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Newsletter N°6 - November 2005

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World growth

According to IMF estimates, world growth reached 5.1% last year, a level not seen in the past thirty years and just ahead of the best years in the late 1990s. For this year and 2006, the IMF's estimate is 4.3%, but Europe will once again prove the exception with GDP growth still below its potential at 1.2%.

However, this continued sustained growth should not deflect our attention from certain persistent and, in some cases, mounting risks.

■ The growing US current account deficit and how it is being financed is a constant source of concern. The culprit is not, as widely believed, public finances but rather weak household savings. The USA's

external deficits are caused by structural weaknesses that cannot be corrected by a depreciation of the dollar alone. And that's not on the agenda given the widening interest rate spread against the euro zone and Japan, the large levels of corporate profits flowing back to the US from foreign subsidiaries of US companies due to tax incentives, and the vast amounts of investment cash washing around the markets looking for a home (Asia, oil exporters). But once the expansionist effect of post-Katrina reconstruction has disappeared, a marked slowdown in the US economy could well trigger a new downturn in the dollar.

■ Residential investment, which now accounts for 5.2% of GDP – much higher than the historical average, and continued spending on construction cannot support the growth rate of recent years indefinitely. House prices have shot up, leading to overvaluations reaching up to nearly 50% in some areas of California. Prices cannot keep going up, partly because they are rising faster than income and partly because household debt servicing has reached a record high. Even if prices just settle at current levels, the surge in home equity withdrawal would



come to an abrupt halt, thereby putting pressure on consumer spending. Under these circumstances, consumer spending patterns will be dictated mainly by trends in the job market.

■ In the short-term, of course, oil prices are the main cause for concern. In real terms, i.e. adjusted for inflation, oil prices have hit levels similar to those seen after the first oil shock. The problem has been exacerbated by weaknesses in the refining industry, which has suffered from underinvestment in the past few years. Before Katrina hit, the rise in gasoline prices in the USA had easily outstripped the

rise in oil prices. Oil prices have primarily risen due to an increase in the risk premium but even so, fundamentals point to continued high levels. Demand is rigid in the short-term and energy prices are therefore putting pressure on purchasing power and consumer spending. Imports by oil producing countries and investments that contribute to containing market interest rates are partly compensating for this negative effect. We can only hope that fixed investment will remain buoyant enough to offset the expected slowdown in consumer spending.

Philippe d'Arvisenet
Global Chief Economist,
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Sharing Experience

WITHIN INVENTORY FINANCING :

how to reduce the cash requirement and the overall cost of carrying goods ?

The aim is to reduce the level of inventory of raw material / finished products and to accelerate their conversion into cash by means of non recourse transactions. Within the Supply Chain Financing (SCF), the physical inventories are particularly important as they incur, on average, the heaviest financing costs in the current assets.

SCF addresses first and foremost global organization (which must be at least rated BB+ by Standard & Poor's or equivalent), with large international sales, interested in optimizing their inventories and in working capital management.

POTENTIAL BENEFITS FOR BUYER

- Reduce cost of goods as the buyer will no longer bear the funding cost of the supplier during the hold period.
- Receive extended payment terms.
- Free up indebtedness capacity

POTENTIAL BENEFITS TO SUPPLIER

- Improve cash-flow: when goods are delivered to a designated hub/warehouse, supplier receives payment earlier than under current arrangements.
- accelerate inventory conversion into cash.
- decrease inventory levels.
- provide more competitive pricing to buyer due to reduced holding cost.

How does it work ?

The Bank intermediates between a supplier and a purchaser of inventory :

