

# Westpac

# Importing & Exporting

Presented by

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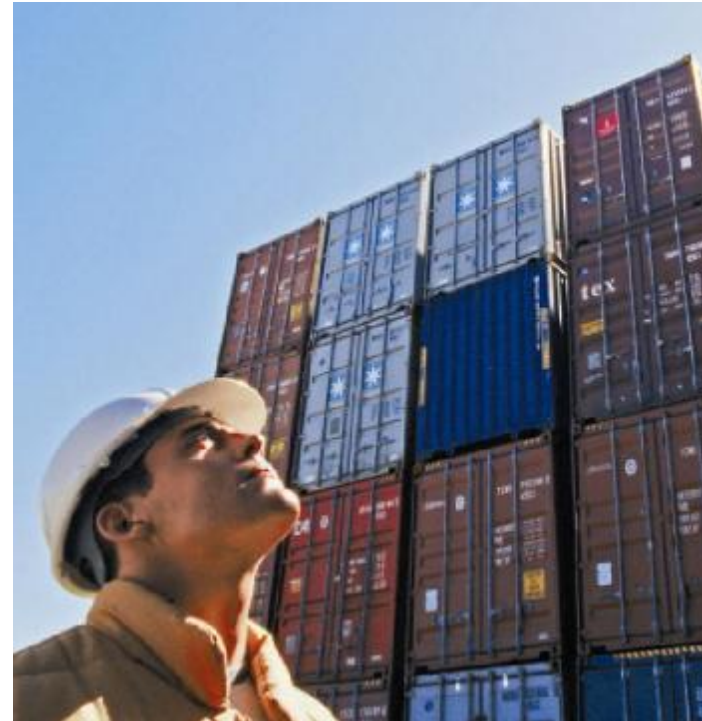
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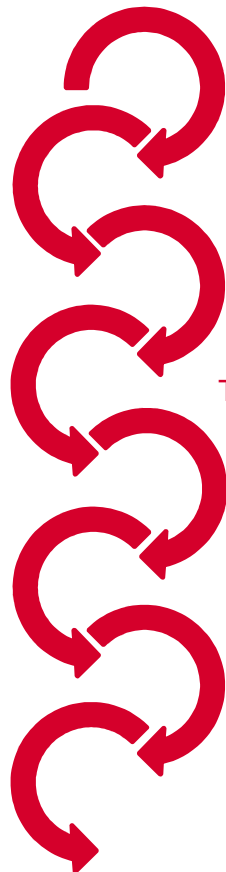
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# Today

- § Items for Consideration
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- § The Risks
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- § Working Capital
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- § Import Equipment Transactions

