GOEIC — www.goeic.gov.eg). To do so, an importer must be an Egyptian national and fulfil other criteria, including demonstrating a proven record of past business activities.

Exports

- Exporters must also register with GOEIC, and must have a clean criminal record as well as a minimum capital requirement of EGP 3,000.

Tariffs/Taxes

Imports

- Import tariffs are split into six tariff groups ranging between 2 percent and 32 percent.

Exports

- None.

Financing requirements for imports/exports

- None.

Prohibited items

Imports

- Used telecommunications material for trading purposes and cars not in their year of manufacture.
- Imports of liquefied petroleum gas, butane and oil are conducted by foreign energy producers via joint ventures with the state-owned Egyptian General Petroleum Corporation and Egyptian Gas Holding Company.

Exports

- The Egyptian government publishes a negative list of prohibited exports.

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	263 bn
GDP per capita (USD)	48,837
GDP volume growth (year-on-year)	+ 2.7%
Population	5.39m
MMR (year average)	1.39%
Exchange rate EUR / USD (year average)	0.7194
BoP (goods, services & income) as % of GDP	+ 0.1%

	Trade 2011 (USD billion)	
Goods	Exports	82
	Imports	79
	Net	+ 3
Services	Exports	27
	Imports	30
	Net	– 2

Source: *IFS*, IMF, January 2013

International/Regional memberships

European Union (EU): since 1 January 1995. Finland is also a member of the European Economic Area (EEA).

International Monetary Fund (IMF): since 14 January 1948.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- Finland implements the EU's trade regulations, commercial policies and customs code (ec.europa.eu/trade).
- Finland trades freely with its fellow EEA member states as well as Switzerland.
- The EU has in place bilateral trade agreements with 36 countries and regional trade agreements with a number of trading blocs.
- National export credit insurance provider: Finnvera (www.finnvera.fi).
- Finnvera also operates Finland's state-supported export credit programmes.
- The EU maintains 74 free trade zones, with four located in Finland.

Currency and exchange controls

Official currency: Euro (EUR).

Exchange rate arrangement: free floating.

Finland does not impose foreign exchange controls.

- Individuals importing or exporting the equivalent of EUR 10,000 or more in domestic or foreign currency from or to a country outside the EU are required to notify the customs authorities.

Bank accounts

Permission to hold currency accounts

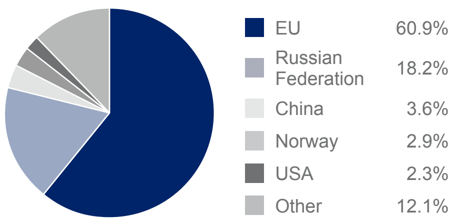
	Within Finland		Outside Finland	
	EUR	Foreign currency	EUR	Foreign currency
Resident company	✔	✔	✔	✔
Non-resident company	✔	✔	✔	N/A

Finland

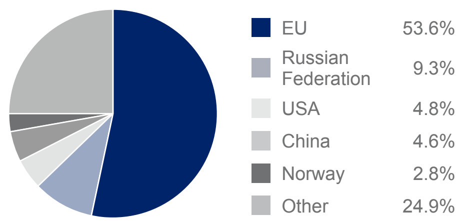
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Electrical and optical equipment, machinery, transport equipment, paper and pulp, chemicals, basic metals, and timber.

Import/Export documentation

Within the EU no documentation requirements, but a commercial invoice is typically included.

Outside the EU: commercial invoice, customs declaration, bill of lading, packing list and, sometimes, a certificate of origin.

Licences

Imports

- Most iron and steel imports from outside the EU and agricultural goods.
- Import licences with quotas: all agricultural goods; certain iron and steel imports from Kazakhstan, Russia and Ukraine; and textiles products and various Chinese industrial products.

Exports

- Goods/items that are subject to international controls.

Tariffs/Taxes

Imports

- Tariffs on imports from outside the EU are set according to the EU's common customs code, with higher rates for agricultural imports.

Exports

- None.

Financing requirements for imports/exports

- None.

Prohibited items

- Imports that are prohibited in accordance with EU regulations and UN Security Council resolutions, such as items deemed a threat to fauna and flora and national security.
- Exports that are prohibited in accordance with EU regulations and UN Security Council resolutions.

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	2,774 bn
GDP per capita (USD)	43,936
GDP volume growth (year-on-year)	+ 1.7%
Population	63.13m
Interest rate (for corporations funding stocks up to one year)	2.87%
Exchange rate EUR / USD (year average)	0.7194
BoP (goods, services & income) as % of GDP	– 0.1%

	Trade 2011 (USD billion)	
Goods	Exports	594
	Imports	682
	Net	– 88
Services	Exports	211
	Imports	191
	Net	+ 20

Source: *IFS*, IMF, January 2013

International/Regional memberships

European Union (EU): founding member since 25 March 1957. France is also a member of the European Economic Area (EEA).

International Monetary Fund (IMF): since 27 December 1945.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- France implements the EU's trade regulations, commercial policies and customs code (ec.europa.eu/trade).
- France trades freely with its fellow EEA member states as well as Switzerland.
- The EU has in place bilateral trade agreements with 36 countries and regional trade agreements with a number of trading blocs.
- National export credit insurance provider: Coface (Compagnie Française d'Assurance pour le Commerce Extérieur — www.coface.fr). It also provides export credit on behalf of the government.
- The EU maintains 74 free trade zones, two of which are located in France (Free Zone of Verdon – Port de Bordeaux and Zone Franche de Guyane).

Currency and exchange controls

Official currency: Euro (EUR).

Exchange rate arrangement: free floating.

France does not impose foreign exchange controls.

Bank accounts

Permission to hold currency accounts

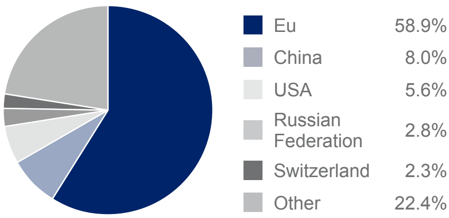
	Within France		Outside France	
	EUR	Foreign currency	EUR	Foreign currency
Resident company	✔	✔	✔	✔
Non-resident company	✔	✔	✔	N/A

France

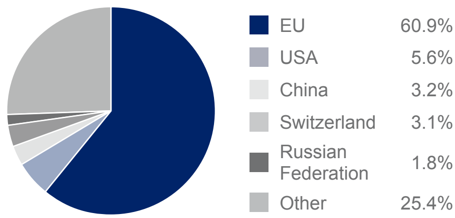
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Machinery and transportation equipment, aircraft, plastics, chemicals, pharmaceutical products, iron and steel, and beverages.

Import/Export documentation

Within the EU: no documentation requirements, but a commercial invoice is typically included.

Outside the EU commercial invoice, customs declaration, bill of lading, packing list and, sometimes, a certificate of origin.

Licences

Imports

- Import licences with quotas: items from outside the EU that are subject to quantitative restrictions; and items of a strategic nature or national interest from fellow EU member states.
- Certain imports from outside the EU require an administrative visa from the Central Customs Administration or appropriate ministry. These include imports from non-ECSC (European Coal and Steel Community) countries, which are listed under the ECSC Treaty.

Exports

- Goods/items that are subject to international controls.
- Certain prohibited exports are permitted under a special licence.

Tariffs/Taxes

Imports

- Tariffs on imports from outside the EU are set according to the EU's common customs code, with higher rates for agricultural imports.

Exports

- Tariffs apply to works of art, antiques, jewellery and precious metals.

Financing requirements for imports/ exports

- None.

Prohibited items

- Imports that are prohibited in accordance with EU regulations and UN Security Council resolutions, such as items deemed a threat to fauna and flora and national security.
- Exports that are prohibited in accordance with EU regulations and UN Security Council resolutions.

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	3,599 bn
GDP per capita (USD)	43,808
GDP volume growth (year-on-year)	+ 3.1%
Population	82.16m
MMR (year average)	0.81%
Exchange rate EUR / USD (year average)	0.7194
BoP (goods, services & income) as % of GDP	+ 6.9%

	Trade 2011 (USD billion)	
Goods	Exports	1,494
	Imports	1,273
	Net	+ 220
Services	Exports	267
	Imports	305
	Net	– 38

Source: *IFS*, IMF, January 2013

International/Regional memberships

European Union (EU): founding member since 25 March 1957. Germany is also a member of the European Economic Area (EEA).

International Monetary Fund (IMF): since 14 August 1952.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- Germany implements the EU's trade regulations, commercial policies and customs code (ec.europa.eu/trade).
- Germany trades freely with its fellow EEA member states as well as Switzerland.
- The EU has in place bilateral trade agreements with 36 countries and regional trade agreements with a number of trading blocs.
- National export credit insurance provider: Euler Hermes Credit Insurance (Euler Hermes Kreditversicherung — www.eulerhermes.de).
- The Federal Government's Export Credit Guarantee Scheme and Investment Guarantee Scheme (www.agaportal.de) are administered by Euler Hermes and PricewaterhouseCoopers Deutschland.
- The EU maintains 74 free trade zones, including five located in Germany: the free ports of Bremerhaven, Cuxhaven, Deggendorf, Duisburg and Hamburg.

Currency and exchange controls

Official currency: Euro (EUR).

Exchange rate arrangement: free floating.

Germany does not impose foreign exchange controls.

- Germany applies controls to financial credits from resident pension funds to non-residents from outside the EU if they account for over 5 percent of the resident's guaranteed assets or 20 percent of the resident's other restricted assets.

Bank accounts

Permission to hold currency accounts

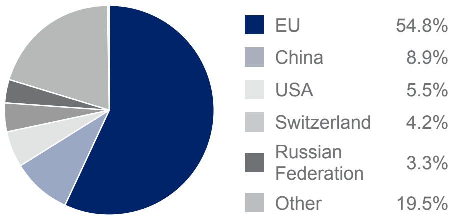
	Within Germany		Outside Germany	
	EUR	Foreign currency	EUR	Foreign currency
Resident company	✔	✔	✔	✔
Non-resident company	✔	✔	✔	N/A

Germany

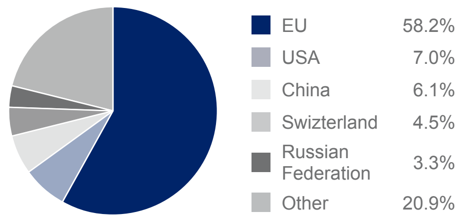
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Machinery, vehicles, chemicals, electrical and electronic equipment, metals and manufactures, pharmaceuticals, foodstuffs, and textiles.

Import/Export documentation

Within the EU: no documentation requirements, but a commercial invoice is typically included.

Outside the EU: commercial invoice, customs declaration, bill of lading, packing list and, sometimes, a certificate of origin.

Licences

Imports

- Import licences with quotas: various textiles and steel imports from outside the EU.

Exports

- Goods/items that are subject to international controls.
- Military equipment and dual-use items.

Tariffs/Taxes

Imports

- Tariffs on imports from outside the EU are set according to the EU's common customs code, with higher rates for agricultural imports.

Exports

- None.

Financing requirements for imports/exports

- None.

Prohibited items

- Imports that are prohibited in accordance with EU regulations and UN Security Council resolutions, such as items deemed a threat to fauna and flora and national security.
- Exports that are prohibited in accordance with EU regulations and UN Security Council resolutions.

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	290 bn
GDP per capita (USD)	25,447
GDP volume growth (year-on-year)	– 7.1%
Population	11.39m
Interest rate (for corporations funding stocks up to one year)	7.15%
Exchange rate EUR / USD (year average)	0.7194
BoP (goods, services & income) as % of GDP	– 10.1%

	Trade 2011 (USD billion)	
Goods	Exports	28
	Imports	66
	Net	– 38
Services	Exports	40
	Imports	20
	Net	+ 21

Source: *IFS*, IMF, January 2013

International/Regional memberships

European Union (EU): since 1 January 1981. Greece is also a member of the European Economic Area (EEA).

International Monetary Fund (IMF): since 27 December 1945.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- Greece implements the EU's trade regulations, commercial policies and customs code (ec.europa.eu/trade).
- Greece trades freely with its fellow EEA member states as well as Switzerland.
- The EU has in place bilateral trade agreements with 36 countries and regional trade agreements with a number of trading blocs.
- National export credit insurance provider: Export Credit Insurance Organisation (ECIO — www.oaep.gr).
- The EU maintains 74 free trade zones, including four located in Greece: Piraeus, Thessaloniki, Heraklion and Platigiali.

Currency and exchange controls

Official currency: Euro (EUR).

Exchange rate arrangement: free floating.

Greece does not impose foreign exchange controls.

Greece applies controls to financial credits and loans from resident insurance companies to non-residents from outside the EU if they represent part of the insurance company's technical reserves.

Bank accounts

Permission to hold currency accounts

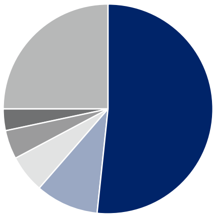
	Within Greece		Outside Greece	
	EUR	Foreign currency	EUR	Foreign currency
Resident company	✔	✔	✔	✔
Non-resident company	✔	✔	✔	N/A

Greece

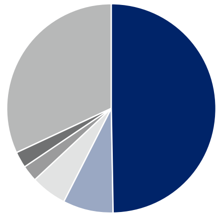
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Food and beverages, manufactured goods, petroleum products, chemicals, and textiles.

Import/Export documentation

Within the EU: no documentation requirements, but a commercial invoice is typically included.

Outside the EU: commercial invoice, customs declaration, bill of lading, packing list and, sometimes, a certificate of origin.

Licences

Imports

- Medicines, narcotics and motion picture films.
- Specific goods/items from countries under EU surveillance.

Exports

- Goods/items that are subject to international controls.

Tariffs/Taxes

Imports

- Tariffs on imports from outside the EU are set according to the EU's common customs code, with higher rates for agricultural imports.

Exports

- None.

Financing requirements for imports/exports

- None.

Prohibited items

- Imports that are prohibited in accordance with EU regulations and UN Security Council resolutions, such as items deemed a threat to fauna and flora and national security.
- Exports that are prohibited in accordance with EU regulations and UN Security Council resolutions.

Economic and trade overview

Key figures

Economy 2011	
GDP USD	249 bn
GDP per capita USD	34,914
GDP volume growth (year-on-year)	+ 4.9%
Population	7.12m
MMR (year average)	0.13%
Exchange rate HKD / USD (year average)	7.784
BoP (goods, services & income) as % of GDP	+ 7.5%

	Trade 2011 (USD billion)	
Goods	Exports	438
	Imports	447
	Net	– 9
Services	Exports	93
	Imports	74
	Net	+ 19

Source: *IFS*, IMF, January 2013

International/regional memberships

Asia-Pacific Economic Cooperation (APEC): since 12–14 November 1991.

World Trade Organization: since 1 January 1995.

Government trade policy

- Hong Kong follows a free trade policy, with controls only existing for national security or similar reasons. No tariffs are applied to exports or imports.
- A Closer Economic Partnership Agreement (CEPA) with China has given Hong Kong-based companies access to markets in mainland China, free from tariffs, since 2003.
- National export credit insurance provider: the Hong Kong Export Credit Insurance Corporation (ECIC — www.hkecic.com).
- As Hong Kong follows a policy of free trade, there is no need for free trade or special economic zones.

Currency and exchange controls

Official currency: Hong Kong dollar (HKD).

Exchange rate arrangement: currency board system. The system uses a monetary base that is matched by USD reserves at an exchange rate of HKD 1 to USD 7.80. Trading is permitted to fluctuate between USD 7.75 and 7.85 per HKD 1.

- Hong Kong's monetary base is comprised of notes and coins, outstanding Exchange Fund bills and notes, and the aggregate balance of banks' clearing accounts held at the Hong Kong Monetary Authority (HKMA — www.info.gov.hk/hkma).
- The HKMA is responsible for maintaining the stability of the HKD through the linked exchange rate mechanism.
- Hong Kong does not apply exchange controls.

Bank accounts

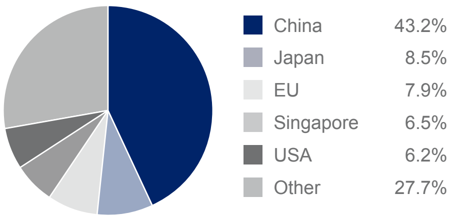
- Resident companies can hold local currency (HKD) bank accounts outside Hong Kong.
- Resident companies can hold foreign currency bank accounts both within and outside Hong Kong.
- Non-resident companies can hold local currency bank accounts both within and outside Hong Kong.
- Non-resident companies can hold foreign currency bank accounts in Hong Kong.

Hong Kong

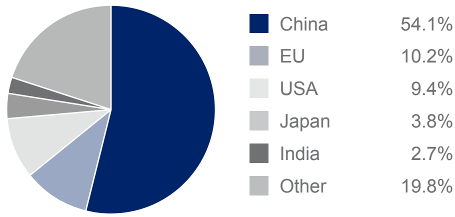
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Electrical machinery and appliances, textiles, apparel, footwear, watches and clocks, toys, plastics, precious stones and printed material.

Documentation

Imports & exports

- Bill of lading, cargo release order, commercial invoice, packing list and, sometimes, a certificate of origin.

Licences

Imports

- Dutiable commodities, such as tobacco and strong alcohol, are licensed by the Customs and Excise Department (www.customs.gov.hk).
- Where an import licence is required (rice, some chemicals, textiles and to protect public health, the environment or national security), it is issued by the Director General of Trade and Industry (www.stc.tid.gov.hk).

Exports

- Some goods require licences for the protection of public health or national security, as do some textile products.
- The Director General of Trade and Industry issues export licences in Hong Kong.

Tariffs/Taxes

Imports

- Excise tax applies to alcohol, tobacco, hydrocarbon oils and methyl alcohol.

Exports

- None.

Financing requirements for imports/exports

- None.

Prohibited items

- Imports that are prohibited for reasons such as national security, public health or environmental protection.
- Exports that are prohibited for reasons such as national security, public health or endangered animals.

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	139 bn
GDP per capita (USD)	13,911
GDP volume growth (year-on-year)	+ 1.4%
Population	9.97m
Discount interest rate (end period)	7.00%
Exchange rate HUF / USD (year average)	201.06
BoP (goods, services & income) as % of GDP	+ 0.5%

	Trade 2011 (USD billion)	
Goods	Exports	99
	Imports	95
	Net	+ 4
Services	Exports	22
	Imports	17
	Net	+ 5

Source: *IFS*, IMF, January 2013

International/Regional memberships

European Union (EU): since 1 January 2004. Hungary is also a member of the European Economic Area (EEA).

International Monetary Fund (IMF): since 6 May 1982.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- Hungary implements the EU's trade regulations, commercial policies and customs code (ec.europa.eu/trade).
- Hungary trades freely with its fellow EEA member states as well as Switzerland.
- The EU has in place bilateral trade agreements with 36 countries and regional trade agreements with a number of trading blocs.
- National export credit insurance provider: Hungarian Export Credit Insurance Company (MEHIB — www.mehib.hu).
- The state-owned Hungarian Export-Import Bank (Eximbank — www.eximbank.hu) provides state-supported export finance, albeit only for exports that are Hungarian-made.
- The EU maintains 74 free trade zones, though none is located in Hungary.

Currency and exchange controls

Official currency: Hungarian forint (HUF).

Exchange rate arrangement: free floating.

Hungary does not impose foreign exchange controls.

- Hungary applies controls to financial credits in the form of mortgages from resident companies to non-residents if the collateral is located overseas and the mortgage is to represent part of an insurance company's security capital.
- Controls are also applied to resident purchases of securities from countries outside the EEA and OECD (Organisation for Economic Co-operation and Development) if the assets are to represent part of an insurance company's technical provisions cover.

Bank accounts

Permission to hold currency accounts

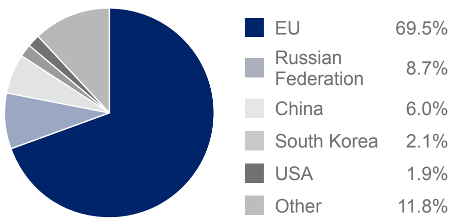
	Within Hungary		Outside Hungary	
	HUF	Foreign currency	HUF	Foreign currency
Resident company	✔	✔	✔	✔
Non-resident company	✔	✔	✔	N/A

Hungary

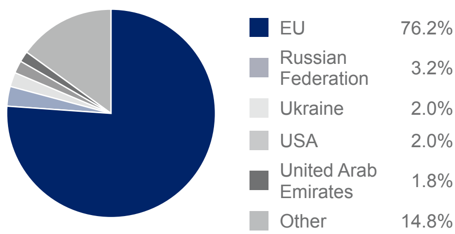
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Machinery and equipment, other manufactures, food products and raw materials.

Import/Export documentation

Within the EU: no documentation requirements, but a commercial invoice is typically included.

Outside the EU: commercial invoice, customs declaration, bill of lading, packing list and, sometimes, a certificate of origin.

Licences

Imports

- Approximately 5 percent of imported items, including agricultural products, military equipment, dual-use items and certain drugs.

Exports

- Goods/items that are subject to international controls.

Tariffs/Taxes

Imports

- Tariffs on imports from outside the EU are set according to the EU's common customs code, with higher rates for agricultural imports.

Exports

- None.

Financing requirements for imports/exports

- None.

Prohibited items

- Imports that are prohibited in accordance with EU regulations and UN Security Council resolutions, such as items deemed a threat to fauna and flora and national security.
- Exports that are prohibited in accordance with EU regulations and UN Security Council resolutions.

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	1,898 bn
GDP per capita (USD)	1,528
GDP volume growth (year-on-year)	+ 6.5%
Population	1,241.49m
MMR (year average)	8.80%
Exchange rate INR / USD (year average)	46.670
BoP (goods, services & income) as % of GDP	– 6.4%

	Trade 2011 (USD billion)	
Goods	Exports	299
	Imports	416
	Net	– 116
Services	Exports	137
	Imports	125
	Net	+ 13

Source: *IFS*, IMF, January 2013

International/regional memberships

South Asian Association for Regional Cooperation (SAARC): since 8 December 1985.

International Monetary Fund (IMF): since 27 December 1945.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- India has pursued trade liberalisation in recent years, though significant trade restrictions and controls remain. It has also actively pursued an export support programme over the past several years with a target to increase its share of global trade to 5 percent by 2020.
- India has bilateral trade agreements with several countries/trading blocs, including Singapore, Chile, Afghanistan, Bhutan, South Korea, Nepal, Sri Lanka, SAFTA (the South Asian Free Trade Area), ASEAN (the Association of Southeast Asian Nations) and Mercosur (Mercado Común del Sur / the Southern Cone Common Market).
- National export credit insurance provider: Export Credit Guarantee Corporation of India (ECGC — www.ecgc.in).
- The Reserve Bank of India (RBI — www.rbi.org.in) operates India's state-supported, short-term export credit programme.
- The Export-Import Bank of India (EXIM Bank — www.eximbankindia.com) operates India's state-supported, long-term export credit programme.
- India maintains 158 Special Economic Zones (http://sezindia.nic.in), in which export-promoting companies can be foreign owned. Exporters based in these zones benefit from tax concessions for up to 15 years.

Currency and exchange controls

Official currency: Indian rupee (INR).

Exchange rate arrangement: floating.

India does impose some foreign exchange controls, which are administered by the RBI.

- Residents and non-residents can only enter into forward foreign exchange contracts using Authorised Dealers (ADs), which are banks licensed to deal in the foreign exchange market. Residents are limited to dealing in forward contracts up to a limit set as the higher of either the company's most recent annual turnover or its three-year average turnover.
- Relevant documentation must support any foreign exchange payment for imports with a value over USD 200,000 or the equivalent in foreign currency.
- All export proceeds must be repatriated within 12 months of the shipment of goods, unless an exporter has been granted prior permission from the RBI. All foreign exchange receipts may be kept by an export-

oriented entity if they are held in a foreign currency account based in India.

- The RBI, ADs or the EXIM Bank can allow exporters to open and maintain foreign currency accounts in the currency of their choice, with inter-project transferability of funds, in any currency or country.
- All invisible transaction and current transfer proceeds must be repatriated.
- Commercial credits with maturities of six months are permitted from residents to non-residents, but approval is required for longer maturities.

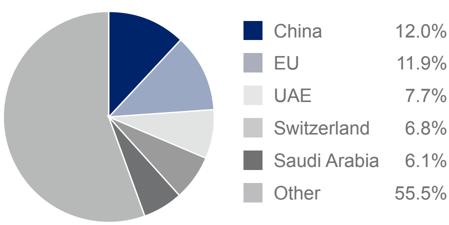
Bank accounts

- Resident companies cannot hold local currency (INR) bank accounts outside India.
- Approval is usually needed from the RBI for resident companies wanting to open foreign currency accounts, within or outside India.
- Foreign currency accounts are available domestically to residents holding an account with an AD. These accounts are non-interest bearing and can be used for funds resulting from the export of goods and services, legal transactions with non-residents in India and the remitting of balances from travel abroad.
- Residents are permitted to open and hold foreign currency bank accounts outside India for current and capital account transactions so long as they remit not more than USD 200,000 or its equivalent in foreign currency each financial year. Remittances over USD 200,000 or for other purposes require RBI approval.
- Non-resident companies can hold local currency bank accounts and foreign currency bank accounts in India.

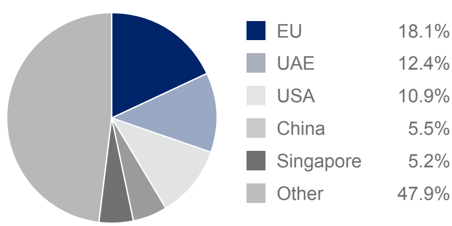
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Petroleum products, gems and jewellery, machinery, iron and steel, chemicals, vehicles and apparel.

Documentation

Imports

- A certificate of origin, cargo release order, bill of entry, technical standard certificate, commercial invoice, foreign exchange control form, product manual, terminal handling receipts, inspection reports and a packing list.

Exports

- A certificate of origin, bill of lading and packing list, commercial invoice, foreign exchange control form, inspection report, shipping bill, technical standard certificate and a terminal handling receipt.
- Goods and software with a value of over USD 25,000 must also be declared to the customs authority (www.cbec.gov.in).

Licences

Imports

- Aircraft, some animals, arms, antiques, plants, seeds and meat. (Licences are obtained from the Directorate General of Foreign Trade — www.dgft.org.)

Exports

- Goods covered by international treaty obligations, such as those regarding security and the environment.
- Goods restricted unless carried with a licence include textiles, animals, chemicals and agricultural items.

Tariffs/Taxes

Imports

- Most non-agricultural goods imported to India are subject to a maximum import tariff of 10 percent.
- Cigars, cheroots and cigarillos are subject to a 60 percent import duty.

Exports

- Taxation rates of between 10 and 60 percent exist for the export of certain animal skins, leathers and hides.

Financing requirements for imports/exports

- None.

Prohibited items

Imports

- Precious and semi-precious stones, seeds, plants, animals, drugs, chemicals and pharmaceuticals.

Exports

- Items prohibited in accordance with international treaty obligations and UN Security Council resolutions.

Indonesia

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	847 m
GDP per capita (USD)	3,495
GDP volume growth (year-on-year)	+ 6.5%
Population	242.23 m
MMR (year average)	5.62%
Exchange rate IDR / USD (year average)	8,770.4
BoP (goods, services & income) as % of GDP	– 2.5%

	Trade 2011 (USD billion)	
Goods	Exports	192
	Imports	157
	Net	+ 35
Services	Exports	21
	Imports	33
	Net	– 11

Source: *IFS*, IMF, January 2013

International/regional memberships

Asia-Pacific Economic Cooperation (APEC): since 6–7 November 1989.

Association of Southeast Asian Nations (ASEAN): founding member since 8 August 1967.

International Monetary Fund (IMF): since 21 February 1967.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- Indonesia pursues many of its trade objectives through its membership of ASEAN (www.aseansec.org).
- As a member of ASEAN, Indonesia is committed to the ASEAN Free Trade Area (AFTA) Common Effective Preferential Tariff (CEPT) scheme. This lowers all intra-regional tariffs on trade between Indonesia and other ASEAN member states (Brunei Darussalam, Cambodia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam) to between zero and 5 percent.
- ASEAN member states have a number of free trade agreements (FTAs) with regional economies such as South Korea, China, Japan, India, and Australia and New Zealand. ASEAN is also in negotiations for an FTA with the EU.
- National export credit insurance provider: Indonesia Export Credit Agency (Asuransi ASEI — www.asei.co.id).
- Bank Ekspor Indonesia (BEI) provides state-supported export credit finance.
- Indonesia has four free trade zones. Companies that choose to operate within these zones are exempt from VAT, import duties and luxury tax.

Currency and exchange controls

Official currency: Indonesian rupiah (IDR).

Exchange rate arrangement: free floating.

Indonesia does impose foreign exchange controls, which are administered by Bank Indonesia (www.bi.go.id).

- An underlying economic transaction is required to support foreign currency purchased against the rupiah if the value exceeds USD 100,000 per month.
- Forward contracts against IDR can be offered by domestic banks to non-residents up to a maximum value of USD 1 million, but they must be supported by some underlying investment activity. Rates for forward foreign exchange are determined by freely floating market rates.
- A customs declaration and approval from Bank Indonesia (www.bi.go.id/web/en) must accompany any import and export of domestic currency with a value in excess of IDR 100 million.

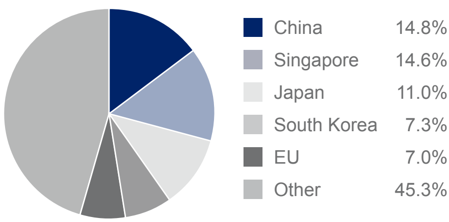
Bank accounts

- Resident companies cannot hold local currency (IDR) bank accounts outside Indonesia.
- Resident companies can hold foreign currency bank accounts both within and outside Indonesia.
- Non-residents are permitted to hold local currency accounts domestically but are only permitted to hold current and time deposit foreign currency accounts.

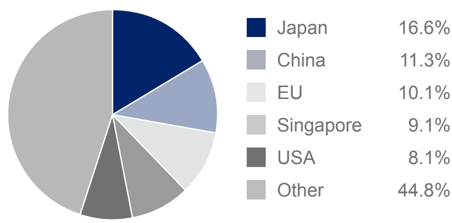
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Oil and gas, electrical appliances, plywood, textiles and rubber.

Documentation

Imports

- Commercial invoice, packing list, terminal handling receipts, import declaration form (PIB), insurance document, bill of lading and a cargo release order.

