Fuelling the export drive

CONDITIONS ARE TOUGH, BUT MORE COMPANIES ARE LOOKING BEYOND THEIR TRADITIONAL OVERSEAS MARKETS. **JOHN BEVAN** AND **ALAN AINSBURY** EXPLAIN HOW BANKS AND THEIR CORPORATE CLIENTS ARE MEETING THE CHALLENGE.

The phrase "export or die" has been in currency long enough to become overfamiliar to UK companies. It dates back to government exhortations to business when the country was struggling in the aftermath of the Second World War. However, that doesn't prevent it from being as true today as it was then. Indeed, the accelerating globalisation trend of recent years and increasing competition from the world's emerging economies including the BRICs have, if anything, increased its resonance.

Barclays has for many years provided financial support and expertise for corporate clients seeking to enter new overseas markets – for example, as a major provider of receivables financing. The bank has worked closely with business organisations such as the Confederation of British Industry and UK Trade and Investment (UKTI) to determine the specific needs of different sectors. Politicians recognise that the need to encourage companies to develop new export markets has become acute and we are at the forefront of a partnership between the government and the banking sector to assist the efforts of small and medium-sized enterprises (SMEs).

TRADE CREDIT CAPACITY Inevitably the challenges have intensified as a result of the changing market conditions and increased volatility that have been experienced over the past four years. Yet despite the fall in economic activity, the overall UK trade and receivables funding market has held up remarkably well over this period. Contrary to what press reports might suggest, we believe that the trade credit capacity for British companies now stands at an all-time high. There has never been a better time for corporates to seek the assistance of their bank than today, as evidenced by our own clients, which have been noticeably stepping up their export activities over the past 12 months.

This represents a solid achievement, given the market turmoil and euro zone uncertainties we all currently face. Companies are keen to expand their global presence, but at the same time they seek assurance on when they will be paid and how they will be paid for their products and services. A tougher economic climate increases concerns that the period between invoicing and payment receipt will grow longer and the possibility of clients defaulting will increase.

Trade finance is well suited to respond to the challenges of this more volatile market. The products are capital-efficient, well structured and tailored to meet the specific needs of individual companies. Their development has been accompanied by many companies elaborating their own internal systems to gain greater certainty as to how and when they can expect to receive payments.

Increasingly, open account and receivables are becoming the main constituents of the trade finance market. As a result of the more demanding economic environment of recent years, more than 80% of global trade is now conducted on an open account basis. This development is at odds with what was forecast back in 2008 when the world economic downturn accelerated sharply. Expectations then were for companies to rely more heavily on letters of credit. Instead, a need for more structured products has arisen as companies have moved away from more traditional types of trade.

SOLUTIONS At a very early stage of the downturn we canvassed the views of our corporate clients to establish precisely what further support they required from us as a major

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provider of working capital. We also brought together the traditional trade finance teams with our receivables financing specialists, to form trade and working capital teams providing end-to-end solutions for our clients' needs.

One need that was soon identified was to bring together all the diverse products that can assist with the working capital cycle. These include the risk mitigation and risk transfer tools that meet the needs of importers and exporters.

It is a radical departure from the approach of traditional UK high-street banks to assemble, under a single roof, all the various solutions for corporates to facilitate every stage of the cycle. But one of the main messages we identified was that companies increasingly look to solutions rather than products – and a structure providing working capital and trade finance solutions to meet their end-to-end needs was what they needed.

As trade continues to become more global in nature, our clients are looking outside developed economies towards emerging markets for growth. So Barclays has not only strengthened its UK/Ireland and Europe trade and working capital teams, but also expanded its presence in the Middle East and Asia. In Africa we have the advantage of a long-established partnership with Absa Group, which forms a franchise covering three-fifths of the continent's total banking revenue pool.

Clients also benefit from the investment banking services of Barclays Capital, which includes solutions to mitigate against risks such as currency and interest rate fluctuations.

HOW ARE CORPORATES RESPONDING TO CHANGING MARKET CONDITIONS? What has become very evident from corporates is a more conservative attitude towards funding but Barclays' doors still remain open to small and medium-sized enterprises seeking funds. Despite this, the demand for loan facilities has been muted, with UK volumes dropping by around 2.3% in 2011.

Companies are also concerned about the possible impact of greater regulation of the UK financial market – already one of the most heavily regulated in the world. Barclays is strongly capitalised and welcomes the more stringent regime, but we are realistic enough to factor in every possibility for future market developments including worst-case scenarios. We regularly carry out stress tests, while our clients also regularly test their own balance sheets. Nonetheless there is a wish for greater certainty and a number of our clients have requested that we confirm our long-term plans and commitment to the trade finance world.

