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## MEDIA RELEASE

### Prospects for strong trade recovery mixed, ICC report says

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Prospects for a strong and lasting trade recovery are mixed, with access to affordable trade finance constrained, trade protectionism still a problem, and banks facing tougher capital requirements for their trade assets, a major new survey on trade finance by the International Chamber of Commerce (ICC) said today.

The survey report, titled "Rethinking Trade Finance 2010," includes the results of specific responses received from 161 banks in 75 countries, a 32% increase in the number of respondents compared with the last global survey in March 2009. The surveys, including an interim one published in September, were commissioned by the World Trade Organization's Expert Group on Trade Finance to track the developments in the industry.

"The 2010 survey has confirmed that the current global financial crisis has continued to affect financial institutions and markets worldwide," the report concluded. Citing a 12% drop in trade in terms of volume last year, the sharpest decline since World War II.

"This is a challenging economic environment, and trade volumes may be further impacted in the coming months. On a global basis, the predictions for 2010-2011 remain cautious; many expect that the economic turmoil will continue to predominate," it added.

Nevertheless, 84 % of respondents said they anticipated an increase in demand this year for traditional trade products such as commercial and standby letters of credit and guarantees.

In terms of value 60% of respondents indicated that trade finance activity had decreased between 2008 and last year, while 43% of financial institutions reported a decrease in export Letters of Credit volume, slightly down from 47% in the 2009 survey. Regarding imports, 26% of respondents said they saw a decrease in import Letters of Credit, with 51% seeing no change from 2008.

ICC said the drop in trade was less marked in some regions, particularly Asia. It said most Chinese partners benefited from that country's fiscal stimulus package and the rebound in Chinese imports. Worldwide, exports of durable goods were most affected, while trade in non-durable consumer goods including clothing and food declined the least. The services trade was generally more resilient to the crisis than the merchandise trade.

"The survey is a continuation of ICC's long series of actions in support of international trade," ICC Chairman Victor K. Fung wrote in a foreword to the report. "In recent years ICC has insisted on the necessity of concluding the Doha Round of trade talks and on continuing the fight against protectionism."

The report took note of the pledges to fight protectionist pressures by G 20 countries following the Washington, London, and Pittsburgh summits. "Yet since the onset of the crisis, many countries have veered towards policies that favour domestic products over foreign imports," the report noted. "Protectionist measures should be resisted, as they curtail trade flows and add to the adverse effects of the global recession on individual country exports, economic activity and unemployment."

But while demand for trade finance remains strong for traditional trade finance instruments, the costs remain substantially higher than before the global recession. Some 30% percent of respondents said there had been an increase in fees for commercial letters of credit, standbys and guarantees in 2009.

The increase was attributed to higher funding costs, increased capital constraints, and greater counterparty risk.

Also worrying is the intense scrutiny of documents by banks, with 34% of respondents saying they had seen an increase in the number of refusals for trade finance, up from 30% in 2009. The number of doubtful or spurious discrepancies remained high, with 44% of respondents indicating that they had experienced such cases compared with 48% the previous year, at the height of the financial crisis.

“This trend toward claiming discrepancies that effectively have little or no foundation is worrisome and may prove damaging to the integrity of the documentary credit as a viable means for settlement in international trade,” the report warned.

The report raises concerns that despite the injection of US\$250 billion in aid for trade finance over a two-year period, made available at the G20 summit in London in April 2009, evidence is accumulating that the implementation of the capital adequacy regime under Basel II rules is contributing to the drought in trade finance. ICC has expressed concern in the past that the proposal by the Basel Committee on Banking Supervision to increase the risk weighing of trade finance under a new framework to limit bank leverage” would adversely impact the supply of cost-effective trade credit to businesses.

“It appears that low-risk trade finance instruments are being lumped together with higher risk off balance sheet items, without an appreciation of unintended consequences,” the report added.

The launch of the ICC trade finance report is being launched simultaneously in Paris and Beijing and is being led by Mr Fung and ICC China Chairman Wan Jifei.

For a copy of the report, please click here:  
[http://www.iccwbo.org/rethinking\\_trade\\_finance\\_2010/](http://www.iccwbo.org/rethinking_trade_finance_2010/)

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