Exports

- Export declaration form (PEB), packing list, bill of lading and a commercial invoice.

Licences

Imports

- Most goods imported into Indonesia require an import licence.
- In most cases, goods fall under the terms of a general licence.
- Importers of certain agricultural produce and foodstuffs must be designated by the Ministry of Trade (www.kemendag.go.id).

Exports

- The Ministry of Trade provides trade permits to export companies in Indonesia.
- Some commodities can only be exported from Indonesia with prior permission from the Ministry of Trade; approval may be temporarily withdrawn to maintain domestic supply levels of certain products or to address price stability issues.

Tariffs/Taxes

Imports

- As a member of the ASEAN and participant in the AFTA, Indonesia is subject to the Common Effective Preferential Tariff (CEPT) scheme, which applies tariff rates of between zero and 5 percent to goods with at least 40 percent ASEAN content if traded within ASEAN. The CEPT covers around 98 percent of all tariffs.
- Non-ASEAN country import tariffs are implemented in accordance with AFTA and WTO regulations. Capital goods and raw materials are subject to a 5 percent tariff.

Indonesia

Exports

- Sawed and processed timber and certain other products are subject to export taxes on an ad valorem basis with rates between 5 and 30 percent.

Financing requirements for imports/exports

- Import financing requirements are determined by individual commercial banks.

Prohibited items

Imports

- Items that threaten public security, morality or the country's flora and fauna, and rice and most second-hand items.
- Some countries are subject to trade embargoes by the Indonesian government.

Exports

- Low-quality and unprocessed grades of rubber, scrap metal and some culturally important antiques.

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	115 bn
GDP per capita (USD)	3,501
GDP volume growth (year-on-year)	10%
Population	32.96 m
Interest rate	NA
Exchange rate IQD / USD (year average)	1,170.0
BoP (goods, services & income) as % of GDP	20%

	Trade 2011 (USD billion)	
Goods	Exports	83
	Imports	54
	Net	+29
Services	Exports	2
	Imports	8
	Net	– 6

Sources: IFS, IMF January 2013 and WTO September 2012

International/Regional memberships

Arab Monetary Fund: since 27 December 1945

Council of Arab Economic Unity: since 3 June 1957

World Trade Organization (WTO): Iraq is not a full member of the WTO; it has observer status.

Government trade policy

- The UN lifted civilian trade sanctions on Iraq in 2003. In 2004, Iraq began the process of seeking full membership in the WTO but the accession process has yet to make much progress.
- In 2008, Iraq and the USA signed a trade agreement. Iraq is currently party to nine separate multiparty agreements within the Arab League, as well as to 32 other bilateral agreements worldwide. In May 2012, Iraq and the EU signed a partnership and cooperation agreement.
- Iraq is a member of the Greater Arab Free Trade Area (GAFTA), which has eliminated trade tariffs between 17 member states.
- Iraq currently has three free trade zones, which offer elimination of some taxes payable on imports and exports. Iraqi law permits the exercise of all industrial, trade and services activities in the free zones with exception of some sectors that are prohibited.

Currency and exchange controls

Official currency: Iraqi dinar (IQD)

Exchange rate arrangement: stabilised arrangement against the USD at a rate of IQD 1,166 per USD 1. There is no exchange tax and no exchange subsidy.

Bank accounts

- Residents of Iraq and other Arab countries and both domestic and foreign companies can hold foreign currency accounts in Iraq with some restrictions.
- Residents can hold foreign currency accounts abroad. Residents are not permitted to hold local currency (IQD) accounts abroad. Local currency accounts are convertible into foreign currency.
- Non-residents can hold local and foreign currency accounts in Iraq with some restrictions.

Iraq

Trade information

Key trading partners

Not available.

Principal exports

Crude oil, crude material excluding food, fuels and live animals.

Documentation

Imports

- Bill of lading, certificate of origin, commercial invoice, customs export declaration, export licence, inspection report, packing list, pre-shipment inspection clean report of findings, technical standard/health certificate and terminal handling receipts.

Exports

- Bill of lading, certificate of origin, commercial invoice, customs export declaration, export licence, inspection report, packing list, pre-shipment inspection clean report of findings, technical standard/health certificate and terminal handling receipts.

Licences

Imports

- All goods may be imported except for weapons and drugs.

Exports

- Licences for exports are granted by the Ministry of Trade.

Tariffs/Taxes

Imports

- A flat reconstruction surcharge of 5 percent is levied on all imports with the exception of clothes, food, medicines, medical equipment, books and humanitarian goods. Import duties are not applied to foreign companies managing development projects or to imports from foreign governments, coalition forces and non-profit organisations.

Exports

- There are no taxes charged on exports from Iraq.

Financing requirements for imports/exports

- There are no financing requirements for imports or exports.

Prohibited items

Imports

- A negative list is in operation. Some commodity imports are prohibited for safety and health of fauna and flora, for national security, and for moral reasons. Imports from Israel are prohibited.

Exports

- A negative list is in operation. Commodity exports may be prohibited if domestic demand exceeds supply. Exports to Israel are prohibited.

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	221 bn
GDP per capita (USD)	48,778
GDP volume growth (year-on-year)	+ 1.4%
Population	4.53m
MMR (year average)	1.14%
Exchange rate EUR / USD (year average)	0.7194
BoP (goods, services & income) as % of GDP	+ 1.9%

	Trade 2011 (USD billion)	
Goods	Exports	126
	Imports	67
	Net	+ 60
Services	Exports	105
	Imports	116
	Net	– 11

Source: *IFS*, IMF, January 2013

International/Regional memberships

European Union (EU): since 1 January 1973. Ireland is also a member of the European Economic Area (EEA).

International Monetary Fund (IMF): since 8 August 1957.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- Ireland implements the EU's trade regulations, commercial policies and customs code (ec.europa.eu/trade).
- Ireland trades freely with its fellow EEA member states as well as Switzerland.
- The EU has in place bilateral trade agreements with 36 countries and regional trade agreements with a number of trading blocs.
- Export credit insurance is only offered in Ireland from private insurance companies, such as Atradius, Coface and Euler Hermes.
- The EU maintains 74 free trade zones, including two located in Ireland: the Ringaskiddy Free Port and Shannon Free Zone.

Currency and exchange controls

Official currency: Euro (EUR).

Exchange rate arrangement: free floating.

Ireland does not impose foreign exchange controls.

Bank accounts

Permission to hold currency accounts

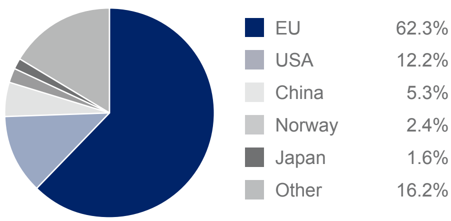
	Within Ireland		Outside Ireland	
	EUR	Foreign currency	EUR	Foreign currency
Resident company	✔	✔	✔	✔
Non-resident company	✔	✔	✔	N/A

Ireland

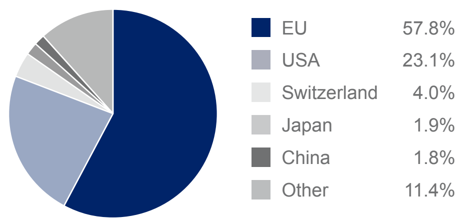
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Machinery and equipment, computers, chemicals, pharmaceuticals, food products, and animal products.

Import/Export documentation

Within the EU: no documentation requirements, but a commercial invoice is typically included.

Outside the EU: commercial invoice, customs declaration, bill of lading, packing list and, sometimes, a certificate of origin.

Licences

Imports

- Import licences with quotas: textile products, steel, footwear, ceramic products and various agricultural products (in line with the Common Agricultural Policy) from outside the EU.
- Special import licences: military items and certain drugs.

Exports

- Goods/items that are subject to international controls, e.g. military equipment and dual-use items.

Tariffs/Taxes

Imports

- Tariffs on imports from outside the EU are set according to the EU's common customs code, with higher rates for agricultural imports.

Exports

- None.

Financing requirements for imports/exports

- None.

Prohibited items

- Imports that are prohibited in accordance with EU regulations and UN Security Council resolutions, such as items deemed a threat to fauna and flora and national security.
- Exports that are prohibited in accordance with EU regulations and UN Security Council resolutions.

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	2,197 bn
GDP per capita (USD)	36,138
GDP volume growth (year-on-year)	+ 0.4%
Population	60.79m
MMR (year average)	2.73%
Exchange rate EUR / USD (year average)	0.7194
BoP (goods, services & income) as % of GDP	– 2.1%

	Trade 2011 (USD billion)	
Goods	Exports	503
	Imports	523
	Net	– 20
Services	Exports	105
	Imports	118
	Net	– 13

Source: *IFS*, IMF, January 2013

International/Regional memberships

European Union (EU): founding member since 25 March 1957. Italy is also a member of the European Economic Area (EEA).

International Monetary Fund (IMF): since 27 March 1947.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- Italy implements the EU's trade regulations, commercial policies and customs code (ec.europa.eu/trade).
- Italy trades freely with its fellow EEA member states as well as Switzerland.
- The EU has in place bilateral trade agreements with 36 countries and regional trade agreements with a number of trading blocs.
- National export credit insurance provider: SACE (Servizi Assicurativi del Commercio Estero — www.sace.it)
- The EU maintains 74 free trade zones, including three located in Italy: Gioia Tauro, Trieste and Venice.

Currency and exchange controls

Official currency: Euro (EUR).

Exchange rate arrangement: free floating.

Italy does not impose foreign exchange controls.

Bank accounts

Permission to hold currency accounts

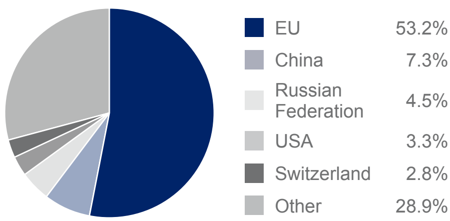
	Within Italy		Outside Italy	
	EUR	Foreign currency	EUR	Foreign currency
Resident company	✔	✔	✔	✔
Non-resident company	✔	✔	✔	N/A

Italy

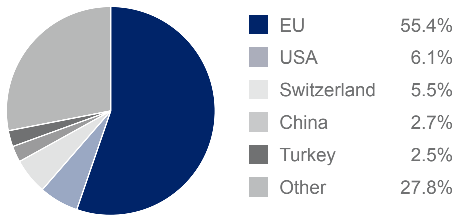
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Engineering products, textiles and clothing, production machinery, vehicles, transport equipment, chemicals, food, beverages, tobacco, minerals, and nonferrous metals.

Import/Export documentation

Within the EU: no documentation requirements, but a commercial invoice is typically included.

Outside the EU: commercial invoice, customs declaration, bill of lading, packing list and, sometimes, a certificate of origin.

Licences

Imports

- Certain textile products from non-EU countries, all textile products and numerous other products originating from China, iron and steel products originating from Kazakhstan and Russia, and potassium chloride originating from Belarus.
- Surveillance documents: certain iron and steel imports.

Exports

- Technological products used in oil extraction and certain agricultural products to be exported outside the EU.

Tariffs/Taxes

Imports

- Tariffs on imports from outside the EU are set according to the EU's common customs code, with higher rates for agricultural imports.

Exports

- None.

Financing requirements for imports/exports

- None.

Prohibited items

- Imports that are prohibited in accordance with EU regulations and UN Security Council resolutions, such as items deemed a threat to fauna and flora and national security.
- Exports that are prohibited in accordance with EU regulations and UN Security Council resolutions.

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	5,869 bn
GDP per capita (USD)	46,392
GDP volume growth (year-on-year)	– 0.5%
Population	126.50m
MMR (year average)	0.80%
Exchange rate JPY / USD (year average)	79.807
BoP (goods, services & income) as % of GDP	+ 2.3%

Trade 2011 (USD billion)		
Goods	Exports	790
	Imports	794
	Net	– 4
Services	Exports	137
	Imports	176
	Net	– 38

Source: *IFS*, IMF, January 2013

International/Regional memberships

Asia-Pacific Economic Cooperation (APEC): since 6–7 November 1989.

International Monetary Fund (IMF): since 13 August 1952.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- Japan's trade policy is primarily focused on developing trade agreements with neighbouring East Asian countries and member states of the Association of Southeast Asian Nations (ASEAN). To this end, Japan endorsed a Free Trade Agreement (FTA) with ASEAN in December 2008.
- National export credit insurance provider: Nippon Export and Investment Insurance (NEXI —nexi.go.jp). The Japan Bank for International Cooperation (JBIC — www.jbic.go.jp) also provides state-supported export credit insurance.
- Japan maintains two free trade zones, both in the Okinawa special economic zone.

Currency and exchange controls

Official currency: Japanese yen (JPY).

Exchange rate arrangement: free floating.

Japan imposes few foreign exchange controls. Most were lifted through the 1998 Foreign Exchange and Foreign Trade Law.

- The Ministries of Finance (www.mof.go.jp) and Economy, Trade and Industry (www.meti.go.jp) or Japan's central bank, the Bank of Japan (BOJ — www.boj.or.jp), administer any remaining foreign exchange controls.
- Customs authorities must notify the Ministry of Finance of all imports/exports of gold weighing more than 1 kg, and all cash, cheques, promissory notes and securities in excess of JPY 1 million.

Bank accounts

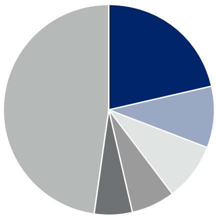
- Resident companies can hold local currency (JPY) bank accounts outside Japan.
- Resident companies can hold foreign currency bank accounts within or outside Japan.
- Non-resident companies can hold local currency bank accounts both within and outside Japan.
- Non-resident companies can hold foreign currency bank accounts in Japan.

Japan

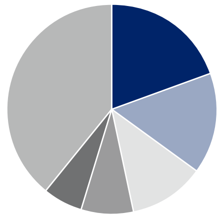
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Motor vehicles, semiconductors, iron and steel products, auto parts, plastic materials, power generating machinery.

Documentation

Imports

- Bill of lading, cargo dispatch document, commercial invoice, customs import declaration and a packing list.

Exports

- Bill of lading, commercial invoice and a customs export declaration.

Licences

Imports

- Some goods that may impact Japanese industry and the wider economy. (An import quota certificate is needed from the Ministry of Economy, Trade and Industry.)

Exports

- Some raw materials for foreign processing and re-importation.

Tariffs/Taxes

Imports

- Five tariff rates are applied to all imports (general, WTO, preferential, least developed country and temporary) depending on the type of item and its country of origin.
- Generally, imports are subject to duties, ranging from 3 to 15 percent, and consumption tax.
- Duties rates can be up to 60 percent, and additional excise duty is often applied to alcohol, petrol and tobacco.

Exports

- None.

Financing requirements for imports/exports

- None.

Prohibited items

Imports

- Items prohibited for national security, or for moral reasons, to protect and intellectual property rights in accordance with UN Security Council resolutions.
- Additional prohibited imports: commodities such as firearms, opium and other narcotics.

Exports

- Items that are prohibited in accordance with UN Security Council resolutions.

Economic and trade overview

Key figures

Economy 2011	
GDP (KZT)	183 bn
GDP per capita (USD)	11,296
GDP volume growth (year-on-year)	+ 6.7%
Population	16.21m
Refinancing rate (end period)	7.50%
Exchange rate KZT / USD (year average)	146.62
BoP (goods, services & income) as % of GDP	+ 7.9%

	Trade 2011 (USD billion)	
Goods	Exports	88
	Imports	41
	Net	+ 47
Services	Exports	5
	Imports	11
	Net	– 6

Source: *IFS*, IMF, January 2013

International/regional memberships

Commonwealth of Independent States (CIS): since 21 December 1991.

Eurasian Economic Community (EurAsEC): since 29 March 1996. Belarus, Kyrgyzstan, Russia and Tajikistan are also members. Uzbekistan is currently suspended.

Organisation of Islamic Cooperation (OIC): since 1995.

International Monetary Fund (IMF): since 15 July 1992.

World Trade Organization (WTO): observer.

Government trade policy

- A customs union between Kazakhstan, Russia and Belarus came into force on 5 July 2010. All remaining customs border controls were lifted on 1 July 2011. The three participants then launched a common economic space on 1 January 2012.
- Kazakhstan has also established free trade agreements with Armenia, Georgia, Kyrgyzstan, Moldova and Ukraine.
- Kazakhstan has signed the unratified CIS Free Trade Zone Agreement (alongside Russia, Ukraine, Belarus, Armenia, Kyrgyzstan, Moldova and Tajikistan).
- National export credit insurance provider: Kazakhstan Export Credit Insurance Corporation (KazExportGarant — www.kecic.kz).
- Kazakhstan operates ten special economic zones (SEZs), which provide favourable conditions for investment.

Currency and exchange controls

Official currency: Kazakhstani tenge (KZT).

Exchange rate arrangement: managed floating.

Kazakhstan applies exchange controls, which are administered by the central bank, the National Bank of Kazakhstan (NBK — www.nationalbank.kz).

- Export proceeds must be credited to authorised bank accounts within time limits stipulated in the terms of the transaction.
- Invisible transactions and current transfers require supporting documentation.
- Residents must notify the NBK when selling securities to non-residents if the transaction exceeds USD 500,000, and when purchasing securities issued by non-residents if the transaction exceeds USD 100,000.
- Commercial or financial credits between residents and non-residents with maturities exceeding 180 days must be registered with the NBK when exceeding USD 100,000 in the case of credits extended from residents to non-residents, and USD 500,000 in the case of credits extended from non-residents to residents.

Kazakhstan

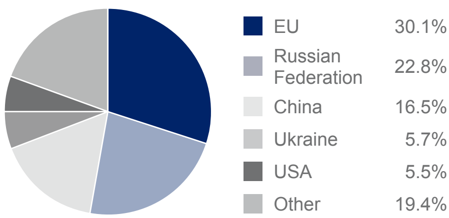
Bank accounts

- Resident companies can hold local currency (KZT) bank accounts outside Kazakhstan.
- Resident companies can hold foreign currency bank accounts both within and outside Kazakhstan.
- Non-resident companies can hold local currency and foreign currency bank accounts in Kazakhstan.

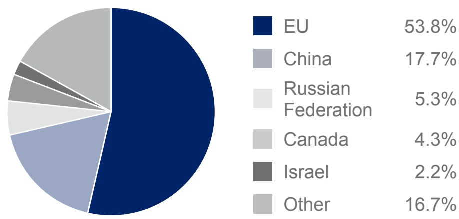
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Oil and oil products, ferrous metals, chemicals, machinery, grain, wool and meat.

Documentation

Imports

- Commercial invoice, customs import declaration, packing list, bill of lading, certificate of origin, inspection report, technical standard certificate, certificate of conformity, cargo release order, terminal handling receipts and a transit document.

Exports

- Commercial invoice, customs export declaration, packing list, bill of lading, certificate of origin, certificate of conformity, terminal handling receipts and a transit document.

Licences

Imports

- Alcohol, medicines, pharmaceuticals and ozone-depleting substances.
- Licences with quotas apply to beef, poultry, pork and unrefined sugar.

Exports

- Certain items are retricted for national security, health and safety, environmental and economic reasons.

Tariffs/Taxes

Imports

- Most imported goods are subject to VAT of 12 percent and customs duties, although there are exceptions.
- Import excise taxes are also applicable for certain goods.
- Some goods may also incur anti-dumping, protection and compensatory duties.

Exports

- Customs duties for exports are applied to goods such as petroleum products, scrap metal and waste, aluminium products, skins and hairs of domestic animals, and railway and rolling stock.

Financing requirements for imports/ exports

- There are no financing requirements for imports or exports.

Prohibited items

Imports

- Imports that are prohibited in accordance with international regulations, and items deemed a threat to fauna and flora and national security.
- Military equipment, liquor, tobacco, precious metals and stones.

Exports

- Exports that are prohibited in accordance with international regulations.

Republic of Korea

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	1,116 bn
GDP per capita (USD)	23,068
GDP volume growth (year-on-year)	+ 3.6%
Population	48.39m
MMR (year average)	3.09%
Exchange rate KRW / USD (year average)	1,108.3
BoP (goods, services & income) as % of GDP	+ 2.6%

	Trade 2011 (USD billion)	
Goods	Exports	553
	Imports	522
	Net	+ 31
Services	Exports	95
	Imports	99
	Net	– 4

Source: *IFS*, IMF, January 2013

International/regional memberships

Asia-Pacific Economic Cooperation (APEC): since 6–7 November 1989.

International Monetary Fund (IMF): since 26 August 1955.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- The South Korean government has pursued a policy of trade liberalisation, removing most barriers to international trade. However, trade with North Korea is still subject to approval from the South Korea Ministry of Unification.
- All trade between South Korea and member states of ASEAN (the Association of Southeast Asian Nations) is now free.
- South Korea has established a number of other bilateral trade agreements and agreed, in principle, to trade agreements with the European Union and India.
- National export credit insurance provider: Korea Trade Insurance Corporation (K-sure — www.keic.or.kr).
- The Export-Import Bank of Korea (Korea Eximbank — www.koreaexim.go.kr/en/) operates South Korea's state-supported export credit programme.

Currency and exchange controls

Official currency: Korean won (KRW).

Exchange rate arrangement: free floating.

South Korea has liberalised many of its foreign exchange controls since 1997, although various controls still apply.

- Cash imports and exports by residents and non-residents over USD 10,000 must be reported to the South Korean customs office.
- Bank of Korea approval (www.bok.or.kr) is required for all individuals' domestic and foreign currency transfers abroad exceeding USD 50,000 or equivalent.
- The proceeds from capital and invisible transactions over the equivalent of USD 500,000 must be repatriated to South Korea within one and a half years or be held overseas for foreign transactions.
- With the exception of trade credits, all financial and commercial credits to residents from non-residents over USD 30 million must be notified to the Ministry of Strategy and Finance (MOSF — www.english.mosf.go.kr).

Bank accounts

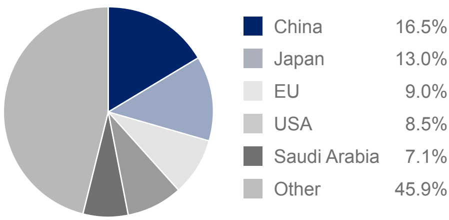
- Resident companies can hold local currency (KRW) bank accounts outside South Korea.
- Resident companies can hold foreign currency bank accounts both within and outside South Korea.

- Non-resident companies can hold three types of local currency bank accounts within South Korea: local currency accounts for domestic settlement, free won accounts for international settlement, and exclusive local currency accounts for investment.
- Non-resident companies can hold foreign currency bank accounts in South Korea.

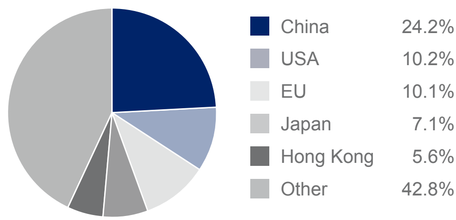
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Semiconductors, wireless telecommunications equipment, motor vehicles, computers, steel, ships and petrochemicals.

Documentation

Imports

- Bill of lading, customs import declaration and delivery order.

Exports

- Packing list, bill of lading and a customs export declaration.

Licences

Imports

- Rice.
- The Korea Trade Commission can recommend quotas for imports that it considers unfair under international trade practice.

Exports

- Most items for export do not require a licence.

Tariffs/Taxes

Imports

- There are 15 products with adjustment tarrifs.
- Anti-dumping duties are applied on 13 products.

Exports

- None.

Financing requirements for imports/ exports

- None.

Prohibited items

Imports

- Items restricted for reasons of national security, economic protection, for moral reasons or to protect the safety of plants and animals.

Exports

- Items restricted for reasons of national security, economic protection, for moral reasons or to protect the safety of plants and animals.
- Export bans are in place for environmental reasons on 11 items.

Libya

Economic and trade overview

Key figures

Economy 2009	
GDP (USD)	70 bn
GDP per capita (USD)	11,183
GDP volume growth (year-on-year)	+ 15.6%
Population (2011)	6.42 m
Discount rate (end 2011)	3.00%
Exchange rate USD / LYD (end 2011)	0.7945
BoP (goods, services & income) as % of GDP	+ 15.6%

	Trade 2010 (USD billion)	
Goods	Exports	49
	Imports	26
	Net	+ 24
Services	Exports	0.4
	Imports	6.1
	Net	– 5.7

Source: *IFS*, IMF, January 2013

International/Regional memberships

Common Market for Eastern and Southern Africa (COMESA): Since 3 June 2005.

International Monetary Fund (IMF): Since 17 September 1958.

World Trade Organization (WTO): Libya is not a full member of the WTO; it has observer status.

Government trade policy

- As part of its WTO accession process, begun in 2004, Libya has liberalised its trade policy over recent years. However, many non-tariff obstacles remain, including service fees on imported goods and a monopoly on some imports. UN trade sanctions against the country were lifted in 2003, followed by the lifting of US unilateral sanctions in 2006.
- Framework trade agreement negotiations began between Libya and the European Union were suspended in 2011. Libya is a member of the Greater Arab Free Trade Area (GAFTA). Trade tariffs between the 17 GAFTA member countries have been eliminated. In 2007 Libya and Egypt formed a bilateral trade and customs agreement, and in 2010 Libya and the USA formed a trade and investment framework agreement.
- Libyan regulations have permitted the creation of free trade zones since. No free trade zones have yet been established.

Currency and exchange controls

Official currency: Libyan dinar (LYD)

Exchange rate arrangement: conventional peg against the IMF special drawing right (SDR) at a rate of LYD 1 per SDR 0.5175. The USD is the intervention currency.

Exchange controls are administered by the Central Bank of Libya (www.cbl.gov.ly).

Bank accounts

- Residents can hold foreign currency accounts domestically and abroad.
- Residents are not permitted to hold LBD accounts abroad.
- Non-residents are permitted to hold domestic currency accounts in Libya with some restrictions.

Trade Information

Key Trading Partners

Not available.

Principal exports

Crude oil, refined petroleum products, natural gas and chemicals.

Documentation

Imports

- Bill of lading, commercial invoice, customs import declaration, certificate of origin and packing list.

Exports

- Bill of lading, commercial invoice, pro forma invoice, certificate of origin and technical standard or health certificate.

Licences

Imports

- No import licences are required but there is a state monopoly on petroleum products and weapons.

Exports

- Export licences are not required except for raw wool, hides and skins and agricultural products. Exports must register with the Ministry of Economy and supply relevant documentation on their exports.

Tariffs/taxes

Imports

- The only import tariff is a 10 percent charge on some tobacco products. A general service fee of between 4 and 10 percent is applied to all imported goods. A consumption tax of between 15 and 25 percent is applied on 81 goods that are produced domestically. All imports from Arab countries are exempt from customs duties, as long as domestic value added is at least 40 percent.

Exports

- Tariffs are applied to some agricultural exports. An export duty of 50 percent is applied on manufactured goods.

Financing requirements for imports/ exports

- Commercial banks in Libya are required by the central bank to impose a minimum cash margin of 15 percent on letters of credit opened for imports.
- There are no financing requirements for exports.

Prohibited items

Imports

- Importers are prohibited from dealing with intermediaries and must deal directly with producers abroad. There are also import bans on four products for religious, health and ecological reasons.
- Imports from Israel are prohibited.

Exports

- Exports of electricity, hides, non-monetary gold (other than for processing abroad), paper products, school supplies, scrap metal and telecommunication services are prohibited. Exports and re-exports of certain agricultural products, including vegetable oils, wheat, wheat flour, coffee, tea, sugar and semolina, are also prohibited.
- All exports to Israel are prohibited.

Luxembourg

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	59 bn
GDP per capita (USD)	113,877
GDP volume growth (year-on-year)	+ 1.7%
Population	0.52m
Interest rate (for corporations funding stocks up to one year)	2.64%
Exchange rate EUR / USD (year average)	0.7194
BoP (goods, services & income) as % of GDP	+ 9.6%

	Trade 2011 (USD billion)	
Goods	Exports	19
	Imports	26
	Net	– 7
Services	Exports	71
	Imports	42
	Net	+ 30

Source: *IFS*, IMF, January 2013

International/Regional memberships

European Union (EU): founding member since 25 March 1957. Luxembourg is also a member of the European Economic Area (EEA).

International Monetary Fund (IMF): since 27 December 1945.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- Luxembourg implements the trade regulations, commercial policies and customs code of the EU (ec.europa.eu/trade).
- Luxembourg trades freely with its fellow EEA member states as well as Switzerland.
- The EU has in place bilateral trade agreements with 36 countries and regional trade agreements with a number of trading blocs.
- National export credit insurance provider: Office Du Ducroire (www.ducroire.lu).
- The EU maintains 74 free trade zones, though none is located in Luxembourg.

Currency and exchange controls

Official currency: Euro (EUR).

Exchange rate arrangement: free floating.

Luxembourg does not impose foreign exchange controls.

- The acquisition of securities from outside the EU by Luxembourg residents is restricted if the assets account for over 5 percent of the technical provisions of a private pension fund or insurance company.

Bank accounts

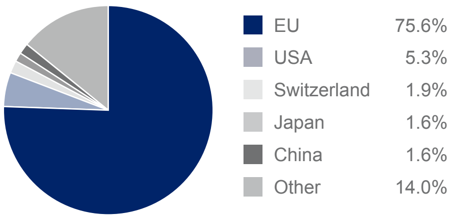
Permission to hold currency accounts

	Within Luxembourg		Outside Luxembourg	
	EUR	Foreign currency	EUR	Foreign currency
Resident company	✔	✔	✔	✔
Non-resident company	✔	✔	✔	N/A

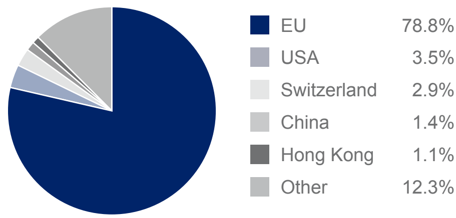
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Machinery and equipment, steel products, chemicals, rubber products, and glass.

Import/Export documentation

Within the EU: no documentation requirements, but a commercial invoice is typically included.

Outside the EU: commercial invoice, customs declaration, bill of lading, packing list and, sometimes, a certificate of origin.

Licences

Imports

- Diamonds, weapons and various textile and steel products from outside the EU.
- Import licences with quotas: various steel products from Russia and Kazakhstan.

Exports

- Goods/items that are subject to international controls, e.g. diamonds, weapons and dual-use items.
- Exports to countries that are subject to a UN embargo.

