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TRADE FINANCE TALKS

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TRADETECH & TRADE WARS

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CONTENTS

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A NOTE FROM TRADE FINANCE GLOBAL

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Who are Trade Finance Global?

We get asked this a lot, so we decided to answer you here. TFG is the leading trade finance platform. We assist real companies to access trade and receivables finance through our relationships with 270 banks, funds and alternative finance houses. As a proud member of Innovate Finance and an ITFA Fintech, our funding platform is removing the barriers around access to trade finance for companies that need it the most.

To fulfil our purpose to provide 'trade finance without barriers', we launched Trade Finance Talks, an award winning educational portal, serving 110k+ monthly readers across 186 countries, covering news and insights across print & digital magazines, guides, research papers, podcasts and video. Better still, it's free and ungated, for all.

Education is important to us, and for the second year running, we've continued our Student Writer Programme. This year we have partnered with FCI Academy, who are providing our student writers access to the 'Fundamentals on Domestic and International Factoring Course'. We also launched our WOA Expert Interview Series, interviewing 12 subject matter experts on open account finance.

The last decade has seen major industry changes; banking regulation and its unintended consequences for trade finance, as well as the ways in which businesses learn, understand and access trade finance. TFG's role in the trade finance market has risen to meet this challenge, updating the industry on recent rules changes, breaking down complex terminology and most importantly, providing access to trade finance for the mid-market.

Welcome to our third edition of Trade Finance Talks by TFG: The Fintech Issue.

'Trade wars are good, and easy to win' (Donald Trump, Twitter), or not, according to Unicredit's Dr. Andreas Rees, who we heard from at the 46th Annual Conference of ITFA in Budapest earlier this month. The tit-for-tat behaviour between the US and China has seen trade tariffs increase seven fold since January 2018. Global trade has shrunk in the past quarter, a highly unusual trend, and the US China fallout is creating a negative spillover to the rest of the world. Are we headed towards a global slowdown? Perhaps.

Global central banks have buttressed their foreign exchange reserves with gold, rather than USD. Monetary authorities purchased $15.7bn of the precious metal in the first half of 2019 - the greatest increase in the past 19 years of available data.

There are positives in our outlook, as liquidity providers and fintechs are rising to the challenges in trade. Though some banks are hesitant to embrace the culture of innovation. Yet, according to Merisa Lee Gimpel, Director, Head of Trade Innovation at Lloyds Bank: 'the culture of innovation means that we should not fear challenges, because when you are experimenting with new propositions, some will undoubtedly be invalidated. We should seek to continuously validate and improve solutions starting early on in the development journey, rather than expect every project we embark on to be a success in its current form'.

Perhaps more banks should have this mindset and be more open to fintech partnerships, embracing potential failure as a chance to turn lessons learned into a better 'version 2.0'.

To advance trade finance's digital transformation, financial institutions and technology providers alike are ramping up efforts to cooperate through a number of consortiums. But, to ensure these various initiatives do not create a cluster of "digital islands", a more joined-up approach is required.
And what about exporters? What should they be doing right now? "It's the uncertainty that's killing everything right now" said Imran Arshad, a British exporter and winner of the Queen's Award for Enterprise who we spoke to on our podcast earlier on in the year.

Preparation and risk mitigation strategy is key here. We spoke to George Riddell, Deloitte, about what to do. "It's important to map the trade barriers that you currently face, prioritise addressing those barriers either through optimising their use of existing trade arrangements or looking to new suppliers and markets; and, maintain a dynamic trade strategy, monitoring and updating as there are new trade developments."

We thank our contributors, partners and sponsors for making Trade Finance Talks happen.

1.1

INDUSTRY UPDATE | TRADE IN 2019

Harri Rantanen

Standardised Trust

Business Developer,
Transaction Services

SEB

Out with the old, in with the new

It has finally started. Trade finance has entered the domain of accepting and embracing emerging technologies to help simplify and create new ways of approaching old business processes. The old way of working has created many challenges for global trade, with the addition of political protectionism which is generating stress to trade goods and services internationally. Besides the protectionism, as other challenges may be listed as the lack of trust and true global interoperability as well as local and regional political agendas and regulations.

Execution eats strategy for breakfast: the collaboration approach

After many years of futile discussion and presentations between market stakeholders, we created the Standardised Trust collaboration. Over the course of 2 years, starting initially out of Finland, we realised that there were many working groups addressing very similar challenges, yet those stakeholders lacked on execution not being well balanced on stakeholder group representation.

The common semantic model

In our original White Paper (May, 2017) we set a goal to improve the status quo by creating a common semantic model for Trade Finance (TF) to be used by various existing and new solutions within the business area. This would make solutions more accessible and affordable for bigger masses of global trade counterparties so that even smaller companies can participate thus increasing overall trust in the business. In summary, we're not creating our own solutions, nor are we creating new platforms, rather, building a toolkit and common language for any vendor or participant to act interoperably.

SWIFT'll fix it(?)

In the community we follow-up TF standards, technology and other similar groups and communities. SWIFT, with their MT7xx message set and model, has had a key role in enabling the banks and SWIFT connected corporations to operate with TF instruments electronically. MT7xx message set is not necessarily the best fit however. The Standardised Trust has therefore examined the ISO 20022 business and data model as a basis to finetune messaging for the community. It is highly structured and well-designed standard to act as a cornerstone for being a common TF language.

SWIFT will need to find its new way as a key enabler in TF as the Bank Payment Obligation product will be soon shut-down, and we also need to include smaller corporations, not being able to join SWIFT network, when thinking about digitising trade

finance.

Distributed Ledger Technology, the way forward?

Many Blockchain/Distributed Ledger Technology initiatives have challenged the traditional message based communication and integration model, first introduced by SWIFT. R3's Voltron for electronic Letter of Credits, we.trade for smaller company digital trade and R3's Marco Polo for Open Account Trade Finance are just a few initiatives worth notable mentions. When all of the key players are participating in the same platform based on automatic transactions and smart contracts on DLT, the messaging is no longer needed. Yet the need for transaction status, and standardising transaction payload semantics plays key role to make these new platforms interoperable.

There are ICC rules; no need to worry

We continue to evaluate ICC TF instrument rules as well as the ISBP sets, through our End-to-End business process working group. ICC also has a work in progress to renew many of the rule sets applying next year, to be better aligned for a digital trade finance experience. At the Standardised Trust community, we also try to have a challenging view on the traditional ICC rules set and build some more concrete rules within the upcoming semantic models; the community work originally started from bank guarantees. There is no competition needed here, instead, we would like to collaborate with the ICC's digitalisation working group.

Standards and semantics is needed

We can endlessly discuss digitalisation of any business domain happen as business rules renewal or technology driven. Some claim for example blockchain technology being the holy grail for TF digitalisation, others, a band aid for a larger challenge. Either way, we need to speak the same language whatever platforms we use. The Universal Trade Network, voluntarily coming out of the Marco Polo project team, is a standardisation and harmonisation working group, looking to invite external members to join forces to address these global trade challenges.

The Wolfsberg Principles to approaching financial crime, sanctions and cybersecurity

When moving towards digital platforms and real-time financial operations, the risk of fraudulent actions could increase. This is true, yet in current TF transactions, traditional and paper based transaction processing is also a gold mine for fraudsters. Many of these types of criminal activities can be taken care of with better computer-aided, standardised processes and controls. But it is a fact in the global scope of TF that moving towards a digital environment enables new ways of simplifying and controlling the actual trades. The Wolfsberg group has come to this arena by defining TF Principles since 2011, now also collaborating with the ICC and BAFT on these guidelines, addressing the key elements of secure and safe trade and its financing instruments.

We have the tech and business expertise – let's collaborate and use them together

It is not only DLT that will fully rewire trade finance. The Internet of Things, GPS, Artificial Intelligence (Machine Learning and Natural Language Processing) as well as better integration with Application Programming Interfaces (APIs) that are rethinking digital trade. In the Standardised Trust community, we try to cater the basics of technology for our business process experts and bring together designers, innovators and leaders to rethink, innovate, and possibly even agree on development needs with the processes to utilize better new tech options and features.

Let's collaborate and address the key issues as a business community, together. ■

Find out more:
standardisedtrust.com

1.2 MIND THE TRADE FINANCE GAP: WTO EFFORTS TO ADDRESS IT

MARC AUBOIN
Counsellor
World Trade Organisation

Access to affordable trade finance is a condition of success in international trade, to the same extent as rapid clearance of customs and efficient transportation. For decades, successful companies in developed countries have benefitted from the existence of mature financial industries distributing high volumes of finance and guarantees at low rates. Trade finance is normally a high volume and low-cost source of finance, because the risk of default is small, with a global average of 0.2%, and little difference across countries.

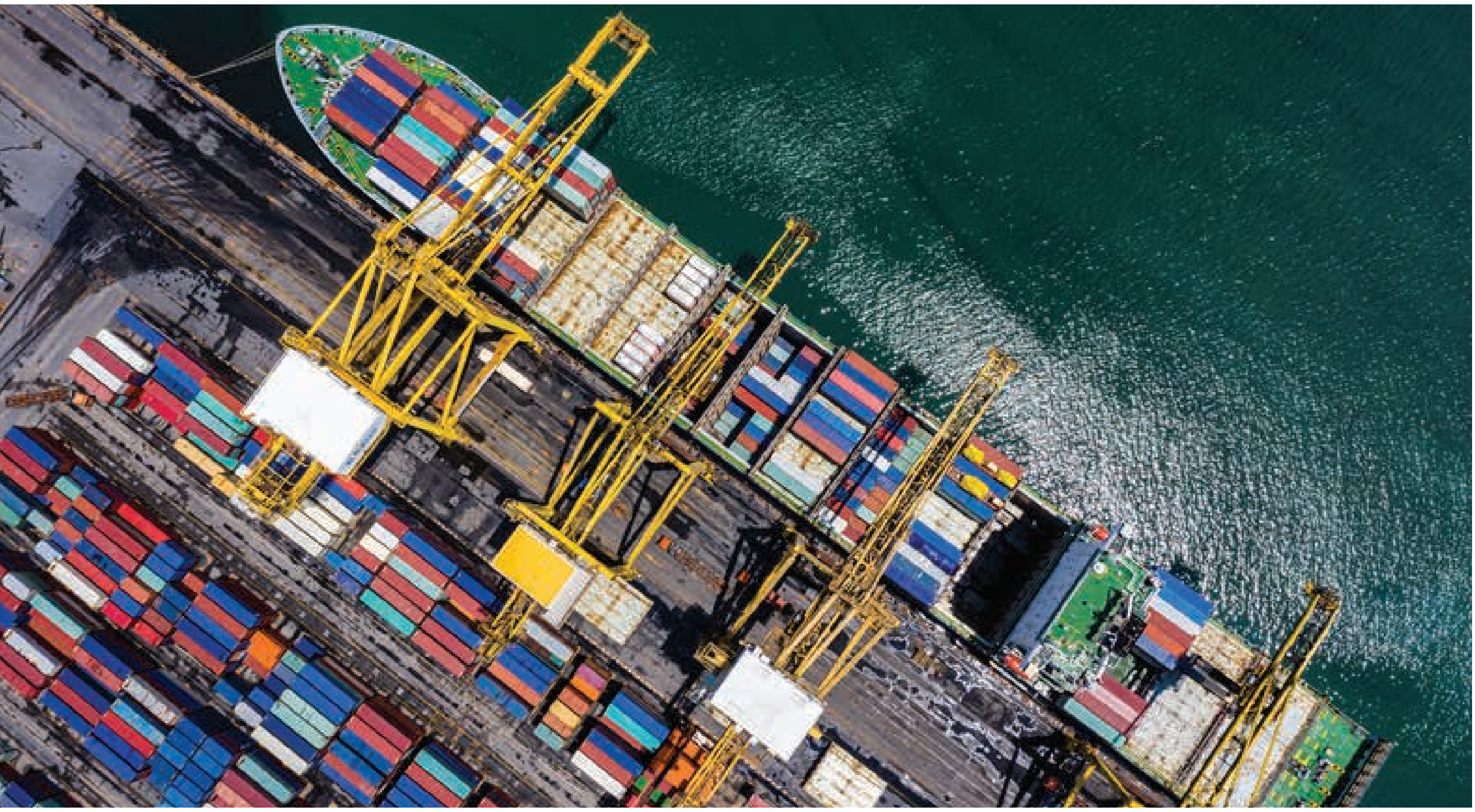
Still, production and trade are reaching countries which have a comparative advantage to produce goods but relatively young financial sectors which are not always able to support all such new trade, at least at affordable cost. The result is the emergence of significant gaps between supply and demand. According to a study by the Asian Development Bank (ADB), the current trade finance gap is estimated at $1.5 trillion, mostly in developing countries: half of the gap is in developing Asia, Africa and Latin America. The smaller enterprises are hit the hardest. The World Economic Forum estimated that the trade finance gap could widen further still, reaching 2.5 trillion dollars by 2025, as supply chains move further away from China to poorer developing countries.

The ADB study lists the reasons why trade finance requests in developing countries are more likely to be rejected: recognition of firm creditworthiness is more difficult, hence the demands for collateral are prohibitive; locally, traders also face more selective and perhaps less advanced local financial industries, also skilled in handling complex products and risks. Moreover, since the great financial crisis of 2008, international banks have been shrinking their network of correspondent banking relationships, mainly in developing countries, reducing their ability to clear transactions with the rest of the world.

This is concerning to international institutions. Without loans and guarantees, many entrepreneurs, mostly cash-less ones, cannot trade and compete. This is a major obstacle to help people access global markets and ensure that trade plays its full role in promoting growth, development, and job creation. WTO Members repeatedly flagged the need to address trade finance gaps.

For several years now, the WTO has built a strong coalition of institutions to try address problems and call the attention of the international community over trade finance shortages. The strategy of the WTO Director-General points to three directions:

1. Supporting multilateral development banks' trade finance facilitation programmes by way of advocacy and mobilization;



2. Reducing the knowledge gap regarding trade finance products, by encouraging our partners to increase their training programmes;
3. opening a dialogue with trade finance regulators;

Progress has been achieved in each of these areas. Multilateral development banks stepped in to increase their financing or guarantees in the poorest parts in the world. In 2018, these programmes supported around $30 billion in trade transactions in low income countries, a 50% increase since 2018, with a greater focus on SMEs. For example, in the context of its trade finance facilitation programme, the Asian Development Bank doubled the number of trade transactions supported involving SMEs, to 4,500 last year. The African Development Bank and African Import and Export Bank are doing likewise in Africa. The Director-General has been encouraging multilateral development banks to work closely together to provide better coverage. In July 2017, the Islamic Trade Finance Corporation and IFC met at the WTO and signed a memorandum of understanding to pursue joint financing in Africa. Such joint collaborations help leverage the resources of international agencies. Importantly, trade finance facilitation programs help local and international institutions to gain experience in dealing with one another, so that future transactions be handled independently.

The second area was addressing knowledge gaps in local financial institutions. The WTO, multilateral development banks and the International Chamber of Commerce have been training more than 1,500 people annually, across over 60 countries. Lately, they brought on board new partners, such as the Financial Stability Board (FSB) and the IMF, to add regulatory issues to the training on trade finance, in particular on anti-money laundering and know-your-customer. In 2019, the WTO directly participated in workshops organized by the IFC in Rwanda, Madagascar, Zimbabwe and Zambia; by the Afreximbank in Morocco; and by the EBRD in Bosnia and Herzegovina and in Greece.

The third area is to increase dialogue with regulators. The Director-General has been reaching out to the heads of the FSB and IMF, with a view to developing practical steps to help trade finance providers come to grips with regulatory demands. Progress is being made in the adoption of the legal entity identifier and in the development of information repositories for due diligence.

This silent work, which aims at improving the capacity of local financial sectors to respond to growing demand for trade finance, will continue in the coming months, as there is no quick fix to closing trade finance gaps. ■

1.3 LIFE AFTER BREXIT - AN ICC UNITED KINGDOM PERSPECTIVE

CHRIS SOUTHWORTH
Secretary General
ICC United Kingdom

The global trading system is in disarray. Global economic growth is slowing, half the G20 are now operating under openly protectionist agendas, and tensions between China and the United States remain high – despite faint promise of a truce earlier this year. But over in the UK, all of this is overshadowed by the continuing dispute over Brexit. The nation is bitterly divided, and we are fast approaching what could constitute a national crisis.

The confusion on behalf of international onlookers is understandable and they are not the only ones in disbelief. The decision defies all logic: why would a first division trading nation commit such an act of self-harm – voluntarily downgrading itself from the premiership of global trade to operating outside of a larger trading bloc on less preferential terms? But what had seemed like a slim possibility may well become a reality. As the 31st October approaches, we must suspend our disbelief and prepare ourselves for the worst possible result: a "no-deal Brexit".

We are now in no doubt that a no-deal will trigger disruption internationally, though UK firms will naturally be worst affected. For the businesses that survive, additional costs will be cascaded down to the consumer – the poorest and most marginalised communities being the most vulnerable. But no-one will be immune.

The uncertainty surrounding the terms under which the UK will leave the EU has been hugely problematic for business continuity for the past few years; not to mention that many people hadn't believed a hard Brexit would even be considered a possibility. Indeed, recent studies have shown that 70% of the UK's 5.7 million small and medium-sized enterprises (SMEs) remain unprepared for a no-deal – many having been unable to afford such large-scale contingency planning given the multiple possible outcomes.

Political grievances aside, with less than two months to go, practical initiatives need to be established to minimise business interruption, whatever the outcome. For some services industries, Brexit has already happened; in many cases, companies have established a European presence to ensure that our new global status has as little impact on business operations as possible. The concern now predominantly lies around goods traders – particularly SMEs – and anyone with supply

chains that cross UK/EU borders. Tariffs are predicted to reach up to 40% on some goods, with businesses in the food, drink, automobile and manufacturing sectors all set to suffer the most – particularly those with smaller margins. To mitigate the disruptive effects of crashing out of the EU, these companies should all be aware of the practical steps that need to be taken prior to the 31st October.

