

# Huge resistance to change

BUT ELECTRONIC ALTERNATIVE COULD CUT COST OF HANDLING LCS

**Ron Wells is a man with a mission. He is** credit executive with ChevronTexaco Global Trading. It is a pretty big company, the fourth largest oil company in the world and number two in the US. Ron Wells works in the 'trading' part of the company. Mainly it is crude oil that is being traded, either production which is surplus to the needs of ChevronTexaco's refineries that is being sold, or special grades of crude which need to be brought in.

Although crude is traded by the barrel, it is normally bought and sold by the tanker load, 500,000 barrels and upwards, so the sums of money involved are very big. As credit executive, Ron's primary responsibility is payment risk analysis but he is also responsible for managing letters of credit, a responsibility which has led him to the conclusion that LCs are an expensive straightjacket and, significantly, provide poor security.



**ChevronTexaco Global credit executive Ron Wells is looking for more efficient and low cost ways of dealing with letters of credit.**

Ron reckons that about half the resource of his department is tied up administering LCs. He says that if he is to make a significant difference to the cost base of the department, he needs to get rid of the LCs. He accepts that it won't happen overnight but says that in the meantime he is looking for more efficient, more low cost ways of dealing with LCs. Which is what led him to take part in a pilot for CCEWeb's @GlobalTrade Secure Payment and Trade Management System.

Few people would disagree that LCs are very expensive instruments to administer. Ron Wells's proposition that they do not provide good security may, however, raise a few eyebrows. His experience says otherwise. LCs for crude oil will normally show loading dates. Not a problem in an ideal world but in the real world, loading dates move. Sometimes it is the weather, or a pump may fail. Fall outside the loading dates in the LC and there is no security. The same applies to volumes. A huge amount of 'person power' then goes into keeping the LC good. Worse, because the crude may well be traded several times in a short period, and for each sale full documents have to be prepared, it is not uncommon for those documents to be unavailable when a tanker arrives. The standard practice in the industry is to issue letters of indemnity for missing documents which may need to be countersigned by a bank. While for the big players, this process is simply an expensive run-around, for smaller players it can be a burdensome additional expense. What frustrates Ron Wells is that by and large, people are going to pay anyway.

If this makes him sound as if he is dispirited that would be entirely wrong. On the contrary, he describes himself as an optimist – especially about an electronic solution. He says he started with BOLERO but ran into a series of road blocks. The most important was the need to get all the parties involved in the chain to use the same technology. In practice, it really wasn't easy. The technical costs were high, some parties had other priorities, and there were political issues. 'Many of the parties with whom ChevronTexaco does business are in remote parts of the world. If, for instance, the inspection certificate has to come from Odessa, although the organisation involved may be a global player, their local representative may be working from his bedroom. The special software needed was a real hurdle – even for a company of our size.'

Having been a BOLERO enthusiast and an early pilot, Ron Wells was disappointed when he

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reached a brick wall. So when CCEWeb came along with a proposition he was very interested. What initially appealed to him about the @GlobalTrade product was its accessibility. 'CCEWeb has been designed to be used with a browser. Most companies have that. It doesn't need sophisticated hardware so we felt confident that the different parties involved in a transaction would be able to use the system.'

The other thing that was immediately attractive, he says, was that its documents look like the paper ones. There is huge resistance to change, he says, and having a document in a familiar format means that the system is less intimidating for those involved.

The starting point was to identify a bank and buyer willing to co-operate. The first transaction trialed was an old one. 'There were some issues, in particular to do with the acceptability of the software to our firewall. Now we are doing another and for this we've chosen one closer to reality. We've seen enough to know it will work.'

Features of the system that Ron Wells likes are the ability to check and approve documents on line and the fact that it will cater for a mixture of electronic and paper documents. 'I am encouraged by the fact that the cost of entry is very low.'

While Ron Wells has been working with CCEWeb, eUCP has been published which he considers an important step forward. 'It takes away some of the potential legal barriers.' And BOLERO have come back with a new web-based product which Ron Wells will be looking at. He says that suddenly there is lots to be optimistic about.

**CD**