Tariffs/Taxes

Imports

- Tariffs on imports from outside the EU are set according to the EU's common customs code, with higher rates for agricultural imports.

Exports

- None.

Financing requirements for imports/exports

- None.

Prohibited items

- Imports that are prohibited in accordance with EU regulations and UN Security Council resolutions, such as items deemed a threat to fauna and flora and national security.
- Exports that are prohibited in accordance with EU regulations and UN Security Council resolutions.

Malaysia

Economic and trade overview

Key figures

Economy 2011

GDP (USD)	288 bn
GDP per capita (USD)	9,977
GDP volume growth (year-on-year)	+ 5.1%
Population	28.86m
MMR (year average)	2.88%
Exchange rate MYR / USD (year average)	3.0600
BoP (goods, services & income) as % of GDP	+ 13.4%

Trade 2011 (USD billion)

Goods	Exports	228
	Imports	179
	Net	+ 48
Services	Exports	36
	Imports	39
	Net	– 3

Source: *IFS*, IMF, January 2013

International/regional memberships

Asia-Pacific Economic Cooperation (APEC): since 6–7 November 1989.

Association of Southeast Asian Nations (ASEAN): founding member since 8 August 1967.

International Monetary Fund (IMF): since 7 March 1958.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- Malaysia pursues many of its trade objectives through its membership of ASEAN (www.aseansec.org).
- As a member of ASEAN, Malaysia is committed to ASEAN Free Trade Area (AFTA) Common Effective Preferential Tariff (CEPT) scheme. This lowers all intra-regional tariffs on trade between Malaysia and other ASEAN member states (Brunei Darussalam, Cambodia, Indonesia, Laos, Myanmar, Philippines, Singapore, Thailand and Vietnam) to between zero and 5 percent.
- ASEAN member states have a number of free trade agreements (FTAs) with regional economies such as South Korea, China, Japan, India, and Australia and New Zealand. ASEAN is also in negotiations for an FTA with the European Union.
- National export credit insurance provider: Export-Import Bank of Malaysia Berhad (Exim Bank — www.exim.com.my).
- Malaysia maintains around 11 free trade zones, approximately seven of which are devoted to electronics.

Currency and exchange controls

Official currency: Malaysian ringgit (MYR).

Exchange rate arrangement: managed float with reference to a basket of currencies.

Malaysia imposes some foreign exchange controls, which are administered by the governor of Bank Negara Malaysia (www.bnm.gov.my), who acts as the Controller of Foreign Exchange (COFE).

- Approval from COFE is needed for all foreign currency payments between residents and all local currency payments between residents and non-residents for international trade, foreign currency capital or money market instruments.
- The import or export of MYR banknotes worth over the equivalent of USD 10,000 is not permitted .
- Foreign currency of any amount can be imported and exported.
- The proceeds of exports must be repatriated within six months from the date of export and must be received in foreign currency (not the Israeli shekel).

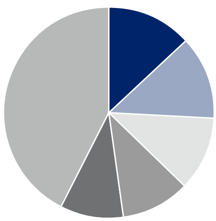
Bank accounts

- Resident companies cannot hold local currency (MYR) bank accounts outside Malaysia.
- Resident companies can hold foreign currency bank accounts both within and outside Malaysia.
- Non-resident companies can hold local currency bank accounts in Malaysia.
- Non-resident companies can hold foreign currency bank accounts in Malaysia.

Trade information

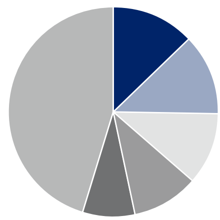
Key trading partners

Imports by origin



China	13.2%
Singapore	12.8%
Japan	11.4%
EU	10.4%
USA	9.7%
Other	42.5%

Exports by destination



China	13.1%
Singapore	12.7%
Japan	11.5%
EU	10.4%
USA	8.3%
Other	46.0%

Source: WTO, September 2012

Principal exports

Electronic equipment, petroleum and liquefied natural gas, wood and wood products, palm oil, rubber, textiles and chemicals.

Documentation

Imports

- Bill of lading, certificate of origin, commercial invoice, customs import declaration, packing list and delivery order.

Exports

- Bill of lading, certificate of origin, commercial invoice, customs export declaration and a packing list.

Licences

Imports

- All controlled items, such as agricultural produce, certain foodstuffs, drugs, pesticides and motor vehicles.
- Goods impacting on public safety, environmental protection and copyright law.

Exports

- Licences are also sometimes required for goods to prevent shortages in the domestic market.
- Licences are also needed for all exports to Israel.

Malaysia

Tariffs/Taxes

Imports

- As a member of ASEAN and participant of AFTA, Malaysia is subject to the Common Effective Preferential Tariff (CEPT) scheme, which applies tariff rates of between zero and 5 percent to goods with at least 40 percent ASEAN content if traded within ASEAN. The CEPT covers around 98 percent of all tariffs.
- Non-ASEAN country import tariffs are implemented according to AFTA and WTO regulations. Capital goods and raw materials are subject to a 5 percent tariff.
- A generalised system of preferences privileges is in operation for imports from Australia, Canada, the European Union, Japan, New Zealand, Norway, the Commonwealth of Independent States (CIS) and Switzerland.
- Anti-dumping duties are imposed on newsprint rolls from Canada, Indonesia, South Korea and the USA.

Exports

- A few commodities are subject to export taxes, including crude and palm oil.

Financing requirements for imports/exports

- Foreign currency credit facilities for imports are subject to an aggregate limit of MYR 100 million for corporate groups or MYR 10 million for individuals.
- Trade financing facilities from licensed onshore banks are available without limit. Foreign currency credit facilities for exports are subject to a aggregate limit of MYR 100 million for corporate groups or MYR 10 million for individuals.

Prohibited items

Imports

- Goods that comply with standards set by the corresponding government ministry may be imported.
- The Malaysian government also publishes a list of imports that are prohibited.

Exports

- Coral, turtle eggs, arms, hazardous waste and perishable food and drink.

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	1,155 bn
GDP per capita (USD)	10,064
GDP volume growth (year-on-year)	+ 3.9%
Population	114.79m
MMR (year average)	4.82%
Exchange rate MXN / USD (year average)	12.423
BoP (goods, services & income) as % of GDP	– 2.9%

	Trade 2011 (USD billion)	
Goods	Exports	350
	Imports	351
	Net	– 1
Services	Exports	15
	Imports	29
	Net	– 14

Source: *IFS*, IMF, January 2013

International/Regional memberships

North American Free Trade Agreement (NAFTA): since 1 January 1994.

International Monetary Fund (IMF): since 31 December 1945.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- Mexico pursues a policy of free trade and seeks trade agreements either bilaterally or through NAFTA.
- As a member of NAFTA (www.naftanow.org), Mexico benefits from free trade arrangements with Canada and the USA. Under NAFTA, duties on thousands of goods have been removed and most tariffs have been eliminated among the three countries. A trade agreement on agriculture was negotiated separately between Mexico and Canada, and Canada and the USA.
- Mexico also has in place bilateral and regional free trade agreements with several countries and trading blocs, mainly in Latin America and Europe, with more than 90 percent of its export trade carried out under a free trade agreement (www.economia.gob.mx).
- National export credit insurance provider: Compañía Española de Seguro de Crédito a la Exportación Mexico (CESCE México — www.cescemex.com.mx).
- Banco Nacional de Comercial Exterior (Bancomext — www.bancomext.com) operates Mexico's state-supported export credit programme.
- Mexico effectively operates a free trade zone on the USA–Mexico land border, where maquiladoras (or maquilas), which are typically foreign-owned factories, can import materials and equipment on a duty-free and tariff-free basis for assembly or manufacturing and then re-export the manufactured goods, usually back to the originating country.

Currency and exchange controls

Official currency: Mexican peso (MXN).

Exchange rate arrangement: free floating.

- Mexico does not impose foreign exchange controls.
- Individuals importing or exporting over the equivalent of USD 10,000 in cash/cheques are required to notify the customs authorities.

Bank accounts

- Resident companies cannot hold local currency (MXN) bank accounts outside Mexico.
- Resident companies can hold foreign currency bank accounts within and outside Mexico. However, foreign exchange deposits may only be held by companies that are resident and/or established in Mexico, or by

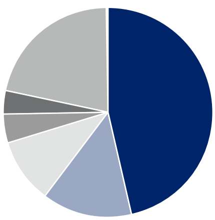
residents in Mexico's northern border area or the regions of Baja California and Baja California Sur.

- Non-resident companies can hold local currency bank accounts within Mexico.
- Non-resident companies must register foreign currency accounts held in Mexico with the authorities.

Trade information

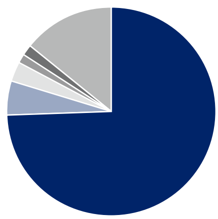
Key trading partners

Imports by origin



USA	49.8%
China	14.9%
EU	10.8%
Japan	4.7%
South Korea	3.9%
Other	15.9%

Exports by destination



USA	78.7%
EU	5.5%
Canada	3.1%
China	1.7%
Colombia	1.6%
Other	9.4%

Source: WTO, September 2012

Principal exports

Manufactured goods, oil and oil products, silver, fruits, vegetables, coffee and cotton.

Documentation

Imports

- Commercial invoice (with complete description of goods to be imported), bill of lading, packing list and, sometimes, a certificate of origin. Certificates of inspection may also be required for imports of raw materials and/or evidence of compliance with regulations.

Exports

- Commercial invoice (with complete description of goods to be exported), bill of lading, packing list and, sometimes, a certificate of origin.

Licences

Imports

- Of 12,149 items subject to general tariffs, 129 require a licence from the Ministry of Economy.
- Branded patent medicines, food products and drinks must be registered with the Ministry of Health.

Exports

- Exports of petroleum products and their derivatives, narcotic substances, some iron ore and weapons require licences.
- Exports of industrial raw diamonds require a licence in accordance with the Kimberley Certification Process.

Tariffs/Taxes

Imports

- Taxes are applied at rates from zero to 20 percent, though some goods attract higher rates, e.g. cars from outside the EU or NAFTA member states (50 percent), clothing, footwear and leather apparel (35%), and fructose (210%).
- VAT of 16 percent is applied to all imports, except to imports to the border region, where VAT of 11 percent applies.
- Mexico applies anti-dumping duties to products from several countries.

Exports

- Generally none.
- Export duties apply to electricity, skins of endangered animal species, vegetable alkaloids, human organs and turtle oil.

Financing requirements for imports/ exports

- None.

Prohibited items

Imports

- Drugs, nuclear energy, toxic and hazardous materials, and any products listed in the Convention on International Trade in Endangered Species (CITES).

Exports

- Drugs, archaeological artefacts and endangered species.

Myanmar

Economic and trade overview

Key figures

Economy 2011	
GDP (USD) (2010)	45,380 m
GDP per capita (USD) (2010)	939
GDP volume growth (year-on-year)	+ 21%
Population	48.34 m
Central Bank interest rate	12.0%
Exchange rate MMR / USD (year average)	5.44
BoP (goods, services & income) as % of GDP	– 4.0%

	Trade 2011 (USD million)	
Goods	Exports	7,699
	Imports	7,491
	Net	+ 208
Services	Exports	672
	Imports	1,090
	Net	+ 418

Sources: IFS, IMF, January 2013 and WTO, September 2012

International/Regional memberships

The Association of Southeast Asian Nations (ASEAN): since 27 June 1997.

International Monetary Fund (IMF): since 3 January 1952.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- Myanmar pursues many of its trade objectives through its membership of ASEAN (www.aseansec.org).
- As a member of ASEAN, Myanmar is committed to the ASEAN Free Trade Area (AFTA) Common Effective Preferential Tariff (CEPT) scheme. This lowers all intra-regional tariffs on trade between Myanmar and other ASEAN member states (Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand and Vietnam) to between zero and 5 percent.
- ASEAN member states have a number of free trade agreements (FTAs) with regional economies such as South Korea, China, Japan, India, and Australia and New Zealand. ASEAN is also in negotiations for an FTA with the European Union.
- Myanmar does not have a national export credit insurance provider.
- The Thilawa Special Economic Zone (SEZ) is currently being established in Myanmar and will be the country's first operational trade zone, offering companies based in the zone exemption from trade tariffs. Further trade zones are planned for the port of Yangon and in Dawei.

Currency and exchange controls

Official currency: Myanmar kyat (MMK). Foreign Exchange Certificates (FEC) are also used for transactions in Myanmar. These are predominately used by tourists but are also used for some domestic payments, including the salary payments of international organisations and companies.

Exchange rate arrangement: managed float.

Myanmar does impose foreign exchange controls, which are administered the Central Bank of Myanmar (www.cbm.gov.mm).

- There is no forward foreign exchange market in Myanmar.
- CBM approval is required for the transfer of foreign currency by residents. Payments between residents in foreign currency are not permitted. Residents cannot acquire foreign currency for capital transaction purposes.
- Foreign currency up to USD 10,000 is permitted to be withdrawn from government banks by residents in Myanmar.
- Domestic currency is not permitted to be exported from Myanmar.
- Foreign currency up to USD 10,000 may be imported into Myanmar by non-residents.

- Non-residents cannot acquire commercial or financial credits from residents in Myanmar.
- Imports to Myanmar require 100 percent advance payment through authorised domestic banks.
- The proceeds from exports are required to be fully repatriated immediately upon receipt. Export transactions must be carried out via authorised domestic banks.

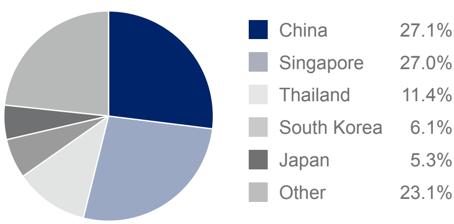
Bank accounts

- Resident companies cannot hold local currency (MMK) bank accounts outside Myanmar.
- Resident companies who earn in foreign exchange and national companies can hold foreign currency bank accounts both within and outside Myanmar, subject to approval.
- Resident local currency accounts are convertible into foreign currency for the payment of official expenses, subject to approval from the Myanmar Ministry of Finance and Revenue (MFR) (www.myanmar.com/finance/dept_cbm.html).
- Non-residents are permitted to hold local currency accounts domestically but all credits and debits from these accounts are subject to authorisation. Accounts can be converted into foreign currency with approval from the CBM.
- Non-resident diplomatic mission and international organisation personnel are permitted to hold foreign currency accounts, but only with the Myanmar Foreign Trade Bank (www.myanmar.com/finance/dept_mftb_01.html).

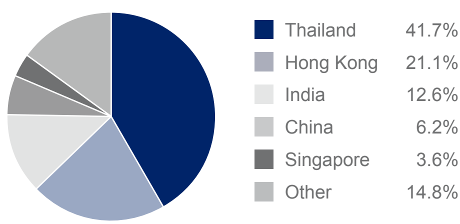
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

- Natural gas, wood products, pulses, beans, fish, rice, clothing, and jade and other gems.

Documentation

Imports

- Bill of lading, packing list and an authorisation letter.

Exports

- Bill of lading, packing list and an authorisation letter.

Licences

Imports

- Goods imported into Myanmar require an import licence from the Ministry of Commerce (www.commerce.gov.mm).

Exports

- Exports do not require licences.

Myanmar

Tariffs/Taxes

Imports

- Myanmar is subject to the AFTA Common Effective Preferential Tariff (CEPT) scheme, which applies tariff rates of between zero and 5 percent to goods with at least 40 percent ASEAN content if traded within ASEAN. The CEPT covers around 98 percent of all tariffs.
- Non-ASEAN country import tariffs are implemented in accordance with AFTA and WTO regulations and are collected on a MFN basis, with rates ranging up to 40 percent.

Exports

- Export tariffs apply to petroleum, teak, other hardwoods and their conversions, gas, jade and other precious stones. Export tariffs range from 5 percent for petroleum to 50 percent for teak and hardwood logs.

Prohibited items

Imports

- Trade with countries under UN embargo and with which Myanmar has severed diplomatic relations is prohibited.
- Certain individual items are also prohibited from being imported. These include any commodity banned under existing national laws and international conventions, as well as all narcotics, playing cards, and gold bullion.

Exports

- Trade with countries under UN embargo and with which Myanmar has severed diplomatic relations is prohibited.

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	837 bn
GDP per capita (USD)	50,223
GDP volume growth (year-on-year)	+ 1.3%
Population	16.67m
Interest rate (for corporations funding stocks up to one year)	3.18%
Exchange rate EUR / USD (year average)	0.7194
BoP (goods, services & income) as % of GDP	+ 11.5%

	Trade 2011 (USD billion)	
Goods	Exports	544
	Imports	481
	Net	+ 64
Services	Exports	108
	Imports	94
	Net	+ 14

Source: *IFS*, IMF, January 2013

International/Regional memberships

European Union (EU): founding member since 25 March 1957. The Netherlands is also a member of the European Economic Area (EEA).

International Monetary Fund (IMF): since 27 December 1945.

World Trade Organisation (WTO): since 1 January 1995.

Government trade policy

- The Netherlands implements the trade regulations, commercial policies and customs code of the EU (ec.europa.eu/trade).
- The Netherlands trades freely with its fellow EEA member states as well as Switzerland.
- The EU has in place bilateral trade agreements with 36 countries and regional trade agreements with a number of trading blocs.
- National export credit insurance provider: Atradius (www.atradius.com).
- The EU maintains 74 free trade zones, with one located in the Netherlands at Amsterdam Schiphol Airport.

Currency and exchange controls

Official currency: Euro (EUR).

Exchange rate arrangement: free floating.

The Netherlands does not impose foreign exchange controls.

Bank accounts

Permission to hold currency accounts

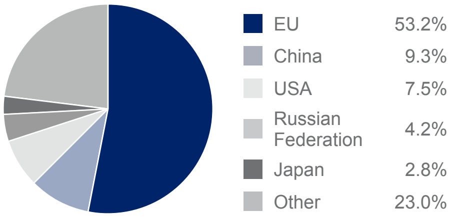
	Within the Netherlands		Outside the Netherlands	
	EUR	Foreign currency	EUR	Foreign currency
Resident company	✔	✔	✔	✔
Non-resident company	✔	✔	✔	N/A

Netherlands

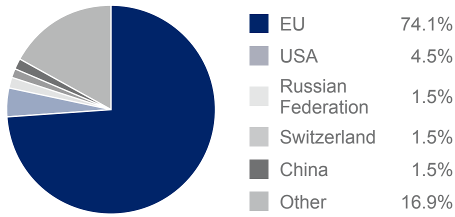
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Machinery and equipment, chemicals, fuels, and foodstuffs.

Import/Export documentation

Within the EU: no documentation requirements, but a commercial invoice is typically included.

Outside the EU: commercial invoice, customs declaration, bill of lading, packing list and, sometimes, a certificate of origin.

Licences

Imports

- Various textiles, steel products and agricultural products from outside the EU.

Exports

- Goods/items that are subject to international controls.
- Strategic items.

Tariffs/Taxes

Imports

- Tariffs on imports from outside the EU are set according to the EU's common customs code, with higher rates for agricultural imports.

Exports

- None.

Financing requirements for imports/exports

- None.

Prohibited items

- Imports that are prohibited in accordance with EU regulations and UN Security Council resolutions, such as items deemed a threat to fauna and flora and national security.
- Exports that are prohibited in accordance with EU regulations and UN Security Council resolutions.

New Zealand

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	160 bn
GDP per capita (USD)	36,114
GDP volume growth (year-on-year)	+ 1.0%
Population	4.42m
MMR (year average)	2.50%
Exchange rate NZD / USD (year average)	1.2658
BoP (goods, services & income) as % of GDP	– 4.1%

	Trade 2011 (USD billion)	
Goods	Exports	38
	Imports	36
	Net	+ 3
Services	Exports	10
	Imports	11
	Net	– 1

Source: *IFS*, IMF, January 2013

International/Regional memberships

Pacific Islands Forum: founding member since 1971. All Pacific Islands Forum member states, i.e. Australia, New Zealand and 13 Pacific Island nations, are currently signatories of the Pacific Agreement on Closer Economic Relations (PACER).

Asia-Pacific Economic Cooperation (APEC): since 6–7 November 1989.

International Monetary Fund (IMF): since 31 August 1961.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- New Zealand has signed bilateral free trade agreements with Australia (ANZCERTA – Australia New Zealand Closer Economic Relations Trade Agreement), China, Hong Kong, Malaysia, Singapore and Thailand. A concluded free trade agreement with the Gulf Co-operation Council has yet to be signed. The bilateral free trade agreement between Australia and New Zealand is one of the most extensive in global trade and encompasses free trade in services.
- Australia and New Zealand established a free trade agreement with ASEAN in February 2009.
- New Zealand, Brunei Darussalam, Chile and Singapore are signatories of the 2005 Trans-Pacific Strategic Economic Partnership Agreement (TPSEP). Negotiations are ongoing to expand the TPSEP to include Australia, Canada, Malaysia, Mexico, New Zealand, Peru, the United States, and Vietnam; thus creating the Trans-Pacific Partnership (TPP).
- Free trade negotiations are ongoing with India, South Korea, and the Customs Union of Belarus, Kazakhstan and Russia.
- National export credit insurance provider: New Zealand Export Credit Office (NZECO — www.nzeco.govt.nz).
- New Zealand Trade and Enterprise (www.nzte.govt.nz) provides state-supported export finance in specific cases.
- Exports to certain project markets within the Asia-Pacific region are eligible for export financing under the Ministry of Foreign Affairs and Trade's aid and development programmes.
- New Zealand is not currently home to any free trade ports or special economic zones.

Currency and exchange controls

Official currency: New Zealand dollar (NZD).

Exchange rate arrangement: free floating.

New Zealand does not impose foreign exchange controls.

New Zealand

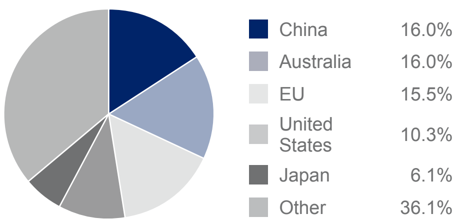
Bank accounts

- Resident companies can hold local currency (NZD) bank accounts outside New Zealand.
- Resident companies can hold foreign currency bank accounts both within and outside New Zealand.
- Non-resident companies can hold local currency bank accounts both within and outside New Zealand.
- Non-resident companies can hold foreign currency bank accounts in New Zealand.

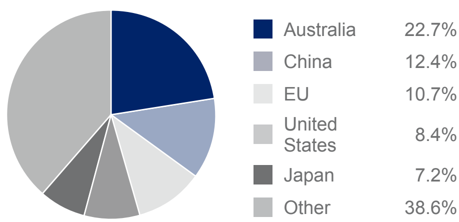
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Dairy products, meat, wood and wood products, fish, and machinery.

Documentation

Imports

- Commercial invoice, bill of lading, packing list, customs declaration and, sometimes, a certificate of origin.

Exports

- Commercial invoice, bill of lading, packing list, customs declaration and, sometimes, a certificate of origin.

Licences

Imports

- Certain items for reasons of health or security.

Exports

- Strategic items, antiques, animal and dairy products, kiwifruit, various horticultural products, and various species of flora and fauna.

Tariffs/Taxes

Imports

- New Zealand has significantly reduced the number of imported items subject to tariffs.
- Tariffs are levied on non-primary products that are in competition with domestically produced products.
- A 10 percent import tariff applies to carpets, apparel, footwear, ambulances and motor homes.
- Imports from non-preferential sources are usually subject to a 5 percent tariff.
- No tariffs are levied on imports from Australia and Singapore.
- Imports from the world's 49 least developed countries and from the Pacific Island nations are also exempt from tariffs.
- In accordance with the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), non-reciprocal preferential tariffs are applied by Australia and New Zealand to imports from their 13 fellow Pacific Islands Forum member states.

- Tariffs on all imports from Thailand will be removed by 2025; at present, half of all imports from Thailand are exempt from tariffs.
- Trade tariffs will be phased out between the members of the Trans-Pacific Strategic Economic Partnership (New Zealand, Brunei, Chile and Singapore) by 2017.
- Preferential duty rates apply to eligible imports from Canada and developing countries.

Exports

- None.

Financing requirements for imports/exports

- None.

Prohibited items

Imports

- Imports prohibited in accordance with UN Security Council resolutions, such as items deemed a threat to fauna, flora and national security or those deemed as morally dubious.

Exports

- Exports that are prohibited in accordance with UN Security Council resolutions or for cultural, conservation or economic reasons.

Norway

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	491 bn
GDP per capita (USD)	99,519
GDP volume growth (year-on-year)	+ 1.2%
Population	4.93m
3 month interbank rate	2.87%
Exchange rate NOK / USD (year average)	5.605
BoP (goods, services & income) as % of GDP	+ 15.4%

Trade 2011 (USD billion)		
Goods	Exports	159
	Imports	89
	Net	+ 70
Services	Exports	44
	Imports	47
	Net	– 3

Source: *IFS*, IMF, January 2013

International/Regional memberships

European Free Trade Association (EFTA): since 3 May 1960. Norway is also a member of the European Economic Area (EEA).

International Monetary Fund (IMF): since 27 December 1945.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- As Norway is a member of EFTA, and consequently the EEA, its trade finance regulations are broadly aligned with the EU's trade regulations, commercial policies and customs code (ec.europa.eu/trade), except for agriculture and fisheries.
- Norway trades freely with its fellow EFTA member states as well as with the EU.
- EFTA has in place bilateral and regional trade agreements with 24 countries and trading blocs. It is also negotiating free trade agreements with 14 countries. It has negotiated co-operation agreements with four countries and the Mercosur trading bloc.
- Norway has a bilateral free trade agreement with the EU.
- National export credit insurance provider: The Guarantee Institute for Export Credits (GIEK — www.giek.no).
- The Norwegian Export Credit Agency (Eksportfinans — www.eksportfinans.no) operates Norway's state-supported export credit programme.
- Norway has two free ports (Mo i Rana and Fredrikstad) but no free trade zones.

Currency and exchange controls

Official currency: Norwegian krone (NOK).

Exchange rate arrangement: free floating.

Norges Bank (www.norges-bank.no), the Norwegian central bank, and the Ministry of Finance (www.regjeringen.no) exercise control over the forward exchange market.

- Individuals importing or exporting over the equivalent of NOK 25,000 in domestic or foreign currency are required to notify customs.

Bank accounts

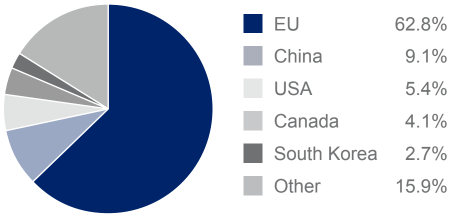
Permission to hold currency accounts

	Within Norway		Outside Norway	
	NOK	Foreign currency	NOK	Foreign currency
Resident company	✔	✔	✔	✔
Non-resident company	✔	✔	✔	N/A

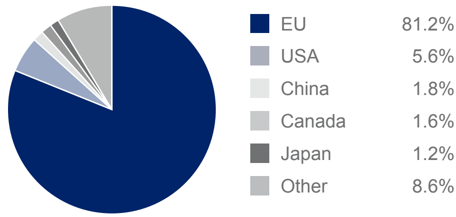
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Petroleum and petroleum products, machinery and equipment, metals, chemicals, ships and fish.

Import/Export documentation

- Commercial invoice (with complete description of goods to be imported/exported), bill of lading, packing list and, sometimes, a certificate of origin.

Licences

Imports

- Certain agricultural products, alcohol, tobacco, pharmaceuticals and armaments.
- Import licences with quotas: certain items are subject to import licences with quotas.
- Goods subject to additional controls: certain items are subject to additional controls due to environmental, health, safety, sanitary and phytosanitary reasons.

Exports

- Goods/items that are subject to international controls.
- Export licences are also required for exporting certain strategic and agricultural products.

Tariffs/Taxes

Imports

- In accordance with the EEA free trade agreement and other preferential trade agreements, the majority of imports are tax-free.
- Duties and tariffs are not generally levied on items imported from the world's least developed countries.
- Non-agricultural imports are subject to lower tariffs than agricultural imports.

Exports

- Some exports, including fish and fish products, are subject to export taxes of 1.05 percent.
- Most exports are also subject to a research and development duty of 0.3 percent.

Financing requirements for imports/exports

- None.

Prohibited items

- Imports that are prohibited for environmental, national security, or for moral reasons.
- Additional items prohibited from import: rough diamonds and timber from Liberia and cultural items from Iraq.
- Exports that are prohibited in accordance with UN Security Council resolutions. The majority of restrictions concern weapons.

Pakistan

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	209 bn
GDP per capita (USD)	1,184
GDP volume growth (year-on-year)	+ 2.4%
Population	176.75m
MMR (year average)	12.47%
Exchange rate PKR / USD (year average)	86.343
BoP (goods, services & income) as % of GDP	– 8.9%

	Trade 2011 (USD billion)	
Goods	Exports	26
	Imports	39
	Net	– 13
Services	Exports	5
	Imports	8
	Net	– 3

Source: *IFS*, IMF, January 2013

International/Regional memberships

South Asian Association for Regional Cooperation (SAARC): since 8 December 1985.

Organisation of Islamic Cooperation (OIC): since 25 September 1969.

International Monetary Fund (IMF): since 11 July 1950.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- Pakistan's government actively pursues bilateral trade agreements in order to increase Pakistani exports and improve economic growth.
- As a member of SAARC (www.saarc-sec.org), Pakistan has agreed to the South Asia Free Trade Agreement (SAFTA), which aims to reduce tariffs for intra-regional trade among the eight member states (Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka). Implementation of SAFTA is due to be completed by 2016.
- Pakistan has established free trade agreements with China, Malaysia and Sri Lanka, and preferential trade agreements with Indonesia, Iran and Mauritius.
- National export credit insurance provider: Pakistan Export Finance Guarantee Agency (PEFGA).

Currency and exchange controls

Official currency: Pakistani rupee (PKR).

Exchange rate arrangement: free floating.

Pakistan imposes foreign exchange controls, which are administered by Pakistan's central bank, the State Bank of Pakistan (SBP) (www.sbp.org.pk).

- Forward exchange transactions are available for banks up to 12 months in advance, with the option of rolling over transactions.
- Export proceeds must be repatriated within nine months if approved by the SBP or within six months if not. Exporters can hold the proceeds from exports from three days before they are required to be sold to authorised dealers.
- Proceeds from invisible transactions and current transfers must also be repatriated.
- Prior authorisation is required from the SBP and Securities and Exchange Commission of Pakistan (SECP) for residents to issue/sell or purchase securities abroad.
- Non-residents require the prior authorisation of the SECP to solicit subscriptions for shares and debentures.
- Financial credits from a non-resident to a resident are not permitted in Pakistan. Instead authorised dealers are permitted to extend PKR overdrafts to foreign nationals up to the extent of their requirements.
- Commercial credits from a resident to a non-resident are permitted with maturities ranging up to 180 days to finance exports.

