



E-shippers kick the paper habit

Electronic methods of trading and paying for oceanborne goods replace centuries-old use of paper bills of lading and letters of credit.

BY PHILIP DAMAS

For many, holding onto an original paper document like a bill of lading or a letter of credit has been like clutching a security blanket.

Conventional wisdom was that bills of lading and documentary credit practices provided the safeguards that shippers needed to do business with, and ensure payment from, trade counterparts overseas.

But besides depleting forests around the world, paper-based processes are increasingly perceived as slow, cumbersome and error-prone.

Finding an electronic substitute that would still be acceptable to banks, insurers and shippers has become a priority. In fact, with commerce's added impetus, many companies involved in ocean shipping, including third parties such as trade facilitators, have looked for a new way of handling trade transactions and payments electronically.

John Leitner, president of California-based customs brokerage and forwarding company W.J. Byrnes, said he has seen "constant problems" with documentary credit. Banks reject the letter of credit if there is any discrepancy between the different documents, or they hold on to the documents, causing shipment delays.

"A lot of people blame the banks," he said, adding banks "do not know" the details of the export and import transactions.

While the documentary letter of credit, as a document of title, remains paper-based, all other documents can be converted into electronic messages. For a paperless bill of lading, traders would have to agree to use a document that is equivalent to a B/L, governed by special contract rules.

This paper B/L issue has led many in the shipping and banking sectors to say the B/L stands in the way of electronic progress.

Under the Uniform Customs and Practice for Documentary Credits 500 rules established by the International Chamber of Commerce, better known as the UCP500 rules, a letter of credit also requires the physical presentation of a bill of lading, or a non-negotiable sea waybill, to trigger the payment to the exporter by the importer's bank.

"Electronic commerce requires a faster speed," said Philippe Rapatout, adviser to the logistics division of chemical group Atofina and a member of several committees of the International Chamber of Commerce.

Current banking practices remain "a major obstacle" to the development of international commerce, particularly electronic commerce, Rapatout added.

Setting up an electronic marketplace on the Internet "is the easy part," said Peter Scott, commercial director of Bolero.net, an electronic document communications pro-

vider. Providing a secure network for communication is often missing from these Web sites.

Doing business electronically is also a requirement of shippers. "Increasingly, shippers want an electronic environment" to conduct transactions, Brian Moulton, global shipping director of Michelin, said at the recent Intermodal 2000 conference in Genoa.

But the question is: How can traders obtain the same level of security as letters of credit and B/Ls, without all the associated paper documents, and with e-commerce speed?

Different Approaches. Shippers, forwarders, customs brokers and banks say it's obvious that there is a need to solve the problem of the flow of data and money in international trade. Oceanborne goods create the additional burden associated with negotiable, paper-based bills of lading.

Electronic trade facilitators like Bolero.net, CCEWeb and TradeCard have been established in the last few years, offering electronic products they hope will replace paper-based processes. These companies specialize in one or several key areas: secure document transfers, document management, credit rating, trade financing and payments. Other third-party e-commerce firms specialize in electronic identification and digital signatures.

These new third-party e-commerce firms and others are trying to provide a common electronic platform to integrate trade, banking and transport processes and documents. But their approaches are very different, particularly in the way they integrate all the different facets of international trade and how their proposed electronic systems deviate from current practices.

Bolero.net. One of the early innovators in e-commerce for international trade and shipping, London-based e-commerce firm Bolero.net provides an electronic trade documents communications system.

The backbone of the Bolero.net system is a core messaging platform, which enables users to exchange electronic trade documents via the Internet, including negotiable electronic bills of lading. All messages and document transfers are encrypted and acknowledged. By providing what it calls a "title registry," Bolero.net replicates the function of a bill of lading as a document of title — in other words, ownership of the goods represented by the bill of lading can be electronically transferred between Bolero.net users.

Contrary to TradeCard and other international e-commerce systems, Bolero.net is based on the expectation that shippers will still require the use of bills of lading as a

document of title. Others argue that it is time for ocean shipping and its users to switch to sea waybills, which are not documents of title.

