WORLD TRADE ORGANIZATION

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Working Group on Trade, Debt and Finance

EXPERT GROUP MEETING ON TRADE FINANCE – 30 MARCH 2020

INFORMAL REPORT BY THE WTO SECRETARIAT

1.1. The objective of this virtual meeting was to receive participants' views about the most adapted policy response to current circumstances. The call was organized by the WTO Secretariat in collaboration with the International Chamber of Commerce's (ICC) Banking Commission Secretariat. It benefited from the participation of leading global and regional banks involved in trade finance, representative of export credit agencies, professional organizations, and multilateral development banks.

1.2. The Expert Group on Trade Finance signalled a significant deterioration of the availability of trade finance, its risk profile and cost, relative to the meeting held in Geneva on 21 February, during the virus outbreak in China.

1.3. Several financial institutions argued that the increased demand by traders (both importers and exporters) for bank support was not only requiring additional guarantees and liquidity, but also capital or capital relief for financial institutions – as an increased demand for support weighted on their capital base. An important consideration in a « roll-over » finance business is that, as payments terms were extended for existing credit/facilities, the accommodation of new requests for became more difficult. Some participants considered that a «future flow of funds » type of programme could be needed. International banks faced a deterioration of the liquidity of their partner banks, notably in developing countries, compromising the security of payables and receivables' flows across international supply chains. It was reminded that capital relief for trade finance transactions had been recommended and temporarily enforced by Members of the G20, after the London Summit in 2009 crisis. This contributed to freeing bank resources for financing more trade transactions.

1.4. Significant operational problems currently hindered trade finance. Many countries had difficulties adapting to "work-from-home". Legal documents necessary for the processing trade transactions (invoices, bills of lading, customs documents) were either delayed, or not transmitted at all. Without such documents, transactions could not be processed and deliveries could not be made, with some national legal systems requiring only original documents from the counterparty to be presented for verification. Interim solutions worked in some countries, with the use of scanned documents and e-documents (such as e-bills of lading). However, in many areas, such as in the Indian sub-continent, the system was still largely based on original documents, and hence paper-based. The legislation was difficult to suspend as the verification of original documents upon the opening of letters of credit and requisitions for payments was precisely put in place to avoid fraud – which numbers were on the rise globally.

1.5. The International Chamber of Commerce, the standard setting body in the field of letters of credit, said that it was about to issue guidelines allowing for some relaxation of requirements, such as the 5-days deadline for the presentation of compliant documentation. Still, the problem of missing official documents for trade was a growing one, spreading from country to country, as shutdowns of public administrations, port authorities, etc, had been decided abruptly and without alternative. A related problem was current restrictions on customs and mail services, which, even when documents had been collected, prevented their physical transmission to issuing banks, thereby preventing trade deliveries. There was a strong demand from Asian institutions asking for the WTO to call for caution in restrictions related to mail services.

1.6. The availability of liquidity depended greatly on the geographical location concerned. As often in acute crises, the poorest countries are the first and most affected: in Africa, the tightening of

liquidity had been immediate as several international and regional banks had been either cutting their funding lines to African financial institutions for trade transactions or increasing the cost of it. Some landlocked African countries were currently not able to receive essential imports of goods as a result of border closures in neighbouring countries, and lack of finance. Transit trade was particularly affected.

1.7. In many other developing countries, including in Latin America, Northern Africa and Central Europe, liquidity in USD was drying up quickly. While representatives appreciated the reactivation of swap agreements between the Federal Reserve and a selected number of central banks, participants requested an extension of the number of central banks with which swaps agreements would be available.

1.8. In other regions, trade credit/payment guarantees were in greater need than liquidity. A number of financial institutions and multilateral development banks argued that the perception of the payment risk was deteriorating rapidly. While financial intermediaries could handle one-off extensions of terms of payments, the uncertainty related to the duration of the crisis led to a heightened perception of the risk of not being paid back, this perception of risk increasing with the remoteness of transactions. The vast majority of participants requested increased guarantees to be provided by export credit agencies and by multilateral development banks (guarantees on letters of credit and on short term trade credit). One participant wondered whether a moratorium on extended payment or period of grace of three months covering entire supply chain was feasible and practical. While such "blanket" measure would require a global agreement between private and public financial institutions, other participants insisted a full-scale intervention of export credit agencies and multilateral development banks, increasing quickly their guarantee mechanisms.

1.9. In this regard, participants appreciated the adoption by the EU, on that day, of a key amendment to its State Aid rules, allowing companies to obtain short-term credit insurance from public insurers. However, the measure applied only to OECD Members, leaving non-OECD Members uncovered. Proposals were made within the Berne Union for Export Credit Agencies (ECA) to be direct insurers for companies and to reinsure private insurers (on State account, like in 2009). Such a bold step was at the root of the 2009 G20 sponsored trade finance support – ECA supported about USD 130 billion in trade credit risk on State account. For the time being, governments which have adopted loan guarantee programmes for certain sectors (tourism, airlines) or certain categories of firms (SMEs) have not taken into account the specific needs of (domestic or international) trade. For example, SME guarantee schemes are not supporting the factoring industry, which finances payment receivables amounting USD 2 trillion in domestic trade and USD 600 billion in international trade.

1.10. Multilateral development banks have increased their trade finance facilitation programmes to guarantee (mostly), and possibly fund directly, trade transaction (IFC, EBRD, ADB, Afreximbank have announced COVID-related schemes). One multilateral development bank has already recorded an 80% increase in demand for its support.

1.11. In summary, the representatives of the trade finance community present at the meeting are unanimous in requesting:

a. More international coordination of measures which have to date been taken at the national or regional level, with a view to protecting international supply chains – particularly at the low end of the chains, in developing countries.

b. More coordination between public sector actors, such between the WTO and multilateral development banks, among multilaterals; and with ECAs.

c. Measures adapted to international trade, with a mix of guarantee programmes by ECA mitigating the increased perception of payment risk; MDB programmes oriented towards developing countries' preservation of trade structures; and SME based programmes guaranteeing – close to the architecture agreed at the G20 London Summit and monitored at the Toronto and Cannes Summits.