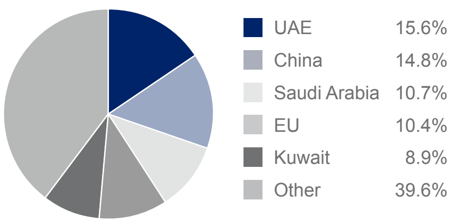
Bank accounts

- Resident companies cannot open local currency (PKR) bank accounts outside Pakistan.
- Resident companies can hold foreign currency bank accounts in Pakistan but they are subject to restrictions. Resident foreign exchange accounts cannot be credited with the earning from residents' services, overseas offices, branches of Pakistani companies and banks, the proceeds from exports or any foreign exchange that has been purchased in Pakistan.
- Non-resident companies can hold local currency and foreign currency bank accounts in Pakistan.

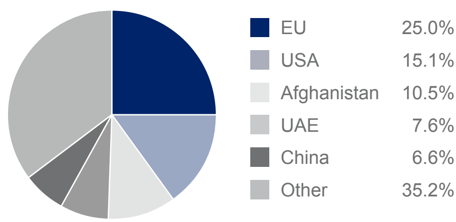
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Textiles (garments, bed linen, cotton cloth, yarn), rice, leather goods, sports goods, chemicals, manufactures, carpets and rugs.

Documentation

Imports

- Bill of lading, delivery order, certificate of origin, commercial invoice, a customs import declaration, insurance certificate, and a packing list.

Exports

- Bill of lading, certificate of origin, commercial invoice, a customs export declaration, pre-shipment inspection report, insurance certificate, packing list and a foreign exchange authorisation.

Licences

Imports

- 1,209 specific items are subject to import controls.

Exports

- None.

Pakistan

Tariffs/Taxes

Imports

- Most imports are subject to ad valorem duties of between 0 and 30 percent.
- Higher tariffs apply to alcoholic drinks, vinegar armaments, ammunition, and motor vehicles.
- Pakistan imposes a 1 percent import tax on fibres, yarns, fabrics, urea fertilisers, potassic fertilisers, gold, silver, and mobile phones, a 2 percent import tax on pulses, and a 3 percent tax on industrial enterprises' raw materials, edible oil and packing material.
- As a signatory to SAFTA, Pakistan is in the process of reducing tariffs for intra-regional trade between the member states.

Exports

- A 0.25 percent development surcharge paid to authorised banks from the proceeds of exports when they are received.
- A 1 percent tax is usually levied on export proceeds and on goods exported by industrial enterprises located in one of Pakistan's ten export processing zones (EPZs).

Financing requirements for imports/ exports

- Advance payments of up to 100 percent are permitted by the SBP against import letters of credit.
- Export financing is available for periods of up to 180 days. Foreign exchange loans against exports can only be settled through the proceeds of exports or remittances from abroad.

Prohibited items

Imports

- Items that are prohibited for national security, health, safety and moral or religious reasons.
- Imports from Israel.
- Antiques, jewellery, paints and tobacco.

Exports

- Pakistan operates a negative list of prohibited exports.

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	225 bn
GDP per capita (USD)	2,370
GDP volume growth (year-on-year)	+ 3.9%
Population	94.85m
MMR (year average)	4.56%
Exchange rate PHP / USD (year average)	43.313
BoP (goods, services & income) as % of GDP	– 4.7%

Trade 2011 (USD billion)		
Goods	Exports	39
	Imports	55
	Net	– 17
Services	Exports	16
	Imports	12
	Net	+ 5

Source: *IFS*, IMF, January 2013

International/Regional memberships

Asia-Pacific Economic Cooperation (APEC): since 6–7 November 1989.

Association of Southeast Asian Nations (ASEAN): founding member since 8 August 1967.

International Monetary Fund (IMF): since 27 December 1945.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- The Philippines pursues many of its trade objectives through its membership of ASEAN (www.aseansec.org) as well as other bilateral and multilateral trade agreements.
- As a member of ASEAN, the Philippines is committed to the ASEAN Free Trade Area (AFTA) Common Effective Preferential Tariff (CEPT) scheme. This lowers all intra-regional tariffs on trade between the Philippines and ASEAN member states (Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam) to between zero and 5 percent.
- The executive and legislative branches of government jointly hold responsibility for the formulation of trade policies in the Philippines.
- ASEAN member states have a number of free trade agreements (FTAs) with regional economies such as South Korea, China, Japan, India, and Australia and New Zealand. ASEAN is also in negotiations for an FTA with the European Union.
- National export credit insurance provider: Philippine Export-Import Credit Agency (PhilEXIM — www.philexim.gov.ph), also known as the Trade and Investment Development Corporation of the Philippines (Tidcorp).
- Special Economic Zones within the Philippines are also known as Ecozones. These zones are used either as export processing or free trade zones. There are currently 277 zones operated by the Philippine Economic Zone Authority (PEZA — www.peza.gov.ph.

Currency and exchange controls

Official currency: Philippine peso (PHP).

Exchange rate arrangement: free floating.

Bangko Sentral ng Pilipinas (BSP — www.bsp.gov.ph), the central bank, administers exchange controls in the Philippines and formulates foreign exchange policy.

- All transactions that affect trade balances must be conducted through the formal exchange market.
- With the exception of imports and exports to and from ASEAN countries, the use of PHP for international payments and receipts is not permitted.

Philippines

- The extension of PHP loans to non-residents by banks is not allowed.
- Domestic currency cross-border payments and settlement for capital transactions is prohibited if they exceed PHP 10,000 or the equivalent in foreign currency.
- Prior and subsequent registration with the BSP is required for all outward direct investments over USD 60 million annually if the foreign exchange is to be purchased from the domestic banking system.
- Prior approval from the BSP International Department is required for individual exports and imports that exceed PHP 10,000 in cash, cheques, money orders and other bills of exchange denominated in pesos.
- Individuals that import or export foreign currency in excess of USD 10,000 or its equivalent in cash and/or cheques must notify the customs authorities (www.customs.gov.ph) in writing. Information on the source and purpose of the transport of the funds must also be provided.

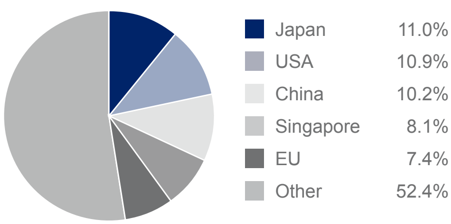
Bank accounts

- Resident companies can hold foreign currency bank accounts in the Philippines as well as foreign currency bank accounts outside the Philippines, provided they are not funded with foreign exchange purchased from authorised agent banks (AABs) and AAB-forex corporations.
- Non-resident companies can hold local currency (PHP) and foreign currency bank accounts in the Philippines subject to some conditions.

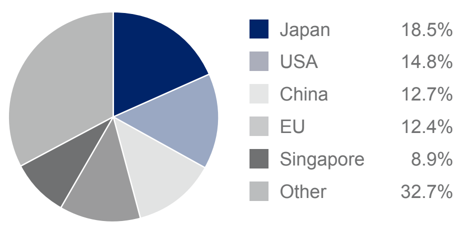
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Semiconductors and electronic products, transport equipment, garments, copper products, petroleum products, coconut oil and fruits.

Documentation

Imports

- Commercial invoice, customs import declaration, packing list, terminal handling receipts, bill of lading, confirmation receipt for payment of customs fees, delivery order and a cargo release order.

Exports

- Technical standard or health certificate, terminal handling receipt, certificate of origin, packing list, bill of lading, commercial invoice and customs export declaration.

Licences

Imports

- Licences with quotas: some agricultural imports.
- Other regulated imports require permits from the relevant government regulatory authority.

Exports

- Regulated exports require permits from the relevant government regulatory authority.
- Exports may be licensed for environmental, health or security reasons.

Tariffs/Taxes

Imports

- There are four tariff rates: 0, 1, 3 and 5 percent.
- VAT of 12 percent is applied to imports as well.
- The Philippines has reduced almost all import tariffs for other ASEAN member to between zero and 5 percent, in accordance with the Common Effective Preferential Tariff (CEPT) Scheme for AFTA.
- Most favoured nation (MFN) tariff rates apply to imports from non-ASEAN countries.
- Higher tariff rates usually apply to imports of manufactured items that compete with domestically produced goods.
- Imports of finished automobiles and motorcycles are subject to the highest tariff rate applied to non-agricultural products, under the government's Motor Vehicle Development Program (MVDP).
- Other products that attract high tariffs include grains, livestock, poultry and meat products, sugar, potatoes, onions, coffee and fresh citrus.

Exports

- None.

Financing requirements for imports/exports

- None.

Prohibited items

Imports

- Items that are prohibited for reasons of public health and national security protection and for moral reasons or industrial policy.

Exports

- The Philippines operates a negative list of exports that are prohibited, including fauna and flora.

Poland

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	514 bn
GDP per capita (USD)	13,424
GDP volume growth (year-on-year)	+ 4.3%
Population	38.30m
MMR (year average)	4.10%
Exchange rate PLN / USD (year average)	2.9628
BoP (goods, services & income) as % of GDP	– 6.1%

	Trade 2011 (USD billion)	
Goods	Exports	195
	Imports	209
	Net	– 14
Services	Exports	38
	Imports	32
	Net	+ 6

Source: *IFS*, IMF, January 2013

International/Regional memberships

European Union (EU): since 1 May 2004. Poland is also a member of the European Economic Area (EEA).

International Monetary Fund (IMF): since 12 June 1986.

World Trade Organization (WTO): since 1 July 1995.

Government trade policy

- Poland implements the EU's trade regulations, commercial policies and customs code (ec.europa.eu/trade).
- Poland trades freely with its fellow EEA member states as well as Switzerland.
- The EU has in place bilateral trade agreements with 36 countries and regional trade agreements with a number of trading blocs.
- National export credit insurance provider: Export Credit Insurance Corporation (KUKE — www.kuke.com.pl).
- The EU maintains 74 free trade zones with seven in Poland.

Currency and exchange controls

Official currency: Polish zloty (PLN).

Exchange rate arrangement: free floating.

Poland imposes few foreign exchange controls. Controls are imposed by the National Bank of Poland (NBP — www.nbp.pl) and the Ministry of Finance (www.mofnet.gov.pl).

- Controls apply to securities purchased by residents from countries outside the EEA and the Organisation for Economic Co-operation and Development (OECD) (with the exception of countries with which Poland has negotiated bilateral treaties).
- Residents require authorisation from the Polish Financial Supervision Authority (PFSA) in order to issue/sell securities abroad as do non-residents investing in Poland.

Bank accounts

Permission to hold currency accounts

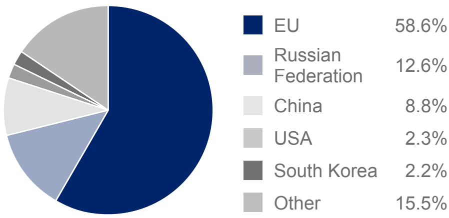
	Within Poland		Outside Poland	
	PLN	Foreign currency	PLN	Foreign currency
Resident company	✔	✔	✔*	✔*
Non-resident company	✔	✔	✔	N/A

* Prior approval from the NBP is required by residents wishing to hold accounts in countries outside the EEA or OECD. Residents must provide the NBP with quarterly balance reports on any accounts held outside Poland.

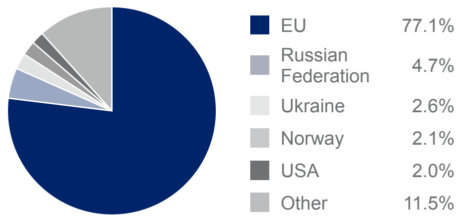
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Machinery and transport equipment, semi-manufactured goods, manufactured goods, food, and livestock.

Import/export documentation

Within the EU: no documentation requirements, but a commercial invoice is typically included.

Outside the EU: commercial invoice, customs declaration, bill of lading, packing list and, sometimes, a certificate of origin.

Licences

Imports

- Goods/items that are subject to international controls.

Exports

- Licences without quotes are required to export radioactive materials and military and dual-use items.
- Export licences with quotas: aluminium, copper waste and scrap, lead, nickel, tin, and zinc.

Tariffs/Taxes

Imports

- Tariffs on imports from outside the EU are set according to the EU's common customs code, with higher rates for agricultural imports.

Exports

- None.

Financing requirements for imports/exports

- None.

Prohibited items

- Imports that are prohibited in accordance with EU regulations and UN Security Council resolutions, such as items deemed a threat to fauna and flora and national security.
- Additional items prohibited for import: asbestos, various dangerous chemicals and various ozone-depleting substances.
- Exports that are prohibited in accordance with EU regulations and UN Security Council resolutions.
- Additional items prohibited for export: ozone-depleting substances and specific species of poultry.
- Bituminous mineral oils and petroleum oils are prohibited from being exported to Montenegro or Serbia.

Portugal

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	238 bn
GDP per capita (USD)	22,224
GDP volume growth (year-on-year)	– 1.6%
Population	10.69m
Interest rate (for corporations funding stocks up to one year)	5.71%
Exchange rate EUR / USD (year average)	0.7194
BoP (goods, services & income) as % of GDP	– 8.3%

	Trade 2011 (USD billion)	
Goods	Exports	59
	Imports	78
	Net	– 18
Services	Exports	26
	Imports	15
	Net	+ 11

Source: *IFS*, IMF, January 2013

International/Regional memberships

European Union (EU): since 1 January 1986. Portugal is also a member of the European Economic Area (EEA).

International Monetary Fund (IMF): since 29 March 1961.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- Portugal implements the EU's trade regulations, commercial policies and customs code (ec.europa.eu/trade).
- Portugal trades freely with its fellow EEA member states as well as Switzerland.
- The EU has in place bilateral trade agreements with 36 countries and regional trade agreements with a number of trading blocs.
- National export credit insurance provider: Companhia de Seguros de Créditos (COSEC — www.cosec.pt), privately owned, operates Portugal's state-supported export insurance programmes.
- The EU maintains 74 free trade zones, including one in Portugal: Free Zone of Madeira – Caniçal.

Currency and exchange controls

Official currency: Euro (EUR).

Exchange rate arrangement: free floating.

Portugal does not impose foreign exchange controls.

- Individuals importing or exporting the equivalent of EUR 10,000 or more in domestic or foreign currency are required to notify the customs authority (www.dgaiec.min-financas.pt).

Bank accounts

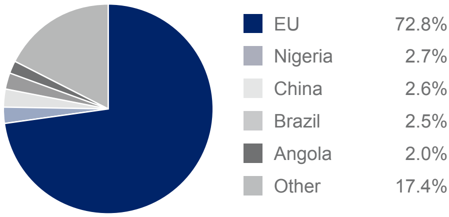
Permission to hold currency accounts

	Within Portugal		Outside Portugal	
	EUR	Foreign currency	EUR	Foreign currency
Resident company	✔	✔	✔	✔
Non-resident company	✔	✔	✔	N/A

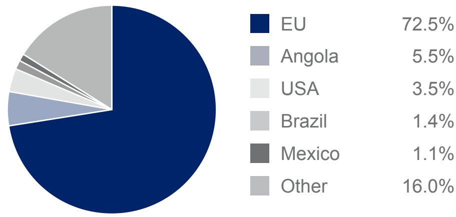
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Agricultural products, food products, oil products, chemical products, plastics and rubber, skins and leather, wood and cork, wood pulp and paper, textile materials, clothing, footwear, base metals and machinery and tools.

Import/Export documentation

Within the EU: no documentation requirements, but a commercial invoice is typically included.

Outside the EU: commercial invoice, customs declaration, bill of lading, packing list and, sometimes, a certificate of origin.

Licences

Imports

- Some imports, including certain textiles and steel products, from outside the EU.
- Diamonds, armaments and oil (from Iraq) are also subject to import restrictions.
- There is a system of access quotas for imports from outside the EU for products covered by the Common Agricultural Policy.

Exports

- Export certificates are required for a small number of goods (mainly agricultural).

Tariffs/Taxes

Imports

- Tariffs on imports from outside the EU are set according to the EU's common customs code, with higher rates for agricultural imports.

Exports

- None, excluding works of art, jewellery, precious metals and antiques.

Financing requirements for imports/exports

- None.

Prohibited items

- Imports that are prohibited in accordance with EU regulations and UN Security Council resolutions, such as items deemed a threat to fauna and flora, national security and for moral reasons.
- Exports that are prohibited in accordance with EU regulations and UN Security Council resolutions.

Qatar

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	174 bn
GDP per capita (USD)	92,791
GDP volume growth (year-on-year)	+ 14.1%
Population	1.87m
Central bank policy rate (end period)	4.50%
Exchange rate QAR / USD (year average)	3.6400
BoP (goods, services & income) as % of GDP	+ 3.7%

	Trade 2011 (USD billion)	
Goods	Exports	114
	Imports	27
	Net	+ 87
Services	Exports	7
	Imports	17
	Net	– 9

Sources: *IFS*, IMF, January 2013 and Qatar Central Bank

International/regional memberships

Gulf Cooperation Council (GCC): since 25 May 1981.

The Organization of Oil Exporting Countries (OPEC): since 1961.

International Monetary Fund (IMF): since 8 September 1972.

World Trade Organization (WTO): since 13 January 1996.

Government trade policy

- Much of Qatar's trade policy is directed through its membership of the GCC (www.gccsg.org/eng/index.php).
- As a GCC member, Qatar is able to trade with other GCC member states (Bahrain, Kuwait, Oman, Saudi Arabia and the UAE) without investment and service trade barriers.
- Through the GCC common market, launched in 2008, Qatari businesses and citizens receive national treatment in all GCC countries.
- The GCC also operates a customs union in which members are subject to unified customs duties.
- GCC member states have signed bilateral trade agreements with several countries, and negotiations are ongoing with the European Union and ASEAN (the Association of Southeast Asian Nations). In 2009 the GCC signed a free trade agreement with the European Free Trade Association (EFTA).
- Qatar maintains two free trade zones (FTZ), the Qatar Science and Technology Park and the Qatar Financial Centre. Further FTZs are planned for the near future at Doha International Airport and New Doha Airport.

Currency and exchange controls

Official currency: Qatari rial (QAR).

Exchange rate arrangement: pegged to the USD at a rate of QAR 3.64 to USD 1.

Qatar does not impose foreign exchange controls.

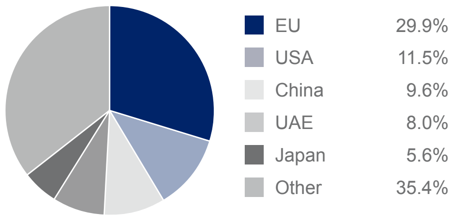
Bank accounts

- In Qatar, no distinction is made between resident and non-resident company accounts.
- Resident companies can hold foreign currency bank accounts within and outside Qatar.
- Non-resident companies can hold local currency bank accounts and foreign currency bank accounts within and outside Qatar.

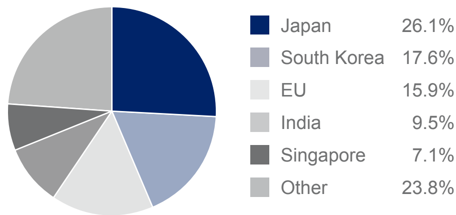
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Liquefied natural gas (LNG), petroleum products, fertilisers and steel.

Documentation

Imports

- Bill of lading, delivery order, commercial invoice, packing list, certificate of origin, a customs import declaration and a cargo release order.

Exports

- Bill of lading, certificate of origin, commercial invoice, a customs export declaration and a packing list.

Licences

Imports

- Goods may require a licence for reasons of health or public safety, such as alcohol, firearms, ammunition and certain drugs.

Exports

- None.

Tariffs/Taxes

Imports

- Tariffs on imports are set in line with the GCC Customs Union. This sets a maximum tariff of 5 percent for most goods imported outside the GCC. Steel is subject to a customs tariff of 20 percent, and alcohol and tobacco are subject to 100 percent.
- Tariffs are not applied to imports within the GCC.

Exports

- None.

Financing requirements for imports/exports

- None.

Prohibited items

Imports

- Items prohibited for import include pork and its derivatives, all goods from Israel, and certain commodities that may harm the safety and health of fauna and flora, or those prohibited for national security or moral reasons.

Exports

- All exports to Israel are prohibited.

Romania

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	190 bn
GDP per capita (USD)	8,850
GDP volume growth (year-on-year)	+ 2.5%
Population	21.44m
MMR (year average)	4.80%
Exchange rate RON / USD (year average)	3.049
BoP (goods, services & income) as % of GDP	– 6.8%

	Trade 2011 (USD billion)	
Goods	Exports	56
	Imports	68
	Net	– 13
Services	Exports	12
	Imports	9
	Net	+ 3

Source: *IFS*, IMF, January 2013

International/Regional memberships

European Union (EU): since 1 January 2007. Romania is also a member of the European Economic Area (EEA).

International Monetary Fund (IMF): since 15 December 1972.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- Romania implements the trade regulations, commercial policies and customs code of the EU (ec.europa.eu/trade).
- Romania trades freely with its fellow EU and EEA member states as well as Switzerland.
- The EU has in place bilateral trade agreements with 36 countries and regional trade agreements with a number of trading blocs.
- National export credit insurance provider: EximBank Romania (www.eximbank.ro), which also provides state-supported export finance.
- The EU maintains 74 free trade zones, six of which are in Romania.

Currency and exchange controls

Official currency: New Romanian leu (RON).

Exchange rate arrangement: managed floating. The National Bank of Romania (NBR — www.bnro.ro) may intervene to smooth excessive exchange rate fluctuations.

Romania imposes few foreign exchange controls. Controls are imposed by NBR.

- Residents are usually restricted to the use of local currency (RON) in trade transactions.

Bank accounts

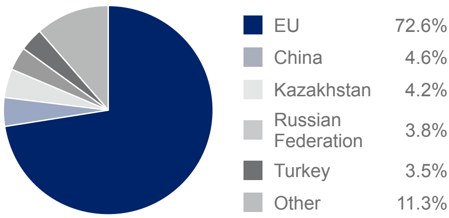
Permission to hold currency accounts

	Within Romania		Outside Romania	
	RON	Foreign currency	RON	Foreign currency
Resident company	✔	✔	✔	✔
Non-resident company	✔	✔	✔	N/A

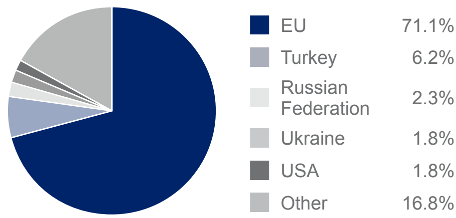
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Machinery and equipment, textiles and footwear, metals and metal products, minerals and fuels, chemicals, and agricultural products.

Import/export documentation

Within the EU: no documentation requirements, but a commercial invoice is typically included.

Outside the EU: commercial invoice, customs declaration, bill of lading, packing list and, sometimes, a certificate of origin.

Licences

Imports

- Goods/items that are subject to international controls.

Exports

- Goods/items that are subject to international controls.

Tariffs/Taxes

Imports

- Tariffs on imports from outside the EU are set according to the EU's common customs code, with higher rates for agricultural imports.

Exports

- None.

Financing requirements for imports/exports

- None.

Prohibited items

- Imports that are prohibited in accordance with EU regulations and UN Security Council resolutions, such as items deemed a threat to fauna and flora and national security.
- Exports that are prohibited in accordance with EU regulations and UN Security Council resolutions.

Russian Federation

Economic and trade overview

Key figures

Economy 2011

GDP (USD)	1,895 bn
GDP per capita (USD)	13,268
GDP volume growth (year-on-year)	+ 4.3%
Population	142.84m
MMR (year average)	3.93%
Exchange rate RUB / USD (year average)	29.382
BoP (goods, services & income) as % of GDP	+ 5.4%

Trade 2011 (USD billion)

Goods	Exports	513
	Imports	316
	Net	+ 197
Services	Exports	58
	Imports	93
	Net	– 35

Source: *IFS*, IMF, January 2013

International/Regional memberships

Commonwealth of Independent States (CIS): since 8 December 1991.

Eurasian Economic Community (EurAsEC): since 29 March 1996. Belarus, Kazakhstan, Kyrgyzstan and Tajikistan are also members. Uzbekistan is currently suspended.

International Monetary Fund (IMF): since 1 June 1992.

World Trade Organization (WTO): since 22 August 2012.

Government trade policy

- Russia has negotiated free trade agreements with all its fellow CIS member states.
- A customs union between Russia, Belarus and Kazakhstan entered into force on 5 July 2010, with all remaining customs border controls lifted on 1 July 2011. The three participants launched a common economic space on 1 January 2012.
- VTB Bank (www.vtb.com) and Vnesheconombank (www.veb.ru) provide export finance and state guarantees. VTB Bank also provides finance for exported covered by intergovernmental trade agreements.
- Russia has 15 special economic zones (Federal Agency for Management of Special Economic Zones — www.rosoez.ru).

Currency and exchange controls

Official currency: Russian ruble (RUB).

Exchange rate arrangement: controlled floating.

- The Central Bank of the Russian Federation (www.cbr.ru) imposes exchange controls on authorised banks. The Federal Service for Fiscal and Budgetary Supervision (www.rosfinnadzor.ru) imposes controls on resident companies trading internationally.
- Export proceeds are required to be credited to residents' foreign currency accounts. Resident companies are able to hold proceeds in accounts overseas in limited cases.
- Securities issued/sold overseas by residents require the prior authorisation of the Federal Financial Markets Service (www.ffms.ru).

Bank accounts

Permission to hold currency accounts

	Within Russia		Outside Russia	
	RUB	Foreign currency	RUB	Foreign currency
Resident company	✔	✔	✔*	✔*
Non-resident company	✔	✔	✔**	N/A

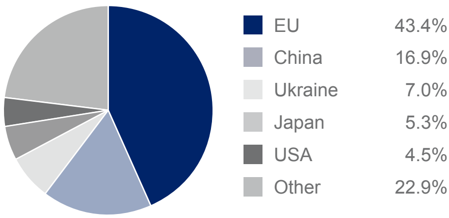
* Provided the tax authorities are subsequently notified.

** Subject to certain restrictions.

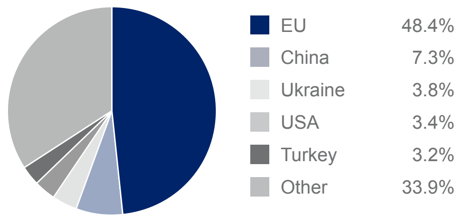
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Petroleum and petroleum products, natural gas, wood and wood products, metals, chemicals, and military manufactures.

Documentation

Imports

- Commercial invoice, customs declaration, bill of lading, packing list and a certificate of origin.

Exports

- Commercial invoice, customs declaration, bill of lading, packing list and a certificate of origin.

Licences

Imports

- Military equipment, dual-use items, ozone-depleting substances, industrial waste, medicines and various alcoholic products.

Exports

- Military equipment, dual-use items, precious stones and metals, ethyl alcohol, various alcoholic products, and rare species of fauna and flora.
- Goods/services that are subject to international controls.

Tariffs/Taxes

Imports

- Tariffs usually range between 5 percent and 15 percent.
- Tariffs ranging between 25 percent and 30 percent usually apply to sensitive items.
- Imports on the approved list from developing countries are subject to tariffs at 75 percent of the usual rate.
- Certain items are exempt from duty.

Exports

- Tariffs apply to 141 different items. The 6.5 percent tariff rate is most common.
- A maximum tariff of 50 percent is levied on non-ferrous scrap metal.
- Specific duties apply to crude oil and petroleum products.
- Combined duties are also levied on various items.

Financing requirements for imports/exports

- None.

Prohibited items

- Imports that are prohibited in accordance with UN Security Council resolutions, such as items deemed a threat to fauna and flora and national security. A state monopoly exists on the import of ethyl alcohol.
- Exports that are prohibited in accordance with UN Security Council resolutions.

Saudi Arabia

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	577 bn
GDP per capita (USD)	20,542
GDP volume growth (year-on-year)	+ 6.8%
Population	28.08m
MMR (year average)	0.69%
Exchange rate SAR / USD (year average)	3.7500
BoP (goods, services & income) as % of GDP	+ 32.6%

	Trade 2011 (USD billion)	
Goods	Exports	365
	Imports	120
	Net	+ 245
Services	Exports	11
	Imports	78
	Net	– 67

Source: *IFS*, IMF, January 2013

International/Regional memberships

Gulf Cooperation Council (GCC): since 25 May 1981.

The Organization of Oil Exporting Countries (OPEC): founding member since September 1960.

International Monetary Fund (IMF): since 26 August 1957

World Trade Organization (WTO): since 11 December 2005.

Government trade policy

- Much of Saudi Arabia's trade policy is directed through membership of the GCC (www.gccsg.org/eng/index.php).
- As a GCC member, Saudi Arabia is able to trade with other GCC member states (Qatar, Kuwait, Oman, Bahrain and the UAE) without investment and service trade barriers.
- Through the GCC common market, launched in 2008, Saudi Arabia's businesses and citizens receive national treatment in all GCC countries.
- The GCC also operates a customs union in which members are subject to unified customs duties.
- GCC member states have signed bilateral trade agreements with several countries and negotiations are ongoing with the European Union and ASEAN. In 2009 the GCC signed a free trade agreement with the European Free Trade Association (EFTA).
- Saudi Arabia also has a number of independent bilateral trade agreements.
- Saudi Arabia maintains one free trade zone located at the Jeddah Islamic Sea Port.

Currency and exchange controls

Official currency: Saudi Arabian riyal (SAR).

Exchange rate arrangement: conventional peg to the USD at a rate of SAR 3.75 per USD 1.

Saudi Arabia does not impose foreign exchange controls.

- Permission is required from Saudi Arabia's central bank, the Saudi Arabia Monetary Authority (SAMA — www.sama.gov.sa) for financial credits that are transferred between non-residents and residents.