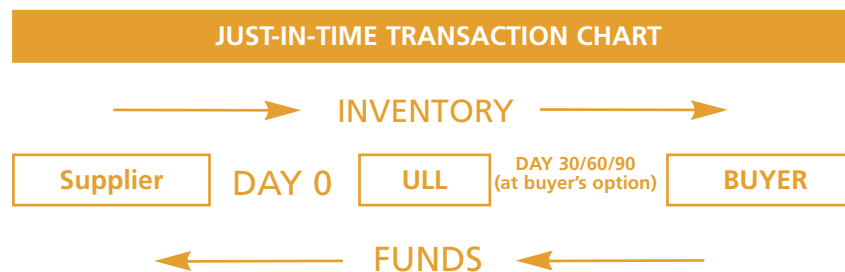
- Inbound: the Bank's client wishes to defer the purchase of the raw material until required for use in its production process .The Bank would propose its "Just in Time" ("JIT") structure.Under the JIT, the BNP PARIBAS SCF subsidiary (UTEXAM LOGISTICS Limited) would purchase the raw materials directly from the suppliers and hold this inventory until it is required by the purchaser.
- Outbound: Under the Pre-Receiveable Structure (PRS), UTEXAM buys the inventory of finished goods on a non recourse basis from the supplier the Bank's client and holds them until required by the ultimate purchaser.

An example of JIT structure with a malt producer:

- ULL buys barley from suppliers (farmers), pays the suppliers and holds the inventory of barley for between 3 and 12 months. When the final buyer, the Bank's client, requires the barley for use in its production, to make malt for beer productions, the client buys the barley from ULL.

BNP PARIBAS set up a complete financing offer with Utexam Logistics Limited@), ULL established in 1989, is a wholly-owned BNP Paribas subsidiary based in the Dublin Trade Center. ULL today works with the major corporate clients of BNP Paribas and its customers can be found in all segments of industry including, inter alia, electronic components, automotive, computers and agricultural produce.ULL operates in all parts of the globe and in all tradable currencies

For any information, contact your Local Trade Center (<http://corp.bnpparibas.com>)



Life in Trade Centers

It's now the turn of ... the Trade Centers in Asia & Pacific to speak

In the coming years there should be a strong potential for intra-Asian growth particularly centered around trade with China and this should create new opportunities.

BNP Paribas has a strong network across the region.

The Asian network of Trade Centers comprises 14 Trade Centers in the following countries: Australia, China, Hong Kong, India, Indonesia, Japan, Philippines, Singapore, South Korea, Taiwan and Thailand. A focus is placed on China and India with 2 Trade Centers in each. BNP Paribas has been very active for many years in Vietnam and we plan to open a Trade Center there.

No expatriates run any of them in Asia, only locals. This helps us to know the market, to build relationships and understand the regulatory environment.



Trade Centers and contacts

The business covers more than just traditional trade finance products. More and more companies are trading on an open account basis, and we have to be able to offer complete supply chain solutions.

Supply chain financing brings together receivables, payables and inventory to optimize cash flow.

Asia is the producing centre of the world and Asian companies have to work with worldwide buyers who want to use the same techniques in China, Australia and the US.

Customers want to have solutions with risks, prices, tenors and whether or not you can do the deal.

We want to build ongoing business relationships with our customers, not only make money on a one-off deal. We combine expert technical advice and effective electronic tools with a secure and interactive transactional internet portal Connexis Trade, processing platforms staffed by dedicated Trade professionals but also customised solutions.

CHINA

Our target customers are the multinationals and the large State owned enterprises. The difficulty in doing business in China is the regulatory situation which is very strict regarding foreign banks. But we have the licence to deal in Renminbi which covers Branches in Beijing, Shanghai. We are among the five foreign banks licensed to provide e-banking solutions. This covers, LCs, guarantees as well as cash management financing.

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INDIA

With a presence in the country for more than 120 years we are very well established in the local market. We have developed Trade Centers in Mumbai and Delhi and are considering some new opening in Bangalore or Chennai.

In **Korea** open account financing is very important with receivables, payables and insurance schemes. In **Singapore** we mainly work on export guarantee and export financing. In **Japan** lots of business come from the Japanese Banks.

BNP Paribas has been present in **Australia** since more than one century. A specificity: a focus on niche markets and structured deals receivables, payables, inventory financing...

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WHAT DO OUR CLIENTS THINK?

An exemple
of reissuance of
international guarantees
for a Chinese client
CBMI Construction Co.

Description of the transaction:

BNP Paribas Beijing asked Banque Marocaine pour le Commerce et l'Industrie (BMCI), a subsidiary of BNP Paribas, to issue a guarantee for a total of **EUR32.09 mio**, in favour of the beneficiary in Morocco by order of the Chinese Bank of CBMI.

