



Effective  
Terms of Trade  
for Importers

# Global Transaction Services

*Cash Management Trade Services and Finance Securities Services Fund Services*

---

## Effective Terms of Trade for Importers Migrating from LCs to Open Account Terms

**Simon Constantinides**  
Director, Trade Sales

## Confidentiality and Disclaimer

*The information, concepts and analysis contained herein are provided to you on a confidential basis and are considered proprietary to Citibank, N.A. and its subsidiaries and affiliates (“Citigroup”). You agree to protect our ideas, presentations, methodologies, analytical techniques and recommendations. This material should be used for your internal evaluation purposes only. No part of this material should be disclosed to any third parties except as authorized by Citigroup in advance of such disclosure.*

*The information herein reflects prevailing market conditions and our judgment as of this date, both of which are subject to change. In preparing this presentation we have relied upon and assumed, without independent verification, the accuracy and completeness of publicly available information.*

*This presentation is intended as a basis for continued discussion and does not constitute a commitment by Citigroup to arrange a transaction or other mechanism whereby transactions can get consummated, or an agreement by Citigroup to prepare, negotiate, execute or deliver such a commitment.*

# Agenda

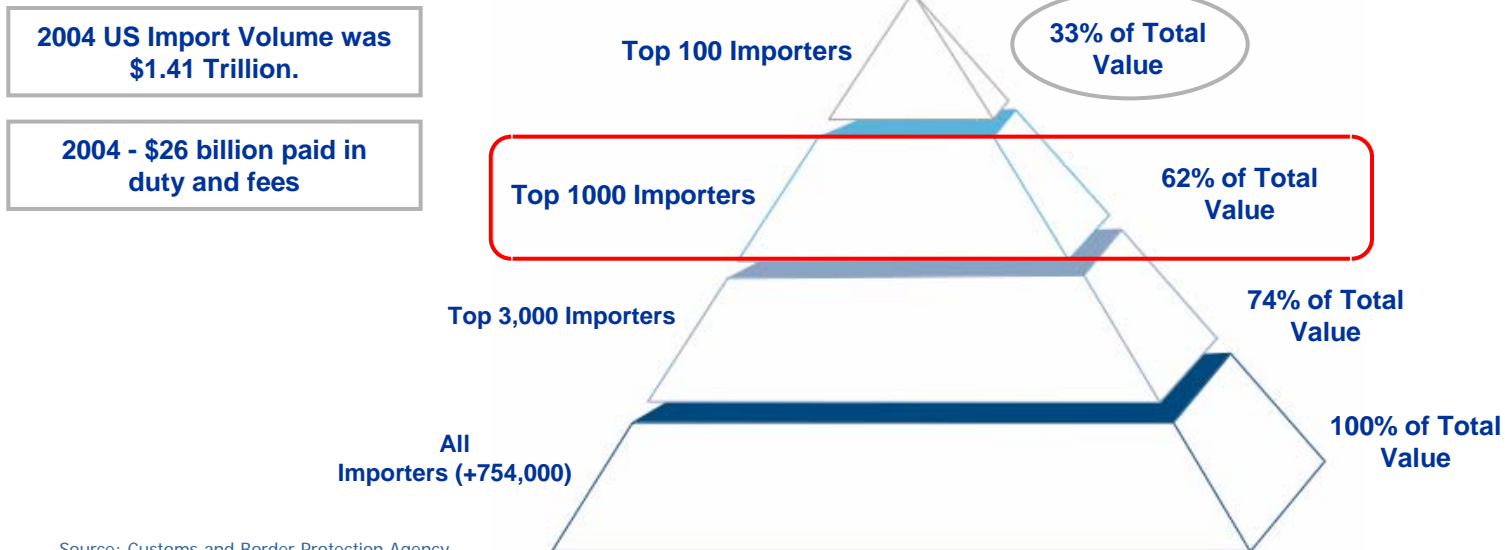
---

**Objective: To discuss effective terms of trade for importers with specific emphasis on migrating from LCs to Open Account terms**

- **This presentation will examine the decline of the Import LC as a term of trade and discuss implementation of an Open Account strategy with a focus on risks and reality, costs and impact, and competitive trade strategies.**

# State of Affairs

- **Cross-border trade is more competitive than ever before**
  - Communication and visibility have allowed for greater access and control
  - Global physical infrastructure has improved over the last 10 years
  - However, local culture, rules and regulations etc., are still a significant challenge
- **In 2004, the U.S. had in excess of 750,000 importers**



# Industry Trends

---

- **Companies growing and actively managing international supply chains with two key areas of focus:**
  - Physical Supply Chain Efficiency
  - Financial Supply Chain Efficiency
- **Expanding international supply chains have led to the usual dilemma: Silos**
- **Silos have emerged between physical and financial supply chains**
  - Critical trading partners have been caught in the middle
  - Bottle necks have constrained the process
  - Negative costs have remained across the supply chain organization
- **Two Key Overriding Trends**
  - Technological Transparency: Leveraging investment and improving processing visibility
  - Financial Transparency: Evaluating cause and effect “across” the supply chain
- **Key Need**
  - Vertical Awareness

# Industry Trends: Silo Analysis

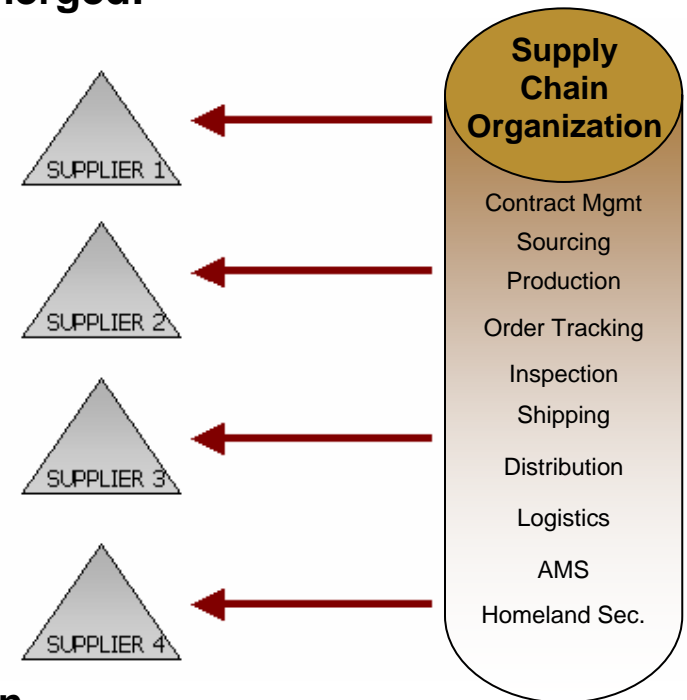
- **A very effective Physical Supply Chain culture has emerged:**

- Advanced Process Management
- Infrastructure Investment
- Internal Coordination

- **Characteristics of the Physical Supply Chain Org.:**

- Always Mission Critical
- Now High on the Totem Pole for IT resources
- Independent processing
- Investing in Process Technology
- Productivity and Efficiency Driven
- Owns the Vendor Relationship

