

TRADE LINE

Coface's magazine for its clients and partners

Issue 8 | September 2008



National Cathedral, Brasilia, Brazil

Report:

Brazil - a waking giant

**The launch
of a new factoring product**

Trade Receivables Management

**International:
Special report - China**

The How's and Why's

« Brazil is a country of the future... and will remain that way »... This ironic and rather blasé prediction made nearly one hundred years ago by Georges Clémenceau, a pillar of the 3rd Republic, remained true for a long time. However, this is no longer true. Brazil can now be considered as a waking giant. Our special report (*pages 3 to 14*) outlines its rise to power and the opportunities offered by its huge market. That said, the current crisis is global.

No country (not even Brazil) can remain completely disconnected from the American economy. The disease has spread and the financial damage is considerable. Numerous countries are consequently seeing a decline in consumption and, as a result, exports are suffering in others. Given this tough environment, Coface is helping its clients to overcome their obstacles (*pages 3 and 4*) and to maintain a degree of continuity. Its new products are a clear illustration of this (*page 17*).

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BRAZIL

- a waking giant



National Cathedral, Brasilia, Brazil

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The Europeans may be somewhat gloomy, but the Brazilians are brimming with optimism.

Two thirds of the population consider that “things are looking good” and, according to the latest polls, President Lula’s level of popularity is close to 70%.

It cannot be denied that Brazil, with its 190 million inhabitants, sees itself as the world’s ‘store-room’. It is the leader in sugar, coffee, orange juice, soya, beef and chicken, and its industry is enjoying huge growth.

It would be wrong, however, to blindly follow the current trend, and

suggest that “everything is fine, and Brazil could not be in a better position”.

We need to evaluate the risks and opportunities available to companies keen to develop their activities in this huge country. This was the thinking behind the special report that follows. But first of all, Yves Zlotowski, the head economist at Coface, draws a comparison between Argentina and Brazil (p 4).

Pierre Paganelli, a Coface Country Risk assessor, then offers a special report, with the input of Coface Brazil, on the economic and financial situation in Brazil (p 6). And finally we arrive at the essential question for small- and medium-sized companies wishing to trade with Brazil or set up a base there, i.e: how should they go about it? An expert, Philippe Aimé, gives a documented opinion and offers some practical advice (p 11); whilst Nicolas Mayet, head of Export Sales in charge of Latin America at Conflandey Industries, shares his experiences (p14). ”

The Brazilians are more optimistic than the Argentinians

During the Coface country risk conferences held in Buenos Aires and Sao Paulo in April 2008, Yves Zlotowski, the head economist at Coface, was able to meet several economists and hear their views on the risks in these two countries.



Yves Zlotowski
Head Economist at Coface

The economic situation in Argentina

boosted by the rise in raw material prices, appears to be particularly healthy. Food products represent 34.3% of all exports. In 2001, China represented 4.2% of Argentinian sales and its contribution had risen to 8.5% by 2007. As a result, certain observers have used the term “soyatisation” in order to explain the economy’s strong growth, combined with the improvement in the country’s financial situation. This is because these performances are heavily dependent on world price scenarios. The price effect, considered as a real windfall, has been combined with an economic policy that is favourable for demand, i.e. an explosion of the monetary mass, interventions of the Central Bank to avoid a rise in the peso, the blocking of public prices and a significant rise

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Brazil
has been able
to combine
discipline with
growth,,

in budgetary expenditure. Numerous economists, however, have been sceptical as to the longevity of the current successes, with some even predicting the “end of the K model” (*K for Kirchner, i.e. the former Argentinian President whose wife took over as President*).

One of the specific characteristics of the “K” model is the procyclic policy that swept the country into a situation of overheating. The return to a level of growth closer to its potential is inevitable, as suggested by the level of inflation, which is under-estimated by the official data and is in reality close to 25%. These inflationist pressures indicate that supply is no longer following demand. A flourishing business has consequently developed for private consultants, i.e. estimating the actual level of inflation in Argentina! Companies are also facing



Sao Paulo
Panoramic view

significant pressures on their costs, linked to the rise in prices. The economists that I spoke to consider that the economy has entered a phase where profits are decelerating after a prosperous period linked to the rebound following the 2001 crisis. A slowdown after this period of over-heating, especially if there is an abrupt landing, could add further tension to the existing situation.

The Brazilian economists are clearly brimming with optimism when compared with the picture painted by the Argentinians, who are quicker to criticise. They are all celebrating the economic successes of Brazil, which has finally managed to combine both budgetary and monetary discipline, with acceleration in growth. Like Argentina, the country should not be too badly hit by the subprime crisis as the Brazilian banks are solid and credit does not play a primordial role in corporate development (which is generally self-financed). And, unlike numerous emerging countries, the level of corporate foreign debt has not exploded. Nevertheless, although not significant in terms of stock, banking credit has been dynamic and the corporate debt market in local currency has expanded, attracting a high level of non-resident capital. All the economists that I met in April were keeping a very close eye on the prospect of Brazil being attributed an “investment” grade rating by the rating agencies for its sovereign debt, which was confirmed shortly after. This is undeniably a positive acknowledgement, but one that carries a price, i.e. it is likely to attract more capital and will consequently put pressure on the real in the short term. This could have a significant impact, considering that the manufacturing sector (which in fact represents nearly half of all exports) considers a rise in the real as the principal factor in

impeding its performances. The “investment grade” category comes into play when the Brazilian current account goes into deficit. The real is consequently stretched between incoming capital and the deterioration of the current balance. These contradictory trends are highly likely to provoke a degree of volatility in the exchange rates. I also discussed the over-reaction of the monetary policy vis-à-vis inflation. The Central Bank increased its intervention rates in April 2008 following two years of a rate-reduction cycle. The real interest rate remains very high (7%). The analysts I spoke to were divided as to the necessity of fighting against the level of inflation, which remains fairly modest. Some were unhappy that Brazil was being forced to bear the costs of an inflation that was not “its” responsibility. Raising the rates will contribute to the expected deceleration of growth this year, whereas it is already the weakest of the “BRICs”*. All these constraints clearly illustrate how difficult it will be for Brazil to generate similar growth to that of China. The investment rate is half that of China (19% versus over 40% in China)! Brazilian growth is today impeded both by the international environment and the economic policy adopted. The fruit of orthodoxy, celebrated by all the economists that I met, ultimately has a rather bitter taste!