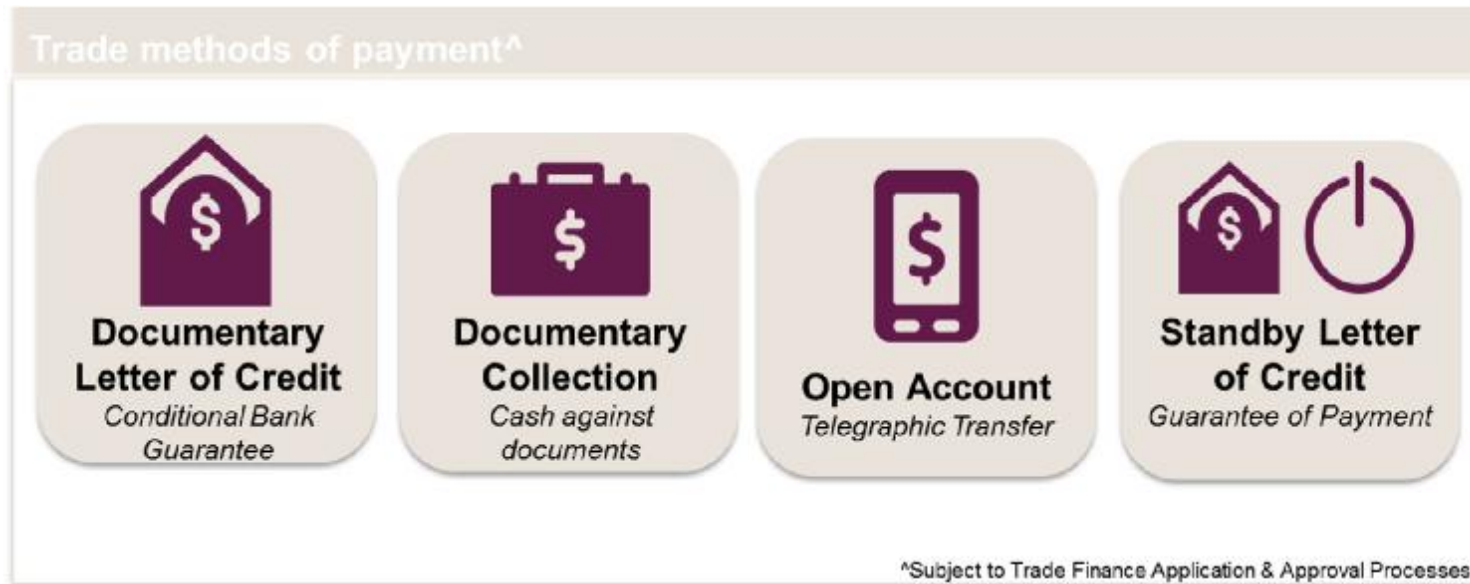


# Items for consideration



Open Account	Payment by way of direct funds transfer between buyer and seller.
Trade Finance	Funding the working capital gap and matched to the customers trade cycle. For a specific amount and for a specific tenor. An attractive interest rate as the rate is specific to trade short term transactions.
Standby LC's	A Guarantee issued by a Bank to an offshore bank usually for import transactions. Westpac can also receive Standby LCs for our export customers.
Trade Insurance	A type of insurance covering non payment by debtors for domestic or overseas requirements.
Documentary Letter of Credit	A guarantee of payment of a specified sum within a set time limit on presentation of documents that comply to the terms and conditions of a Letter of Credit.
Documentary Collections	Documentary Collections are accompanied by a collection order detailing specific instructions as to how payment is to be collected and remitted.
Export Confirmations	Bank and Country Risk confirmations.
Trade and Foreign Exchange	Alignment of trade and foreign currency hedging in order to mitigate exchange risk exposure over trade transactions.

# Methods of Payment

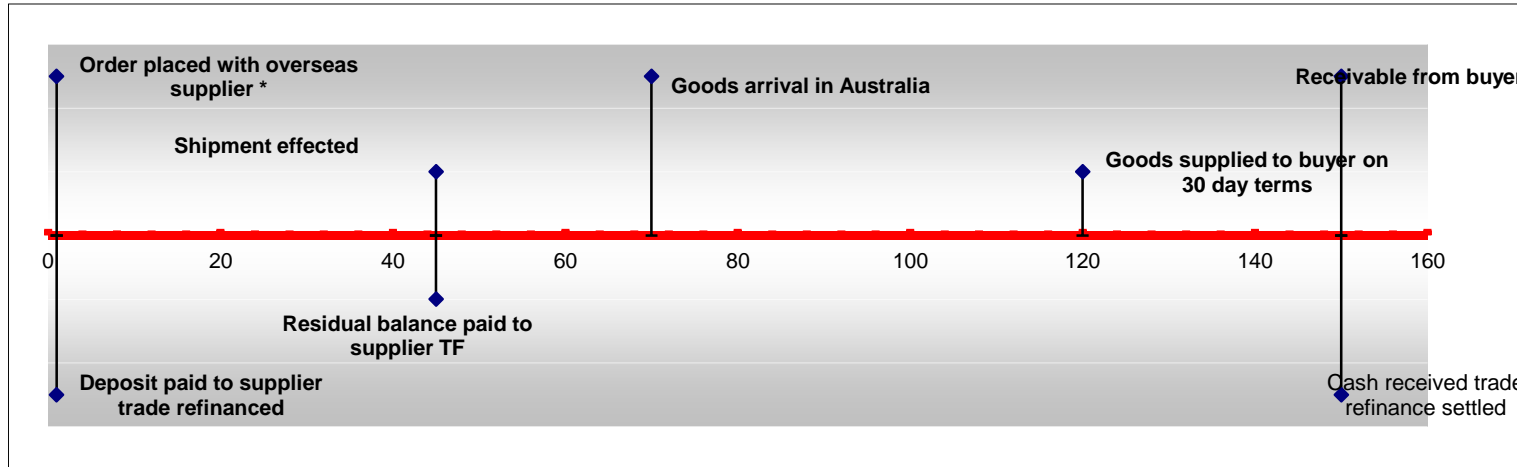


**Trade finance may be leveraged against working assets in the balance sheet pending conversion into cash via an ongoing line of credit facility or on a more structured approach.**

