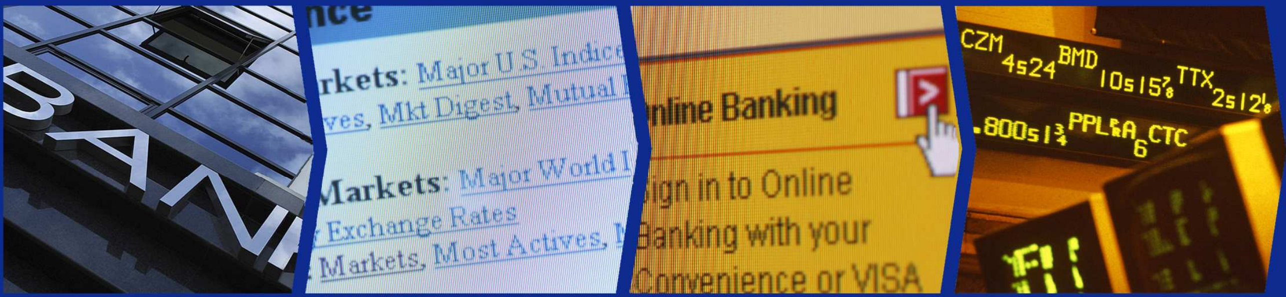


ICC Banking Commission

For immediate release

An ICC Banking Commission Report

ICC Trade Finance Survey: An Interim Report - Summer 2009

Highlights

- A survey providing an interim update to the ICC March 2009 Survey covering the status of trade finance during the first half of 2009.
- The availability and affordability of trade finance.
- Assessment of the first impact of multilateral trade facilitation schemes.
- Impact of the G20 agenda on trade finance, in particular on Basel II.

Document No. 470-1124 TS/WJ **4 September 09**

ICC
International Chamber of Commerce
The world business organization

PEACE AND PROSPERITY THROUGH WORLD TRADE
90 YEARS 1919-2009
INTERNATIONAL CHAMBER OF COMMERCE

ICC Department of Policy and Business Practices

Contact:

Thierry Senechal
Policy Manager, Banking Commission
International Chamber of Commerce (ICC)
38 Cours Albert 1er, 75008 Paris, France
phone: +33 1 49 53 28 98
fax: +33 1 49 53 28 59
thierry.senechal@iccwbo.org

Acknowledgement

The Banking Commission Officers and Secretariat would like to thank members of the Banking Commission for providing inputs with very short notice during Summer 2009.

In particular, we would like to thank Gary Collyer, Technical Adviser of the Banking Commission, Vincent O'Brien, Banking Commission Representative to the WTO Group of Experts, and Leo Cullen, Head of Trade Products at Coastline Solutions, for accepting to conduct again such a survey. We would like to express our gratitude to Andrew Wilson of ICC United Kingdom for sharing with us the preliminary findings of a consultation conducted with major financial institutions at the London market.

ICC once again thanks Coastline Solutions, ICC's technology partner, for preparing the groundwork and the data collection of this Survey. From the ICC Secretariat, we would like to thank Aleema Jamal for her highly useful research conducted on the trade finance industry in the first half of 2009, in particular concerning the different trade facilitation schemes. Ron Katz, the Senior Editor of ICC DCINSIGHT has reviewed the document with great care and made numerous valuable suggestions. Annick de Rovere has kindly done the layout of this report.

The present report would not have been possible without the support of the World Trade Organization (WTO) and, in particular, Marc Auboin, Counsellor in the Economic Research and Statistics Division of the WTO.

List of Acronyms

ADB	Asian Development Bank
BRIC	Fast growing developing economies of Brazil, Russia, India, and China
CCF	Credit Conversion Factor
DCI	ICC's quarterly newsletter, DCInsight (ICC Publication)
EBRD	European Bank for Reconstruction and Development
ECA	Export Credit Agency
FSA	Financial Services Authority (UK)
GDP	Gross Domestic Product
ICC	International Chamber of Commerce
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IFSA	International Financial Services Association
IMF	International Monetary Fund
L/Cs	Letters of Credit
LGD	Loss given default
MDB	Multilateral Development Bank
SWIFT	Society for Worldwide Interbank Financial Telecommunication
UCP	Uniform Customs and Practice for Documentary Credits (ICC Rules)
UK	United Kingdom
USD	United States Dollar
WTO	World Trade Organization

ICC Trade Finance Survey: An Interim Report Summer 2009

Key messages

The key findings of this interim report can be summarized as follows:

Economic outlook

- Evidence shows that the impact of the financial crisis on trade finance has reached its peak in 2008 and in the first half of 2009, with the most detrimental effects still impacting emerging markets. Although there are signs of recovery (i.e. the ICC/Ifo world economic climate index[1] rose significantly in the first half of 2009, from 50.1 points in January to 78.7 points in July), the world economy remains in recession. It has even worsened in some areas, as reported by ICC members.

- Many respondents to this interim report recognized that the preliminary signs of recovery are not strong enough to conclude that the global recession is receding. The findings for the first half of 2009 point to the fact that some major risks still remain and that the economic recovery will continue to be on shaky ground in the coming months.

