ICC Global Survey on Trade Finance 2012

Trade Finance Market Developments 2011-2012

Exclusive: SWIFT's Trade Traffic

Berne Union's Export Credit Insurance Data

Update from MDBs on Trade Finance Facilitation Programs

Rethinking Trade and Finance

International Chamber of Commerce
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The International Chamber of Commerce (ICC) thanks its partners and this year's sponsors, ING Vysya Bank and Misys, for their support in the preparation of this Survey.

The ICC Global Survey 2012 would not have been possible without the pathfinding work done during 2007-2012 by the ICC Banking Commission. We would like to thank Gary Collyer, Senior Technical Adviser of the Banking Commission; Vincent O'Brien, Chair of the ICC Market Intelligence Group; and Leo Cullen of Coastline Solutions for their timely inputs to this report. Ron Katz, the Editor of ICC's quarterly newsletter, DCInsight, has reviewed the document with great care and made numerous valuable suggestions. We would like to express our gratitude to ICC's network of 92 national committees for providing information and advice to lead us through the often complex process of conducting such a global survey.

The present report depended on the support of various experts from organizations outside ICC. Marc Auboin of the World Trade Organization was instrumental in requesting that this Survey be established. We would like to extend our special thanks to our partners in this Survey: Mariem Malouche of The World Bank Group; Ranil Salgado and Mika Saito of the International Monetary Fund (IMF); Steven Beck of the Asian Development Bank; Rudolf Putz of the European Bank for Reconstruction and Development; Bonnie Galat of the International Finance Corporation; and Daniela Carrera Marquis of the Inter-American Development Bank.

André Casterman from SWIFT once again graciously provided background information and contemporaneous data on trade finance messaging volumes worldwide on an exclusive basis. Fabrice Morel from the Berne Union provided the much-needed analysis on credit insurance.

More than ever, we renew our thanks to ICC's technology partner, Coastline Solutions, for compiling the online Survey.

ICC Global Survey 2012

Rethinking Trade and Finance

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List of acronyms

ADB	Asian Development Bank
AfDB	African Development Bank
BAFT	Bankers Association for Finance and Trade
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
Bp	Basis Point
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
EUR	Euro
GDP	Gross Domestic Product
ICC	International Chamber of Commerce
IDB	Inter-American Development Bank
IFC	International Finance Corporation
Ifo	Institute for Economic Research
IFSA	International Financial Services Association
ILO	International Labor Organization
IMF	International Monetary Fund
LCs	Letters of credit
LGD	Loss given default
LICs	Lower income countries
MDB	Multilateral Development Bank
MDGs	Millennium Development Goals
MIC	Middle-Income Countries
PRC	People's Republic of China
SME	Small and Medium-sized Enterprise
SWIFT	Society for Worldwide Interbank Financial Telecommunication
UCP	Uniform Customs and Practices for Documentary Credits (ICC Rules)
UK	United Kingdom
USD	United States Dollar
WTO	World Trade Organization

Foreword

Trade finance: Remaining vigilant and proactive

Pascal Lamy

In the current context of bank deleveraging and weak global economic activity, one of my priorities is to continue monitoring the trade market situation throughout 2012.

We need to be able to assess any financing gap, above and beyond those identified by WTO's G20 Report to Cannes, in the most challenging regions of the world. The report had revealed that only a third of the 60 poorest countries in the world benefited regularly from the services offered under trade finance programs, and that the lack of risk-mitigation programs in these countries partly explained the high fees and collateral requirements paid by local importers to receive their shipments.

The Report's recommendations that trade finance facilitation programs should be strengthened where they existed, and be created where they did not yet exist, in particular in Africa, were adopted by the G20 Development Working Group, and are in the concluding documents of the Cannes Summit.

In this regard, we will continue to support the staff of the African Development Bank (AfDB) in its endeavour to obtain from its Board the creation of a permanent trade finance facilitation program. In this process, the AfDB is also benefiting from substantial technical support from the Asian Development Bank and the IFC.

In the conclusions of the G20 Development Working Group, G20 Members also asked that efforts to improve data collection on trade finance be increased. The current situation is hardly satisfactory: there is simply no comprehensive set of international statistics on trade finance, mainly because the world's largest countries do not collect it properly.

The WTO has been pressing hard the statisticians in charge since the 2008-09 crisis – and will continue to do so in the course of 2012. In the meantime, the market surveys conducted by the ICC Banking Commission are a very useful instrument at the disposal of policy-makers to have an informed opinion on the state of markets.

Finally, the dialogue with the Basel Committee on Banking Supervision (BCBS) could usefully be pursued. In 2011, this dialogue not only yielded concrete results in terms of improved prudential requirements for trade finance in low-income countries, it also triggered initiatives such as the establishment of the bank registry on loss given default for trade finance, as well as other useful data. The establishment of the registry is a success for both the WTO and ICC.

Looking ahead, I believe it is important that the dialogue with the banking regulators be strengthened on the basis of data collected by banks. The WTO stands ready to help in this dialogue.

Pascal Lamy

Director-General, World Trade Organization

An abundance of mixed economic messages

Thierry Senechal

The pace of change in trade finance markets in recent years has been impressive. This is why, in 2009, the International Chamber of Commerce's Banking Commission decided to provide a timely analysis of patterns of trade finance in markets worldwide. This new report, ICC Global Survey 2012: Rethinking Trade and Finance, contains key metrics and analysis that will enhance our understanding of trade finance markets worldwide.

Bankers and traders face some tough decisions in 2012, as they strive to decipher an abundance of mixed economic messages. Market conditions remain grim, with traders' confidence eroding again because of market volatility. The supply and demand of trade finance remains in jeopardy, and regulatory constraints are causing considerable concern. At the same time, the banking model faces fundamental challenges: greater competition, consolidation of business with core trade institutions, increased capital costs, changing patterns of global trade and a retrenchment of European banks, which were previously the world leaders in commodity finance.

The prospects for economic prosperity remain uncertain. Trade has been impacted in many countries over the past months, and conditions remain difficult in many regions. When trade finance markets suffer from a lack of liquidity, the entire supply chain and eventually SMEs in developing countries are severely impacted. These countries' strong dependence on trade credit renders them and their exporters more vulnerable to disruptions in trade finance.

In addition, the economics of regulation have become increasingly complex. The ICC Banking Commission provided compelling evidence of the low-risk nature of trade finance. But the sector has come under increased scrutiny from regulators in recent years, compounding pressure on already feeble markets. Given trade finance's importance to the economy, it is vital that regulators take account of the unintended consequences that can arise from well-intentioned but unrealistic restrictions on the trade finance sector.

The ICC Global Survey 2012: Rethinking Trade and Finance will be a useful tool for both policy-makers and senior executives in financial institutions worldwide, enabling them to better understand the broad challenges that must be tackled to ensure that trade finance continues to play a vital role in the financing of global trade.

On behalf of ICC, I wish to thank all those who have contributed their time and expertise to this report.

Thierry Senechal
ICC Senior Policy Manager, Banking Commission

Executive summary

A continuing tradition of providing leading information on trade and finance

This 2012 ICC Global Survey received responses from representatives of 229 banks located in 110 countries. This response rate represents a continued increase over that of previous Surveys. In 2011, responses were received from 210 banks in 94 countries, and in 2010, from 161 banks in 75 countries. The increase in the number of countries participating allows us to provide a more diverse view of the global position regarding trade finance activity and constraints.

We are therefore pleased to note that participation in ICC Surveys continues to gain wide recognition in the industry, and the Survey contents clearly remain at the forefront in providing key information on trade finance, thereby significantly bridging the information gap.

The global economy: Uneven performance across the world

After a year of upheavals, annual trade volume growth for 2011 closed at 6.6 percent, slightly higher than the WTO September forecast of 5.8 percent. While 2011 opened with positive growth prospects for world exports and imports, with both projected to recover their pre-crisis volume level by December 2010, a series of global shocks – the Arab Spring disruptions, the earthquake in Japan and the debt crises in the eurozone and the US – resulted in uneven performance throughout 2011 and is dampening what had looked like a robust recovery. As a result, the outlook for 2012 is expected to have a negative carry-over, with annual trade growth forecast at 5.2 percent for 2012 and 7.2 percent in 2013.

Developing countries have continued to lead trade growth in 2011 despite a marked slowdown by the end of the year. South Asia's exports, driven by soaring Indian trade with China, outperformed other developing regions in the first three quarters of 2011, but subsequently plummeted. China's trade experienced particularly volatile growth through the year, and despite the recovery in May from the Japanese quake, exports from East Asia have fallen. Many major developing countries in the region are experiencing a slowdown in growth due to a tightening of domestic policy initiatives introduced between late 2010 and early 2011 to combat high inflation.

The Middle East and North Africa also appeared to be gaining some ground in mid-2011, but have been impacted by the crisis in Europe, reflecting their close trading ties with the region. Latin America's performance was steady through the year – the region is less affected by EU demand, being closer tied to the US and Chinese markets.

Trade finance statistics in 2011 were stronger than in 2009 and 2010

The responses to the ICC Survey questionnaire seem to confirm that the financial problems that were impacting trade as a whole in 2009 and the early part of 2010 have diminished to some extent, but there remain a number of residual issues that need to be addressed. Left unattended, they can still cause irreparable damage to the trade finance industry.

Overall, the global picture looked brighter in 2011 than in previous years. Volumes in 2011 were up or largely unchanged in most traditional trade products, the overall value of trade finance transactions was also up and the percentage of trade credit lines that were cut for corporate and financial institution customers continued to fall. Respondents foreseeing an increase in volume outpaced those predicting a decrease by a ratio of around 2:1. Of the financial institutions responding, 51% reported an increase in export L/C volume and 56% an increase in import L/C volume. Considerable increases were also reported for guarantees (39% on the export side and 47% on the import side).

According to respondents, trade finance is still very much in demand. However, a shortage of liquidity and a disproportionate aversion to risk continue to drive up interest rates on loans and advances in a

number of countries, especially in emerging markets. It was noted that 59% of respondents that had experienced an increase in demand reported they had been able to satisfy their customers' needs to a large extent. Around 65% of respondents indicated that their fees for issuance of bank undertakings had not changed in 2011.

The number of court injunctions and refusals still remains high. As an example, issuing banks of commercial letters of credit reported that pressure from applicants to refuse documents had increased from 6% to 14%. Where this was still an issue, the main reason cited was "financial downturn in local market", whereas previous Surveys had reported "falling commodity prices" as the principal reason. The 2012 Survey also showed that 30% of respondents (up from 26%) had experienced an increase in the number of court injunctions stopping payment under bank undertakings.

According to SWIFT, the regions show uneven results

Following a year-on-year growth of 5.81% of the SWIFT trade traffic in 2010, the 2011 traffic in 2011 showed a decline of 2.23%. This trend is underlined by the decrease of 1.38% of category 7 messages (Documentary Credits) which represents 75% of the total SWIFT trade traffic. Asia-Pacific and the Middle East are the two largest intra-regional trade areas using documentary credits: 72% of trade messages sent by Asia/Pacific banks are aimed at regional banks; 34% of trade messages sent by Middle East banks are aimed at regional banks.

On the Import side, Asia-Pacific initiated 65% of the total import transactions because it sent almost 65% of the MT 700 (in volume), followed by Europe – eurozone with 10%, Middle East and Africa. But, in average value, these two regions were not the highest: Europe – non-eurozone generated the highest average value export transactions with 1,456 KUSD. The average value of L/Cs issued by all other regions was between 400 KUSD and 700 KUSD.

On the Export side, Asia-Pacific generated 72% of the total export transactions because it received 72% of the MT 700 (in volume), followed by Europe – eurozone with 11%, Europe – non-eurozone and North America. But, in average value, these two regions were the lowest. The highest number of L/Cs were received by Asia-Pacific. As noted, most of the Asia-Pacific L/Cs are intra-regional. This can explain why the average value of export transactions in this region was the lowest (435 KUSD) compared to Europe – non-eurozone which shows the highest value export transactions (1,850 KUSD), followed by Africa (1,540 KUSD), Central & Latin America (1,311 KUSD) and the Middle East (1,185 KUSD).

Using the SWIFT's Watch Value Analyser, the 2011 volume statistics reveal that the USD was the currency used in 80% of the MT 700 messages (Issuance of L/C), EUR in 12% and JPY in 4%. Looking at the Value statistics, the USD was the currency that represented 83% of the total value of L/Cs; EUR 8% and CNY 3%. The average value of a letter of credit (sent by MT 700s only, amount converted to USD) in 2011 was 603 KUSD.

Multilateral developments banks and Berne Union members are playing a vital role

All of the development banks, without exception, increased their limits and resources in 2011. An interesting phenomenon was the increased number of transactions being initiated with the development banks by confirming banks as they endeavoured to lay off risk as part of a deleveraging process. Respondents, including many ICC Banking Commission members, underscored the importance of targeted temporary financing and, in some cases, agreements with international banks to address liquidity shortages and problems of risk perception.

During 2011, Berne Union members insured a record amount of USD 1.7 trillion worth of exports, or more than 10% of international trade. Despite the emergence of new significant challenges, it was also a year of good results for most credit insurers, confirming the swift turnaround in the industry after the global crisis of 2008/2009. However, political changes in the Middle East and North Africa, as well as sovereign debt concerns in Europe and the US, underlined that the risk environment remained volatile. Of the total amount insured, USD 1.5 trillion represented Short-Term Export Credit Insurance (ST) in support of exports with a repayment period of less than one year. Medium-Long-Term Export Credit Insurance (MLT), covering transactions with repayment terms of typically 3-5 years or more, amounted to nearly USD 200 billion. Both short-term and medium-long-term business recorded double-digit growth of 19% and 10% respectively.

Section 1

Background and methodology

Purpose and scope of the ICC Global Survey 2012

The ICC Banking Commission has undertaken this global trade finance Survey (the third in the series) to gather reliable quantitative and qualitative data for the trade finance market and to gauge the current position and outlook for trade in 2012. The purpose of the Survey is to obtain information from the marketplace that reflects current commercial and operational practice in the international trade finance banking community that can aid senior executives in the trade finance industry and world leaders to formulate policy in the field.

In addition to the participation of members of the ICC Banking Commission, the cooperation and partnership of the following trade organizations was key to the production of this Survey:

- The World Bank
- Society for Worldwide Interbank Financial Telecommunications (SWIFT)
- The International Monetary Fund (IMF)
- The Berne Union
- The European Bank for Reconstruction and Development (EBRD)
- The International Finance Corporation (IFC)
- The Asian Development Bank (ADB)
- The Inter-American Development Bank (IaDB) and
- The ICC national committee network.

The contributions of these organizations have helped build on the success of previous Surveys – both in terms of content examined and participation. The World Bank and SWIFT have again provided recent and exclusive historical trade flow data (volume and value) for contextual and comparative purposes. This year, the Berne Union has again contributed an analysis with key data concerning the activities of Export Credit Agencies (ECAs).

The members of the ICC Banking Commission once again responded to the call to provide information on trade products to the marketplace. The development banks (EBRD, IFC, AfDB, IDB and ADB) again mobilized the member banks in their respective trade facilitation programs to participate in the online Survey and contributed a section with their responses to the crisis.

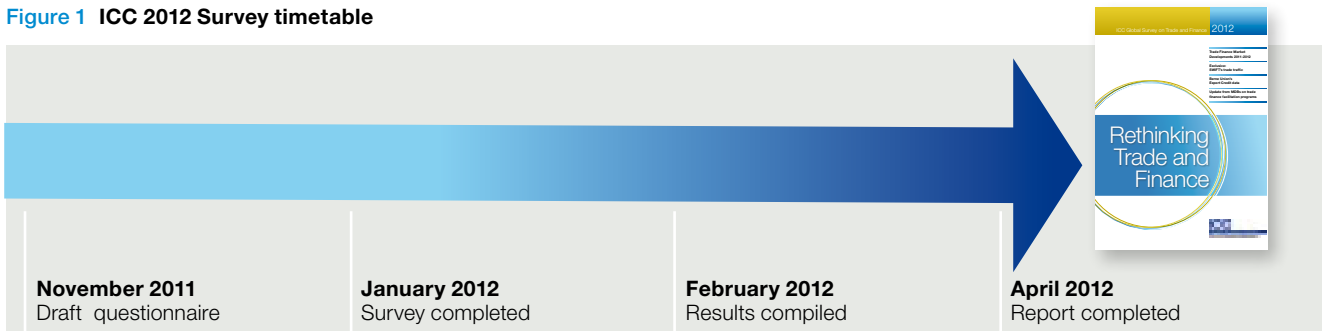
The methodology for this Survey was primarily based on a 30-item questionnaire developed to collect information from the trade finance banking members of the participating organizations.

Methodology outline and timetable

The Survey questions targeted trends in the trade finance operations of banks in 2011 and specifically addressed the following topics:

- Trends in volumes and values of traditional trade products
- Trends in demand and pricing for bank undertakings and L/C confirmations
- Trade credit line availability
- Loss experience in rating traditional trade products compared to general banking facilities
- Operational impact of Basel II and market perception (and awareness) of the impending implementation of Basel III
- Other regulatory considerations

Figure 1 **ICC 2012 Survey timetable**



Participation in the ICC Global Survey 2012

The present report has been prepared by the ICC Secretariat based on a Survey conducted worldwide in early 2012. Coastline Solutions, ICC's information technology partner, has been responsible for the collection of the data.

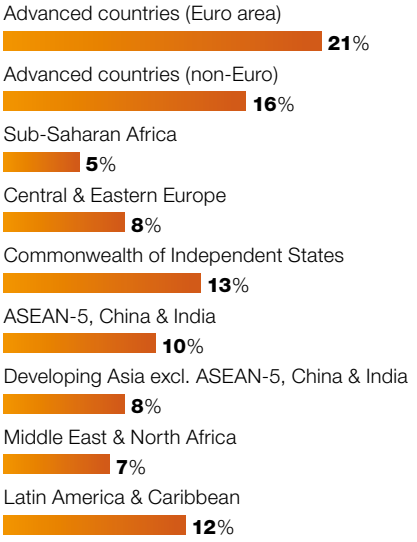
The 2012 Survey received responses from 229 banks in 110 countries. This response rate represents a continued increase over previous Surveys. In 2011, responses were received from 210 banks in 94 countries and in 2010, from 161 banks in 75 countries. The increase in the number of countries participating allows us to provide a more complete view of the global position regarding trade finance activity and constraints.