- § Short term, fixed rate finance for businesses that Buy and /or Sell goods and / or equipment from overseas and domestically.
- § Available in Australian dollars and most major currencies
- § Fixed term to match that of the underlying trade transaction or cash cycle.

# Trade Cycle

## Operating Cycle, Cash Cycle & Exchange Rate Risk Strategy.



	Day	Event
Operating Cycle	1	Order placed with overseas supplier
	45	Shipment effected
	70	Goods arrival in Australia
	120	Goods supplied to buyer on 30 day terms
	150	Receivable from buyer

Cash Cycle	1	Deposit paid to supplier trade refinanced
	45	Residual balance paid to supplier TF
	150	Cash received trade refinance settled


A trade cycle analysis can determine the best working capital requirement to meet a funding gap and also include an exchange rate risk strategy.

\*The exchange rate can be locked in prior to order placement upon commencement of risk.

# The Risks

- § **Currency Mismatches** occur as soon as a firm commitment in a foreign currency as agreed with your trading partner. Common perception is that currency mismatches (or foreign currency exposure) occurs at the actual time the order is placed and payment is made. It may however be prior to that date in the actual trade cycle.
- § **Performance Risk** needs to be considered as the supplier must be able to deliver the right goods as agreed within the agreed timeframe. Inferior goods or late supplied goods can impact on the outcome of the trade dealing. Open account trade does not provide the capability to mitigate this aspect. Generally when the bank handles LCs or Collections they would include critical latest shipment dates or even requirements for certifications of quality or other aspects evidenced by the provision of third party inspection documents.
- § **Damage or Loss** can occur to the actual goods whilst in transit and accordingly suitable marine or other transport insurance is required in order to alleviate this potential loss situation.
- § **Payment Risk** is related to the buyer/s in the event that they do not make payment for goods supplied. Debtor insurance may mitigate a component of any unpaid invoices against debtors.
- § **Funding Mismatches** are basically the time between when the payment is required to be made by buyer to the supplier (cash out the door) until the goods are received and sold up until cash receivable.
- § **Bank, Country or Political Risk** is extremely important especially for exporters seeking payment from banks in overseas markets that may have an unstable banking and country (political or sovereign) risk environment. Our bank can look at the provision of "adding confirmation" to export payment instruments such as LCs in order to mitigate this type of risk..