For any business that imports or exports across UK-EU borders, this involves dealing with increased administrative burden (around tax, customs duties, declarations, tariffs and quotas) which could swamp businesses that are unprepared or under-resourced – watertight contingency plans need to be established to ride out the storm. Importantly, businesses must ensure they have registered with HMRC to apply for an Economic Operator Registration and Identification (EROI) number, which anyone importing or exporting commercial goods from outside the EU needs to have. Businesses will be responsible for filling out the correct documentation to import/export from/to the UK, and this needs to be completed prior to loading at point of origin, as there will be no such capabilities in the ports.

Another reality that many may not yet have fully grasped, is that free movement of labour might cease altogether from the 31st October, regardless of how "orderly" or "disorderly" our departure from the EU is. Companies should be cognisant of this and make arrangements accordingly – by ensuring all of their workforce are in possession of a passport with 6 months validity, for example.

Though this seems like a UK-centric issue, the disruption will not purely be confined to UK businesses. Global supply chains will be impacted, costs for companies exporting to the UK will rise, and investment may be deferred – as we have already seen since the referendum. Companies trading with the UK are already re-evaluating and remapping their supply chains – all of which carries a cost both at home and abroad. Indeed, any companies trading with the UK (or with operations in the UK) should ensure they are fully informed of their UK counterparties' plans and/or seek out local government representatives to get the latest information around trading requirements with the UK post-Brexit.

Businesses are understandably frustrated by the seeming lack of acknowledgement within government of the economic distress that a no-deal would cause, and the deficit of support provided to protect them in this eventuality. But it is time to accept the facts – businesses need to be preparing for the worst and hoping for the best. ■

1.4

IS THE BREXIT GAME WORTH THE CANDLE?

DR. JOHN LLEWELLYN
Partner
Llewellyn Consulting

One of a kind

There is, so far as I am aware, little or no precedent for what the UK is attempting to do: seeking to reduce unfettered access to its closest and most important market – which also happens to be one of the world's two largest. In 2018, 46% of the UK's exports went to the EU, and 54% of UK imports came from it. Almost all countries in the world try to make trade deals, not dismantle them. The UK's Brexit 'experiment' also flies in the face of one of the most empirically robust relationships in economics, the so-called 'gravity model' of international trade, which finds that bilateral trade between two countries is directly proportional to size (as measured by GDP), and inversely proportional to geographic distance. The EU is large, high-income, and close-by: most alternative trade partners are small, lower-income, and/or further away.

Likewise, by leaving the EU, the UK will be quitting the Free Trade Agreements (FTAs) that the EU already has with countries that absorb another 17% of the UK's exports of goods – notably Korea, Canada, Singapore, and the countries in EFTA. Similarly, the UK will no longer be included in the FTAs that the EU is currently negotiating with countries that take a further 19% of the UK's exports. It is hard to see how the trading relationships that will ultimately come about stand to be significantly better or more wide ranging than those that the EU has already negotiated and to which, by virtue of being a member of the EU, the UK was already party.

Time and money

That said, I have little doubt that the UK could, in the fullness of time, conclude satisfactory trading arrangements with practically all major economies, and ultimately end up with a diversified and thereby robust pattern of trade. Equally,

I have little doubt, based on the UK's own experience and that of other countries, that ultimately the structure of the UK economy will adapt fully to its new trading arrangements and patterns of demand.

What will matter, however, will be how long all this takes. Some economists posit that adjustment will be quick and easy. I doubt it. On the experience of other countries, that seems highly unlikely, for two main reasons.

First, the process of negotiating full trading relationships with all the major economies in the world will take years, not months. The UK's negotiating weight should not be overstated: producing just 3% of world GDP, it is uncertain how influential the UK stands to be in any negotiations for either goods or services. And services are particularly important: they account for around 60% of total exports.

Even more importantly, the process of structural adjustment – of people and investment moving from one industry or sector to another as a result of Brexit-induced changes in the structure of demand – will probably take 5 years, and could take 10. This adjustment process will inevitably be accompanied by loss of GDP, and consequent rise in unemployment, until that adjustment is complete.

A big gamble

The natural question to ask is whether Brexit, in any form, is worth pursuing.

Without knowing in advance the amount of GDP that will be lost during the transition, it is impossible to specify the economic cost with certainty. But in my judgement the order of magnitude is likely to be several percentage points of GDP per year, over many years.

There is an additional risk: that the adjustment will prove so socially and politically painful that the government becomes obliged to respond with policy palliatives. Protectionism, subsidies, and so on ease the pain, but do so by slowing the necessary adjustment.

On the other side of the ledger, the value that is to be placed on a heightened degree of independence is in part a value judgement. Technically, however, important parts of the alleged benefits from 'taking back control' are illusory: exporting countries are inevitably bound in large part by the laws, standards, and regulations of the markets in which they sell, be these US laws in the US, European laws in Europe, Chinese laws in China, or whatever. And the market for services, while far from perfect in Europe, is nevertheless better developed than in any other economic area.

Last, and perhaps most importantly of all, it is highly unfortunate that, in the UK, almost all of the Brexit discussion has been discussed in narrowly economic terms. It has scarcely been mentioned, let alone valued, that Europe has for the past 60 years not only avoided a major war with itself, but has learned to live more closely with itself. The EU, and the Single Market that the UK did so much to create and encourage, surely has played a major stabilising role.

In short: my judgement is that the Brexit game will not prove worth the candle. ■

1.5 TRADE CONFLICTS ABOUND: THE POLITICS OF PROTECTIONISM

THEODOR IORDACHE
Student Writer, University of Toronto
Trade Finance Global

Over the past few weeks, trade spats have shaken global markets. Worldwide, trade conflicts are being borne of political rather than economic woes -- is this the new normal?

The Elephant in the Room - A Trigger-Happy America

Two academic studies focused on American politics, conducted by Italian economists, have concluded that American politicians tend to support free trade, unless their re-election is approaching. Then, they become protectionists. The logic goes that during election season, politicians seek to claim the votes of the passionate few whose livelihoods may be negatively affected by freer trade - the many who would benefit tend not to be cognisant of the fact, so appeasing them is not as high a priority.

Ever since Donald Trump has become President, he's been targeting China as a currency manipulator, and claiming that the United States has consistently been receiving the short end of the stick in its dealings with the Asian giant. His notoriously inflammatory rhetoric has raised questions of whether the Trump administration's trade policy is sufficiently based in conventional economic wisdom, or instead seeks political popularity.

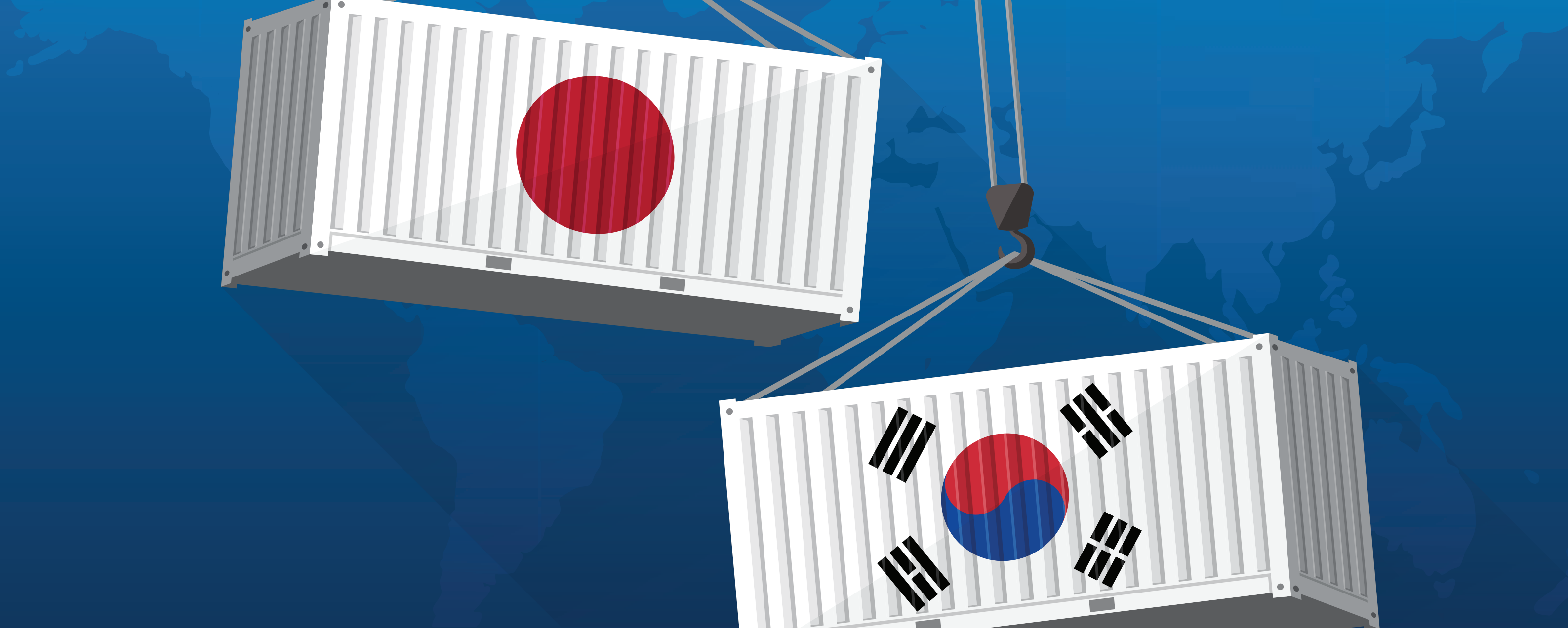
These are politically polarising times around the globe, and particularly so in America. The world's largest economy is already preparing for its 2020 election, and the President's behaviour is consistent with the findings of the aforementioned Italian studies. Over the past months, Trump has sought protectionist policies in his trade relations with India and Turkey, as well as doubled down on the Sino-American trade war.

This begs the question - are trade conflicts becoming increasingly politically-driven? If so, what should the international community's reaction be?

Lessons From History - South Korea and Japan

To understand how trade becomes politicized, one must first have a look into the history books. The political will that forces protectionism hardly ever appears of a sudden - more often, it is a long time brewing. The story of the trade war that continues to emerge between South Korea and Japan begins decades ago, with the second world war. South Korea's top court recently ruled that citizens have the right to sue Japanese companies (like Nippon Steel) for using forced Korean labourers during World War II. Japan denies culpability, and in July responded by restricting exports of three chemicals used in semiconductor production - a significant portion of Korea's economy (however, Japan denies that the Korean court ruling and its trade restriction are linked).

This was enough to rock the boat. Tensions escalated, and Japan has



recently removed South Korea from its "white list" of preferred trading partners. The President of South Korea, Moon Jae-In's ruling party has declared that Japan's actions are an "all out declaration of Economic war".

The South Korea/Japan trade conflict shows that politicized trade is not a modern or sudden phenomenon - the politics that underpin a protectionist logic can take years to boil over. This is seen in the United States as well, and can help explain why portions of the American electorate may consider a Sino-American trade war beneficial: decades of manufacturing sector decline leave Americans frustrated, as their work is now less competitive on a global scale. China is an attractive scapegoat.

So although trade wars borne of political strife seem to be on the rise globally (Pakistan has recently suspended trade with India amid the Kashmir dispute), that may not necessarily mean that economic logic is taking a backseat to populist attitudes. We might just be seeing many long-awaited socio-economic chickens coming home to roost. Nevertheless, trade conflict between some of the globe's largest economies undoubtedly merits a response from the rest of the world. Asia has been particularly affected.

Consequences for the Asian Region

With some of Asia's largest economies - China, Japan, and South Korea - falling deeper and deeper into trade wars, uncertainty rocks the area. A quote from Imran Arshad, a British exporter and winner of the Queen's Award for Enterprise: International Trade, speaking on Brexit, seems particularly applicable to what many an Asian businessperson must be feeling at the moment: "It's the uncertainty that's killing everything right now".

China's central bank, in response to American escalation, has lowered the band in which it allows its currency to fluctuate, sending the yuan in freefall - past 7 to the American dollar for the first time since 2008. This is undoubtedly to make exports more competitive, effectively "undoing" some American tariffs. Asian markets fell in response, and over the next few days a multitude of countries in China's economic sphere of influence (such as India, New Zealand, and Thailand) reacted by cutting interest rates in order to stimulate their economies, hoping to undo the damage caused by of one of their largest trading partners being caught in a trade war.

In short, the Asian response to trade uneasiness in the region has been a conventional one - which is perhaps good. That the trade conflicts in question were politically motivated doesn't necessarily mean they should be responded to any differently. The symptoms of a trade war are recognizable, regardless of its cause.

Conclusion

Some forecast a recession in America. An inversion of the yield curve (which has predicted every recession of the past 50 years, save one) has occurred in both the United States and Britain. Fears of American domestic downturns have also led global central banks to buttress their foreign exchange reserves with gold, rather than USD. Monetary authorities purchased $15.7B of the precious metal in the first half of 2019 - the greatest increase in the past 19 years of available data.

Truth be told, there is no trade conflict imaginable with as much potential to upset global markets as the one that has been raging between the United States and China - the world's two largest economies - for the past year. That a recession may be on the horizon is, to many, unsurprising. As off-putting as it may be to say, a recession may be the bitter pill that, if swallowed, would remind the global economy of the dangers of putting political expediency before measured action. ■

This article was part of the educational partnership with TFG's Student Writer Programme and FCI Academy, the Centre of Knowledge for Receivables Finance. FCI Academy is providing the participants of TFG Student Writer Programme with ten educational licenses for the 'Fundamentals on Domestic and International Factoring Course'.

The Student Writer Programme, an initiative from TFG, aims at bridging the well-known educational gap in international trade, shipping, and finance. Now in its second year running, TFG has partnered with FCI Academy to help provide an enriching educational opportunity to some of the student writers. The FCI Academy offers the Fundamentals on Domestic and International Factoring Course, which provides a comprehensive on-line introduction and overview of factoring including a brief history of the industry, FCI, the different types of factoring, the benefits, the methods and the mechanism of domestic and international factoring products.

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1.6

MOVING GOAL POSTS: EDUCATION DURING TRADE UNCERTAINTY

DAVID MORRISH
Relationships Director
The London Institute of Banking & Finance

The financial crisis of 2007/2008 triggered many after-shocks. One was the knock to global trade. Research at the Bank of Canada suggests that perhaps half of the slowdown in the growth of global trade was the result of muted investment in equipment: firms cut capital investment, so the trading of the 'intermediate goods' fell too. However, that is only part of the picture. The other is that the globalisation boom of the 1990s and early 2000s is over – at least for now. As Stephen S Poloz, Governor of the Bank of Canada, has pointed out: "China can only join the WTO once."

If the slowdown were not enough, markets also now face protectionism. Of course, this too has roots in the financial crisis. Though specialisation boosts productivity, and productivity boosts wealth, the benefits of global specialisation have not been evenly distributed. That means that the political case for trade is sometimes hard to make, even though the economic case is clear: we all need the enhanced productivity that trade brings. Ageing economies in developed markets need a good return on investment to support their pensioners. Developing markets need to create well-paid, purposeful jobs for their young people. Just as importantly, the planet needs us to ensure that all of this is sustainable.

What has that got to do with trade finance? Global trade has a lot of moving parts – and I do not just mean the goods in transit. It has political, cultural, legal, ecological, and, of course, financial dimensions.

In the past, trade finance was largely about documentary credits and various forms of bank guarantee. If you were sending a shipment of goods, a bank could make sure that you would be paid and it could offer working capital to underpin continued production. In the wake of globalisation, many firms became integrated into extended supply chains and moved to 'open account' financing – payment was triggered by, say, delivery of a part. Firms no longer relied on a trade finance bank to get their money because shipments were no longer discrete events. Open account was simpler and cheaper for the firms, but it also carried risk – risks that slowdowns and protectionism have now brought into sharp relief.

Who knew?

The rise of open account financing saw trade finance banks begin to offer clients more than payment guarantees. To really assist firms, they developed a deep understanding of the overall trade ecosystem. A post-crisis tightening of regulation raised the stakes further. Global regulators made banks responsible for ensuring that their clients were not engaged in money-laundering or financing terrorism. This was not popular with the banks. However, regulators understood that banks are the global hubs of trade information. Banks deal with myriad regulators, trade bodies, law enforcement and, of course, make and take payments for buyers and sellers across many industries right across the globe. They have a unique insight into the flow of goods and data, across multiple borders, within supply chains that can involve many thousands of exporters and importers. Each of these can be

subject to changing political whims, face natural disasters and get into economic difficulties.

It's no surprise that law enforcement is interested in learning what trade banks know, but how do banks use their wealth of knowledge to help their individual clients? Technology is valuable in wrestling down the amount of data involved. However, the best support and advice comes from experienced bankers who understand the needs of their client and the context in which they operate. Good trade bankers have many years of experience – and up-to-date expert knowledge.

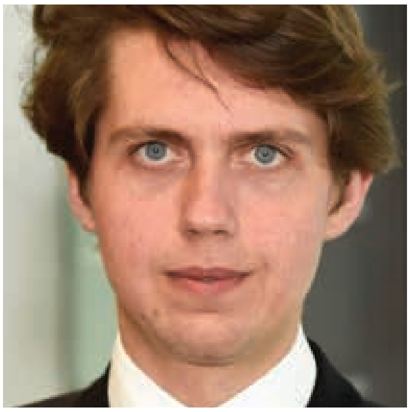
The sort of knowledge they have is not necessarily intuitive. The International Chamber of Commerce's Incoterms, for example – standard terms used worldwide in international and domestic contracts for the sale of goods – are not bed-time reading. Qualified trade finance specialists have to understand the nitty gritty of principles of payments, of demand guarantees and supply chain finance – and much more besides. That's why courses like those offered by The London Institute of Banking & Finance, which partners exclusively with the International Chamber of Commerce on trade finance education, are so important. Trade finance is easy to get wrong, and it has to be right.