Respondents to the ICC Survey 2012 came from the following countries:

Afghanistan
Albania
Algeria
Angola
Argentina
Armenia
Australia
Austria
Azerbaijan
Bahrain
Bangladesh
Belarus
Belgium
Belize
Benin
Bermuda
Bhutan
Brazil
Cambodia
Cameroon
Canada
Chile
China
Colombia
Congo, Democratic Republic of the
Costa Rica
Croatia
Cyprus
Czech Republic
Denmark
Dhekelia
Dominican Republic
Ecuador
Egypt
El Salvador
Eritrea
Estonia
Finland
France
Gaza Strip
Georgia
Germany
Ghana
Greece
Guatemala
Honduras
Hong Kong
Hungary
Iceland
India
Indonesia
Iran
Iraq
Ireland
Italy
Jan Mayen
Japan
Jordan
Kazakhstan
Kenya
Korea, South
Kosovo
Kyrgyzstan
Lebanon
Lesotho
Macedonia
Malaysia
Malta
Mauritius
Mexico
Moldova
Mongolia
Nepal
Netherlands
Netherlands Antilles
Nicaragua
Nigeria
Pakistan
Palau
Panama
Paraguay
Peru
Portugal
Puerto Rico
Qatar
Russia
Saudi Arabia
Serbia and Montenegro
Singapore
Slovenia
South Africa
Spain
Sri Lanka
Sudan
Sweden
Switzerland
Syria
Tajikistan
Thailand
Turkey
Uganda
Ukraine
United Arab Emirates
United Kingdom
United States
Uruguay
Uzbekistan
Venezuela
Vietnam
Zimbabwe

The breakdown by geographic region of respondents to the ICC Survey was as follows:

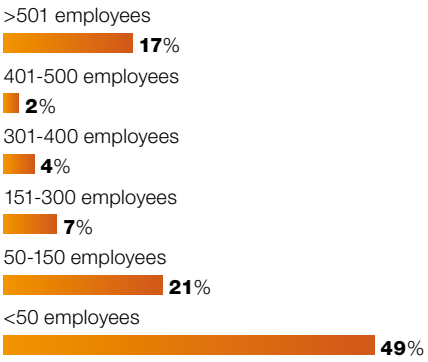
Figure 2 Location of respondents



Source: ICC Global Survey 2012

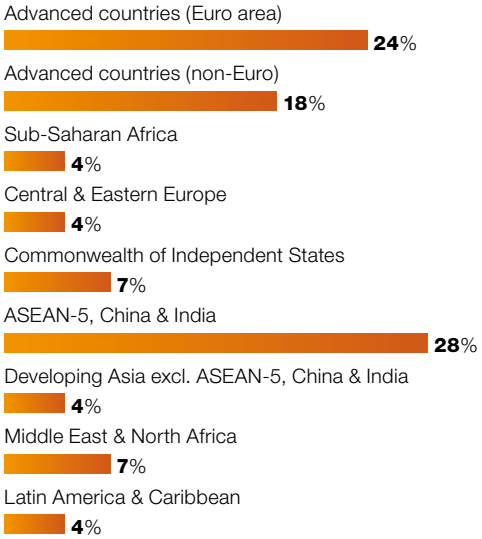
The above graph shows the geographical distribution of respondents across different regions. The profiles of respondents (by size of employer) varied significantly, but unlike previous Surveys most were from small financial institutions, with 49% of respondents coming from banks with less than 50 trade finance employees (compared with 55% from large financial institutions with 300+ trade finance employees – 2011 Survey). This dramatic shift in the profile of responding financial institutions reflects the greater level of participation from banks in developing countries.

Figure 3 Banks' employee levels involved in processing trade finance transactions



Source: ICC Global Survey 2012

Figure 4 Regional focus of trade business



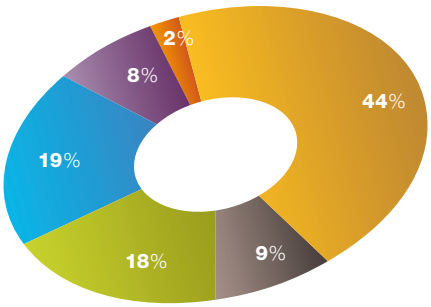
Source: ICC Global Survey 2012

When respondents were asked to indicate the percentage breakdown, by volume, of the types of trade finance products handled by their trade finance departments in 2011 (Figures 5 and 6), they responded that the majority of transactions, for both export and import transactions, by volume, were commercial letters of credit.

However, it is necessary to point out that about 80%-85% of trade transactions are estimated to be settled on an open account basis, the rest being "traditional" trade products such as documentary and standby L/Cs, documentary collections and guarantees. The graphs below did not contradict this, but they reflected the fact that ICC respondents were responding mainly from the traditional trade finance departments of financial institutions, with open account trading being handled in separate areas of the bank.

This report is an amalgamation of the feedback and opinions of this geographically and organizationally diverse cross-section of the trade finance banking community.

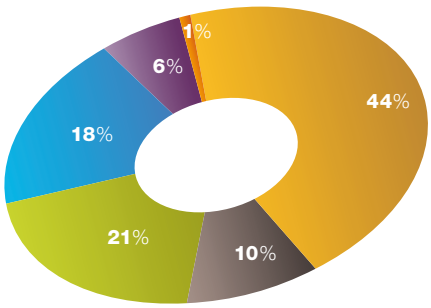
Figure 5 Export transaction volume



Commercial letter of credit **44**%
Standby letter of credit **9**%
Guarantee **18**%
Collections **19**%
Open account **8**%
Other **2**%

Source: ICC Global Survey 2012

Figure 6 Import transaction volumes



Commercial letter of credit **44**%
Standby letter of credit **10**%
Guarantee **21**%
Collections **18**%
Open account **6**%
Other **1**%

Source: ICC Global Survey 2012

Section 2

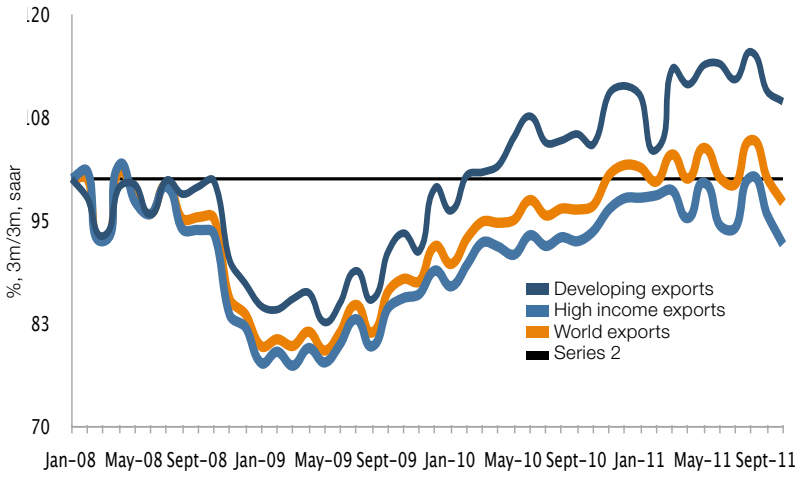
World economy: A rocky 2011 and uncertain prospects for 2012

Uneven performance across the world[1]

After a year of upheavals, annual trade volume growth for 2011 closed at 6.6 percent, slightly higher than the WTO September forecast of 5.8 percent. While 2011 opened with positive growth prospects for both world exports and imports, with both being projected to recover their pre-crisis volume levels by December 2010, a series of global shocks – the Arab Spring disruptions, the earthquake in Japan, and the debt crises in the eurozone and the US – resulted in uneven performance throughout 2011 and is dampening what had looked to be a robust recovery.

As a result, export growth is now lower than its pre-crisis peak (Figure 7), and the outlook for 2012 is expected to have a negative carry-over, with annual trade growth forecast to be 5.2 percent for 2012 and 7.2 percent in 2013. At the predicted rate, trade volume is unlikely to attain its pre-crisis trend for at least another four years.

Figure 7 The trade recovery in 2011 churned around its pre-crisis peak



Source: World Bank, Datastream; goods, real export values, January 2008=100

Trade in 2011: moving in fits and starts

Although developing country exports in all regions experienced a slowdown in the first half of 2011, global trade was still buoyed by moderate growth in certain high-income economies – Germany, Japan and, to a lesser extent, the EU and US.

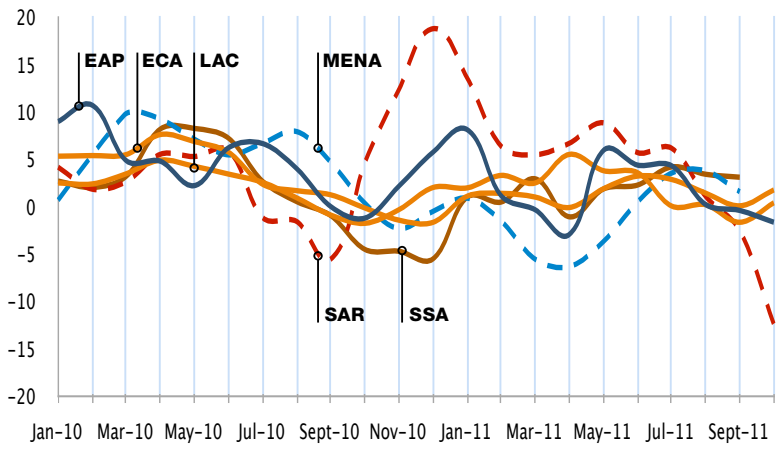
However, the relatively strong performance in early 2011 came to an abrupt halt with the earthquake and nuclear disaster in Japan. Production capacity stalled, and the inter-connectedness of production networks in East Asia with Japan, meant that the East Asia region, especially China, was worst affected. Import demand in China fell by 11.3 percent and in South Korea by 13.7 percent. Trade in capital goods and electronic appliances were the most affected.

The subsequent rapid recovery, with production capacity that had been sidelined in Japan restored or replaced elsewhere, and a backlog of production orders boosting trade, was short-lived as the eurozone crisis reached a head and the US debt ceiling discussions led to a downgrading of US sovereign debt by Standard & Poor's. Rising uncertainty and risk aversion had a strong negative impact on the real economy, including trade. World import growth steadily declined over the summer of 2011, turning negative by July. Developed countries, led by Europe, experienced the biggest plunge, with the growth in the imports of the EU-27 plummeting 22 percentage points between May and October. For the world's largest importers – the high-income economies and China – this was the biggest fall since the trade slump between mid-2008 and mid-2009.

Developing countries continued to lead trade growth in 2011. As of October 2011, their exports stood at 9.2 percent above their former peak (Figure 8). South Asia's exports, driven by soaring Indian trade with China, outdid other developing regions in the first three quarters of 2011, but subsequently plummeted (Figure 8). China's trade experienced particularly volatile growth through the year, and despite the recovery in May from the Japanese quake, exports from East Asia have fallen. Many major

1 This section has been prepared by Mariem Malouche and Mohini Datt of the World Bank

Figure 8 Developing countries merchandise export growth turned negative at end-2011



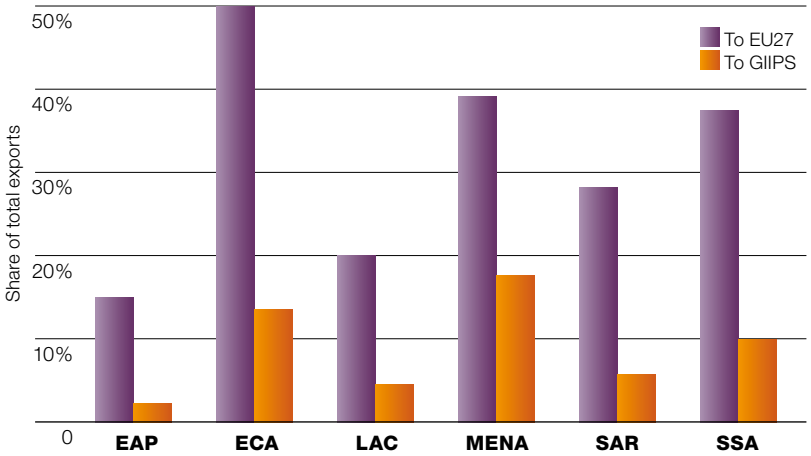
Source: Authors' calculations, Datastream data; real export values

Note: EAP: East Asia and Pacific; ECA: Europe and Central Asia; LAC: Latin America and the Caribbean; MENA: Middle East and North Africa; SAR: South Asia; SSA: Sub-Saharan Africa

developing countries in the region experienced a slowdown in growth due to a tightening of domestic policy introduced between late 2010 and early 2011 to combat high inflation. The Middle East and North Africa appeared to be gaining some ground mid-2011, but were knocked by the crisis in Europe, reflecting their close trading ties with the region. Latin America's performance was steady throughout the year – the region is less affected by EU demand, being closer tied to US and Chinese markets.

Exposure to Europe has been a determinant of the trade performance for many developing countries. Based on the average share of the EU-27 and in the group of Portugal, Ireland, Italy and Greece, in their merchandise export basket, economies in Europe and Central Asia (ECA) are the most directly exposed to a slowdown in Europe, followed by those in the Middle East, North Africa and Sub-Saharan Africa (Figure 9). South Asia is also vulnerable, as almost 40 percent of its exports of textiles and clothing – one of its largest export sectors – go to Europe. This sector would also be affected in some countries in the MENA region (e.g., Tunisia and Morocco), though it forms a small share of regional non-oil exports. The net effects of a contraction in European demand will vary by types of goods and consumer preferences. Besides clothing and textiles, other manufacturing sectors likely to be affected are machinery and transport.

Figure 9 ECA and MENA are on average the most exposed to the EU, including the most troubled economies (GIIPS)



Besides direct exposure, a European contraction may also indirectly impact other regions, which do not necessarily trade with the EU directly. A contraction in one part of the world could produce domino effects in other parts. Estimated indirect effects could be higher than direct effects, and strongest in EAP, MENA, South Asia and the ECA.

Additionally, global market demand could result in the fall of the price of commodities in which the EU has a sizable trade influence. Not only would this hit oil exporters, but commodity exporters in Africa could also see a terms of trade loss. For example, with European net imports of coffee forming a third of world coffee imports, a drop in the price of the commodity due to a contraction in European demand could adversely affect smaller countries such as Burundi and Ethiopia, for which coffee represents a sizable share of total exports. Large exporters of wheat, bananas, nickel and tin could also face price declines.

Low-income countries are more resilient than in the past

Three years into the 2008-09 crisis, and the renewed turbulences in 2011, show that, to a large extent, LICs have been insulated from these crises. While previous analyses have stressed the limited financial integration of LICs in the international financial system and supply chains, recent analyses highlight the importance of significant direct spillovers from BRIC[2] economies to LICs[3]. The most important direct channel of transmission is trade, although productivity improvements in BRICs and FDI flows from BRICs to LICs also matter. The response in African LICs is particularly strong, reflecting the growing trade ties these countries have forged with BRIC economies in recent years. The direct impact of productivity changes in BRICs, in turn, represents around 13 percent of the total impact. Asian LICs seem subject to the strongest impact of changes in BRIC productivity, probably reflecting the

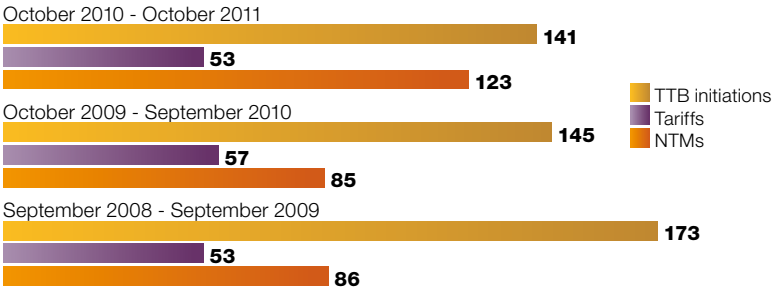
2 Brazil, Russia, India and China
3 Samake and Yang, 2011

closer integration of Asian LICs into global manufacturing supply chains, in which BRICs (particularly India and China) play a critical role. The FDI channel also matters but, compared with other spillover channels, its impact on LIC growth is more modest.

The overall impact of BRICs on LIC growth appears to be both substantial and growing. A one percentage point increase in BRIC's demand and productivity leads to 0.7 percentage point increase in LICs' output over three years and 1.2 percentage points over five years. These magnitudes are broadly similar to the direct impact of demand and productivity increases in advanced economies. This impact has increased from the pre-2007 period[4].

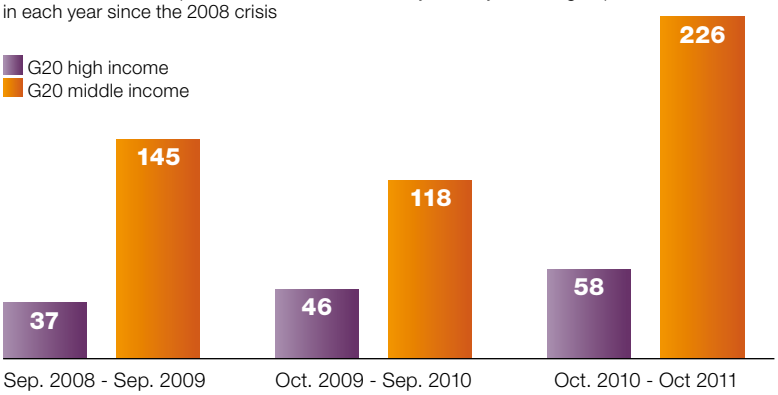
The emergence of a multipolar-growth world is clearly a blessing for the low-income economies, because it provides them with the opportunities to reduce volatility and to enter a new age of industrialization and structural transformation. The last business cycle saw a decoupling away from the advanced economies, but growth correlations between LICs and the EM leaders have strengthened. Similarly, there is a strong correlation between the GDP growth rate of the EM leaders and the growth rate of LIC exports over GDP from 2000-08[5]. The more open these low income economies are to trade, investment and technology transfers, the bigger are the spillover effects.

Figure 10 Protectionism since the 2008 crisis continues unabated
Trade restrictive measures, total = 916



Source: Authors' calculations using WTO data from 2009, 2010, 2011.
Note: TTB = Temporary Trade Barriers (antidumping, countervailing duties, safeguards)

Figure 11 Emerging markets are increasingly the most protectionist
Share of total G20-imposed restrictive measures by country income group, in each year since the 2008 crisis



Source: Authors' calculations using WTO data from 2009, 2010, 2011.

Protectionism has not abated with the recent economic turmoil

Since the financial crisis in 2008 and the subsequent trade collapse, many countries have actively used trade policy instruments in response to the global recession. Trade protectionist measures were at their peak in 2009. But the apparent slowdown in the first half of 2011 was reversed in the summer of 2011 as a result of renewed economic uncertainty and a decline in already weak growth. Efforts to insulate domestic markets from import competition are giving rise to more trade restrictions.