- **Ignored a key Component: The Financial Supply Chain**



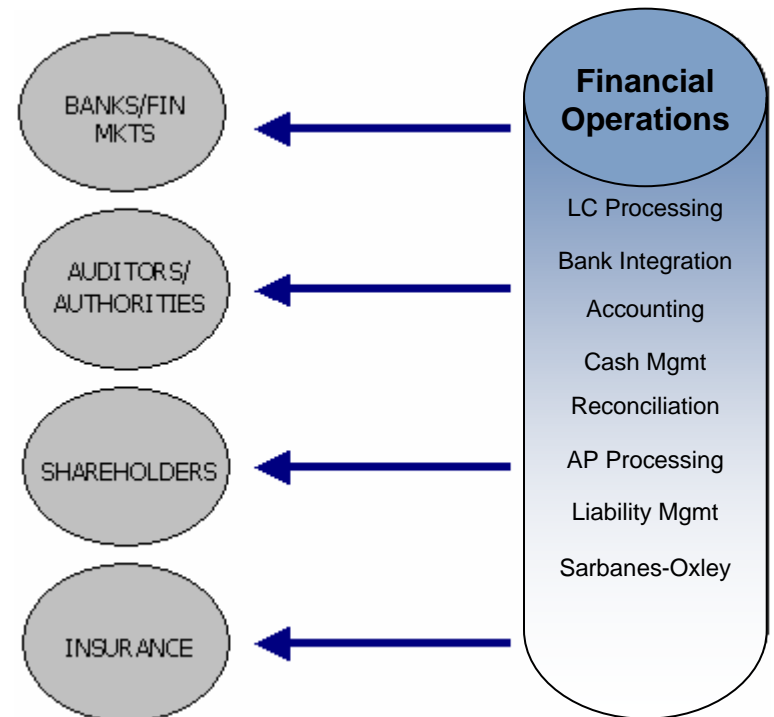
# Industry Trends: Silo Analysis

- **A very challenging Financial Organization has emerged:**

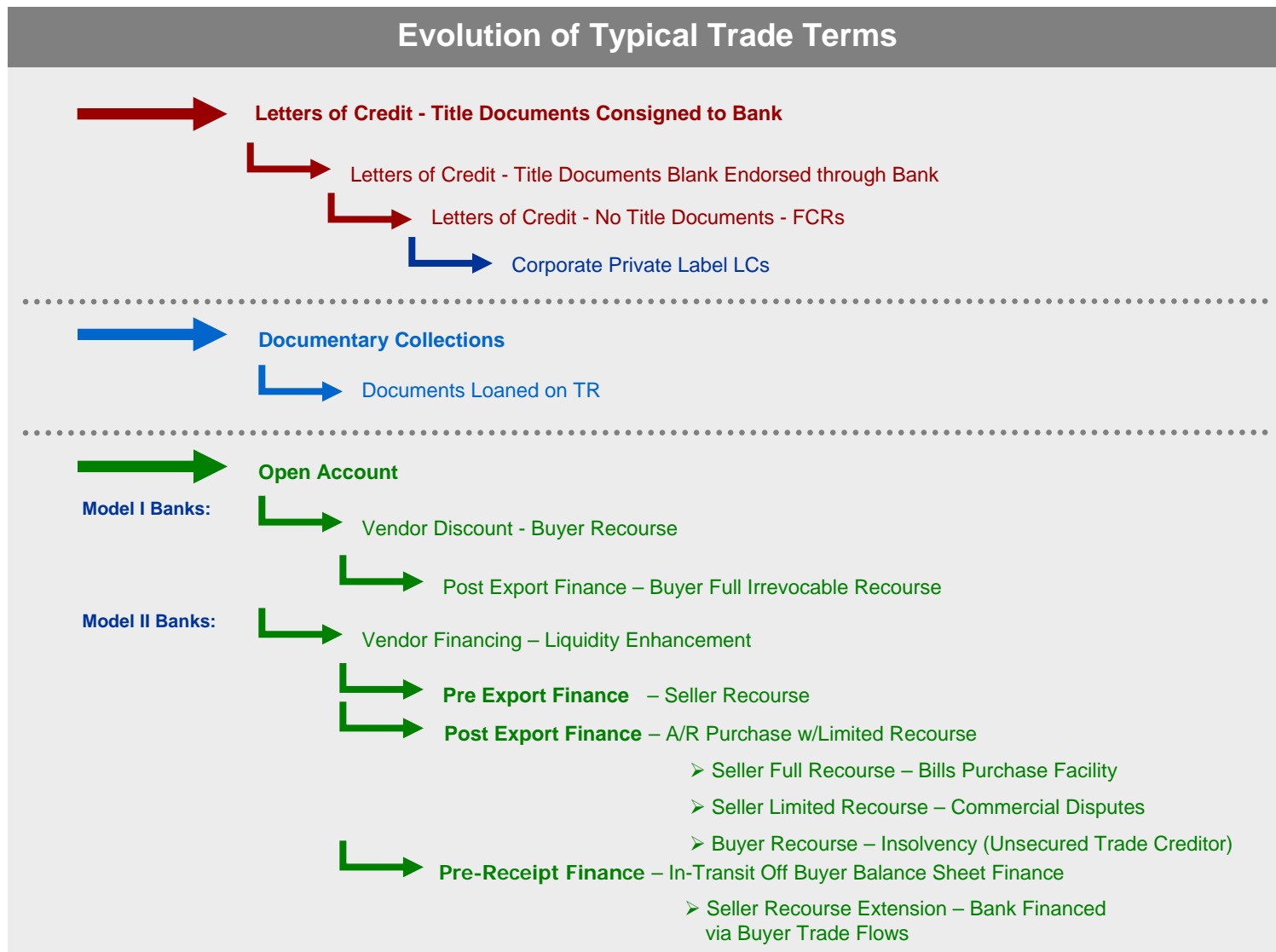
- Continual shift in the Capital/Debt Markets
- Needs for Automation of Processes
- Intense internal and external scrutiny
- Results Driven

