



## Giddiness and stoicism on world trade and ESG at ITFA

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**The masks came off as building resilience in world trade and ESG ran in tandem at ITFA's in person annual event in Bristol.**

World trade is finding the balance between giddiness and stoicism [which is another take on the word resilience] a hard one to pull off. Giddiness was in evidence at International Trade and Forfaiting Association's (ITFA's) 47<sup>th</sup> annual conference, at what was the first physical event many had of us had been at for a while. Nonetheless, stoicism ruled in the themes of building resilience and embedding ESG in financing international trade.

"We have all come back from fighting a war with an unknown enemy." Sean Edwards, ITFA's chair, started the Bristol conference quoting William Connor – who famously began his first post-war Cassandra column in the Daily Mirror in 1945 with, "As I was saying, before I was so rudely interrupted." Edwards referred to the irony of the 2019 iteration of [ITFA in Budapest](#) which had a masked theme. This event was, for the most part, masks off as ITFA played host to many of its 250-plus member organisations (including a growing Fintech Committee and TFD Initiative on trade finance distribution).

### **Sugar rushes, resilience and the rebound – trade leads**

Giddiness, or in the words of Sanjay Raja, UK Economist at Deutsche Bank, the current growth path can be identified as "the post sugar-rush recovery," subsequent to the growth euphoria earlier this year (particularly in the UK). That means slower labour markets (including stagnant non-farm payrolls), inflation, and potential stagflation. Raja argues that the growth path is not a demand problem, rather a supply constraint challenge, particularly with so many workers having left the labour markets in developed economies.

There had been some giddiness in trade as the world stumbles out of the pandemic into the recovery. Global heads of trade finance joined me on stage to discuss their perspectives on the intersection between physical trade, economic growth with ESG embedded in it, and dislocations in trade.

"Interestingly, this is a very trade led recovery. It's not capex led – it's still wait and watch on the capex side," says Surath Sengupta, managing director, global trade and receivables finance at HSBC. The biggest shift is that customers are looking at supply chains and at how to reorient them. Prior to the pandemic, supply chains had been driving down costs "to the last penny" and enhancing efficiencies. Those supply chains were found wanting in terms of resilience during the shock. Sengupta quoted an HSBC survey in which 93% of businesses responding said they were really concerned about resilience in their supply chains. "There is a huge shift to make supply chains more resilient, either by diversification or near-shoring, etc."

Asia, particularly China, may have led the trade rebound but it by no means uniform – either by country or sector. Tech and e-enabled sectors are booming, which is creating trade finance opportunities, but there remain 'stranded' sectors such as hotels and airlines. Alberto Amo, global head private debt mobilisation at Santander, also sees a two-speed recovery with countries that have been able to support certain sectors during the pandemic gaining further advantage.



## Supply constraints persist

Continued disruption of physical supply chains globally cannot be ignored. James Binns, managing director – trade and working capital at Barclays, notes that Drewry World Container Index, showed the spot price of a 40 foot container from Shanghai to Rotterdam on 30 September was more than five times higher than a year ago, with the composite index for containers more than doubling in the same period. And one of the surprises emerging from the pandemic has been the particular/unusual areas where fragility in supply chains exist (for instance, carbon dioxide supplies).

Helping build resilience for corporates facing such bubbles and dislocations remains a major driver for banks. Those supply shocks mean that while there are still high levels of liquidity in many companies which will remain conservative about how they spend their money. Even during the pandemic when export and import activity was slowing and commodity prices rising, supply chain finance and working capital demand have been robust, as has demand for trade finance products, as Kazuo Yoshimura, MD and general manager global trade finance at SMBC, says, noting that commodity clients used trade finance to boost cash and liquidity reserves during the pandemic.

## Fixing the basics – giddiness and stoicism on trade digitisation

Binns argues that “resilience is the top of the pile” in terms of trends in any trade-led recovery. “And I put underneath that a number of key things: fixing the basics and digitisation is going to make us more resilient in the future. But we have to become more efficient and cost effective in the way we deal with things to make ourselves more resilient again. Digitisation is going to help us drive that. Also the ESG agenda is all about resilience from a global and humanity perspective.”