The G20 countries account for the bulk of all trade measures observed since 2008, implying that the largest countries are the most active users of trade policy instruments. Emerging markets, led by the BRIC countries, are by far the biggest users of trade restrictions (Figure 10). Data over three years since the crisis shows trade restrictive measures in the one-year period from October 2010-October 2011 slightly outnumbering the tally of previous years, with a spike in the number of newly introduced temporary trade barriers (TTBs) and non tariff measures (NTM).

Temporary use of trade barriers (anti-dumping, countervailing duties, safeguards) remained high, as domestic industries sought government intervention to reduce foreign competition. However, the impact of these instruments on trade has been low, with anti-dumping investigations – which are product and firm specific – forming the bulk of these measures[6].

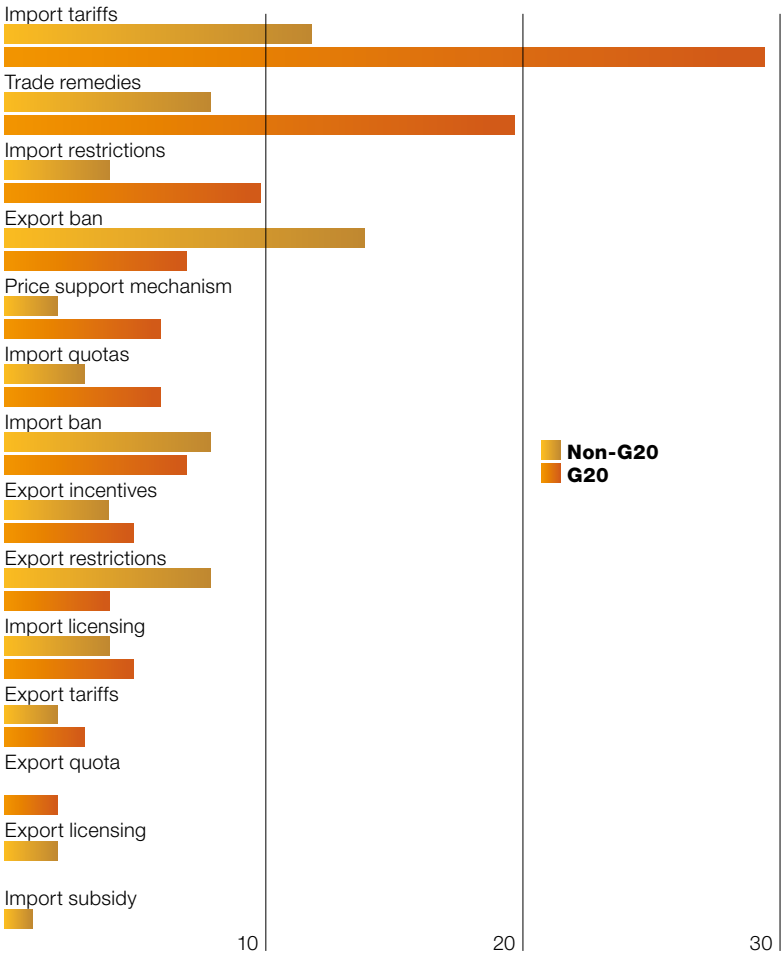
The rise of less transparent forms of protection – non-tariff measures (NTMs) and industry-specific measures – is more worrisome. NTMs, such as non-automatic import licensing, can be imposed on hundreds of products and thus have a larger trade impact. They also generate uncertainty, because the specifications are often vague, very broad, and highly variable, which can negatively affect investment and new market penetration[7]. About half of all NTMs implemented since the 2008 crisis were quantitative import restrictions, quotas and bans. The number of 'buy national'

4 Samake and Yang, 2011
5 Era et al, 2012
6 Datt et al, 2011
7 Hoekman, 2011

measures increased significantly in 2011, affecting the energy, telecom and motor vehicles sectors. A third of the recorded NTMs were on exports, especially of agricultural goods, with a rise in the use of export restrictions.

The frequency of NTMs does not reflect WTO constraints in the use of tariffs. In fact, since 2008, countries have tactically both raised and lowered tariffs, exploiting the gap between WTO bound and applied tariff rates. This gap – the so-called 'water in the tariff' – is estimated to negatively affect over USD 900mn in trade and commerce. Tariff reductions outnumbered tariff hikes, and steadily increased as governments sought to lower the costs of key intermediate inputs used by domestic industry, as well as to lower the prices of household items, mainly food. Tariff reductions on industrial inputs could also be a reflection of a country's increasing integration into global value chains, given the rising share of import content in a country's exports.

Figure 12 Food faces a gamut of trade restrictions



Source: Authors' calculations using WTO data from 2009, 2010, 2011; total restrictions = 177, barring pandemic-related measures; trade remedies = antidumping, countervailing duties, safeguards

Trade in food: Trends and policy developments

A number of trade-restrictive measures have targeted food products (Figure 12). High food prices have been commanding the world's attention in recent times, and expectations are of a rising trend in the long-term[8]. In response, countries have struggled to balance the gains for producers while managing the price shock for consumers. Moreover, given increasingly limited fiscal space, countries have turned to trade measures to contain international price transmissions and ensure internal food security. However, insulating domestic markets, rather than scaling up safety nets for the vulnerable, is detrimental to long-term food security objectives and can transmit price volatility onto global markets and often fail to secure lower prices domestically.

Since September 2008, trade-restrictive measures on food products have accounted for one-quarter of all new trade restrictions, and the share is rising. Countries have used a mix of tariffs, TTBs such as anti-dumping initiations, and NTMs in the form of restrictions, bans and quotas, to manage food price stability (Figure 13). Countries tactically lowered and raised tariffs responding to price volatility. Most food tariff reductions were on grains and sugar, followed by meat, edible oil and dairy products. Products most frequently facing new trade restrictions were grains, meat and livestock, and dairy products. Many of these restrictions were NTMs such as import bans and export restrictions. But between 2006-2008,these same policies exacerbated global food price volatility, contributing to the rise in the price of rice by 45 percent and that of wheat by almost 30 percent[9].

The large emerging markets were by far the most frequent users of such trade measures, together accounting for three-quarters of all trade restrictions introduced on food items since the beginning of the financial crisis. Non-G20 countries have also been culpable of imposing trade restrictions on food products. Global food production, especially of cereals, is concentrated in the hands of just a few big players, and trade reflects this concentration, begging the need for diversification of sources.

At a global level, the problem is less one of food shortages and more of moving food from food surplus production areas to food-scarce ones, a situation for which trade

8 Townsend et al, 2012
9 Martin and Anderson, 2011

presents a well-placed solution. Trade can cushion the impact of domestic shortages in food supply. Increased trade integration, especially regionally, can ensure food security, secure gains to producers, lower the costs to consumers and stabilize global food prices. Cooperative options to lowering domestic food prices could include permanently reducing import tariffs and other taxes on key staples and agricultural inputs. Putting export restrictions within the framework of the WTO rule book would ensure discipline on a measure that was seen to be at the heart of the 2008 food crisis.

Moving forward on Doha

Containing such trade protectionist pressures should remain a priority for all countries, in particular the G20 leaders. Given current low growth prospects, high unemployment and inflation and currency appreciation in many advanced and emerging economies, policy-makers need to continue to resist pressures to protect domestic industry. Only an open world economy will help the world recover quickly.

Now more than ever, WTO discipline can help ease the global impact of rising food prices and a potential worldwide recession. A conclusion to the Doha Round of WTO negotiations would contribute to food price stability by reducing distortions and strengthening disciplines on food trade restrictions, thereby limiting the scope for countries to implement destabilizing policies affecting world food markets. For example, if low-tariff bindings can be secured, thus narrowing the gap between bound and applied tariff rates, and thereby reducing room for tactical maneuvering, the market access thus gained would benefit low-income countries most. Trade in food matters the most for these countries, representing a quarter of their total export basket. The average applied farm tariff faced by developing country exporters would fall from 14.2 percent to 11.5 percent, which may be modest, but the lock-in aspect would reduce uncertainty in the long run[10].

More broadly, concluding the Doha Round would demonstrate recognition of the value of trade policy disciplines. The WTO can be an important forum for rule-setting and enforcement, which is important for trading firms, since it can reduce uncertainty in market entry, increase investment and job creation – all of which are vital to tackle an impending global contraction. Granting duty-free quota-free market access for Least Developed Countries (LDCs) and simplifying rules of origin should remain a G20 priority. Recent World Bank analysis indicates that eliminating tariffs on imports from LDCs would have a significant impact on their trade and national incomes and would lift three million people out of poverty. The costs of duty-free quota-free to the G20 would be very small, since less than 1 percent of G20 imports originate in LDCs. Some countries such as China have recently increased the number of products that can be imported from LDCs duty- and quota-free.

10 Hoekman, 2011

Leading figures in international trade and finance give us their take on the current environment for trade finance and their expectations going forward for 2012

Kah Chye Tan

Head of Trade and Working Capital, Barclays

Despite some downward pressure on global trade from a moderate slowdown in some of the world's largest economies, there is little to suggest a marked decrease in international trade flows during 2012, as economies such as the US show renewed life and the middle classes in countries such as India and Brazil continue to surge. It is also refreshing that, despite some heated political rhetoric in a few countries, there has not been a large swing back to protectionism across the global economy. In short, despite the headwinds, we can expect world trade to continue to grow, albeit at a more muted level.

Trade will be one of the key growth areas for Barclays in 2012, across the entire bank. In fact we are looking to double our trade business over the next five years, and to this end we have combined our trade finance and working capital business into one product stream to provide an end-to-end set of products to cover the full life cycle of a product or service, from financing supply lines to providing letters of credit for export.

We are also fully engaged in the debate on proposed regulatory change across the globe. In the European Union, implementation of Basel III rules on capital requirements risks jeopardizing the ability of banks to provide certain elements of the trade finance product suite. Much of Basel III should be welcomed, as it will help make the banking system safer and stronger, but regulators still need to work with corporates and banks to ensure that certain measures do not disproportionately damage the ability of banks to support businesses trading globally.

In my role as Chair of the International Chamber of Commerce Banking Commission, and with Barclays as an individual organization, we are in direct dialogue with the Basel Committee and the European Parliament to ensure that incoming Basel III legislation balances the need for managing the risks in trade finance with the importance of encouraging global trade flows. The most recent ICC Banking Commission meeting was held in Doha from 25 to 29 March 2012, and the meeting had a forward-looking theme: 'Reframing the Future of Trade Finance – Doha 2012'. This important meeting brought together the main stakeholders involved in the support of international trade and finance. At the meeting, it was encouraging to see that communication and dialogue between regulators, commercial banks and the major multilateral organizations remains open and forward-looking. At 'Doha 2012', progress was made in advancing ICC trade facilitation rules and guidelines. Where today we find growth in the world economy, in most instances international trade is central to that growth. The challenge now in hand is to take steps to facilitate growth in trade, to remove impediments and to direct resources to keeping the supply chain moving and trade lines as open as possible.

Daniel Cotti

Head of Global Trade, JPMorgan Chase

Since the second quarter of 2011, the economic recovery advanced at a halting walk rather than a steady trot. Last year's disasters in Japan were soon followed by a new crisis in the eurozone, a mid-summer US debt crisis and, after the events of the Arab Spring, widespread instability in the Middle East and North Africa. While Latin America and Asia remained bright spots, and we saw many signs of health and growth in emerging markets, uncertainty and volatility dampened confidence on many fronts.

This year, while the West is still coping with high unemployment, a weak housing market, lack of clarity around policy and action in the EU and the unknown outcome of the US elections, economic signals continue to be mixed across the globe. On the same day we may hear that the US economy is showing signs of improvement, China is cutting the GDP target it has maintained for five years, the EU has better news about Greece, and Middle Eastern tensions are causing a spike in oil prices.

Three years after the financial crisis, demand for goods is still not at pre-crisis levels in many markets; small exporters and importers especially are still struggling to obtain financing in this murky and volatile environment. Providers are operating in what is arguably the most challenging time in trade finance history. It seems safe to say that our current compliance and regulatory burdens – and our related capital challenges – are here to stay and will only increase in severity. While the recent decision by the Basel Committee to waive the mandated one-year maturity and sovereign floors for trade finance is of some help, the industry is still coping with unintended regulatory consequences, unprecedented kinds of financial and sovereign risk, big liquidity issues and significant shifts in trade flows between emerging and developed economies.

In Europe, we have seen several previously active providers of trade finance retiring from the field due to funding and deleveraging challenges. While this presents an opportunity for other banks with stronger balance sheets and global capabilities, it is by no means a positive development. A larger, stronger lending community, with more liquidity and better risk distribution is what is really needed to meet the needs of the global economy and boost recovery over the long-term. Further calibration of policies and regulations, with leadership from the financial industry, governments and lawmakers, could help make this happen. One example is the current debate in the US about the US Export-Import Bank's reauthorization, a self-financed bank that helps create US jobs and facilitates the export of U.S. goods globally.

Overall, I would like to appeal to the trade industry for global cooperation and transparency to drive the dialogue on new industry solutions and instruments, rules, standards development, universal tools and systems and the common interpretation of regulations that affect the broader trade finance sector. ICC and its members around the globe, as well as all other relevant industry bodies and parties, are working together to head off some of the negative impacts of regulation and compliance requirements. We will accomplish this by developing standards that establish a baseline of expectation with regulators and increase transparency in the industry. This year, the industry can also move its lobbying efforts to local regulators and do everything possible to ensure that regulators, politicians and other market players understand the dynamics of the industry and get used to the fact that in the wake of the regulatory shake-up and increased risk, the cost of trade finance will increase.

As fewer banks are asked to serve more trade customers, we must speed up our approach to the automation of trade finance and the streamlining and harmonization of processes for open account settlement, as well as leveraging new instruments like the soon-to-be ICC-endorsed Bank Payment Obligation (BPO). We should also work collaboratively to meet the growing need for buyer- and seller-centric supply chain finance in order to stimulate exports and ensure the steady expansion of developed and emerging economies around the globe.

John Ahearn

Managing Director, Global Head of Trade, Global Transaction Services, Treasury and Trade Solutions Group – Citibank

For the current trade Survey 2012, I see globalization, market consolidation and regulatory issues coming into sharp focus. Globalization, consolidation and increased regulation have created a global trade environment that has left financial institutions and their corporate clients revaluating trade strategies.

The trade business faces fundamental changes and challenges. Banks without an extensive branch network are likely to find it increasingly difficult to compete broadly, as new flows between developing economies and within regions cause further consolidation of business with core trade institutions. Increased capital costs may force banks that don't view trade as a core business line out of the market. All resulting consequences must be kept in mind.

For example, many US banks had developed US-Brazil capabilities because that is where the bulk of trade flows historically evolved over time. However, as these flows have changed, banks have found that the capabilities are no longer being used, at least not to the extent or as efficiently as they once were. These banks have to work out how to rebalance their business and origination models to adapt to the new shifting reality. We need to be aware of and to take heed of the changing patterns of global trade.

The increase in intra-Asia flows, along with the changing regulatory landscape, has left European and US banks facing critical questions about how best to serve clients in global trade markets. With the retrenchment of European banks, which were previously the world leaders in commodity finance, there is now an opening for other institutions to become more deeply involved in this area. For example, some super-regional banks with strong balance sheets will be well-positioned to take advantage of this opportunity.

Proposed changes in capital requirements under Basel III could have an unintended consequence of worsening trade finance conditions for all companies involved in the import/export business, particularly in emerging markets. Strategic decisions about capital burdens have to be made, and a re-examination and determination of what is core and non-core business will be essential. If trade is not a core offering, how will banks provide capabilities for their customers?

Recent events have raised financial industry awareness of the changing risks and opportunities facing the global trade business, and are likely to foster new approaches for dealing with countries in financial stress and how in the future they will need to be supported by credit agencies. Inevitably, innovative business models and structures will be developed to mitigate risk and make credit available to those countries requiring support.

The changes that have taken place and will continue to occur in the coming years will require banks and corporates to continue working closely with trade finance partners that have made a firm commitment to the business in order to avoid pitfalls and eschew potential disruptions to their growth objectives.

Daniel Schmand

Head of Trade Finance and Cash Management Corporates EMEA
Deutsche Bank

At Deutsche Bank we expect to see continued, albeit moderate and somewhat uneven recovery in trade volumes and general activity.

We can see the early signs of recovery in the US and robust growth in emerging markets. Even with a possible slowdown in infrastructure investment in these markets, rising consumer demand in many countries will create new opportunities for trade finance growth. Clearly, the current crisis in Europe is having an impact, notably in slowing down volumes and lowering risk appetite associated with this region. In the aftermath of the 2008 crisis, many corporates increasingly see trade finance as a viable source of working capital finance. Corporates have increased their focus on improving supply chains, cash flow and reduction of risk, and they remain the drivers of demand for trade finance.

It is interesting to observe the major global trade banks taking steps to improve their capabilities in the international trade and finance field – including deal structuring, onboarding, risk management and distribution – in order to meet greater demand. This is particularly relevant for funded trade finance products and for open account-based trade such as supplier finance and purchase of accounts receivables. Additionally, sustained high demand for commodities (especially in value terms) is consuming a significant share of tight trade finance capacity.

The current crisis in Europe is having a negative impact on certain banks and their ability to support trade finance activity globally. This, coupled with the challenge of higher regulatory-related capital requirements for banks, has reduced some pockets of trade finance capacity, resulting in higher funding premiums/pricing for both corporates and banks. Deutsche Bank is among a group of larger global trade banks that are growing their trade finance businesses and associated capabilities in order to fill the void. Meanwhile, government-supported trade programs are enabling banks to better address their clients' trade finance needs.

Banks are increasingly looking to incorporate more capital markets-oriented structures in order to create capacity in their balance sheets. We expect to see risk premiums and pricing remain fairly stable at this somewhat elevated level, at least over the near-to-medium term, as the economy recovers and demand for trade finance continues to grow.

Section 3

Trade finance statistics: Global and regional trends

Trade is still up and down

The responses to the ICC Survey questionnaire appear to confirm that the financial problems that were impacting trade as a whole in 2009 and the early part of 2010 have largely diminished, but a number of residual issues remain that need to be addressed. Left unattended, they can still cause irreparable damage to the trade finance industry. The responses to the Survey questions must also be taken in the context of the 8% increase in the number of countries participating and the shift in the number of respondents from large global financial institutions to smaller ones.

In 2009, we reported that the world was facing the most severe recession since the Great Depression, which originated in developed countries but which had been spreading to developing countries at ever-increasing speed. Emerging markets were more directly affected in 2008 because they were more financially integrated. Low-income countries were also harmed because of lower commodity prices and fewer remittances. GDP growth for developing countries was severely impacted, with negative growth in the 3-6% range for some regions.