Supply of trade finance and corporate demand

- In contrast to the same period last year, demand for trade finance increased in the first half of 2009, with supply improving at the same time. 67% of ICC respondents indicated that trade transaction volumes had either remained the same or had improved in the first half of 2009. Still, evidence collected on a regional basis shows that some sectors of the industry have been differently impacted by the crisis, i.e., whilst volumes remained the same, a regional survey of major trade finance banks in the London market suggested that values are down in the range of 10-30%.

- At the same time, corporate demand for traditional trade products was sustained in the first half of 2009, with 78% of respondents indicating that demand has remained the same or increased. This figure corroborates anecdotal evidence indicating that the situation is improving worldwide for both imports and exports compared with the same period in 2008. The comments received also indicated that the demand from exporters for the confirmation of L/Cs is still strong. The trend for exporters to move from open account to L/Cs, perceived to be more secure, has again been confirmed.

- At the present time, there is evidence that the market for trade finance is fairly open. In general, evidence suggests that the ability of banks to provide trade credit has improved since the start of 2009, broadly reflecting enhanced capacity (and liquidity) in the banking sector as a whole. However, many respondents still report impaired credit lines and capital availability at their own institutions and/or at counterparty banks, albeit to varying degrees. This is particularly true in developing/emerging markets for which risk appetites remain low.

Pricing of trade finance credit

- The pricing of trade instruments remained high in the first half of 2009, despite a tendency to stabilize in Q2. Some banks reported further increases in pricing for bank undertakings relative to Q4 2008,

---

[1] The World Economic Climate Index is compiled by ICC and the Ifo Institute for Economic Research on a quarterly basis by surveying more than 1,000 experts from 92 countries.

typically of around 50 to 100 basis points. Nonetheless, some 87% of respondents concluded that trade finance was perceived to be an affordable solution for both lenders and borrowers. Overall, there seems to be a consensus that the prevailing high prices are considered to be an affordable cost, given the additional security that the L/Cs offer the parties.

- Evidence collected still shows increased country risk and therefore capital costs in some regions, leading to the high price of trade finance products. There are particular concerns about the cost of export credit insurance, the price for which increased in early 2009. This is likely to be a particular problem for SMEs.

- There is evidence of a stabilization in price increases for trade finance instruments, though pricing remains relatively high for some products and some risks. The trend for counterparty risk aversion, which previously resulted in significantly higher risk pricing in 2008 (confirmation commission/discounting fees, etc.), is not expected to prevail in coming months as markets show signs of recovery.

Use of trade facilitation programmes

- The majority of respondents (55%) indicated that their institution has been utilizing trade facilitation programmes implemented by MDBs. With demand for trade finance increasing over the recent months and supply improving, the effects of the liquidity pool recently put in place by multilateral organizations is playing a positive role. A number of respondents reported that the G20 decision to support US$250 billion worth of trade over a two-year period was a major step towards alleviating the shocks to trade resulting from the financial crisis. They believe that, in the months to come, financial markets should continue to improve if sustained efforts by governments and international organizations are maintained.

- It remains difficult to say with any precision whether a (significant) gap in the provision of trade credit compared with corporate demand remains and, if so, how it can be filled by MDBs. Many respondents pointed out that their banks preferred to take in charge the entire risk without having recourse to MDB coverage, with the resultant retention of commissions. Some respondents also noted that the lack of coverage by MDBs for specific markets and/or counterparties (e.g. state-owned banks) constituted a major constraint.

Capital requirement relief under Basel II

- Despite the request by G20 leaders last April to soften the capital requirements under Basel II, the survey conducted for this interim report shows no significant sign of relief in the capital requirements for traditional trade finance transactions. Indeed, some 86% of respondents indicated that they experienced no regulatory relief in capital requirements. As a result, increased capital costs keep constraining trade finance business volumes, limiting the amount of liquidity in the market, and impacting trade in the developing world.

- The case for revised treatment of trade finance in the allocation of banks' capital rests on the historically low risk profile of the activity. Many respondents again attested that they have experienced relatively few losses on trade lending over the past few decades. This primarily reflects the fixed, short-term maturity of trade finance products, and the fact that exposures are liquidated by cash upon maturity.

- Whilst there appears to be greater recognition of the need to address the impact of Basel II on the provision of trade finance, respondents have only observed very limited follow-up, if any, by regulators to the mandate from the London Summit requesting more proportionate capital weightings for traditional trade transactions.

Recommendations

- Despite some improvement in the availability of trade finance, it remains unclear whether the market would be able to meet any significant upturn in the possible increase in commodity prices at the current time. A recovery in demand for merchandise trade without a corresponding increase in the ability of banks to provide credit, would risk a significant dislocation of trade, thus hampering the global recovery.

- Looking ahead, problems are still expected to hamper the availability of trade finance at least though the first half of 2010. For that reason, it is essential that renewed attention be given to the implementation of the G20 trade finance agenda with a view to fostering further improvements in bank finance capacity.