By Yves Zlotowski

Head Economist at Coface

* BRICs: Brazil, Russia, India and China

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It will nevertheless be
difficult to generate similar
growth to that of China,,



Brazil's time has come

In terms of alphabetical order, Brazil is the first of the BRICs, these large emerging powers. However, although last in terms of economic growth, it is catching up with China, India and Russia. Throughout the 20th century, everyone thought that a Brazilian miracle was a thing of “amanhã”. Has tomorrow finally arrived?

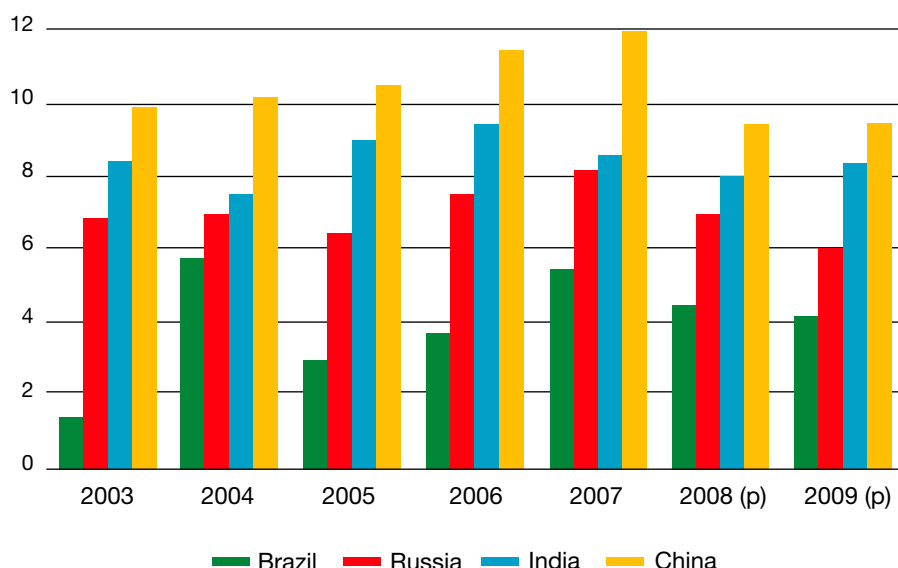


Pierre Paganelli
Economic studies/Country Risks

Despite its more moderate growth, Brazil was rated as ‘investment grade’ (like the other BRICs) by Standard&Poor’s in April and by Fitch in May, 2008. Indeed, activity should remain sustained in 2008 and 2009, although without reaching the 5% targeted by the Growth acceleration programme. As domestic demand remains the driving force behind activity, the country is displaying a significant capacity for resilience against the international economic crisis, but the renewed rise in inflation is forcing the Central Bank to raise its SELIC intervention rate, despite the fact that it is already one of the highest in the world.

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Brazil is showing a significant capacity for resilience against the international economic crisis,”

GDP growth (in %) is a little less sluggish than in the other “BRICs”



* BRICs: Brazil, Russia, India and China

Foreign accounts aren't all they should be but exports are still dynamic

After five consecutive years of current surpluses, 2008 and 2009 are likely to finish with a commercial surplus and the re-appearance of a current deficit. Sales of the principal Brazilian raw materials, i.e. iron ore and soya, are still likely to benefit from strong world prices, but the performances delivered by imports, combined with the significant level of dividends repatriated by foreign companies, will win the day. The resulting strong need for financing will largely be absorbed by the major flows of foreign investments in the mining, chemical and automotive sectors, as well as in infrastructures.

The export performances are the result of a strategic re-orientation by Brazilian companies and a strong demand for their products. In view of this, large firms are continuing to create bases abroad. A good example of this is the mining company Vale, which acquired INCO, the Canadian nickel producer, for \$18bn at the end of 2006.

Brazil is perceived as a country that exports raw materials, whereas, according to the local listings, manufactured products represent more than half of all exports. The latter include processed agricultural goods and raw materials, such as metallic products and food goods (i.e. coffee, orange juice, beef and chicken meat, etc), and the country is aiming to become the world's leading bio-ethanol exporter (made from sugar cane). Furthermore, the launch of production at the Tupi offshore field in 2009 by the national company Petrobras will eventually enable Brazil to double its reserves and become one of the world's biggest exporters.

Could we see the end of the foreign debt, as announced by the authorities, at the beginning of 2008?

Clearly not! On the contrary, the foreign debt should see a significant increase in both 2008 and 2009, as a result of the rise in private debt.

But the public debt is likely to continue to decrease, in view of the active management approach adopted by the authorities. The announcement, at the beginning of 2008, of Brazil now being a net foreign creditor was purely "cosmetic", with the objective (attained) of rapidly receiving an "investment grade" rating. However, whilst the foreign debt/GDP ratio is likely to continue to decrease, the weight of the debt and its servicing will remain significant compared to exports.

(contd on page 8)

The public guarantees on Brazil



Brazil is Coface's biggest exposure in South America in terms of medium- and long-term credit insurance guarantees (guarantees managed on behalf of the State). Despite the fact that the aeronautical sector represents a major part of this liability, the other French export guarantees include a broad range of private and public Brazilian companies, complete industrial installation contracts and even smaller-sized equipment (notably for the oil and textile industries).

Brazil is rated as category 3 (out of 7) in the OECD classification. In view of the favourable economic indicators and Coface's good payment experience, the credit insurance policy adopted by the State for Brazil is open and unrestricted. As a result, it is possible to look at all the different types of financing (straightforward or structured), cover transactions carried out in the Brazilian real without a crystallisation clause (guarantee managed in the local currency), and to guarantee against the political risk of French investments (in capital, assistance loan or banking loan).