Indeed before pursuing the more technologically ‘shiny’ solutions in digitisation (including AI and blockchain, banks and corporates still need to get some of the basic steps done to make themselves more connectible. Some banks have made strides in working on their own core infrastructure.

Digitisation of trade was a persistent theme – generating both giddiness and stoicism. While digitisation has been accelerated in part as a result of the pandemic, a lot of trade digitisation has centred on digital signatures rather than full process. As Daniel Cotti, managing director centre of excellence, banking and trade at Marco Polo, says, most of processes are captured in PDF not data and PDFs are not electronic records. “Our experience is that the pandemic has made people even more conservative and while everyone sees the need for digitisation in trade few are doing it.” He hopes the adoption of Uniform Rules for Digital Trade Transactions (URDTT) will help contribute to corporates pushing for buyers and sellers to embrace digitisation with confidence.

Certainly, regulation of digitisation is making progress – as the event heard from UK Law Commissioner, Professor Sarah Green. The consultative body has responded to UK government requests to make recommendations to remove the legal block on digitisation of trade – particularly surrounding the possibility of ‘possessing’ e documents. There can only be one original – and that’s been a challenge for the English legal system. Green raised the interesting analogy for e trade documents of one person at a time being able to drive a car, but multiple keyholders being in existence.

International developments such as MLETR (model law on electronic transferable records) have been a helpful umbrella for trade digitisation, and no country is working in a vacuum. On 22 October, [a communique by G7](#) heads of trade outlined further encouragement for trade digitisation. “To cut red tape and enable more businesses to trade, governments and industry should drive forward the digitisation of trade-related documents.



This includes through means of addressing legal, technical, and commercial barriers to the digitisation of paper processes," the communique says.

### **Sustainability and resilience**

ITFA's ESG coverage in Bristol began with a discussion by a philosopher (Dr Joanna Burch Brown) asking all in the room to embrace collective action. For corporates, it's no longer just about shareholder returns and profitability, it's total societal returns, underlines HSBC's Sengupta. "Shareholders and customers are demanding it of corporates, sustainability is a big theme that is all pervasive, and it's a huge opportunity for trade, finance and trade finance bankers because up to 80% of a company's carbon footprint is in the supply chain."

There was a degree of stoicism on ESG at the event. Progress on sustainability is patchy, and not always meaningful, as Annabel Ross at Cambridge Institute says. While data is improving, there is very little intelligence, as Rebecca Harding at Coriolis Technologies says. Ian Sayers at International Trade Centre (ITC) notes more than 280 individual ESG standards can make the load on SMEs, in particular "almost unbearable". He points to the example of shoe manufacturers in Pakistan burdened with "staggering" compliance costs. Keep it simple, and keep compliance costs low were Sayers' requests.

Nonetheless, initiatives by DFIs such as ADB and Afreximbank are a positive addition to help SMEs access short term funds to grow sustainable trade and mitigate trade risk. Anything that can help the yawning \$1.7 trillion trade gap is a bonus.

### **"Starting points" on Basel-compliant trade distribution**

ITFA's lobbying and advocacy drives have borne fruit over the past year. The insurance committee has helped with lobbying on wording to be used in association with CRD6, for instance. Trade distribution capacity will be impacted by the exit of several players from the trade credit market in the US (in particular QBE and Zurich) and UK. That makes the ITFA-supported suggestions to harmonising wording on Basel-compliant trade distribution documentation [all the more welcome](#). The initiative, spearheaded by Scott Ettien, global head of trade credit at Willis Towers Watson, was spotlighted at the event. ITFA's ESG and Trade Finance Committee, meanwhile (under the aegis of Credit Suisse's Johanna Wissing) will no doubt be a force in the future.

### **Dance yourself dizzy**

Giddiness in the form of dancing prevailed at ITFA's Gala Dinner in Bristol, with a Hollywood theme and the excellent lpop Showband. The steps for the dance of trade finance are certainly deeply embedded, even if we sometimes feel we may have forgotten them. Here is to more giddiness, and resilience.