- Specific steps should include:

  - filling the information gap in trade finance, in particular in terms of business performance data evidencing the loss history of different trade finance risk categories; (it should be noted that ICC is now developing a new Global Survey that will attempt to collect such information in 2010)

  - further enlargement of the multilateral trade finance programmes to expand both capacity and coverage, especially for low-income and export-dependent countries;

  - rapid implementation of national programmes to guarantee trade and provide refinancing options, in particular through ECAs which may also develop more direct lending schemes on emerging markets including through sub-participation in bank lending; and

  - application of appropriate supervisory changes to the Basel II framework to allow more proportionate capital weightings for traditional trade finance transactions. In particular, national regulators should seek to exempt trade finance products from the one-year maturity floor applied to lending facilities in most countries and allow key risk attributes to be determined on the basis of industry benchmarks reflecting the low risk nature of trade finance.

ICC Department of Policy and Business Practices

Table of Contents

List of Figures (first half 2009)

Foreword

Gary Collyer
Technical Adviser, ICC Banking Commission

We are pleased to present the results of the Summer 2009 ICC Interim Report on Trade Finance. This interim report is a follow-up exercise from the last ICC Banking Commission Global Trade Finance Survey, which involved 122 banks from 59 countries (ICC Document No. 470-1120 TS/WJ dated 31 March 09 and entitled “Rethinking Trade Finance 2009”). The March 2009 ICC Survey played an important role in filling the information gap on trade finance and in preparing positions for the G20 Summit, in particular through the WTO Group of Experts.

Conducting such market intelligence work has become essential for the trade finance industry. In recent years, it has become clear that global capital markets and the economy were experiencing significant problems, with resulting financial challenges for businesses and governments worldwide. The last G20 meeting in April 2009 highlighted the need to facilitate the flow of trade and make use of available flexibility in capital requirements for trade finance. In particular, leaders of the G20 at the London Summit jointly agreed to commit USD250 billion of support for trade finance over the period 2009-2010.

The questions posed in this Trade Finance interim report were sent to the representatives of the 122 banks that provided the invaluable data input to the widely acclaimed March 2009 ICC Survey covering the period between the last quarter of 2007 and the last quarter of 2008.

The responses presented in this interim report reflect the position for the first half of 2009, i.e. between January and June 2009. As ICC plans to once again issue a Global Survey towards the end of 2009 and the beginning of 2010,[2] the questions covered by the Survey were limited and focused on five distinct areas:

1. Transaction volume
2. Corporate demand
3. Pricing of trade finance products
4. Use of trade facilitation programmes
5. Signs of capital requirements relief under Basel II

With regard to the results of the interim report, it should be noted that the volume figures shown in section three do not reflect a worsening position for the first six months of 2009. Some 67% of respondents indicated that transaction volumes had either remained the same or had improved. By contrast, the March Survey showed SWIFT MT7 messages falling by 13% and MT4 messages by 8%, when comparing Q4 2007 with Q4 2008. Corporate demand for trade finance products, therefore, remains strong. In the March Survey, 48% of respondents reported an increase in demand for bank undertakings. Some 36% of

[2] ICC is currently developing terms of reference for the ICC Global Survey 2010 to provide a comprehensive view of trade finance in 2009 and collect performance data on specific trade finance products and markets. The results of the ICC 2010 Global Survey are scheduled to be available for the upcoming ICC Banking Commission meeting on 21-23 April 2010 in Beijing, China.

respondents indicated that that demand has been maintained, with 42% reporting a further increase in demand during the course of 2009.

The costs of obtaining traditional trade finance products are still rising, but they are seen as affordable costs given the additional security that the products offer the parties. Trade facilitation MDBs programmes appear to be having some success, with over 50% of the respondents indicating that they are using one or more of the offerings. There still seems to be a lack of understanding concerning the reach of some of the programmes, and more marketing of the offerings may be required to encourage banks and their clients to participate.

Despite the hopes of many that reform would consist of relief applied to the capital requirements for traditional trade products, this interim report offers a very negative assessment, in that 86% of respondents reported no significant signs of relief under Basel II. It must be added that a number of comments, such as the one cited in this document, reflect that banks' internal risk management teams have not vigorously pursued this process with local regulators.

A positive note from the last Survey was that 71% of respondents indicated that they expected an increase in demand for traditional trade products. This interim report indicates that 78% have seen an increase or no reduction in demand, and the comments on this subject reflect that there are signs of further improvement in Q3 2009.

We trust the information in the following pages will be helpful in devising proposals for the upcoming G20 meeting in September 2009 in Pittsburgh. We would again express our gratitude to members of the ICC Banking Commission and to ICC national committees for their help in preparing this interim report.

Gary Collyer
Technical Adviser to the ICC Banking Commission

4 September 2009

1. Introduction

The ICC Banking Commission

1.1. This Survey was conducted by the ICC Banking Commission Officers. The commission is the leading global rule-making body for the trade finance industry, as well as a worldwide forum for trade finance experts whose common aim is to facilitate international trade finance. The Banking Commission has more than 500 members in 70 countries, many of them from emerging countries.

1.2. The Banking Commission is known for producing universally accepted rules and guidelines for documentary credits, documentary collections, bank-to-bank reimbursements and bank guarantees. ICC's voluntary market-based approaches have often been praised for leveling the playing field in trade finance practices. In recent years, the Commission has developed strong market intelligence capabilities to serve the trade finance industry and to fill the information gap from a global perspective.

1.3. The ICC Banking Commission believes that there is still a paucity of data on trade finance, in particular of historical and performance data for trade finance products. We are committed to continuing developing studies and tools to provide meaningful information in this field.