The Brazilian market is enjoying strong growth, benefits from a favourable economic environment and has a qualified labour force, but also has genuine investment requirements in the industrial and infrastructure sectors.

There are numerous opportunities for French exporters and investors in Brazil, whether in the form of major industrial groups or small/medium-sized companies (for whom Coface has recently introduced various measures to simplify procedures).

Frédérique Gournail

Medium & Long Term Department
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For more information
on the guarantees and services proposed
by Coface on behalf of the French State,
please visit the website:
www.coface.fr

But a better capacity for resilience against the foreign upheavals

The flows of direct foreign investments, together with the influx of volatile capital as a result of the attractive rates, are helping to generate a record accumulation of currency reserves. The confidence of the financial markets is also reflected in below average spreads for the emerging countries and rising stock prices.

A banking system that is better equipped to confront a less favourable economic environment

The well capitalised and profitable banking sector seems better equipped to confront an economic turnaround. The level of intermediation, however, remains insufficient in spite of the recent growth in private credit, which would suggest the beginnings of a deterioration in banking assets. In light of the "subprime" crisis in the United States, which is not affecting the country, a reinforcement in the level of banking supervision is essential (see the point of view expressed by Fernando Blanco, Chairman of Coface Brazil, on page 9).

The public debt millstone

Lightening the load of the public debt remains a major challenge. Significant primary surpluses are the result of an excessively onerous tax system and not the result of better management of expenditure, the rigid nature of which is preventing the budgetary

break-even point from being attained. The structure and dynamics of the public debt have been improved but the debt ratios (gross or net) remain too high. The proportion of debt indexed to variable rates remains significant and its maturity is still too short. These burdens have caused a reduction in the proportion allocated to investment and consequently have created short-comings in terms of infrastructures. An easing and simplifying of the tax system will take time and the project to create Sovereign and Investment Funds will not necessarily help to improve the public finances.

President Lula da Silva's state of grace is over-shadowing the slow reform process

The President, who for constitutional reasons will not be able to solicit a 3rd term of office in 2010, is still exceptionally popular, notably thanks to the improvement in the economic situation and in spite of continuous revelations concerning corruption in the political world. Despite the excessive governmental coalition, the Labour Party (the President's party) and the PMDB (centre) hold the key ministerial positions and continue to adopt a cautious economic policy.

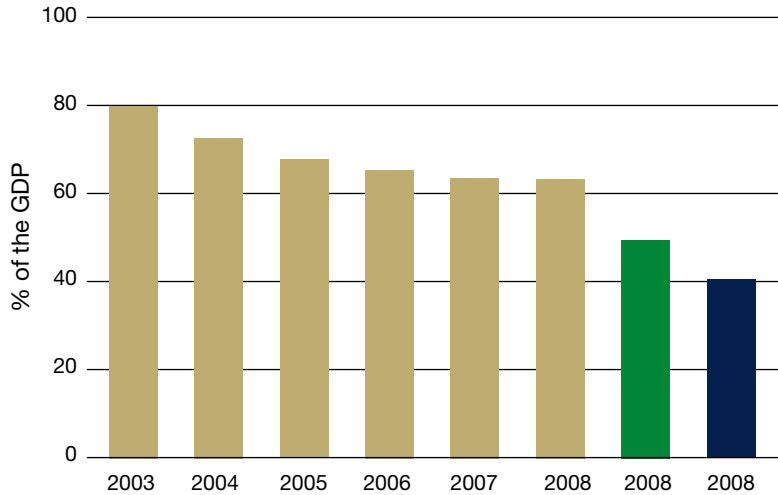
Nevertheless, the diversity of this coalition combined with the insufficient efforts made by the government, in view of the approaching

The public debt (gross) remains too high compared with the GDP and that of other emerging countries

— Brazil
— Latin America
— Emerging countries 2008

(contd on page 10)





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Coface Brasil's perspective



Fernando Blanco,
Chairman of Coface Brasil

- The volume of credit on offer, unprecedented in the country's history, should represent 40% of the GDP this year according to recent forecasts made by the Bank of Brazil.
- In 2007, bank loans reached 932 billion reais, representing an increase of 27% in relation to 2006. And the figures for the first half of 2008 confirm this trend. In February, credit transactions totalled 957 billion reais (+ 27.9% in relation to February 2007).
- The level of available liquid assets is enabling the economy to accumulate positive indices. According to the data collected by the CNI (National Confederation of Industry), the industrial sector has recorded the best start to the year since 2003. Car manufacturers are beating record after record, whilst the food industry is running at full throttle and the civil construction sector is performing consistently well, just to mention a few examples.
- Amidst this environment, companies are being forced to take more and more risks in order to deal with the increase in demand. Suppliers of raw materials are under pressure to expand their offerings for producers and the latter are in turn being forced to broaden the credit limits that they grant to retailers, who, in turn are making even greater efforts to attract consumers, even if this means dangerous offers of staggered payments.
- With this in mind, the risks of re-financing an economy increasingly oriented towards borrowing are going to have to be faced. Especially considering the fact that debt and the offers of large volumes of long-term credit are a new feature of the economy.

(continued from page 8)

municipal elections of October 2008 and the presidential elections of 2010, are complicating and slowing the reform process. An acceleration in growth will require improvements to the education system, the employment market, the social security system, the tax system and the business climate.

Room for improvement in the business environment (rated A4)

Financial information is easily available and the legal framework for recovering debts is satisfactory. The institutional environment, however, is mediocre and the infrastructure short-comings remain one of the country's weak points.