Bank accounts

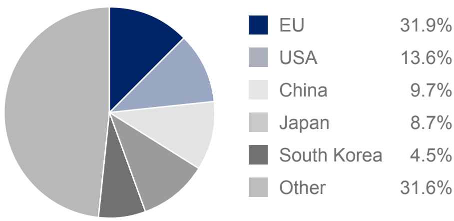
- Resident companies can hold foreign currency bank accounts within and outside Saudi Arabia.
- Non-resident companies based in other GCC member states can hold foreign currency and local currency bank accounts in Saudi Arabia for business or credit reasons with appropriate documentation and approval from SAMA.
- Non-resident (non-banking) companies based outside the GCC can hold foreign

currency and local currency bank accounts in Saudi Arabia, but only if they have projects or contracts in Saudi Arabia along with appropriate documentation, approval from SAMA and the Saudi Ministry of Commerce & Industry, and a recommendation from a rated bank. Authorised signatories require a residential licence.

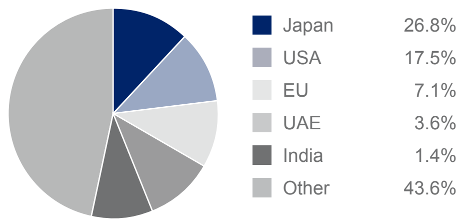
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Petroleum and petroleum products.

Documentation

Imports

- Commercial invoice, customs import declaration, packing list, terminal handling receipts, bill of lading and a cargo release order.

Exports

- Memorandum of understanding, packing list, bill of lading, commercial invoice and customs export declaration.

Licences

Imports

- Chemical and pharmaceutical products, animals, meat, seeds, books, tapes, movies, archaeological artefacts, armaments, ammunition, and some items containing alcohol.

Exports

- Fuels such as natural gas, oil and petroleum, items of historical value, wheat and livestock.

Tariffs/Taxes

Imports

- Most dutiable goods are subject to a maximum tariff of 5 percent, although tariff rates of either 12 percent or 20 percent apply for some goods, and tobacco is subject to a 100 percent tariff.
- Imports from GCC member states are exempt from duties.

Exports

- None.

Financing requirements for imports/exports

- None.

Prohibited items

Imports

- Items that are prohibited for import for religious, health and security reasons.
- Imports from Israel are prohibited.

Exports

- It is prohibited to re-export items that have benefited from subsidies from the Saudi Arabian government.
- Exports to Israel are prohibited.

Singapore

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	260 bn
GDP per capita (USD)	50,066
GDP volume growth (year-on-year)	+ 4.9%
Population	5.19m
MMR (year average)	0.41%
Exchange rate SGD / USD (year average)	1.2578
BoP (goods, services & income) as % of GDP	+ 24.5%

	Trade 2011 (USD billion)	
Goods	Exports	429
	Imports	362
	Net	+ 67
Services	Exports	114
	Imports	112
	Net	+ 2

Source: *IFS*, IMF, January 2013

International/regional memberships

Asia-Pacific Economic Cooperation (APEC): since 6–7 November 1989.

Association of Southeast Asian Nations (ASEAN): founding member since 8 August 1967.

International Monetary Fund (IMF): since 31 August 1951.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- Singapore pursues many of its trade objectives through its membership of ASEAN (www.aseansec.org).
- As a member of ASEAN, Singapore is committed to the ASEAN Free Trade Area (AFTA) Common Effective Preferential Tariff (CEPT) scheme. This lowers all intra-regional tariffs on trade between Singapore and other ASEAN member states (Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Thailand and Vietnam) to between zero and 5 percent.
- ASEAN member states have a number of free trade agreements (FTAs) with regional economies such as South Korea, China, Japan, India, and Australia and New Zealand. ASEAN is also in negotiations for an FTA with the European Union.
- Singapore is also a member of the Trans-Pacific Economic Partnership, along with Chile, New Zealand and Brunei, which eliminates some tariffs and trade barriers between the member states.
- National export credit insurance provider: ECICS Limited (www.ecics.com.sg) is a private-sector provider of export insurance and credit. The government can assist in export support through International Enterprise Singapore, which works with ECICS and QBE Insurance to provide trade credit insurance.
- Singapore currently operates nine free trade zones (FTZs), which are under the control of three separate operating authorities.

Currency and exchange controls

Official currency: Singapore dollar (SGD).

Exchange rate arrangement: floating.

The Monetary Authority of Singapore (www.mas.gov.sg), Singapore's central bank, manages the SGD against an undisclosed, trade-weighted basket of international currencies.

- Singapore does not impose any significant exchange controls.
- Singapore requires financial credits from a non-resident to a resident to be reported/ registered.

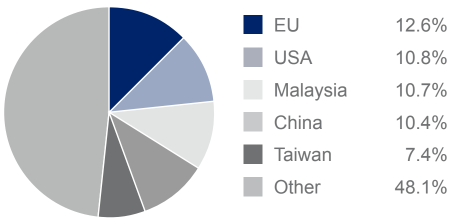
Bank accounts

- Resident companies can hold local currency (SGD) bank accounts outside Singapore.
- Resident companies can hold foreign currency bank accounts within and outside Singapore.
- Non-resident companies can hold local currency bank accounts within and outside Singapore.
- Non-resident companies can hold foreign currency bank accounts in Singapore.

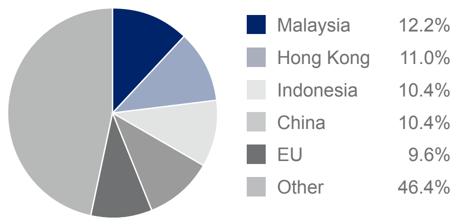
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Machinery and equipment, electronics, telecommunications, pharmaceuticals, and other chemicals and refined petroleum products.

Documentation

Imports

- A bill of lading, commercial invoice, customs import declaration and a packing list.

Exports

- A bill of lading, commercial invoice, customs export declaration and a packing list.

Licences

Imports

- Certain foodstuffs, including meat, fish and vegetables.
- Products that are included in the various international treaties to which Singapore is a signatory, for reasons of health, safety, environmental protection and national security.

Exports

- Items subject to quota restrictions, such as mahogany and some pine woods.
- Rubber and ozone depleting substances.

Tariffs/Taxes

Imports

- As a member of ASEAN and participant of AFTA, Singapore is subject to the Common Effective Preferential Tariff (CEPT) scheme, which applies tariff rates of between zero and 5 percent to goods with at least 40 percent ASEAN content if traded within ASEAN. The CEPT covers around 98 percent of all tariffs.
- Beer, stout, samshoo and medical samshoo are among the few goods that are subject to customs duties into Singapore.

Exports

- None.

Financing requirements for imports/exports

- None.

Prohibited items

Imports

- Items prohibited for reasons of health, safety and environmental protection, in accordance with UN Security Council resolutions.

Exports

- Items prohibited in accordance with UN Security Council resolutions.

Slovak Republic

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	96 bn
GDP per capita (USD)	17,560
GDP volume growth (year-on-year)	+ 3.2%
Population	5.47m
Interest rate (for corporations funding stocks up to one year)	3.80%
Exchange rate EUR / USD (year average)	0.7194
BoP (goods, services & income) as % of GDP	+ 0.5%

	Trade 2011 (USD billion)	
Goods	Exports	78
	Imports	75
	Net	+ 3
Services	Exports	7
	Imports	7
	Net	0

Source: *IFS*, IMF, January 2013

International/Regional memberships

European Union (EU): since 1 May 2004. Slovakia is also a member of the European Economic Area (EEA).

International Monetary Fund (IMF): since 1 January 1993.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- Slovakia implements the trade regulations, commercial policies and customs code of the EU (ec.europa.eu/trade).
- Slovakia trades freely with its fellow EEA member states as well as Switzerland.
- The EU has in place bilateral trade agreements with 36 countries and regional trade agreements with a number of trading blocs.
- National export credit insurance provider: Export–Import Bank of Slovakia (Eximbanka SR — www.eximbanka.sk). Eximbanka SR also provides state-supported export finance.
- The EU maintains 74 free trade zones, though none is located in Slovakia.

Currency and exchange controls

Official currency: Euro (EUR).

Exchange rate arrangement: free floating.

Slovakia does not impose foreign exchange controls.

- Resident banks can only invest up to 15% of their cash reserves in one foreign-based company, or up to 60% of their reserves in two or more foreign-based companies.

Bank accounts

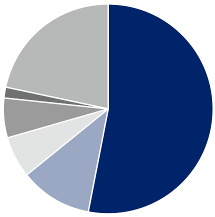
Permission to hold currency accounts

	Within Slovakia		Outside Slovakia	
	EUR	Foreign currency	EUR	Foreign currency
Resident company	✔	✔	✔	✔
Non-resident company	✔	✔	✔	N/A

Trade information

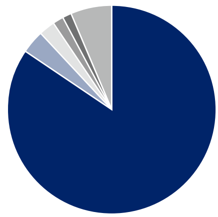
Key trading partners

Imports by origin



EU	53.1%
Russian Federation	11.2%
South Korea	6.4%
China	6.1%
Taiwan	1.6%
Other	21.6%

Exports by destination



EU	84.5%
Russian Federation	3.7%
China	2.6%
USA	1.6%
Turkey	1.4%
Other	6.2%

Source: WTO, September 2012

Principal exports

Vehicles, machinery and electrical equipment, metals, chemicals and minerals, and plastics.

Import/Export documentation

Within the EU: no documentation requirements, but a commercial invoice is typically included.

Outside the EU: commercial invoice, customs declaration, bill of lading, packing list and, sometimes, a certificate of origin.

Licences

Imports

- Import licences with quotas: various agricultural products; various textile products from North Korea and Belarus; various steel products from Russia and Kazakhstan; and potassium chloride from Belarus.

Exports

- Poisons, dangerous chemicals, narcotics, dual-use items, military equipment and technological products.

Tariffs/Taxes

Imports

- Tariffs on imports from outside the EU are set according to the EU's common customs code, with higher rates for agricultural imports.
- Excise duties on alcohol, tobacco and mineral oils.
- Excise tax on electricity, coal and natural gas.

Exports

- None.

Financing requirements for imports/exports

- None.

Prohibited items

- Imports that are prohibited in accordance with EU regulations and UN Security Council resolutions, such as items deemed a threat to fauna and flora, or national security and for moral reasons.
- Exports that are prohibited in accordance with EU regulations and UN Security Council resolutions.

South Africa

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	408 bn
GDP per capita (USD)	8,090
GDP volume growth (year-on-year)	+ 3.3%
Population	50.46m
MMR (year average)	5.29%
Exchange rate ZAR / USD (year average)	7.2611
BoP (goods, services & income) as % of GDP	– 2.9%

	Trade 2011 (USD billion)	
Goods	Exports	103
	Imports	100
	Net	+ 2
Services	Exports	15
	Imports	20
	Net	– 5

Source: *IFS*, IMF, January 2013

International/Regional memberships

Southern African Customs Union (SACU): since 1 March 1970. Botswana, Lesotho, Namibia and Swaziland are also members.

Southern African Development Community (SADC): since 30 August 1994.

International Monetary Fund (IMF): since 27 December 1945.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- South Africa trades freely with its fellow SACU (www.sacu.int) member states. The SACU member states have also established common external tariffs.
- SACU has established a free trade agreement with EFTA (the European Free Trade Association) and a trade, investment and development co-operation agreement (TIDCA) with the USA. South Africa has also established a TIDCA with the European Union.
- South Africa trades freely with its fellow SADC (www.sadc.int) member states, apart from Angola, the Democratic Republic of Congo and the Seychelles, which have yet to join the free trade area. Approximately 85 percent of all items traded between SADC member states are now exempt from tariffs. An SADC customs union is planned for 2013, with a common market due in 2015.
- Three trade blocs, COMESA (the Common Market of Eastern and Southern Africa), EAC (East African Community) and SADC, have agreed to merge into a single 26-member African Free Trade Zone (AFTZ). This is expected to take place in 2013.
- South Africa has independently established a preferential trade agreement with Mercosur (Mercado Común del Sur / the Southern Cone Common Market), cutting import tariffs on around 2,000 items.
- National export credit insurance providers: Export Credit Insurance Corporation of South Africa (ECIC — www.ecic.co.za); Credit Guarantee Insurance Corporation of Africa (CGIC — www.creditguarantee.co.za).
- The state-owned Industrial Development Corporation of South Africa (www.idc.co.za) provides state-supported medium to long-term finance for exports of manufactured and capital goods, and for contractors engaging in construction overseas.
- South Africa is home to four industrial development zones (in Richards Bay; Coega, near Port Elizabeth; Elidz, in East London; and next to Johannesburg International Airport) in which no import duties or VAT are applied on assets and machinery.

Currency and exchange controls

Official currency: South African rand (ZAR).

Exchange rate arrangement: free floating.

- South Africa is a member of the Common Monetary Area (which also encompasses Lesotho, Namibia and Swaziland), where the ZAR is legal tender.
- The South African Reserve Bank (www.reservebank.co.za) imposes foreign exchange controls on behalf of the Treasury (www.treasury.gov.za), to which all Common Monetary Area (CMA) member states adhere.
- Payments among CMA member states are exempt from restrictions.
- No restrictions are imposed on the forward foreign exchange market, with the exception of limitations imposed on the provision of cover for non-resident transactions.
- Export proceeds are usually required to be repatriated within 30 days.
- Resident individuals with overseas income may hold these funds overseas unless they derive from merchandise exports.
- Resident companies are usually required to repatriate overseas earnings within 30 days.
- As of 2011, headquarters of international companies can raise and deploy capital offshore without exchange control approval.
- Reserve Bank authorisation is required by residents wishing to issue/sell shares abroad.
- Residents may lend up to ZAR 1 million per calendar year to non-residents.
- Prior authorisation is required for financial loans from residents to non-residents if the resident individual is loaning over ZAR 1 million to non-residents in total.
- The maximum individuals can invest abroad or in a foreign exchange account in South Africa has been increased by ZAR 1 million to ZAR 5 million per calendar year.
- Miscellaneous payments of up to ZAR 100,000 a transaction may be made to non-residents.

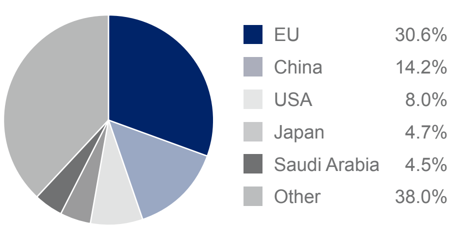
Bank accounts

- Resident and non-resident companies cannot hold local currency (ZAR) bank accounts outside South Africa.
- Resident companies can hold foreign currency bank accounts in South Africa and, with Reserve Bank approval, outside South Africa. These accounts are not permitted to exceed the equivalent of ZAR 5 million.
- Non-resident companies can hold local currency (ZAR) and foreign currency bank accounts in South Africa.

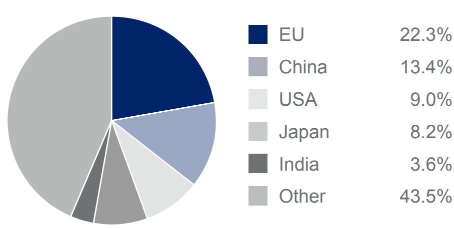
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

South Africa

Principal exports

Gold, diamonds, platinum, other metals and minerals, machinery and equipment.

Import/Export documentation

Within SACU: no documentation requirements, but a commercial invoice is typically included.

Outside SACU: commercial invoice, customs declaration, bill of lading, packing list and, sometimes, a certificate of origin.

- As of 2011, an electronic SAD 500 Customs Declaration Form is required for all exports.

Licences

Imports

- Armaments, radioactive materials, ozone-depleting substances, waste, scrap, various minerals (including fuels), gold, gambling machines, pneumatic tyres, fish, shellfish and molluscs.
- Licences with quotas: various agricultural and manufactured products (including textile and clothing products from Zimbabwe).
- Imports from Botswana, Lesotho, Malawi, Namibia, Swaziland and Zimbabwe do not usually require licences.

Exports

- Agricultural and manufactured products exported to countries outside SACU.
- Permits from the Department of Defence: military equipment, armaments and ammunition.

Tariffs/Taxes

Imports

- Only 14 percent VAT is levied on imports from other SACU member states.
- Tariffs of up to 45 percent for commercial goods and up to 60 percent for motor vehicles apply to imports from outside SACU.

Exports

- None.

Financing requirements for imports/ exports

- Goods imports are allowed with advance payment of up to 50% (previously 33.3%) of the e-factory cost without requiring Reserve Bank approval.
- Exporters are usually permitted to grant credit for up to one year.

Prohibited items

Imports

- Imports prohibited in accordance with UN Security Council resolutions, such as items deemed a threat to fauna, flora and national security or those deemed morally dubious.

Exports

- Exports that are prohibited in accordance with UN Security Council resolutions.

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	1,478 bn
GDP per capita (USD)	31,804
GDP volume growth (year-on-year)	+ 0.7%
Population	46.46m
MMR (year average)	1.02%
Exchange rate EUR / USD (year average)	0.7194
BoP (goods, services & income) as % of GDP	– 3.0%

	Trade 2011 (USD billion)	
Goods	Exports	304
	Imports	360
	Net	– 55
Services	Exports	143
	Imports	95
	Net	+ 48

Source: *IFS*, IMF, January 2013

International/Regional memberships

European Union (EU): since 1 January 1986. Spain is also a member of the European Economic Area (EEA).

International Monetary Fund (IMF): since 15 September 1958.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- Spain implements the EU's trade regulations, commercial policies and customs code (ec.europa.eu/trade).
- Spain trades freely with its fellow EEA member states as well as Switzerland.
- The EU has in place bilateral trade agreements with 36 countries and regional trade agreements with a number of trading blocs.
- National export credit insurance provider: The Spanish Export Credit Insurance Company (Compañia Española de Seguros de Crédito a la Exportación — CESCE, www.cesce.es).
- The EU maintains 74 free trade zones, four of which are located in Spain: Barcelona, Cádiz, Vigo and Las Palmas de Gran Canaria.

Currency and exchange controls

Official currency: Euro (EUR).

Exchange rate arrangement: free floating.

Spain does not impose foreign exchange controls.

- Individuals importing or exporting the equivalent of EUR 10,000 or more in domestic or foreign currency from or to a country outside the EU are required to notify the relevant customs authorities.
- Financial credits over EUR 3 million involving a non-resident counterparty are required to be reported to Banco de España (www.bde.es).

Bank accounts

Permission to hold currency accounts

	Within Spain		Outside Spain	
	EUR	Foreign currency	EUR	Foreign currency
Resident company	✔	✔	✔*	✔*
Non-resident company	✔	✔	✔	N/A

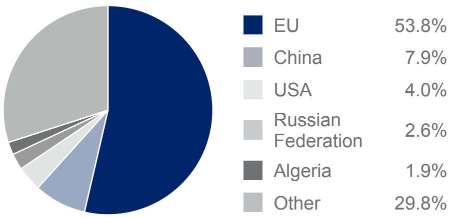
* Residents are required to notify the Banco de España when opening or closing foreign currency accounts held outside Spain.

Spain

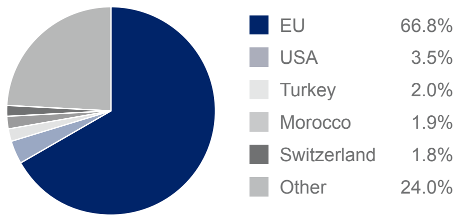
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Machinery, motor vehicles, foodstuffs, pharmaceuticals, medicines and consumer goods.

Import/Export documentation

Within the EU: no documentation requirements, but a commercial invoice is typically included.

Outside the EU: commercial invoice, customs declaration, bill of lading, packing list and, sometimes, a certificate of origin.

Licences

Imports

- Some imports, including clothing, textiles and steel, from outside the EU.
- There is a system of access quotas for imports from outside the EU for products covered by the Common Agricultural Policy.
- Prior approval from the General Secretary of Foreign Trade is required to import certain military goods.

Exports

- Goods/items that are subject to international controls.
- Prior approval from the General Secretary of Foreign Trade is required to export certain military goods.

Tariffs/Taxes

Imports

- Tariffs on imports from outside the EU are set according to the EU's common customs code, with higher rates for agricultural imports.
- Imports from developing countries are subject to preferential rates.

Exports

- None.

Financing requirements for imports/exports

- None.

Prohibited items

- Imports that are prohibited in accordance with EU regulations and UN Security Council resolutions, such as items deemed a threat to fauna and flora and national security.
- Exports that are prohibited in accordance with EU regulations and UN Security Council resolutions.

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	539 bn
GDP per capita (USD)	57,096
GDP volume growth (year-on-year)	+ 3.7%
Population	9.44m
MMR (year average)	2.07%
Exchange rate SEK / USD (year average)	6.4935
BoP (goods, services & income) as % of GDP	+ 7.9%

	Trade 2011 (USD billion)	
Goods	Exports	189
	Imports	176
	Net	+ 13
Services	Exports	75
	Imports	54
	Net	+ 21

Source: *IFS*, IMF, January 2013

International/Regional memberships

European Union (EU): since 1 January 1995. Sweden is also a member of the European Economic Area (EEA).

International Monetary Fund (IMF): since 31 August 1951.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- Sweden implements the trade regulations, commercial policies and customs code of the EU (ec.europa.eu/trade).
- Sweden trades freely with its fellow EEA member states as well as Switzerland.
- The EU has in place bilateral trade agreements with 36 countries and regional trade agreements with a number of trading blocs.
- National export credit insurance provider: Exports Credits Guarantee Board (EKN — www.ekn.se).
- Swedish Export Credit Corporation (SEK — www.sek.se) operates Sweden's state-supported export credit programme.
- The EU maintains 74 free trade zones, though none is located in Sweden.

Currency and exchange controls

Official currency: Swedish krone (SEK).

Exchange rate arrangement free floating.

Sweden does not impose foreign exchange controls.

- Individuals importing or exporting the equivalent of EUR 10,000 or more in domestic or foreign currency from or to a country outside the EU are required to notify the customs authorities (www.tullverket.se).

Bank accounts

Permission to hold currency accounts

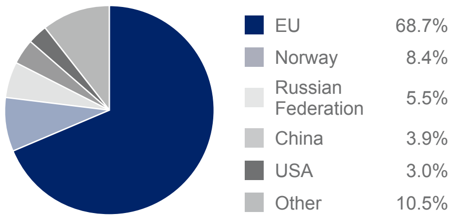
	Within Sweden		Outside Sweden	
	SEK	Foreign currency	SEK	Foreign currency
Resident company	✔	✔	✔	✔
Non-resident company	✔	✔	✔	N/A

Sweden

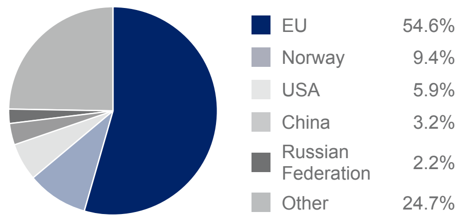
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Machinery, motor vehicles, paper products, pulp and wood, iron and steel products, and chemicals.

Import/Export documentation

Within the EU: no documentation requirements, but a commercial invoice is typically included.

Outside the EU: commercial invoice, customs declaration, bill of lading, packing list and, sometimes, a certificate of origin.

Licences

Imports

- Most iron and steel and textile imports from outside the EU require import licences.
- Import licences with quotas: all fish and agricultural goods; iron and steel imports from Kazakhstan and Russia; and certain textiles and clothing imports from Belarus and North Korea.
- Goods subject to additional controls: armaments, some foods, live animals, narcotics and radioactive material.

Exports

- Goods/items that are subject to international controls.

Tariffs/Taxes

Imports

- Tariffs on imports from outside the EU are set according to the EU's common customs code, with higher rates for agricultural imports.
- Taxes/duties apply to alcohol, tobacco and mineral oils.

Exports

- None.

Financing requirements for imports/exports

- None.

Prohibited items

- Imports that are prohibited in accordance with EU regulations and UN Security Council resolutions, such as items deemed a threat to fauna and flora and national security.
- Exports that are prohibited in accordance with EU regulations and UN Security Council resolutions.

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	661 bn
GDP per capita (USD)	85,820
GDP volume growth (year-on-year)	+ 1.9%
Population	7.70m
MMR (year average)	0.07%
Exchange rate CHF / USD (year average)	0.8880
BoP (goods, services & income) as % of GDP	+ 9.5%

	Trade 2011 (USD billion)	
Goods	Exports	346
	Imports	320
	Net	+ 25
Services	Exports	74
	Imports	52
	Net	+ 23

Source: *IFS*, IMF, January 2013

International/Regional memberships

European Free Trade Association (EFTA): since 3 May 1960. Iceland, Liechtenstein and Norway are also members.

International Monetary Fund (IMF): since 29 May 1992.

World Trade Organization (WTO): since 1 July 1995.

Government trade policy

- Switzerland benefits from free trade with its fellow EFTA (www.efta.int) member states.
- The majority of Switzerland's trade regulations and practices correspond with the European Union (EU) customs code (ec.europa.eu/trade).
- Switzerland has negotiated numerous bilateral trade agreements with the EU and its member states. It has also negotiated a bilateral investment protection agreement with China.
- EFTA has negotiated bilateral trade agreements with 24 countries plus the Southern African Customs Union (SACU) and Gulf Co-operation Council (GCC). It is also negotiating free trade agreements with 14 countries. It has negotiated co-operation agreements with four countries and the Mercosur trading bloc.
- National export credit insurance provider: Swiss Export Risk Insurance (SERV — www.serv-ch.com).
- Switzerland maintains approximately 30 free zones and ports.

Currency and exchange controls

Official currency: Swiss franc (CHF).

Exchange rate arrangement: free floating.

Switzerland does not impose foreign exchange controls.

- Switzerland applies controls to equities purchased abroad by residents from non-residents if they represent over 30 percent of an insurance company's technical reserves.

Bank accounts

Permission to hold currency accounts

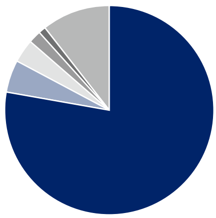
	Within Switzerland		Outside Switzerland	
	CHF	Foreign currency	CHF	Foreign currency
Resident company	✔	✔	✔	✔
Non-resident company	✔	✔	✔	N/A

Switzerland

Trade information

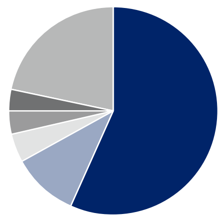
Key trading partners

Imports by origin



EU	78.0%
USA	5.0%
China	3.4%
Japan	2.2%
Kazakhstan	1.0%
Other	10.4%

Exports by destination



EU	56.9%
USA	10.3%
China	4.2%
Hong Kong	3.8%
Japan	3.2%
Other	21.6%

Source: WTO, September 2012

Principal exports

Machinery, chemicals, metals, watches, and agricultural products.

Import/Export documentation

- Commercial invoice, customs declaration, bill of lading, packing list, and sometimes, a certificate of origin.

Licences

Imports

- Goods/items that are subject to international controls.
- Various agricultural products.
- Kimberley Process Certificate: rough diamonds.

Exports

- Goods/items that are subject to international controls.
- Kimberley Process Certificate: rough diamonds.

Tariffs/Taxes

Imports

- The standard 8 percent VAT rate applies to items imported into Switzerland.
- Customs duties are usually levied on the weight of imported items.
- Ad valorem tariffs on industrial imports average approximately 0.29 percent, while tariffs on agricultural products average approximately 5.27 percent.

Exports

- None.

Financing requirements for imports/exports

- None.

Prohibited items

- Imports that are prohibited in accordance with UN Security Council resolutions, such as items deemed a threat to fauna and flora and national security. Certain military items are also strictly controlled.
- Exports are prohibited in accordance with UN Security Council resolutions.

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	480 bn
GDP per capita (USD)	20,713
GDP volume growth (year-on-year)	+ 4.0%
Population	23.1m
Central bank rediscount rate	1.875%
Exchange rate TWD / USD (year average)	29.4637
BoP (goods, services & income) as % of GDP	+ 9.4%

	Trade 2011 (USD billion)	
Goods	Exports	307
	Imports	279
	Net	+ 28
Services	Exports	46
	Imports	42
	Net	+ 4

Source: WTO, September 2012 and Taiwan Economic Forum, October 2012

International/Regional memberships

Asia-Pacific Economic Cooperation (APEC): since 12–14 November 1991.

International Monetary Fund (IMF): NA.

World Trade Organization (WTO): since 1 January 2002.

Government trade policy

- Taiwan's lack of formal diplomatic relations has made it difficult for the country to pursue international trade agreements, which consequently limits its trade policy.
- Taiwan has, however, secured WTO membership, which has encouraged the Taiwanese government to reduce some trade tariffs.
- National export credit insurance provider: The Export-Import Bank of the ROC (Eximbank — www.eximbank.com.tw) operates Taiwan's state-supported export credit and insurance programmes.
- Taiwan maintains approximately five free trade zones.

Currency and exchange controls

Official currency: Taiwanese dollar (TWD).

Exchange rate arrangement: managed float.

Taiwan does not impose foreign exchange controls on foreign currency conversion but does impose some on non-trade related transactions. These are administered by the Ministry of Finance (www.mof.gov.vn), the Central Bank of the Republic of China (CBC — www.cbc.gov.tw) and the Ministry of Economic Affairs (MOEA — www.mofa.gov.vn/en).

- Taiwan imposes limits on foreign exchange proceeds remission; CBC approval is required for all transactions over the set amounts.
- Resident companies can remit up to USD 50 million per year, excluding imports and exports payments and staff salary payments.
- Foreign companies wishing to borrow from abroad must seek permission from the CBC's Foreign Exchange Department and the MOEA's Investment Commission.
- The MOEA's Investment Commission must authorise all foreign direct investment and resident outward investment in advance.

Bank accounts

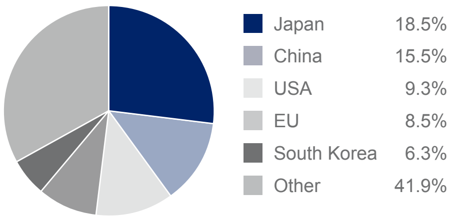
- Resident companies can hold local currency (TWD) bank accounts outside Taiwan.
- Resident companies can hold foreign currency bank accounts both within and outside Taiwan.
- Non-resident companies can hold local currency deposit accounts in Taiwan, but cannot hold domestic currency cheque accounts.
- Non-residents are also permitted to hold foreign currency bank accounts in Taiwan.

Taiwan

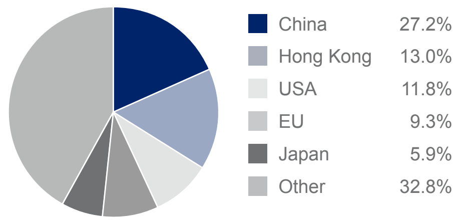
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Electronics, flat panels, machinery, metals, textiles, plastics, chemicals, opticals and medical equipment.