The deterioration of trade was felt worldwide through 2009 into early 2010. According to respondents, in 2011 the situation continued to change. The majority of participants indicated that volumes in 2011 were up or largely unchanged for most traditional trade products, the overall value of trade finance transactions was also up and the percentage of trade credit lines that were cut for corporate and financial institution customers continued to fall. Although fees for bank undertakings and letter of credit confirmations appeared to have settled down and essentially flattened during the course of 2010, the Survey highlights that approximately 20% of respondents saw increases for these fees of between 1 and 25% in 2011.

In terms of volume, respondents seeing an increase outpaced those seeing a decrease by a ratio of around 2:1. Of the financial institutions responding, 51% reported an increase in export L/C volume and 56% an increase in import L/C volume. Considerable increases were also reported for guarantees (39% on the export side and 47% on the import side). Increases of 43% were seen for collections on the export side and 42% on the import side, and this may reflect the fact that corporates continue to look to the banking system to act as custodians for their documents.

15% of respondents indicated that their trade credit lines for corporates decreased in 2011. This compared with 12% indicating a decrease in last year's Survey. Some 58% reported an

Figure 13
Export processing volume trends, 2011

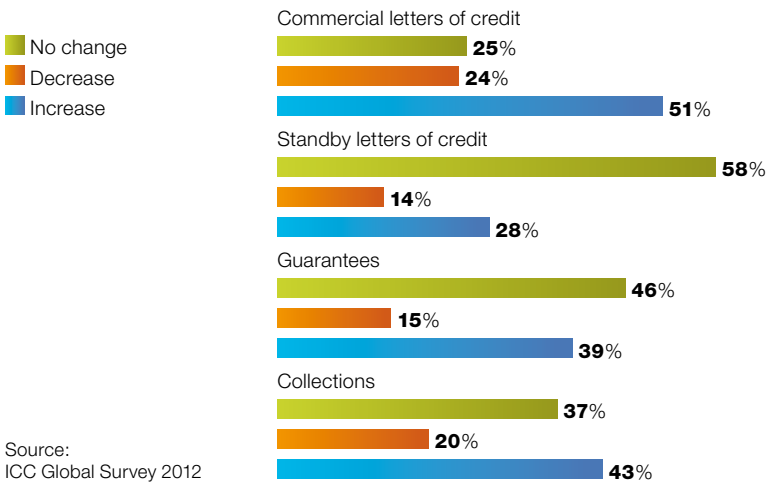
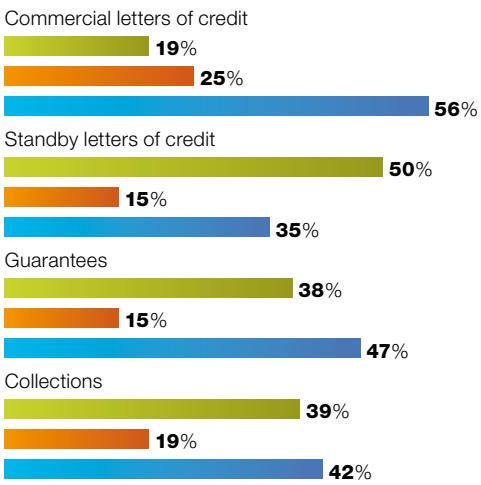


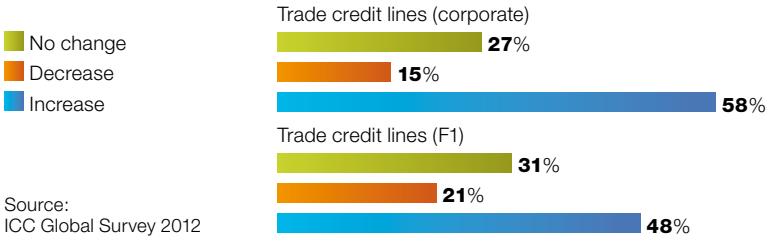
Figure 14
Import processing volume trends, 2011



Source:
ICC Global Survey 2012

increase in credit lines when compared with 2010, down from 69% in the 2011 Survey. At the same time, 21% indicated that their trade credit lines for financial institutions declined in 2011, compared with 13% in the 2011 Survey, and 48% mentioned that those for financial institutions had increased in 2011, down 5% on 2010. (Figure 15)

Figure 15
Availability of trade finance



Source:
ICC Global Survey 2012

Where respondents reported a decrease in trade credit lines, the principal reasons given, in order of cause, were the following:

- more stringent credit criteria being applied;
- reduced inter-bank lending;
- reallocation of and/or refined credit line limits to reflect past usage;
- capital allocation restrictions; and
- selective exiting of customer relationships due to credit deterioration.

Despite the more positive signs with regard to trade credit lines, respondents still reported that they were competing internally for each unit of the bank's scarce capital.

Trade finance demand

Trade finance demand was more or less sustained in 2011

The 2012 Survey continues to address issues related to demand. According to respondents, trade finance is still very much in demand. However, a shortage of liquidity and disproportionate aversion to risk continue to drive up interest rates on loans and advances in a number of countries, especially in emerging markets.

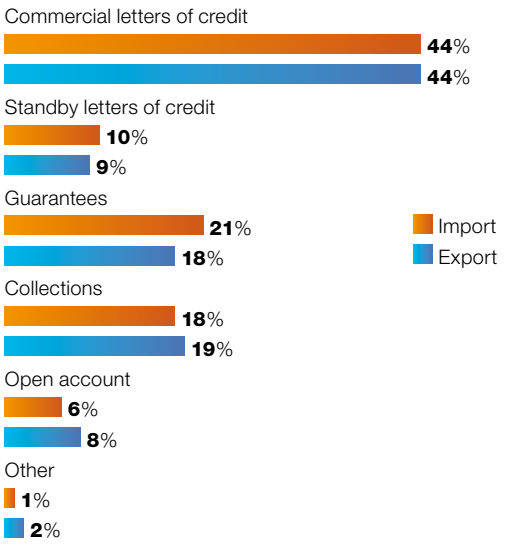
The following was noted in the ICC Survey:

- 77% of respondents indicated they had experienced an increase in demand for the issuance of bank undertakings during 2011, a similar increase to the 2010 figure of 83% and further evidence of the continued increased security sought by exporters for their shipments;
- 59% of respondents who had experienced an increase in demand reported they had been able to satisfy their customers' needs to a large extent;
- 69% of respondents reported they had experienced an increase in confirmation requests in 2011. This was slightly less than the same figure reported in the 2011 Survey (74%), but still a strong indication of the increased security sought by exporters and the perceived payment risk of the country of the issuing bank; and
- 80% of respondents indicated an increase in the total value of their trade finance activity in 2011.

Trade finance instruments gained prominence

Many respondent banks in the ICC Survey continued to comment on an increase in demand for documentary credits (L/Cs). These instruments are considered to substantially reduce risks for both the exporter and the importer. Not surprisingly, therefore, the documentary credit today is seen as the classic form of international export payment, especially in trade between distant partners. Other trade finance instruments were mentioned by respondents, including guarantees. With the greatest economic crisis since the Great Depression still a fresh memory, guarantees were said to provide greater security in trade, as they are designed to restore confidence by protecting the parties against performance breaches without the need for businesses to post onerous cash deposits to secure their performance duties (Figure 16).

Figure 16 **Product mix of international trade products handled by banks**



ICC noted that there was an increased demand for implementation of ICC rules governing trade finance. For instance, we witnessed continued demands for training in the use of the Uniform Rules for Demand Guarantees (URDG), which apply to billions of US dollars of guarantees and secure monetary and performance obligations in a wide array of international and domestic contracts. The same trend was found for UCP rules applying to documentary credits.

This trend was confirmed from data collected in the ICC Survey. Figure 16 shows that L/Cs remained the predominant settlement product. However, the data for open account trade should be understood in the context that the Survey was directed at individuals located in the offices of banks that typically deal with traditional trade finance instruments. Historically, open account trade has been understood to represent around 80-85% of world trade, although it is widely expected that this figure fell between 2007 and 2011 as exporters sought a more secure method of settlement.

Affordability of trade finance

Globally, we noted that the value of trade finance activity between 2010 and 2011 increased for 80% of respondents (Figure 17). The 2012 Survey continued to address issues related to pricing. We noted the following from Figure 19:

- Around 65% of respondents indicated that their fees for issuance of bank undertakings had not changed in 2011. Where fees had changed (decreased or increased), this was mainly confined to a range of 1-25%.
- 65% of respondents anticipated that their fees for the issuance of bank undertakings would not rise in 2012.
- Some 20% of respondents reported an increase in fees for import letters of credit, standbys and guarantees. This was on top of the 12-15% of respondents reporting increased fees in the 2011 Survey and the significant increases that occurred between Q4 2007 and Q4 2008.

The 2012 Survey also revealed that requests for confirmation of commercial letters of credit (69%) remained at a similar level when compared to the 2011 Survey (74%) (Figure 18). At the same time, 34% of respondents reported further increases in fees for confirming commercial L/Cs in 2011 of which:

Figure 17 Value of trade finance activity between 2010 and 2011

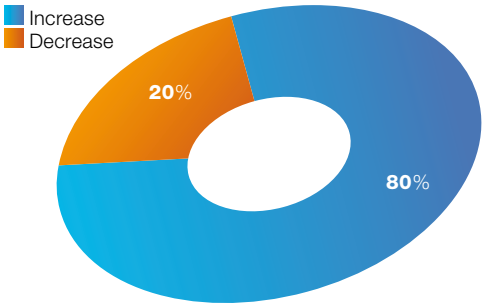
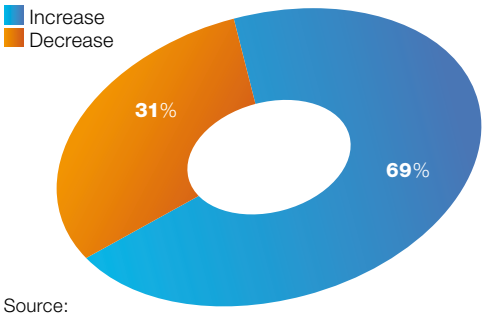
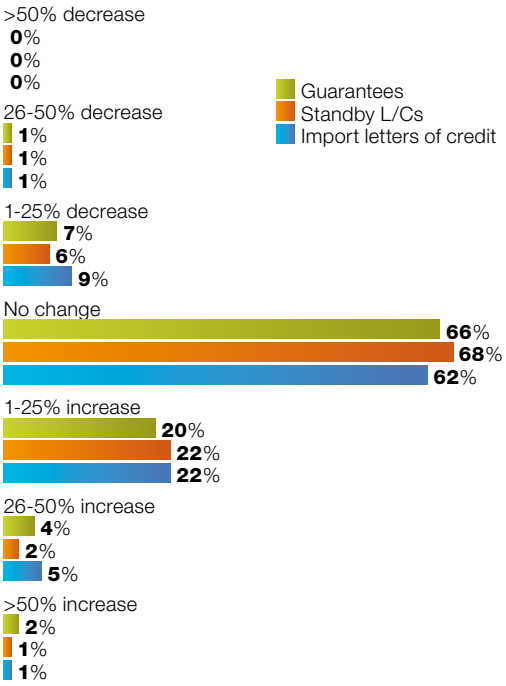


Figure 18 Requests for confirmation



Source:
ICC Global Survey 2012

Figure 19 Change in fees for issuance of bank undertakings



- 8% indicated an increase in fees for confirming commercial letters of credit of between 26-50%;
- 24% indicated an increase in fees for confirming commercial letters of credit of between 1-25%.

In addition:

- 4% reported a decrease in fees for confirming commercial letters of credit between 1-25%; and
- 60% said they do not expect any change in fees for confirming commercial letters of credit in 2012 (down from 83% in the 2011 Survey).

Operational impacts

The number of court injunctions and refusals still remains high

Last year's Survey reported that 26% of respondents had seen an increase in the number of court injunctions barring payment under letters of credit. Some respondents also reported intense scrutiny of documents by some banks, leading to higher rates of rejection of trade documents under L/Cs for minor or non-existent discrepancies. From the 2012 Survey, we conclude that these problems still persist, some in a greater context than others. The following should be noted:

- 49% of respondents experienced an increase in the number of refusals by issuing banks in 2011 (Figure 21);
- 91% of respondents (up from 85%), when acting in the capacity of a nominated bank, reported they had experienced an increase or no change in the number of spurious/questionable refusals (Figure 22); and
- 45% of respondents indicated an increase in the percentage of documents refused on first presentation. In most cases, this was due to stricter document examination processes being implemented (Figure 23).

Issuing banks reported that pressure from applicants to refuse documents had increased from 6% to 14%. Where this was still an issue, the main reason cited was "financial downturn in local market", whereas previous Surveys had reported "falling commodity prices" as the main reason. 57% of respondents (up from 40%) indicated an increase in the number of claims received under standby letters of credit and guarantees (Figure 24). This reflects the value of the additional security and the previously reported demand for this type of undertaking.

Figure 20 **Level of court injunctions**

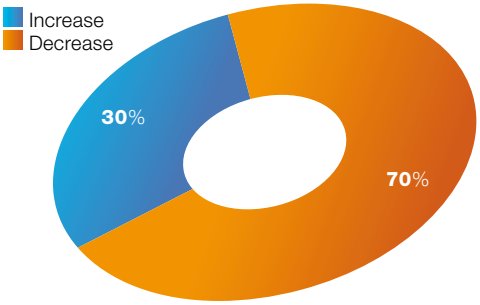


Figure 21 **Refusals under L/Cs: 2011 versus 2010**

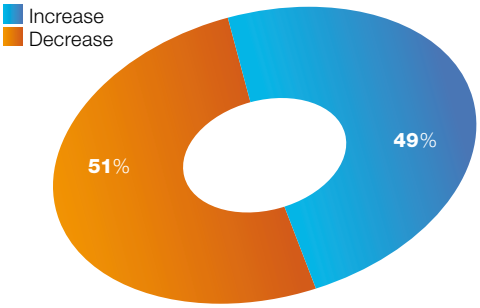


Figure 22 **Increased number of spurious discrepancies**

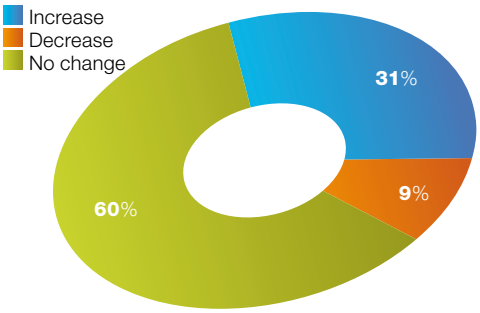
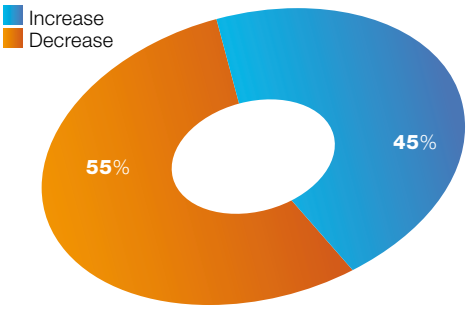


Figure 23 **Percentage of documents refused on first presentation**



The 2012 Survey also shows that 30% of respondents (up from 26%) had experienced an increase in the number of court injunctions stopping payment under bank undertakings. This shows that parties are seeking legal remedies to opt out of their obligations under a sale or performance contract. In response to a question relating to instances of fraud allegations, 38% of respondents reported an increase over 2010 levels (Figures 20 and 25 respectively).

At the same time, we noted that the number of discrepancies and claims were still quite high. 31% reported an increase in the number of spurious discrepancies in 2011 (while 9% said there had been a decrease in that year (down from 15%), and 60% said there was no change – which effectively means that this remains a big issue) (Figure 22). 80% of respondents indicated an increase in the total value of their trade finance activity in 2011, down from 86% in 2010.

No major change in risk ratings

Some 79% of respondents indicated that the criteria they applied for rating the risk of traditional trade products did not change in 2011, with some 21% reporting that they did. This compares with 69% who reported in the 2011 Survey that their criteria had not changed in 2010 (Figure 26).

Banks continued to report that customers are asking for confirmed letters of credit, though they previously had worked with unconfirmed L/Cs, documentary collections or open account. However, bank perception of risk is still leading to a tightening of liquidity in some instances, which is causing difficulty in obtaining bank confirmations in some regions. In April 2012, this situation still prevailed, but not at the levels experienced in 2009.

Other key points noted in the ICC Survey are as follows (Figure 27):

- 40% of respondents (down from 49%) reported that their level of actual losses when using traditional trade products was more than 75% less than losses incurred using general banking facilities. It is important to note that 96% reported that the level of losses incurred in traditional trade products were the same or lower than losses for general banking facilities (98% in the 2011 Survey); and
- Only 4% of respondents said that their losses under general banking facilities were less than when using traditional trade products.

Figure 24 Claims under guarantees and standbys

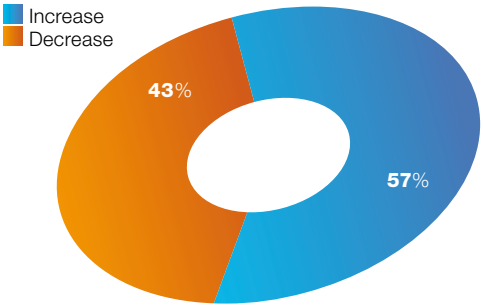


Figure 25 Percentage of fraud allegations when compared with 2010

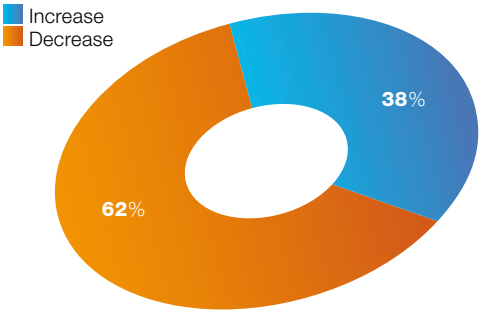


Figure 26 Changes in risk criteria in 2011

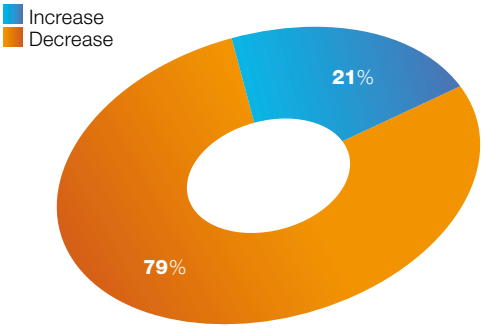
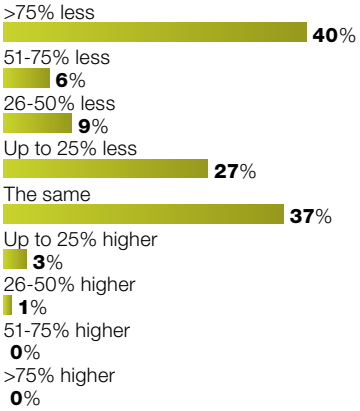


Figure 27 Losses in traditional trade products versus general banking facilities



Source: ICC Global Survey 2012

SWIFT trade traffic analysis

Background information

Before considering the SWIFT trade volume statistics and related comments, their context should be understood. SWIFT trade traffic is only one part of the overall trade picture, but it can be considered a good indication of the overall usage trends for the L/C product, since we assume that around 90% of the letter of credit (L/C) transactions go via SWIFT.