- **Characteristics of the Financial Supply Chain:**

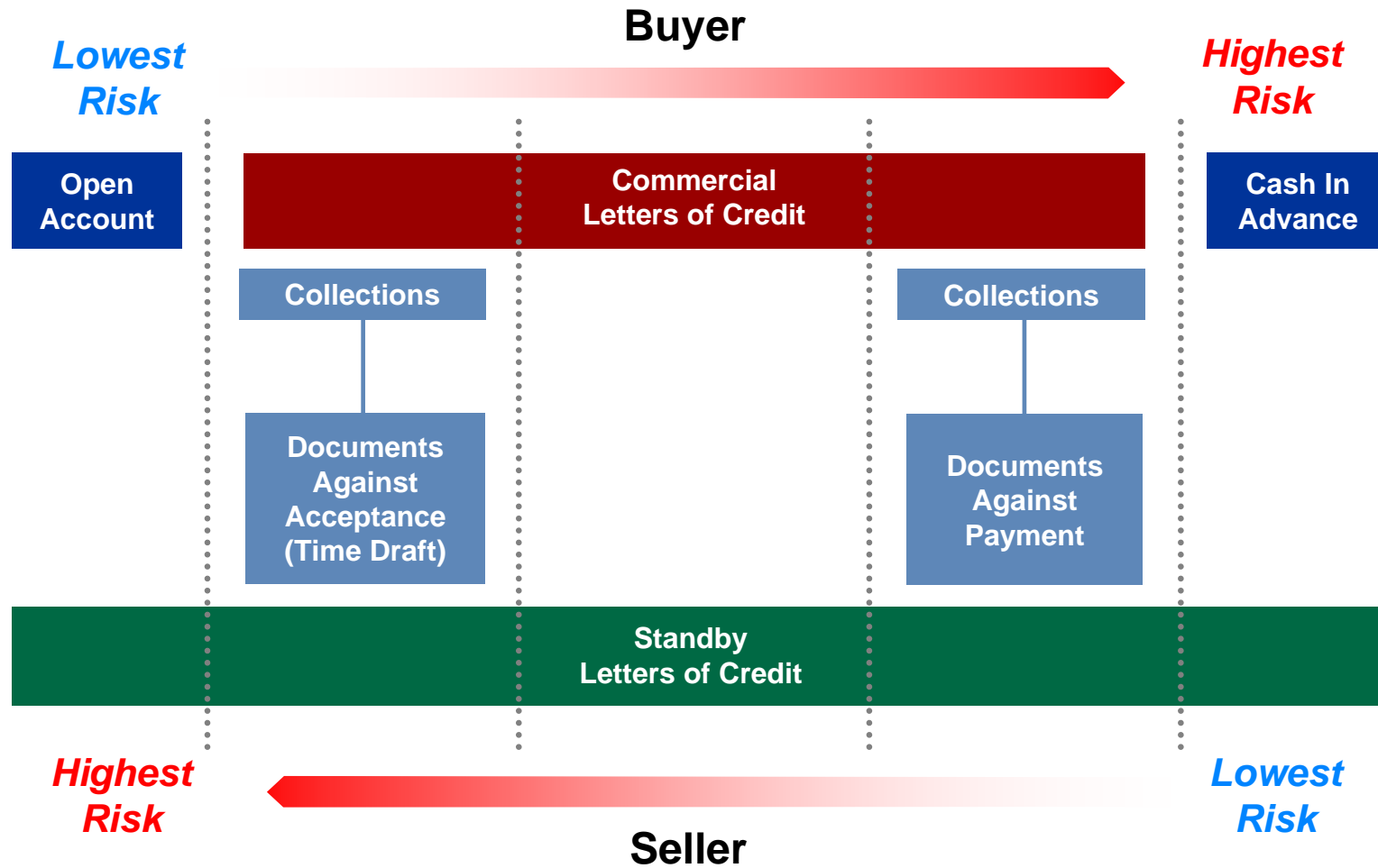
- Specific Functions
- Low on the Totem Pole for IT resources
- Frequently considered the “delay” factor by Sourcing
- Must be responsible for financial discipline
- Challenged by an inefficient paper process
- No relationship with the Vendors



