



How do you manage risk and capitalise on trade opportunities in the Middle East?

As an exporter to the Middle East do you face buyers who demand deferred repayment terms? Or do your buyers require advance payment or performance bonds to protect any pre-shipment or pre-commissioning payments? These are just some of the trade finance challenges that the New Zealand Export Credit Office (NZECO) has been supporting New Zealand exporters to overcome.

The NZECO is New Zealand's export credit agency and is an operational unit within the Treasury. It provides financial guarantees and insurance, on behalf of the Crown, to support exporters with commercially-sound deals that the private sector lacks the capacity or appetite for, and to address gaps in the provision of trade finance.

Foreign buyers (and their banks) are increasingly questioning 'why should we pay an advance payment to a company down in New Zealand?', particularly if it's a first-time business relationship. To mitigate any loss, in the event you do not perform the contract, the buyer may demand an advance payment bond equal to the value of the deposit paid.

This bond is a financial commitment issued by your bank that, in the event that you don't perform, can be demanded by your buyer. Similarly, you may face a performance bond, which may be a percentage of the contract value that is 'bonded' through the life of the contract.

These bonds constrain your bank credit lines and a growing exporter may lack the additional security to enable a bank to issue a bond. In this case, the NZECO can provide its general contract bond guarantee to your bank. This guarantee underwrites your performance of the bonded contract and provides the necessary security for your bank to issue the required bond on your behalf.

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Amongst the Gulf States, bonds are an increasingly common requirement when contracting with government or state-owned organisations. Over the last year, the NZECO has underwritten a mix of advance payment and performance bonds for projects in Qatar and UAE.

The NZECO's support is conditional on it being satisfied that the exporter has the technical, financial, and managerial capability to perform the contract, in addition to their other business commitments. This underwriting process can take up to four weeks, and accordingly the NZECO encourages you to approach them as early as possible.

Issue 2: trade credit insurance on a buyer in UAE has been withdrawn by my credit insurer.

Whilst it is preferable to obtain full payment prior to shipment, offering deferred payment terms is often a requirement of doing business with Middle East buyers. If you provide credit terms on open account then it is prudent to obtain trade credit insurance to mitigate the risk of buyer default. The primary trade credit insurers in New Zealand are Euler Hermes, QBE, or Atradius, and typically they seek to insure an exporter's portfolio of buyers.

In February last year, the Government extended the NZECO's mandate to enable it to provide short term trade credit insurance where the private sector lacked the capacity or willingness to insure a creditworthy buyer. To date we have underwritten buyers in 40 countries, supporting exports of wool, timber, wine, meat, fruit, honey, processed food, furniture, small engineering, and agri-tech products. The facility amounts have ranged from \$20,000 to \$5 million in size.

In respect to the Middle East, we have underwritten credit terms between 30–90 days for buyers in UAE, Saudi Arabia, and Qatar. The profile of some of the exporters seeking

the NZECO support are those with small export turnover or only a few foreign buyers and who are looking for trade credit insurance for the first time.

Two key eligibility criteria for the NZECO's support are:

- written evidence that the private sector has fully withdrawn or declined cover on a buyer(s); and
- evidence of a commercially sound transaction with a creditworthy buyer.

The NZECO applies sound underwriting principles and its insurance is priced at market rates. In the event of a default, the NZECO will pay up to 80% of the insured loss.

Another benefit of trade credit insurance (in addition to mitigating repayment risks) is the potential ability to access additional credit facilities from your bank, by discounting your trade credit-insured receivables with the bank.

Issue 3: my Bank is unable to confirm a letter of credit for my Pakistan buyer.

The NZECO recommends more secure terms, such as letters of credit, for higher risk markets. In the event your bank has limited credit appetite for your buyer's bank or country, then the NZECO may be able to underwrite the related political and commercial risks. For example, the NZECO has recently underwritten 90 day letter of credit terms for a Pakistan bank; a 270 day letter of credit term for a Turkish bank; and on-sight letters of credit for a Syrian bank.

This form of NZECO support can enhance your cashflow by enabling your bank to confirm the letter of credit and advance payments to you.

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Contacting the NZECO

If you face any of these issues and would like further information, please contact the NZECO on 04 917 6060, or visit their website, www.nzeco.govt.nz.

Start a conversation with Kensington Swan

If you would like to explore new opportunities for your business in the Middle East, we would welcome the opportunity to discuss this further. With an office in Abu Dhabi and established networks, Kensington Swan has the experience and connections to help our clients do business in the United Arab Emirates or wider Gulf markets. Contact Clayton Kimpton, Rob Noakes or Rodney Craig.

