

Fix trade finance now

Speech by Catherine Ashton and Joaquin Almunia
Brussels, 30 March 2009

As we move towards the G20 Summit in London, discussions are shifting into high gear on how best to globally coordinate our efforts to reboot the world economy. The meeting will address the insufficiencies and flaws in the current regulatory and supervisory system that along with excessive risk taking have resulted in the present economic and financial crisis. Economic stimulus and financial regulation have received the most attention, but one thing our economies also need urgently is a bold initiative to get trade finance flowing again. To safeguard trade the G20 must not only commit itself unequivocally to avoiding a slide into protectionism, but also to delivering a concrete initiative on trade finance.

The decline in trade finance is a striking example of the dire consequences of the financial crisis for the real economy. A serious collapse in lender confidence means we are now at the point where some of the most basic financial arrangements are no longer possible. Trade finance should be relatively straightforward, with over 90% of global trade transactions involving some form of credit, insurance or guarantee. Before the crisis, commercial banks were happy to provide their backing – now they are pulling down the shutters. Even letters of credit, a well-established method of short-term lending, have come under pressure, and our exporters are suffering as a result

It is alarming that despite a fall in demand for trade finance, supply has gone down even more drastically. The negative effects on trade activity are clear, especially in developing and emerging markets that are particularly affected by rising risk-aversion in financial markets. Even EU exporters with full order books cannot ship their goods, and small and medium-sized enterprises are particularly at risk.

According to an IMF survey among major banks, the cost of trade finance has increased despite less restrictive monetary policies in many countries. Such a gap in trade finance could be as much as \$300 billion, according to a World Bank estimate. The lack of trade finance already lead to a decrease of trade flows and if this gap is not addressed swiftly, world trade this year could decline even further.

At the London G20 meeting, our leaders will reiterate their commitment to fight protectionism and find new opportunities for trade by completing the Doha Round of world trade talks. Trade is bound to fall in an economic downturn, but it is also a motor for recovery once the economy picks up again. This will be undermined if the trade finance drought is not also tackled. The best way to fully restore trade finance to normal levels is to restore confidence in the financial sector as a whole. We must strengthen and co-ordinate international action, but even so it is clear that it will take time to rebuild confidence. In the meantime, governments and international institutions must step in to plug the gap in private sector finance and help trade financing reach businesses in the developed and developing world.

The EU's answer is threefold. Firstly, we are backing a new multilateral initiative on trade finance in the G20 which would include the creation by the World Bank Group of a temporary short-term liquidity

facility, and would lead to increased efforts by Regional Development Banks. Secondly, the European Investment Bank and the European Bank for Reconstruction and Development are working to make full use of the possibilities open to them. The EBRD has just approved an increase of its Trade Facilitation Programme from EUR800 million to EUR1.5 billion.

The third element relies on individual countries, particularly EU and other advanced countries, to play their part. National Export Credit Agencies (ECAs) should seek to increase activities, on a temporary basis and in line with international rules. Many EU countries have already stepped up their activities, and the European Commission has supported this both in Brussels and in the OECD by adjusting the rules related to credit insurance.

The crisis of trade finance is a global problem. If we do not quickly shore up credit with a concerted international effort, we risk prolonging and even worsening the economic downturn. It's not too late, but we need to make this a priority in London in order to go beyond the immediate crisis and pave the way to recovery.