This transaction was conducted by BNP Paribas Beijing Trade Center in close cooperation with Casablanca Trade Center.

CBMI CONSTRUCTION

Could you briefly describe your company?

CBMI Construction Co., Ltd ('CBMI') is an engineering contractor specialized in cement industry. Its main business covers design, civil work, equipment manufacturing, installation, commissioning for cement manufacturing plants. It began as China Building Materials Construction Tangshan Installation Engineering Company founded in 1959. Growing steadily over the years, this original installation company built a solid reputation for excellence across China in the installation of cement plants, and was one of the first to venture into the new field of turnkey project and cement plant design. It employs over 1,000 people at home and abroad. The company is 76% owned by Sinoma International Engineering Co., Ltd, a Shanghai Stock Exchange Market listed company.

What's your market position?

The company is the biggest contractor in cement industry in China. It has won the first turnkey contract in the industry- Dujiangyan Lafarge Cement Plant (3200t/d) in 2000 and the first 10000t/d scale clinker production line in China- Tongling Conch Cement Plant in 2003. The company also put increasing effort in developing international market. Before year 2000, 90%

revenue came from domestic market, while in 2004, over 50% revenue came from overseas contracting. The international projects include countries such as Vietnam (5000t/d), Dominica (2500t/d), Tunisia (2500t/d), Italy (2500t/d), Iran (3000), Spain, Albania (3300t/d), Morocco (4000t/d) etc. **It is the only Chinese enterprise who provides EPC contracting services to the two largest cement producers in the world and who can carry out general contract engineering overseas.**

Now, one essential question about your contacts with the Banks?

CBMI's main banks are large local Chinese banks currently. CBMI is very cash rich, so that no loan facility is required from the banks. The main transactions with local Chinese banks are guarantees and L/Cs. CBMI is enjoying the banking facilities provided by local Chinese banks for support its routine business, and also may get one-off line approval for its specific projects on transactional basis.

Support from BNP Paribas and BMCI:

- **BNP Paribas Beijing** provided one-end service to CBMI for its guarantees to be issued to Morocco Beneficiary, this simplify its internal communication, and more efficient for the whole operational process.
- To cooperate with **BNP Paribas Beijing** makes no more complicated process for even overseas banking transactions, BNP Paribas Beijing is also taking the consultant's role to provide CBMI professional advice, and coordination with Morocco.
- **CBMI** opened their bank account with the Settat Branch of our affiliate in Morocco – Banque Marocaine pour le Commerce et l'Industrie- (BMCI) for the settlement of their payment under the Project.



News

What can we expect from the Renminbi's revaluation

On 21 July, China revalued its currency by 2.1% against the dollar and scrapped its dollar-peg in favour of a managed float.

The Renminbi was pegged to a basket of currencies and the daily trading band versus the dollar was set at +/- 0.3 percent. The system was designed to prevent the Renminbi from falling against all currencies if the dollar falls. On 23 September, the system was readjusted, and the daily trading band for non-dollar currencies in the basket was raised from 1.5% to 3%.

The move to a managed float put a brake – if only temporarily – on protectionist pressures such as the Schumer-Graham proposal to impose a 17.5% customs tariff on Chinese products.



The Renminbi is still undervalued by some 20% to 40%. The revaluation should not lead to an equivalent increase in export prices, not just because Chinese companies will take measures to protect their market share, but also because exported goods have a high import content, which will now cost less. Lastly, because US imports are not particularly price-elastic, prices rises would have to be substantial to have any impact on volumes, and anyway the most likely effect will

be a change in the geographical structure of imports to the benefit of the emerging countries. The revaluation is not big enough to have any effect on the US trade deficit. A 20% revaluation would only cut it by about \$20 billion. As regards the impact for China, we do not think the uncertainty inherent in the new system will affect foreign direct investment or portfolio investment. A full float is probably the government's ultimate objective, but this is still a long way off.

By **Philippe d'Arvisenet**
Global Chief Economist,
BNP Paribas

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ABIDJAN TRADE CENTER

In June 2005, the Abidjan Trade Center organised a training course on import documentary credits for some ten client companies.

Generally-speaking, transfers and documentary collections are still the payment methods most used by Ivorian companies to pay for their imports. However, they are increasingly adopting more secure payment methods as exporters seek to protect themselves against country risk: documentary credits, SBLC...