The ICC Survey: purpose and objectives

1.4. The need for data on trade finance is particularly important due to the strong demand for information from the G20 members who will be meeting in Pittsburgh on 24-25 September 2009. The purpose of this Survey was to gather high-level intermediate information from the marketplace that reflects current commercial and operational practice in the international trade finance banking community during the period from January-June 2009.

1.5. The present Survey was restricted to the respondents of the "Rethinking Trade Finance 2009" Survey – 122 banks in 59 countries in order to obtain a set of data that could be used as a meaningful comparison. In addition, we integrated the results of a few consultations conducted by ICC national committees, including those carried out by ICC UK with 23 financial institutions, primarily major international trade finance banks, but also a number of smaller banks active in the London market. The ICC Secretariat has also done specific research on trade finance in recent months, the results of which are included in this report.

Methodology

1.6. Coastline Solutions has been commissioned by ICC to conduct this Survey and assist in collecting data concerning the current trade finance environment. The methodology for this report was primarily based on a 5-item questionnaire developed to collect information from the respondents of the March 2009 trade finance Survey. Given the urgent need for information and the short time frame available to collect it (Summer 2009), the Survey was conducted exclusively online.

1.7. Specifically, the Survey questions addressed the following topics:

- Supply of trade finance and transaction volumes
- Corporate demand for trade finance
- Pricing of trade finance credit
- Use of trade facilitation programmes by financial institutions
- Implementation and effectiveness of the G20 London Summit trade finance agenda, in particular signs of capital requirements relief under Basel II

Constraints and focus

1.8. This Survey is not comparable with the annual trade finance survey conducted each Spring by ICC. Due to the severity of the crisis, we opted for a Survey that could provide information in advance of the G20 Summit in Pittsburgh, USA.

1.9. As with last year, the ICC Annual Survey on Trade Finance will be available in the Spring of 2010.

The participants in the ICC Survey

1.10. The Survey received 86 responses from 68 banks in 50 countries (this is a 56% response rate in terms of banks who provided analysis from the March 2009 Survey or an 85% response rate in terms of countries). Using the feedback received, we are able to provide some elements of consensus on key issues arising from the crisis.

2. Trade Development and Prospects

2.1. According to respondents of the Survey, the principal impacts of the financial crisis were felt in 2008, but they were also significant in the first half of 2009, with the most detrimental effects on emerging markets.

2.2. Although world merchandise trade significantly declined in most regions during 2008-2009, there are now signs of recovery. As one indication, it was reported on 19 August 2009 that the ICC/Ifo world economic climate index rose significantly in the third quarter of 2009, its second consecutive increase resulting primarily from favourable economic expectations, but also from slight improvements in the global economy. The climate indicator rose to 78.7 points from 64.4 points in April and 50.1 points in January.[3]

2.3. We also note that the Baltic Exchange Dry Index (BDI), reflecting the amount of raw material cargo traded in specific markets around the world (more than 80% of international trade in goods is carried by sea), has been slowly recovering in the first half of 2009 but still showed ups and downs (From end of May to end of December 2008, the index had dropped by about 94%, from 11,440 to 774 points. By end of June 2009, the index had recovered a little lost ground, back to 3,757 points and down again to 2,423 point on 1 September 2009).[4] We propose to take a cautious view with few signs of recovery shown in the first half of 2009.

2.4. In spite of perceived signs that the economic climate is improving, the world economy remains in recession, which has worsened in some areas, as evidence indicates from the study of trade finance. Many respondents to the Survey asserted that we need to caution against excess optimism and realize that the signs of recovery are not strong enough to conclude that the global crisis is receding. The findings for the first half of 2009 point to the fact that some major risks still exist and that economic recovery will remain on shaky ground in the coming months.

2.5. The ICC/Ifo index indicates that the biggest improvement in 2009 was experienced in Asia, where the indicator improved strongly due to “highly optimistic” expectations for the next six months and to a less negative assessment of the current state of Asian economies. This fact is corroborated by responses to the Survey, which show that capital expenditures and private consumption are expected to recover in the region during the next six months, and that the export sector will also improve, though not in all Asian countries. In China, for instance, lost

[3] See also the ICC website concerning this economic survey at http://iccwbo.org/iccdceaa/index.html.
[4] Information can be obtained from http://www.balticexchange.com

earnings from falling exports have been partly offset by rising domestic consumption, in large part because of the government's US$600 billion stimulus package.

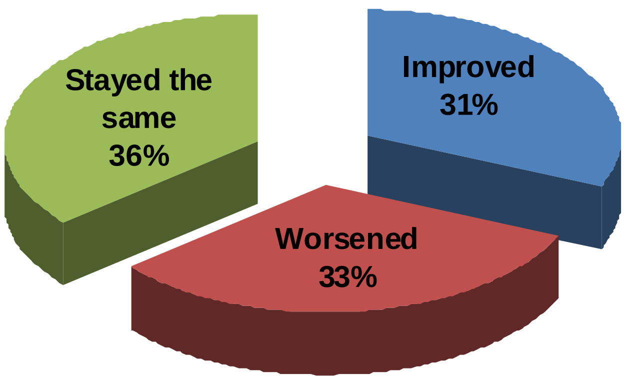
2.6. ICC respondents to the Survey also indicated that the crisis is entering a new phase. With demand for trade finance increasing over the recent months and supply improving, the effects of the liquidity pool recently put in place by multilateral organizations is playing a positive role. Respondents believe that, in the months to come, financial markets should continue to improve if sustained efforts by governments and international organizations are maintained. Trade is expected to return to positive growth in 2010.