A more positive development has been closer working relationships between banks and their corporate clients, to ensure that their requirements are met. A year ago the Japan earthquake and tsunami underlined how a sudden, unforeseen event could create massive supply chain dislocations for manufacturers. There are concerns that an escalating euro zone crisis, or similar financial disruption, could cut off many companies' funding sources. So they are seeking out banking partners that can provide them with certainty of support.

Another hopeful sign is that even clients operating in sectors where conditions are particularly challenging, such as construction and retail, are telling us that there are signs of growth, albeit patchy, in many areas.

The manufacturing sector is now displaying signs of rallying as new overseas markets open up, such as Vietnam. The aerospace industry in particular has enjoyed some relatively major transactions.

EXPORTERS' RESPONSES The UK's major exporters have reduced their costs by consolidating supply chains and using fewer overseas distributors. Companies are seeking ways to become more competitive by driving further economies such as exploring lower-cost locations. As an example, companies in the petrochemicals sector are moving into Vietnam and other Asian markets.

Corporate treasurers have demonstrated great concern over market volatility, both due to the implications for their clients and for the financial sector as a whole. They are particularly keen to have continuing access to US dollar funding and more of our clients have begun hedging to offset the risk of major currency fluctuations. This provides them with the certainty and confidence to trade in specific overseas markets – and to sleep a little more easily at night with the knowledge that the business is being run more efficiently.

There is no consensus as to whether the tough financial conditions will begin to ease from 2013 or endure for many more years. Treasurers have responded to the uncertainty by putting in place structures and solutions that can support the business and ensure that it continues trading in the most adverse conditions.

Traditionally, corporate clients opted for overdrafts but there is now general agreement that the overdraft is not a capital-efficient means of funding. Instead, we are providing more structured products with lower capital ratios.

With market volatility showing the potential to continue for several years more, Barclays recognises the importance of staying close to our corporate clients and continuing to listen to them so that we are responsive to their needs and we can ensure that we react accordingly.

Companies want solutions that are both end-to-end and global in their scope, so we are continually working on and refining products and services that respond to those needs and deliver exactly what is required. We always work with our clients to deliver the best possible solutions in response to challenging markets.

The adoption of a more joined-up approach and the provision of end-to-end solutions mitigate risk both for companies and their banking partners. Having full transparency enables us to better understand our clients' working capital cycles and we can then identify and address any weaknesses. Some recent examples of solutions devised for our clients are given in the box below.


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BARCLAYS

From problem to solution

THE FOLLOWING CASE STUDIES ARE ALL RECENT EXAMPLES OF BARCLAYS UK CORPORATE CLIENTS WHOSE SPECIFIC FINANCIAL NEEDS WE WERE ABLE TO MEET WITH TRADE OR WORKING CAPITAL SOLUTIONS.

CASE STUDY A: BUSINESS SERVICES

Our client had a pension repayment schedule that included a levy cost which it was borrowing as part of a revolving credit facility to reduce its deficit of more than £300m. When we made the company aware of the bank guarantee option, it decided to use this guarantee to plug the increase of pension deficit that had occurred since the repayment schedule had been put in place.

The deal was structured as a standby letter of credit (SBLC) in favour of the pension trustees, giving the company flexibility as to how it handles its deficit in the future.

CASE STUDY B: RETAIL

A $700,000 import letter of credit (LC) facility was put in place to enable the company to trade under LC and use the solution to negotiate price reductions via interest rate arbitrage between the UK's cash rate and costs of funds in South-East Asia.

The client needed the facility to be sanctioned and the LCs issued inside 48 hours in order to take advantage of the upcoming Chinese New Year.

CASE STUDY C: WHOLESALE

Our client is a wholesaler of hardwoods and timber products. The company's annual turnover of around £90m is heavily dependent on activity in the UK construction sector, so the company has struggled in recent years and was experiencing trading difficulties by last summer.

In view of the difficult home market, the company sought to develop its overseas business, but required additional working capital to do so. As it was difficult to provide additional facilities against the business's existing security, a structured trade facility was put together.

The company's overseas business involves shipping hardwoods and timber products in full container loads direct from overseas suppliers (mainly located in the US) to overseas customers (mainly in the Middle East). Overseas customers are always asked to pay with documentary collections or by LC. Term collections are required by the overseas bank to be backed by the payment assurance of an aval. As a result, there is always a guarantee of payment by the overseas bank before bills of lading are released and control of the goods is lost.

The new facility ties in import collections, export collection and export LCs (with confirmation and discounts).

CASE STUDY D: WHOLESALER

This client sells perishable products into the Middle East and has traditionally traded on open account. However, it suffered significant delayed payment issues, which were having a serious impact on cashflows. A more structured solution in the form of export collections was put in place to help address the delays in payments that were being experienced, thereby helping the company's cashflows.