A few comments from customers ...

Roudayna El Amine from the Purchasing department of Sotaci, an iron and steel tube manufacturer: "The course has given us a better understanding of the benefits and risks involved in the various types of documentary credit. We are better equipped to negotiate with suppliers".

Parfait N'Da, Logistics and Quality manager with STA, a telecoms equipment distributor: "The information we got will help us optimise our payment methods and propose the most appropriate type of documentary credit".

Experts' corner

FLASH INTERNATIONAL GUARANTEES SOUTH AMERICA

■ Colombia:

Guarantees are issued either by local insurance companies in the form of "fianzas", or by banks.

Although "fianzas" cover a precise period ending with and expressed expiry date, beneficiaries can still call the guarantee after such date (up to the end of the limitations period defined by local law).

Public sector beneficiaries sometimes ask for a single bond ("poliza unica") covering advance payment, performance and the warranty period. In this case, great care should be taken over the amounts and expiry dates for each "tranche".

"Direct" guarantees may also be accepted.

■ Chile and Bolivia:

Guarantees issued locally (which is

prima facie always the case in Bolivia) are known as "boletas de garantia". These are independent guarantees with an expiry date beyond which no call will be accepted.

■ Venezuela:

Both public and private sectors can accept "direct" guarantees issued by foreign banks but usually want them to be governed by local law.

There is also a procedure for issuing guarantees by mandate ("mandato"). The principal's bank, which then retains direct responsibility in case of a call, instructs a local bank to issue the guarantee in the form of a mandate. This process can be quite long-winded but it substantially reduces local costs.

■ Argentina:

Some tender invitations (generally in the public sector) require a "garantia de impugnacion" to protect against bidders unfairly attempting to eliminate another candidate on the basis of his technical offer or to overturn an announced award.

The guarantee can be called if the bidder's action is judged to be unfair.



ARE YOUR PROJECTS ABOUT TO COME TO COMPLETION?

Arrange your bank and country lines now to make sure that BNP Paribas will confirm letters of credit and other guarantees received from your customers!

Are you expecting to receive letters of credit from your foreign buyers in the next few months but are not sure how the country's economic and political situation will develop? Would you like assurance that BNP Paribas will confirm the letters of credit when they arrive? Would you like to know the cost now?

In certain circumstances and subject to certain conditions, you can arrange the lines you need with BNP Paribas in advance. We manage a large volume of lines on foreign banks in over 140 countries and can therefore guarantee that your letters of credit will be processed smoothly.

Our specialists are in regular contact with correspondent banks in the key emerging markets and can therefore offer you:

- a clear understanding of the country risk
- negotiated rates



Contact your Trade Center for further information!

Richard Beurenaut

*Manager of Structured Trade Group
BNP Paribas ECEP Global Trade Services*

Françoise Huger

*Technical Advisor
BNP Paribas ECEP Global Trade Services*





International Trade Management



Russia: economic reform is progressing and the market is becoming much more structured. However, you still need to know what you're doing.

Advice from a Russian specialist.

How healthy is the Russian market?

Many economic indicators are now on green. Russia is attracting a growing number of exporters and investors. The business climate is much improved and Russia has a new "capital stock of confidence".

How is the distribution sector developing?

More and more major retailing names are setting up in Moscow, following the likes of Ikea, Métro, Auchan, Obi and Leroy Merlin. The major franchise names are also there. Those that have been there the longest are now beginning to attack the major regional cities, St Petersburg of course, but also Nijni Novgorod, Oufa, Kazan and so on.

Distributors still play a very important role as most retailers and industrial companies are not equipped to manage their own import logistics. However, this is gradually changing and the market will become increasingly fragmented in the years ahead.

Local industry has not stayed on the sidelines and there are real opportunities for selling intermediate goods and

equipment. A few recent examples: fabrics and textile accessories, quality control machines for glass factories, packaging film, etc.

Would you advise a company to set up in Russia?

Managing a business in Russia is complicated and costly. It can only be done by companies that are highly structured and already have a buoyant export business and good knowledge of the local market, customs and practices. Rather than opening a representative office, look at recruiting a freelance consultant, for example.