3. Trade Transaction Volumes

3.1. In answer to the question as to whether trade transaction volume had improved or worsened, the Survey concluded that the volume figures provided by respondents do not reflect a worsening position for the first six months of 2009. Some 67% of respondents indicated that transaction volumes had either remained the same or had improved. This is significant in view of the fact that the March 2009 ICC Global Survey showed SWIFT MT7 messages falling by 13% and MT4 messages by 8%, when comparing Q4 2007 with Q4 2008.

3.2. Figure 1 below shows that some 31% of respondents indicated that trade transaction volumes improved in the first half of 2009, while 33% said that they worsened during the same period and 36% of respondents said that these volumes stayed the same.

Figure 1 - Trade Transaction Volume First Half 2009



3.3. Within this overall trend, however, some regions show different results. For example, as noted by the ICC national committee in the UK[5], a number of London-based branches (or subsidiaries) of foreign banks specializing in trade, have reported small increases in the volume of their trade activities over the same period. (The UK regional survey asked about the value of trade finance transactions, and not volumes, and shows that whilst volumes remained the same, values are down by 10-30%.)

3.4. Expectations for Asia were positive and reflected a less negative assessment about the current state of Asian economies. It was also noted that capital expenditures and private consumption were recovering in the region, with the export sector likely to improve, though this is not the case in all Asian countries.

[5] The ICC UK Regional Survey was carried out in July 2009 and based on extensive consultations with ICC United Kingdom member banks. In total, 23 financial institutions were surveyed in total, including most major international trade finance banks, as well as a number of smaller banks active in the London market.

3.5. Respondents indicating that the situation had improved also noted that, after a total collapse of confidence, many banks were now trying to open up trade credit lines for corporates and financial institutions. As a result, during recent months, volumes increased slowly but surely, especially in light of the fact that commodity prices are stabilizing. Furthermore, it is more common to see transactions, previously paid on open account terms, now settled by more secure trade finance techniques.

3.6. Other respondents claiming that the situation is getting better also reported that many regions now have more infrastructure projects underway, especially in the construction and energy sectors. As a result, demand for trade finance is increasing, not only for L/Cs, but also for bank guarantees and other trade finance products.

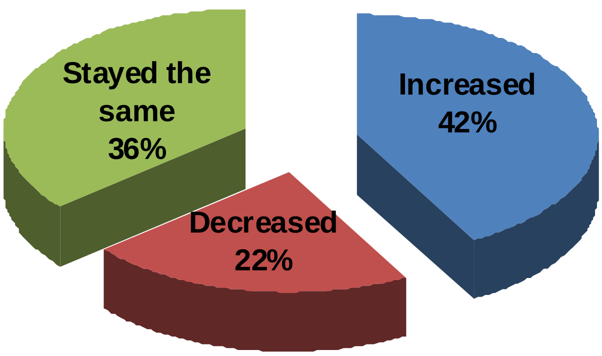
3.7. The Survey revealed divergent views concerning supply and demand. Some 33% of respondents indicated that trade transaction volumes had decreased. While in most regions the majority of those questioned said they had seen increased or stabilized volumes, there were wide differences between countries, some of which are still witnessing downturns. This is particularly true for some Eastern European Countries, in which commodities/goods are not being shipped to the extent they were pre-crisis and no stimulus measure has yet proved to be effective. Some Asian economies are still suffering from the crisis as well, e.g. Pakistan, Malaysia, and Vietnam. Although Latin America shows some stabilization of supply and demand, the African continent does not show signs of recovery at the present time.

4. Corporate Demand for Trade Finance

4.1. Corporate demand for traditional trade products was sustained in the first half of 2009. Some 78% of respondents indicated that demand had stayed the same or increased. These figures corroborate the anecdotal evidence mentioned in Section 2, indicating that the situation is improving, both for imports and exports.

4.2. Figure 2 below shows that 42% of respondents said demand increased in the first half of 2009, while 36% indicated that it remained the same. Only 22% of respondents indicated that demand decreased in the first half of 2009.

Figure 2 - Corporate Demand for Traditonal Trade Products



4.3. Although some respondents noted that their confidence level still lags behind that found in other regions, they still pointed out that their L/C departments had witnessed greater demand for undertakings (both issuing and confirming L/Cs) compared with the same period one year earlier. For instance, one respondent noted that the "issuance of new letters of credit had been showing a steady upward movement [for the] last 3 months. With the industrial energy and economic growth on [an] upward trend, the predictions show further progress/increase in the demand for traditional trade finance products."

4.4. However, many respondents noted that the global economic situation was still precarious. For instance, a European bank said the following: “As compared to the same period in 2008, corporate volumes in the first half of 2009 have decreased with import L/Cs showing a volume decline of about 21%, standby L/Cs a decline of approximately 4% and import collections down around 26%. However, the demand for confirmed L/Cs has not decreased.”