Historically, SWIFT trade statistics concerned only trade volumes. SWIFT was not able to look at the content of the messages, and therefore did not comment on the value element of trade. This section now comprises values and currencies of some of the trade messages as part of the SWIFT Value Analyser that became available from the end of 2010. SWIFT hopes that both of these initiatives will add to the understanding of the dynamics of the industry as a whole. Watch Value Analyser allows to delve into message content to understand the true value behind your payments, securities, trade or FX transactional activity using amount and currency information.

Figure 28
SWIFT trade traffic worldwide in number of messages, 2003-2012

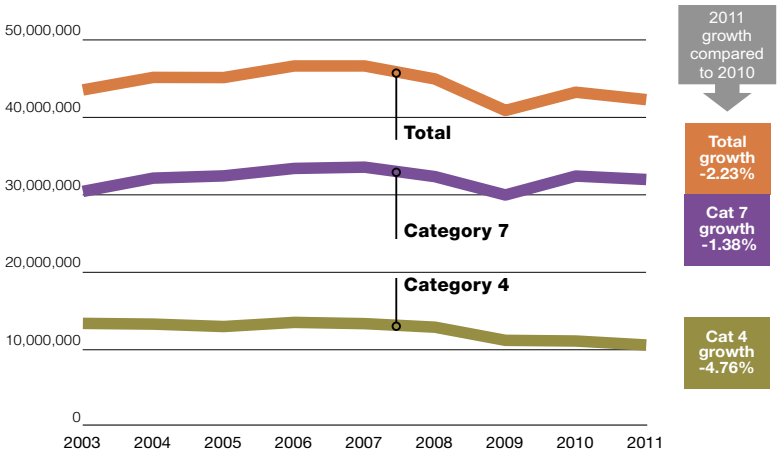
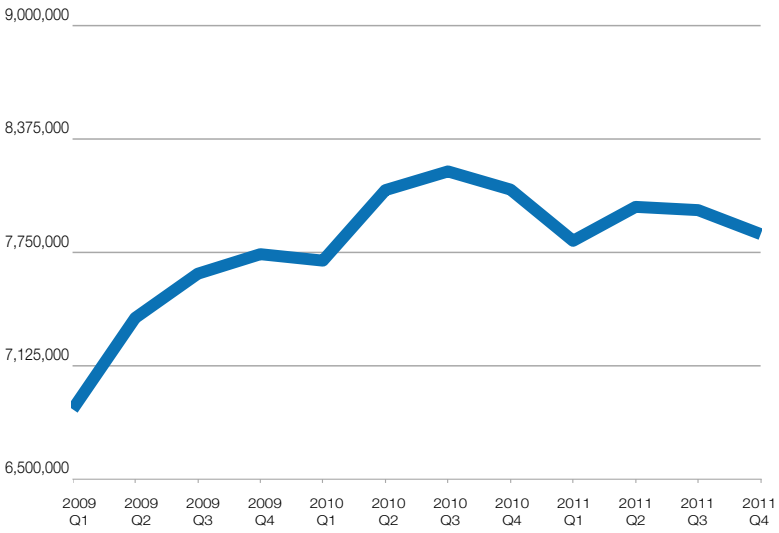


Figure 29
SWIFT trade traffic evolution - Cat 7 sent (live)



"Traffic" refers to live transaction messages sent over the SWIFT network. When global figures are recorded, messages sent equal messages received. The charts/graphs refer to "category 4" and "category 7" traffic. SWIFT category 4 messages are flows for documentary collections – with the exception of three little-used "cash letter" messages. SWIFT category 7 messages are flows for commercial and standby letters of credit and guarantees.

The year 2011 shows an overall decrease in trade traffic

Although the overall 2010 versus 2009 growth in traffic was 5.81%, in 2011 the trade traffic showed a decline of 2.23%. This trend is underlined by the decrease in category 7 of 1.38% and of 4.76% in category 4. Whilst documentary collections represented 30% of total trade traffic in 2003, this fell to 25% in 2011.

Regarding the most frequently used messages in each category, in category 4 they are Message Type (MT) 400 (Advice of Payment) with 33%; MT 410 (Acknowledgement) with 22%; and MT 499 (Free Format) with 18%. In category 7 the most frequently used messages are the MT 799 (Free Format) with 38%; MT 700 (Issue of a Documentary Credit) with 15%; and the MT 756 (Advice of Reimbursement or Payment) with 9%.

Figure 30 **SWIFT trade traffic sent by region, 2008-2011, categories 4 & 7**

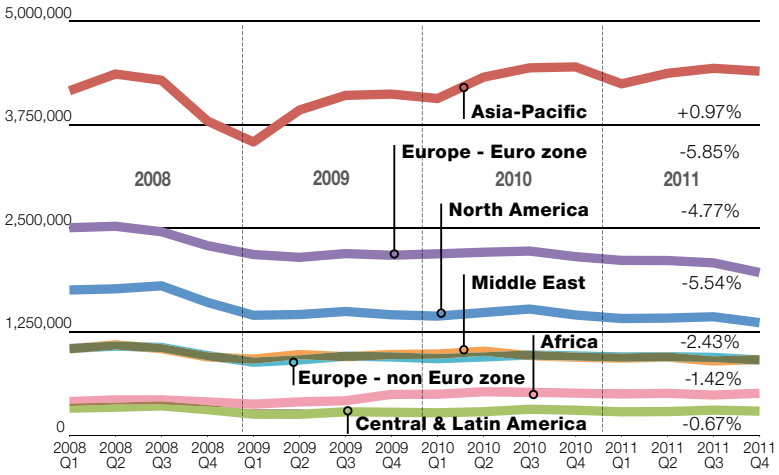


Figure 31 **Top 5 countries in volume of categories 4 & 7 sent**
(x%) = growth in 2011 vs 2010

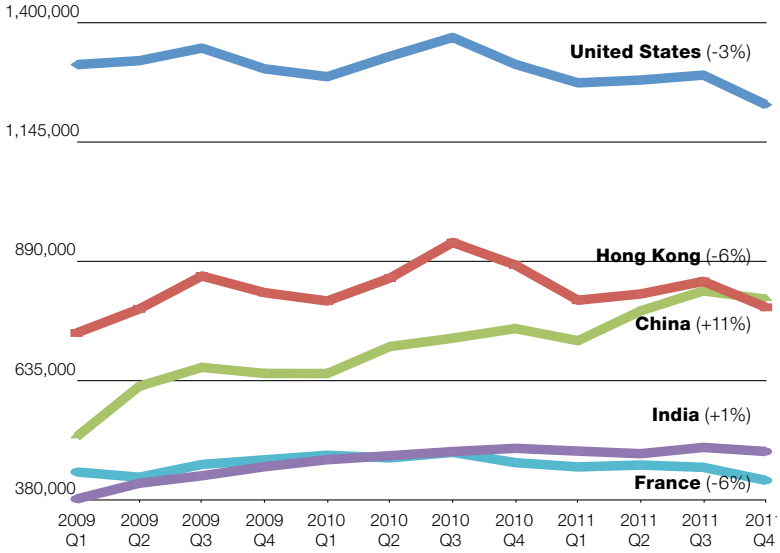
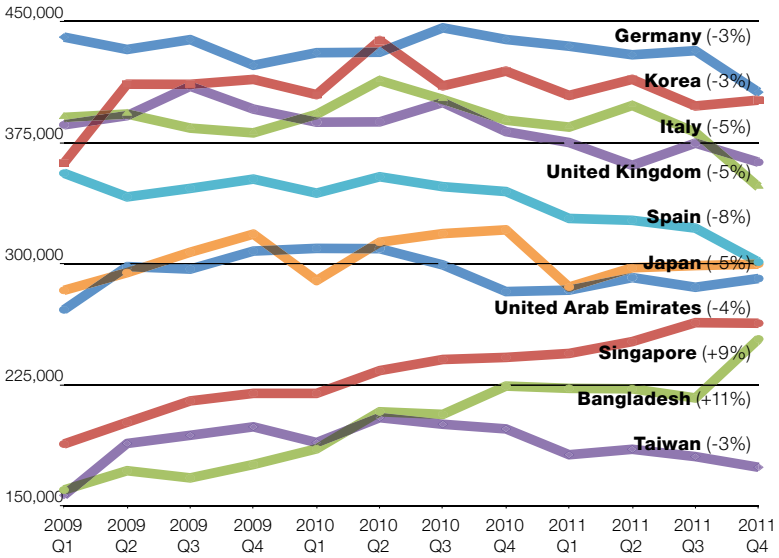


Figure 32 **Countries: Top 6 to 15 in volume of categories 4 & 7 sent**
(x%) = growth in 2011 vs 2010



SWIFT regional analysis (import traffic)

Asia-Pacific continues to register far greater volumes for sent (import) messages with 41% of the world traffic in 2011; followed by Europe-eurozone (20%) and North America (13%). Although the SWIFT trade traffic decreased in 2011 compared to 2010, there are important differences between regions. Looking at the annual figures, Asia-Pacific is the only region with an annual increase, some 0.97% in 2011. The region that shows the highest annual decrease is Europe-euro zone with 5.85% in 2011 (Figure 30).

Looking at the volume of trade messages sent in 2011 (import) per country, the countries that imported the most were respectively the United States, Hong Kong, China, India and France. Looking worldwide, amongst the countries with the highest import traffic (the top 15 countries), the countries with the highest annual growth in 2011 compared to 2010 were Bangladesh (+11%), China (+11%) and Singapore (+9%). The countries with the highest decrease in 2011 compared to 2010 were Taiwan (-9%), Spain (-8%), Hong Kong (-6%) and France (-6%). The 15 top countries in volume terms represented 66% of the trade traffic sent worldwide.

From countries with a yearly volume higher than 120,000 trade messages sent (import), the countries with the highest growth in 2011 compared to 2010 were:

- Romania: 34%
- Myanmar: 27%
- Sri Lanka: 16%
- Nigeria: 13%
- Indonesia: 12%
- Bangladesh: 11%
- China: 11%

The countries with the highest decrease in 2011 compared to 2010 were:

- Iran: -19%
- Greece: -16%
- Lebanon: -14%
- Canada: -11%
- Egypt: -10%
- Taiwan: -9%
- Denmark: -8%
- Spain:-8%

Figure 33 **SWIFT trade traffic received by region, 2008-2011, categories 4 & 7**

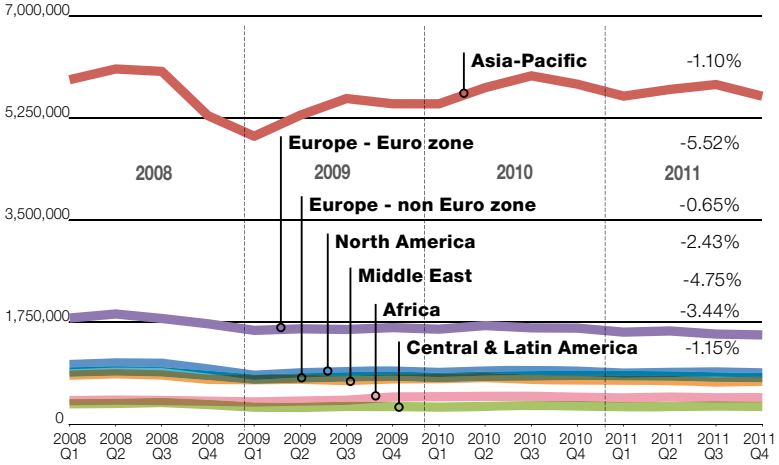


Figure 34 **Top 5 countries in volume of categories 4 & 7 received**
(x%) = growth in 2011 vs 2010

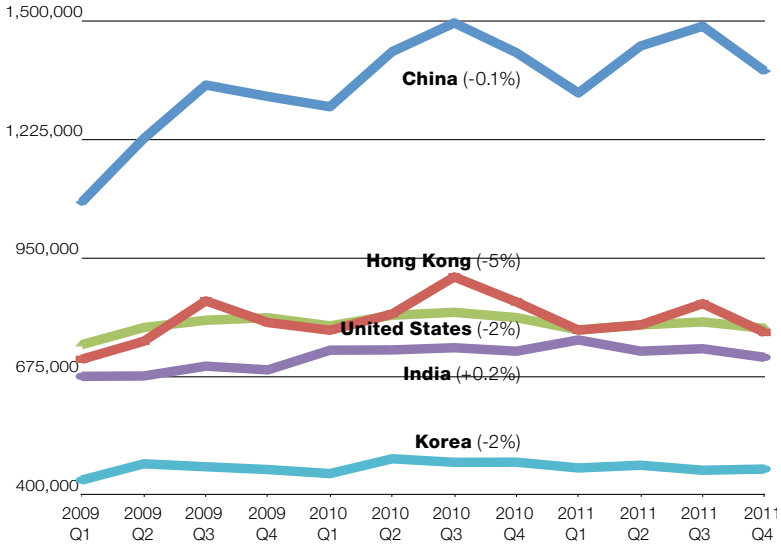
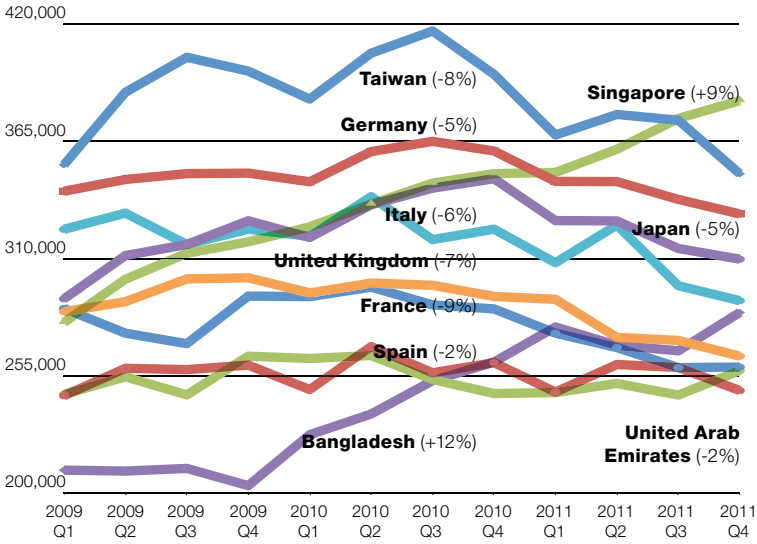


Figure 35 **Countries: Top 6 to 15 in volume of categories 4 & 7 received**



SWIFT regional analysis (export traffic)

Asia-Pacific continues to register far greater volumes for received (export) messages with 52% of the world traffic in 2011; followed by Europe-eurozone (16%) and North America (9%). Although the SWIFT trade traffic decreased in 2011 compared to 2010, there are important differences between regions. Looking at the annual figures, Europe-non-eurozone shows the lowest decline of 0.65% in 2011 compared to 2010. The region that shows the highest annual decline is Europe-eurozone with 5.52% in 2011 compared to 2010.

The countries that exported the most (volume of trade messages received in 2011) were China, Hong Kong, United States, India and Korea. Looking worldwide, amongst the countries with the highest export traffic (the top 15 countries), the countries with the highest annual growth in 2011 compared to 2010 were Bangladesh (+12%) and Singapore (+9%). The countries with the highest decrease in 2011 compared to 2010 were France (-9%), Taiwan (-8%) and United Kingdom (-7%). These 15 top countries in volume terms represented 69% of the trade traffic received worldwide.

From countries with a yearly volume higher than 120,000 trade messages received (export), the countries with the highest growth in 2011 compared to 2010 were:

- Romania: 37%
- Nigeria: 14%
- Bangladesh: 12%
- Singapore: 9%
- Sri Lanka: 7%
- Saudi Arabia: 6%
- Indonesia: 5%

The countries with the highest decrease in 2011 compared to 2010 are:

- Iran: 20%; Greece: 14%; Lebanon: 11%; Tunisia: 9%; France: 9%; Taiwan: 8%; Pakistan: 8%; Egypt: 8%.

Trade traffic sent by region (import traffic)

Africa sends 36% of its trade messages to Europe-eurozone. This means that 36% of Africa's imports (supported by financial instruments such as L/Cs, collections and guarantees through SWIFT) come from Europe-eurozone. Most of the imports in Asia-Pacific come from within the region (72%). Looking at major recipient regions, the two regions which import more (sent messages) from their own regions than others (using L/Cs, collections and guarantees through SWIFT) were Asia-Pacific (72%) and the Middle East (34%).

Trade traffic received by region (export traffic)

Africa receives 40% of its trade messages from Europe-eurozone. This means that 40% of Africa's exports (supported by financial instruments such as L/Cs, collections and guarantees through SWIFT) went to Europe-eurozone. Most of the exports from Asia-Pacific remained within the region (55%).

Looking at major emitting regions, the two regions which exported more (received messages) from their own regions than others (using L/Cs, collections and guarantees through SWIFT) were Asia-Pacific (55%) and the Middle East (42%). However, on the export side, Europe-eurozone's principal export market was also its own region (37%).

Import: Regions preferences for usage of trade finance instruments such as L/Cs, collections and guarantees through SWIFT

It is striking, though not surprising, to see the difference in usage between category 4 and category 7 traffic on a regional basis. Use of category 4 was low in Asia-Pacific, compared with the use of L/Cs, whereas in North America and Europe-eurozone the use of category 4 was much higher as a percentage of the total.

In 2011, only Asia-Pacific showed an increase of 2.2% in category 4 traffic. All the other regions showed a decrease (between 2% and 7%) in category 4 traffic sent in 2011. In 2011, Central and Latin America showed the highest increase of 1.6% in category 7 traffic sent, followed by Europe-non-eurozone (0.9%) and Asia-Pacific (0.8%). Since the scale is the same, it is interesting to see that North America sent 50% of category 4 and 50% of category 7 messages. Europe-eurozone used category 4 (40%) almost as much as category 7 (60%). For Asia-Pacific, category 7 was used much more (90%) than category 4 (10%).