You have helped more than 700 French companies gain a foothold in the Russian market. You are the permanent local contact point for 50 of them. What advice can you give our customers?

Never make the mistake of thinking that it's all easy now and that Russia is an Eldorado right on Europe's doorstep. Competition is tough. Business and relationships are still very



Since 1993, the Frex Group, partner to BNP Paribas GTS Trade Development, has supported SMEs in their approach to the Central European and CIS markets. It has 70 employees, including 35 based in Moscow. Its role is to seek commercial outlets, setting up and managing sales networks, commercial representation, creating small business associations, etc.

Hervé DRUART
Chief Executive Officer, Frex Group

Laurent DUBOIS
Founder, Frex Group
Russian adviser, General Confederation of Small and Medium-sized Enterprises (CGPME)
Adviser to the Franco-Russian Economic, Financial Industrial and Commercial Council



A EXAMPLE OF COLLABORATION

Papcart, a customer of BNP Paribas and Frex

About Papcart

Papcart is a printer and manufacturer of custom folding cartons first founded in 1947. It provides its customers with solutions for their compact or corrugated cardboard packaging needs.

Papcart is involved in a wide variety of business sectors, including wines & spirits, gourmet food, fashion, shoes and, more recently, paper and beauty care products.

It not only handles the entire manufacturing process but also provides global support in packaging design and creation. Based on a brief drawn up in conjunction with the customer, it proposes graphical designs and production volumes tailored to the customer's needs. Papcart is well

equipped with both offset and heliogravure machines and can therefore flexibly handle all kinds of production run. It also manufactures corrugated cardboard and laminates polyester foils. **This continuous drive for innovation has led Papcart to apply for several product patents and to invest heavily in equipment.**

Papcart and BNP Paribas/Frex: the broad outlines of their partnership

Papcart wants to expand internationally

KEY STRENGTHS:

- Impressive customer list including names such as Rémy Martin, Courvoisier and Camus in cognac, Taittinger, Vranken-Pommery, Lanson and Laurent-Perrier in champagne, Jacomo in beauty care, and Fleury Michon and Duc de Gascogne in food.
- Comprehensive, state-of-the-art production equipment.
- Integrated research and design office.
- Ability to handle large and small volumes.

Jean Louis Moreau sought help from BNP Paribas Nantes Trade Center, his partner for many years who put him in contact with Trade Development. This is a unit within BNP Paribas.- Global Trade Services -

In fact Trade Development had already helped Papcart formalise its export strategy by identifying opportunities, notably in Canada, China and Hungary, leading a market study and finding some partners. In the **Russian market**, BNP Paribas works in partnership with Frex. Frex will conduct a highly targeted market survey to identify industrial companies with high value-added packaging needs. A delegation will then be set up in Russia to meet prospective customers, accompanied by Frex. As soon as business begins to flow, BNP Paribas will provide Papcart with the appropriate payment and risk control solutions. To know more about BNP Paribas Trade Development: <http://corp.bnpparibas.com/products/Trade Finance/Trade Development>

Papcart is an independent French S.A.S with share capital of €7.6 million.

- 2004 sales: €27 million.
- Employees: 210 on average.
- 4 production plants.
- Sales forecast for 2010: €40 million.
- Registered office, three production plants and logistics centre at Gétigné near Clisson (Loire Atlantique).
- One Microcarton production plant at Jarnac (Charente).
- One export office at Boulogne-Billancourt (Paris region)
- Jean-Louis Moreau runs this independent family-owned company.
- Bruno Roulaud is Sales Director for France.

The new Export unit in Boulogne-Billancourt opened in September 2005 and is run by Rodolphe Normandin.

The purpose of this Newsletter is to provide an exchange of experience between BNP Paribas and its clients in the field of International Trade. It has been written for members and clients of BNP Paribas on a purely informative basis. The information it contains does not aspire to be fully exhaustive. The Newsletter in no way constitutes advice, consultancy or a commercial / financial offer. Under no circumstances can it be a substitute for specific advice on particular situations. Reproduction in part or in full or mention thereof are totally forbidden without prior and express authorization in writing from its authors. For further information on this issue lease contact: fabienne.pigeaud-agnard@bnpparibas.com

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