# INCO Terms – Who's pays for what?



■ COSTS    ■ RISK    ■ INSURANCE  
■ ALL MODES OF TRANSPORT    ■ SEA AND INLAND WATERWAYS

DESCRIPTION			FREIGHT/RISK	MORE DETAILS
<b>EXW</b> Ex Works	SELLER	BUYER	<b>Freight</b> Seller's premises. <b>Risk</b> Seller's premises.	Seller responsible for making the goods available at the seller's premises. Buyer bears the full risk from there to destination.
	SELLER	BUYER		
	SELLER	BUYER		
<b>FCA</b> Free Carrier	SELLER	BUYER	<b>Freight</b> Freight handler. <b>Risk</b> Freight handler.	Seller responsible for delivery to the custody of carrier, identified by the buyer. Risk is transferred when loading has taken place.
	SELLER	BUYER		
	SELLER	BUYER		
<b>CPT</b> Carriage Paid to	SELLER	BUYER	<b>Freight</b> Destination. <b>Risk</b> First freight handler.	Seller delivers goods to the carrier at agreed place of delivery and pays transport to the named destination. Risk is transferred at place of delivery, whereas seller pays for transport to the destination.
	SELLER	BUYER		
	SELLER	BUYER		
<b>CIP</b> Carriage and Insurance Paid to	SELLER	BUYER	<b>Freight</b> Destination. <b>Risk</b> First freight handler.	Seller delivers goods to carrier at agreed place of delivery and pays for transport and insurance to named destination. Risk transfers at the place of delivery, whereas seller pays for transport and insurance to the destination.
	SELLER	BUYER		
	SELLER	BUYER		
<b>DAT</b> Delivered at Terminal	SELLER	BUYER	<b>Freight</b> Destination. <b>Risk</b> Destination.	Seller delivers goods unloaded at a specified place inside agreed terminal. Risk is transferred as soon as goods have been unloaded.
	SELLER	BUYER		
	SELLER	BUYER		
<b>DAP</b> Delivered at Place	SELLER	BUYER	<b>Freight</b> Place of destination. <b>Risk</b> Arriving means of transport at destination.	Seller delivers goods to disposal of buyer on arriving means of transport, at agreed place. Seller assumes risk until goods are made ready for unloading from the arriving means of transport.
	SELLER	BUYER		
	SELLER	BUYER		
<b>DDP</b> Delivered Duty Paid	SELLER	BUYER	<b>Freight</b> Destination. <b>Risk</b> Destination.	Seller responsible for bringing goods to the destination, paying any duty and making the goods available to buyer. Risk transfers as soon as buyer has access to goods ready for unloading at agreed destination.
	SELLER	BUYER		
	SELLER	BUYER		
<b>FAS</b> Free Alongside Ship	SELLER	BUYER	<b>Freight</b> Shipside in port of departure. <b>Risk</b> Shipside in port of departure.	Seller is responsible for delivery of goods at quay alongside the ship. From this point onwards, risk lies with buyer.
	SELLER	BUYER		
	SELLER	BUYER		
<b>FOB</b> Free on Board	SELLER	BUYER	<b>Freight</b> On board ship. <b>Risk</b> On board ship.	Seller responsible for delivery of goods loaded on board the ship. Risk is transferred as soon as goods have been set down inside ship.
	SELLER	BUYER		
	SELLER	BUYER		
<b>CFR</b> Cost and Freight	SELLER	BUYER	<b>Freight</b> Port of destination. <b>Risk</b> On board ship.	Seller covers cost of freight, duty unpaid, to named port of destination. Risk is transferred as soon as the goods have been set down inside ship.
	SELLER	BUYER		
	SELLER	BUYER		
<b>CIF</b> Cost, Insurance and Freight	SELLER	BUYER	<b>Freight</b> Port of destination. <b>Risk</b> Port of destination.	Seller covers cost of insurance and freight, duty unpaid, to named port of destination. Risk is transferred as soon as the goods have been set down inside ship.
	SELLER	BUYER		
	SELLER	BUYER		