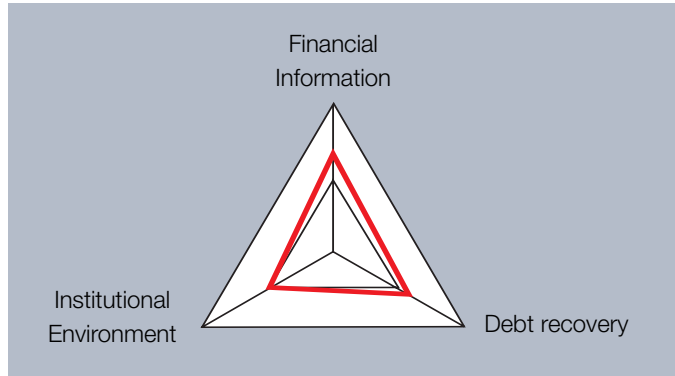
Coface's payment experience is satisfactory

Given this context, corporate solvency is improving, notably in the buoyant sectors, i.e. the production of oil-producing plants, the sugar industry, mining, construction, iron and steel metallurgy, and, to a lesser degree, the aeronautical and automotive industries. Our payment experience is consequently satisfactory. Certain sectors are facing specific difficulties, such as the distribution of pharmaceutical products and fertilisers, whilst others, such as the clothing and footwear industries, are having to deal with fiercer foreign competition resulting from the strong real.

By Pierre Paganelli

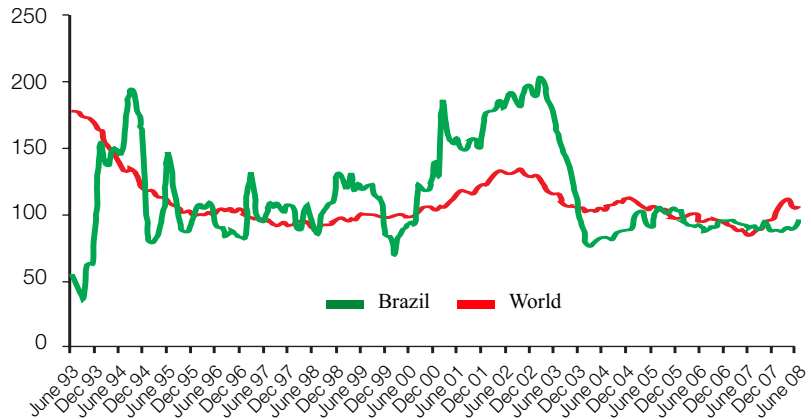
Economic studies/Country Risks

The business environment



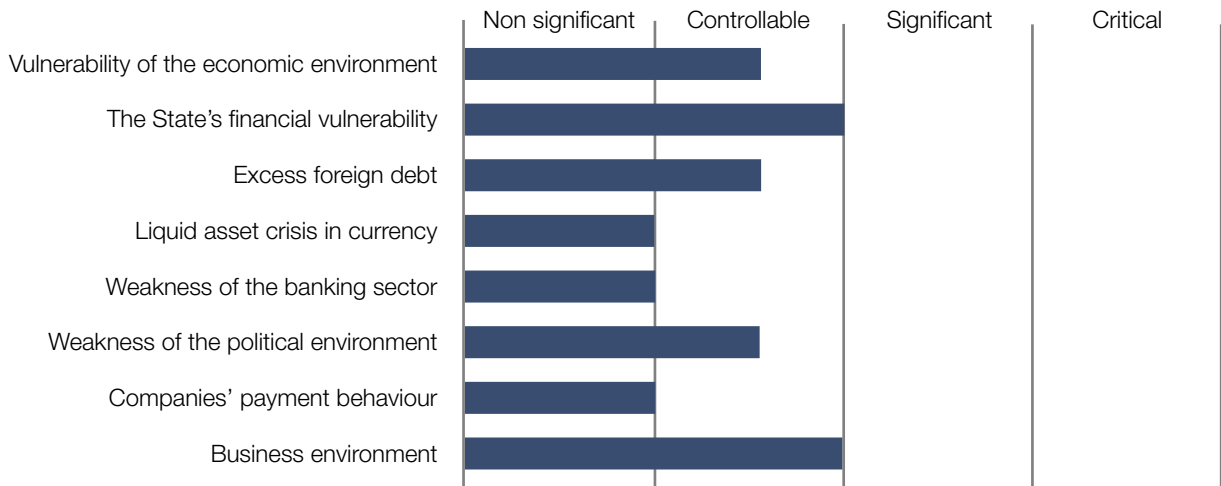
The black triangle represents the average for the rated countries, and the red triangle represents Brazil's position.

Payment incident index



12 specific months over consecutive years – base 100: world 1995

Scale of risks in Brazil



Does your small -or medium- sized company have the capacity to go to Brazil?

It is in these terms that the question of whether Brazil should be included in your international development plans or not needs to be addressed. There can be little doubt, however, as to the potential of the market.

Brazil, with its 190 million inhabitants and a history of economic ups-and-downs, can today boast reasonable economic indicators, a significantly improved business environment and an emerging internal market of over 100 million new consumers! In a nutshell, the country is attractive.

More than 5,000 French companies already trade with Brazil. Excluding the building and civil engineering sector, all the major French companies are present there, and many of them have been there for several decades. When you move to Brazil, you do it for a long period, and you become Brazilian!

Can your company become one of those that have managed to develop in Brazil?

Are your products really good? Can your structure handle development in a distant country where the competition is so intense?

And most importantly: do you have the human resources for this type of growth strategy?



The 7 million richest Brazilians have an equivalent level of spending power to the Swiss. 15 million have a spending power equivalent to that of the Portuguese and more than 100 million are now able to acquire consumer goods that would have been completely impossible to acquire up until only recently. And there is a real desire now to purchase consumer goods.

Let's make no mistake though! Almost all types of products and services already exist in Brazil. There is no point in hoping to sell products that are obsolete in the French market. Only innovative products or those of a recent technological level – i.e. the type of products that you are already promoting in France – have a real chance of conquering the market in Brazil. If your products match these criteria, then do not hesitate! In three years time it will be too late!