Documentation

Imports

- Bill of lading, certificate of origin, commercial invoice, a customs import declaration, packing list and terminal handling receipts.

Exports

- Bill of lading, certificate of origin, commercial invoice, a customs export declaration, packing list and terminal handling receipts.

Licences

Imports

- Only around 2 percent of goods need an import licence.
- The Bureau of Foreign Trade (BOFT — www.trade.gov.tw/English/) issues licences for goods classified as controlled or permissible.

Exports

- The BOFT issues licences for goods classified as controlled or permissible.

Tariffs/Taxes

Imports

- Since joining the WTO, Taiwan has reduced many of its import tariff rates.
- The maximum tariff rate is 50 percent; the average rate is 5.6 percent.
- Foreign alcohol and tobacco are also subject to additional tariffs, excise duty and health taxes.

Exports

- None.

Financing requirements for imports/exports

- None.

Prohibited items

Imports

- Items that are prohibited for moral reasons as well as to protect national security, public health and to preserve wildlife.

Exports

- Items that are prohibited for moral reasons as well as to protect national security, public health and to preserve wildlife.

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	346 bn
GDP per capita (USD)	4,972
GDP volume growth (year-on-year)	+ 0.1%
Population	69.52m
MMR (year average)	2.80%
Exchange rate THB / USD (year average)	30.492
BoP (goods, services & income) as % of GDP	– 1.4%

	Trade 2011 (USD billion)	
Goods	Exports	219
	Imports	202
	Net	+ 17
Services	Exports	42
	Imports	52
	Net	– 10

Source: *IFS*, IMF, January 2013

International/regional memberships

Asia-Pacific Economic Cooperation (APEC): since 6–7 November 1989.

Association of Southeast Asian Nations (ASEAN): founding member since 8 August 1967.

International Monetary Fund (IMF): since 31 August 1951.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- Thailand pursues many of its trade objectives through its membership of ASEAN (www.aseansec.org).
- As a member of ASEAN, Thailand is committed to the ASEAN Free Trade Area (AFTA) Common Effective Preferential Tariff (CEPT) scheme. This lowers all intra-regional tariffs on trade between Thailand and other ASEAN member states (Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore and Vietnam) to between zero and 5 percent.
- ASEAN member states have a number of free trade agreements (FTAs) with regional economies, such as South Korea, China, Japan, India, and Australia and New Zealand. ASEAN is also in negotiations for an FTA with the EU.
- National export credit insurance provider: Export-Import Bank of Thailand (EXIM Thailand — www.exim.go.th).
- Thailand operates a number of General Industrial Zones (GIZs) and ten Export Processing Zones (EPZs). Firms located in GIZs and EPZs benefit from deductions or exemption from some import duties and corporate taxes, permission to use foreign staff, and faster clearance of goods.

Currency and exchange controls

Official currency: Thai baht (THB).

Exchange rate arrangement: floating.

Thailand does impose some foreign exchange controls, which are administered by the Bank of Thailand (BOT — www.bot.or.th) on behalf of the Ministry of Finance (www.mof.go.th).

- It is prohibited to export notes and coins with a value in excess of THB 50,000 (THB 500,000 to Vietnam and bordering countries).
- The import or export of gold ornaments with a value in excess of USD 20,000 must be declared to the customs authorities (www.customs.go.th).
- Forward foreign exchange rates are available. THB liquidity provided to non-residents without a domestic trade and investment by financial institutions are limited to THB 300 million. The limit on THB borrowing by residents from non-residents is THB 10 million.
- The proceeds of exports in excess of USD 50,000 must be repatriated by resident entities within 360 days of the date of export and immediately after receipt of payment.
- Resident entities must file a foreign exchange transaction form for proceeds from invisible exports or current transfers.

Thailand

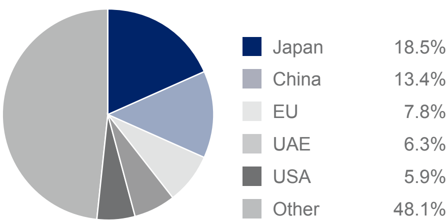
Bank accounts

- Resident companies must gain approval from the BOT to deposit local currency (THB) outside Thailand.
- Resident companies can hold foreign currency bank accounts both within and outside Thailand, subject to certain conditions.
- Non-resident companies can hold local currency bank accounts in Thailand, but may hold no more than THB 300 million daily in all their domestic currency accounts.
- Non-resident companies can hold foreign currency bank accounts in Thailand.

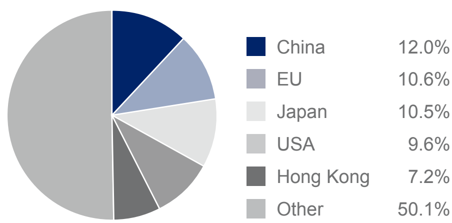
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Textiles and footwear, fishery products, rice, rubber, jewellery, cars, computers and electrical appliances.

Documentation

Imports

- Commercial invoice, customs import declaration, packing list, terminal handling receipts and a bill of lading.

Exports

- Terminal handling receipts, bill of lading, certificate of origin, commercial invoice and a customs export declaration.

Licences

Imports

- Certain food and pharmaceutical products, chemicals, oils, drugs, weapons and ammunition.

Exports

- Rice, canned tuna, certain types of coal and charcoal, and textile products.

Tariffs/Taxes

Imports

- As a member of ASEAN and participant of AFTA, Thailand is subject to the Common Effective Preferential Tariff (CEPT) scheme, which applies tariff rates of between zero and 5 percent to goods with at least 40 percent ASEAN content if traded within ASEAN. The CEPT covers around 98 percent of all tariffs.
- Non-AFTA imports and some certain goods are subject to ad valorem and/or specific import duties, and some products attract an additional special duty.

Exports

- Wood, wooden articles and hides.

Financing requirements for imports/ exports

- None.

Prohibited items

Imports

- Items prohibited for reasons of national security or for social reasons.

Exports

- All goods not subject to licensing can be exported freely.

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	775 bn
GDP per capita (USD)	10,524
GDP volume growth (year-on-year)	+ 8.5%
Population	73.64m
MMR (year average)	2.99%
Exchange rate TRY / USD (year average)	1.6750
BoP (goods, services & income) as % of GDP	– 10.2%

	Trade 2011 (USD billion)	
Goods	Exports	143
	Imports	232
	Net	– 89
Services	Exports	39
	Imports	21
	Net	+ 18

Source: *IFS*, IMF, January 2013

International/Regional memberships

Economic Cooperation Organisation (ECO): founding member since 1985.

International Monetary Fund (IMF): since 11 March 1947.

World Trade Organization (WTO): since 26 March1995.

Government trade policy

- Turkey has a customs union agreement with the EU and thus implements the EU customs code (ec.europa.eu/trade).
- As such, import tariffs are due on EU agricultural products only.
- Turkey has in place free trade agreements with EFTA (European Free Trade Association) member states and 18 further countries: Albania, Bosnia and Herzegovina, Chile, Croatia, Egypt, Georgia, Israel, Jordan, Lebanon, Macedonia, Mauritius, Montenegro, Morocco, Palestine (Palestinian Authority), Serbia, South Korea, Syria and Tunisia.
- Turkey belongs to the ECO, which aims to create a free trade area among its ten member states by 2015.
- National export credit insurance provider: Export Credit Bank of Turkey (Türk Eximbank — www.eximbank.gov.tr). The wholly state-owned Türk Eximbank also provides state-supported export finance.
- Turkey currently has 19 free trade zones.

Currency and exchange controls

Official currency: Turkish lira (TRY).

Exchange rate arrangement: free floating.

The Central Bank of the Republic of Turkey (www.tcmb.gov.tr) and Turkish Treasury (www.treasury.gov.tr) manage the country's exchange controls.

- Commodity credits from residents to non-residents exceeding two years for the export of nondurable goods and exceeding five years for the export of other goods are subject to restrictions.
- Non-residents are obliged to register securities to be issued or sold in Turkey with the Capital Market Board. Furthermore, residents are obliged to register all securities to be issued or sold overseas.

Bank accounts

Permission to hold currency accounts

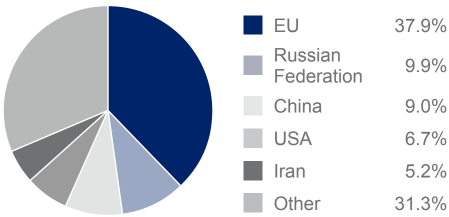
	Within Turkey		Outside Turkey	
	TRY	Foreign currency	TRY	Foreign currency
Resident company	✔	✔	✔	✔
Non-resident company	✔	✔	✔	N/A

Turkey

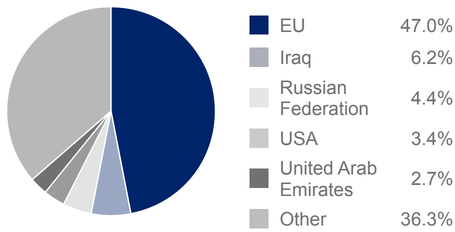
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Apparel, foodstuffs, textiles, metal manufactures and transport equipment.

Import/Export documentation

- Commercial invoice, bill of lading, customs declaration and a certificate of origin.

Licences

Imports

- Certain chemicals, machinery, and motor vehicles.
- Licences with quotas: textiles and apparel from two non-WTO countries.
- Permits from the Ministry of the Economy: old, used, faulty or obsolete items.

Exports

- Goods/items that are subject to international controls.
- There are export restrictions on items for which demand outweighs supply, certain artworks and historically or culturally valuable objects and antiquities.

Tariffs/Taxes

Imports

- Tariffs on imports from outside the EU are set according to the EU's common customs code, with higher rates for agricultural imports.
- From the EU and EFTA, only agricultural products are subject to tariffs.
- Industrial products from outside the EU and EFTA have an average tariff of 4.2 percent.
- Agricultural products from the EU and EFTA have an average tariff of 57.4 percent, while those from other countries have an average tariff of 58.6 percent.
- Imports from the world's 50 or so least-developed nations have preferential tariffs. Seventy-two different industrial products and various agricultural imports from these countries are exempt from tariffs.

Exports

- Tariffs are levied on hazelnuts and unprocessed leather.

Financing requirements for imports/exports

- None.

Prohibited items

- Imports that are prohibited in accordance with UN Security Council resolutions, such as items deemed a threat to fauna and flora and national security or those deemed morally dubious.
- Exports that are prohibited in accordance with UN Security Council resolutions. Exports of certain artworks and historically or culturally valuable objects and antiquities are also prohibited.

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	165 bn
GDP per capita (USD)	3,657
GDP volume growth (year-on-year)	+ 5.2%
Population	45.19m
MMR (year average)	7.11%
Exchange rate UAH / USD (year average)	7.9676
BoP (goods, services & income) as % of GDP	– 8.4%

	Trade 2011 (USD billion)	
Goods	Exports	62
	Imports	80
	Net	– 18
Services	Exports	21
	Imports	13
	Net	+ 12

Source: *IFS*, IMF, January 2013

International/Regional memberships

Commonwealth of Independent States (CIS): de facto participating member since 8 December 1991. Not an official member.

GUAM Organisation for Democracy and Economic Development: founding member since 1997. Armenia, Georgia and Moldova are also members.

International Monetary Fund (IMF): since 3 September 1992.

World Trade Organization (WTO): since 16 May 2008.

Government trade policy

- Ukraine has negotiated free trade agreements with all CIS member states.
- Ukraine has established a bilateral free trade agreement with the European Free Trade Association (EFTA) and a partnership and cooperation agreement with the European Union (EU).A free trade agreement with the EU has been negotiated (but is not yet signed) and free trade negotiations with Canada and Singapore are ongoing.
- The wholly state-owned State Export–Import Bank of Ukraine (Ukreximbank — www.eximb.com) provides state-supported export finance and is the country's leading provider of export credit. Ukreximbank receives insurance coverage from 35 foreign export credit agencies.
- Ukraine currently has no free trade zones or special economic zones.

Currency and exchange controls

Official currency: Ukrainian hryvnia (UAH).

Exchange rate arrangement:
stabilised arrangement against the US dollar (USD), i.e. within a 2% band.

- All forward foreign exchange operations are required to be carried out within 365 days.
- The National Bank of Ukraine (NBU — www.bank.gov.ua) manages exchanges controls, along with other authorised financial and credit institutions, the State Tax Service, the State Customs Service, the State Administration of Communications, Ukrposhta (the national postal service operator) and the Ministry of Infrastructure.
- Cross-border payments or receipts are settled in foreign currency.
- Export proceeds need to be repatriated within 180 days.

Ukraine

- Residents require the permission of the State Securities and Stock Market Commission to issue/sell securities abroad, while NBU approval must be obtained for residents to purchase securities abroad.
- Financial and personal loans from non-residents to residents must be registered with the NBU, except for loans obtained under state guarantees.
- Commercial loans from residents to non-residents may only exceed 180 days with NBU approval.

Bank accounts

Permission to hold currency accounts

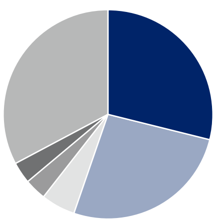
	Within Ukraine		Outside Ukraine	
	UAH	Foreign currency	UAH	Foreign currency
Resident company	✔	✔	No	✔*
Non-resident company	✔*	✔*	No	N/A

* Permitted with NBU approval.

Trade information

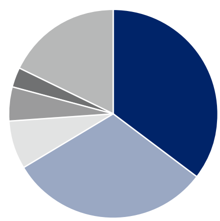
Key trading partners

Imports by origin



Russian Federation	35.3%
EU	31.2%
China	7.6%
Belarus	5.1%
USA	3.1%
Other	17.7%

Exports by destination



Russian Federation	29.0%
EU	26.3%
Turkey	5.5%
India	3.3%
China	3.2%
Other	32.7%

Source: WTO, September 2012

Principal exports

Ferrous and non-ferrous metals, fuel and petroleum products, chemicals, machinery and transport equipment, and food products.

Import/Export documentation

Imports

- Commercial invoice, bill of lading, customs declaration and a certificate of origin.
- Import contracts must be presented in order to buy foreign currency to purchase imports.

Licences

Imports

- Goods/items that are subject to international controls.

Exports

- Goods/items that are subject to international controls.
- Licences with quotas: alcohol, coal and precious scrap metals.

Tariffs/taxes

Imports

- Import tariffs average around 5 percent. Tariffs vary according to whether the imports are from countries with which Ukraine has a free or preferential trade agreement, from countries granted 'most favoured nation' status, or from other countries.
- Excise duties also apply to certain imports.
- There is also VAT of 20 percent on most imports.

Exports

- Tariffs are levied on animal hides and skins, livestock and sunflower seeds.

Financing requirements for imports/exports

- NBU approval is needed for advance import payments exceeding 180 days.
- There are no financing requirements for exports.

Prohibited items

- Imports that are prohibited in accordance with UN Security Council resolutions, such as items deemed a threat to fauna and flora and national security.
- Additional items prohibited for import: weapons and ammunition, hazardous substances, narcotics, various pharmaceutical products, batteries and liquor.
- Exports that are prohibited in accordance with UN Security Council resolutions.

United Arab Emirates

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	360 bn
GDP per capita (USD)	45,653
GDP volume growth (year-on-year)	+ 5.0%
Population	7.89m
Interest rate	NA
Exchange rate AED / USD (year average)	3.6725
BoP (goods, services & income) as % of GDP (2010)	+ 11.4%

	Trade 2011 (USD billion)	
Goods	Exports	232
	Imports	166
	Net	+ 66
Services	Exports	9
	Imports	43
	Net	– 34

Source: *IFS*, IMF, January 2013 and Central Bank of UAE

International/regional memberships

Gulf Cooperation Council (GCC): since 25 May 1981.

The Organization of Oil Exporting Countries (OPEC): since 1967.

International Monetary Fund (IMF): since 22 September 1972.

World Trade Organization (WTO): since 10 April 1996.

Government trade policy

- Much of the UAE's trade policy is directed through its membership of the GCC (www.gccsg.org/eng/index.php).
- As a GCC member, the UAE is able to trade with other GCC member states (Bahrain, Kuwait, Oman, Qatar and Saudi Arabia) without investment and service trade barriers.
- Through the GCC common market, launched in 2008, UAE businesses and citizens receive national treatment in all GCC countries.
- The GCC also operates a customs union in which members are subject to unified customs duties.
- GCC member states have signed bilateral trade agreements with several countries, and negotiations are ongoing with the European Union and the Association of Southeast Asian Nations (ASEAN). In 2009 the GCC signed a free trade agreement with the European Free Trade Association (EFTA).
- National export credit insurance provider: Export Credit Insurance Company of the Emirates (www.ecie.ae).
- The UAE maintains 36 free trade zones.
- Abu Dhabi Industrial City and the Al Ain Industrial City operate as special economic zones within the UAE.

Currency and exchange controls

Official currency: Dirham (AED).

Exchange rate arrangement: pegged to the USD at a rate of AED 3.6725 per USD 1.

The UAE does not impose foreign exchange controls.

- The United Arab Emirates Central Bank (UAECB — www.centralbank.ae) maintains a forward foreign exchange swap facility, via swaps with terms of one week and one, two, three, six, nine, and twelve months.

Bank accounts

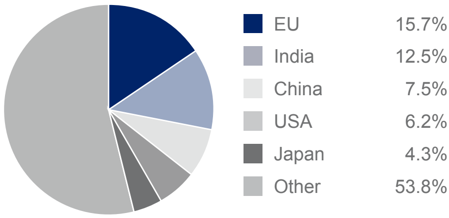
- Resident companies can hold local currency (AED) bank accounts.
- Resident companies can hold foreign currency bank accounts within and outside the UAE.
- Non-resident companies can hold local currency accounts and foreign currency bank accounts in within and outside the UAE.

United Arab Emirates

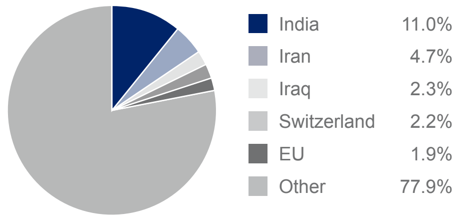
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Crude oil, natural gas, re-exports, dried fish, and dates.

Documentation

Imports

- Bill of landing, certificate of origin, commercial invoice, customs import declaration and a packing list.

Exports

- Bill of lading, certificate of origin, commercial invoice and a customs export declaration.

Licences

Imports

- Importers to the UAE must be licensed and can only import the good specified under the terms of their individual licence.

Exports

- None.

Tariffs/Taxes

Imports

- Tariffs on imports are set in line with the GCC Customs Union. This sets a maximum tariff of 5 percent for most goods imported from outside the GCC. However, certain goods such as alcohol (125 percent) and tobacco (100 percent) are subject to much higher tariffs. Duties on quantity and weight may also lead to higher tariffs.
- Tariffs are not applied to imports within the GCC.

Exports

- None.

Financing requirements for imports/ exports

- None.

Prohibited items

Imports

- Any company blacklisted by the Arab League is not permitted to import products into the UAE. Other imports may be prohibited for moral, health, environmental, foreign policy and national security reasons.
- Imports from Israel are also prohibited.

Exports

- Exports to Israel are prohibited.

United Kingdom

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	2,431 bn
GDP per capita (USD)	38,951
GDP volume growth (year-on-year)	+ 0.8%
Population	62.42m
MMR (year average)	0.52%
Exchange rate EUR / USD (year average)	1.6036
BoP (goods, services & income) as % of GDP	– 0.5%

	Trade 2011 (USD billion)	
Goods	Exports	479
	Imports	639
	Net	– 160
Services	Exports	294
	Imports	181
	Net	+ 113

Source: *IFS*, IMF, January 2013

International/Regional memberships

European Union (EU): since 1 January 1973. The UK is also a member of the European Economic Area (EEA).

International Monetary Fund (IMF): since 27 December 1945.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- The UK implements the EU's trade regulations, commercial policies and customs code (ec.europa.eu/trade).
- The UK trades freely with its fellow EEA member states as well as Switzerland.
- The EU has in place bilateral trade agreements with 36 countries and regional trade agreements with a number of trading blocs.
- National export credit insurance provider: Export Credits Guarantee Department www.ecgd.gov.uk).
- The EU maintains 74 free trade zones, seven of which are located in the UK. Isle of Man Airport is also a free trade zone.

Currency and exchange controls

Official currency: Pound sterling (GBP).

Exchange rate arrangement: free floating.

The UK does not impose foreign exchange controls.

Bank accounts

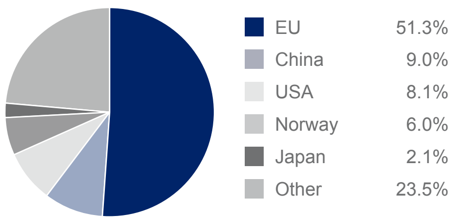
Permission to hold currency accounts

	Within UK		Outside UK	
	GBP	Foreign currency	GBP	Foreign currency
Resident company	✔	✔	✔	✔
Non-resident company	✔	✔	✔	N/A

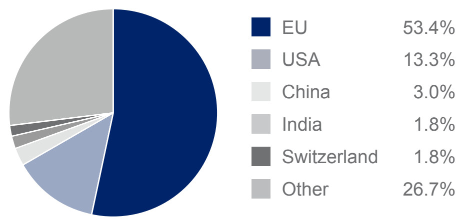
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Manufactured goods, defence and aerospace equipment, fuels, chemicals, food, beverages and tobacco.

Import/Export documentation

Within the EU: no documentation requirements, but a commercial invoice is typically included.

Outside the EU: commercial invoice, customs declaration, bill of lading, packing list and, sometimes, a certificate of origin.

Licences

Imports

- Military equipment, nuclear materials and various steel products from outside the EU.
- Import licences with quotas: textile and clothing imports from North Korea; textile imports from Belarus, China and Uzbekistan; and various steel imports from Kazakhstan, Russia and Ukraine.
- Kimberley Process certificate: rough diamonds.

Exports

- Goods/items that are subject to international controls.
- Kimberley Process certificate: rough diamonds.

Tariffs/Taxes

Imports

- Tariffs on imports from outside the EU are set according to the EU's common customs code, with higher rates for agricultural imports.

Exports

- None.

Financing requirements for imports/exports

- None.

Prohibited items

- Imports that are prohibited in accordance with EU regulations and UN Security Council resolutions, such as items deemed a threat to fauna and flora and national security.
- Exports that are prohibited in accordance with EU regulations and UN Security Council resolutions.

United States of America

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	15,076 bn
GDP per capita (USD)	48,151
GDP volume growth (year-on-year)	+ 1.8%
Population	313.09m
Prime rate	3.25%
Exchange rate USD / EUR (year average)	1.3914
BoP (goods, services & income) as % of GDP	– 2.2%

	Trade 20011 (USD billion)	
Goods	Exports	1,501
	Imports	2,236
	Net	– 735
Services	Exports	604
	Imports	429
	Net	+ 175

Source: *IFS*, IMF, January 2013

International/Regional memberships

North American Free Trade Agreement (NAFTA): since 1 January 1994.

International Monetary Fund (IMF): since 27 December 1945.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- The USA is the world's largest trading nation and pursues an open and competitive trade policy (www.ustr.gov).
- As a member of NAFTA (www.naftanow.org), the USA benefits from free trade arrangements with Mexico and Canada. Under NAFTA, duties on thousands of goods have been removed and most tariffs have been eliminated among the three countries.
- The USA also has in place other bilateral and regional trade agreements with several countries and trading blocs, including CAFTA-DR (Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua), Australia, Bahrain, Chile, Colombia, Israel, Jordan, Morocco, Oman, Panama, Peru, Singapore and South Korea.
- National export credit insurance provider: Export-Import Bank of the US (Ex-Im Bank — www.exim.gov) and its agent, the Foreign Credit Insurance Association (FCIA — www.fcia.com).
- Ex-Im Bank also operates the USA's state-supported export credit programmes.
- The USA maintains approximately 250 free trade zones.

Currency and exchange controls

Official currency: United States dollar (USD).

Exchange rate arrangement: free floating.

The USA generally does not impose foreign exchange controls. However, foreign payments, remittances and other types of contracts and trade transactions are restricted when involving foreign nationals or entities of countries that fall under US sanctions and embargoes, as well as the Taliban and entities that are associated with terrorism, drugs or conflict diamonds. A licence is required from the Department of the Treasury (www.ustreas.gov) for the repatriation of capital if it is controlled, directly or indirectly, by the authorities of a restricted nation.

- The Department of Treasury determines restrictions on capital and any exchange controls.
- Individuals or companies importing or exporting over the equivalent of USD 10,000 in domestic or foreign currency are required to notify US Customs and Border Protection (www.cbp.gov).

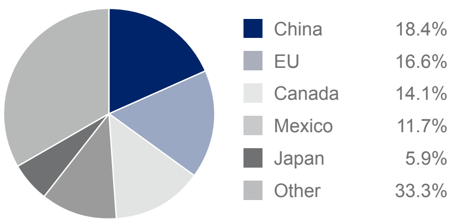
Bank accounts

- Resident companies can hold local currency (USD) bank accounts outside the USA.
- Resident companies can hold foreign currency bank accounts within and outside the USA. However, foreign currency accounts are not widely available in the USA.
- Non-resident companies can hold local currency bank accounts within and outside the USA.
- Non-resident companies can hold foreign currency bank accounts in the USA.

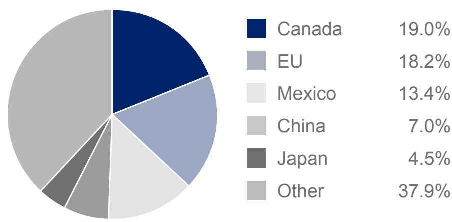
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Transistors, aircraft, motor vehicle and parts, computers, telecommunications and defence equipment, organic chemicals, cars, medicines and grains.

Import/Export Documentation

- Commercial invoice (with complete description of goods to be imported), customs declaration, bill of lading, packing list and, sometimes, a certificate of origin and consular invoice.

Licences

Imports

- Animals and animal products, plants, alcoholic beverages, fruits, vegetables, meat and dairy products.
- Licences with quotas: textiles, clothing, tobacco, wheat, animal feed and sugar-based products.

Exports

- Livestock, poultry, dairy products, software and technology.
- Exports of ammunition for military use require a licence issued by the Office of Defence Trade Controls in the Department of State.

United States of America

Tariffs/Taxes

Imports

- High tariffs are imposed on imports without most favoured nation (MFN) or free trade status.
- Import taxes are generally low, except for taxes on clothing, footwear, beverages, tobacco, leather and textiles.
- The USA rigorously enforces its anti-dumping and countervailing duty laws.

Exports

- None.

Financing requirements for imports/exports

- None.

Prohibited items

Imports

- Goods from Myanmar, Cuba, Iran or parts of the Sudan. Additional sanctions apply to several other countries.

Exports

- Items that are prohibited in accordance with US sanctions.

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	45,359 m
GDP per capita (USD)	1,546
GDP volume growth (year-on-year)	+ 8.3%
Population	29.3m
Interest rate	NA
Exchange rate UZS / USD (year average)	1,714.13
BoP (goods, services & income) as % of GDP	+ 14.6%

	Trade 2011 (USD million)	
Goods	Exports	13,254
	Imports	9,953
	Net	+ 3,301
Services	Exports	1,773
	Imports	557
	Net	+ 1,216

Sources: WTO, September 2012 and World Bank Data, January 2013

International/Regional memberships

Commonwealth of Independent States (CIS): since 21 December 1991.

Economic Cooperation Organization (ECO): since 28 November 1992.

International Monetary Fund (IMF): since 21 September 1992.

World Trade Organization (WTO): observer member since 21 December 1994.

Government trade policy

- Uzbekistan belongs to the ECO (www.ecosecretariat.org), which aims to create a free trade area among its ten member states by 2015.
- Uzbekistan has established free trade agreements with Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan and Ukraine.
- National export credit insurance provider: Uzbekinvest National Export-Import Insurance Company (Uzbekinvest — www.uzbekinvest.uz).
- Uzbekistan operates one free trade zone, the Navoi Free Industrial Economic Zone.

Currency and exchange controls

Official currency: Uzbekistani som (UZS).

Exchange rate arrangement: crawl-like arrangement.

Foreign exchange controls are administered by the Central Bank of the Republic of Uzbekistan (CBU — www.cbu.uz), the Ministry of Finance (www.mf.uz), the State Tax Committee (www.soliq.uz) and the State Customs Committee (www.customs.uz).

- Export proceeds are subject to repatriation requirements. Foreign investment enterprises that have over 50 percent foreign capital and specialise in the production of consumer goods are exempt from repatriating the proceeds of foreign exchange for their first five years.
- Proceeds from invisible transactions and current transfers are also subject to repatriation requirements.
- Securities issued by non-residents in Uzbekistan and by residents abroad are subject to quotas established by the Cabinet of Ministers.
- Credit agreements pertaining to government external borrowing are required to be registered with the Ministry of Finance. Those without government guarantees must be registered with the CBU.

Uzbekistan

Bank accounts

- Resident companies can hold local currency (UZS) bank accounts outside Uzbekistan.
- Resident companies can hold foreign currency bank accounts within and, with prior CBU approval, outside Uzbekistan.
- Non-residents can only hold local currency and foreign currency bank accounts in Uzbekistan if they do not engage in economic or commercial activities, with the exception of foreign correspondent banks of authorised banks.

Trade information

Key trading partners

Not available.

Principal exports

Cotton, gold, energy products, mineral fertilisers, ferrous and non-ferrous metals, textiles, food products, machinery and cars.

Documentation

Imports

- Commercial invoice, customs declaration, bill of lading, packing list, certificate of origin, certificate of conformity, inspection report, transit document, legal resolution, and sales purchase contract.

Exports

- Commercial invoice, customs declaration, bill of lading, packing list, certificate of origin, certificate of conformity, certificate of settlement, transit document, legal resolution, sales purchase contract, and terminal handling receipts.

Licences

Imports

- Narcotics, weapons, precious metals and stones, uranium and other radioactive materials.

Exports

- Weapons, precious metals and stones, uranium and other radioactive materials, works of art, and various animals and plant types.

Tariffs/Taxes

Imports

- Most custom duty rates for importing goods into Uzbekistan are applied ad valorem at five levels: zero, 5, 10, 20 and 30 percent of customs value. The average weighted tariff rate is 14.84 percent.
- VAT of an additional 20 percent is applied to some products.
- A duty worth 0.2 percent of the customs value (ranging from USD 25 to USD 3,000) is levied on the customs processing of imports.