Unlike their clients, who are necessarily focused on their own trades – and perhaps the trades of their suppliers – trade banks look across and down into supply chains. They can take the "ecosystem" approach that not only their clients but also regulators, law enforcement and sustainable development, demand. They help firms to be productive, to focus on what they do best, by trading with the partners that compliment them – and all within the rules.

In an increasingly fraught global environment, expert trade finance safeguards the productivity on which we all rely. ■

1.7

PREPARING INTERNATIONAL TRADE FOR THE SERVICES ECONOMY



GEORGE RIDDELL
Associate Director of International Trade Policy
Deloitte

International companies are facing the dual challenge of uncertainty and transformation in how they source, produce, transport, sell and trade their goods and services. The question is how can they get ahead of the curve and thrive in this changing environment.

On the side of uncertainty, we have the ongoing trade tensions between the United States of America and China with the imposition of new tariffs to levels that, according to the Peterson Institute, have not been seen since the 1980s and the potential disruption caused by a no deal Brexit on 31 October. This means managing the risks of increased costs of production and vulnerability throughout supply chains, and a shifting regulatory environment.

Meanwhile, the rise of tradable services, how they are being embedded in production processes, and the digital economy are all transforming where the value of trade occurs. But many are unaware that what they do is trade in services because sometimes it is simply a person travelling for business overseas.

For many, the digital transformation of services has best been exemplified by the shift from letters to faxes to emails. This has sped up how information, services and knowledge can crisscross the planet in a matter of seconds.

According to Deloitte's 2019 Digital Disruption Index, three-quarters of executives believe that digital is fundamentally changing their organisation. More recently, streaming services are shifting how consumers access different forms of media, and we are only at the beginning of the process as to what AI and machine learning could do.

This is borne out by the latest statistics from the World Trade Organisation and World Bank, which show that the annual growth of world merchandise (that is, physical goods) trade between 2000-2018 was below 4%, while the export of commercial services has grown at an average of over 6% annually over the same period.

Even products are not safe from the rise of services. If you look around you, most products are no longer just products. From after-sale warranties to the updates needed to keep internet-connected devices functioning and secure, increasingly services are embedded into the products themselves, and have become a primary means by which consumers distinguish between different producers.

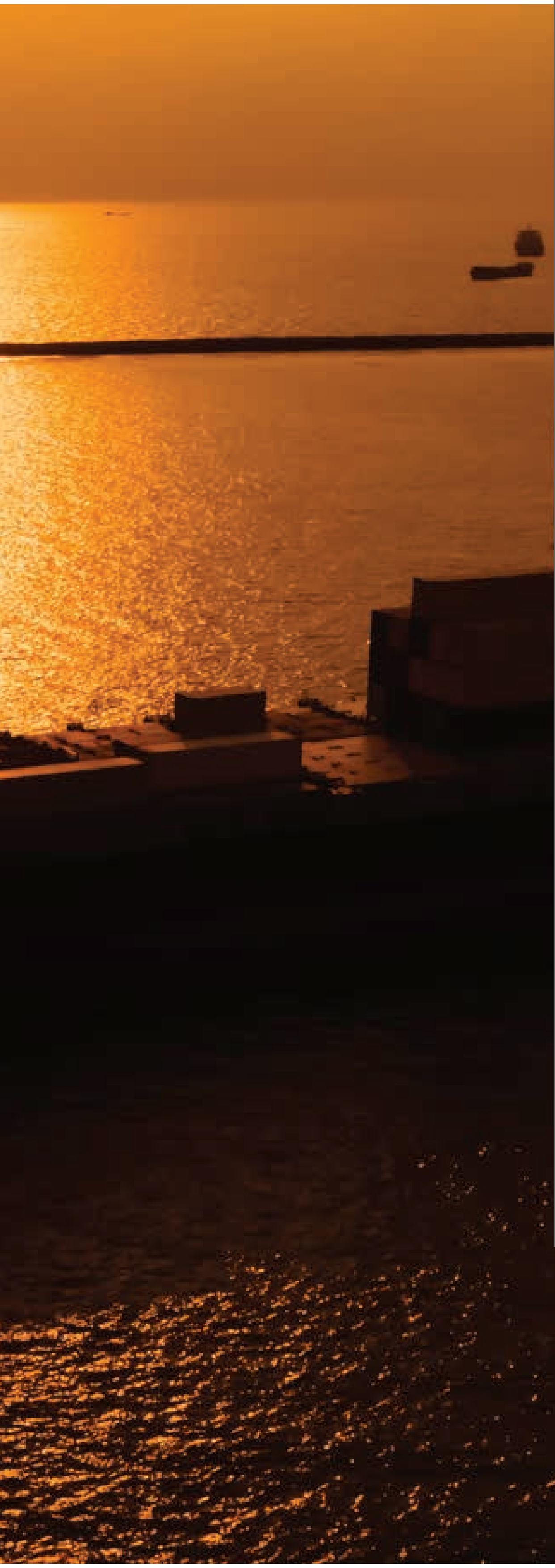
These embedded services come with their own set of complications as companies must navigate compliance with different regulatory requirements across different countries, for example around data or consumer protection.

Services in International Agreements

The foundations of the way that goods and products are traded around the world was set in 1947 when a group of countries came together to agree the General Agreement on Trade and Tariffs (GATT). However, the corresponding agreement for services, the General Agreement on Trade in Services (GATS), only came into effect in 1995, almost fifty years later. Both GATT and GATS fall under the remit of the World Trade Organisation (WTO).

While there have been some advances since 1995, including on Telecommunication Services and Financial Services in the WTO, countries have struggled to make progress to update the international rulebook governing the trade of services - although some attempts are being made of late to address rules around e-commerce and digital trade by a coalition of WTO countries.

The inclusion of services in Free Trade Agreements is again an evolving practice, with some countries looking to set out increasingly ambitious provisions like those found in the more recent EU trade agreements or the Comprehensive and Progressive Trans-Pacific Partnership.



NAVIGATING UNCERTAINTY, ADAPTING TO TRANSFORMATION

So how should businesses seek to leverage opportunities to improve the way they trade both goods and services internationally? In our experience, many will only seek trade advice once a significant issue has arisen. Given the global trade shifts that are occurring, simply waiting for trouble to come risks being caught off guard.

Instead, companies should be thinking strategically about trade issues in an integrated way. By necessity this will include a wide range of functions within a business and include tax, legal, supply chain and logistics, regulatory compliance and human resources. We see this as a three step process:

- Map the trade barriers that you currently face;
- Prioritise addressing those barriers either through optimising their use of existing trade arrangements or looking to new suppliers and markets; and,
- Maintain a dynamic trade strategy, monitoring and updating as there are new trade developments.

With the right forward-looking mindset, businesses can take control of their own trade agenda and take steps to thrive whilst others are looking to do little more than reactively survive. Competitive advantage can be found here at a time when many are finding it increasingly difficult to hone their edge.

1.8 EBRD'S TRADE FACILITATION PROGRAMME (TFP)

MARCO NINDL
Senior Banker
Trade Facilitation Programme
EBRD Financial Institutions

Introduction to the EBRD's Trade Facilitation Programme

The EBRD's Trade Facilitation Programme (TFP) was developed to promote and facilitate international trade to, from and within economies where the EBRD invests. Under the TFP, guarantees are provided to international commercial banks (confirming banks), thereby covering the political and commercial payment risk of transactions undertaken by issuing banks. Since the TFP programme was initiated in 1999 the EBRD has financed more than 24,000 transactions for a total of more than €19 billion. At present, there are more than 100 issuing banks in 30 countries participating in the TFP, working with over 800 confirming banks and their subsidiaries throughout the world. Issuing banks in the region participate in the TFP with total limits in excess of €1.5 billion. These instruments issued or guaranteed by participating banks may be secured by guarantees issued under the programme: documentary letters of credit (LCs), trade-related standby LCs, deferred payment LCs, LCs with post-financing, advance payment bonds, payment guarantees, bid and performance bonds, trade related promissory notes or bills of exchange. The EBRD also extends short-term loans to select banks and factoring companies in its the economies where it invests to fund trade-related advances to local companies for pre-shipment finance, post-shipment finance and other financing for foreign trade contracts and domestic and international factoring.

Achievements in 2018

In 2018, the EBRD's TFP supported 1,740 trade finance transactions with a record volume of US$ 2.2 billion, compared with 1,359 transactions totalling US$1.9 billion in 2017. This increase was mostly due to a sustained demand for TFP support in the southern and eastern Mediterranean (SEMED) region. In most other regions, notably eastern Europe and the Caucasus, Central Asia and the Western Balkans, local banks reported less demand for trade finance, due to slow economic growth, lack of investment for imported machinery and equipment and the devaluation of local currencies.

Market constraints

The economies in many EBRD countries of operations did not improve in 2018. Subdued economic activity will continue affecting international and domestic trade in these economies in 2019 and beyond. In some countries, the economic challenges are combined with the lack of foreign direct investment and long-term funding. At the same time, foreign commercial banks are often reluctant to establish trade finance facilities for smaller and regional TFP partner banks, due to the high capital requirements and the cost of compliance.

Issuing and confirming banks in regions with high country risk claim access to unsecured guarantee lines with long tenors remains limited. In Ukraine, for example, most foreign commercial banks are still unwilling to do any unsecured trade finance activity. The most active confirming banks have reduced their country limits and tenor lengths. EBRD's TFP facilities support trade flows and encourage confirming banks to maintain relationships with selected partner banks until their commercial trade finance limits are reinstated to suitable levels. TFP carries out regular pricing reviews to reflect country risk issues, market pricing conditions and partner bank needs, including the

competitive landscape in a country.

The TFP recorded no defaults in 2018. However, risk-sharing opportunities are continually explored to increase the additionality of the TFP. Through partnerships with commercial banks, private insurance underwriters, investment funds, governments, export credit and development agencies, EBRD can offer tenors and limits not otherwise available.

Development impact

The primary objective of the TFP is to make sure partner banks have trade finance credit lines in place so they can offer trade finance to their clients, regardless of the short-term considerations of commercial banks and their risk appetite. A recent EBRD survey showed 73 per cent of partner banks say they need continuous TFP support for trade finance transactions that foreign commercial banks are unable or unwilling to finance. The survey also found 46 per cent of partner banks (all small and medium-sized banks) need the programme to support most or all of their trade finance transactions.

Promoting sustainable trade finance means improving know-how in partner banks and in the regions. For new partner banks, the TFP provides technical assistance to raise skill levels, tailored to each partner bank. Once basic skills are mastered, training helps staff to work with more advanced products and sustain this level of skill over time. Of the partner banks in the survey, 87 per cent asked for courses to keep up to date with industry developments.

Technical Assistance

In May 2010, the TFP launched a trade finance e-learning programme in cooperation with the ICC and Coastline Solutions to help issuing banks under the TFP achieve the best international practice in trade finance. So far, more than 5,400 specialists from over 340 organisations in 48 economies across eastern Europe, Central Asia and the SEMED region have taken part. In 2018, the programme registered more than 800 new students from 27 countries worldwide. The EBRD's Trade Facilitation Programme also joined forces with the International Compliance Association (ICA) to offer new training consisting of two internationally recognised qualifications in financial crime compliance to the EBRD partner banks.

The EBRD is a multilateral bank that promotes the development of the private sector and entrepreneurial initiative in 38 economies across three continents. The Bank is owned by 69 countries as well as the EU and the EIB. EBRD investments are aimed at making the economies in its regions competitive, inclusive, well-governed, green, resilient and integrated. ■

2 INDUSTRY BODY UPDATES

Trade Finance Global caught up with its global partners and associations, to get an update on the latest initiatives and actions coming out of these bodies.

2.1

TOD BURWELL

President and Chief Executive Officer, BAFT

BAFT is the leading global industry association for International Transaction Banking. We provide thought leadership, best practices, policy advocacy, education and training, bridging solutions across the transaction banking ecosystem. With members in more than 60 countries, we promote sound financial practices enabling innovation, efficiency and commercial growth.

What are the key BAFT updates this year?

BAFT produced more than a dozen white papers, best practices documents and guidance documents in 2019 including revisions to our Master Participation Agreements for trade finance including new agreements for Islamic Trade Finance. We published a Payment Fraud Indemnity Agreement, Respondent's Playbook to address de-risking, updates to the Trade Finance Principles for customer due diligence in Open Account trade, proposed standard practices for payment commitments issued on a distributed ledger, and other tools for the industry. We successfully advocated for policy changes to Article 55 in BRRD, appointment of a board and chair for US ExIm Bank, and various AML reform topics.

What are the key prospects BAFT will be focusing on in the next 6 months?

We will continue to roll out workshops on the Respondents Playbook in the next 6 months, and expect to undertake a review of the use of RMAs in an effort to re-build connectivity lost as a result of de-risking. On the policy side we expect to see more active implementation of Basel III in different regions and will work to address concerns on the impact to trade finance. We will be engaged in various faster payments initiatives and working with the industry to advance the digitization of trade and interoperability of emerging technology solutions.

2.2

PETER MULROY

Secretary General, FCI

FCI was set up in 1968 as a non-profit organisation dedicated to the growth of factoring and receivables finance around the world. Today, FCI has grown into the world's representative receivables finance network and association with close to 400 members in 90 countries with member transactions representing nearly 90% of the world's cross border factoring volume. FCI is truly the Global Representative Body for Factoring and Financing of Open Account Domestic and International Trade Receivables.

What are the key trends in factoring that you've seen in 2019?

The overall international cross border volume for the first half 2019 as reported from our platform, edifactoring.com increased 1.2% in the first half of 2019. We saw some weakening in Q2 stemming from a decline in volume primarily from: Turkey, China and HK, with Turkey accounting for over 90% of the decline. There are a number of positive take-aways as well from the statistics, including growth in numerous markets reported in Asia, Europe and the Americas. The Edifactoring reports tend to mirror to a degree that which is occurring in the total cross border factoring market.

What are the key FCI updates this year?

At the Annual Meeting in Vietnam in June we announced the kick-off of two major projects, first the creation of a new Islamic Factoring Chapter within FCI. We signed an MoU with the Islamic Trade Finance Corporation (ITFC) who will lead the chapter on behalf of FCI. We also announced the launch of FCIreverse, our new payables finance/reverse factoring trading platform. We had four of our members who signed MoUs during the annual meeting, to become FCIreverse Users. FCIreverse has received an increased level of interest from FCI members including some outside players as well. Both projects will help support and increase funding to SMEs and Corporates alike.

2.3 SEAN EDWARDS

Chairman, ITFA

The International Trade and Forfaiting Association (ITFA) is the worldwide trade association for companies, financial institutions and intermediaries engaged in trade and the origination, structuring, risk mitigation and distribution of trade debt. ITFA also represents the wider trade finance syndication and secondary market for trade assets. ITFA prides itself in being the voice of the secondary market for trade finance, whilst also focusing on matters that are relevant to the whole trade finance spectrum.

What are the key trends in trade and forfaiting that you've seen in 2019?

The influence and scalability of financial technology, regulatory challenges, and mounting geopolitical uncertainty are all themes that are contributing to an ever-evolving trade landscape. ITFA is at the forefront of understanding current and emerging changes, challenges and opportunities in trade finance, and protecting the interests of the incumbents.

What are the key ITFA updates this year?

ITFA works to improve best practice and shape rules and documentation that affect members and the industry.

Technical publications produced over the last year include:

- The ITFA Unfunded Master Risk Participation Agreement, which caters mainly for the cooperation between banks and insurance companies/surety providers;
- A guide to accounting and legal issues under IFRS 9;
- A revision of guidelines for banks using CRR-compliant non-payment insurance policies;
- Contributions to the revised BAFT Master Participation Agreement (English and NY law), including producing legal opinions;
- Involvement in the new guidance on receivables discounting from the Global Supply Chain Finance Forum.

What are the key projects ITFA will be focusing on in the next 6 months?

We're working on a number of new projects, including:

- A document outlining guidance and best practice on structured letters of credit;
- A template NDA for the inter-bank risk distribution market;
- Digital negotiable instruments – collaborating with a fintech member to create promissory notes and bills of exchange in a digital form, and which are legally effective and compatible with accepted standards and popular digital platforms;
- Joining forces with others on a Basel-compliant trade credit insurance template for bank-supported trade finance programmes, called the Basel III Think Tank Initiative;
- Advocacy work to explain to the European regulator the effect of amendments to the Basel rule – the so called 'Basel IV.

2.4

ERIK TIMMERMANS

Secretary General, WOA

World of Open Account (WOA) is a digital start-up, initiated by experts from the receivables finance industry. Its ambition is to become the global competence and networking centre for the broad open account finance ecosystem, based on peer-to-peer collaboration. WOA's digital platform https://woa.community is the "home of receivables finance". It includes a search tool to source business partners, a knowledge centre built around 12 Learning Labs and a forum that allows members to "mine" insights.

What are the key trends in factoring that you've seen in 2019?

- Factoring markets have shown continued global growth, presently threatened by US-China trade sanctions.
- Banks are increasingly dominant in factoring at the expense of NBFIs and Independents.
- Fintechs are emerging but haven't yet created any substantial market penetration.
- Technology supports a move towards more "transactional-based" factoring operations complementing traditional relationship-based solutions.

What are the key WOA updates this year?

- The WOA community was launched end of 2018.
- WOA now has 30 Premium Member and Support Companies who bring their range of skills, capabilities and leading reputations to the table.
- 2 companies have already taken on the role of Learning Lab Chair, giving them the opportunity to drive the discussion and demonstrate their business thought leadership.
- WOA is supported by 15 steering panellists and 19 community experts, all of whom are well-known, established and the most respected names from across the Industry.
- In the first half of this year 2019, WOA has already created and delivered 12 well attended web-meetings.

What are the key projects WOA will be focussing on in the next 6 months?