You need to understand the consumer habits and assimilate the distribution modes. In certain sectors, such as supermarkets and hypermarkets for example, buyers may not even be interested in the quality that you can offer, as the "price" and "special offer" factors are the most important criteria for their clientele. You will win your place in the Brazilian market through the quality of your technology and through a good understanding of your market in Brazil. Then you will be in a position to reach the 120 million consumers. Because, as we say in Brazil, your products or services have to "set themselves apart".

How to approach this market?

As is always the case, no matter where you go, you need to attend trade fairs and carry out (or have carried out) research and surveys. You also need to prospect on site to meet the players in your market, obtain information or look for support from companies already installed there...

You will need to verify your price structures and those of the competition. Importing can be expensive, as the government favours the development of goods produced at home in certain sectors, such as in the luxury sector for example.

In fact, you will need to retain your usual approach to development. Look to local experts for information and advice. Give them the tasks that you cannot complete efficiently from a distance. Locally, numerous companies will want to distribute foreign products and the challenge facing you will be to evaluate the capacities and the professionalism of these Brazilian companies.

There will be numerous disappointments, which will often be the result of a hurriedly

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drawn-up contract and a poor evaluation of the motivation or genuine capacities of the partner that is going to sell your products. And then one realises later that a task was not completed well enough, before being abandoned. The result is that a lot of energy is wasted and time is lost for the company concerned. The evaluation of your partners is an important phase of the decision-making process in any development strategy. Seek the help of professionals based on site! Except in the case of very specific markets, you will not be able to sell directly to your client from France. It is not part of the Brazilian culture to deal with people who are only passing through.

You must have an on-site presence through a distributor or via your own structure. A Brazilian will make sure that you can meet his follow-up deadlines with the product or service that he is purchasing. This point of view needs to be integrated so as not to lose time in negotiations that are already long enough.

Brazilians do not work with people “passing through”! You need to have local support or a base here.

Setting up a structure in Brazil offers better control over your commercial actions. This requires an appropriate legal framework and a good prior analysis of the fiscal aspects of your operational and asset-based plans. Creating a company and carrying out all the legal and

Investing in Brazil is simple, according to Bertrand de Solère

“Equality of treatment between foreign capital and national capital; the development of competitive regulations; privatisation and the accession of a left-wing government to power (led by the trade-unionist Lula in 2002) merely reinforced Brazil's policy to open up to foreign investments. Investing in Brazil is simple and requires no additional costs. Indeed, there are no minimal capital requirements for setting up a company, and no taxes are applied either to foreign capital or even to the distribution of dividends. The only specific requirement with regard to foreign capital is that you are registered with the Central Bank, which is done automatically “on-line”. Today, investing in Brazil is a safe option, as is clearly illustrated by the recent “non-speculative investment” rating.

Bertrand de Solère.

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administrative formalities takes several months. This task has to be completed with great attention to detail in order to prevent this phase taking too long (when it is already long enough). Any stage not correctly completed would rapidly be detected by the public IT networks, and your company would then face administrative hold-ups until the procedures have been correctly completed. Depending on the type of delay – banking situation or authorisation to import, for example – you may not be able to trade during this period. A lawyer will inform you with regard to the legal environment and will advise you as to the structure that best corresponds to your requirements.

Choosing a conscientious lawyer is absolutely essential, in order to be sure that he will carry out all the necessary procedures for you. And it takes time.

During this phase, which is always too long, there is nothing to stop you completing your studies and analyses, better assessing your market and above all organising early meetings with your prospective clients.

During these meetings, you will be questioned as to how long you have been trading in Brazil, and the origin of your products and your clients. In order to understand who you are! And to assess how long your company might hope to survive in Brazil. Work on the presentation of this latter point, which is crucial for your partners.

In Brazil, it takes time to define one's project, set up a structure and, above all, sell one's products!

Despite being a long way from your base, your prospecting must be organised and intensive, and carried out by trained, supervised and controlled sales representatives.

As is always the case, selling requires good organisation of your commercial prospecting, meeting your prospective clients and convincing them to make the purchase. But the timing of each sequence varies from place to place. Obtaining a meeting in Brazil is much more straightforward than in France, where you often have to persuade your contact to see you. In the Brazilian environment — traditionally an oral one — it is standard practice to meet each other and a meeting can be obtained within just a few days. This is an accepted practice and the proximity of your contact enables you to get to know them, discuss details and evaluate different aspects. Things get more complicated during the following phase, i.e. understanding the client's intentions and persuading him to proceed. Our French landmarks and guidelines disappear.

Time is no longer an issue. What you are presenting is excellent, very interesting or very useful. Your Latin contact is often very cheerful too... You are delighted and you are on the verge of making a rapid sale. Then suddenly you can no longer reach him, he is booked up for the next two weeks and the meeting arranged for tomorrow morning is postponed as a result of an important project or an unexpected business trip.

He will see you after the Carnival ... Welcome to Brazil, the country of "Tudo bem"! Your contacts will never say 'No' to you. They will simply avoid you and delay decisions. Your product may not really interest them but they will not tell you this and will wait until you let go. How could it be otherwise in the country of agreement, the country where no-one gets angry.... a country which has only ever been at war once in its entire history of half a millennium (i.e. against Paraguay in the middle of the 19th century)?

You also need incredible energy...

In order to make sales in this new, disconcerting and often very competitive environment, new arrivals need to show incredible energy and not be taken in by the pace of life, however tropical and pleasant it might appear.

Setting up a company in Brazil takes time. It is imperative that you strictly adhere to a disciplined approach if you are to develop a viable business here. The ideal combination would be German-style discipline and Brazilian-style cosmetics. You are constantly switching between enthusiasm and disappointment, and you can be taken in by very friendly relationships that do not lead to the signing of contracts, without knowing why. There are endless administrative formalities to be completed and a continual feeling of powerlessness needs to be overcome. In fact, you encounter all the usual difficulties that many of us are aware of in the emerging countries through the management of long projects. But when it comes to small and medium sized companies the immediate issue at hand is the gradual dwindling of cash-flow... Until the first sale is made.