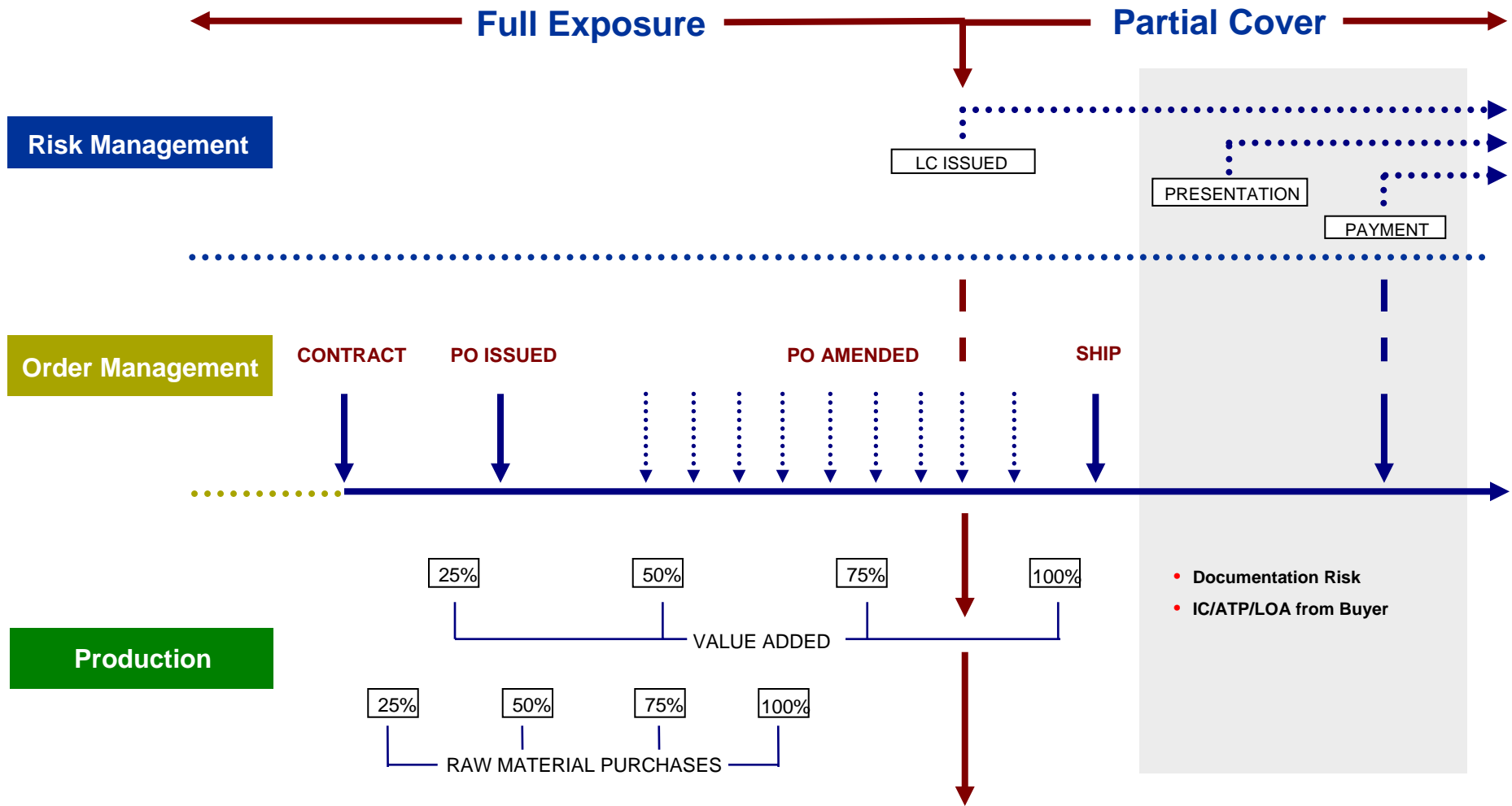
# Terms of Trade Evolution



# Risk Profile



# Risk Profile



# Functional Reality

## ■ Letters of Credit

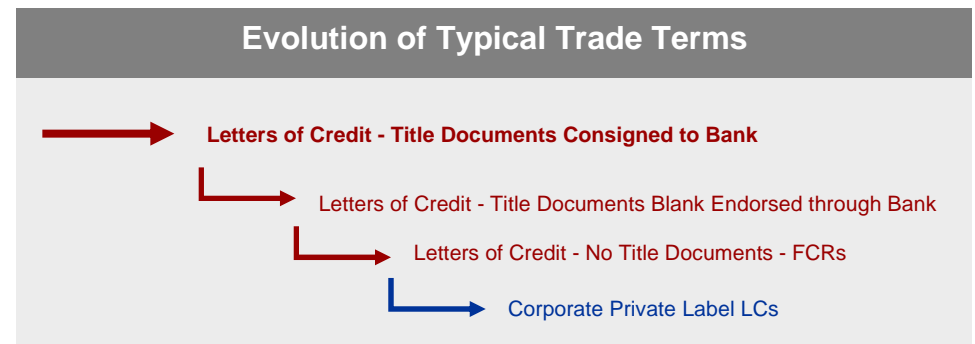
- LCs provide zero payment guarantee!

## ■ Supply Side Benefits

- Vendors like the credit check/reference
- Vendors' banks like the control and discipline that LCs add to the cash cycle - visibility
- Vendors' banks like the fees that LCs generate
- Vendors like using the LC to supplement the need to build hard core capital
- Vendors' banks like the ability to play the float game

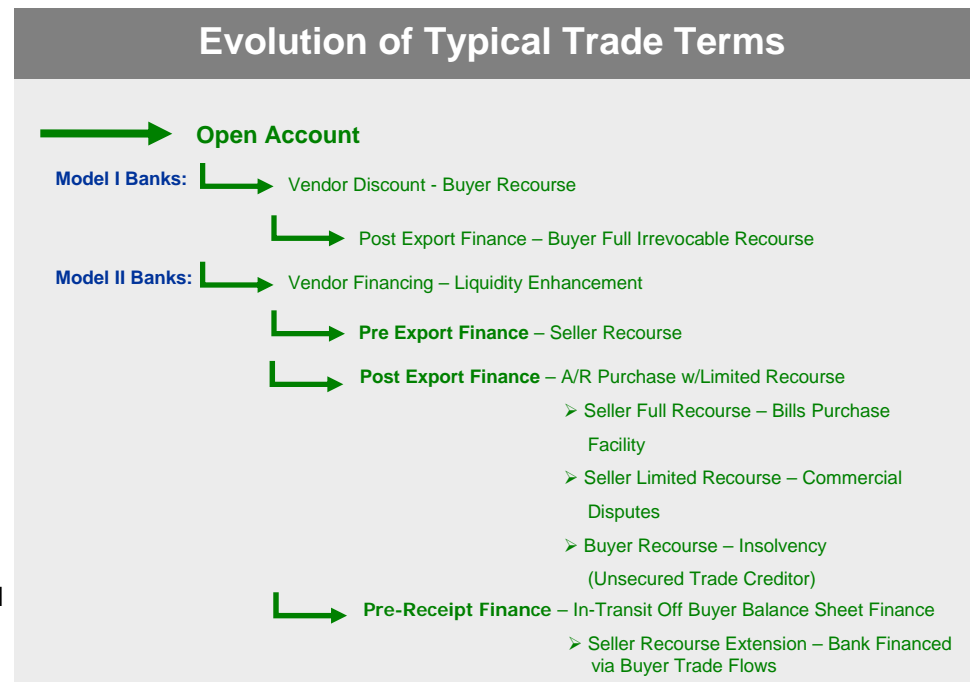
## ■ Buy Side Impediments

- Require excessive administration
- Require excessive credit availability
- Leads to excessive cost for all involved, but paid for by the Buyer



# Functional Reality

- **Open Account**
  - **Buy Side Concerns**
    - Does the Supplier have the necessary financial support pre-and post-shipment to “PERFORM”?
    - What impact will there be on profitability and quality performance for the supplier?
    - What does this do to the cost structure?
    - While the marketplace is liquid today, what about tomorrow? Will there be ready access to capital?
  - **Processing Concerns**
    - Effective processing and integration of the physical and financial supply chains
  
- **Buy Side Benefits**
  - Low cost to all involved
  - Creates greater ownership and control



# Functional Reality

## ■ Open Account

### – Sell Side Concerns

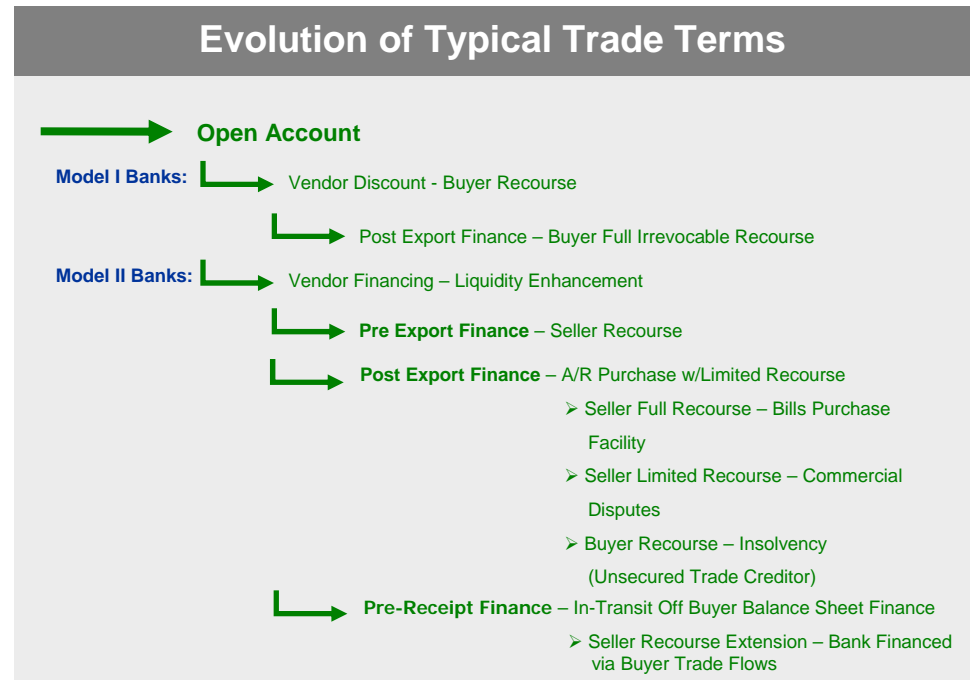
- Terms are extended by Buyer restricting cash flow
- Financial support can be restricted as local bank lacks transactional visibility