- In only a few months' time, the WOA community has grown from a concept to a living, breathing organism. During the second half of 2019, we are taking the next steps to grow and develop.
- Our prime focus is on the development of the community: individuals as well as finance companies and service providers.
- Our first Convention in Antwerp, Belgium in October has the ambition to be the best conference ever held in receivables finance, with best-in-class speakers and great networking.
- But being in the first place a digital platform, WOA will also continue to deliver new web-meetings every month.

3 GLOBAL MARKETS: FOCUS

3.1

GLOBAL OVERVIEW: US-CHINA TENSIONS, THE BRI EFFECT AND EUROPE'S DIGITISATION PROJECTS

LUCA CORSINI
Global Head of Global Transaction Banking
UniCredit

How are trade finance revenues defying low trade volumes?

Despite today's climate of rising trade tariffs and falling trade volumes, UniCredit's Global Head of Global Transaction Banking, Luca Corsini, claims we have reason to remain optimistic for trade finance revenues in the coming months, pointing to the rising need for security in trade transactions, the rise of digital platforms to simplify and expand service provision, and continued infrastructure development stemming from Asia.

In June 2019, tariffs on USD 200 bn worth of Chinese goods rose from 10% to 25% – resulting in a notable drop in trade flows between the two countries. This downward trend is being felt across the globe. Recently, a Bloomberg article noted that global trade volumes are "falling at the fastest pace since the depths of the financial crisis". Indeed, the trade monitor of Dutch Bureau for Economic Policy Analysis CPB revealed "a 1.9 percent drop in the three months through February compared with the previous three months" – this marks the sharpest drop since the period through May 2009. So, does this spell bad news for trade finance revenues?

Conventional wisdom argues that in a climate of rising trade tariffs and falling trade volumes, trade finance revenues will slump. However, despite increasingly frayed trade relations in the last few years, global trade finance revenues rose by 3 percent last year – suggesting that our widely accepted trade finance formula may not be as watertight as once thought.

One of the reasons for this may be down to the fact that security and trust become top priorities for corporates doing business in the face of rising tariffs and high-risk perception. And trade finance allows banks to build trust between buyers and suppliers. In this case, the causes of low trade flows are also drivers of trade finance for the trades that still take place.

This isn't the first time we've seen this scenario play out. In the wake of the financial crisis of 2008-2009, for example, buyers began searching for trade finance support in the hope of protecting rates – meaning trade finance revenues held strong despite the difficult climate. What we can learn from this is that, even in the face of falling trade flows and rising tariffs, trade finance will likely remain in demand.

Boosting global trade

Digitising the otherwise paper-intensive business of trade finance may be an effective means to further stimulate trade. Last year in Europe, we.trade – an innovative trade finance portal – went into live production, allowing corporates to negotiate and close trade finance deals through a safe and secure, blockchain-enabled digital platform. Established by a consortium of banks including UniCredit, this innovation also allows corporates to bolster the deal with additional financial services, provided by their bank. The ease of use of platforms such as this should help trade finance reach further into supply chains and begin plugging parts of the notorious "trade finance gap" – still estimated to be around USD 1.5 bn.

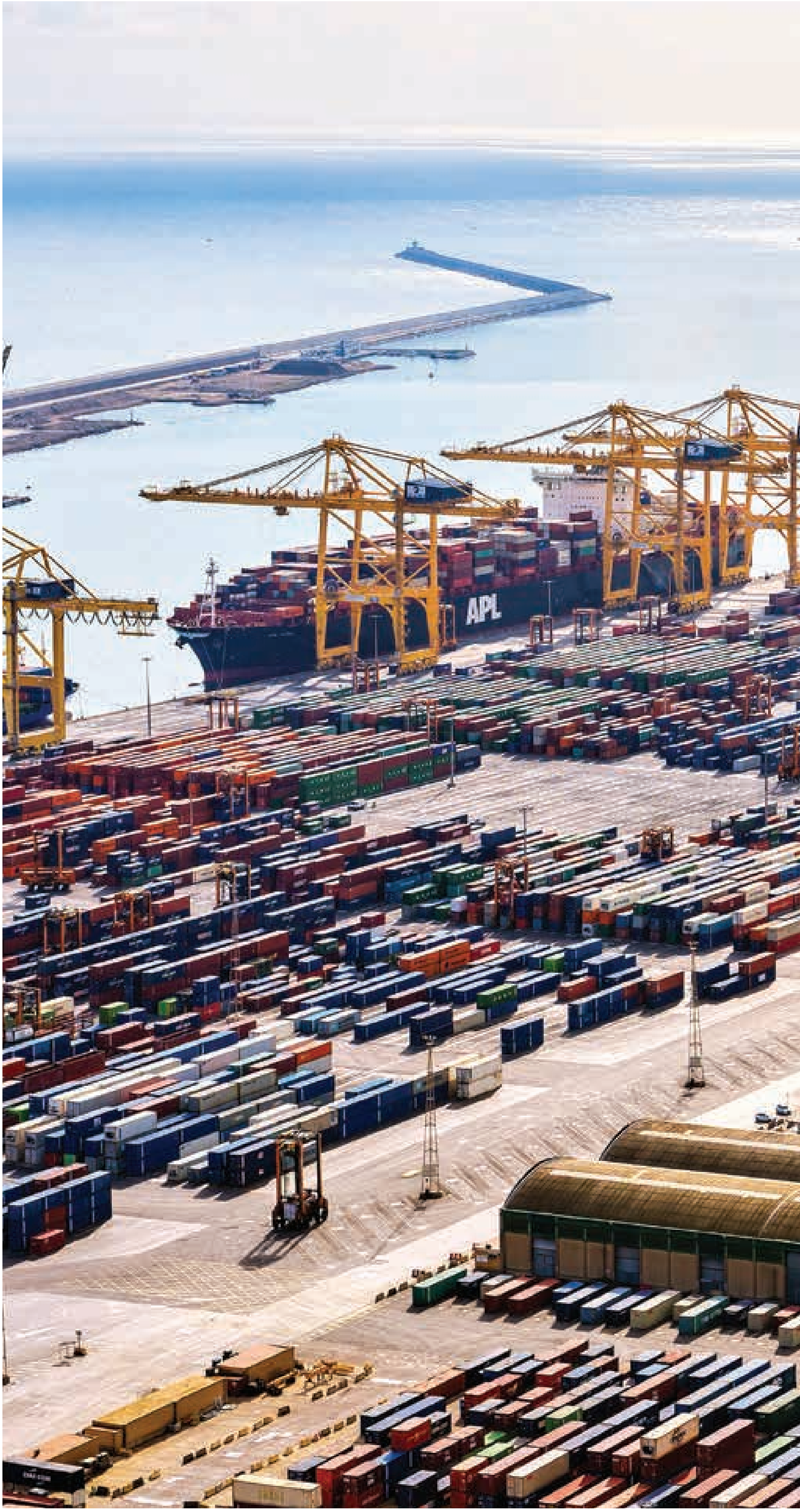
On 31st October 2018, we.trade reached a milestone in its development when the management board signed a memorandum of understanding with eTradeConnect – Hong Kong's newly launched digital trade finance platform. This agreement marked the beginning of an effort to fully integrate we.trade into other digital ecosystems beyond Europe, allowing corporates on both platforms to transact seamlessly.

As a platform specifically designed with SMEs in mind, this proof of concept perfectly positions we.trade to connect Asia's strong and growing pool of small businesses with European corporates – thus streamlining trade finance deals across these regions.

Beyond digital trade finance solutions, a number of government-backed programmes are now underway that aim to foster global trade. Perhaps the most well-known of these is China's Belt and Road Initiative (BRI) – ultimately seeking to connect Asia, Africa and Europe. Originally unveiled in 2013, this global development strategy has seen China invest into around 150 countries and corporates worldwide, spending an estimated USD 210 bn to date.

Major developments such as the BRI may represent a shifting "centre of gravity" – seeing economic influence move from Europe to Asia. As this unfolds, it will be down to banks to find new and more efficient ways to capitalise on this potential, while continuing to stimulate trade finance flows across these borders.

Arguably, the fastest and most effective way to do this is to devise and deploy corporate-facing tools such as we.trade and eTradeConnect, as well as proprietary trade finance platforms. These solutions are still in their early stages, but they are already on their way to creating a new kind of digital trade corridor that can promote a healthy and prosperous future for global trade. ■



3.2

THE EUROPEAN RECEIVABLES FINANCE INDUSTRY IN 2019: PREDICTIONS FOR GROWTH

JOHN BREHCIST
Director
Roundwindow Consultancy Services
Director
WOA

Although increasingly being adopted globally as a trade funding solution, the usage and provision of receivables finance is still principally focused in Europe, where last year over 60% of the global volume of client turnover was based. So clearly, at least for now, it's the most important regional market by size. But what else can the numbers tell us?

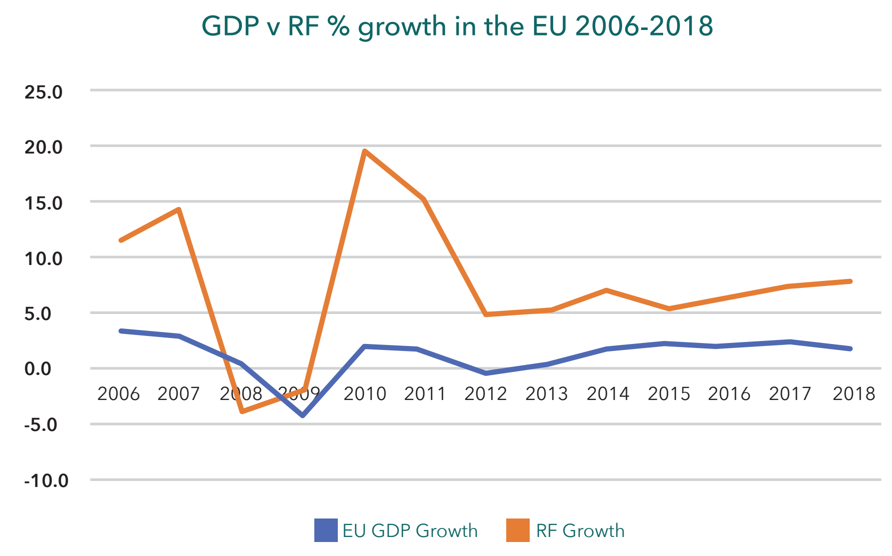
Back in the early 2000s when my then corporate role was strategy based and I was comparing potential markets for entry, I introduced the straightforward idea of comparing country attractiveness and opportunity by looking at the GDP penetration, that is the proportion of the country GDP that its RF business represented as a percentage.

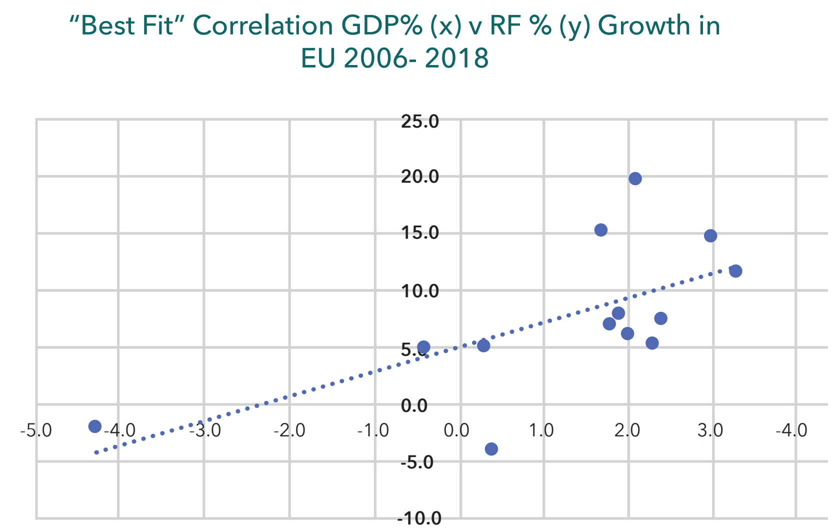
Since I introduced it to IFG in 2009, this simple measure has come widely to be used as a comparator by people in the world Industry; the global average is now around 4%, for the EU 28 it's 11% whilst the most penetrated or established markets peak around 15%.

By the way, this also gives a very clear flavour for the potential scale of the global market; if 4% penetration is around €2.7 Trillion – the total client turnover figure for 2018 - then 15% would be around €10 Trillion. So it was 11% penetration last year in Europe; what will it be by the end of 2019? Last year the client turnover volume in the European market grew overall by nearly 8%? What will it do in 2019?

To try to answer this question, within my consultancy business Roundwindow I look at the relationship between GDP growth and RF growth. And it turns out that since 2006, there is a statistically significant positive relationship between the two variables; a relationship which appears to hold true at country, regional and global levels.

If we take the annual rates of growth reported for the Industry in Europe (as collated by the EUF) and for GDP (by the EU statistics body, Eurostat) and plot them together over time, we see the following picture:





You can see there is clearly some sort of tracking relationship, although its equally obvious it's not a simple one; and the volatility in the RF growth/ reduction is very high compared to that of the GDP.

We can look at this more closely; if we make a graph of each pair of data points for every year, we can use statistical analysis to give us some useful feedback on the relationship. The dotted line shows the overall best fit relationship between these data points and the correlation coefficient - which shows how closely the two data sets are related - works out at 0.64, a figure which statisticians will tell you means there is a significant relationship between the two variables. It's not saying that one causes the other, but that they are meaningfully linked. (If the two were completely correlated with a coefficient of 1, all the dots would be on the line, like birds on a wire; if there was no relationship, coefficient 0, they would be completely randomly scattered across all four quarters of the graph.)

And this line of best fit shows us that for every 1% of Global GDP growth, we can expect around 2% of RF Industry growth, with a baseline around 5%. Which of course is great news when the European economy is growing; but it won't be such good news if we face a recession, where the growth of RF will correspondingly fall.

The latest EU economic forecasts in July indicate that there will be average weighted growth of 1.4% of EU GDP in 2019 (although this figure presupposes a "deal-driven" Brexit). Let's assume that the good people at Eurostat have got their numbers right; then using our line of best fit, this would suggest expected growth in the European Receivables Finance Industry for 2019 will be approaching 8%.

However, this said, two of the largest economies and biggest users of receivables finance (Italy and Germany) are now expected to show marginal GDP growth for the whole year, so they may have a disproportionately negative effect on the overall picture.

And so before you rush off to your bookmakers to place bets on this outcome, recognise that the relationship is a correlation, not a simple cause and effect - of course influences other than GDP will affect industry performance. But if you would like to offer me some odds, then I'm listening!

I believe in-depth analysis of the data we see in Receivables Finance is important for the Industry in developing its worldwide advocacy role; accordingly, I am pleased to note that I will be working with WOA, where we will continue to ensure that global analysis looks beyond headline volumes. ■

3.3 UK EXPORT TIPS FROM THE INSTITUTE OF EXPORT

LESLEY BATCHELOR OBE
Director General
Institute of Export & International Trade

EORI numbers - or economic operator indicator numbers - are essential for exporters. Based off a company's VAT number, an exporter needs an EORI in order to complete a Customs Declaration. Till now, UK businesses have not needed to complete such documentation in order to sell into Europe, but this will change with Brexit.

In August, HMRC estimated that there were 240,000 companies in the UK who only export to the EU and would, therefore, need to enrol with an EORI number ahead of Brexit. At the time, only 71,000 companies had done this.

The announcement in the middle of August that HMRC would begin 'auto-enrolling' companies with EORI numbers - a practice is done in other countries - was, therefore, a necessary one, given the impending Brexit deadline. HMRC had previously been reluctant to auto-enrol companies, instead of wanting businesses to properly engage with the export process by voluntarily taking the steps needed to get an EORI number before learning how to complete Customs Declarations.

Time is now very much of the essence and businesses will still need to ensure that they know how to complete key Customs processes like declarations, or at the very least be sure that a Customs broker is doing this competently on their behalf. However, should a 'No Deal Brexit' come to pass on October 31st, then there are clearly up to hundreds of thousands of businesses who are not properly prepared for the impact this will have.

It is, therefore, our imperative, as trade supporting organisations, to tell our members, followers and the wider business community what they

need to do. However, it is just as important to assure these businesses that exporting is perfectly doable, whatever happens with Brexit. You just need to apply yourself and plan for how you can mitigate upcoming risks.

We have a saying at the Institute of Export & International Trade that exporting is easy when you know how. For those of us who have been exporting beyond the EU for decades, Customs checks and piles of documentation will already be familiar. We already know about Customs declarations, rules of origin and looking through tariff schedules.

They key thing to remember is that whatever happens in terms of Brexit and any potential new trade deals in the works, the processes of global trade will remain the same. As with anything, you will need to approach trade with a mindset of wanting to do it properly. If you don't look into the legal and fiscal requirements for your goods to be moved into a new country, then you risk delays at the border, potential fines and reputational damage.

And remember, there is no one-size-fits-all approach - every exporter's journey is different. There are approximately 5,300 article/product descriptions arranged in 97/99* chapters in the Harmonized Commodity Description and Coding System (HS), each given its own HS Code (a six-figure product classification number). You need to know what code your product falls under to establish what duty or taxes are payable, or other factors including anti-dumping duty, quotas, inspections and licenses.

There is no average tariff, there is no average sector and there is certainly no simple answer to the question of what you need to do to succeed in a new market. For example, tariffs for pharmaceuticals tend to be 0% rated, whereas ceramics can vary from 5% – 25% depending on the component parts, materials and eventual shape. Agriculture can range from 30% – 45% – or even more in some cases – and champagne attracts 20%.

And Brexit isn't the only significant step ahead in Global Trade. There are the new ICC Incoterms®2020 rule changes coming up which will impact everything from trade finance to shipping terms to sales contracts - and for which the Institute of Export & International Trade are ICC-authorised providers of training for. There's the continuing trade wars between the USA and China. Technological advances in international trade continue to come at a pace too, from 'Smart Ports' to blockchain.