# Foreign Exchange

## What is an Exchange Rate?

An exchange rate is the

**PRICE**

at which one currency

is exchanged

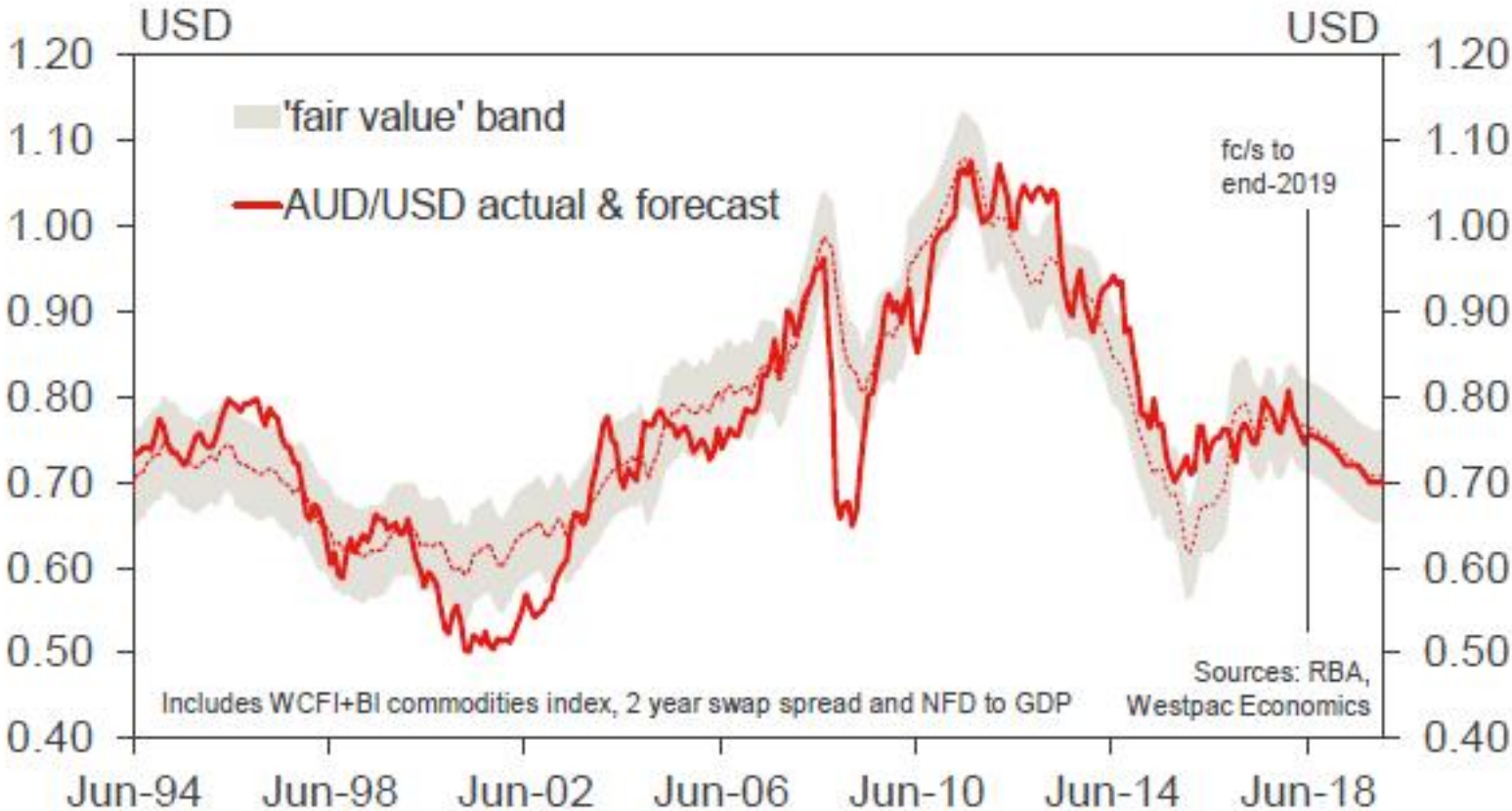
for another currency

for the settlement on

a specific date.



# AUD/USD since 1994



# Exchange Rate Risk Management

It is important for importers & exporters to understand their risk and to develop a framework to mitigate it.

- § Forward Exchange Contracts
- § Foreign Currency Options
- § Foreign Currency Accounts

# Forward Exchange Contract

A **Forward Exchange Contract (FEC)** is a contract between the bank and the customer who agrees to buy or sell a fixed amount in foreign currency at an agreed fixed exchange rate for a set future date.