"The entire Bolero system was created to maintain the current system of ocean bills of lading," said Rapatout, at Atofina.

Bolero.net has signed up major banks, shipping lines and forwarders and is perceived as a big system for large corporate users.

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Can shippers use Bolero.net to use electronic letters of credit? "Essentially, the answer is that, in a Bolero L/C transaction, all parties are signatories to the Bolero Rule Book," said Ake Nilson, a consultant to Bolero.net.

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CCEWeb. The Canadian e-commerce software firm has introduced an electronic letter of credit card and an Internet-based trade payment, trade processing and document management system.

The service, called @GlobalTrade, combines the functionality of a letter of credit with that of a credit card (November 2000 *American Shipper*, page 44).

The key component of the product is what CCEWeb calls its "documentary clearance center." The center functions much like a trade finance department of a bank. It centralizes and oversees all types of trade, transport, insurance and financial documents and effectively takes on part of the role of the bank that issues a letter of credit.

CCEWeb said its documentary clearance center processes all events relating to documentary letter of credit and provides trade processing services to the trade parties, the bank and all related parties in the trade cycle.

Letters of credit are payable through the documentary clearance center. The center will check documents presented by the beneficiary for compliance and complete the trade cycle by paying the beneficiary. More detailed information on how the integrated CCEWeb electronic system works is posted at www.cceweb.com.

Like Bolero.net, CCEWeb runs a secure electronic platform. However, CCEWeb does not operate a "title registry" to govern the ownership of goods between trade parties. It can work with paper bills of lading and with waybills. CCEWeb has written certain binding clauses in its waybills to provide to users some of the legal protection associated with bills of lading.

"Our system is able to handle both traditional bills of lading and the waybill, which bears three clauses which will offer protection to banks and carriers," said Arthur O. Thomas, senior vice president, business development at CCEWeb. "I don't think you can get away from the traditional bills of lading in all cases. But practice will reduce recourse to traditional bills of lading."

"The system that we have developed incorporates the possibility of the transport document required being a waybill, whilst retaining the security of payment inherent in the documentary credit process," he said.

CCEWeb said its @GlobalTrade product brings together all parties in a trade chain "to the same electronic page." This includes ocean and air carriers, freight forwarders, customs brokers, surveyors, third-party logistics providers, banks, chambers of commerce, insurance companies and financial institutions.

"@GlobalTrade is about evolution rather than revolution of trade processing," Thomas said. "Our solution is to work with customers at their speed of comfort, move into this new e-space bringing people along, allowing users to use the existing paper

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practices if they have to, going digital where they can.”

CCEWeb employs staff that check all the documents for compliance manually, before authorizing payments to the seller.

Compared to the usual way of conducting trade transactions, Thomas said that @GlobalTrade makes the payment process faster, guarantees irrevocable funds availability, authenticates customers’ and trade service providers’ identities, and integrates invoices, transport documents and payments.

For users, CCEWeb has lower setup fees and annual fees than Bolero.net and transaction fees charged by CCEWeb “will be lower than what importers and exporters pay to their respective banks today,” Thomas said. And, unlike Bolero.net, CCEWeb describes itself a complete end-to-end solution.

One key role of CCEWeb may be its ability to enable buyers and sellers, through the @GlobalTrade system, to finance trade deals over the Internet. A pilot to introduce @GlobalTrade began in November and CCEWeb plans to launch it commercially in the fall.

TradeCard. New York-based e-commerce firm TradeCard (www.tradecard.com) provides a trade document management and innovative financial settlement service that equates to an electronic letter of credit.

To use TradeCard’s patented transaction system, buyers and sellers must first become approved TradeCard members. To begin a transaction, the buyer creates an electronic purchase order, either through the TradeCard system using its contract templates, via electronic file from a company’s ERP system, or from an online marketplace. TradeCard then notifies the seller that there is a purchase order pending for review. The buyer and seller can further negotiate the purchase order online. Once they agree to the terms, both buyer and seller authorize the purchase order with digital signatures.