The UK should also remember that there is a world beyond the EU. The UK recently signed a continuity deal for trade with South Korea - the 13th of 38 such agreements the UK could finalise in the run-up to Brexit - suggesting that there is life after Brexit. ONS figures in April this year showed that all of the UK's fastest growing export markets for 2018 were emerging ones, including India (up 19.3% to £8.0bn), Nigeria (up 18.3% to £2.7bn), Thailand (up 17.8% to £2.2bn) and Kuwait (up 14.1% to £2.5bn).

As with any market, including the EU, you need to plan and make sure you know what you're doing when exporting. If you'd like to learn, please do get in touch - at the Institute we provide a range of training courses, qualifications and support services to ensure you exporting can be easy for you. ■

3.4 A DEEP DIVE INTO ADB'S TRADE FINANCE PROGRAM

STEVEN BECK
Head of Trade and Supply Chain Finance
Asian Development Bank

In 2012, Asian Development Bank's Trade Finance Program (TFP) commissioned a unique study, the first of its kind, to understand and quantify the unmet demand for trade finance, known as the global trade finance gap. Over the years, TFP has updated this study to quantify and inform policymakers and market participants about the main drivers for this persistent trade finance gap.

The 2019 edition etitled "Trade Finance Gaps, Growth, and Jobs Survey," was released on September 3. It revealed a stubbornly high $1.5 trillion global trade finance gap that is holding back efforts to deliver vital jobs and growth amid ongoing economic uncertainty around the world. Small and medium-sized enterprises (SMEs), often the major source of employment in many countries, face the biggest challenges in obtaining trade finance and companies led by women often face additional barriers.

The Trade Finance Gaps, Growth, and Jobs Survey is based on responses from banks, firms, and export credit agencies globally and is the world's leading barometer of trade finance health. One of the key conclusions of the 2019 edition is that the trade finance gap continues to impede progress in achieving the Sustainable Development Goals (SDGs), especially targets pertaining to women's economic empowerment, job creation, and inclusive growth.

Who suffers due to the Trade Finance Gap?

According to the report, 45% of trade finance applications by surveyed SMEs are rejected, compared to 39% for mid- and larger-sized firms and 17% for multinational corporations. The rejection rate for women entrepreneurs, meanwhile, is 44% compared to 38% for firms owned by men. Providing better access to trade financing for SMEs and businesswomen will not only narrow the gap but also empower them to contribute to inclusive growth and sustainable development.

Drivers of the Trade Finance Gap

More than three-quarters (76%) of the surveyed banks reported that anti-money laundering (AML) and know-your-customer (KYC) regulations are major obstacles to expanding their trade financing operations. While these regulations are crucial to ensure the global financial system is not used to fund terrorism or launder money, they can inadvertently cut off legitimate companies in less-developed markets from the financial support they need to grow.

This is already happening in emerging markets in Asia and Pacific, as well as in other regions, where banks frequently cite deteriorating correspondent banking relationships over recent years. To address this, TFP regularly conducts seminars and workshops on AML/CFT and prevention of trade-based money laundering to build capacity in the banking sector in countries where the TFP operates.

To unpick how barriers to trade finance develop and persist, the TFP launched in 2018 the Trade Finance Scorecard – Regulation and Market Feedback. This scorecard is a new too,l which can help to address market gaps stemming from the unintended consequences of global measures to fight money-laundering and terrorism. Creating, implementing, and complying with global measures to prevent financial illegal activity is challenging. The scorecard explains that while bankers can relatively easily determine that a large company isn't involved in crime, getting the same assurances from small and medium-sized businesses and companies in developing countries can be difficult and costly, which leads to persistent trade finance gaps.

Will the Trade Finance Gap grow larger?

Around 60% of banks that responded to the 2019 survey expect the trade finance gap to increase over the next 2 years. Technologies such as blockchain and big data have the potential to narrow the gap, but their take-up is compromised by high cost and a lack of global standards for digital finance. The report recommends adoption by governments of common rules on digital trade and e-commerce to give firms and banks legal grounds to transact digitally. Legal Entity Identifiers would help address AML/KYC concerns by applying a unique electronic 20-digit identifier for legal entities participating in financial and commercial transactions.

TFP's Track Record

The Trade Finance Program (TFP) helps ADB's member countries to improve their trade finance capacity and reduce gaps that inhibit trade and growth. Backed by ADB's AAA credit rating, the Trade Finance Program (TFP) provides guarantees and loans to over 200 partner banks to support trade, enabling more companies throughout Asia and the Pacific to engage in import and export activities. Since 2009, ADB's TFP has supported more than 15,000 SMEs across developing Asia—through over 21,000 transactions valued at over $36 billion—in sectors ranging from commodities and capital goods, to medical supplies and consumer goods.

In 2018, TFP grew almost 40% to support $6.2 billion in trade through 4,470 transactions. TFP complements its financial support with knowledge products, including a study that quantifies market gaps for trade finance, initiatives to increase the role of women in banking, efforts to enhance environmental safeguards, and initiatives to fight crime through greater transparency in the global financial system. TFP also provides workshops and seminars to increase knowledge and expertise in matters related to finance, trade, risk management, and fraud prevention.

For more information, visit the TFP website at adb.org. ■

3.5

IS AFRICA HEADING TO CHINA OR THE IMF?

ROBERT BESSELING
Executive Director
EXX Africa

Specialist intelligence company EXX Africa's director Robert Besseling assesses that African governments are increasingly integrating infrastructure investment options into a more competitive landscape that seeks to bridge the massive annual financing gap. However, accomplishing sustained economic growth, meeting revenue collection targets, and achieving positive indicators will be required to balance growing debt levels and record fiscal expansionism.

A growing number of African countries are facing an uncertain outlook over the next year in terms of the servicing and repayment of their debt, while many governments continue to tap into international debt markets to finance massive infrastructure projects. As concerns over the impact of a global trade war on African economies mount and the continent faces a looming debt crisis, the International Monetary Fund (IMF) has recently shown some flexibility in its bailout terms. The Fund is preparing to step in as lender of last resort in many debt-burdened or cash-strapped countries while softening its conditionalities in the face of competing Chinese loans.

The role of the IMF in Africa

The role of the IMF at a time of mounting concerns over Africa's debt is particularly important considering the expected impact of the global trade war on the continent's economic output. An escalation of the US-China trade stand-off could more than halve the current forecast of just 3.5 percent growth for the sub-continent. Any impact might be softened by a weakening US dollar and falling borrowing costs, but the effect of falling trade flows and economic output should not be underestimated.

Thus, the IMF is set to play an important role in offering debt relief to African countries in coming years. The Fund currently classifies six African countries as being in debt distress, including Mozambique, Sudan, and Zimbabwe. It rates another ten countries as being at high risk of debt distress, including Zambia, Ghana, and Ethiopia. EXX Africa has previously also expressed concerns over some of the continent's largest economies like Kenya, Nigeria, and South Africa. Although the need for IMF intervention in these economies seems unlikely if the balance of payments remains sound.

Chinese dominance under threat?

In recent months, several African countries, including Kenya, Tanzania, and Sierra Leone, have cancelled large-scale Chinese-funded infrastructure projects. In June, Tanzania seemed to cancel a USD 10 billion port construction project in Bagamoyo. A court in Kenya has halted plans for the construction of a USD 2 billion Chinese-backed coal power plant near Lamu over environmental concerns. Other African projects, including massive rail construction projects in Ethiopia, Djibouti, and Kenya, have also come under scrutiny, leading China to write-off some loans.

This activity has prompted suggestions that China's role in Africa is changing and that its dominant financing role has come under threat. However, there is no evidence to suggest that African governments are steering away from Chinese investment. Instead, the region is fostering more competition from a broader source of funding. Chinese financing is often more expensive and with shorter maturities than the terms offered by multilateral financial organisations. Some forms of syndicated commercial lending from western banks and export credit agencies offer further competition in the increasingly varied investment climate in Africa.

Alternatives for infrastructure lending

The Asian Infrastructure Investment Bank (AIIB) may eventually offer an alternative to these forms of financing, although the AIIB is still in its inception phase. The AIIB was launched in 2015 with a focus on infrastructure financing in developing economies. In July, Djibouti and Rwanda (and Benin) were approved as non-regional members of the Bank, bringing the lender's membership to 100, which includes major western economies like Germany, France, and the UK. However, the AIIB has so far focussed its lending outside of Africa, with only Egypt securing sizable deals from the institution. This is set to change as the Bank grows over coming years. As Africa still has an annual infrastructure financing gap of more than USD 100 billion, there is a growing need to diversify sources of funding. This includes opening to traditional sources of financing from pension funds and sovereign wealth funds, which is being encouraged by the African Union's new Development Authority and other initiatives. Therefore, Chinese investment is not being side-lined but instead it is being integrated into a growing mix of funding options, which Africa is harmonising into a more competitive landscape.

Looser IMF conditions

Nevertheless, in the face of competing Chinese loans, the IMF is likely to loosen its conditionalities in order to retain its role as lender of last resort to African debt-burdened and cash-strapped countries. In July, the IMF agreed to disburse USD 448.6 million over three years to the cash-strapped Congo-Brazzaville government following two years of tense negotiations. Despite having to meet rigid fiscal targets to quality for IMF assistance, the Congolese government secured unusual flexibility from the Fund on its lending conditions as there is no guarantee that the government will implement enhanced transparency measures or publish opaque pre-export oil financing deals. Such loosening of IMF conditionalities is indicative of its future approach towards other African countries that are likely to require a bailout in coming years. Loosened lending conditions will prove good news for many African governments seeking urgent debt relief, although will do little to improve transparency and curb corruption which remains one of the heaviest obstacles to economic development. ■

3.6

GLOBAL FINANCING HAS A GOLDEN OPPORTUNITY IN ISLAMIC FACTORING

ENG. HANI SALEM SONBOL
CEO
International Islamic Trade Finance Corporation

Islamic factoring is an increasingly important contributor to the financing of international trade and as it grows, it presents SME's and supply chains across the world with a new way of funding that is much needed in some of the fast-growing developing economies. Islamic factoring not only has potential to support business growth in these areas but to help drive socio-economic growth and stability through investment in people, jobs and expansion.

As an alternative working capital solution, factoring is already a growing part of daily business life and an increasingly significant share of the non-Shariah global financing market. Market reports predict strong growth for the global factoring sector, which is projected to expand at a CAGR of 14.6% and reach USD 9,275.15 billion by 2025. The growing awareness of factoring as a product, technological advancements, need for financing, efficiency in receiving payment for invoices; and increasing trade activity between countries and SME's are some of the many major factors driving growth of factoring.

Islamic factoring represents a major opportunity for stakeholders to boost economic growth in and between Islamic countries. Whilst the solution is relatively new to the Islamic world, it has the potential to transform cash flow, facilitate trading and improve payment and financial terms between corporates and their supplier networks. The sector also offers investors with low-volatility

alternative investments that are short-term, Shari'a-compliant, and focused on the real economy, while providing attractive yields.

For SMEs – particularly exporters and importers in commodities and goods – factoring can throw a lifeline that bridges gaps in cash flow, which is one of several reasons why the International Islamic Trade Finance Corporation (ITFC) has launched an Islamic Factoring Chapter within FCI. It will support SMEs and help increase Shariah compliant financing opportunities for both domestic and international trade determined by the FCI. To ensure Shariah compliance at every level, the Chapter Committee comprises executives from members within the Chapter that are selected by the ITFC and the FCI together. The creation of the Chapter follows the FCI's decision in 2018 to amend its ruleset to support Shariah-compliant factoring to ensure that the practice can be facilitated within its network.

Various commentators suggest that conventional customers are also, increasingly, turning towards Islamic finance in the world as governments across the Middle East, Central Asia and South East Asia seek to move their own banking facilities to Shariah compliant formats. Whilst one of the challenges of Islamic finance globally is divergence on rules (Islamic finance products are sometimes structured differently in different jurisdictions), the FCI's decision in 2018 provides the market with a new standardised international ruleset – this is very good news for the delivery of safe factoring and the growth of the sector.

In the medium term, Islamic factoring is likely to be picked up by more Islamic banks and non-bank institutions. Inclusion of Islamic Factoring within established bank networks will mark a milestone in the development of intra-OIC (Organization of Islamic Cooperation) country trade, with factoring as an important instrument to support SMEs that are integral to the global supply chain. Formalisation and standardisation of practices will also help to build up and support the underwriting capacity of buyers and debtors in the OIC member countries. Moreover, Islamic Factoring is not limited to just OIC countries, but has enormous potential for companies around the world that wish to participate in Shariah compliant factoring: Islamic and non-Islamic companies in all countries. Over time and as take-up of the product grows, Islamic Factoring will become a better understood mode of financing that is as inclusive as it is empowering for SMEs of all shapes and sizes. Governments, central banks and other stakeholders should therefore recognise that there is an opportunity to grasp to boost growth by supporting Islamic factoring.

If widely accepted, standardised global rules on Islamic factoring should be recognised by central banks. This would provide an opportunity for organisations such as the ITFC to support them in the development of light-touch regulations that govern the application of Islamic factoring. These developments reflect an opportunity to take advantage of a golden moment in the world of Islamic finance and changing trade flows between east and west. Now is the time for Shariah compliant factoring to be championed for businesses of all faiths that wish to achieve growth and success with the help of Shariah compliant factoring products. ■

4 RULES, INSURANCE AND RISK

4.1 DEPARTMENT FOR INTERNATIONAL TRADE: INFORMING THE UK'S FUTURE INDEPENDENT TRADE POLICY

JOHN ALTY
Director General
Trade Policy

Our departure from the EU will give the UK the ability to take control of its own independent trade policy for the first time in more than 40 years.

The Department for International Trade (DIT) is working to increase its international trade flows and grow the number of UK businesses exporting goods across the globe.

In addition to seeking a long term deal with the EU, we intend to strike new free trade agreements with our key trading partners around the world such as the US, Australia and New Zealand as well as potentially joining the Trans-Pacific Partnership.

This will provide greater access to overseas markets for UK businesses, products and consumers.

As part of these preparations, DIT is actively engaging with UK business, civil society, academics and trade unions through a series of newly established stakeholder engagement networks.

We have created a Strategic Trade Advisory Group to inform our future trade policy and discuss how we can best realise the opportunities to boost trade.

On top of this, we have established a number of Expert Trade Advisory Groups (ETAGs) so we can have more detailed discussions about specific sectors. Each group is comprised of a range of sector experts providing the valuable expertise needed that will support a world class trade policy.

Take, for example, our new Customs Trade Advisory Group. This will help inform DIT's work in collaborating with customs agencies internationally as we look to develop innovative customs policy and procedures to better facilitate international trade.

Research has consistently shown that costs to international traders from wider non-tariff barriers, which can include issues caused by international customs procedures, are often higher than tariffs themselves.

The failure to implement efficient processes at the border can reduce the benefits of any new free trade agreement.

Moreover, customs policy is hugely complex, varying dramatically from country to country depending on the type, volume and value of goods being imported.

Despite these challenges, the Department for International Trade has already made headway in overcoming trade barriers around the world.

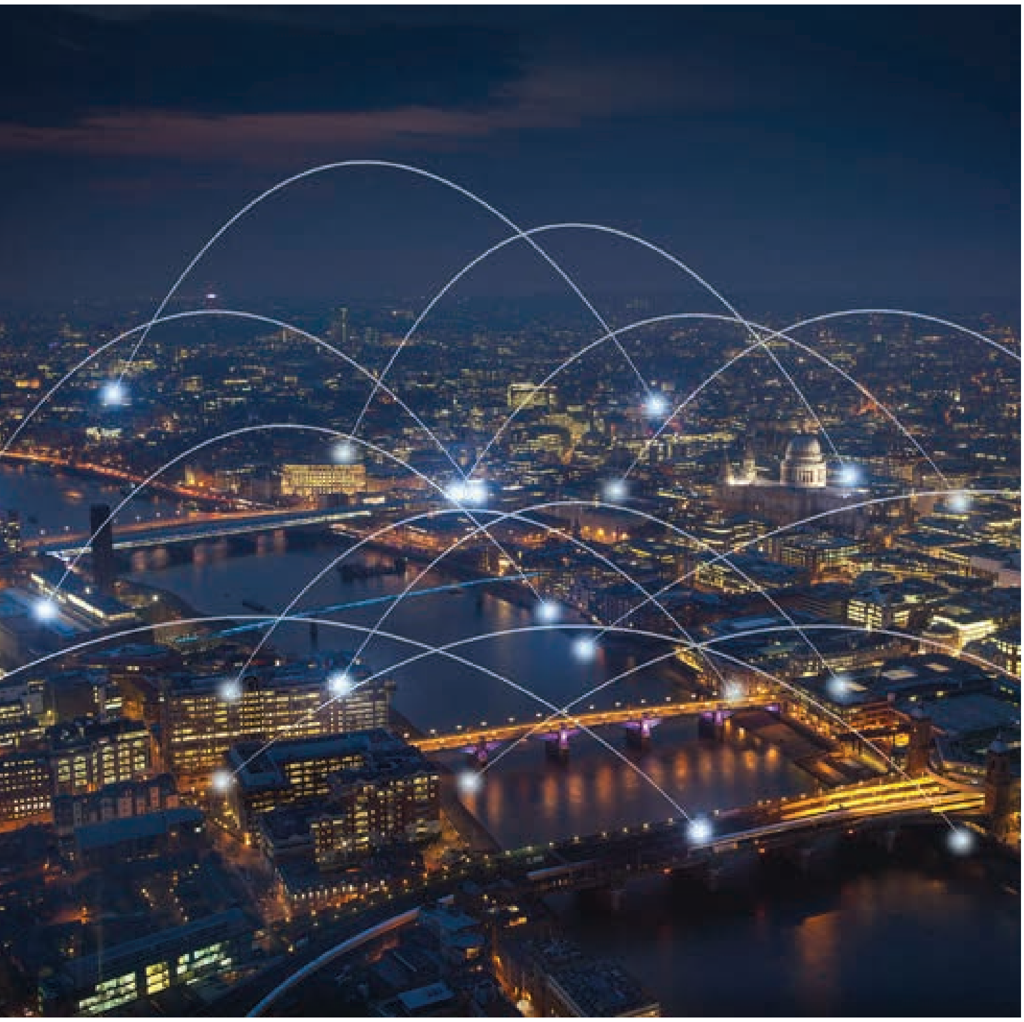
In particular, DIT's network of overseas advisors routinely play a valuable role in helping businesses struggling with customs matters, and have helped to facilitate the release of goods unnecessarily held up at the border. They achieve even greater impact by resolving market access issues, some of which involve costly, outdated and unnecessary checks or restrictions.