### – Sell Side Benefits

- Low cost to all involved
- Shows support to Buyer as Buyers strive to concentrate spend with core suppliers

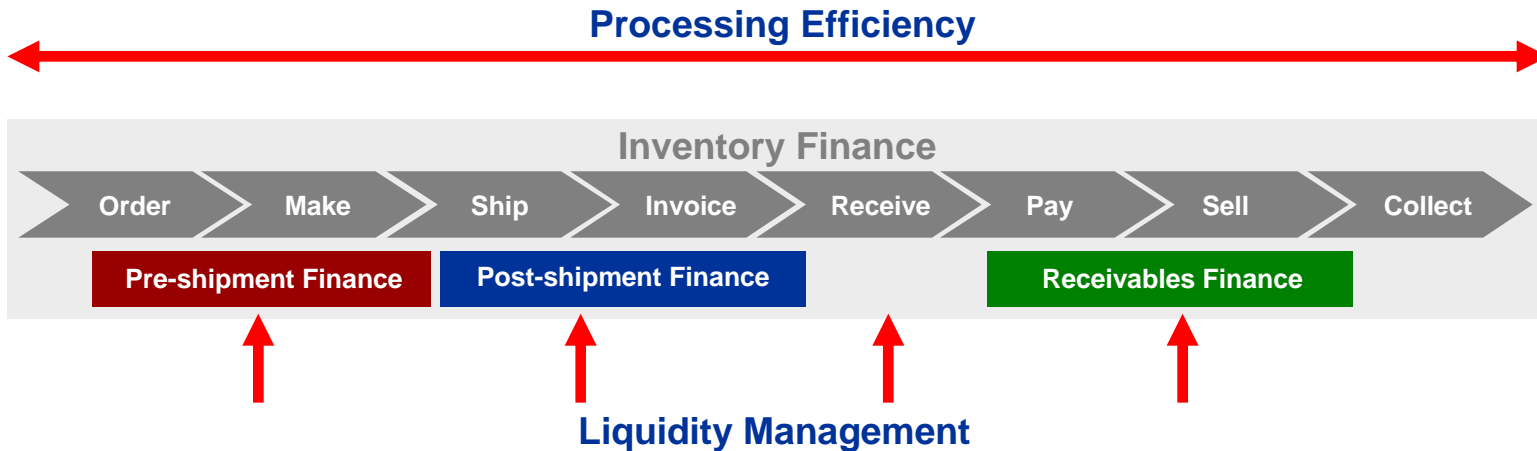
### – The Great Misperception

- Payment default
- Business risk assumed pre-LC issuance is greater than payment default risk

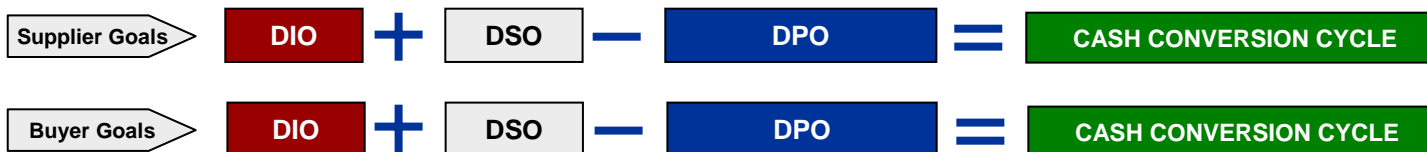


# Industry Trends: Supply Chain Dimensions

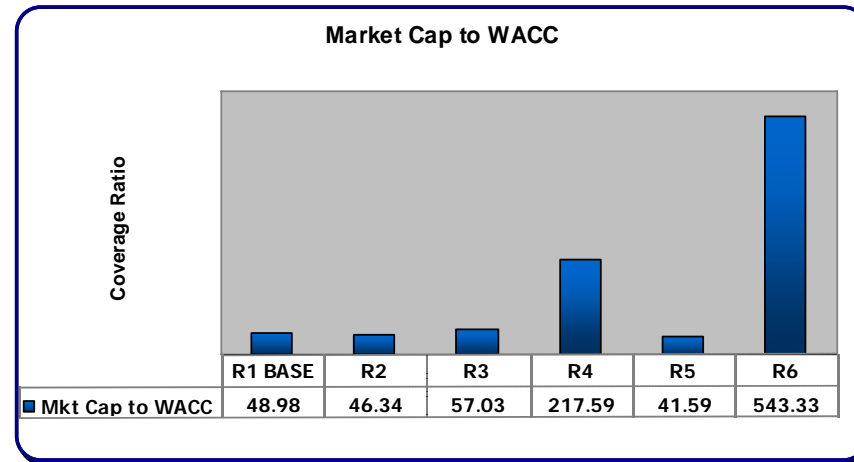
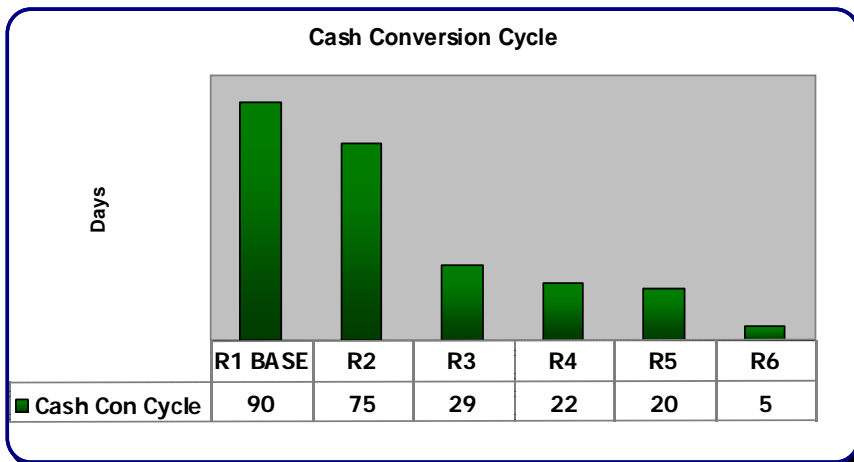
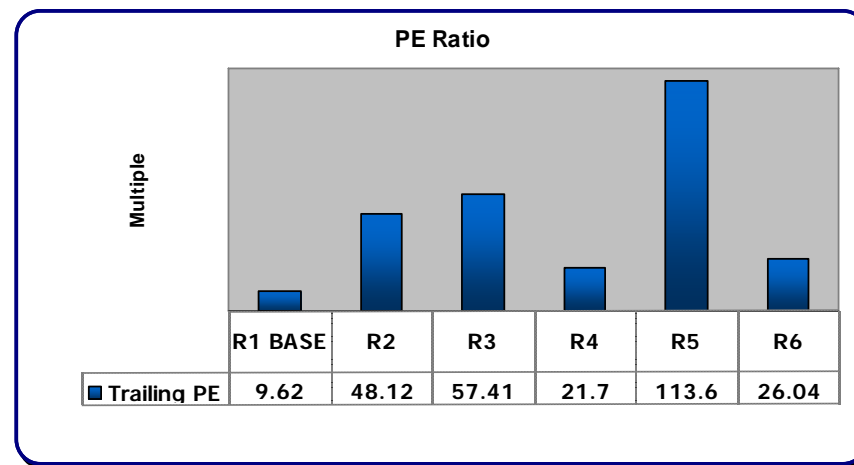
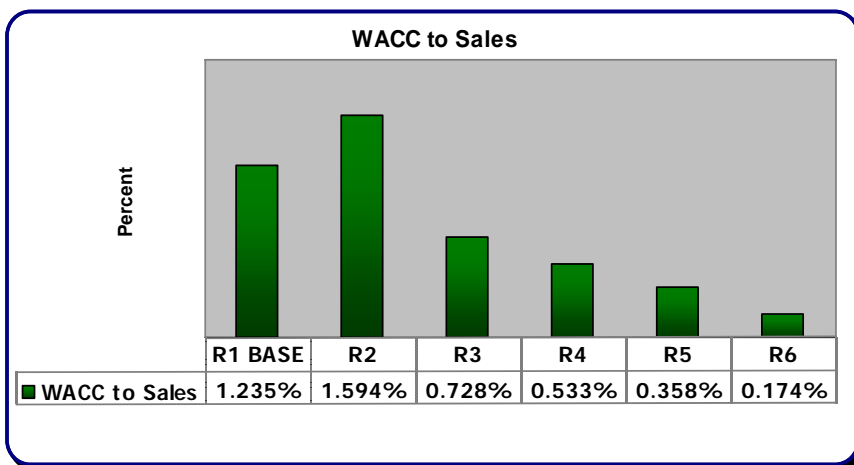
- Financing the supply chain can be viewed in dimensions:
  - Horizontal: Processing the end-to-end cycle of Order-to-Payment
  - Vertical: Ensuring that costs are contained and liquidity is infused between the order and payment