Figure 36 SWIFT trade traffic sent by region – major recipient region 2011, categories 4 & 7

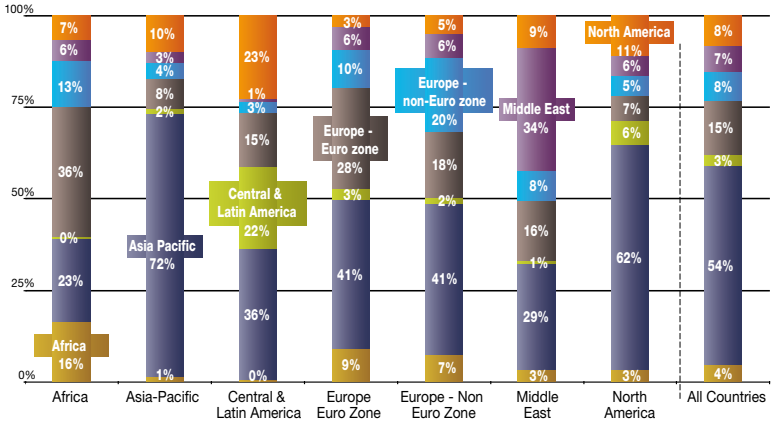


Figure 37 SWIFT trade traffic received by region – major emitting region 2011, categories 4 & 7

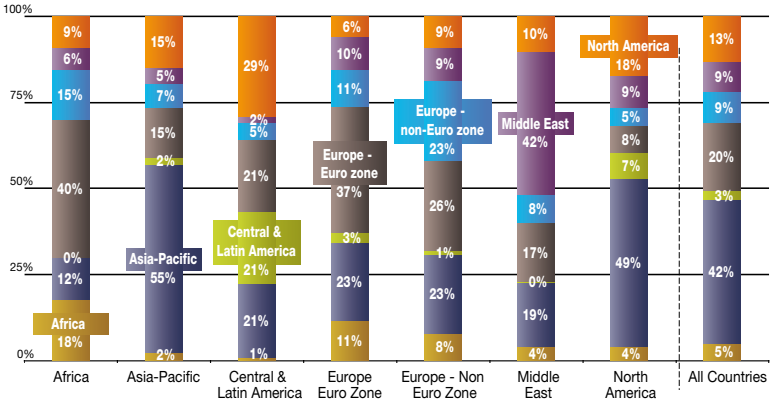
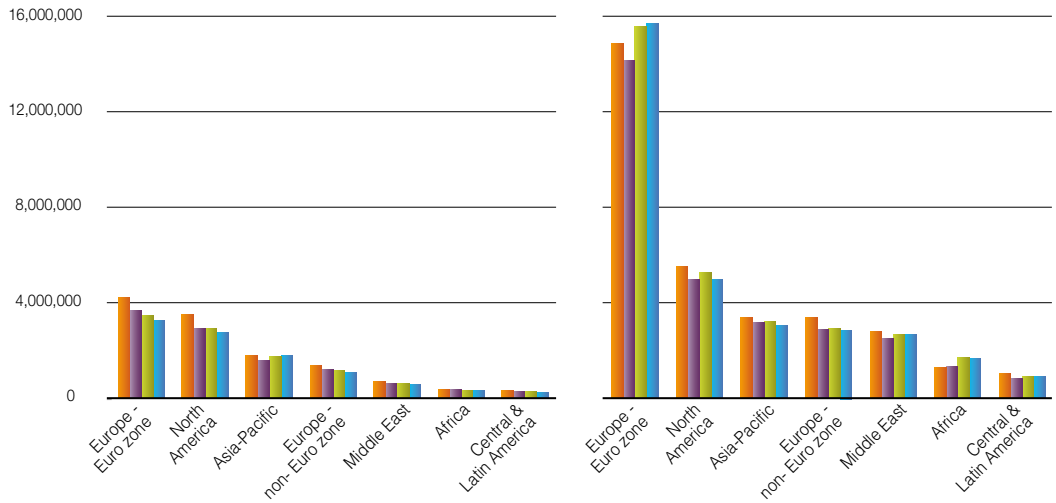


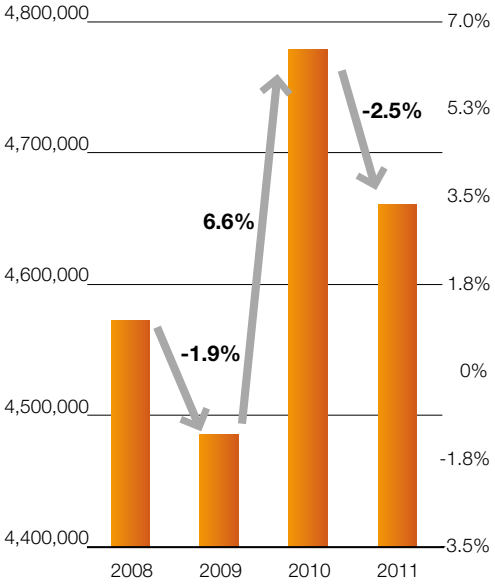
Figure 38 SWIFT trade traffic sent by region, 2008-2011, categories 4 & 7



Volume and value of L/Cs on SWIFT

In 2011, the volume of MT 700 traffic declined by 2.5%, but it was still above 2008 and 2009 volumes (Figure 39). The SWIFT Watch Value Analyser MT 700 (Issue of a Documentary Credit) was selected because it is a structured message that contains the structured field 32B.

Figure 39 **Volume of MT 700**



This field includes the currency code and the amount of the documentary credit. But the MT 700 only represents 15% of category 7, while the free format trade message MT 799 represents 38%. Note that any documentary credits issued through MT 799 were not taken into account in this analysis and only the MT 700s of 2011 have been analyzed.

In 2011, the USD was the currency used in 80% of the MT 700 (volume of L/C issued=number of MT 700s). The EUR was used in 12%. In 2011, the USD was the currency that represented 83% of the total value (converted to USD) of L/Cs issued via SWIFT. The average value of a letter of credit (MT 700s only, amount converted to USD) in 2011 was USD 603,000 (Figure 40). A fixed rate of exchange to the USD was used throughout to avoid any distortions in values. The "Amount" (from field 32B) was converted to USD using the rate corresponding to the "Currency Code" (from field 32B), before making the sum calculations. This is called "value" or "amount". In accordance with SWIFT's Data Retrieval Policy, all retrieved data is presented in aggregated and anonymous form.

Figure 40: **Volume and amount of L/C (MT 700)**

The average amount of an L/C is USD 603,000.

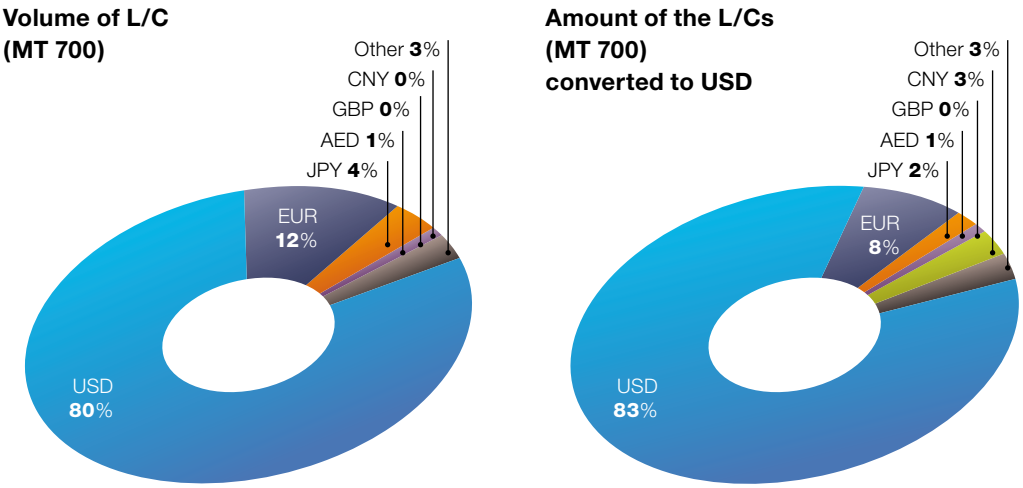
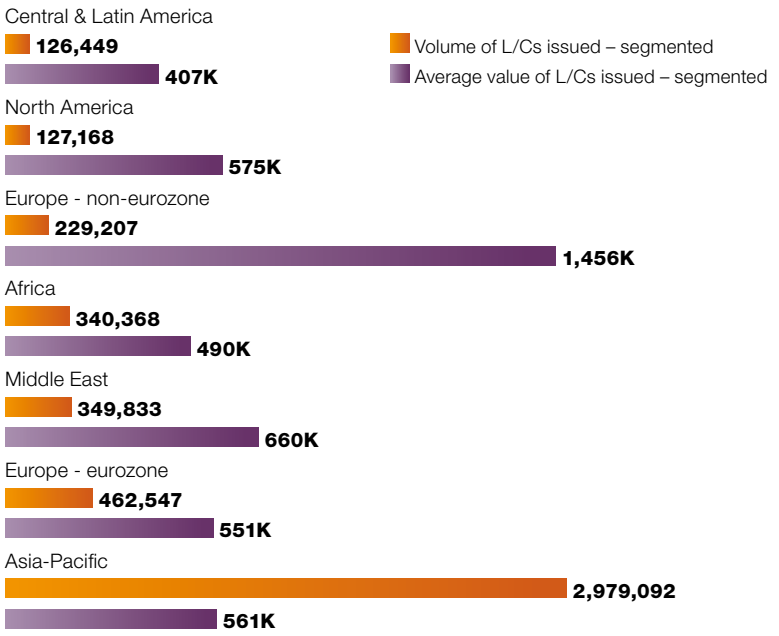
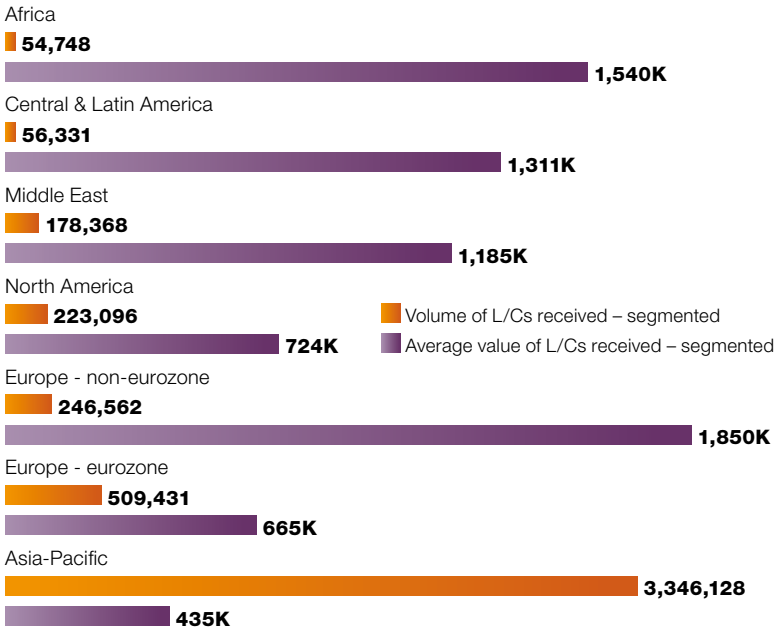


Figure 41 **Volume and average value of L/Cs issued: Imports**



In 2011, "Asia-Pacific" was the region that initiated 65% of the import transactions, because it sent almost 65% of the MT 700s (in volume), followed by "Europe–eurozone" with 10% (Figure 41). But in average value (converted in K USD), these two regions were not the highest. The highest number of L/Cs were issued by Asia-Pacific, noting that most of the Asia-Pacific traffic is intra-regional. Asia-Pacific was using a great deal of this instrument, much more than other regions. This can explain why the average value of an L/C in this region was not the highest (USD 561,000 for imports).

Figure 42 **Volume and average value of L/Cs issued: Exports**



In 2011, "Asia-Pacific" was the region that generated 72% of the export transactions, because it received 72% of the MT 700 (in volume), followed by "Europe–eurozone" with 11% (Figure 42). But in average value (converted in K USD), these two regions were the lowest. The highest number of L/Cs were received by Asia-Pacific. As noted, most of the Asia-Pacific traffic is intra-regional. Asia-Pacific is using this instrument much more than other regions. They might be using it even for low-value transactions. This can explain why the average value of an L/C in this region was the lowest (USD 435,000 for exports).

Section 4

A regional focus from the Multilateral Development Banks (MDBs)

Overview

In the context of the changing patterns of world trade and the negative impacts of the financial crisis, the role of multilateral development banks in supporting trade finance expanded significantly in 2011 and continued into 2012. It is fair to say that many smaller second-tier banks in emerging markets relied heavily on support from the development banks to keep trade supply lines open. All of the development banks, without exception, increased their limits and resources in 2011. An interesting phenomenon was the increased number of transactions being initiated with the development banks by confirming banks as they endeavoured to off-lay risk as part of a deleveraging process.

This section of the report details the measures taken and the economic crisis responses implemented by the key development banks:

- European Bank for Reconstruction and Development (EBRD);
- International Finance Corporation (IFC);
- Inter American Development Bank (IDB); and
- Asian Development Bank (ADB).

The EBRD designed the original model for a trade facilitation programme (TFP) and was the first development bank to provide transactional-based risk coverage and trade funding in what were considered to be high-risk emerging markets. The EBRD took the initiative in trade facilitation in 1999, and the role played by such programs in supporting trade through difficult times has been widely acknowledged.

The standby letter of credit issued subject to the UCP 600 rules of the ICC is a mainstay in underpinning trade risks in all of the trade facilitation initiatives. Interestingly, despite supporting more than USD 35bn worth of trade into what, in many instances, could be considered high-risk markets, there had not been any write-offs or losses at the time of commissioning this report.

Figure 43 **Overview of the main trade facilitation programs**

	EBRD	IFC	IDB	ADB
Program title	**Trade Facilitation Program (TFP)**	**Global Trade Finance Program (GTFP)**	**Trade Finance Facilitation Program(TFFP)**	**Trade Finance Program (TFP)**
Number of countries of operation	**20**	**91**	**20**	**16**
Program commencement	**1999**	**2005**	**2005**	**2004**
Number of transactions since commencement (year end 31 December 2011)	**11,600**	**11,255**	**1,966**	**4,236**
Value of transactions since commencement	**EUR 7.2 billion equivalent to USD 9.5 billion**	**USD 15.8 billion**	**USD 1.96 billion**	**USD 8.8 billion (USD 3.5 billion of which in 2011)**
Number of confirming banks	**800**	**800**	**264**	**112**
Claims to date	**2 claims, zero losses**	**zero**	**zero**	**zero**
Website	**www.ebrd.com/tfp**	**www.ifc.org/gtfp**	**www.iadb.org/tradefinance**	**www.adb.org/tfp**

European Bank for Reconstruction and Development (EBRD)

Background and markets

The EBRD's Trade Facilitation Program promotes foreign trade with Central and Eastern Europe and the Commonwealth of Independent States. Through the program, the EBRD provides guarantees to international confirming banks. In so doing, it takes the political and commercial payment risk of transactions undertaken by issuing banks in the countries where the EBRD operates.

The Program can guarantee any genuine trade transaction associated with exports from, imports to and between the EBRD's countries of operations. 101 issuing banks in the Bank's region of operations participate in the program together with over 800 confirming banks throughout the world.

Individual summary of activity (volumes & values 2011)

The strong recovery of global trade finance volumes continued in the first half of 2011. The financial crises of 2008-09 led to a sharp reduction in world trade and trade finance. By mid-2010, trade finance volumes in EBRD countries of operation started recovering, and this upward trend continued into 2011.

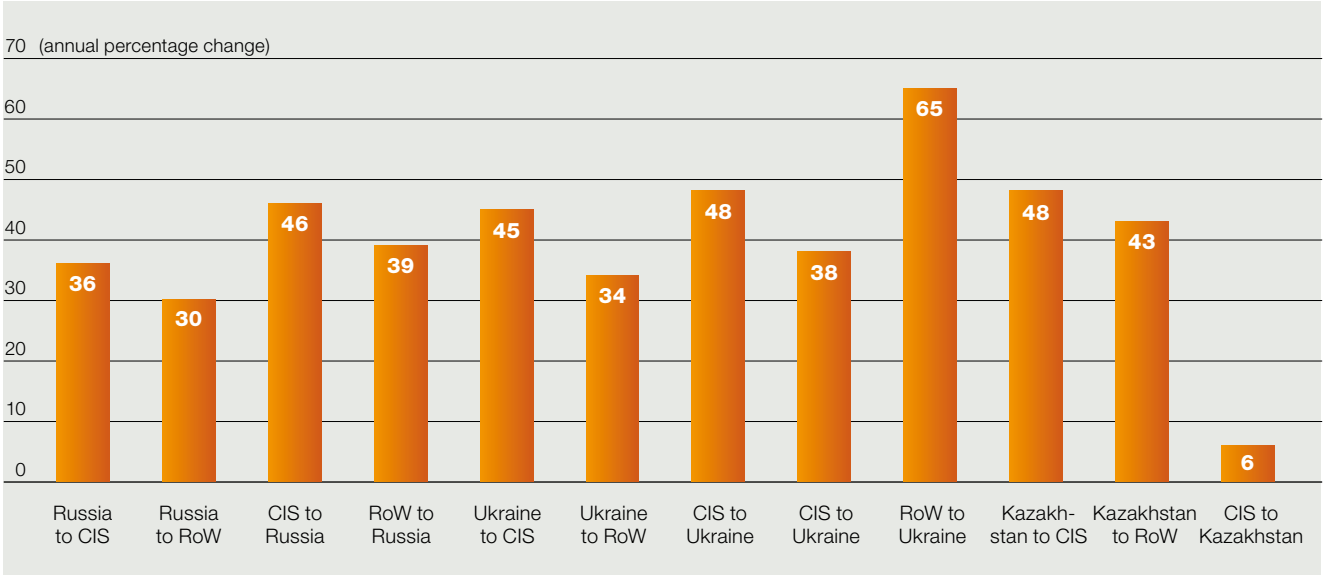
The positive sentiment in trade finance was supported by robust economic growth, particularly in emerging markets, as well as rising commodity prices. In particular, commodity exporters, such as Kazakhstan, Mongolia and Russia, saw increases in trade and capital flows.

More broadly, increased consumer confidence in the region led to an increase in domestic demand for consumer goods and an associated increase in imports (Figure 43). Intra-regional trade within EBRD's countries of operation received an additional boost, as in July 2011 Belarus, Kazakhstan, and Russia removed all internal customs borders within the Customs Union. The Kyrgyz Republic and Tajikistan are also currently considering membership in the Union, potentially further expanding its territory. Russia's international trade is expected to be further facilitated by Russia's upcoming WTO accession, the terms of which were approved on 16 December 2011.