Exports

- None.

Financing requirements for imports/exports

- Goods can be exported for convertible currencies without advance payment or the opening of a local currency account, provided they have an insurance policy protecting their export contract against political and commercial risk or a guarantee from the buyer's bank.

Prohibited items

Imports

- Imports that are prohibited in accordance with international regulations, and items deemed a threat to fauna and flora and national security.
- Printed matter, drawings, photographic material, films, video and audio products aimed at undermining the state and social order.

Exports

- Antiques of significant value, flour, grain, bread, poultry and livestock, raw skins and hides, scrap metal and waste, non-ferrous metals, and raw silk.

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	316 bn
GDP per capita (USD)	10,746
GDP volume growth (year-on-year)	+ 4.0%
Population	29.44m
MMR (year average)	4.93%
Exchange rate VEF / USD (year average)	4.289
BoP (goods, services & income) as % of GDP	+ 6.9%

	Trade 2011 (USD billion)	
Goods	Exports	93
	Imports	46
	Net	+ 46
Services	Exports	2
	Imports	13
	Net	– 11

Source: *IFS*, IMF, January 2013

International/Regional memberships

Mercado Común del Sur / Southern Cone Common Market (Mercosur): since 31 July 2012.

International Monetary Fund (IMF): since 30 December 1946.

World Trade Organization (WTO): since 1 January 1995.

Government trade policy

- Trade policy is implemented by the Ministry of Commerce (MinComercio — www.mincomercio.gob.ve).
- Venezuela left the the Andean Community (CAN — www.comunidadandina.org) in April 2006. It has since replaced its full CAN preferential tariff agreements with agreements with Bolivia, Ecuador and Colombia. In January 2012, Venezuela signed a partial scope agreement with Peru but the agreement is not yet in force.
- Venezuela has been a full member of Mercosur (www.mercosur.int) since 31 July 2012. It must implement the Mercosur Common Code and Mercosur's common external tariff (CET) by 2016 and eliminate tariffs by 2019 (sensitive products will be allowed a five-year extension).
- National export credit insurance provider: Banco de Comercio Exterior (Bancoex — www.bancoex.gov.ve).
- Bancoex also operates Venezuela's state-supported export credit programmes.
- Venezuela maintains two free zones (the Paraguaná Peninsula Free Zone for Tourism Investment and the Mérida State Free Zone for Culture, Science and Technology), two industrial and commercial free zones (the Paraguaná Industrial and Commercial Free Zone, in the Carirubana municipality, in Falcon state, and the ATUJA Industrial and Commercial Free Zone, in the San Francisco municipality, in Zulia state), and two free ports (Free Port of Santa Elena de Uairén, in Bolívar state, and the Free Port of Nueva Esparta State, which includes the Margarita and Coche islands).

Currency and exchange controls

Official currency: Venezuelan Bolivar fuerte (VEF).

Exchange rate arrangement: conventional peg. The VEF is pegged to the USD.

- On 9 February 2013, the VEF was devalued to the buying rate of VEF 6.2842 per USD 1 and selling rate of VEF 6.3000 per USD 1 from the previous buying rate of VEF 4.2893 per USD 1 and selling rate of VEF 4.3000 per USD 1.
- The Banco Central de Venezuela (www.bcv.org.ve) and the Ministry of Finance (www.mppef.gob.ve) formulate foreign exchange policy.
- Venezuela reintroduced foreign exchange controls in 2003.

Venezuela

- The Foreign Exchange Administration Commission (CADIVI) administers exchange controls on foreign capital and international reserves.
- There are no restrictions on the forward foreign exchange markets.
- Individuals importing or exporting over the equivalent of USD 10,000 in foreign currency are required to notify customs.
- Export proceeds are required to be repatriated and all but 30 percent (which can be kept for export-related expenses) must be surrendered to the central bank.
- Payments for invisible transactions and current transfers require prior approval from CADIVI.
- Proceeds from invisible transactions and current transfers are required to be repatriated and must be sold to authorised banks.
- All foreign direct investment must be registered with the Superintendencia de Inversiones Extranjeras (SIEX — www.siex.gob.ve) within 60 days.

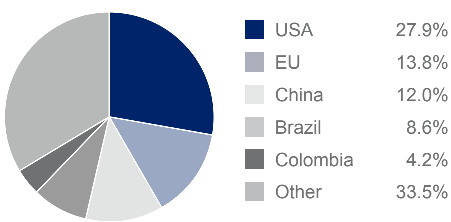
Bank accounts

- As of July 2012, resident companies and individuals and non-resident companies participating in strategic public investment projects for the development of the national economy may hold foreign currency accounts in Venezuela. Account holders may move funds via partial or total withdrawals in local currency at the official exchange rate.
- Non-resident companies can hold local currency bank accounts in Venezuela.

Trade information

Key trading partners

Imports by origin



Source: WTO, September 2012.

Exports by destination

Information on exports from Venezuela is not available.

Principal exports

Petroleum, bauxite and aluminium, minerals, chemicals, agricultural products and basic manufactures.

Documentation

Imports

- Commercial invoice (with complete description of goods to be imported), bill of lading, packing list and, sometimes, a certificate of origin.
- CADIVI must authorise all import activities, and import permits from the relevant authorities must be obtained prior to authorisation.

- CADIVI apportions foreign currency for import payments to domestic companies with priority to food, medicine and defence materials. Foreign currency is not granted for imports of spirits, luxury goods and motor vehicles.

Exports

- Commercial invoice (with complete description of goods to be exported), bill of lading, packing list and, sometimes, a certificate of origin.

Licences

Imports

- Certain agricultural products and some other products on health, safety, environmental or national security grounds. Certain products require a certificate of insufficiency or non-domestic production.

Exports

- Certain products require a certificate of satisfied domestic demand.

Tariffs/Taxes

Imports

- Venezuela still implements the ad valorem common external tariff (CET) of the Andean Community to its imports even though it left CAN in April 2006.
- A 1 percent handling fee and VAT of 12 percent is applied to imports.
- Raw materials and locally produced intermediate goods are subject to tariffs of between 5 and 10 percent; capital and semi-finished goods are subject to tariffs of 15 percent; finished goods are subject to tariffs of 20 percent; cars are subject to a 35 percent tariff; and most agricultural products are subject to a 20 percent tariff.
- Tariff quotas apply to certain agricultural imports.
- Imports into Paraguaná and Margarita Island are tariff free.

Exports

- None.

Financing requirements for imports/ exports

- Authorisation from CADIVI must be obtained for imports.
- There are no financing requirements for exports.

Prohibited items

Imports

- Motor vehicles, excluding hearses, prison vans and ambulances.

Exports

- There is no published list of prohibited products.

Vietnam

Economic and trade overview

Key figures

Economy 2011	
GDP (USD)	124 bn
GDP per capita (USD)	1,392
GDP volume growth (year-on-year)	+ 5.9%
Population	88.79m
Refinancing rate (end period)	15.00%
Exchange rate VND / USD (year average)	20.510
BoP (goods, services & income) as % of GDP	– 6.8%

	Trade 2011 (USD billion)	
Goods	Exports	97
	Imports	97
	Net	Ø
Services	Exports	9
	Imports	12
	Net	– 3

Source: *IFS*, IMF, January 2013

International/Regional memberships

Asia-Pacific Economic Cooperation (APEC): since 14–15 November 1998.

Association of Southeast Asian Nations (ASEAN): since 28 July 1995.

International Monetary Fund (IMF): since 21 September 1956.

World Trade Organization (WTO): since 11 January 2007.

Government trade policy

- Vietnam pursues many of its trade objectives through its membership of ASEAN (www.aseansec.org).
- As a member of ASEAN, Vietnam is committed to the ASEAN Free Trade Area (AFTA) Common Effective Preferential Tariff (CEPT) scheme. This lowers all intra-regional tariffs on trade between Vietnam and ASEAN member states (Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam) to between zero and 5 percent.
- Six ASEAN states (not including Vietnam) have eliminated all intra-regional tariffs between them. All ASEAN member states are expected to eliminate their remaining tariffs by 2012.
- ASEAN member states have a number of free trade agreements (FTAs) with regional economies such as South Korea, China, Japan, India, and Australia and New Zealand. ASEAN is also in negotiations for an FTA with the EU.

Currency and exchange controls

Official currency: Vietnamese dong (VND).

Exchange rate arrangement: managed float.

Vietnam imposes exchange controls, which are administered by the State Bank of Vietnam (SBV — www.sbv.gov.vn).

- The SBV permits authorised credit institutions to enter into forward and swap transactions between the VND and foreign currency with maturities of between three days and one year.
- Individuals must declare to Vietnamese customs authorities the import or export of domestic currency banknotes worth more than VND 15 million and foreign currency banknotes in excess of USD 5,000.
- Permission is required from the SBV for financial institutions wishing to import foreign currency in excess of USD 5,000 or its foreign currency equivalent.
- For resident entities, all proceeds originating from current transactions must be repatriated immediately.

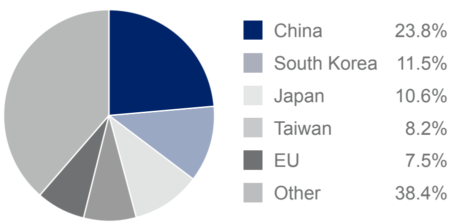
Bank accounts

- Resident companies cannot hold local currency (VND) bank accounts outside Vietnam.
- Resident companies can hold foreign currency bank accounts within and outside Vietnam.
- Non-resident companies can hold local currency and foreign currency bank accounts in Vietnam, but cannot hold local currency accounts outside Vietnam.

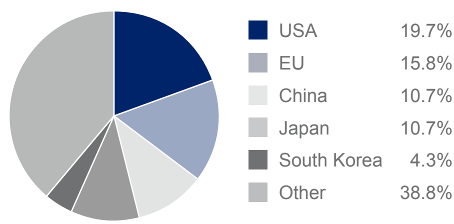
Trade information

Key trading partners

Imports by origin



Exports by destination



Source: WTO, September 2012

Principal exports

Machinery and equipment, petroleum products, steel products, raw materials for the clothing and shoe industries, electronics, plastics and automobiles.

Documentation

Imports

- Bill of lading, cargo release order, commercial invoice, customs import declaration, inspection report, packing list, terminal handling receipts, and a technical standard or health certificate.

Exports

- Bill of lading, certificate of origin, commercial invoice, customs export declaration, packing list, and a technical standard or health certificate.

Licences

Imports

- Car parts, motorcycles, sport guns and bullets.
- Goods subject to quantitative restrictions: eggs, tobacco, sugar and salt.
- The Ministry of Trade in coordination with the Ministry of Planning and Investment can introduce ad hoc quantitative restrictions.

Exports

- Rice, timber and some minerals.

Vietnam

Tariffs/Taxes

Imports

- As a member of ASEAN and participant of AFTA, Vietnam is subject to the Common Effective Preferential Tariff (CEPT) scheme, which applies tariff rates of between zero and 5 percent to goods with at least 40 percent ASEAN content if traded within ASEAN. The CEPT covers around 98 percent of all tariffs..
- Goods from outside ASEAN are subject to 45 different tariff rates, which range up to 135 percent.
- Most machinery, medicine and equipment are exempt from tariffs, as are imports of any foreign enterprise that is incorporated under foreign investment law.

Exports

- Some exports are subject to tariffs.

Financing requirements

- There are no financing requirements for imports or exports.

Prohibited items

Imports

- Weapons, military equipment, non-medical drugs, toxic chemicals, pornographic and reactionary written material, and some other specified consumer goods.
- Goods can also be prohibited if they are deemed to pose a threat to the national security of Vietnam or natural fauna and flora, or for moral reasons.

Exports

- Rare fauna and flora, antiques, rare or wild animals, military equipment and ammunition, toxic waste, forest timber, non-medical drugs, certain plants and cipher software.

Common calculations

Working capital ratios

The following ratios are useful comparative indicators of a company's operating efficiency. They tend to be used in two ways. Firstly, they allow a company to compare its efficiency with that of different companies in the same industry. Secondly, they allow the company to compare its efficiency over time. However, it is also important to recognise that participation in any collaborative supply chain financing may have a negative impact on a company's working capital ratios.

All these ratios can be calculated for any period for which the company has data. Most companies will want to calculate this data at least quarterly in order to identify trends and to have warning of any deterioration in their working capital position.

Days sales outstanding

DSO measures the efficiency of a company's collection process. It is also referred to as the receivables period.

This is calculated by using the following equation:

> DSO = [average trade accounts receivable / total trade credit sales in period (*grossed up to be inclusive of VAT or sales taxes*)] × number of days in period

So, consider a company with an average GBP 1.5 million accounts receivable with quarterly credit sales of GBP 3.25 million:

> DSO = (1,500,000/3,250,000) × 91
> = 46.2 days

This figure needs to be measured against the company's average payment terms. If the company generally trades on 60 days terms, a DSO of 46.2 is a good figure, as it suggests customers are paying early. (In such circumstances, the treasurer will want to ensure any early payment discount being offered does not disadvantage the company.) On the other hand, if the company generally trades on 30 days terms, a DSO of 46.2 suggests a weakness in the accounts receivable process.

In general terms, a reduction in the DSO will improve a company's working capital position, as this will suggest an acceleration of the process of converting accounts receivable into cash.

Days payable outstanding

DPO measures the time a company takes to pay its suppliers. It is also referred to as the payables period.

This is calculated by using the following equation:

> DPO = [average trade accounts payable / total cost of goods purchased in period (*grossed up to be inclusive of VAT or sales taxes*)] × number of days in period

Where the cost of goods purchased is not available, an approximation for the payables ratio is taken as:

> [average trade accounts payable / total sales of goods in period (*grossed up to be inclusive of VAT or sales taxes*)] × number of days in period

So, consider a company with an average EUR 8.25 million accounts receivable with annual cost of goods purchased of EUR 36 million:

> DPO = (8,250,000/36,000,000) × 365
> = 83.6 days

This figure shows that on average the company pays its suppliers in 84 days. This figure needs to be measured against the company's previous DPO figures and, where possible, against DPO measurements of the company's main competitors.

In general terms, the higher the DPO, the better for the company, as it suggests the company is able to hold onto its cash for longer. There are many reasons why a company's DPO may change in an economic cycle. For example, a relatively high DPO may suggest the company's procurement team has been able to negotiate better payment terms with its suppliers. On the other hand, it may also suggest difficulties in realising the cash to meet payment obligations.

A relatively low DPO may suggest suppliers have reduced their willingness to offer credit to the company or it may suggest suppliers are offering discounts for early payment.

The treasurer will want to identify the reasons behind any changes in the DPO over time. Any suggestion that suppliers are facing difficulties will need investigation and may warrant action being taken to support the supply chain.

Days inventory outstanding

DIO measures the efficiency of a company's production process. It is also referred to as the inventory period, the days sales of inventory or stock turnover.

This is calculated by using the following equation:

> DIO = [average inventory / cost of goods sold in period (*excluding VAT or sales taxes*)] × number of days in period

So, consider a company with an average USD 16.5 million inventory with annual sales of USD 55 million:

$$\text{DIO} = (16{,}500{,}000 / 55{,}000{,}000) \times 365 = 109.5 \text{ days}$$

This figure shows the company holds inventory for, on average, just under 110 days. It needs to be measured against the company's previous DIO figures and, where possible, against DIO measurements of the company's main competitors. The DIO figures will vary significantly from industry to industry. For example, manufacturers of large items, such as aeroplanes, will expect to have higher DIO measurements than retailers.

In general terms, the DIO measurement is of most use as a comparison with previous figures. A rising DIO indicates a weakening in the market's appetite for a company's product, as it suggests goods are sitting longer in the warehouse. A falling DIO is most likely to indicate an increase in demand for the company's products or an improvement in the efficiency of the company's production process.

However, if the company cuts production levels in response to a previous weakening in demand, this will also lead to a fall in DIO. Therefore the treasurer should ensure the reasons behind any change in DIO are fully understood.

When using DIO there will always be a compromise between the need to hold sufficient inventory so as to be able to meet sales requests, with all the associated storage costs and the impact on working capital, and selling inventory as quickly as possible to free up cash.

Cash conversion cycle

The cash conversion cycle uses these three concepts to measure the company's efficiency in turning inputs into cash. It is calculated using the following equation:

$$\text{CCC} = \text{DIO} + \text{DSO} - \text{DPO}$$

Consider a company with a DSO of 46.2 days, a DPO of 83.6 days and a DIO of 109.5 days:

$$\text{CCC} = 109.5 + 46.2 - 83.6 = 72.1 \text{ days}$$

This figure suggests it takes the company just over 72 days to purchase its raw materials and convert them into cash. This is also the minimum working capital financing which will be required, as it represents the point between the cash going to the supplier and being received from the customer.

In order to minimise the level of external funding the company needs to arrange, it needs to try to reduce the CCC figure. This can be done by:

- agreeing extended credit terms with its suppliers, increasing DPO;

- reducing the level of inventory held (either by adopting a more 'just-in-time' approach to manufacturing or by reducing the volume of goods manufactured), reducing DIO; or
- accelerating the receipt of cash, either by reducing credit to its customers or raising finance off the strength of its issued invoices, increasing DPO.

Interest rate calculations

Calculating the cost of funds is an important element in managing working capital. Treasurers often have a number of alternative sources of finance to choose from when selecting the most appropriate funding mix, whether for the company as a whole or for a specific project.

When comparing alternative scenarios, it is always important to ensure that like is compared with like.

Simple interest

The most straightforward finance arrangements are based on simple interest. This means the company will borrow a principal sum and then repay the principal plus a balloon interest payment at the end of the term.

The repayment amount can be calculated using the following formula:

$$\text{repayment amount} = [\text{principal} \times (1 + r)]$$

where r is the rate of interest. So, for example, if a company needs to borrow EUR 10 million for one year at a rate of 3.5%, it will have to repay the principal plus an interest payment at the end of the year. This is calculated as [10,000,000 × (1 + 0.035)], which equals EUR 10.35 million.

Calculating the cost of a discount

It is common for finance to be arranged at a discount. For example, banks and factoring companies are prepared to discount an invoice as a means of providing funding. Suppliers may also offer a discount for early payment. In both cases it is important that the company can calculate the true value of the discount to ensure the most appropriate decision is taken.

The following formula translates a future cash flow into a present value:

$$PV = FV / (1 + r/n)^{d/y}$$

where r is the rate of interest, n is the number of interest payments every year, d is the number of days until the cash flow and y is the number of days in the year (as determined by the day-count convention).

In most cases the treasurer will be evaluating the cost of a discount for less than a year, so it is appropriate to calculate the annualised rate of interest for comparison purposes. As a result, the appropriate formula will be:

$$FV/PV = (1 + r)^{d/y}$$

Knowing the future value (the face value of the invoice), the present value (the level of funds the financier is prepared to advance) and the time frame between the two, the treasurer can calculate the effective interest rate charged on the advanced funds, by rearranging the above formula:

$$r = [(FV/PV)^{y/d}] - 1$$

For example, a bank is prepared to offer GBP 1.19 million cash in five days' time on the strength of an invoice with a value of GBP 1.2 million due to be paid in 60 days.

Using the formula above, the calculation for the interest rate is as follows:

$$r = [(1{,}200{,}000/1{,}190{,}000)^{365/60}] - 1$$

So $r = 0.0522$ or 5.22%.

This applies equally when the company is offered early payment terms by one of its suppliers. The company should factor in the benefit of the discount as well as any additional cost of funds that will be needed to meet the early payment deadline.

Foreign exchange calculations

Forward exchange rates

When importing from abroad, treasury may want to fix a future exchange rate to ensure access to the required foreign currency on the payment date. This is possible through the use of a forward foreign exchange rate, which allows the company to fix the rate without committing cash until the payment date. Forward foreign exchange rates are calculated from the spot rate between the two currencies and the respective currency interest rates.

To calculate a forward exchange rate between the Euro and the US dollar for 60 days' time, we would use the following equation:

$$\text{forward rate} = \text{spot rate} \times \frac{[1 + (r_v \times d/y)]}{[(1 + (r_b \times d/y)]}$$

where r_v is the variable currency interest rate, r_b is the base currency interest rate, d is the number of days until settlement and y is the number of days in the year. By convention all currency pairs are quoted in the same way. The first named currency is the base currency and the second is the variable currency. In most cases, the US dollar is quoted first (the exceptions against the US dollar are GBP, EUR, AUD and NZD, which are quoted first).

For example, to calculate the EUR/USD exchange rate 120 days forward when the spot rate is 1.40, with the EUR interest rate 1.75% and the USD interest rate 1.0%, we use the formula:

$$\text{forward rate} = 1.4 \times \frac{[1 + (0.01 \times 120/360)]}{[1 + (0.0175 \times 120/360)]}$$

$$= 1.397$$

This can also be calculated using a points adjustment. In this case, the formula is

$$\text{forward rate} = \text{spot rate} + [\text{spot rate} \times (r_v - r_b) \times d/y]$$

Using the example above:

$$\text{forward rate} = 1.4 + [1.4 \times (0.01 - 0.0175) \times 120/360] = 1.397$$

By convention, exchange rates are quoted with a bid/offer rate. The bid rate is the rate at which the counterparty bank will buy the currency from the company and the offer rate is the rate at which the counterparty bank will sell the currency to the company. For example, the spot EUR/USD exchange rate may be quoted as 1.3999/1.4001. This shows a bank will sell USD 1.3999 for EUR 1. A company would need to sell USD 1.4001 to receive EUR 1.

Forward rates are usually quoted in terms of the differential between the spot and the forward rate. For example, the spot GBP/USD rate could be 1.7625/1.7629, with forward points at 50/48. Because the larger number comes first, this means the points should be subtracted from the spot rate (indicating that US interest rates are higher than UK rates at the time of the quote). If the rate was quoted as 1.7625/1.7629, with forward points at 48/50, the points should be added to the spot rate, implying UK rates are higher than US rates. Finally, it is important to remember that spreads for forward rates are always greater than those for spot rates, a useful check that you have the convention the right way round.

Glossary

Acceptance Confirmation by the drawee of a bill of exchange that it will pay the amount stated on the face of the bill on the due date stated. This is effected by way of the drawee's signature on the front of the bill, often accompanied by the word 'accepted', and confirms an unconditional obligation on the drawee's part.

Accepted A draft (bill of exchange) that has been accepted by the drawee (also known as the acceptor).

Acceptor A drawee who confirms his debt by signing his acceptance on a bill of exchange.

Acceleration Clause When a lender has the right to demand the immediate repayment of all outstanding debt in the case of default under a loan agreement. This acceleration clause is included in most debt and derivative agreements.

Acceptance Credit A facility provided by banks to their corporate customers where the corporate customer draws a bill of exchange that is accepted by the bank and discounted. Acceptance credits allow short-term financing of national or international trade transactions.

Accounts Payable (A/P) Short-term/current liabilities resulting from the purchase of supplier goods and services.

Accounts Payable (Payables) Management The different strategies that allow companies to manage the cost of the liabilities resulting from the purchase of goods and services.

Accounts Receivable Short-term/current assets resulting from the extension of trade credit on goods or services delivered.

Accounts Receivable Management The different strategies that can be adopted to manage the collection of outstanding receivables.

Advance Payment Bond See advance payment guarantee.

Advance Payment Guarantee A written promise that a product/service will be provided in exchange for a payment made in advance of the actual purchase.

Advance Payments (or Payments in Advance) Payments effected by the lessee at the beginning of the leasing period.

Advising Bank In transactions involving letters of credit (L/C), the advising bank is the bank advising the beneficiary (exporter) that an L/C has been opened in its favour.

After Date A notation used on drafts (bills of exchange) to fix the maturity date as a fixed number of days past the date of the drawing of the draft.

After Sight The maturity of a draft, whereby payment is due at the end of a specified term after the presentation of specific documents and acceptance of the draft.

Air Waybill (AWB) Similar to a bill of lading, it is used for the transport of goods by air. Unlike a bill of lading, it does not offer title of the goods. The exporter can exercise his 'right of disposal' at any time by presenting his copy of the air waybill to the airline and, as such, he can: stop the goods at any point of their journey; have the goods delivered to a different consignee from the one mentioned in the air waybill; or have the shipment returned. Nevertheless, it allows the importer to collect the goods against identification.

Allonge An additional piece of paper attached to a negotiable instrument used for adding additional endorsements when there is not sufficient space on the instrument itself.

ALOP (Advance Loss of Profits) Insurance The insurance of revenue from projects under construction. Also known as DSU (delay in start-up) insurance.

All Risks Insurance Insurance of the physical damage to a project.

Asset Financing A type of financing whereby a lender is given a charge over a specific asset or group of assets that are being financed by the underlying loan. The typical assets charged are those used to generate working cash as well as property and fixed assets.

Assignment Transfer of rights over project contracts as security for lenders.

At Sight A negotiable instrument that requires payment upon presentation of the instrument.

Aval A guarantee on a negotiable instrument which states that the party providing its aval will pay the instrument upon its maturity if the drawee or obligor fails to fulfil their obligation.

Avalisation The act of making an aval on a negotiable instrument. When overseas companies are the obligors on negotiable instruments, the provision of an aval by a bank is often necessary to make the instrument acceptable for discounting.

Back-to-Back Lease An agreement under which an intermediate lessor adopts responsibility for an existing lease and ensures that the final lessee agrees to the lease's criteria.

Back-to-Back Letter of Credit A letter of credit backed by another letter of credit with the same terms and conditions.

Bank Bills Generic term for a discountable commercial bill issued or accepted by a bank. See banker's acceptance and trade bill.

Bank Draft A draft drawn by a bank on itself. The draft is purchased by the payer and sent to the payee, who presents it to his bank for payment. That bank presents it to the payer's bank for reimbursement. Also known as bank cheque, cashier's cheque, teller's cheque and treasurer's cheque.

Bank Guarantee A guarantee issued by a bank. See guarantee.

Bank Payment Obligation ((BPO) A bank guarantee of payment made by the buyer's bank for a specific amount to a specific bank on a specific date.

Banker's Acceptance (BA) A negotiable time draft drawn and accepted by a bank to pay the face amount to the holder at a specified time in the future. See draft.

Bargain Purchase Option An option included in the lease contract that allows the lessee the possibility to buy the leased equipment on a specified option date at a predetermined price that is considerably lower than the expected fair market value.

Bargain Renewal Option A provision in the lease contract offering the lessee the opportunity to renew the contract on a given option date and at a rental rate below the expected fair market rate.

Barter The exchange of commodities, property or services that are deemed to be of equal value, without money changing hands.

Bid Bond Bond that acts as a guarantee that the bidder will, at the bid price, enter into and comply with a contract. Also known as tender bond.

Bill of Exchange Payment order written by one person (the drawer) directing another person (the drawee) to pay a certain amount of money at a specified future date. It designates a named beneficiary but is transferable by endorsement. Widely used to finance trade and, when discounted with a financial institution, to obtain credit. See draft.

Bill of Lading A document issued by a carrier which is evidence of receipt of goods, and is a contract of carriage. If issued in negotiable form (i.e. 'to order'), it becomes documentary evidence of title to the goods.

Blank Endorsement A signature (e.g. on the back of a cheque) endorsing the execution of a transaction by the party in possession.

BLT (Build-Lease-Transfer) Similar to a BOT or BRT project, except that a lease of the project site, buildings and equipment is granted to the private sector during the term of the project.

Bonded Goods Imported goods that are held in a dedicated storage area at port of entry, called a bonded warehouse, whilst awaiting payment of duties. Generally, the person responsible for storing the goods has to put down a bond that guarantees customs the payment of any due duties when and if the goods are collected for commercialisation within that country's domestic market.

Bonded Warehouse A secure warehouse licensed by customs to store goods on which duty has not yet been paid.

BOO (Build-Own-Operate) A method of financing projects and developing infrastructure, in which a private company is required to finance and administer a project in its entirety and at its own risk. The government may provide some form of payment guarantee via long-term contracts, but any residual value of the project accrues to the private sector.

BOOT (Build-Own-Operate-Transfer) A method of financing projects and developing infrastructure whereby private investors construct the project and own and operate it for a set period of time (earning the revenues from the project in this period), at the end of which ownership is transferred back to the public sector. The government may provide some form of revenue guarantee via long-term contracts.

BOT (Build-Operate-Transfer) Similar to a BOOT project, but the private investors never own the assets used to provide the project services; however, they construct the project and have the right to earn revenues from its operation for a period of time. This structure is used where the public nature of the project – for example, a road, bridge or tunnel – makes it inappropriate for it to be owned by a private-sector company and therefore ownership remains with the public sector.

BRT (Build-Rent-Transfer) Similar to a BOT or BLT project except that the project site, buildings and equipment are rented to the private sector during the term of the project.

Buying Agent An individual or company who buys commodities or services on behalf of a third party.

Capitalisation Cost (Cap Cost) The purchase price of the leased asset. It also represents the price at which a leasing company buys the equipment from its supplier.

Capital Lease A type of lease that is considered as an actual sale or purchase if: a) ownership of the equipment is transferred to the lessee at the end of the lease period; b) the lessee gets a bargain purchase option to be exercised at a specified option date; c) the lease term is 75 percent of or longer than the leased asset's useful life; or d) the net present value of the rental payments is equal to at least 90 percent of the fair market value. Also known as demise hire (USA).

Cargo Insurance An insurance policy taken up to protect against loss of or damage to goods while they are being transported.

Cash against Documents (CAD) A method of payment for goods where an intermediary transfers title documents to the buyer upon payment in cash.

Cash Conversion Cycle A measurement of a company's efficiency in turning inputs into cash, calculated from DIO, DPO and DSO.

Cash with Order A method of payment for goods in which cash is paid at the time of order and the transaction becomes binding on both buyer and seller.

Cash Terms Trade terms in which the buyer generally has a week to ten days to make the payment.

Certificate of Acceptance A written acknowledgement by the lessee of receipt of the leased asset and acceptance of its conditions, including it being in accordance with specifications agreed before the building or construction of said asset.

Certificate of Origin A document certifying the country of origin of specific goods or commodities, which, in certain circumstances, is required prior to importation.

Certificate of Quality A document certifying the quality of specific goods or commodities.

Certified Invoice Commercial invoice containing certification of a specific aspect of the contract (e.g. country of origin).

Charter Party A written contract between the owner of a vessel and a 'charterer' who rents use of the vessel or a part of its freight space.

Cheque A written order from one party (the drawer) to another (the drawee, normally a bank) requiring the drawee to pay a specified sum on demand to the drawer or to a third party specified by the drawer. Cheques are widely used for settling debts and withdrawing money from banks. See draft.

