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INTERNATIONAL CHAMBER OF COMMERCE

Global economy will remain on shaky ground, says new ICC trade finance survey

Paris, 7 September 2009 – The global economy is still on shaky ground, and despite budding signs of recovery, evidence is not strong enough to conclude that the current recession is waning, according to an International Chamber of Commerce (ICC) report on trade finance released today.

The interim report cautions against excess optimism and calls for renewed attention to be given to the G20 trade finance agenda following findings that there had been no significant sign of relief in capital requirements for trade assets – which ICC had previously stated was curbing bank incentive to offer trade finance.

Some 86% of survey respondents attested that they had experienced no relief in the requirements under the international capital adequacy regime known as Basel II. Described in the report as “one of the most worrisome results”, increased capital costs continue to constrain trade finance volumes, particularly in developing economies. Report recommendations on the issue include exempting trade finance products from the one-year maturity floor applied to lending facilities in most countries, and allowing key risk attributes to be determined on the basis of industry benchmarks reflecting the low risk nature of trade finance.

The ICC report also points to the issue of affordability of trade finance. “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,” Gary Collyer, Technical Advisor to the ICC Banking Commission, said in the report foreword.

A large majority of survey respondents acknowledged that the G20 decision in April to support US\$250 billion worth of trade over a two-year period was as a major step towards absorbing the shocks to trade resulting from the economic crisis. ICC commended the pledge but emphasizes that the key now is to ensure that governments follow up on their good intentions. Specific actions recommended in the report include further enlargement of multilateral trade facilitation programmes to expand both capacity and coverage – especially for low income and export-dependent countries – and the rapid implementation of national programmes to guarantee trade and provide refinancing options.

The ICC Interim Trade Finance Survey polled 122 banks in 59 countries during July and August and is a follow up to the ICC Banking Commission Report: “Rethinking Trade Finance 2009”, released in March this year. In contrast to findings of the previous report, which indicated a significant decrease in trade volume and value, 67% of respondents indicated that trade volume had either increased or remained the same in the first half of 2009. The report also points to increased demand for trade finance in the first half of 2009 compared with the same period in 2008. The report warns, however, that 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.

The report, compiled by ICC Banking Commission officers, concludes that despite an anticipated return to positive growth, problems relating to the availability of trade finance can be expected well into 2010.

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ICC has been mandated by the World Trade Organization (WTO) to gather reliable, quantitative and qualitative data that will help fill the information gap on the current trade finance environment. The survey findings will be also presented at the upcoming WTO Expert Meeting on Trade Finance of 15 September as official propositions are deliberated on trade finance in preparation for the G20 Pittsburgh meeting later this month.

“With more than 500 members in 70 countries, the ICC Banking Commission has become the leading body to serve the trade finance industry and help paint a clearer picture of the situation,” said Vincent O'Brien, ICC's WTO representative on trade finance. “We are deeply committed to developing meaningful information and products related to this field. ICC is now developing another global survey for Spring 2010, with the goal of collecting business performance data evidencing the loss history of different trade finance risk categories. Such information will be valuable for the industry as well as for regulators.”

Click the following link to view the ICC Trade Finance Survey: An Interim Report Summer 2009:
www.iccwbo.org/uploadedFiles/ICC_Interim_Trade_Finance_Report_Summer_2009.pdf

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About ICC

The International Chamber of Commerce is the largest, most representative business organization in the world. Its hundreds of thousands of member companies in over 130 countries have interests spanning every sector of private enterprise.

A world network of national committees keeps the ICC International Secretariat in Paris informed about national and regional business priorities. More than 2,000 experts drawn from ICC's member companies feed their knowledge and experience into crafting the ICC stance on specific business issues.

The United Nations, the World Trade Organization, and many other intergovernmental bodies, both international and regional, are kept in touch with the views of international business through ICC.

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