- At the end of the Day:
  - Supplier and Buyer have the same goals:



# Efficiency Cost and Analysis



# Industry Trends: A New Supply Chain Finance Approach

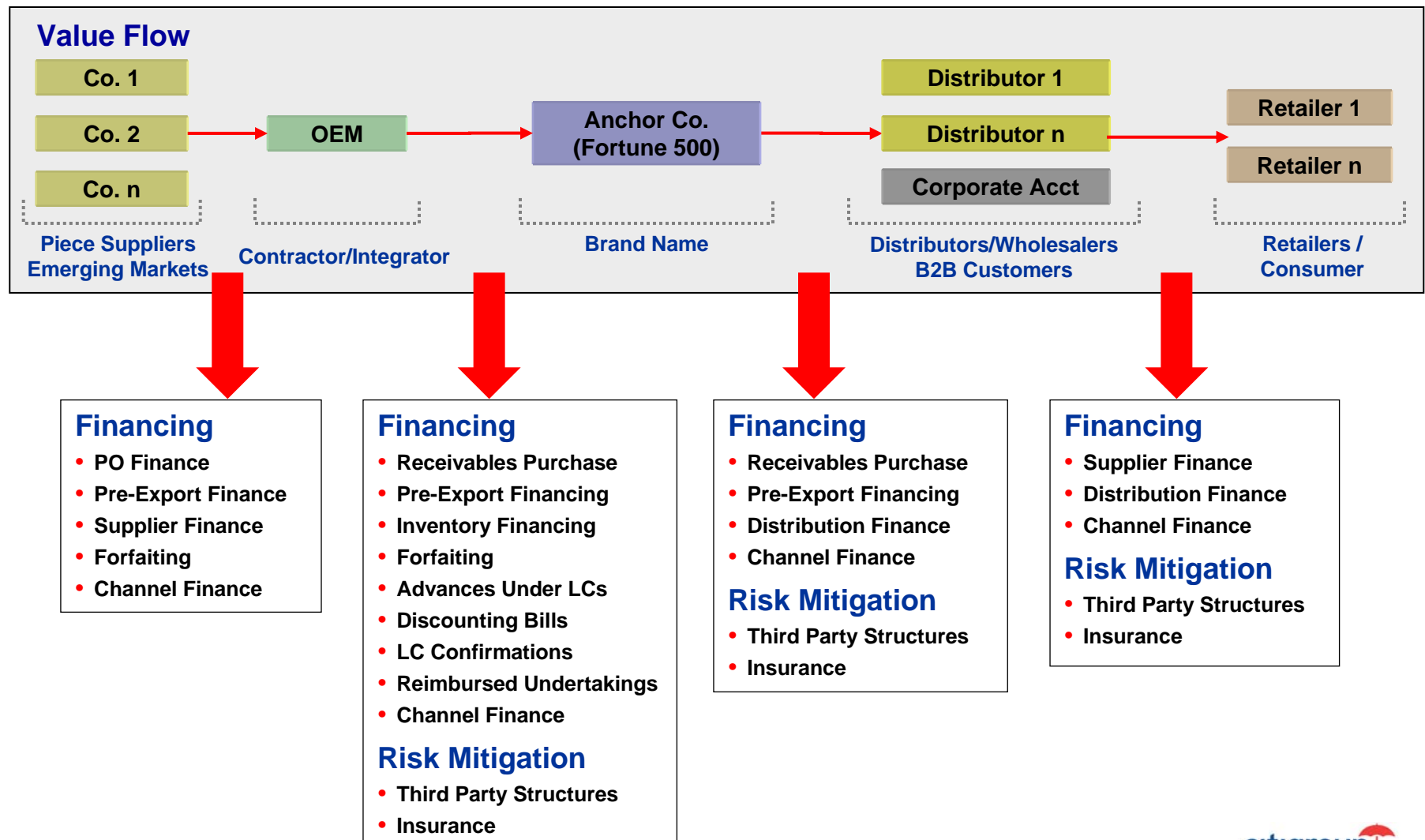
## Change in Client Needs

- Open Account Trading Dictated by Large Buyers
  - Long and strategic relationships between Buyers and Sellers
- “Just In Time” Delivery
  - Carrying costs pushed down to less dominant players in the supply chain
- Many Companies Do Not Need to Borrow
  - Financing isn’t always for liquidity → Risk mitigation
- Clients Require Tailor-Made Trade Finance Solutions
  - Across Geographies → Global Network
  - Multiple Solutions → Customized Suite of Solutions
  - Unconstrained Liquidity → Global Financial Strength