4.5. Reduced credit/liquidity is still seen to be a common phenomenon, as financial institutions are still repairing balance sheets due to investment banking and real estate/property asset write downs. With political risk and instability increasing in some regions, corporate demand cannot be met in full.

5. Trade Finance Affordability

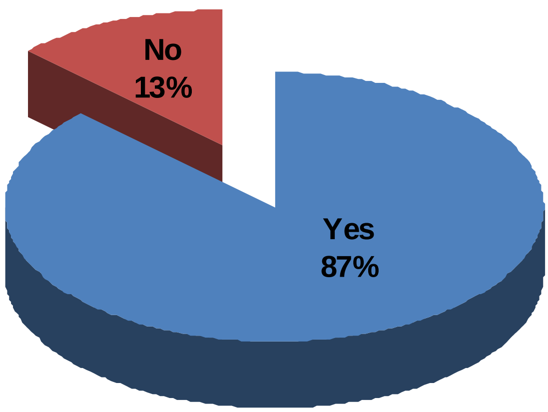
5.1. In our March 2009 ICC Global Survey, we reported a widespread increase in the pricing of banks’ trade finance instruments for the year 2008, reflecting higher funding costs, increased capital constraints and greater counterparty risk (for example, we mentioned that over 40% of the March 2009 Survey respondents reported a significant increase in fees for commercial letters of credit, standbys and guarantees in 2007-2008).

5.2. The present Survey reveals a different trend. According to the majority of respondents (87% as shown in Figure 3), trade finance is now perceived to be acceptable given the security offered by the bank undertaking.

5.3. The reasons for stabilization of prices is largely explained by the following factors:

- Global prices of commodities have shown a downward trend for many sectors and products, therefore positively impacting on the pricing for trade finance, which is usually imbedded in the prices of the commodity.
- In spite of rising rates during 2008 and at times in early 2009, trade finance has become more affordable due to fewer constraints on the use of trade finance products, such as bank restrictions, impractical requirements for the borrower in respect of loan limits, unpredictable changes in cost of funds (for banks and clients) and the reduction of interbank credit limits (for banks).
- Due to decreased LIBOR/EURIBOR levels and some revival in financial markets, the range of prices for trade finance products has become more attractive.

Figure 3 - Is Trade Finance Perceived to be Affordable?



5.4. The pricing of trade finance instruments appears to have stabilized in Q1 and Q2 2009, although some banks report further increases in pricing relative to 2008, typically of around 50 to 100 basis points. For example, one respondent asserted that “trade finance is seen as a major service to our customers and although the bank’s risk pricing has edged upwards, this is not proving [to be] a hurdle anymore because the pricing of products has stabilized.”

5.5. Another respondent concluded that banks are once again actively engaged in the business of providing import and export loans, e.g., trust receipts, and packing credits, to borrowers against letters of credit, trade finance being still the most affordable solution for both buyer and seller: “In terms of pricing, due to increased competition in the banking market, pricing has gone down in recent months. Previous year pricing for import L/Cs were ranged from 0.125% to 0.25% per quarter in 2008, which has now gone down to the range of 0.075 to 0.125% per quarter.”

5.6. Confirmation and pre-payment prices for many banks in different regions were reported to have been sharply higher in late 2008-early 2009 to slightly lower in the second quarter of 2009. Still, many respondents affirmed that while the rates for confirmation are quite high, they should stabilize soon.

5.7. Another respondent reported that “for lenders, short-term lending is still a viable product offering. For borrowers, with deteriorating credit, trade finance is becoming more and more expensive but, in light of the current economic situation, trade finance is still the easiest and cheapest source of short-term finance available to these borrowers.” In recent months, banks having limited capital to lend remained a problem, leading some banks to curtail their lending or simply increase their prices for some products. Evidence of an increase in bank-to-bank financing spreads has also been reported as one reason for higher pricing of trade finance products.

5.8. Another area of concern is the cost of export credit insurance, which significantly increased in late 2008 and early 2009. It was reported that these costs may have doubled in some instances. There is some anecdotal evidence that this may be a significant problem for SMEs, which are likely to face difficulties in arranging alternative financing facilities.

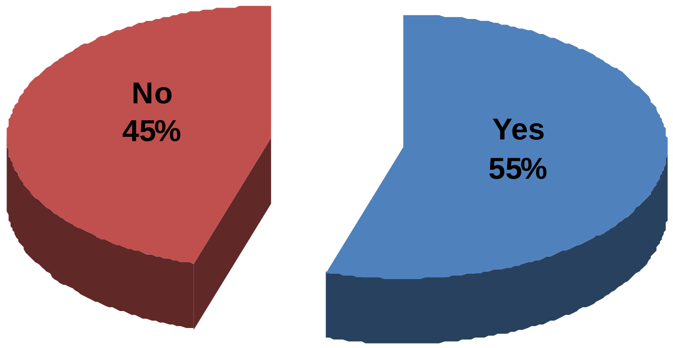
5.9. Although trade finance risk margins have increased in line with market conditions, costs remain relatively affordable for trade finance products in comparison with other asset classes (i.e., bonds, CDS, syndicated loans, etc.). Furthermore, even in light of current market conditions, traders are still willing to pay the costs to obtain the protection that trade finance affords. As one respondent, summarizing the situation, said: “At the worst of the crisis (end of 2008), trade finance products were almost the only way to get financing for clients. Financing and risk prices went up during that period, but they are currently easing down and competition between banks on prices (commissions and margin) has resumed almost as before.”