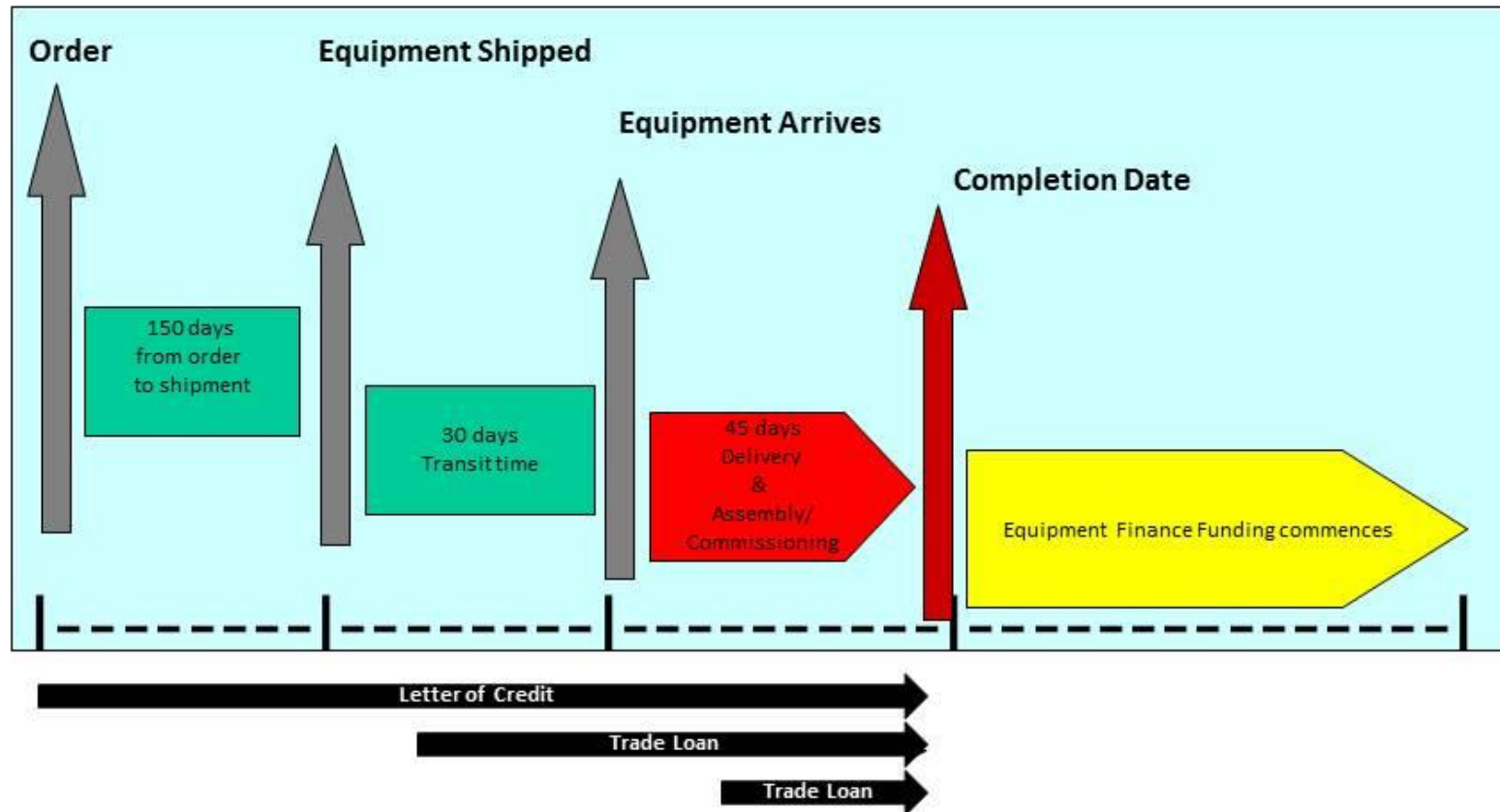
# Working Capital Considerations

- § Don't have the cash available to pay now or when they are expected to pay.
- § Whom need to hold stock on hand to meet upcoming seasonal short term, one off requirements or for indent sales.
- § Are seasonal businesses.
- § Generally have “short term” funding requirements up to 180 days.
- § Goods are of high quality and easily re-saleable.
- § Wish to avail of Supplier Discounts (to improve profitability) by paying upfront yet undertaking a payment under an arrangement with the bank at a future term.
- § May want to provide buyer terms to increase their business.

# The Banks Role

- § Facilitation of import and export trade payments
- § Receipt & control of trade documents
- § Transfer of funds internationally
- § Financing domestic and international trade transactions
- § Banks deal with trade documents & payments – not goods

# Import Equipment Transactions



Letter of Credit Issued on order for 100% of Invoice value payable AT SIGHT

Payment Terms – 90% upon presentation of shipping documents - Balance 10% payable upon presentation of completion of commissioning.

First Drawing under LC is funded via Trade LOAN in AUD to mature on Completion Date ( an additional 14 day allowance is considered for EF Process to be completed.