TradeCard’s Internet-based database populates all the required trade and other documents, using data from the original information.

Once the packing list and invoice have been created and authenticated by the seller, an assurance of payment is attached to the purchase order, confirming the amount of coverage on the shipment, and ensuring that the seller will receive payment upon document compliance.

TradeCard’s patented compliance engine then electronically compares the data from the electronically submitted shipping documents to the original purchase order. Once compliance is met, payment is transferred electronically from the buyer’s financial

stitution to the seller’s financial institution.

Like CCEWeb, TradeCard takes on part of the role of the trade finance department of a bank and integrates numerous trade, transport and other documents. TradeCard differs in that it has an automated compliance engine, is more electronic, and its financial settlement does not use letters of credit.

“TradeCard is an alternative to a letter of credit,” said Kurt Cavano, chief executive officer of the company. “We do everything that a letter of credit does, but we do it without paper.” Working with TradeCard, the credit rating and insurance firm Coface is responsible for rating new users of the system, who must apply for credit the same way they would deal with a bank.



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The TradeCard compliance system will check that the information on the purchase order, the proof of delivery (bills of lading are not used), the insurance certificate and other document match, before authorizing payment to the seller.

Cavano said that TradeCard is considerably cheaper than a traditional bank letter of credit, and it still guarantees payments. His company also provides supply chain visibility. “You cannot do that with a bank,” he added. TradeCard users can keep their bank to do business via the electronic trade platform.

TradeCard can be used for oceanborne as well as for airborne goods.

E-payment. In the business-to-business e-commerce world, payment is often a missing link in online transactions. But overseas

buyers and sellers doing business on the Internet often don’t know each other, and this raises questions about security of payment.

In a recent report on “E-global logistics,” the U.S. financial firm Stephens Inc. said that “traditional settlement methods are not suitable for Internet-based transactions.”

This market gap explains some of the products introduced by TradeCard and CCEWeb.

Meanwhile, Bolero.net is planning to start an electronic settlement utility for managing finance. The planned product would incorporate aspects of existing settlement methods, such as document compliance checking and the Bolero electronic bill of lading.

Review Of L/C Rules. Under current rules of 1994 of the International Chamber of Commerce on letters of credit, an original paper bill of lading or sea waybill must be produced, for oceanborne shipments, before the bank will authorize payment.

The International Chamber of Commerce’s Banking Commission is considering an “electronic supplement” to its rules on documentary credits.

The “eUCP,” as it has been termed, would be attached to the ICC’s universally recognized rules on letters of credit, UCP 500. “The market is looking to the ICC for guidance on how to deal with electronic documents,” said Dan Taylor, vice president of the Banking Commission.

“New Web sites are sprouting all the time, claiming to provide all the tools to complete trade transactions online,” a spokesman for the International Chamber of Commerce said. The ICC believes that these developments will accelerate. The trade body’s Banking Commission has decided that it is in the best interests of the parties to have Uniform Customs and Practice for Documentary Credits rules flexible enough to handle e-commerce transactions.

“This amounts to nothing less than a revolution in trade finance,” the ICC spokesman added.

“The ICC itself is currently reviewing the UCP500 rules with a view to producing an addendum to the UCP500, which will effectively ‘legalize’ the use of electronic documents even without the action of separate agreements, such as the Bolero Rule Book,” said Nilson, at Bolero.net. The eUCP addendum is expected to be ready by May.

Knut Pontopiddan, the senior regulatory affairs executive of the A.P. Moller shipping group who chairs the Maritime Transport Commission of the International Chamber of Commerce, said he supports the electronic initiative on documentary credit.

The Maritime Transport Commission of



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the ICC will assist the trade body’s banking commission and is putting together a group of experts to provide views on the proposed electronic letters of credit documentary changes, he said.

E-commerce trade facilitators that have thrived because of the inadequacy of current documentary credit banking rules believe they will survive the banking reform of the ICC concerning letters of credit.