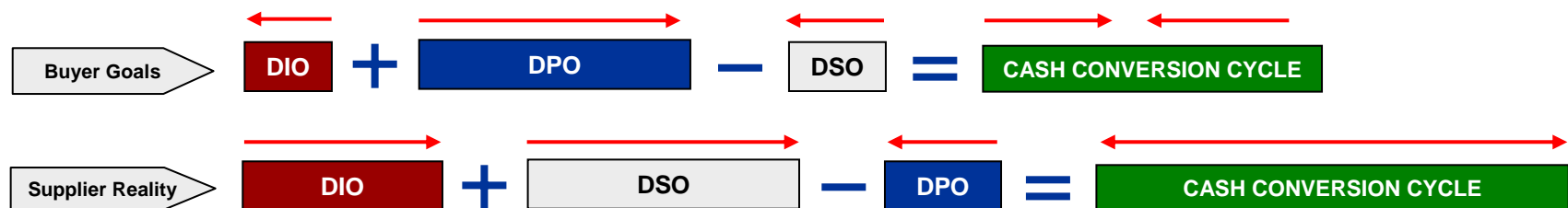
**The New Trade Finance Approach for a Different Trade Finance Environment:  
Supply Chain Finance Solutions for both Domestic and International Trade**

# Industry Trends: The Needs and Options



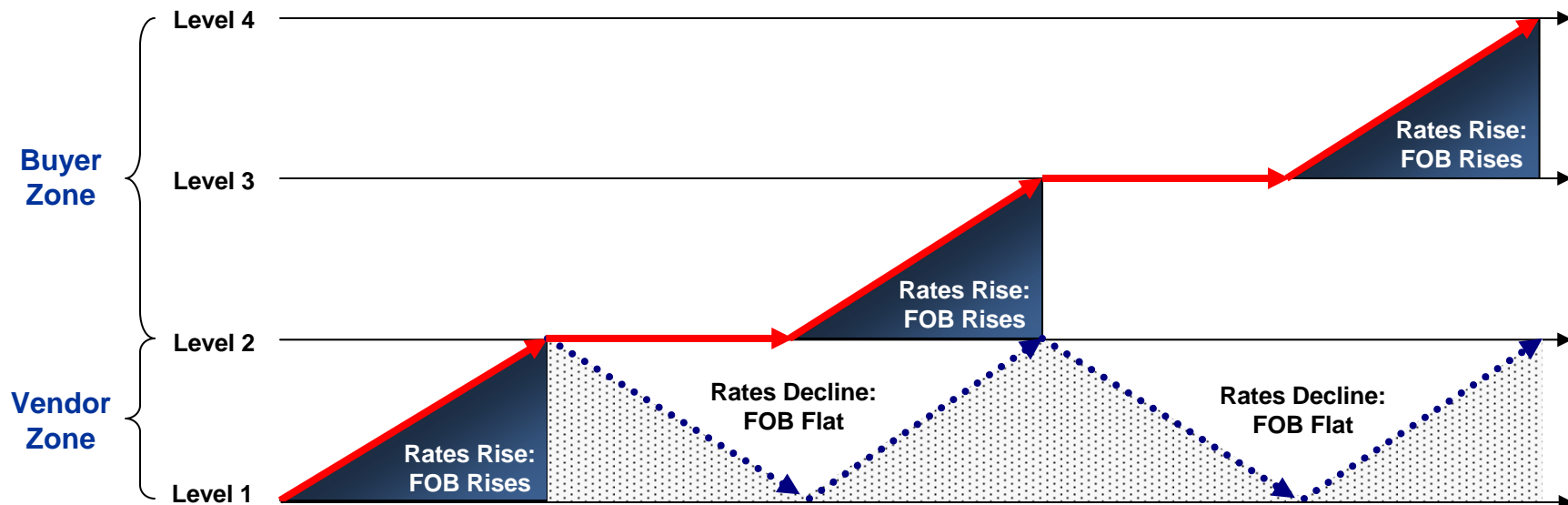
# Key Global Supply Chain Needs: Vertical Awareness

- **Needs of the Horizontal and Vertical Dimensions:**
  - Trade Services
    - Letters of Credit
    - Private Label Letters of Credit
    - Documentary Collections
    - *Enhanced Open Account Solutions*
  - Trade Finance
    - Pre Export Supplier Finance
    - Pre Receipt Inventory Finance
    - Post Shipment Accounts Receivable Finance – Sponsored AR Finance
    - Post Invoice Acceptance Receivables Finance – Supplier Finance
  
- **Need to have a global bank partner to address the realities of financing the needs of a global supply chain**
  - A Buyer's achieved goals can become the Supplier's reality



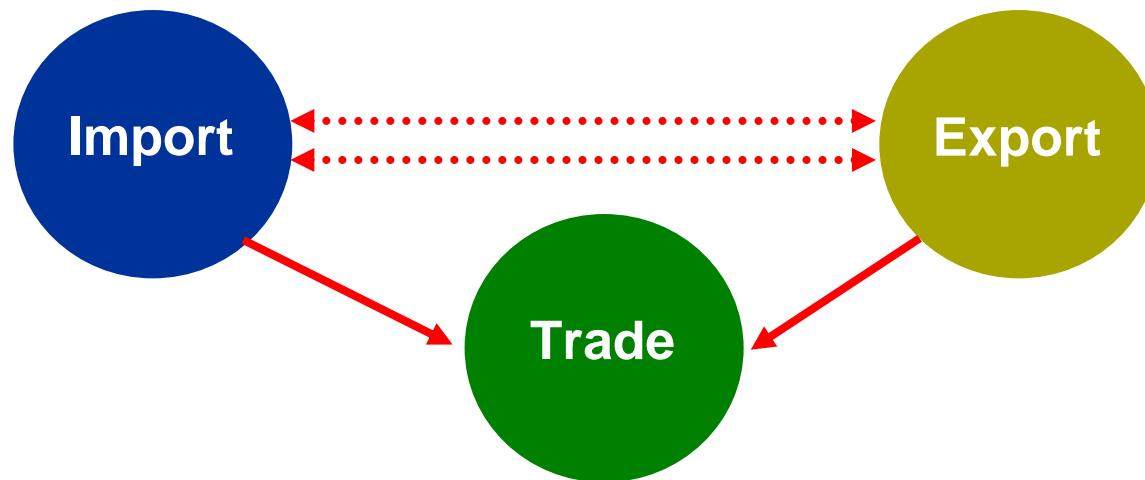
# Always on the Front of Our Mind Is....

- What is the Cost of our Actions?
- Who carries the Cost?
- What are the Impacts of our Actions?
- Do our Actions make sense?