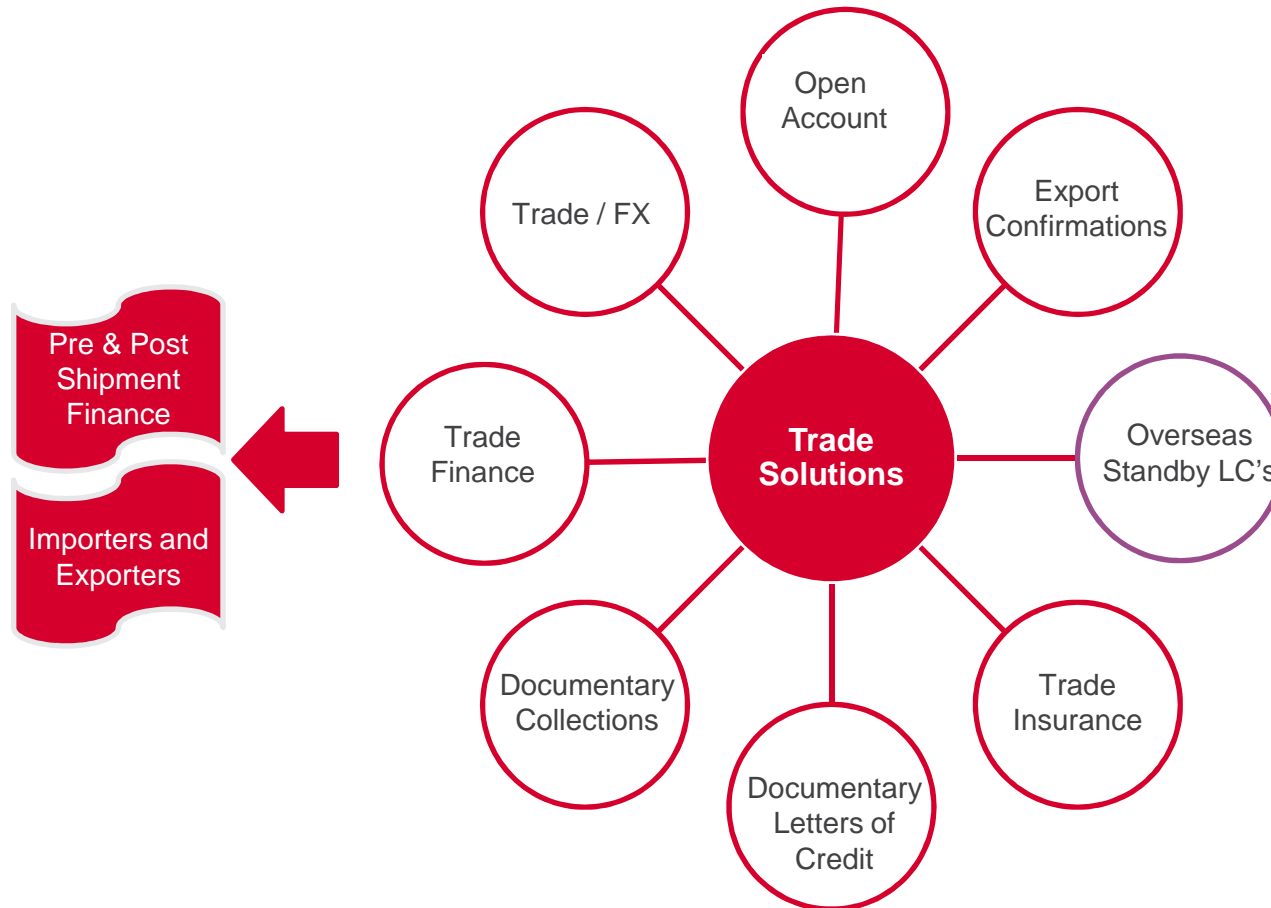
Final Drawing under LC is funded via Trade Loan in AUD to on the completion Date to coincide with other loan and take out by commercial HP Arrangements.

FX exposure is covered via FEC's to reflect timeline.

Subject to Import Tariff ?- The Value Add

# Trade Finance Solutions

Providing working capital and risk mitigation for import and export businesses.





# Questions ?

**Things you should know.** This information does not take your circumstances into account. Before acting on this information, you should consider its appropriateness. Before making a decision about products mentioned in this presentation, you should read the relevant Terms and Conditions, which are available at [westpac.com.au](http://westpac.com.au), and consider if the product is appropriate for you. Seek independent financial advice before you make any investment decision. Unless otherwise specified, the provider of products and services described in this presentation is Westpac Banking Corporation ABN 33 007 457 141, AFSL and Australian Credit Licence No.233714