... and be capable of lasting 120 million consumers and the margins are there.

It can take you a great deal of time to achieve the results you initially hoped for. You will, of course, ask yourself the usual questions. Are your products still appropriate? Do your prices

really correspond to the capacities of your prospective clients? Adapt your questions to meet the requirements of this new country.

But be prepared to fight and do not give up! The Brazilian markets – which are above all markets tailored to small- and medium-sized companies – are worth the effort.

By Philippe Aimé

Executive Partner of Visionis
Business Development
Foreign Trade Consultant.

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Business Development structures

Identifying the right distributor, setting up your structure, finding a partner... Certain local Business Development structures can carry out your prospecting studies and tasks. They can also help you to co-ordinate your approach locally, identify the right distributor, set up your structure, find a partner, work alongside you and implement on-site the tasks necessary for your development.

Visionis contact for French companies:
visionis-brasil@wanadoo.fr

Conflandey Industries experience in Brazil

Nicolas Mayet is Head of Export Sales in charge of Latin America, the Iberian Peninsula, Central Europe and the Middle East at Conflandey Industries.

Trade Line asked him to share his Brazilian experiences with us.



Trade Line: Not all experiences can be fully transposed. To give us a clearer picture, could you describe your company and the Coface guarantees and services that it uses?

Nicolas Mayet:

Conflandey Industries is a steel wire drawing company and it is a subsidiary of the iron and steel company Saarstahl AG, whose turnover in 2008 will be approximately 80 million Euros. We produce wires for a wide variety of markets, including consumer goods (staples, paper clips, ring-bound books), automotive (rivets, tires), building (wire netting) and the paper-related industries (cellulose, cardboard, printing), etc... Conflandey exports 70% of its products to 60 countries. Several tough years, linked to the local economic and monetary crises, have distanced us from the South American markets. Our objective is to get back into these markets and continue to diversify our clientele. For this, we are counting on the credit insurance product offered by Coface, a long-standing partner of Conflandey Industries.

TL: To what extent does Brazil contribute to your turnover? Are you benefiting from the substantial growth of this economy?

NM: Our sales in Brazil currently only represent a small proportion of our turnover, but we have an excellent network of clients and prospective clients in the States of Sao Paulo, Rio de Janeiro and Rio Grande do Sul. Over the coming years, we are counting on taking advantage of the increasing consumption of steel here. Indeed, local supply is no longer able to satisfy demand and Brazil is having to increase its imports. Moreover, the increasing industrialisation of Brazil is pushing manufacturers towards better quality products that generate productivity gains. As a result, the local market for our specialities is enjoying huge growth.

In Brazil, there are some significant obstacles to winning new market share, i.e. the exchange rate and the tax system. The

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A base or local support impregnated with the country's culture,,

continuous rise of the real against the euro and the dollar since the beginning of 2005 is making our products more attractive but, at the same time, exported Brazilian merchandise is less competitive⁽¹⁾. Clients are having to find more outlets in the local market, internal competition is increasing and sales prices are dropping. This is where the fiscal aspect is so important. The Brazilian steel market is known all over the world for its customs barriers, which protect the 2 main local players. Our products are subject to prohibitive customs duties, which limit the import possibilities for our clients, despite the attractive approach costs.

TL: In your opinion, what are the key factors for succeeding in Brazil, and what are the main pitfalls to avoid?

NM: In order to be successful in Brazil, you ideally need a local base or local support from a company fully immersed in the Brazilian culture and aware of our working methods. We are lucky to have a German agent who has lived there for thirty years. He is seconded by a young Brazilian, whom he is training in European customs, practices and mind-sets, and this is proving to be rather successful. On his side, he is able to teach us a little about patience...

(1) Coface economists estimate that the rise of the real is likely, at minimum, to see a slowdown and perhaps even fall moderately (see articles on p. 4 and 6 of the special report).

What is Coface's approach towards its clients in light of the global financial crisis?



Didier Morand
Coface Risks Director

The financial crisis, which originated in the United States, continues to wreak havoc with banks' and investors' balance sheets. Sometimes without even knowing it, the latter have found themselves committed to products that contain (to a varying degree) the notorious "sub-primes", i.e. property loans granted to households that were clearly unable to meet the required qualification criteria. These liabilities have subsequently been spread out throughout the world via the securitisation process.



The situation is very worrying in the United States, where property prices have fallen by 15% and where the number of seizures has broken all the records. Overall, three million households may have lost their homes by 2009. The immediate consequence of this is that banks are being forced to drastically revise their loan granting policy, which in turn is having a recessionary impact on the world's leading economy. Our growth forecasts for 2008 are consequently only 1.1%. This serious financial situation has come at the same time as a major oil crisis and a very significant increase in the prices of all raw materials, caused by the continuously strong demand on the part of the emerging countries, thereby provoking a renewed rise in inflation (4.1% in July in the Euro zone at an annual rate).

All this bad news is fuelling the current pessimism, and the coming months are not likely to be much brighter, with an expected decline in growth and a rise in unemployment. The United States and Spain are currently the most affected countries.

In view of this tough environment, how is Coface managing the crisis and what are the consequences for its clients?

This crisis, now irrefutable, has brought about a deterioration in the loss ratio for Coface. In the first half of 2008, claims increased by 20% in relation to 2007 in terms of their total number, and by 36% in terms of the total sum involved (as a result of a certain number of very large single claims).

Since the beginning of the crisis in the summer of 2007, we have implemented certain measures to reconcile the necessary

controlling of our risks with a strong desire to work alongside our clients, who now need us more than ever.

In spite of these difficulties, the risk exposures that we insure increased by 10.5% at the end of June 2008, compared with the end of June 2007. This clearly illustrates that we have not just abruptly halted the flow of credit.