5.10. In summary, evidence suggests that trade finance is affordable today despite current market conditions. Pricing, therefore, is not perceived to be a major hurdle for engaging in trade, notwithstanding the numerous examples of the higher costs of trade finance collected by ICC.

6. Use of Trade Facilitation Programmes

6.1. More than half of the respondents to the Survey indicated that they were utilizing at least one trade facilitation program put in place by a multilateral organization or export credit agency. As illustrated in Figure 4, 55% of respondents indicated that they were utilizing trade facilitation programmes. Some 45% of respondents said that they were not utilizing these programmes.

Figure 4 - Trade Facilitation Program Usage



6.2. Therefore, we conclude that a significant number of banks are presently using the new/enhanced trade facilitation schemes introduced by multilateral development banks following the April 2009 G20 Summit. Most respondents admitted that the G20 decision to support USD250 billion worth of trade over a two-year period was as a major step towards absorbing the shocks to trade resulting from the financial crisis.

6.3. Many respondents made reference to the programmes put in place by the EBRD and the IFC. The IFC has recently established the Global Trade Liquidity Pool Program (GTLP), which will provide financing of USD8 billion, mobilized in phases to support already existing trade finance to “under-served” clients. The European Bank for Reconstruction and Development (EBRD) has also increased its Trade Facilitation Program’s (TFP) budget from €800 million to €1.5 billion for the year 2009, targeting banks in the areas within Eastern Europe, Central Asia, Russia and Ukraine, all of which have been the most substantially affected as a result of the recession.

6.4. Respondents also mentioned the extensive use of other programmes, in particular those put in place by the Asian Development Bank (ADB) and the Inter-American Development Bank (IADB), often praising the agreement of these two international institutions to share access to their trade finance programmes, thereby connecting more than 100 financial institutions in the Asia/Pacific region, Latin America and the Caribbean.

6.5. The respondents who indicated they had not been able to finance additional lines of credit under the newly implemented multilateral schemes often pointed out that their bank preferred to take in charge the entire risk (when considered suitable) with the resultant retention of commissions. One respondent from an international bank said: “The bank always attempts to leverage our global presence and look at [using] our own branch network located in different countries to explore and establish all possible financing programmes/products. This way, the risk sharing becomes mutual within the group, which secures the revenues, also within the group. At the same time, it is possible that even within the group, a branch/office … may explore the trade facilitation programmes and use them.” Some respondents also noted the lack of coverage for specific markets and/or counterparties (e.g. state-owned banks) as a major constraint.

6.6. In conclusion, some positive steps have been recently taken to moderate the effects of the increased perception of risk and to provide the market with earmarked liquidity for trade finance. The role played by MDBs is significant, and their services have been widely used for different purposes. Export credit agencies have played a greater role as well, in particular in providing loans to cover risk under already-existing financial mechanisms. New actions have also been taken to ensure that all trade finance programmes supported by governments can be complemented by enlarging the number of co-sharing partnerships with international financial institutions and export credit agencies. One respondent, for example, mentioned that “banks use ECAs more often now in order to minimize risk and exposure held on bank books. The risk

mitigators to be used depend upon the booking location of the transaction as well as the parties to the transaction and may include EXIM, EBRD, Sinosure, IFC, EIC, ADB, etc."

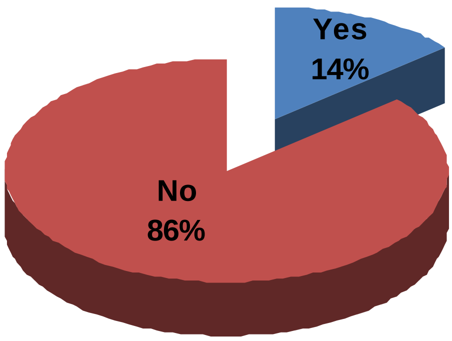
6.7. Clearly, the new trade facilitation schemes are not only being used to cover risks in specific regions, but they are also seen to be useful tools to help banks increase the volume of their international trade transactions, both for L/Cs and guarantees. Although the business community greatly appreciates the measures taken in recent months by multilaterals, particularly to support trade facilitation, it remains the case that financial institutions require that further work be done to enhance the coverage of these programmes worldwide.

7. Relief in Capital Requirements

7.1. One of the most worrisome results of the Survey was the absence in the first half of 2009 of any significant sign of relief in the capital requirements relating to traditional trade transactions under Basel II. As shown in Figure 5, some 86% of respondents indicated they had not seen any relief in this regard.

7.2. Whilst there appears to be greater recognition of the need to address the impact of Basel II on the provision of trade finance, ICC has seen only a limited follow-up from regulators to the mandate on this subject from the London Summit.

Figure 5 - Relief in Capital Requirements for Traditional Trade Products



7.3. According to many respondents, the implementation of the Basel II charter "has eroded the incentive of banks" to offer trade finance. Indeed, many banks are said to be discouraged from engaging in trade finance activities because of the inability of regulators to take into account the lower risk involved in this field. Although respondents generally took note of an overall improvement in the trade finance market during Q2 2009, they remain convinced that the increased requirement for capital holdings in a time of already limited resources is restricting this market.