Clean Collection A collection involving only financial documents with no commercial documents.

Clean Draft A bill of exchange without any shipping documents, the latter having been sent directly to the buyer together with the goods. This type of bill of exchange is mainly used for services or for buyers with a good standing. See documentary draft.

Collecting Agent The bank responsible for sending documents to the overseas correspondent and collecting the payment due from the importer.

Collecting Bank In a transaction involving a documentary collection, any bank other than the remitting bank involved in the collection of a draft and/or documents.

Commitment Fee The fee payable on the unutilised amount of a committed facility. Commitment fees are usually calculated daily and paid quarterly.

Commercial Invoice A document detailing the goods and services that have been sold and the payment that is due.

Committed Credit Facility An arrangement between a borrower and a lender, whereby the lender enters into an obligation to provide funds upon request by the borrower, provided the conditions precedent and any ongoing agreed conditions and covenants in the loan agreement have been and are being met. The borrower pays a commitment fee on the undrawn portion of the committed facility. Also known as a committed line of credit.

Completion Guarantee An undertaking to provide compensation if construction of the project is not completed by a specific time.

Confirmed Irrevocable Letter of Credit A letter of credit that cannot be terminated or modified without the agreement of all parties (irrevocable), and where a bank has promised to honour the payment on behalf of the issuing bank (confirmed).

Confirmed Letter of Credit A letter of credit where a bank has promised to honour the payment on behalf of the issuing bank.

Confirming Bank In a transaction involving a letter of credit (L/C), the confirming bank is a bank that promises to honour the payment to the beneficiary on behalf of the issuing bank, subject to the terms of the L/C.

Confirming House A company that intermediates between an exporter and an importer and confirms orders from the importer for the goods, finances transactions and accepts the credit risk involved.

Conforming Bid A bid that meets the procuring authority's necessary criteria. Bids which do not comply with these criteria may be rejected by the authority before assessment.

Consignee The party to whom or to whose order a carrier must deliver goods at the conclusion of the transport.

Consignment 1) Delivery of merchandise from an exporter (the consignor) to an agent (the consignee) under agreement that the agent sell the merchandise for the account of the exporter. The consignor retains title to the goods until the consignee has sold them. 2) The shipment of goods to the buyer.

Consignment Note A document issued by a carrier to confirm receipt of goods to be transported to an agreed destination. This document states the terms on which the carrier undertakes the transport.

Consular Invoice A document required by some countries describing a shipment of goods and showing information such as the consignor, consignee, and value of the shipment. Certified by a consular official, a consular invoice is usually used by the country's customs officials to verify the value, quantity and nature of the shipment.

Contract Bond A surety bond that acts as a written guarantee that a trade contract will be honoured.

Contract Hire An agreement to hire/lease vehicles for a fixed period against regular rental payments that incorporate the anticipated cost of maintenance for the hire period and also the final residual value. The lessee also has to observe a number of other contractual obligations (e.g. not to exceed a certain mileage). Upon expiry of the contract period, the equipment is returned to the contract hire company.

Contract Purchase As in contract hire but, upon expiry of the contract period, the lessee has the right but not the obligation to buy the vehicle at the agreed option purchase price stipulated in the contract.

Correspondent Banking An interbank arrangement where one bank provides payment and other services to another bank, which is generally located in another financial centre.

Counterpurchase An aspect of countertrade in which a supplier undertakes to purchase from a country a specified quantity of goods or to engage services offered by the country as a condition of securing business.

Countertrade Any form of reciprocal or compensatory trade arrangement agreed between an exporter and a buyer.

Covenant An agreement by the borrower to perform certain acts (such as the provision of financial information), to refrain from certain acts (such as charging it assets or incurring further indebtedness beyond an agreed limit) and to meet agreed financial covenants.

Credit Analysis The analysis of a company's performance, financial standing and future prospects with the objective of determining whether it will be able to fulfil its present and proposed contractual obligations.

Credit Check The in-depth analysis of companies to determine their ability to fulfil their payment obligations.

Credit Facility (or Line of Credit) A short or long-term borrowing arrangement provided by a bank which may be committed or uncommitted.

Credit Insurance Coverage against unforeseen losses caused by a failure of a debtor to pay a creditor the funds owed for goods/services provided on credit.

Creditor Individual or legal entity that is owed money by another individual or entity, following the granting of a loan or credit by the former to the latter.

Cross-guarantees A series of guarantees issued by two or more parties in favour of the same person or entity in which the guarantor(s) guarantee(s) the obligations of the other guarantor(s) in the event that one of the other guarantor(s) is unable to meet their obligation(s) under their guarantee(s).

Currency Adjustment Factor (CAF) A freight surcharge levied to offset fluctuations in foreign currency values.

Customs The governmental authorities responsible for supervising imports and collecting tariffs.

Customs Invoice A document required by some foreign countries' customs officials to verify the value, quantity and nature of the shipment, describing the shipment of goods and showing information such as the consignor, consignee and value of the shipment.

Days Billing Outstanding (DBO) See days sales outstanding (DSO).

Days Inventory Outstanding (DIO) A measurement of the efficiency of a company's production process calculated by dividing the average inventory over a time period by the total cost of goods sold in the period.

Days Payable Outstanding (DPO) A measurement of the time a company takes to pay its suppliers calculated by dividing the average accounts payable over a time period by the total cost of goods purchased in the period.

Days Sales Outstanding (DSO) A credit measurement ratio calculated by dividing accounts receivable outstanding at the end of time period by the average daily credit sales for the period. Also known as days billing outstanding (DBO).

Debtor Individual or legal entity that owes money to another individual or entity following the granting of a loan or credit by the latter to the former.

Defeased Leasing A leasing contract that includes a condition which protects the lessor from any risk resulting from the failure of the lessee to meet its contractual obligations.

Delivery against Acceptance A method of documentary collection which allows a buyer to defer payment as shipping documents are exchanged for an acceptance.

Delivery against Payment A method of documentary collection which requires shipping documents to be exchanged for payment.

Delivery and Acceptance See certificate of acceptance.

Delivery Order A document from the consignee, shipper or owner of freight ordering the release of freight to another party.

Demand Guarantee Defined by the International Chamber of Commerce (ICC) as an irrevocable undertaking, issued by the guarantor upon the instructions of the principal, to pay the beneficiary any sum that may be demanded by that beneficiary up to a maximum amount determined in the guarantee, upon presentation of a demand conforming with the terms of the guarantee.

Discounted Bills of Exchange Bills not yet due that are sold, usually by a company to a bank, for an amount less than the face value of the bill.

Documentary Collection An international payment method in which the exporter sends documents concerning a shipment through banking channels with the instructions to release them to the buyer only upon receipt of payment or the buyer's written promise to pay on a specified future date.

Documentary Credit A written promise by a bank to pay a beneficiary subject to submission of the required documents.

Documentary Draft A bill of exchange accompanied by shipping documents that confer title to goods. This type of bill of exchange is less risky, as the shipping documents are sent to the remitting bank rather than directly to the buyer/importer. The latter needs to pay or accept the draft for future payment before being able to collect the documents and therefore the goods. See clean draft.

Documents against Acceptance (D/A) Instructions given by an exporter to their bank that the documents attached to a time draft for collection are only deliverable to the drawee against the drawee's acceptance of the draft.

Documents against Payment Instructions given by an exporter to their bank that the documents attached to a sight draft for collection are only deliverable to the drawee against payment.

Draft A written order given by the issuing party (the drawer) to another (the drawee) to pay a party identified on the order (payee) or the bearer a specified sum, either on demand (sight draft) or on a specified date (time draft). See bank draft, bill of exchange, cheque and banker's acceptance.

Drawee The party required to pay the amount owed on a cheque/draft.

Drawer The party which issues the cheque/draft and is subsequently paid by the drawee.

Drawback A refund on duty paid on imports that are later exported.

Drawee Bank The bank on which a cheque or draft is drawn – the payer's bank.

Effective Lease Rate The effective rental rate paid by the lessee on a lease agreement, taking account of the timing and differing size of payments.

Electronic Bill Presentment and Payment (EBPP) The methods and processes that allow invoices (bills) to be created, sent, received, processed and paid via the internet.

Electronic Invoice Presentment and Payment (EIPP) The methods and processes that allow invoices (bills) to be created, sent, received, processed and paid via the internet.

Endorsee The individual or legal entity that acquires ownership of a specific amount of funds through the endorsement of a cheque, bill of exchange or promissory note.

Endorsement A signature required for the movement of funds by cheque, bill of exchange or promissory note.

Endorser The individual/legal entity that signs a document (i.e. cheque) and by doing so relinquishes ownership to a specific amount of funds.

Enterprise Resource Planning (ERP) Company-wide software module that automates and integrates all functions of a business, including support functions such as human resources, thereby allowing a company to better identify, plan and manage its resources.

Escrow (Escrow Account) Money, securities, documents or real estate held by a third party to be returned once specific predetermined criteria are met. It also refers to borrowers' accounts established as security for debt service or maintenance of the project.

Estimated Residual Value The estimated value a leased asset will have on the expiry of the lease contract.

Estimated Useful Life The time period during which a tangible fixed asset is assumed to be useful for the company's operations. The estimated useful life of an asset can be used to calculate the maximum period of a tax lease or to specify the type of lease (e.g. capital lease) or to determine the depreciation method to be applied on the leased asset.

Exchange Control The control/restriction on the inflow and outflow of currency by a sovereign state.

Export Buyer Credit A loan, made on behalf of a supplier of goods in an export situation to the overseas buyer, to allow the buyer to pay for the goods.

Export Credit Agency A government-affiliated institution that has, as its mission, to promote the exports of that country by providing export credit guarantees.

Export Credit Guarantee Similar to export credit insurance, but is generally a guarantee issued by a state-affiliated agency to enable funds to be raised to provide credit to a buyer of goods in a foreign country.

Export Credit Insurance Insurance acting as coverage against unforeseen losses caused by a failure by a foreign buyer to pay a supplier the funds owed for goods/services provided.

Export Credit Schemes Managed and operated by national export credit agencies, export credit schemes are schemes set up with the aim of promoting a country's exports, typically by providing insurance or guarantees for export financing.

Export Finance Generic term for the financing/funding of the export of commodities, goods or services.

Export Licence A document issued by a government authorising the licensee to export specific goods.

Factor 1) A mercantile agent selling goods on behalf of a third party. 2) A specialised entity or bank that purchases trade receivables at discount and also takes on the collection process and, in some cases, the associated risk when the factoring is 'without recourse'.

Factoring A method of funding from the sale or transfer (with or without recourse) of a company's accounts receivable to a third party (a factor). See non-recourse factoring and recourse factoring.

Fair Market Purchase Option An option given to the lessee to buy the leased equipment at its fair market value on the option date. Should the lessee exercise the option, the title to the asset is automatically transferred from the lessor to the lessee. Not available in the UK.

Fair Market Rental The rental rate for a given asset based upon the expected return for equivalent assets under similar terms and conditions in the open market.

Fair Market Value Lease A leasing agreement under which the lessee has the option to renew the contract at the asset's fair market value or to acquire it at the fair market value at the end of the lease period.

Finance Fee A fee that is paid on a regular interval by the lessee to the lessor for leasing an asset. Also known as lease charge or rental charge.

Financial/Finance Lease A capital lease that serves to finance the acquisition of property/equipment. It is non-cancellable by either of the contracting parties and constitutes a full payout lease, i.e. the lessee has to insure the equipment, pay the taxes and arrange for its maintenance.

Fixed Interest Interest on loans that remains at a fixed rate for the entire life of the contracted debt.

Floating Interest Rate An interest rate on loans (including debt securities) that is modified regularly on the basis of an index which varies frequently according to market developments and conditions, e.g. LIBOR and EURIBOR.

Forfaiting The purchase, at a discount and on a without recourse basis, of medium-term negotiable instruments by third parties that are not involved in the original transaction.

Forwarding Agent An intermediary who arranges for the carriage of goods and/or associated services on behalf of a shipper or the receiver.

Freight The consignment of goods to be transported.

Freight Payments Specialised payment services offered by banks and third parties that effect payment on behalf of the client directly to freight carriers.

Full Payout Lease A lease where the lessor is eventually paid back the acquisition, financing and overhead cost of a leased asset as well as a return on investment.

Full Service Lease A leasing arrangement where the lessor is responsible for the maintenance of and cover of the property/equipment that has been leased. Also known as rental lease.

Gap (Gap Insurance) An insurance policy taken out by the lessee in order to cover the difference between the balance outstanding on the lease and the market value of the leased asset in the event of an early termination through default or total loss.

Guarantee A statutory or contractual obligation by a parent company or some other person or entity to make interest, principal or premium (if any) payments if the principal debtor defaults on such payments.

Hire Purchase A hiring agreement with an option for the hirer to purchase the goods at the end of the hire period for a nominal figure.

Holder in Due Course The party that receives or acquires title to a cheque, bill of exchange or promissory note.

House Bill of Lading A bill of lading issued by a freight forwarder rather than by the carrier. Freight forwarders will normally have possession of the bills of lading issued by the carriers, and will then issue their own bills of lading to cover the various goods that make up the total shipment.

Import Licence A document issued by the government that authorises the licensee to import (usually specific) commodities, goods or services.

Import Quota A restriction imposed by a government on the total volume or value of an import.

Incoterms (Incoterms 2010) International standard trade definitions developed and promoted by the ICC (International Chamber of Commerce) to facilitate international trade.

In-house Factoring Centres The centralisation of trade receivables within an organisation so as to optimise the collection process.

Insurance Certificate Written evidence, supplied by the exporter or freight forwarder, that the exported goods are insured for transport. The certificate will cross-reference a master insurance policy.

Internal Factoring The sale or transfer of the title of the accounts receivable from an exporting company to an affiliate or subsidiary who collects from an importing subsidiary.

Invoice Discounting A method of funding for a company when it sells outstanding invoices to a finance house unbeknown to the debtor.

Irrevocable Letter of Credit A letter of credit that once issued can only be cancelled with the consent of all parties to the credit, including the beneficiary.

Irrevocable and Unconditional Transfer A transfer which cannot be revoked by the transferor and which is final.

Issuing Bank The bank issuing a letter of credit (L/C). It is obliged to pay if the documents stipulated in the L/C are presented.

Lease A contract according to which the owner of an asset (the lessor) offers the right to use the asset to another party (the lessee) during a certain period. In return for this, the lessee has to make regular rental payments at predetermined rates to the lessor.

Lease Line A lease line functions in the same way as a bank line of credit. It permits the lessee to add assets to the existing lease agreement without having to enter into a new contract or negotiate new terms and conditions.

Lease Purchase A full-payout lease with a lease term related to the underlying asset's estimated useful life and where title of the asset is passed to the lessee at the end of the lease on payment of a nominal figure.

Lease Rate The rate on periodic rental payments made by the lessee for the use of the leased equipment.

Lease Schedule A schedule underlying a master lease agreement and providing detailed information on the contract terms, including rental payments and rights with regard to the use of the leased asset.

Lease Term The length of a lease agreement and the (minimum) period during which the lessee has the right to use the leased asset and has to make rental payments on a regular basis. Also known as base term.

Legalised Invoice A commercial invoice that has received the legal endorsement from the importer's country. This is usually done via the diplomatic representative of the importer's country in the exporter's country.

Lessee The party in a lease contract which is given the right to use and to possess an asset owned by the leasing company for a specified period in exchange for periodic rental payments.

Lessor The legal owner of the asset leased to the lessee for a specified period. The lessor may also be a leasing company that buys the equipment and rents or leases it to other parties. The lessor offers the lessee the right to use the property during the lease term.

Letter of Credit (L/C) A promissory document issued by a bank to a third party to make a payment on behalf of a customer in accordance with specified conditions. Letters of credit are frequently used in international trade to provide a secure way for an exporter to receive payment from an importer via the importer's bank. L/Cs can also be issued by companies, but this is rare.

Letter of Undertaking A substitute for a bill of exchange or draft usually used in countries where those instruments attract taxation. By signing the letter of undertaking, the importer undertakes to pay the collection amount on a specific date.

Limited Recourse A lending arrangement whereby the lender is permitted to request repayment from the sponsor if the borrower fails to meet their payment obligation, provided certain conditions are met. Generally, limited recourse only applies to a specific and limited amount.

Liquidated Damages (LDs) Specified amount that a contractor has to pay if an agreed performance is not met.

Maintenance Bond A bond supplying funds for the maintenance of equipment or property.

Maintenance Reserve Account The reserve account of cash balances set aside to cover a project's maintenance and repair expenses.

Master Lease An umbrella agreement allowing the lessee to add further assets to the existing lease agreement simply by entering a description of the respective equipment into a supplementary lease schedule. The new schedule is subject to the original terms and conditions of the master lease.

Monoline Insurance Credit insurance provided to lenders or bondholders for a project company's debt.

Negative Pledge A covenant whereby a borrower undertakes not to allow the creation or subsistence of secured debt or, if the borrower has the right to issue secured debt in the future, not to secure such new debt without offering the same security equally (i.e. pari passu). Negative pledges are normally subject to numerous exceptions.

Negotiating Bank A bank assigned in a letter of credit to give value to the beneficiary against presentation of documents.

Negotiation Credit Under a negotiation credit, the exporter receives a credit from the authorised negotiating bank on presentation of the stipulated documents and, where applicable, a draft. If the negotiating bank has not confirmed the credit, it has the right to seek recourse from the exporter if cover is not forthcoming.

Negotiable Instrument A title document which can be freely transferred, such as a bill of exchange.

Negotiated Procedure A tendering procedure permitting the procuring authority to negotiate detailed pricing and other terms with prospective contractors.

Net Lease A lease in which the lessee has to insure the leased asset and is responsible for its maintenance as these services are not provided for in the lease agreement.

Nominated Bank A bank designated by the issuing bank of a letter of credit which is authorised to pay; to accept draft(s); to incur a deferred payment undertaking; or to negotiate the letter of credit (L/C).

Non-full Payout Lease In contrast to a full payout lease, the cash flows earned from this type of lease do not cover the various costs of the lessor, such as acquisition, financing and administration costs. In such a case the lessor relies on its ability to anticipate accurately the residual value of the equipment to make its profit (or it will rely on a guaranteed buy-back, e.g. from the original supplier).

Non-recourse Factoring The sale or transfer of title of a company's accounts receivable to a third party (factor) where the latter is not permitted to request repayment from the seller if the debtor fails to meet their payment obligation.

Non-recourse A lending arrangement where the lender is not permitted to request repayment from the parent company if the borrower (its subsidiary) fails to meet their payment obligation, or in which repayment is limited to a specific source of funds.

Notify Party The name and address of the party to be notified when commodities or goods arrive at their destination.

O&M (Operations and Maintenance) Agreement The contract for operating and maintaining a project.

Open Account Under an open account sale, goods/services and accompanying documents are supplied to the buyer with payment due at a later date (however generally no more than 180 days after the invoice date) without the existence of a formal debt instrument.

Open-end Lease The opposite of the closed-end lease: a lease agreement that offers the possibility for the lessee to extend the contract term after a certain period of time and at predetermined conditions.

Open Insurance Policy A marine insurance policy that applies to all shipments made by an exporter over a period of time rather than to one shipment only.

Operating Lease A lease where the lessee's payments do not cover the full cost of the asset. The operating lease is classed as a true lease (USA). The lease is normally for a period which is shorter than the asset's useful life and the lessor retains ownership of the equipment during the lease term and after it expires. Anticipated maintenance and other costs can also be built into the rental payable by the lessee.

Order Bill of Lading A negotiable bill of lading made out to the order of the shipper.

Output Specification Refers to the requirements, specified by the procuring authority, on what they want the project to accomplish. The prospective contractors must then resolve how the requirements will be best met.

Packing List A list detailing the contents of a consignment.

Partial Shipment A shipment that is less than the total quantity ordered.

Payable through Draft (PTD) A draft that is only payable via a nominated bank. Depending on the conditions attached to the draft, the nominated bank may be the paying bank or only act as the collecting bank that presents the draft for payment. See draft.

Performance Bond A bond issued by an insurance company to cover a specified loss if the EPC contractor fails to complete the construction of the project.

Performance Guarantee An undertaking that a project will be completed adequately by the contractor, and cover against loss if the contractor fails to do so.

Presenting Bank The bank responsible for contacting the buyer (importer) and submitting documents for payment or payment acceptance. See collecting bank.

Primary Period The initial period of a finance lease during which the lessee pays rentals that will fully amortise the initial cost of the equipment plus interest. The lessee is committed to paying rentals and fulfilling all other obligations of the lease contract.

Prior Deposits A government requirement that, as a condition of importing, the importer deposit in a commercial or central bank a specified sum of money. The deposit, which generally represents a percentage of the total value of imported goods, is due upon granting of an import licence and will be held until completion of the import transaction. Deposits do not attract interest and thus represent a real cost for the importer.

Production Payment A payment securing the right to a specific percentage of a product or service.

Pro-forma Invoice An advance copy of the final invoice. Often used by importers to apply for letters of credit and for foreign exchange allocation in countries where that is required.

Project Finance A form of financing projects, primarily based on claims against the financed asset or project rather than on the sponsor of the project. However, there are varying degrees of recourse possible. Repayment is based on the future cash flows of the project.

Promissory Note A written promise by a borrower to repay a loan in accordance with the specific details of a contract.

Protest An action required to be taken in some countries in order to protect one's rights to seek legal remedies when a collection or negotiable instrument is dishonoured.

Purchase Option An option permitting the lessee to buy the leased asset at a specified price or at the fair market value at the end of the lease term. See lease purchase, hire purchase.

Purchase Option Price (Purchase Option Value) The price at which the lessee has the option to buy the asset on a specified date (normally at the end of the lease).

Red Clause Letter of Credit A letter of credit that permits the beneficiary to receive advance payment before shipment has taken place, usually against the beneficiary's certificate confirming its undertaking to ship the goods and to present the documents in compliance with the terms and conditions of the letter of credit.

Recourse Factoring The sale or transfer of title of the accounts receivable to a third party (factor) where the latter can request repayment from the seller if the debtor fails to meet their payment obligation.

Recourse (Vendor Recourse) In a leasing context, refers to the lessor's right to return assets to the manufacturer or distributor in the event of a lessee defaulting on payments. The manufacturer/distributor may also be responsible for re-marketing said assets.

Reimbursing Bank In a letter of credit, a correspondent bank of the issuing bank that is designated to make payments on behalf of the issuing bank to the negotiating or claiming bank.

Remitting Bank In a transaction involving a documentary collection, refers to the bank institution that is responsible for sending a draft overseas for collection.

Renewal Option A provision in a lease contract giving the lessee the opportunity to renew/extend the contract on a specific option date and at a predetermined rental rate. The option date generally falls just prior to or at the date of expiry.

Rentals The periodic payments required in leasing agreements. Rentals can be fixed or floating.

Reserve Tail Proven reserves available after all the project's funding is repaid.

Residual Sharing An agreement between the lessor and another party to divide the residual value of the lease between both parties. If not carefully drawn up, such arrangements may have negative tax implications.

Residual Value The value of a leased asset upon expiry of the lease contract.

Residual Value Insurance An insurance that acts as coverage against an unforeseen loss in value of leased property upon expiry of the lease contract.

Revocable Letter of Credit A revocable letter of credit can be amended or cancelled at any time by the importer (unless documents have already been taken up by the nominated bank), without requiring the exporter's consent. Because revocable letters of credit offer little protection to the exporter, they are not often used.

Revolving Credit Facility A borrowing arrangement that provides the borrower with a degree of flexibility by allowing the borrower to draw and repay different amounts for different periods throughout the life of the credit facility. There is no requirement for a revolver to be fully drawn.

Revolving Letter of Credit A letter of credit in which the amount is renewed without requiring any specific amendments to the letter of credit. It is usually used where regular shipments of the same goods or commodities are made to the same importer.

Sea Waybill (SWB) Similar to a bill of lading but without offering title of goods; it is used for maritime transports. It allows the importer to collect the goods against identification. They are useful for companies that trade internationally with themselves between geographical areas where payment for exports is not a problem.

Secondary Period Period following the primary period of a finance lease.

Shipping Certificate Used by several futures exchanges, a shipping certificate is a negotiable instrument issued by exchange-approved facilities that represents a commitment by the facility to deliver the commodity to the holder of the certificate under the terms specified therein.

Shipside Bond / Shipside Bank Guarantee A joint undertaking by an importer and its bank issued in favour of the freight carrier so as to allow delivery of goods prior to the submission of the required original shipping documents, such as the bill of lading, invoice, etc.

Sight Draft A draft required to be paid upon presentation.

Silent Confirmation The confirmation by a bank of payment under a letter of credit that is not disclosed to the letter of credit issuing bank.

Special Purpose Vehicle (SPV) A private company that has been set up with the specific and sole objective of carrying out a given project. Upon completion of the project, it may also be contracted to provide a service associated with the project to the procuring entity.

Sponsor The developer of a project, who normally supplies part or all of the equity financing.

Standby Facility A line of credit supplied by a bank which is not expected to be drawn, apart from in exceptional circumstances.

Standby Letter of Credit (SBL/C) A letter of credit issued to ensure the financial performance of a bank's customer to a third-party beneficiary and which is only drawn upon in the event of non-performance.

Stale Bill of Lading A bill of lading that is not available at the time of a consignment's delivery, thereby delaying the transfer of ownership, or a bill of lading that is presented after the expiry of a letter of credit.

Standard Shipping Note (SSN) A standardised document, completed by the exporter or freight forwarder for all non-hazardous consignments, which principally serves to tell the destination port how the goods should be handled.

Step-up / Step-down A provision in a lease contract according to which the amount of the monthly payments increases (step-up) or decreases (step-down) during the lease period.

Stepped Rentals (Step Rentals) In a structured lease, rentals can vary during the lease period. Generally, the rental payments increase as the lease period progresses. Step rentals are generally used for tax savings or cash-flow purposes.

Step-in Rights Right under a direct agreement for the funders to take control of the operation of a project contract.

Stipulated Loss Value A schedule in a lease contract recording the book values of the underlying asset during the lease term, the amounts of depreciation, its residual value, possible tax benefits, and the obligations of the lessee in case of loss of or damage to the leased property. Provides the sum payable on early termination of a lease. Also known as insured value or casual value.

Structured Lease A lease where the rentals payable by the lessee are tailored to match the cash flows generated by the assets under lease. Can apply to seasonally used assets, e.g. combine harvesters or charter aircraft etc.

Sub-lease A leasing contract that transfers a number of the lessor's rights to another. This does not affect the validity of the contract between the original lessee and lessor.

Subsidised Lease A lease that is financed via captive finance companies (or captive finance arms) where an element of the 'sale profit' can be used to subsidise the rentals payable by the lessee.

Supplier Credit A credit extended to the overseas buyer by the supplier. See export buyer credit.

Supply-or-Pay Contract An agreement by a supplier to provide a product/service at specific intervals at a predetermined price or, if this is impossible, to pay for alternative provisions.

Tax Indemnity Clause A clause that is incorporated in a tax-based lease to allow the lessor to adjust rental payments in the event of any changes in the tax regulations in order to maintain the lessor's original anticipated return from the lease.

Tax Lease (Tax-based Lease) A lease where the lessor benefits from tax depreciation as owner of the assets and builds these benefits into the rentals payable by the lessee.

Tax Variation Clause A clause inserted into a lease to enable the lessor to vary the rentals if there are any changes in the tax rates or system.

Technology Refresh Option An option in a lease agreement permitting the lessee to upgrade the leased assets at certain intervals of the lease period in exchange for an increase in the original lease term and/or amended payment conditions.

Termination Schedule The part of a leasing contract that stipulates the value of the leased assets throughout the leasing period. This section is added in case the lease allows the lessee to terminate the leasing contract before its expiry in order to protect the lessor from loss of investment. It values the transfer or resale value of the leased asset throughout the leasing period. If the asset is sold below the price given in the schedule, the lessee is liable for the difference; however, if the asset is sold at a higher price, the lessor keeps that difference.

Termination Value A provision in a lease that allows the lessee to terminate the lease during the lease term if the leased asset becomes obsolete or does no longer fit in with the lessee's requirements. The cost for the lessee resulting from such a termination is spelled out in the termination schedule.

Through-put Contract A contract where the obligors must pay for the shipment of specific quantities of products, such as oil or gas, over specific periods via a pipeline.

Time Draft A draft that is payable at a specified time in the future.

Tolling Contract A contract in which raw materials or other input supplies are provided at no cost to a project that is paid for processing them.

Trade Acceptance/Bill A bill of exchange used in international trade.

Trade Credit Credit extended by the company selling the goods to another company to enable it to buy goods/services from the party that is extending the credit.

Trade/Commercial Letter of Credit A promise document issued by a bank to a third party to make a payment on behalf of a customer in accordance with specified conditions. Frequently used in international trade.

Transferable Credit Funds available via a letter of credit which can be transferred from one beneficiary to another.

Uncommitted Line of Credit A credit line that carries no obligation for the bank to provide funds at the borrower's request and that can be cancelled without notification.

Uniform Customs and Practice for Documentary Credits An International Chamber of Commerce (ICC) publication listing the regulations for letters of credit that are required to be subject to its rules (often known as 'UCP 600').

Uniform Rules for Collections Guidelines issued by the International Chamber of Commerce (ICC) that outline standard documentary collection practices.

Uniform Rules for Contract Guarantees Guidelines issued by the International Chamber of Commerce (ICC) that aim to provide consistency of practice and a fair balance between the interested parties in the use of contract guarantees.

Upstream Guarantee Guarantee issued by a company, usually an operating subsidiary, to support its parent company's obligations.

Usance The length of time allowed for a letter of credit or negotiable instrument to be paid.

Usance/Time Draft A draft that is payable after a set period of time.

Value Date The day on which a transaction is settled, the payer is debited and the payee credited. These days may differ if there is float.

Variable Rate An interest rate that changes periodically in line with market rates.

Vendor Lease A contractual agreement between a vendor of equipment and a leasing company where the latter undertakes to lease the vendor's assets in order to promote the latter's sales. This type of arrangement is comparable to a lease financed via captive finance companies. Also known as lease asset servicing.

Waybill A document similar to a bill of lading prepared by a transportation line at the point of shipment, for use in the handling of the shipment, setting out such matters as the point of origin and destination and a description of the shipment.

Working Capital The short-term assets a company has at its disposal to produce further assets. These include items such as cash, accounts receivable, inventory and marketable securities. The amount by which these exceed the company's short-term liabilities is the net working capital or net current capital.

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