

Trade Services Supplement - May 07

From theory into practice - this supplement features a market overview, IBS Interview, Letters of Credit and profiles of Orbian, Global Trade Corporation and Bolero.

Global Trade Corporation: Friend or foe?



Unicredit HQ, Milan

GTC offers an alternative to the proprietary offerings of large banks but is a potential partner for their lower tier counterparts.

Canada-based Global Trade Corporation's (GTC) @GlobalTrade system is hailed by the company's CEO, Jacob Katsman, as the first comprehensive on-line trading solution designed under the requirements of the eUCP, the electronic supplement to the International Chamber of Commerce's universally-used (and around 60-year-old) UCP500 rules for documentary credits (UCP stands for Uniform Customs and Practice).

Since inception in 2002, the company has been aiming this set of products at trade transactions conducted using documentary credits and documentary collections requiring cash in advance. 'We specifically focus on building multi-bank solutions for large corporate clients,' states Katsman. These companies, along with trading companies that have a sizeable volume of LC, standby and guarantee business, hail from a wide spread of industries. 'We're pretty much a niche player in the trade services space, helping these companies automate their letters of credit and guarantees,' he says.

As a taster of GTC's client list, Katsman offers the rather substantial corporations of DaimlerChrysler, ChevronTexaco Global Trading and EADS (European Aeronautic Defence and Space Company – the parent of

Airbus). But it also serves the banking community. Bank of China's Frankfurt office is on the books, as is National Bank of Pakistan, Germany's HVB and Italy's Unicredit Group (now owner of HVB).

For now, GTC works with the banking community offering a single multi-bank solution but also competes against certain big banks with their proprietary solutions designed with insourcing the full LC processing volumes of the large corporates in mind – Katsman cites Standard Chartered, JPMorgan, Deutsche Bank, Citibank and ABN Amro as examples.

'We can build products on top of [Swift's] Trade Services Utility' - Jacob Katsman, Global Trade Corporation

GTC's pitch to corporates works along the lines that these companies do not need to tie themselves to one big bank provider where they could instead use the @GlobalTrade system. 'We're giving the power back to the corporates versus the banks,' says Katsman.

In essence, @GlobalTrade is a multi-function on-line solution incorporating coverage of such trade finance staples as export documentary credits, export documentary collections (both used by DaimlerChrysler), standby LC/guarantee issuances (used by EADS), import documentary credits, standby LC/guarantee receipts, import documentary collections and open account financing. Within the package GTC also offers a product enabling banks to convert Swift Category-7 documentary credit files into the German DTAEA format.

A hosted solution for electronic LC advising (which enables banks to deliver export LC messages to their corporate clients electronic-ally) and an eLC (electronic letter of credit) Card, in virtual or plastic form, for SMEs completes the line-up. @GlobalTrade can provide straight-through trade processing by merging credit card and bank payment systems with a document management tool. This allows users to make the most of their existing technology infrastructure and enables them to conduct their business over the internet.

One major upside to this system, says Katsman, is that participation in @GlobalTrade requires no membership fees. Users are charged transaction fees, depending on what systems the banks have and what trade workflow products are being used, such as LCs, collections, open account or cash in advance.

It competes directly with the likes of Bolero.net and TradeCard, but GTC believes it scores well over Bolero's pricing, Katsman noting the impact of annual membership fees and set-up costs involved for connection and use of the Bolero.net core messaging platform. And in any case, in his opinion, the central registry concept of Bolero 'did not work'.

GTC also believes that some traders see TradeCard as lacking many of the accepted trade finance market practices and standards. And whereas Bolero is focused exclusively on larger corporations and multinationals, the @GlobalTrade system caters for small and large users alike. Swift's TSU is seen by Katsman as being 'complementary' to GTC's software: 'we can build products on top of the TSU'.

In operation, @GlobalTrade enables an LC to be issued over the internet from anywhere in the world. This eliminates the need to pay cash in advance for purchases. Katsman says the system pretty much cuts out delays (and the subsequent extra cost) caused by discrepancies in paper-based processing. Users can also track their transactions on-line and in real-time, benefiting from guaranteed irrevocable funds availability, and on-line authentication of customers and trade service providers. Invoices, transport documents and payments can all be integrated on the one site.

The eLC Card can be offered by financial institutions to their own SME corporate clients which, in GTC's words, 'can help drive purchasing volume on eMarketplaces by satisfying the need for a secure payment instrument between unknown parties'.

Despite GTC offering an on-line solution to some of the world's biggest traders, Katsman refuses to acknowledge that the paper-based LC has had its day. Indeed, he firmly asserts that there will 'always be a need, based on human nature, a lack of trust and various economic risks. If things get bad, people move more to secure payment.'

In fact, Katsman asserts that the paper LC has a major role to play in bringing a level of trade security to deals in the emerging markets, and where new trading partners are ironing out their individual credit-worthiness. On this basis, he asserts that the LC is 'a fantastic instrument which drives international trade'. Where established relationships exist, of course it can be argued that sufficient trust is in place to work either to a pre-payment model or on open account, the LC therefore not being essential.

What Katsman is keen to discuss is whether the LC can practicably be automated. Although adamant that the technology is available to do the job, he notes that the industry is only at the stage where the flow of paper documentation to the various parties is being moved faster from the exporter and the various third parties to the advising bank where it is printed.

Secure documents for pre-checking, checking and acceptance can now be forwarded or returned by email rather than sending them by courier. But snail-mail dispatching of documents to the issuing (importer's) bank, once printed, is still much in evidence. The next stage therefore is to encourage the automated transfer of digital documentation to the issuing bank before printing or transfer to the importer's system. This, says Katsman, would require the acceptance of eUCP credits by importers. These have been available since 2002, acting as a supplement to the standard UCP by providing rules for the presentation of the electronic equivalents of paper LC documents.

The reason automation has not necessarily permeated as far as the issuing bank end is simple. Automation speeds up the process, which is good for the exporter who wants payment as fast as possible. But most importers resist paying quickly. It's basically a cash flow issue. Katsman is at pains to point out here that the gap between payment expectation and reality does not refer to the relationships that corporate exporters enjoy with their long-established customers but more to the emerging market customers of exporters who are trading on an LC basis where 'credit is tight'.

On this understanding, and through its hard-won market experience, GTC has come from the position of offering LC solutions to the importers, exporters and their respective banks, to offering a solution to automate the exporter's supply chain first. Indeed, as far as export LCs, export documentary collections or issuance of guarantees are concerned, Katsman is convinced that if there is going to be change in the industry at this level, the change will be incremental. And since, currently, the only motivation for a change that would inevitably lead to quicker payment is on the export side, automation of the exporters' workflow is the only logical starting point.

Once there is sufficient demand on the exporters' side only then is automation likely on the importers' side. But, as Katsman notes, 'behind all these things, there has to be a business case'. Indeed it only makes sense where you have 'significant volumes', which in his eyes equates to issuance of 200 plus LCs a year. He is also very much aware that if the importer is located in a country that requires paper documentation for the release of goods from customs, the eUCP credit is not going to be acceptable until those rules change. It could be a long struggle, but as far as Katsman is concerned, the paper-based LC is alive and kicking.