On the other hand, Belarus faced a more difficult environment for international trade finance. In light of political developments and the economic crisis, which led to a temporary introduction of multiple exchange rates, most foreign commercial banks, export credit agencies and insurance underwriters have closed their lines for Belarus, which made it increasingly difficult for local exporters and importers to conduct their international business.

Despite a significant increase in trade finance volumes, access to trade finance remained restricted in Kazakhstan and Ukraine in 2011. Banking systems in these countries remained burdened with high non-performing loan ratios, and local banks have been reluctant to take on new business. Moreover, limits provided by foreign commercial banks, export credit agencies and insurance underwriters remained

Figure 44 Key trade flows in the CIS in January-September 2011



Source: CISStat. RoW = Rest of the World

impacted due to the perceived high risk of doing business with local counterparties.

Furthermore, in the second half of 2011 the turmoil in the eurozone area started to dampen the positive economic sentiment, which also reflected negatively on trade finance growth. This development sparked fears that the recent recovery in trade finance might have been short-lived, and indeed the latest indicators point to generally decreased activity and reduced availability of trade finance in the market. Particularly for smaller or regional banks with lower credit ratings, including EBRD partner banks under the TFP, reduced availability for trade finance from Western commercial banks makes it again increasingly difficult to conduct their international trade finance business.

To partly mitigate ongoing and re-occurring stress in the trade finance market, EBRD continued to expand the TFP program launched in 1999. The program can guarantee any genuine trade transaction to, from and within the countries of operation. 101 issuing banks in 21 countries of operations currently participate in the program, with limits exceeding EUR 2 billion. More than 800 confirming banks throughout the world participate as well. Since 1999, the TFP has facilitated more than 11,600 foreign trade transactions for the total amount of EUR 7.2 billion. In 2011, the TFP supported a record 1,616 transactions for a total amount of EUR 1.03 billion.

Summary of developmental impact

The TFP's donor-funded Technical Co-operation (TC), consultancy services and seminars were delivered on a range of trade-related topics to banks in EBRD countries of operations in Central, Southern and Eastern Europe, Central Asia and the Caucasus. The TC projects have helped to establish trade finance departments in various banks by transferring specialist knowledge, optimizing the understanding and processing of trade finance products, providing for better transactional structuring skills and organizing trade finance banking conferences and workshops for bankers and corporate customers. The newly introduced e-learning course is particularly popular among the professional trade finance staff, as it allows them to study online whenever they have time and keeps them up-to-date on the latest developments in trade finance. Additional courses are being added to the online training on a regular basis.

Since 2002, more than 900 bankers from more than 100 banks in 17 countries have received consultancy services and have been trained through presentations, case studies, workshops, seminars, meetings with clients, online training and team discussions.

Default or claims experience

Economies and subsequently banks in EBRD's countries of operation were affected by the financial crises of 2008/2009. During this period, the EBRD's TFP was confronted with two claims under the program from confirming banks for guarantees which covered trade from issuing banks in Kazakhstan and Ukraine. Both claims were settled immediately, and the EBRD is in the process of restructuring and recovering outstanding amounts.

Regulatory impact on scale and scope of business activity

In addition to the decreasing appetite of banks for trade finance due to the Euro crises and its subsequent limited risk-taking capacities, the attractiveness of trade finance to banks may also be negatively affected by the changes in the Basel rules currently under discussion. Under Basel II, short-term off-balance-sheet products such as letters of credit and shipping guarantees are subject to a 20% credit conversion factor used in risk-weighted assets calculations, while over-one-year L/Cs and some other trade products are subject to a 50% factor. Under Basel III, these conversion factors may be increased to 100%. This general rule was designed to curb creative use of off-balance-sheet exposures, but it may end up having the unintended consequence of sharply raising capital costs for providing trade finance.

Outlook for the future

The market outlook for trade finance in 2012 is generally somewhat gloomy. The crisis in the eurozone is taking its toll on Western banks, leading to more binding financial constraints. It is likely that this will further reduce the availability of trade finance. Banks in Central and Eastern Europe in particular will have to deal with reduced trade finance limits. Banks in countries which already had difficulties receiving sufficient limits before the latest financial turmoil are unlikely to receive new limits or limit increases for their trade finance business. In EBRD's region, this will particularly affect smaller or regional banks with lower credit ratings. It is expected that the TFP will be in demand again, particularly to support the international trade finance operations for these small and regional banks.

International Finance Corporation (IFC)

Background and markets

In 2011, the increasing push by trade finance banks to efficiently mitigate their risks drove record demand for the facilities provided by IFC's Global Trade Finance Program (GTFP). IFC, the private-sector arm of the World Bank Group, supported imports and exports of more than USD 6.7 billion in emerging markets, with more than half of these trade flows in the world's poorest countries.

The GTFP supports emerging-market trade by providing partial or full guarantees for individual trade transactions backed by IFC's triple-A rating. IFC guarantees allow banks to increase their support to small- and mid-sized firms and to enable trade that may be difficult to finance otherwise. The GTFP is guaranteeing around USD 5 billion of trade finance annually, compared to USD 3.4 billion of trade risk mitigation at the time of the 2008-9 economic crisis. In July 2011, IFC expanded the capacity of the program with a USD 532 million trade-credit insurance policy from leading broker Marsh. This expansion has enabled IFC to add capacity to highly utilized lines, thereby providing more financing to the world's poorest countries at a time when many banks are pulling back on trade finance because of continued financial uncertainties.

IFC has used the expertise gained from the GTFP to create a coordinated set of trade and working capital financing programs designed to help stabilize and foster trade and commodity finance to emerging markets. New trade products such as the Global Warehouse Finance Program, launched in 2011, complement IFC's efforts to address critical issues such as food security. As its first disbursement under this program, which extends credit against warehouse receipts, IFC signed a short-term debt agreement with Paraguay's Sudameris Bank in July 2011 to expand access to financing for local farmers and small- and medium-sized enterprises (SMEs) in the agribusiness sector.

Individual summary of activity (volumes & values 2011)

Since the launch of its trade facilitation program in 2005, IFC has supported nearly USD 20 billion in trade flows into and out of emerging markets. In calendar year 2011, the GTFP provided guarantees to support individual trade transactions totalling more than USD 5.3 billion, representing an increase of 33 percent from the previous year and growth of over 80 percent from 2009. The Global Trade Liquidity Program (GTLP), which uses a portfolio approach to reach emerging-market banks, has coupled USD 1 billion from IFC with mobilizations of almost USD 2 billion from governments and development finance institutions. Thanks to these partnerships, the GTLP has financed a total volume of trade worth USD 20 billion since its inception in mid-2009.

Regional highlights FY11

In FY11, Latin America continued to be the most dominant region for the Global Trade Finance Program, with USD 1.4 billion in guarantees during the fiscal year, representing 31 percent of total dollar volume. The program tripled its energy-efficiency transactions in the region to USD 360 million, had its largest footprint in Brazil, where USD 750 million in guarantees were issued and brought Guyana into the roster of countries supported by the program. The volume of GTFP commitments in Sub-Saharan Africa grew to USD 931 million in 25 countries, with Nigeria, Ghana, and Kenya making up the largest shares. For the first time, IFC facilitated trade in the Central African Republic and Rwanda.

The Middle East region saw impressive growth in IFC's program, receiving over 40 percent of its global guarantees and commitments totalling more than USD 700 million. This growth is in line with IFC's strategy to help the region emerge stronger following the Arab Spring. Support for the West Bank and Gaza saw a 70 percent increase from the previous year and financed critical imports like medical equipment. In Central and Southern Europe, the program continued to grow, adding new countries such as the Yugoslav Republic of Macedonia and closing significant transactions in the Republic of Georgia. In Asia, Bangladesh and Nepal saw strong growth, with commitments increasing around 50 percent in each, while guarantees in Vietnam surpassed USD 500 million for the first time.

Summary of developmental impact

As global economic conditions constrain the availability of trade and commodity financing, particularly for smaller markets and clients, IFC's trade finance and working capital support is critical to enable businesses to continue to grow and hire new employees. In 2011, over 75

percent of the total volume provided under the GTFP went to SMEs, and more than half was to support trade in IDA countries, those classified as part of the International Development Association, the World Bank Group's largest source of assistance for the world's 79 poorest countries. Nearly 80 percent of GTLP transactions supported small businesses, and 44 percent supported the world's poorest countries.

IFC signed 15 new confirming banks and 26 new issuing banks in 2011, expanding its potential to create linkages for underserved markets including Central African Republic, Chad, and the Gambia in Africa; Kosovo, Macedonia, Serbia, and Uzbekistan in Europe; and Central Asia; and Colombia and Guyana in Latin America.

Default or claims experience

To date, there have been no defaults and no pay-outs under the guarantees issued.

Regulatory impact on scale and scope of business activity

Against a background in which the trade finance community faces a raft of challenges linked to Basel III and weakness in the eurozone, market demand for IFC's programs continues to grow. Given the short maturity and uncommitted nature of most lines, trade and commodity finance are among the first asset classes to be affected by banks having to downsize assets to achieve new required capital ratios. In this environment, IFC has witnessed a surge in the demand for dollar financing for trade finance, as many international banks have been constrained in efforts to access competitively priced funding. GTFP has also seen a steady rise in the number of smaller banks located in emerging markets that are requesting dollar funding for trade financing that previously was obtained more easily from correspondents.

Outlook for the future

Through its public-private portfolio programs, IFC has assumed a leadership role in responding to the constraints on financing trade that began in 2008 and that are continuing with the conditions affecting the eurozone today. In January 2012, IFC's Board approved a three-year extension of the GTLP and the launch of the Critical Commodities Finance Program (CCFP) to support trade finance for critical agricultural and energy commodities in the world's poorest countries. As its first investment under the CCFP, IFC will partner with Paris-based Société Générale, a leader in commodity finance with a large customer network in Sub-Saharan Africa and the Middle East.

A pipeline of deals should further develop the warehouse-receipts program in Africa, East Asia and Eastern Europe. Over the next two years, another initiative, the Global Trade Supplier Finance program, will establish supplier-finance facilities with up to 10 buyers and their emerging-market suppliers. Collectively, this new product suite will take IFC's short-term finance expertise beyond cross-border transactions to fulfil a global need for working capital that spans industry value chains across economies.

Inter-American Development Bank (IDB)

Background and markets

The continued turbulence in international markets highlights the importance of trade finance, trade flows, liquidity and stable financial sectors for world economies. IDB recognizes the importance of international financial institution (IFI) support to mitigate the adverse impact of volatility in international capital flows and views trade finance as an essential tool to support free trade and regional integration.

The IDB's trade finance work falls under its access2Trade product line, which includes the following financial products and services: trade finance guarantees, loans and co-financing facilities as part of the Trade Finance Facilitation Program (TFFP); IDB-financed trade funds that mobilize equity investors; and specialized trade finance technical assistance.

Despite the uncertainty in international markets, access2Trade product lines allow the IDB to strengthen the supply of financing and trade-related infrastructure in Latin America and the Caribbean (LAC). In recent years, the IDB has increased volumes for existing bank lines, while expanding through the incorporation of new issuing banks. As a result, there is an improved volume of trade supported, enhanced access to trade finance for SMEs, strengthened smaller financial institutions and increased numbers of intra-regional transactions. This underscores the role of trade finance loans and guarantees in supporting trade and foreign direct investment flows.

Financial downturns are a double-edged sword. While banks freeze, clients default and the private sector as a whole falters, the critical importance of trade finance's counter-cyclical role is highlighted. A stable and reliable source of trade finance ensures the exchange of goods and services, continued job creation, national production and economic inclusion even when world markets prove to be unstable and unreliable. Since beginning our trade finance work, demand to apply for the TFFP, to form funds and to participate in technical training has grown significantly. Trade finance is seen as lower risk than other sectors. As its duration is primarily short-term in nature, it is documented according to well-known international standards, and defaults are marginal.

The market continues to face important challenges, especially with respect to smaller economies and smaller banks. The possibility of closing their financing gap seems more difficult now than prior to the 2008-2009 crisis. Limited and volatile liquidity and therefore higher margins continue – a consequence of the current European crisis. Risk appetite is shrinking, and banks are further disengaging their activities in smaller economies. For example, recently HSBC announced that it was entering into an agreement to sell the whole of its banking operations in Costa Rica, El Salvador and Honduras to Banco Davivienda S.A., a Colombian banking group.

Individual summary of activity (volumes & values 2011)

The IDB's TFFP is straightforward and highly effective in supporting Latin American Countries' (LACs) efforts to finance import and export of goods and services. The TFFP offers credit guarantees, loans and co-lending facilities that create opportunities for confirming banks globally to become involved in trade deals with LAC banks, including smaller, lesser-known financial intermediaries in the region. In 2011, the TFFP included 77 issuing banks with approved lines of approximately USD 1.4 billion and supported over 1,000 underlying trade transactions during the year. Through its international network, the program was present in 264 confirming banks in 53 countries.

Operational since 2005, the TFFP originally provided guarantees to allow importers and exporters to reduce systemic and transaction risks, access new capital sources and strengthen competitiveness. The TFFP subsequently launched an A/B loan product to directly fund clients' trade-related activities. Most recently it has championed co-lending facilities, financing arrangements in which the IDB and one or more participating confirming banks act as co-lenders to offer trade finance loans to LAC issuing banks.

One facility with Standard Chartered Bank (SCB) is the Latin American Trade Co-lending Partnership (TCLP). The TCLP is a collaborative effort to provide up to USD 200 million in financing to a mutually-agreed list of LAC banks on a revolving basis in support of import and export transactions. The SCB partnership will boost "South-South" trade between LAC and Asian, African and Middle Eastern markets. As of 31 December 2011, there were nine trade finance loans disbursed to strengthen liquidity and lending capacities of LAC banks. Recent transactions include USD 2 million to Multibank

in Panama, over USD 5 million to Tower Bank International in Panama and over USD 10.5 million to Banco Industrial in Guatemala.

The IDB recently signed a trade finance co-lending agreement with China's Export-Import Bank (Eximbank) with the potential to finance trade flows of up to USD 200 million. This alliance will leverage unique synergies between two important areas of the world and between a large public bank and an IFI, promoting trade flows between China and LAC.

Trade finance funds, such as IIG and Crecera, supported by third-party equity and long-term funding, continue to provide stable, reliable financing through special-purpose trade vehicles for exporters – many of which are SMEs (small- and medium-sized enterprises). These innovative instruments continue to provide access to finance to SME clients who would otherwise face unaffordable or limited financing from conventional outlets.

To get a flavour of the activities of the Inter-American Development Bank in terms of trade support the following short paragraphs will provide insights:

Bolivia is a unique economy with 9.9 million people and a GDP of USD 20 billion. It is a large importer of paper products, cleaning supplies and machines from other countries in Latin America, as well as Europe and the US. To support Bolivia's growth and diversification, since 2010 the IDB has supported 40 trade guarantees worth USD 32 million. The most active Bolivian banks incorporated in the TFFP include Banco Bisa S.A. and Banco Nacional de Bolivia S.A. As Bolivia's economy continues to expand, adhering to prudent macroeconomic policies that have reduced its debt burden despite a fragmented political landscape, the IDB will continue to identify ways to provide a stable supply of trade finance and ensure the country's access to international capital markets. In 2012, the IDB seeks to include up to four new Bolivian banks in its TFFP.

Paraguay is one of the smallest countries in the region, with only 6.5 million inhabitants and a GDP of USD 18 billion. However, its participation in the TFFP is growing faster than that of many other countries. Its exports are dominated by agricultural products destined for Uruguayan and Brazilian markets. It is a large importer of manufactured goods, mainly from China, Brazil and Argentina. The IDB prioritizes Paraguay's trade finance work and since TFFP's inception has supported 34 trade finance guarantees for goods going into or out of the country. The total value of the trade finance guarantees is USD 34.8 million. Most of the guarantees are for Paraguayan imports such as vehicles, electronics and mobile phones – products that foster diversification, competition and the development of technology. The most active TFFP issuing banks include Banco Regional, Banco Continental and Sudameris. Lines have also been approved for BBVA, Interbanco and Vision Banco. The TFFP was most active in 2010 and 2011 when 25 guarantees were issued.

Guatemala is another smaller country in the region, with 14.3 million people and a USD 41.1 billion GDP. It is primarily an exporter of agricultural, manufactured, and fuel and mining products destined for the United States and El Salvador, while it imports mostly manufactured goods from the United States. As of year-end 2011, the TFFP had issued 20 guarantees to support underlying trade transactions valued at USD 100 million for goods going into or out of Guatemala. In 2011, Banco G&T Continental, Banco Industrial and Agromercantil were the most active banks in the country. Examples of transactions include the import of motorcycles, corn and wood products to Guatemala, as well as the export of coffee and sugar.

Summary of developmental impact

As the trade paths between developed and developing economies converge, SMEs, especially importers and exporters, risk being left behind. No matter how big corporations grow, SMEs will always find a void to fill – a relevant source of goods and services, innovation and job creation. Through tailor-made technical assistance, such as on-line and classroom training, consultations and support to fulfil the requirements to join the TFFP, the IDB ensures that SMEs are not excluded from growth. Through these tools and others in development, the IDB encourages financial institutions to downscale and create new financial instruments and services that address the evolving trade financing needs of this market segment.

The IDB's financial markets team views access to inclusive and sustainable trade finance as a critical component of its overall work and of its beyondBanking program. beyondBanking encourages financial intermediaries (FIs) to go beyond their traditional role as lender and risk manager and to promote sustainable environmental, social and corporate governance practices. beyondBanking recognizes FIs as cost-effective channels to reach end-borrowers, which operate along the supply chain and in high impact sectors,

such as clean energy, education, infrastructure, health, housing and trade, among others.

Through access2Trade's loans, guarantees, technical assistance and knowledge products, which support trade flows, beyondBanking fosters the "Bank of the Future" – a bank business model that balances financial with social returns, fostering an inclusive, environmentally friendly, transparent and commercially viable financial sector.

Default or claims experience

There have been no defaults since the program's inception in 2005.

Regulatory impact on scale and scope of business activity

The IDB is closely observing Asian, European and North American trade flows and regulatory changes as well as the implementation of new requirements from Basel III. Trade with Asia is mostly driven by China, but India is quickly coming from behind. Although India's economy was liberalized 13 years after China's (1991 vs. 1978), and it contributed to only 0.8% of LAC's trade or USD 20 billion in 2009, volumes have grown eight-fold since 2000. Continued demand and lower transaction costs in the country would be beneficial for the diversification of LAC's trading partners and for the growth of trade finance. Should Indian regulatory bodies decide to lower tariff barriers, develop shipping services and offer more concessional loans, it could make trade more attractive to LAC companies.