7.4. Whilst trade finance has traditionally been regarded as a low risk business, and most respondents have attested to this fact, the trade finance industry is still perceived to be unfairly treated under Basel II as the same category of risk as other unsecured financial products. Respondents reported that the low-risk nature of trade finance is clearly established and is based on the short-term, transaction-based, and generally self-liquidating nature of the business. Furthermore, ICC members stressed that many banks report having experienced relatively few losses on trade finance lending during the past several decades. Some respondents pointed out that zero losses have been registered for off balance sheet business during recent years. The low loss ratios have also been confirmed for the trade facilitation programmes run by the ADB, EBRD, IADB and the IFC. Respondents also reported to the self-regulated nature of the trade finance industry, most trade transactions being usually governed

by international standardized codes of practice such as the ICC UCP 600, which has been a standard banking practice for decades.

7.5. The implementation of Basel II is said to have significantly increased the "capital cost" of trade finance in spite of the low-risk nature of products such as L/Cs, which are often referred to as the lifeblood of international trade.

7.6. Many respondents indicated that remedial measures would not require amendments to the Basel II framework but only the introduction of "small yet significant changes to the way in which the existing rules are implemented". The removal of the one-year maturity floor, for example, could potentially reduce capital requirements by 20-30% for trade finance obligations with a 90-day maturity.

7.7. Unfortunately, in the short run, ICC members see no signs of flexibility being applied in the existing regulatory framework. Although ICC UK noted that a number of national supervisors may want to follow the FSA's lead in exercising limited flexibility under Basel II for trade products (i.e., by waiving the one-year maturity floor), there was no evidence at the present time that flexibility will be introduced to offer capital relief for traditional trade transactions.

8. Conclusion and Recommendations

8.1. Despite some improvement in the availability of trade finance, it remains unclear whether the market would be able to meet any significant upturn in the possible increase in commodity prices at the current time. A recovery in demand for merchandise trade without a corresponding increase in the ability of banks to provide credit, would risk a significant dislocation of trade, thus hampering the global recovery.

8.2. In the absence of a comprehensive survey mapping credit/trade finance supply against demand, it remains difficult to say with precision whether a (significant) gap remains in the provision of trade credit. ICC is committed to following up on this interim report with a global survey in the coming months, with consolidated results to be available in the Spring of 2010.

8.3. Looking ahead, problems are still expected to hamper the availability of trade finance at least though the first half of 2010. For that reason, it is essential that renewed attention be given to the implementation of the G20 trade finance agenda with a view to fostering further improvements in bank finance capacity.

8.4. Specific steps should include:

- filling the information gap in trade finance, in particular in terms of business performance data evidencing the loss history of different trade finance risk categories (As noted above ICC is now designing a new Global Survey that will attempt to collect such information);

- further enlargement of the multilateral trade finance programmes to expand both capacity and coverage, especially for low income and export-dependent countries;

- rapid implementation of national programmes to guarantee trade and provide refinancing options, in particular through ECAs which may also develop more direct lending schemes on emerging markets including through sub-participation in bank lending; and

- application of appropriate supervisory changes to the Basel II framework to allow more proportionate capital weightings for traditional trade finance transactions. In particular, it is urged that national regulators seek to exempt trade finance products from the one-year maturity floor applied to lending facilities in most countries and allow key risk attributes to be determined on the basis of industry benchmarks reflecting the low risk nature of trade finance.

The International Chamber of Commerce (ICC)

ICC is the world business organization, a representative body that speaks with authority on behalf of enterprises from all sectors in every part of the world.

The fundamental mission of ICC is to promote trade and investment across frontiers and help business corporations meet the challenges and opportunities of globalization. Its conviction that trade is a powerful force for peace and prosperity dates from the organization's origins early in the last century. The small group of far-sighted business leaders who founded ICC called themselves "the merchants of peace".

ICC has three main activities: rules-setting, dispute resolution and policy. Because its member companies and associations are themselves engaged in international business, ICC has unrivalled authority in making rules that govern the conduct of business across borders. Although these rules are voluntary, they are observed in countless thousands of transactions every day and have become part of the fabric of international trade.

ICC also provides essential services, foremost among them the ICC International Court of Arbitration, the world's leading arbitral institution. Another service is the World Chambers Federation, ICC's worldwide network of chambers of commerce, fostering interaction and exchange of chamber best practice.

Business leaders and experts drawn from the ICC membership establish the business stance on broad issues of trade and investment policy as well as on vital technical and sectoral subjects. These include financial services, information technologies, telecommunications, marketing ethics, the environment, transportation, competition law and intellectual property, among others.

ICC enjoys a close working relationship with the United Nations and other intergovernmental organizations, including the World Trade Organization and the G8.

ICC was founded in 1919. Today it groups hundreds of thousands of member companies and associations from over 130 countries. National committees work with their members to address the concerns of business in their countries and convey to their governments the business views formulated by ICC.

ICC
International Chamber of Commerce
The world business organization
Policy and Business Practices
38 Cours Albert 1er, 75008 Paris, France
Tel +33 (0)1 49 53 28 28 Fax +33 (0)1 49 53 28 59
E-mail icc@iccwbo.org Website www.iccwbo.org