The global situation has nevertheless forced us to implement a certain number of measures in the form of a plan, which we have called "Act on the crisis". This plan essentially breaks down as follows:

- identification and monitoring of all the LBO's carried out recently in order to verify the financial packages,
- a re-examination of our risk exposures on the basis of our @ratings, and, in a certain number of cases, a reduction of the risks in the most vulnerable companies, with specific emphasis on the level of debt,
- an acceleration of the rating process for the most vulnerable risks, and general reinforcing of the monitoring process,
- a more cautious risk-taking policy in certain hard-hit sectors, such as construction in Spain,
- a selective re-pricing of our contracts.

All these measures are being carefully monitored in order to optimise the risk selection process, as well as to help our clients benefit from a prevention approach, whilst at the same time continuing to develop our activity.

By Didier Morand
Coface Risks Director



The launch of a new factoring product - Globalliance Finance

Coface is innovating in the factoring market, offering companies the “Globalliance Finance” proposal, a total guarantee for receivables and an access to financing.

Trade receivables, an essential asset for any company, can be optimised with our input. By adopting a complete factoring solution, a company is able to meet, on a continual basis, its financing, guarantee (credit insurance), and debt recovery requirements.

The factoring solution is designed for all companies, from very small companies in the process of being set up through to huge companies, which allow payment delays when they invoice other companies for services or products.

The companies interested in this technique for financing their Trade Receivables show one or more of the following characteristics:

- the need for an increasing level of working capital requirements (growth in activity or longer payment delays),
- insufficient resources for monitoring Trade Receivables (abnormally high client exposures in the balance sheet in relation to the activity sector),
- provisions following payment defaults in the client accounts,
- an opening up of or development of export markets.

Three services:

Factoring is a service, based on the transfer (via subrogation) of the ownership of commercial receivables to a specialist company known as a factor. Depending on the needs of the company concerned, the service can be global or partial:

- cash-flow requirements: immediate availability of funds as soon as the invoices have been transferred,
- credit risk: guarantee against payment defaults within the limit of the credit insurance authorisations,
- client management: handling of follow-ups and recovery of the entrusted receivables.

Its cost:

- A factoring fee, calculated on the basis of the total amount (including VAT) of the receivables handled by Coface, which pays for the service itself. The rate will generally be based on the number of invoices involved, together with the nature and quality of the buyers.
- A financing rate, calculated on a pro rata basis and applied at the time of the cash flow advance.

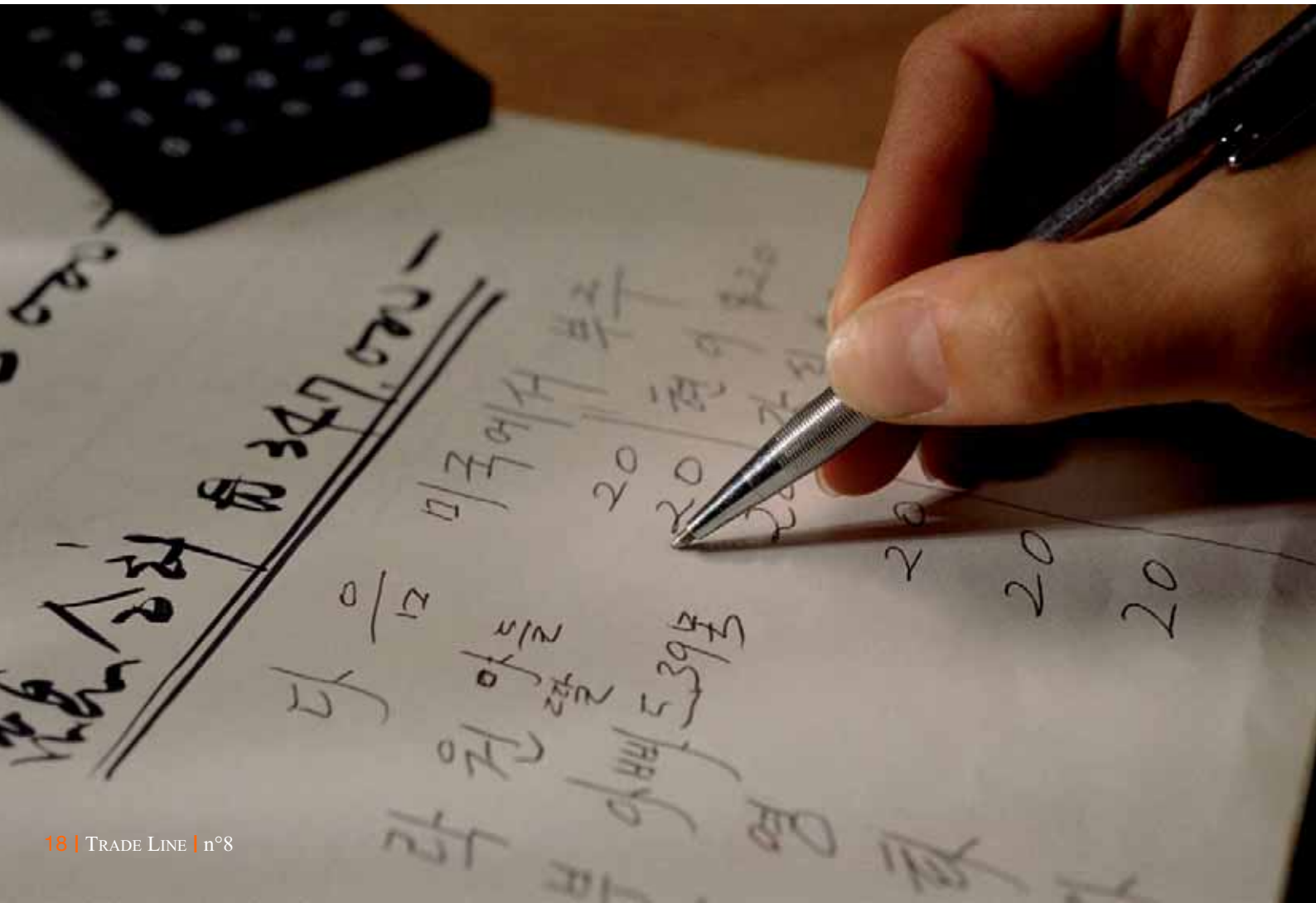
Factoring offers a range of services tailored to changes in a company's requirements. It is a global service that allows companies to outsource the management of their receivables. This in turn allows them to concentrate on their development and commercial client relationships, whilst at the same time optimising their cash flow.