As of 2010, India's tariff on LAC agriculture was 65% compared to China's 12.5%. India's shipping services to LAC are under-developed, in part because of high freight costs and lack of direct shipping lines. Opportunities exist for a reduction in freight rates which would in turn boost imports and exports between the emerging economies. Additionally, India's concessional loans are small in amounts and limited to Caribbean and Central American nations. They cannot compete with China's larger loans to larger LAC economies.

European trade growth rates in LAC are losing steam compared to Asian growth rates. Europe imported USD 108 billion (1.8% of total imports) from LAC and exported USD 98 billion (16.7% of total exports) to the region in 2010. The lack of dependency between the two trading partners may prove positive for LAC in light of eurozone uncertainty and the changing regulations there.

The US's trade with its southern partners is also slowing – although US-LAC relationships are still greater in volume than Europe-LAC or Asia-LAC. In October 2011, the US Congress passed free trade agreements (FTAs) with Colombia and Panama. These represent opportunities for key Latin American markets. Increased trade volumes signify increased demand for trade finance. Issuing banks in both Colombia and Panama will likely have new opportunities in the future, and the IDB is prepared to support them through access2Trade products.

Basel III is gradually affecting banks' willingness to finance trade in LAC. The IDB recognizes that Basel III proposes new capital, leverage and liquidity standards that may enhance supervision and risk management of the financial sector. The downside is that they are especially stringent for trade finance. Basel III requirements will increase the level of provisions needed for trade instruments and therefore raise costs. Trade volumes would be affected, hurting smaller exporters and financial institutions significantly more than the larger players with economies of scale and global market access. Ensuring that smaller clients continue to access international markets at competitive prices and that economic growth will be sustainable will continue to challenge the region moving forward.

Outlook for the future

Trade finance guarantees and loans foster an adequate allocation of risk and therefore of pricing. Institutions like the IDB will further strengthen product transparency and knowledge dissemination. This should expand market potential and diversify risk as well as open the door to smaller SME importers and exporters that today have limited access to these kinds of products. Guarantees and loans are two integral financial instruments needed to maintain steady capital flows in a globalized economy, thereby supporting economies and companies in efforts to stimulate economic growth, to create jobs and to escape poverty.

Asian Development Bank (ADB)

Background and markets

ADB's Trade Finance Program (TFP) fills market gaps for trade finance by providing guarantees and loans through over 200 banks. TFP supported over USD 3.5 billion in trade in 2011. Its most active markets in 2011 were Bangladesh, Nepal, Pakistan, Sri Lanka and Viet Nam. TFP does not assume risk in China, India, Malaysia, Thailand and other relatively developed financial markets, focusing instead on markets where the private sector's capacity to provide trade finance is proportionally the smallest, leaving the largest market gap.

Volumes and values 2011

TFP supported 1,803 transactions in 2011 valued at over USD 3.5 billion. Half of the transactions supported intra-regional trade – including trade between developing countries of operation and non-operation countries like Australia and Japan. Approximately 40% supported trade only between ADB's developing member countries of operation.

To help manage growing volumes and to crowd-in the private sector as well as other participants, TFP signed major risk distribution agreements in 2011 with Swiss Re insurance company and Australia's export credit agency, EFIC. Almost USD 500 million in risk was shared with these entities as well as with FMO, a private sector-oriented development agency in the Netherlands that entered into a TFP risk distribution arrangement in 2010.

Summary of development Impact

ADB's TFP fills market gaps for trade finance by providing its own resources, but more importantly by mobilizing private sector resources to fill the gap. Over 50% of TFP's activities in 2011 involved co-financing and risk-sharing with private sector entities. Crowding-in the private sector has substantial development impact. By providing (partial) guarantees to private sector banks in developed markets, TFP helps the private sector move into 'frontier markets.' As such, TFP is working to shrink the private sector gap in trade finance in the most challenging markets, both through its direct support and by mobilizing private resources into challenging markets and by creating long-term relationships (credit lines) between banks in developed and developing countries. With these new relationships come greater financial links to support trade, job creation and more prosperity in emerging Asia.

TFP supports the development of the banking sector in its developing countries of operations. Its rigorous due diligence and on-going risk monitoring processes – and related feedback to banks – help gain an appreciation for best practices in bank management. TFP supported over 668 small- and medium-sized enterprises (SMEs) in 2011. This figure is particularly important to ADB, as SMEs are known to be a major source of job creation.

Default or claims experience

ADB's TFP has had no defaults or claims since its inception.

Regulatory impact on scale and scope of business

Increasing levels of regulatory requirements for trade finance have increased the trade finance gap in developing countries, and therefore have increased the demand for multilateral development banks to fill the gap. It is for this reason that ADB proposed the creation of a default and loss data base – in conjunction with the International Chamber of Commerce (the ICC-ADB Trade Finance Default Register) – to prove empirically that trade finance carries relatively low risk to financial institutions. The statistics created out of this 'register' are available on ICC's website and show a 0.02% rate of default on a data set of 5,244,000 trade finance transactions going back over five years. This information was presented to regulators in an effort to have regulatory requirements reflect the relatively low-risk profile of trade finance. Some progress has been made to treat trade finance appropriately for regulatory purposes, but more work remains to be done, both on the statistical side by the industry, and in discussions with regulators.

Outlook for the future

A challenging regulatory environment for trade, financial deleveraging and with fewer banks operating in the trade finance space suggest that demand for multilateral development banks to fill market gaps will remain and will likely continue to grow. ADB's TFP is poised to continue supporting trade in emerging Asia. It is in the process of continuing its expansion from 16 countries of operation to approximately 20 by year's end. Expansion plans include Kazakhstan, Turkmenistan and some Pacific islands. TFP continues to seek more partners in order to mobilize additional resources that will support trade in challenging countries. We expect some announcements in this regard over the course of this year.

Multilateral Development Banks: Conclusion

The expansion of the role of the development banks in supporting trade during 2011 and into 2012 has been driven primarily by the fact that trade finance from traditional sources is continuing to evaporate. The development banks' volumes and values of transactions in 2011 expanded rapidly, and this expansion is likely to continue in the current challenging environment.

For ICC, it is interesting to observe that despite the challenges in the market and the increased political and commercial risks, the experience of the development banks in directly supporting transaction-based trade has been a positive one.

Their development impact has been significant, particularly because their trade finance support has found its way to the SME exporters and importers in the poorer emerging and developing countries. With more than USD 35bn in trade deals concluded without any write-offs or losses to date, there are lessons to be learned by all parties involved in developing trade policy and regulations.

Ranil Salgado talks with Vincent O'Brien

With the ICC's strong focus on supporting trade with emerging markets to foster economic development, **Vincent O'Brien** *(right)*, Chair of the ICC Market Intelligence Group, is delighted to have had the opportunity to talk first-hand about the changing patterns of Global Trade with **Ranil Salgado** *(left)*, Division Chief, Trade and Policy Review Division, The International Monetary Fund (IMF)*

O'Brien ***At our recent ICC Banking Commission Meeting in Doha from 25 to 29 March 2012, many stakeholders with an interest in expanding trade pointed to the fact that trade patterns are shifting and that banks wishing to remain active in trade finance must understand the nature of these fundamental underlying changes. Has there been a fundamental change in the patterns of global trade?***

Salgado Without a doubt, the global trade landscape has witnessed dramatic shifts over the past several decades. In particular, the emergence of global supply chains and the growing role of emerging market economies (EMEs) are staggering. To understand the future we sometimes need to look to the past.

You use the word 'dramatic' in terms of shifts in trade patterns but can you put that into context – what do you mean by dramatic?

The facts speak for themselves. As a share of global output, trade is now more than four times its level in the early 1950s and the momentum continues. So, we must understand what is propelling this momentum.A primary driver has been trade liberalization, which in itself led to significantly lower trade barriers in advanced economies and more recently in developing countries. This momentum was accelerated greatly by technology-led declines in transportation and communication costs. This in turn, facilitated the fragmentation of production beyond national borders. So, in a nutshell I can say that trade capabilities have expanded and diversified from advanced economies to developing economies.

These developments led supply chains to become regional, as in the case of "Factory Asia" or even global, as to give a practical example, in the case of manufacturing iPods and other technology-driven products, which are in huge demand from an expanding middle class. Furthermore, a convergence in income levels and factor endowments across countries also played a role in the growth of trade relative to economic output.

This would appear to infer that the main players in terms of trade have shifted fundamentally – would this be fair to say?

Absolutely, I can suggest several important trends underlying the global trade patterns over the past decade. First, the emergence of global supply chains has allowed emerging market economies (EMEs) to enhance the technology content of their exports. Second, this rapid growth in high-technology exports supported overall export growth, especially for EMEs. Third, with China and other EMEs increasing their presence in sectors traditionally dominated by advanced economies,

*The views expressed herein are those of the interviewee and should not be attributed to the IMF, its Executive Board, or its management.

the similarity in export structures has increased over time and so has competitive pressure on advanced economies. Fourth, this growing similarity in export structures with remaining differences in income levels suggests that dynamic EMEs can anticipate a further growth push.

If I may push you on that theme a little – with the main players fundamentally changed as you described, does that mean that the new 'trade stars' have a better optimised supply chain advantage?

At a basic level – yes, but it is not so simple. For example, in the Asian supply chain, goods-in-process cross borders several times, including through the hub (Japan), before reaching their final destination. For instance, about 15 percent of Japanese value-added embodied in Chinese products goes through other countries in Asia before reaching China. In contrast, in other regions, almost all foreign input is imported directly from the hub – the United States in NAFTA and the EU15 in Europe.

So, yes, on the positive side, the new stars as you call them have comparatively enhanced their supply chains. On the potentially negative side, the greater integration of production can also render it potentially more vulnerable to disruptions of trade flows, whether policy induced, such as through preferential trade agreements, or naturally caused, such as what happened in Asia after the unfortunate recent Japan earthquake. Also, growth in trade interconnectedness and its overlap with financial interconnectedness have increased the cross-border transmission of shocks, as was seen in the 2008-09 global financial crisis.

However, the resilience of trade remains impressive. For example, the bounce back from the supply chain disruptions caused by the March 2011 Japanese earthquake was significantly stronger than anticipated.

In the context of the changing patterns of world trade as you have outlined, do you at this point in time believe we can be optimistic looking forward as we close this March 2012 ICC Banking Commission meeting in Doha?

The current environment – characterized by fragile financial systems, high fiscal deficits and debt, and interest rates close to the zero bound – provides fertile ground for self-perpetuating pessimism and the propagation of adverse shocks, the most critical of which would be a intensification of the crisis in the euro area, if that were to occur.

With this backdrop and from my perspective, there are basically four requirements for a more resilient recovery: sustained but gradual fiscal adjustment in countries with high deficits or debt; supportive monetary policy, particularly in advanced economies; structural reforms to support growth; and restored business and consumer confidence. Regarding the last, policymakers can help anchor expectations through mutually consistent and cooperative international solutions.

While trade flows slowed down towards the end of 2011, there have been recent signs of a rebound – albeit still tepid. In particular, we have seen a pickup in trade in the U.S. and non-Asian EMEs, though still sluggishness in the Euro Area and Asia.

Thank you for your insights into the changing patterns of world trade and your view on the current trade environment. On behalf of the ICC Banking Commission I want to thank you and the IMF for being our partner in the ICC Banking Commission, Market Intelligence Group.

You are most welcome. The IMF continues to support trade and trade facilitation through our economic policy advice to member countries and through analysis on trade issues.

A paper on the changing patterns of global trade, can be found at http://www.imf.org/external/pubs/ft/dp/2012/dp1201.pdf

Business Trends in Export Credit Insurance

A successful year in a volatile risk environment

During 2011, Berne Union members insured a record amount of USD 1.7 trillion worth of exports – more than 10% of international trade. Despite the emergence of new significant challenges, it was also a year of good results for most credit insurers, confirming the swift turnaround in the industry after the global crisis of 2008/2009. However, political changes in the Middle East and North Africa, as well as sovereign debt concerns in Europe and the US, underlined that the risk environment remains volatile.

Of the total amount insured, USD 1.5 trillion represented Short-Term Export Credit Insurance (ST) in support of exports with a repayment period of less than one year. Medium-Long-Term Export Credit Insurance (MLT), covering transactions with repayment terms of typically 3-5 years and more, amounted to nearly USD 200 billion. Both short-term and medium-long-term business recorded double-digit growth of respectively 19% and 10%.

The support of credit insurance for world trade was also evident in the amounts of claims paid to insured customers to compensate them for losses suffered due to defaults by buyers or other obligors. Since the beginning of the crisis in 2008, Berne Union members have paid out USD 15 billion to exporters.

With renewed uncertainty in the global economic and political environment, 2011 was a year for credit insurers to catch their breath and prepare for 2012, which promises to bring its share of new challenges.

Short-term business: a strong performance with an outlook for higher claims

Having stabilized in 2010, the ST business of Berne Union members expanded again in 2011 to reach an estimated figure of USD 1.5 trillion (or plus 19%). The vigorous growth in exports insured was above the increase in world trade observed in the first three quarters of 2011. The insurance capacity provided by Berne Union members, measured by the amount of credit limits extended to exporters at a given point in time, stood at more than USD 880 billion at the end of 2011. This was similar to pre-crisis levels and about 15% more than the low point at the end of 2009.

ST claims paid were low in 2011. The amount of USD 1.3 billion paid out to customers was even below the claims volume of 2010, the year which had seen claims coming down to normal levels after the crisis. This is remarkable, taking into account that insured export turnover, and therefore risk taken on board by the insurers, strongly increased in 2011.

Figure 45 **Berne Union export credit insurance statistics**

Short-Term Export Credit Insurance							
in million USD	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
New business covered	**843,719**	**975,262**	**1,126,721**	**1,296,878**	**1,123,195**	**1,257,795**	**1,492,600***
Claims paid	**702**	**783**	**1,007**	**1,128**	**2,418**	**1,407**	**1,322**
Loss ratio	**35%**	**35%**	**40%**	**40%**	**89%**	**44%**	**n/a**
*) Estimate							
Medium-Long-Term Export Credit Insurance							
in million USD	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
New business covered	**104,241**	**126,891**	**142,120**	**153,591**	**190,589**	**173,393**	**191,195**
Claims paid	**2,115**	**1,913**	**1,245**	**1,128**	**3,004**	**1,836**	**2,456**
Loss ratio	**65%**	**57%**	**35%**	**30%**	**63%**	**32%**	**n/a**

A word of caution has to be entered here. Claims levels were low in 2011, but the quarterly evolution saw a constant rise throughout the year. While claims paid during the first quarter of 2011 stood at USD 217 million, the fourth quarter showed an amount of USD 471 million paid to customers. This indicates a negative trend with possible higher claims activity in 2012.

The top claims countries for ST in 2011 were Libya (USD 154 million), the United States (USD 144 million), Spain (USD 88 million), Germany (USD 85 million), and Italy (USD 82 million). In ST, high amounts of claims are typically paid on countries where it is particularly risky to trade or where there is high exposure in terms of business volumes. Libya and the US are good examples: While the claims volumes on both countries were fairly similar, the exposure to Libya was small – just above USD 1 billion at the beginning of the year – whereas the US represented the largest exposure country for Berne Union members – USD 64 billion.

Claims on Greece represented USD 36 million for a relatively small exposure of USD 6 billion. In any case, the performance of ST credit insurers in ST is closely linked to the ups and downs of the global economy as well as to political developments worldwide. While a year ago a majority of Berne Union members were of the opinion that the very high loss period experienced during the crisis was over, the outlook for 2012 is now for higher claims in a risk environment that has deteriorated once more.

Medium-long-term business – ECA cover in high demand

The MLT statistics of the Berne Union capture insurance coverage provided by state-backed Export Credit Agencies (ECAs). With more than USD 191 billion in 2011, the volume of new MLT transactions insured by Berne Union members reached a record number.

The high demand for ECA cover demonstrates that we are again – or still – in a situation where few, if any, major MLT transactions close without risk mitigation provided by ECAs. This is due to the continued challenging global risk environment, as well as the heightened awareness of credit insurance as a risk-management tool. Compared to the pre-crisis period, banks have adjusted their risk appetite, and they rely on insurers to carry the risk of obligor defaults.

Claims paid to customers for defaults on MLT transactions increased by 37%, from USD 1.8 billion in 2010 to USD 2.5 billion in 2011. Although only an estimate can be made at this stage, it seems that premium income has significantly increased as well. In all likelihood, the loss ratio for 2011 – claims paid in relation to premium income – should be similar to the one for 2010. The highest amounts of claims paid per country were paid due to defaults in Kazakhstan (USD 409 million), Libya (293 million), Ukraine (USD 163 million), the Netherlands (USD 114 million), and Sudan (USD 113 million).

The circumstances of every claim in the MLT area are specific. Frequently, it is only one debtor who defaults, or one large transaction that goes sour, but this default may impact several insurers. Consequently, it is difficult to draw general conclusions from the list of top claims countries as above. Having said this, it appears from the list that no safe haven exists, and that ECAs always take significant risk every time they insure an MLT export.

Total MLT transactions under cover in the books of Berne Union ECAs at the end of 2011 amounted to USD 583 billion, the highest level ever for new business covered. More than ever, the support of ECAs appears to be crucial to help banks unlock liquidity and to enable exporters to trade internationally.

Outlook: Is the next crisis around the corner?

The credit insurance industry weathered the major test of the global crisis of 2008/2009 well. No insurer defaulted, and the industry paid out claims appropriately and promptly. While the year 2010 saw a turnaround in the credit insurance market, and 2011 started following the same path, risks are back on the map for 2012.

Indeed, claims paid took an upward trend towards the end of 2011. The uncertainties related to the global economy, as well as to political developments, signal heightened risk as well as new opportunities for credit insurers. Two years after the crisis, Berne Union members are prepared for a possible return of very difficult times. Internal risk management and processes have been adapted to the new risk environment. Insurance products and communication with clients have been improved, in order to continue serving the needs of exporters. Needless to say, the pricing of insurance products needs to be commensurate with the risks taken.

A major challenge that impacts the business of ECAs and private market insurers is the current inability of many banks to fund themselves in USD. This can lead to transactions being put on hold because of a lack of finance, especially for MLT exports.

These (hopefully) temporary difficulties could be intensified by the unintended consequences of Basel III and Solvency II. Indeed, regulatory changes in capital and liquidity requirements could have a major impact on the ability of banks and credit insurers to support trade.

With new challenges ahead, Berne Union members, public and private credit insurers, will continue to provide risk mitigation and facilitate global trade flows.

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