We know that breaking down market access barriers makes it easier for UK businesses around the world, potentially opening billions of pounds in exporting and investment opportunities. As we leave the EU, we are making sure we have our own arrangements to address these barriers and open markets.

Close collaboration and communication with business is essential, as it ensures that we can focus our efforts on those barriers that matter the most to them. That is why, we recently launched an easily accessible reporting form on Great.gov.uk which allows businesses of all sizes to report trade barriers they encounter. This also allows us to assess and prioritise barriers more effectively, develop plans and allocate resources, and act to remove them where it is possible.

Through close communication with business and our expert groups, we are making sure our trade policy is commensurate with business's needs. The valuable input and feedback from business partners plays a vital role in supporting ongoing discussions with foreign governments and preparations for negotiating new, ambitious free trade agreements.

Your engagement will enable all sectors and regions of the UK economy to take advantage of opportunities, improve people's livelihoods as well as the country's economic productivity. ■



MARK ABRAMS

Member of STAG
Head of Trade, Trade Finance Global

I am delighted to be a member of the Strategic Trade Advisory Group (STAG). National trade policy is changing, and we must make sure it works for businesses across the whole of the UK. The 16 STAG members represent business, civil society and beyond, with the aim of ensuring that the UK is ready to seize the opportunities of Brexit. In our second meeting of the STAG in September, we discussed the department's priorities in addition to preparing for Brexit – to negotiate new and ambitious free trade agreements, prepare business to trade and focus on attracting investment, specifically through free ports. The group was also introduced to the work of DIT US trade policy team, the World Trade Organisation and work being done to reduce barriers to trading for businesses.

The STAG will meet again in the New Year.

4.2

INTERNATIONAL TRADE FINANCE ORGANISATIONS JOIN FORCES TO FIGHT AGAINST ILLICIT FINANCIAL FLOWS

ROBERT PARSON
Partner
Clyde & Co LLP

In Global Financial Integrity's 2019 update "Illicit Financial Flows to and from 148 Developing Countries 2006 – 2015" the estimate of illicit outflows of trade related payments from developing economies for 2015 alone was counted in the hundreds of billions – greater in value in fact than the aid budgets flowing into those countries.

The Wolfsberg Group, the International Chamber of Commerce and the Bankers Association for Finance and Trade, have come together to look at "financial crime" in the round comprising money laundering, bribery and corruption, terrorist financing, the financing of proliferation of weapons of mass destruction and other related threats to the integrity of the international financial system, and publish the Trade Finance Principles 2019, in their latest report (the Report).

How financial criminals operate

Financial institutions (FIs) are not always in a position to observe or interpret the signs of illicit financial flows (IFFs) methods. In the majority of the world's international trade deals, banks are typically only required to look at the documents presented rather than look at the underlying contracts, making detection difficult.

The Report identifies the following main risk areas for FIs in playing an unwitting role in IFFs.

OVER/UNDER INVOICING
By misrepresenting the price of the goods in the invoice and other documentation, the seller/buyer gains excess value as a result of the payment.

MULTIPLE INVOICING
By issuing more than one invoice for the same goods a seller can justify the receipt of multiple payments.

SHORT/OVER SHIPPING
The seller ships less than the invoiced quantity/quality of goods thereby misrepresenting the true value of goods in the documents.

DELIBERATE OBFUSCATION OF THE TYPE OF GOODS
Structuring a transaction in a way to avoid alerting any suspicion to FIs or other third parties which become involved, such as deliberately disguising it.

PHANTOM SHIPPING
No goods are shipped and all documentation is completely falsified.

In tackling IFFs, banks should determine their own trade finance compliance requirements using a risk based approach (RBA). The RBA would establish the steps to be taken for individual customers or transactions, based on their analysis of the risks in relation to the parties and relationship involved, the type of transaction, the monetary value of the transaction, country factors and other factors that may either increase or reduce the risk of financial crime.

The challenges for FIs

The sheer scale of the IFF problem indicates that the solution will require more than just rule making.

Challenges faced by banks include controls on data protection and cross-border information exchange, which restrict the ability of banks from accessing the information required for due diligence on other parties. Differing jurisdictional standards may also impede global standardisation of due diligence requirements. Further, differences in the scope and application of sanctions by various jurisdictions may create disparate or conflicting compliance or legal obligations.

Banks are also not in a position to make meaningful determinations on price verification and identification of dual use items (items which may have both civil and military applications), due to the lack of relevant business information, and the often complex and technical nature of dual items.

A bank's RBA should therefore give guidance and provide regular training to staff involved in relationship management and transactions. This may include how to perform an analysis of pricing for those goods where reliable pricing information can be obtained, how to identify where a unit price would be seen as obviously unusual and how to identify dual use goods in transactions.

There is of course no level playing field in terms of the global application of compliance rules and the expertise needed to make them work. This is especially true of those located in developing countries, where institutions and their staff may well be at different levels of maturity as far as the identification and application of FCR, customer due diligence and sanctions risks policies and the implementation of appropriate mitigation processes required. A bank's RBA must take these differences into account when determining the level of risk mitigation and controls that are required to meet their principal regulators' expectations. Conversely, regulators need to be cognisant of these variations which will affect a bank's risk mitigation policies and processes to meet the risks in their geographical counterparty profile.

The way forward

The key to successful combatting of IFFs is better communication and collaboration. Joining up of intelligence and data flows is a sensitive area but global reluctance to take that collaboration to the next level will be exploited by financial criminals.

The Trade Finance Principles 2019 contain detailed appendices which look at the different payment routes described above and seek to provide best practice guidance. The Report which is available on line is a "must read" for trade bank in house counsel risk and compliance teams.■

4.3 THE IMPACT OF SANCTIONS ON INTERNATIONAL ARBITRATION

RICHARD LITTLE
Partner
Eversheds

In today's geopolitical climate many foreign policy makers use sanctions or similar, steps such as the refusals to grant authorisations, to place economic pressure on governments, organisations and individuals.

Current examples include: restrictions placed on Russia in response to the events in Ukraine; the sanctions placed on Venezuela due to the continuing deterioration of democracy, the rule of law and human rights; US sanctions against Iran; and the restrictions placed on dealing with certain Chinese companies which create a de facto sanctions scenario.

The impact of these sanctions can be wide-ranging and felt within all areas of trade and business. International Arbitration is no exception to this.

With the increase in the use of sanctions in recent years, it is increasingly commonplace for commercial disputes in arbitration to have a sanctions dimension. This article looks at four of the issues that can arise:

1. Can sanctions excuse non-performance?

By design, sanctions are intended to restrict trade. Inevitably, parties that fall under these sanctions, or even parties that are in business with a sanctioned party, will encounter difficulties in performing contracts. This can lead to claims for breach of contract for non-performance to be resolved by arbitration.

Non-performing parties may find relief for their breach within a provision of the relevant contract (i.e. through a force majeure or compliance with all laws clause) or even within the sanction regulations. Whether the either will excuse non-performance, depends on their precise wording.

English law can offer a non-performing party of an English law governed contract a defence of frustration for reasons of supervening illegality (i.e. performance of the contract would now be deemed as illegal because of sanctions).

However, the sanctions would need either to be a matter of English law or the laws of the place of performance. Illegality under sanctions applicable elsewhere (e.g. a party's home nation) may not be enough. The English courts have also been reluctant to find frustration if the sanctions are temporary in nature or it is possible for the party to obtain a licence permitting performance.

2. Are arbitrators able to act?

When arbitrators are considering their appointments, sanctions can effect their own ability to act or continue to act. The arbitrator's nationality and the seat of arbitration both come into play. For instance, if an arbitrator's home nation has sanctions that extend to a particular entity, the wording of those sanctions will impact on the arbitrator's ability to adjudicate in the dispute.

To date, sanctions have typically not bitten directly on the role of arbitrator as the provider of an adjudicatory function. However, as sanctions evolve the position obviously has to be kept under review. More typically, it can be practical matters, such as receiving payment of fees, where sanctions create a real issue.

3. Dealing with arbitral institutions

Arbitral institutions (e.g. ICC, LCIA and SCC) have also addressed the impact of sanctions.

Some have developed policies and guidance for enhanced due diligence on certain parties, which ensures compliance with sanctions. Unfortunately, this can lead to delays in commencing arbitrations.

Sanctioned parties can also face substantial difficulties in paying arbitral institution fees. Following the United States' recent withdrawal from the Joint Comprehensive Plan of Action and the re-imposition of US sanctions against Iran, many banks have begun refusing to provide services to any Iranian entity. This has made it nearly impossible for Iranian parties to pay their share of the institution fees, which is creating difficulties in progressing arbitrations involving Iranian parties under the auspices of many arbitral institutions.

4. Enforcement and payment of awards

Following an award, a sanctioned entity may well have trouble receiving or making payments due as a consequence of the award and there can also be issues with enforcing the award.

Under the New York Convention, enforcement of an award can be refused if it would be contrary to public policy, meaning that a national court may not enforce any award they believe to violate sanctions and/or protect their national from being exposed by acting in breach of sanctions for reasons of international or their own domestic public policy.

Also, payments under an award that must be made in a specified currency may not be capable of being made if the correspondent banks who handle that currency, e.g. US Dollars, are all restrained by sanctions from dealing with one of the parties to the arbitration award.

Therefore, the route of payment has to be considered prior to the currency of payment being irrevocably fixed, as an award in a neutral currency may be what is required.

Sanctions can, depending on their nature and scope, raise a number of other practical and legal difficulties. The four issues identified above are perhaps most common and, therefore, the ones best kept under review. ■

4.4 FIRESIDE CHAT: INCOTERMS® UPDATE FROM THE EXPERTS

CHRIS SOUTHWORTH
Secretary General
ICC United Kingdom

PROF. CHARLES DEBATTISTA
ICC Special Advisor to the Drafting Group on ICC Incoterms® 2020

DAVID LOWE
Co-chair,
ICC Incoterms® 2020
Drafting Committee

BOB RONAI
Incoterms® Drafting Group

As Media Alliance Partners of the ICC Incoterms® 2020 rules changes, TFG's Deepesh Patel heard from ICC United Kingdom's Secretary General, Chris Southworth, Professor Charles Debattista, David Lowe and Bob Ronai from the ICC Incoterms® 2020 Steering Committee. We hear about the importance of incoterms in international trade, why they are changing in 2020, and what businesses should be thinking about in order to prepare for these changes.

DEEPESH: Bob, for those that might not have come across Incoterms before, what exactly are they and why do we use them today?

BOB: Well, back in the era of the sailing ships, they used jargon like free on board (FOB) and within each industry, users created abbreviations. The International Chamber of Commerce realised in the early part of the last century, that various countries had adopted different versions of these commonplace expressions. So they decided to create a standardised set of rules. That was back in 1936. The whole point of the rules is to help sellers and buyers understand their obligations, their risks and their costs etc. Without standardised rules, the sellers and buyers would have to write all kinds of detail using abbreviations into each and every contract - with no standardisation for how they are described in the contract, for instance, every one of them would be different and possibly incomprehensible. That would lead to constant legal disputes. The Incoterm rules distil things down into three-letter trade terms.

DEEPESH: So David, who is the core audience of Incoterms?

DAVID: The most important audiences are the people who sell and buy goods because the Incoterms set out the relationship between them – who is responsible for doing what and at what cost.

But it's not just that, everyone who helps them along the whole supply chain play an important role; freight forwarders, logistics providers, port authorities, customs brokers, trade finance providers, and insurers. All of these parties need to have a good understanding of Incoterms to help the seller and buyer make a successful trade.

CHARLES: So sellers, buyers, banks, insurance carriers, logistics carriers use terms such as CIF, FCA or CIP, to clarify the obligations, in terms of rights, critical moments to deliver, and the transfer of risk. They would go to Incoterms 2020 to get the correct definitions.

DEEPESH: Okay. So, simply put, Incoterms are hugely important for anyone selling or moving goods abroad. So whether you're an importer or exporter, freight forwarding company or trade financier, credit insurer or law firm, it's likely that you use Incoterms to govern trade.

Bob, how does the committee come to decide what the 2020 rules will entail? What's the thinking behind it and what do you take into consideration?

BOB: Well, the first step we did was to look at the 2010 rules and try and determine how relevant the wording was. Could we reword it or reformat it to make it more relevant and more easily understood? I recall on the first day I asked a question about two paragraphs in FCA. What did they mean? After 20 minutes of discussion, we all agreed that they didn't really mean anything so they were eliminated. So we had a first go at redrafting the rules and they were then submitted to all of the ICC national committees. This then elicited a bunch of responses, we went through them, and we changed what we'd written in an attempt to accommodate those responses. A lot of feedback was irrelevant because they were concerned with rules applying to their country, when Incoterms are universal and cannot be written for one country or area.

After doing that, they went back to the national committees and we got hundreds more responses. So we looked again and thought about whether we needed to change anything and if the idea was good we would accommodate it. There's been input not just from the drafting group, but from the International Chamber of Commerce and national committees, who sought comment from their members. The idea of the rules is that it's not just six or eight people huddled together in a room saying "Oh, let's do some new rules." It's a contribution from the national committees who are representing traders around the world.

DEEPESH: And Charles, a question that we often get asked- what is the relationship between Incoterms and trade finance and trade insurance?

CHARLES: Couple of things, first of all, there are 11 Incoterms in the 2020 version, let's take CIF or CIP (Carriage and Insurance Paid To). You've got 20 articles within the CIF Incoterm – 10 for the seller and 10 for the buyer, but that is not the contract for the sale. If you are selling sugar, bananas, whatever you need a contract. What Incoterms does is provide the underpinning, with the safety net of definitions which underly that contract.

Now, Incoterms are not a sales contract, neither are they an insurance contract, trade finance contract, or transport contract. They all have some effect, and are impacted by Incoterms to some degree, and this is why these other players in international trade need also to be aware.

DAVID: So some Incoterms will state that if a party has a particular responsibility to carry insurance, CIF – carriage insurance freight, where the seller is responsible for getting certain insurance; then the seller needs to provide insurance. Some Incoterms don't mention insurance, but if you are selling goods, then you need to make sure that you are insured at the point of delivery. In the case, when and if something goes wrong, a risk management strategy should be in place. And again, the insurer needs to understand that.

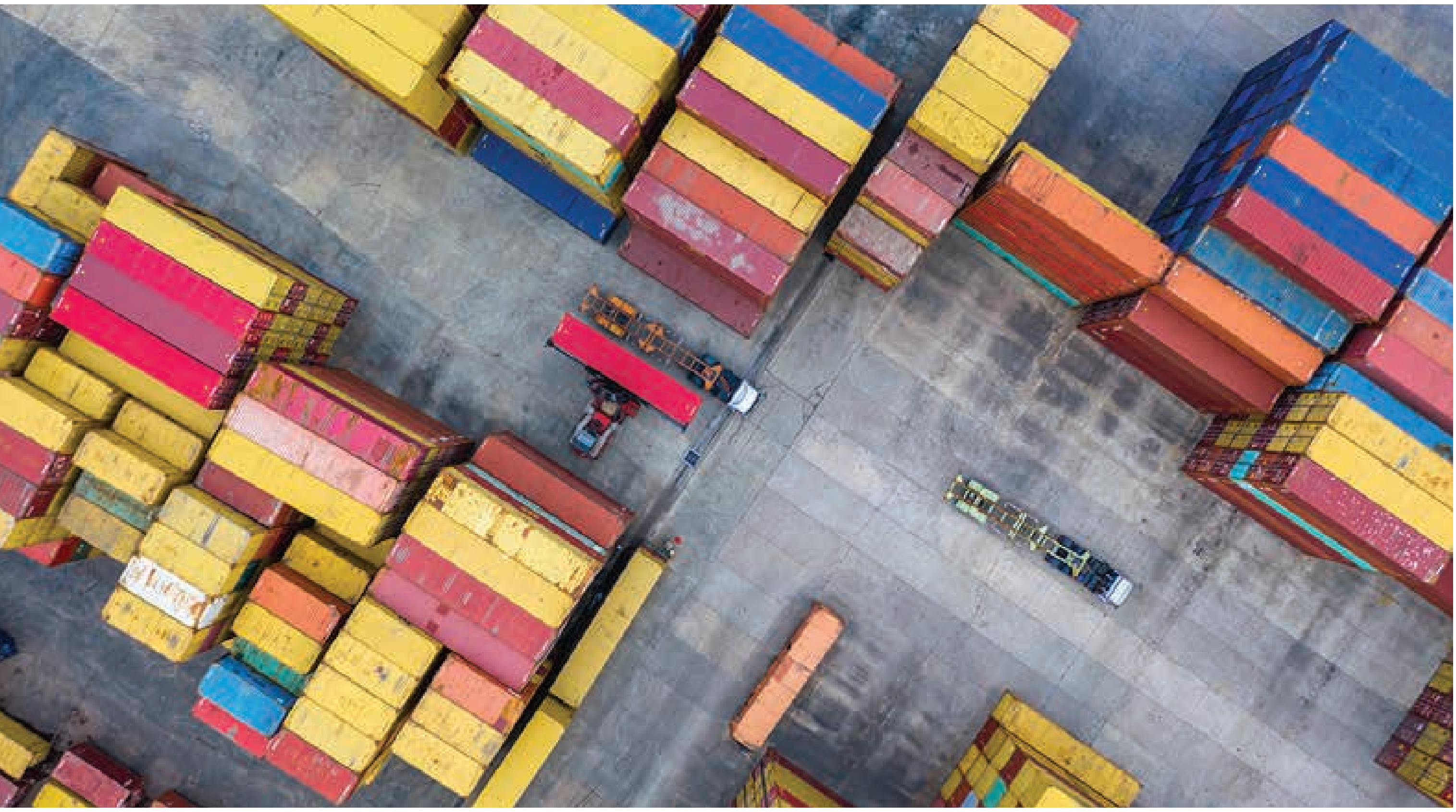
On the trade finance side, we need to understand what's going to be required to affect the sale that needs to be financed and how that's going to fit in with trade finance. So, if you are using a letter of credit (LC), the LC will demand certain documents that need to pay against. As a trade financier, you need to understand whether this is a realistic set of documents, to secure your position.