“We plan to use the eUCP 500,” said Thomas, at CCEWeb. “@Global Trade is compatible with the current UCP500 and will be fully compatible with current ICC initiatives regarding an eUCP and our legal team is drafting a User Agreement that all parties will sign online.”

Carriers, Forwarders. Ocean carriers, forwarders and customs brokers should benefit from the new electronic products and from the move away from paper-based documents.

Carriers have wanted to get out of the business of producing negotiable paper bills of lading as documents of title for a long time.

The use of sea waybills removes the risk of documents being held up in the trade

chain, causing delays to shipments.

“The move will be to electronic waybills,” said Leitner. “Once the customers are comfortable with waybills, they’ll be using them.”

Many of the new electronic products and initiatives point to a greater use of electronic sea waybills or even simplified “proof of delivery messages.”

For example, TradeCard uses air waybills as the proof of delivery of the goods for airborne cargoes. For ocean shipping, TradeCard allows forwarders to send, as the proof of delivery, an “856” EDI message. This message type contains some of the information found on a sea waybill.

“We try to make the impact (of our processes) on shipping lines and forwarders as easy as possible,” said Cavano, at TradeCard. He said that simplified Internet documents are used.

For example, Cavano said that TradeCard sends invoice details from its system to Fritz Cos., saving the forwarder and customs broker a lot of re-keying of information.

Patrick Burrows, general manager of marketing systems, business systems division P&O Nedlloyd, said the use of the electronic system CCEWeb by shippers would lead to several benefits for shipping lines. He cited higher productivity for data entry into the carrier’s internal system, encouraging users to switch from bills of lading to waybills, and automating the collection of freight revenues. CCEWeb can “reserve an amount” of the seller/buyer transaction to pay the carrier, Burrows said.

Leitner, an advisor to CCEWeb, said that a customs broker using the company’s system can do a timely check of the description of goods on the commercial invoice of the exporter. This ensures that the description meets the requirements for Customs clearance.

For shippers and forwarders, many of the electronic trade facilitation systems and initiatives sound complex, and it is too early to say whether they will have the critical mass to make any system an industry standard. The likelihood is that there will be several systems that will run alongside the current paper-based systems.

“For quite some time you’re going to have a combination of paper as well as the electronic data interchange,” said Thomas, at CCEWeb.

However, the evidence suggests that the investment required to sign up and set up these electronic trade facilitation systems, for shippers and their providers, will pay off. Their successful implementation in international commerce could integrate, simplify and accelerate many international transactions. ■

Study: B2B supply chains face bottlenecks

BELLEVUE, Wash.

A recent study found that transportation companies are taking an average of half a year to set up an electronic trading process with their online partners and that online transactions represent a mere fraction of their overall business.

The study, conducted by Edifecs of about 400 electronic commerce managers and transportation providers, found that ramping up a single electronic trading process takes an average of 5.8 months.

“The single biggest bottleneck to widespread adoption of B2B e-commerce is enablement — the process of preparing a company, its internal systems and its trading partners to being conducting online transactions,” Edifecs said. These functions are largely conducted manually — “faxing, telephoning, e-mailing and visual checking and re-checking of details — many of which must be repeated each time a company sets up a new electronic process with a trading partner.

The survey found that 46 percent of transportation companies conduct B2B operations with less than one-fourth of their trading partners. Seventy-seven percent conduct fewer than 15 processes electronically with their partners, while 46 percent exchange fewer than 5,000 electronic transactions a month.

Despite this bottleneck, the expectations are high. Nearly 70 percent of the survey’s respondents expect to trade electronically with more than three-fourths of their partner base in the coming years. Nearly 40 percent plan to conduct more than 25 processes electronically and 58 percent expect to execute more than 50,000 transactions each month, Edifecs said.

The solution for these companies will be to automate their manual enablement problem, Edifecs said.

The survey warns, however, that extensible markup language, or XML, is not the perfect key to enablement, as many perceive it to be. Just over half of the companies in the survey that have used XML said it had either no impact on their enablement activities or actually made the process more difficult. ■