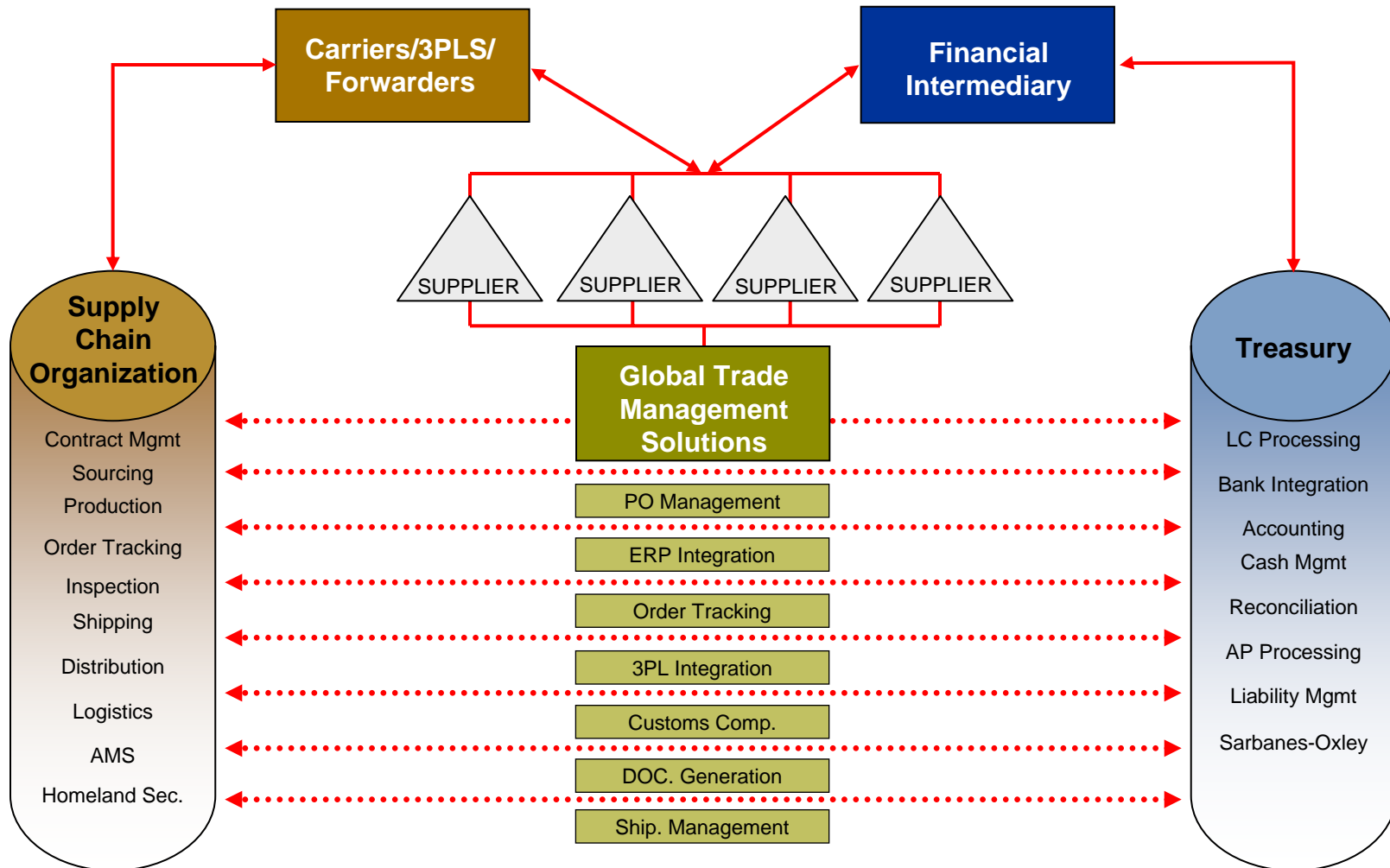


# Key To Vertical Awareness: External Collaboration

- **Buyer Side Power**
  - Terms and conditions dictated with no choice
- **Supply Chain Collaboration**
  - Buyer Driven
  - Create a mutually beneficial situation for all involved that:
    - Considers costs
    - Considers process and risk
    - Considers liquidity and financial support



# Key To Vertical Awareness: Internal Collaboration



# Questions and Answers

---

Q + A

# Global Transaction Services

*Cash Management Trade Services and Finance Securities Services Fund Services*

---

**Today, Tomorrow and Beyond:**

**Improving the Process and  
Optimizing the Supply Chain**

---

Citigroup's Global Corporate and Investment Bank ("GCIB") maintains a policy of strict compliance to the anti-tying provisions of the Bank Holding Company Act of 1956, as amended, and the regulations issued by the Federal Reserve Board implementing the anti-tying rules (collectively, the "Anti-tying Rules"). Moreover, our credit policies provide that credit must be underwritten in a safe and sound manner and be consistent with Section 23B of the Federal Reserve Act and the requirements of federal law. Consistent with these requirements, and the GCIB's Anti-tying Policy:

- You will not be required to accept any particular product or service offered by Citibank or any Citigroup affiliate as a condition to the extension of commercial loans or other products or services to you by Citibank or any of its subsidiaries, unless such a condition is permitted under an exception to the Anti-tying Rules.
- GCIB will not vary the price or other terms of any Citibank product or service based on the condition that you purchase any particular product or service from Citibank or any Citigroup affiliate, unless we are authorized to do so under an exception to the Anti-tying Rules.
- GCIB will not require you to provide property or services to Citibank or any affiliate of Citibank as a condition to the extension of a commercial loan to you by Citibank or any Citibank subsidiary, unless such a requirement is reasonably required to protect the safety and soundness of the loan.
- GCIB will not require you to refrain from doing business with a competitor of Citigroup or any of its affiliates as a condition to receiving a commercial loan from Citibank or any of its subsidiaries, unless the requirement is reasonably designed to ensure the soundness of the loan.

Although the information contained herein is believed to be reliable, we make no representation as to the accuracy or completeness of any information contained herein or otherwise provided by us. The ultimate decision to proceed with any transaction rests solely with you. We are not acting as your advisor or agent. Therefore, prior to entering into any proposed transaction you should determine, without reliance upon us or our affiliates, the economic risks and merits, as well as the legal, tax and accounting characterizations and consequences of the transaction, and independently determine that you are able to assume these risks. In this regard, by acceptance of these materials, you acknowledge that you have been advised that (a) we are not in the business of providing legal, tax or accounting advice, (b) you understand that there may be legal, tax or accounting risks associated with the transaction, (c) you should receive legal, tax and accounting advice from advisors with appropriate expertise to assess relevant risks, and (d) you should apprise senior management in your organization as to the legal, tax and accounting advice (and, if applicable, risks) associated with this transaction and our disclaimers as to these matters.

The terms set forth herein are intended for discussion purposes only and subject to the final expression of the terms of a transaction as set forth in a definitive agreement and/or confirmation. This proposal is neither an offer to sell nor the solicitation of an offer to enter into a transaction. Our firm and our affiliates may act as principal or agent in similar transactions or in transactions with respect to instruments underlying a proposed transaction.

Notwithstanding any other provision herein, all participants and Citigroup N.A. hereby agree that each party (and each employee, representative, or other agent of each party) may disclose to any and all persons, without limitation of any kind, the U.S. tax treatment and U.S. tax structure of the transaction and all materials of any kind (including opinions or other tax analyses) that are provided to each party relating to such U.S. tax treatment and U.S. tax structure, other than any information for which nondisclosure is reasonably necessary in order to comply with applicable securities laws.

© 2006 Citibank, N.A. All rights reserved. CITIGROUP and Umbrella Device are trademarks and service marks of Citicorp or its affiliates and are used and registered throughout the world.