CHRIS: So if I am a classic goods trader back in Birmingham, so what, if I don't use them, what's going to happen?

CHARLES: If you use the wrong Incoterm, and if your insurance arrangements don't tally with what you are meant to be doing on your sales contract, if your Letters of Credit don't match the documents that you are entitled to under your terms of Incoterms, if there are gaps between the contracts or misunderstandings for various terms. Then the likelihood is that if there was a motive for the dispute, if the market moves against you, If your buyer loses interest in your goods, then there's likely to be a disconnect. And then, of course, everyone, reaches to their lawyers and it starts to bear costs. All of this could be avoided by some care and attention at the start by training yourselves in Incoterms.

And this is why the ICC revises them every 10 years; to reflect changes in trade practice, to try and respond to problems which have been brought to the attention of the National Committees and the ICC HQ in the intervening 10 years. The process of change and revision is very, very user-friendly. You may think that it's an exercise indulged in only by lawyers, but we were only two of five lawyer in a group of , the rest were real people with real problems. And several revisions went out to national committees around the world, where the drafts were looked at very, very carefully by real businessmen with real problems. And they were fed back to the drafting group in order to respond to those problems.

DEEPESH: Bob, how should businesses and practitioners, such



as finances and service providers prepare, once they know what those changes are?

BOB: They should be reviewing the contracts, because I'd suggest to you that probably 90-95% of contracts written around the world do not correctly use the Incoterms rules. So anybody that, for example, is shipping in LCL or FCL containerised transport, and is still using FOB (Free on Board), CFR (Cost and Freight) or CIF (Cost, Insurance and Freight) should always use the correct rule.

I even see people still calling it C&F, they should really be looking at it and saying "This is not appropriate". These rules do not apply to containers, they don't work. Therefore, we should be using the correct rule we should be using instead of FOB, FCA, instead of CFR, CPT, instead of CIF, CIP. And look at the rule and understand why because the point of delivery is before the goods going on the ship. A seller cannot in a containerized transport, organise that container to go on the ship. They don't even know where the container is, it's sitting in a terminal somewhere. Worse still with LCL, it's gone to a consolidator. And they hope that that consolidater will consolidate it into a container that is going to that destination. I've got one at the moment just left a couple of days ago going to Qingdao in China, but it's an LCL. So it's going from Sydney to Pusan in Korea. Now, none of us knew what container it went into until after the event. And none of us know what container it will go into in Pusan or what ship indeed it's going to go on from Pusan to Qingdao. So, you know, it's got to be one of the correct rules and multimodal rules, and not a rule requiring a container on board. And I see freight forwarders and banks misusing or misquoting the rules, mis-advising, telling people please pick fromEx Works, FOB, CIF, DDP or other. None of those four are appropriate for containers or air in international trade. Yet here they are the bank still telling people that on L/C applications, freight forwarders still putting them on their instruction letters. We hope they will learn quickly.

DEEPESH: A huge effort has gone into the Incoterms 2020 release, particularly from the excellent Incoterms 2020 drafting group. More than just three-letter acronyms, Incoterms® 2020 will help shed light and clarity for buyers and sellers, to help them understand their obligations, responsibilities, and risks.

Here at TFG, we'll be keeping you updated on the key changes and new rules once Incoterms 2020 are launched, giving you the support and guidance, signposting, and advice on what you need to know for the 1st January 2020.

Trade Finance Global are a Marketing Alliance Partner for ICC Incoterms 2020, supporting their launch event here in London, on the 15th October in London. As such, we've got an exclusive 20% discount to the event, simply use the code 'ICCIncotermsTFG' when signing up. More details on our website. ■

5 TECHNOLOGY, BLOCKCHAIN AND DATA

5.1 WHERE DO YOU PLUG IN YOUR BLOCKCHAIN?

ALISA DICAPRIO
Head of Trade & Supply Chain Finance
R3

So you've built yourself a blockchain, now what are you supposed to do with it?

Integrating the new technology into legacy systems is a key indicator for success. If you can bring the best of both the new and the old together to offer you optimal results, then the technology is serving its purpose. R3 has been doing this for the past twelve months, and it has led to some interesting insights that I would like to share.

Four different projects – Marco Polo, Voltron, RiskStream and Lendercomm - have used different strategies to 'push' and 'pull' back-office data. All of these have been developed over the past year and carry important implications for other blockchain solutions.

APIs are how blockchain talks to your system

The blockchain application you run talks to your legacy system using the same technology that you use today. You could use RESTful APIs, for example to connect the data to your existing system of record.

In R3's case, we have been building out our Remote Procedure Call (RPC) library of functions. This allows us to offer integrated options for existing legacy systems. Behind the scenes, the APIs that you create to connect your existing system to our Corda platform are 'talking' to the Corda RPC client, which then executes all the actions.

APIs are critical for users to access the full functionality of their blockchain application. They allow clients to push and pull data onto the blockchain. In other words, they allow users to select the data that truly adds value for them and fits their individual use case. The blockchain then adds the security of a distributed system and the immutability of data, among its other benefits.

ERP integration pulls data directly from your corporates

The problem trade finance applications face is how to make the experience seamless for the corporates that use it.

A large transnational corporate might have six different banking relationships that each require a bespoke connection from their Enterprise Resource Planning (ERP) back-office system to the bank's platform, and then onto the bank's own back-office system.

TradeIX's project Marco Polo has built

a native Oracle NetSuite App that directly pulls data from the Oracle NetSuite Cloud ERP system. For the corporate, that means that you continue to use your ERP as before, and instead of building another bespoke bridge; now you download the app which pulls data out directly. The Marco Polo ERP App is live today for Marco Polo's receivable finance solution going live in the coming months.

Use your existing back office and industry providers

A second problem trade finance applications have is how to integrate with existing industry-wide tools and bank back-office systems.

Different blockchain applications have addressed hooks in different ways. In insurance, RiskStream Collaborative has built functionality that links into Guidewire, which is one of the two main systems to add efficiencies to all areas of risk management used in the insurance sector. This way, the blockchain solution, in this case, the "CorDapp", pulls data about the claim using the inputs that insurance companies already produce.

Other projects are also pursuing this model – contracting with existing providers to build a different level of data integration, rather than moving to something altogether separate. Many of the major bank back-office providers are exploring how to do this now on business networks like Voltron.

Finastra's Fusion Lendercomm will be used by agent banks for to automate the servicing required for syndicated lending. The app connects to Finastra's existing on-premise solution Loan IQ for purposes of automating the information exchange between agent banks and leners. This means that re-platforming is minimal and the banks are simply reporting information as they were before through phone calls, faxes and e-mails in a digitize and automated fashion.

Enough about data, what about payments?

A final issue in blockchain and trade finance is payments. Obligations must be settled, either using digital currency or using traditional payment systems. Since on-ledger digital currency is in its infancy, most trade finance applications intend to settle obligations on traditional payment systems.

This is why R3 and SWIFT combined to integrate Corda to SWIFT net. This uses Corda Settler and SWIFT's API gateway, gpi Link. Announced in January 2019, this integration allows users to create obligations and initiate and confirm settlement via the traditional correspondent banking system. Corda Settler allows two parties to create a contract that defines the amount, time, location, currency, and terms of payment. It requires an api connection to both initiate and – critically – confirm transaction completion. SWIFT gpi link provides that.

Like any piece of technology, blockchain will be most useful when used in conjunction with existing systems. The reality is that most businesses are not 'digitally native' and so will rely on legacy systems – all to different extents. The key to unlocking blockchain's true potential is therefore not to try and oust these but to make sure blockchain fits into the right place. ■

5.2 NO BANK IS AN ISLAND

LUDGER JANSSEN
Head of Product Management,
Trade Finance Products
Commerzbank

To advance trade finance's digital transformation, financial institutions and technology providers alike are ramping up efforts to cooperate through a number of consortiums. But, to ensure these various initiatives do not create a cluster of "digital islands", a more joined-up approach is required.

The importance of digitalising trade finance should not be under-estimated. One German corporate recently told me it's spending millions of euros each year in demurrage costs while cargo sits idly in terminals as it waits for processing, customs clearance, bank handling, dispatch or delivery of its accompanying documents. The result is clear: higher transaction costs and unnecessary barriers to trade, which places strain on global commerce.

Is digitalisation part of the solution? There are indeed many industry initiatives underway, all working to make trade finance faster and more connected. Yet this welcome development also bears the risk of further fragmentation, hindering progress. Therefore, the financial community – as well as governments and international trade bodies – should look to a common objective: to prevent an archipelago of "digital islands" forming. This, we believe, requires the establishment and revision of industry rules and standards.

The importance of standards

Commerzbank recently hosted a workshop for trade participants from the corporate, bank, fintech and insurance world, which concluded that full migration of trade finance transactions from paper to digital processing was vital to reducing the operational (and cost) burdens experienced by corporates.

But this hinges on establishing industry-recognised standards – especially since a given trade finance transaction could easily involve 20 or more parties such as banks, shippers, insurers, agents and custom authorities – to govern the process of sharing trade data digitally.

The benefits for all parties could be enormous. We note that corporates are already demanding the option to view invoices within their enterprise resource planning (ERP) systems, which their bank can then extract for financing. We can also anticipate a future in which a digitalised Bill of Lading is transferred and processed without delay between customs authorities, banks and shippers, or in which Certificates of Origin can be easily shared and verified thanks provided they agree with the standards set.

Yet establishing a common language is easier said than done. Terms like "digitalisation" are often conflated with "electronification" (which simply means transferring paper documents onto digital platforms).

Electronification, however, is merely the first step. Digitalisation, in its truest sense, should mean that all trade transaction information (bills of lading, certificates of origin, letters of credit) would be written in a universal binary code language, which any computer can process and present for each party's consumption. No paper necessary.

Yet the difficulty in establishing standards for trade finance's digital future goes even beyond the digital transfer of data as such because rules and standards are also needed for such far-reaching aspects of our international business. For instance, to recognise the complexities of creating a global standard, one only needs to consider the legal considerations in trade transactions, the local habits and region-specific rules, as well as the nuances that can arise in individual transactions.

Cooperation: the vital ingredient

Establishing rules and standards therefore represents a mountain to climb, but the rewards are high and cooperation will be key if we want to benefit from the trade finance consortiums, industry initiatives and individual innovations that have emerged over the last years.

Without standardisation, the lack of coordination between these initiatives could be confusing matters unnecessarily. Rather than establishing a standard, the end-result could be a cluster of disparate "digital islands", unable to communicate – let alone integrate – without significant investment. So, what can be done to avoid fragmentation? Simply, the multitude of systems available can only become interoperable by establishing a means through which the various platforms can communicate.

Understanding the potential of standardisation, the industry is cooperating more closely. One such initiative is the Universal Trade Network (UTN), whose members include the banks and blockchain companies participating in the Marco Polo blockchain project, as well as fintechs and industry partners. To avoid being yet another "island", the group's objective is to be technology-agnostic, focused wholly on improving interoperability between not only blockchain solutions but also other technologies within the trade finance ecosystem.

Objective number one for the UTN, of which Commerzbank is a member, is to create bridges able to connect the cluster of blockchain networks that have emerged – thus creating a "network of networks". From there, the group can begin to drive standards across trade finance that transcend the individual platform or service being used. Think of it like being able to read an email from your client, even though she works on a different email domain and using a different web browser – something we perhaps think routine but was only first possible thanks to standardisation.

Wider buy-in is needed

Of course, faster progress in standardisation can only happen if there's coordination within the financial community in cooperation with governments and international bodies. In July, the International Chamber of Commerce (ICC) Banking Commission's new e-rules for the presentation of electronic documents under Letters of Credit, the so-called eUCPs, came into effect. The body also established for the first time electronic Uniform Rules for Collections (eURC), while the formation of a working group for digital trade rules should help to advise trade consortiums on how to execute financial obligations in accordance with their own processes.

What has been clear from the financial community's efforts to digitalise trade finance, to date, is that financial institutions and technology companies cannot act alone. One difficulty is that trade finance digitalisation isn't high on the political agenda. Highlighting how easing trade finance processing could boost productivity and international competitiveness will be one way to pique the attention of politicians and industry bodies alike. ■

5.3

FIXING GLOBAL TRADE'S DATA PROBLEM

DR REBECCA HARDING
CEO
Coriolis Technologies

The transformational power of data has brought to bear a new era of analytics, and with it has come a revolution in the way we eat, work, travel, and socialise. But when it comes to global trade – which underpins every aspect of our day-to-day lives – we still can't reliably answer the question of "Who trades what with whom?". This is an inexcusable state of affairs in today's world of big data, artificial intelligence and machine learning, as Dr Rebecca Harding, CEO of Coriolis Technologies, explains.

By analysing just a small sliver of the around 2.5 quintillion bytes of data created by everything from mobile phones to smart city infrastructure and credit cards every day, businesses and governments can quantify and gain actionable insights on everything from shopping habits to healthcare, public transportation and education – in real time.

Not so for global trade. Policymakers and companies alike currently find themselves trying to make sense of lagged and fragmented data points in order to glean a bigger picture, which means they are in danger of making decisions without a reliable evidence base.

This situation would be bad enough in a benign international trading environment. When taken against the current backdrop of a global trade war and a populism-driven shift away from multilateralism, however, its rectification becomes an urgent necessity.

If trade institutions are changing, then politicians, negotiators and businesses alike need accurate and timely data in order to be able to assess the impact of, for example, higher tariffs, greater non-tariff barriers, regulatory changes and the reconfiguration of trade agreements. This requires accurate, timely and consistent data that can cater for the complexities of global supply chains across multiple borders and multiple components.

Nowhere is this clearer than in the United Kingdom as it prepares to leave the European Union. The UK government's EU Exit: Long-term economic analysis research paper, upon which parliament will base its assumptions on the long-term economic and fiscal impact of the country's exit from the 28-member bloc, relies upon data from the Global Trade Analysis Project (GTAP), one of the most widely used computable general equilibrium models internationally for trade analysis. So far, so good. However, the GTAP data, which looks at bilateral trade flows through costs, distance, production and consumption patterns, was last updated in May 2015 – over a year before the Brexit vote took place.

The risks associated with developing policy impact assessments based on four-year-old data are glaringly obvious.

Lagged data isn't the only issue. Gaps and discrepancies abound across all publicly available datasets. For example, Germany reports twice the amount of service exports to the UK as the UK says it imports from Germany according to TradeMap, which uses United Nations service trade data. This is similarly the case

for France and Italy. This suggests that the UK may be miscalculating the size of its trade surplus in services – which is worrying, given that trade in services represents 48% of all trade in the UK.

The UK is far from alone in suffering from inadequate trade data. Japan, for instance, says it imports 21% more from China than China says it exports to Japan. Kenya, meanwhile, has not reported any trade data at all since 2013.

The accepted methodology for dealing with this has been variously developed between the OECD and the World Bank, taking one country's exports in relation to another country's imports in order to yield a divergent, but potentially more reliable picture of the trade flow itself. But the gaps remain despite improvements in trade data collection techniques and tightening reporting standards, as countries report in different sector codes, in different currencies and at different times. This leaves both the public and the private sector to fill in the blanks and hope for the best when trying to predict the future of trade.

In today's age of information, however, models no longer need to make assumptions about how the world looks. They can instead be based on real time data. Using AI mirroring techniques on a multi-dimensional basis – a system that must handle more than 3TB of data at any one point in time – Coriolis Technologies ensures that not only are trade flows between countries equal, but so too are trade flows between countries and their partners by sector or product. For goods, this approach yields a difference between what is published in publicly available data and the cleaned and harmonised data of a relatively consistent 11-12% of world trade since 1996. In other words, there is 11-12% more trade happening than what has been captured by the patchy, inconsistent data the world is using at present.

The tools are now available to answer the question: "Who trades what with whom?". Putting them to use will transform how policy is formulated, how the impact of the changing trade landscape is assessed, and how trade is financed by banks. The imperative for harnessing data in trade has never been stronger, and a failure to do so will have dramatic consequences. ■

5.4 TRADE AND COMMODITY FINANCE ENTER THE DIGITAL ERA

CÉCILE ANDRÉ LERUSTE
Europe Banking Lead
Accenture

Trade finance/supply chain finance at the forefront of digital innovation, and of platform transformation, as it represents a key issue for corporate clients and for banks. This is probably the first banking business that is shifting massively to a platform model, illustrating the shift of banks from a culture of risks to a culture of risks and technology.

Indeed, innovations around Trade finance include reconstruction of the value chain, creation of wider ecosystems (backed by Blockchain or not) including sectors players, port authorities, transporters, development of consortia to develop common, standardized platforms.

Within the wider Trade finance world, Commodity finance is in a phase of major transition, driven by multiple megatrends :

- The shift to a circular economy, impacting the appetite for commodities;
- Re-fragmentation of trade, creating new risks, whether political, regulatory or operational (fraud-related);
- Reduced appetite from many banking players to invest in the business (particularly in terms of operational risk management);
- The creation of consortia, led by banks or by major commodity traders, leveraging new technologies (blockchain in particular) to solve complexity/transparency/cost issues;
- Consolidation of services under a single service platform to facilitate trade, including trading houses, financial institutions, analytics software providers and back-end technology services; and
- Leapfrog-style innovation in existing business processes through the introduction of disruptive, emerging technologies such as distributed ledgers/blockchain and blockchain as a service (BaaS).