“
An
optimization
of the Trade
Receivables
cash flow ,”

China:

- strong competition and a lack of financing are causing extended payment delays

Inter-company payment delays in China are continuing to grow, according to the 5th Coface study on the credit risk of companies based in China. Given the more intense competitive environment, companies are granting credits to their clients with increasingly long delays. This financial situation is resulting in a disturbing increase in payment delays. The rise in raw material prices and the recent freezing of bank loans could exacerbate the situation in 2008.



Credit transactions are the principal source of financing for Chinese companies.

- Payments on credit are becoming increasingly frequent between companies based in China. More than half the companies questioned use credit transactions as their principal payment condition, whereas the letter of credit, still widespread just a few years ago, has been practically abandoned.
- Payment delays are getting longer. Companies are granting average payment delays of 90 days, whereas the trend in 2004 was 60 days.
- The sale on credit method is now the principal source of financing for companies. It has indeed become widespread as a strategy for winning market share, given the intensely competitive environment, as well as a means of more efficiently managing cash flow given that company margins are continually being cut.
- The trend needs to be monitored but payment delays are now more frequent. 90% of all companies are now having to face up to delays, and 20% of them are facing delays of over 60 days. "More than 80% of those that replied use amicable negotiations as their principal recovery method" stresses Yves Zlotowski, the head economist at Coface.

- The business environment in China, particularly with regard to creditor protection, is less favourable than in many other emerging countries.
- There are also increasing concerns over company governance issues and the risks of fraud. The country is rated A3 by Coface, whereas its business environment rating is B.

Methodology:

- This survey is the fifth one carried out by Coface on credit risk management for companies in China.
- It was carried out between October and December 2007 on 547 companies based in continental China, 10% of which belong to the State, 20% are private, 52% belong to foreign companies, 17% are Joint Ventures and 2% are co-operatives. Approximately 65% work in the processing industry, 10% in the services sector and 24% are retailers or wholesalers.
- The aim of the survey was to provide an overview of the different payment experiences, trends and credit risk management issues with regard to companies based in Continental China.

Coface in China and in Asia

Since 1994, Coface has been building a network of companies and partners in Asia, which is today active in 10 countries and structured around 3 regional platforms in Singapore, Hong Kong and Tokyo. With more than 4,500 clients, Coface is the leader in Trade Receivables management in Asia, and offers Receivables protection, Receivables finance, Business information and Receivables management.

Since 2003, Coface has been the re-insurer and technical partner of Ping An Property & Casualty Insurance for its domestic credit insurance offering.

China: <http://www.coface.com.cn>

Singapore: <http://www.coface.com.sg/>

Hong Kong: <http://www.coface.com.hk>

Japan: <http://www.coface.jp/>

The financial difficulties experienced by Chinese companies

The payment practice trends observed in China in domestic transactions are no different to the trends observed with companies exporting to China:

- Payments by letters of credit are becoming the exception and "open credit" is becoming the rule,
- Credit durations are being extended, with the average reaching 90 days instead of 60 not so long ago,
- Payment delays are also getting longer, generating an increase in payment default declarations.

The balance sheets of Chinese companies in 2006 revealed a significant decline in margins, and this trend continued in 2007. Competitive pressures, combined with a rise in raw material prices, created financial difficulties for numerous companies, hence the length of payment delays reported.

It should be stressed, however, that in spite of the new bankruptcy law, which came into force in June 2006 and which now affects all types of companies, both private and public, there is no sign of a "wave" of bankruptcies.

Most declared payment defaults are the result of breaches of contract by Chinese buyers and are recovered via amicable negotiations carried out by the Coface network.

By Thierry Graffin

Head of Underwriting Manager for Asia

“Planète PME Méditerranée”

Coface was the sponsor for “Planète PME Méditerranée”, a major event held in Marseille on June 3 by the CGPME (more than 8,000 visitors, 100 exhibitors and 1,400 business meetings organised with the experts). This was an opportunity to meet numerous companies interested in the guarantees that Coface offers companies on behalf of the State, and in the services that it proposes to help them optimise the management of their Trade Receivables. During the Coface workshop entitled “THE complete solution for information, insurance and recovery”, Coface presented the Globalliance @rating Pack and gave its opinion on the risks in Morocco, Tunisia and Algeria.



Experts reply to questions asked by different companies on the Coface stand.

Coface Country Risk Conference in China

On May 27 last, Coface Hong Kong organised the 7th Country Risk Conference, which attracted more than 300 participants. One of the highlights of this event was the speech by Anne-Marie Idrac, Secretary of State for France in charge of Foreign Trade, who drew attention to the contribution made by Coface to foreign trade throughout the world and summarised France's foreign trade situation within the world economy.



Anne-Marie Idrac, Secretary of State in charge of Foreign Trade, and Richard Burton, Director of Coface Greater China.

The "Classe Export" Trade Fair

Coface participated in the Classe Export Trade Fair, held on June 24 last at “La Défense”. At this large export forum for small- and medium-sized French companies, more than 50 exhibitors presented their solutions for supporting major companies with their international actions.

It was a chance for Coface to discuss different issues with numerous entrepreneurs keen to work abroad and pinpoint solutions for guaranteeing their export risks.

Anne-Marie Idrac, Secretary of State in charge of Foreign Trade, also attended this event. She met exporters at the Coface stand, before participating in a conference-debate alongside France's principal Foreign Trade partners, including François David, the Chairman of Coface.



Anne-Marie Idrac received by François David on the Coface stand.

coface 

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