In this context, digitalizing commodity finance can bring value in multiple ways, including improved cost efficiency, new business growth, and enhanced risk control.

Leveraging the rule of thumb of Pierre Nanterme, the Accenture CEO who sadly left us last year, I believe that digital can have three major impacts on commodity finance. Pierre's rule was to invest 60% of his efforts and budget in transforming business for efficiency -- to generate a budget to invest in growth -- 25% of his effort in growing existing businesses, and 15% in growing new businesses.

How would that apply to trade and commodity finance?

1. Regarding cost efficiency, we are now in the second phase of digitization; while the first phase focused on process efficiency -- through robotic process automation (RPA) and optical character recognition (OCR) in particular -- the second phase leverages data analytics and AI (and AI-enhanced RPA). A third phase is now emerging, leveraging blockchain to streamline the middle and back-office and reinvent their role, refocusing either towards customer care and/or marketing or towards risk management. Given the importance of level 1 compliance controls within Commodity finance, this second phase of digitization should have a major impact on the cost base and speed of execution of Commodity finance.

2. Regarding existing business growth, I am convinced that digitization will offer banks the opportunity to expand their relationships with new players in the trade and commodity market, by refining their understanding of their needs as well as their risk profile. Since 2018, banks and commodity finance players have been investing in expanding their outreach, either individually through partnerships or through the creation of holistic platforms. The expansion takes that form of enhanced geographic scope, of extension towards SMEs in supply chain finance, but also of more focused sectorial focus. The value in expanding relationships to standardize information exchange among formerly siloed entities is clear. Building a trusted network reduces risk and overhead.

   A good example of such a platform in Commodity finance is Komgo, which targets industry challenges such as Know Your Customer (KYC) discrepancies and the creation of digital letters of credit. Such platforms help interoperability between banks and other players along the entire value chain.

   Another example is VAKT as a post-trade processing platform, which has successfully demonstrated the impact of deal recap, confirmations and contracts of commodities trading. The use of distributed ledger technologies has enabled all parties involved in the trade to manage processes in a decentralized platform for the first time.

   The interlinking of VAKT and Komgo provides an end-to-end commodity trade finance solution from trade entry to final settlement. As trades get executed and input to VAKT, linking to financial institutions for financing is handled by Komgo as a gateway to multiple banks. The combined platform is aiming a seamless commodities trading experience through the use of two separate distributed ledger platforms.

3. Finally, in a world of open banking, digital will facilitate the banks' shift from a vertical product-driven relationship to a platform play in the trade ecosystem. Transformation to a horizontal platform play has both cost reduction and revenue impacts for banks and other industry players. In trade finance, platforms encompass multiple players and will interconnect with sectorial platforms and potentially ERP platforms. On the other hand, the first products launched by commodity trade ecosystems have focused exclusively on cost reduction, targeting industry pain points such as operational inefficiencies in document flow and automation.

As such platforms gain traction and industry players collaborate more closely, we will see new product offerings stretching beyond existing bank offerings, addressing end-user needs in a consolidated package and shifting banks' focus from product centricity to client centricity. ■

5.5 PRACTICAL APPLICATIONS ON PROVEN PLATFORMS WILL DRIVE THE STANDARDISATION OF DIGITAL TRADE DOCUMENTS

JACCO DE JONG
Global Head of Sales
Bolero International

Distributed Ledger Technology Amongst Corporates

All global industries require standards. Remember what a huge step forward it was when the carrier industry agreed on the design for a shipping container. The same is true for electronic trade documents and their supporting systems.

Digitised bills of lading are already enabling trading counterparties to get their hands on cargoes days or weeks faster, freeing up working capital along the supply chain. Now we need to take another major step forward in document standardisation and interoperability so we can share the transformative efficiencies of smart ports, maritime IoT technologies and 5G telecommunications.

The United Nations' push towards standardisation

Numerous international organisations including the United Nations Commission on International Trade Law (UNCITRAL), the UN Centre for Trade Facilitation and Electronic Business (UN/CEFACT), the World Trade Organization and the World Customs Organization have been working towards common standards and data-sharing, as have some of the world's biggest carriers. UN/CEFACT, for example, finalised a framework agreement on paperless trade in 2016.

Carriers and ports can sense the opportunity

Alongside these UN-sponsored initiatives, five of the biggest container lines in the world – Maersk, CMA CGM, Hapag-Lloyd, MSC and Ocean Network Express (ONE) – have also launched the Digital Container Shipping Association (DCSA) and pending regulatory approval, will be joined by Evergreen Line, Hyundai Merchant Marine, Yang Ming and ZIM.

The emergence of blockchain technology in trade documentation has also given impetus to the search for common standards. Maersk and IBM, for instance, have come up with their own TradeLens platform, while another consortium based in Shanghai is also working on blockchain trade initiatives. This includes COSCO, Yang Ming and CMA CGM along with port operators DP World and PSA International and the technology company CargoSmart (Global Shipping Business Network). The EU is active in this quest as well.

The future may be one of multiple standards

Although standardisation has plenty of momentum, no global consensus has yet been achieved. UN/CEFACT and the WCO can only make recommendations and acceptance will be a matter for individual companies or national regulators.

The picture is complicated by banks having their own idiosyncratic transactions and systems which are subject to strict regulation.

Cross-border governmental cooperation may well be necessary to kickstart acceptance and implementation of new standards. Yet once significant trading nations and blocs such as the US, China and the EU reach a consensus, then the rest of the world will fall in line. It is true too, that carrier industry consolidation will influence how standards evolve.

In view of this complexity, no single set of standards is likely to gain universal acceptance. Carriers, shippers and importers may have to move between different standards, as happens in international banking.

Whichever standards are adopted, they must not introduce additional costs or add to existing constraints. Solutions must be future-proofed without requiring new processes or system upgrades. In addition, they must support and express all legal obligations, data governance and privacy requirements. This includes, for example, the 2016 implementation of the IMO's Verified Gross Mass Declaration.

Interoperability will require neutral third party platforms that work in the real world

Interoperability between systems will also require several neutral third parties, whose platforms need to be tried and tested by existing networks of carriers, banks and corporates. This cannot be left to chance. Big name companies in world trade must already trust and rely on them and they need to be recognised by industry bodies such as the International Group of P&I Clubs which collectively ensure more than 90 per cent of the world's ocean-going tonnage.

Any platform needs to demonstrate not only gains in terms of speed, security and automation, but also the ability to achieve full integration with the entire global supply chain. Standards are not only about technology but also about legal compliance and the assurance that documents are legally watertight in a respected jurisdiction. Platforms must be safe, fast, agile and perfectly suited to the multi-faceted demands of banks, carriers, forwarders and corporates.

Advances in document digitisation mean we are on the brink of exciting change in the global trade system. Everyone must, nevertheless, understand that for new standards in documentation such as bills of lading to work effectively and securely right around the globe, they must be underpinned by platforms that already have an established network of significant banks, carriers, forwarders and corporates. Innovation has to be accompanied by, or embedded in, real world solutions that big players are ready to adopt. ■

5.6 HOW DID DLT FIND ITS PLACE IN INSURANCE?

KEN MARKE
CMO
B3i

Distributed Ledger Technology (DLT) has been around for several years and has its roots in the world of cryptocurrencies, often referred to as Blockchain. Having brought some very interesting opportunities to the Banking market, attention was sparked in other industries such as Insurance, Healthcare, Shipping, Supply Chains, Manufacturing and Trade Finance.

The Concept of Distributed Ledger Technology

The reality is that all technology innovations raise interest as one should expect. But where the use of the technology is less obvious, it does take time to establish how it can be adapted and determine where the benefits can be derived. DLT is no exception and is not just a solution looking for a problem.

In very simple terms, a DLT platform enables information to be recorded in a digital format and for an exact copy of it to be shared across a number of parties. In effect, a copy of the ledger where the information is recorded, is distributed or shared in the network. The information can now be trusted to be authentic and accurate. This in turn facilitates traceability and auditability, features which will not be lost on a regulator or compliance officer.

Inherent in a DLT platform is cryptographic security which further enhances trust in the information or data being shared. And because the nature of the architecture behind the technology is common, the ability to standardise workflows and business processes also exists. The platform in effect means that applications can be interoperable, further simplifying transactions and data transfer internally, across multiple parties and even across industries.

On the face of it, this significantly improves the process of sharing data. But in reality, DLT offers greater potential to significantly simplify business trading, making it more secure and faster which is far more transformative. Commentators have suggested that DLT is equivalent to the Internet version 2. A grand view perhaps of a new technology but even the Internet started as a humble academic information sharing network.

What is the problem we are trying to solve?

In a traditional network, there is usually a single copy of the ledger held by a central party and when information is exchanged (such as between the insurer, broker and reinsurer), each participant replicates the information. Each one creates his own copy of the ledger, but problems arise when the information gets out of sync. This is solved through a reconciliation process.

Currently, the sharing of information through email, PDF documents or spreadsheets adds to the administrative burden and increases the chance of information becoming corrupted. Where this passes through several hands, errors creep in and inconsistency increases with each step.

This process will sound familiar across many industries. It results in a slower operations which is prone to errors, leads to cumbersome reconciliations and contributes to contract uncertainty. In short, the business processes we have today add to the administrative cost of trading or transacting business. This fuels inefficiency resulting in higher prices and slower service.

B3i and its approach

B3i started life as a consortium created by some of the world's largest insurers and reinsurers. In late 2016, this group sensed that DLT could bring some significant benefits to the way insurance is transacted. Insurance depends on sharing information between multiple parties in order to create quotes, underwrite risks, settle claims or simply manage financial transactions. This process is even more complex the commercial insurance or reinsurance world.

The consortium created a proof of concept (PoC) for a Natural Catastrophe Excess of Loss reinsurance contract which, on completion in late 2017, was tested by some 38 insurers, brokers and reinsurers.

This reinsurance PoC was chosen as it is characterised by relatively low frequency transactions that carry large financial relevance, and a process which generally involves substantial manual work and reconciliations for all parties involved.

The outcome of the test programme was that material benefits could be derived through such a product, principally in reducing the administrative cost and having better quality and more reliable information which was capable of being shared faster than before and more securely. With this experience, the consortium decided to form a company incorporated in Zurich to develop this application commercially. The company now has 18 shareholders and over 40 staff.

The new B3i Nat Cat XoL product launched in late 2019, offering users several material benefits. Amongst these, the more important ones are featured in reduced effort in the insurance placement process, greater contract certainty through the shared ledger principle and operational risk reduction through the elimination of replicating data. The process becomes faster, cheaper and better rewarding all the participants in the value chain including the ultimate customer.

Opportunity for widespread development

The use of DLT by B3i offers a new paradigm that enables market participants to safely and transparently transact insurance business using shared applications and data in a way that was not possible before. This is manifested in removing error prone and wasteful data duplication, process duplication and the need for traditional integration.

Recognising this, B3i has developed Fluidity, a distributed network ecosystem. B3i Fluidity offers a DLT business network platform with all the services required to operate incorporated in it, and where distributed applications can be deployed and made available to all members. These applications can be built by B3i, approved partners or platform customers and by leveraging reusable components designed by B3i, application development is accelerated.

B3i sees the application of DLT as a unique opportunity for the insurance market to further transform itself by improving efficiency. Ultimately, this will deliver better solutions for end consumers through faster access to insurance with less operational risks and administrative costs.

The approach and key benefits derived from DLT are capable of being mirrored across many industries and we have already seen several inroads made for example in the areas of supply chain and marine transportation. It is early days for this innovative technology but like the Internet, it will not be built in a day and the desire to transform as well as creative inertia will see more and more applications emerging in the next few years. ■

5.7 FUTURE PROOFING TRADE THROUGH DIGITISATION

MICHAEL VRONTAMITIS
Head of Trade, Europe and Americas
Standard Chartered

Over the past 2-3 decades there have been many attempts to digitise parts of the trade and trade finance process, but it's the complexity of trade that remains the challenge. Most successful attempts at digitisation have had to bite off a small piece of the problem and this has led to silos or what I call a 'digital island' phenomena.

We've seen four key solutions come to light over the years; multi-funder platforms, procure to pay networks, supply chain management networks and dynamic discounting platforms.

These solutions are converging. So while supply chain management networks and procure to pay networks push into financing and multi-funder solutions push into networks, it is not so easy for these different networks to migrate. The reality is that few of these networks communicate with each other and while we have seen expansive growth there are no clear winners.

However, I believe in the short-term we are likely to see the emergence of new networks that will connect these networks. What I like to term 'networks of networks' or 'data aggregators'. These networks will act as a bridge, enabling corporates to control their data more effectively, their supply chain partners will have access to their relevant data which will allow transactions to be more seamless than today.

New developments facilitating change

In the banking space, a number of platforms that offer corporates an entry point to the integrated world of digital trade have already been announced, including Voltron, Marco Polo, and Trade Information Network (TIN). These efforts target specific areas of the supply chain but, crucially, have the element of interconnectivity that can make digital islands a thing of the past for corporates. By joining one platform, the potential exists to connect to another through their interoperability.

Multi-bank connectivity

TIN is a good example of the future of integrated digital trade; a global utility established by leading trade banks, that is looking to create a data exchange between corporates and banks to enable financing in underserved market segments. It represents the first inclusive global multi-bank, multi-corporate network in trade finance, enabling corporates to submit purchase orders and invoices to the banking industry via the TIN aggregation platform.

Embed financing into ERPs and B2B platforms

Marco Polo is a banking consortium that sprang from a blockchain-enabled trade finance transaction delivered by logistics firm DHL and TradeIX. The receivable finance programme enabled the logistics company to help its customers extend their payment period while maintaining the company's receivables at current terms. By using the TradeIX TIX platform powered by permission-based distributed

ledger technology, DHL could have its invoices placed securely on the platform and benefit from real-time visibility to manage customer terms and credit risk.

The developments in this space allow financial institutions to look at 'banking the ecosystem' - moving beyond financing the suppliers of single large corporate clients, to understanding who the buyers and suppliers of those suppliers are and providing the relevant supply chain finance or receivables services further down the chain, with the large corporate as the anchor. By partnering with fintechs or established players like SAP, banks can offer supply chain financing far deeper in the trade ecosystem.

Digitisation of logistics and shipping

Digitising logistics enables corporates to gain greater visibility into the supply chain. Having this visibility allows them to then connect their logistics and shipping to their financing. Bolero and Essdocs are long established players in this market, working on providing digital shipping information, taking the bill of lading, for example, and making that purely electronic.

With an e-bill of lading at present only accepted in the US as a transferable document of title, both of these companies rely on London rules and all parties being in the same ecosystem in order to transfer the bill of lading. This has worked to a certain extent in the bulk shipping space, but is less successful outside of this area.

New players like TradeLens, a blockchain-enabled shipping solution, aims to support information sharing and transparency in the global shipping industry. The goal is to digitise bill of lading data, allowing it to seamlessly move through the supply chain on the platform, replacing the inefficient paper processes.

Blockchain infrastructure for trade

Voltron, on R3's Corda blockchain network, is set to be the market standard platform for trade infrastructure, enabling corporate customers to connect with their banks and trading partners via a single channel, for both issuance of LCs and presentation/exchange of documents across an open network. In addition, trade documents produced on external networks by the supply chain partners of the corporate can be digitally sent, verified and processed in Voltron.

Blockchain infrastructure also offers the prospect of transforming the traditionally paper-intensive world of bank guarantees. Last year, Standard Chartered announced a collaboration with Siemens Financial Services, and TradeIX, to carry out a client pilot to create an end-to-end blockchain-based smart guarantees proposition in trade finance, fully digitising the entire process, from initiation of the bank guarantee to claim handling.

Co-creating solutions

With access to more efficient and relevant data, supply chain finance will truly be an end-to-end financial solution with less risk but with more visibility; which is ultimately good news for the global economy, for jobs and for reducing the trade finance gap. This is going to take collaboration between corporates, fintechs, banks and other partners, a willingness to try things, and a willingness to stop things that don't work - there has never been a better time for corporates to collaborate with banks and fintechs to future-proof their trade processes. ■

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DATE	CONFERENCE	PROVIDER	LOCATION
4th September	UK Islamic Finance Week and European Islamic Fintech Huddle	IFN Islamic Finance news	London UK
4th - 6th September	46th ITFA International Trade and Forfaiting Conference	ITFA 20 YEARS	Budapest Hungary
16th - 17th September	World Conference of Banking Institutes	140 The London Institute of Banking & Finance	London UK
17th September	Excred Commodities: Insuring Commodity and Project Finance	ExCred Commodities	London UK
23rd - 26th September	Sibos	SWIFT	London UK
2nd October	Excred New York	ExCred New York	New York USA
3-4th October	FCI Regional Conference on Factoring in CEE and SEE	FCI	Belgrade Serbia
7th - 8th October	World of Open Account Community Convention	woa world of open account	Antwerp Belgium

11th October	TXF Geneva 2019: Commodity Finance	TXF TRADE AND EXPORT FINANCE	Geneva Switzerland
15th October	ICC Incoterms 2020 Launch	Incoterms 2020	London UK
16th October	Supply Chain Finance Summit	BCR	Singapore
23rd October	World Trade Summit	INSTITUTE OF EXPORT & INTERNATIONAL TRADE	London UK
23rd - 25th October	29th BAFT Annual Conference on International Trade	BAFT	Chicago USA
6th - 7th November	World Trade Symposium	FINASTRA	New York
14th November	ICC Trade & Supply Chain Finance	ICC UNITED KINGDOM The world business organization	London UK
28th November	SCF Forum Europe	SCF Forum	Amsterdam The Netherlands
4th December	TXF Political Risk & Trade Credit Insurance 2019	TXF TRADE AND EXPORT FINANCE	London UK

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