

INDEPENDENTS' DAY

The global crisis has stimulated an increased need for specialist trade financiers, says Falcon's Kamel Alzarka.

Trade finance has traditionally been dominated by conservative global banks, sometimes referred to as 'financial supermarkets'. Yet the global financial crisis has drastically changed the environment for trade finance and challenged existing conventions, including the assumed dominance of these supermarkets.

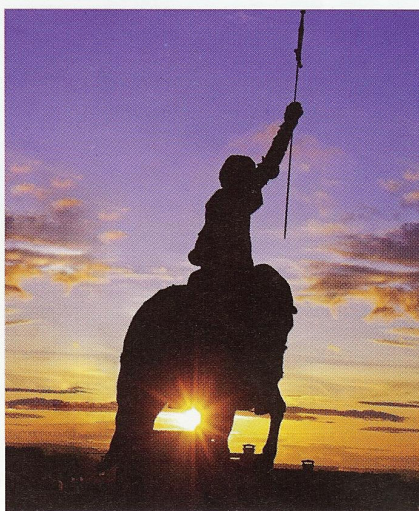
Such changes – which include falling consumer demand in the west; the growth of south-south trade; a lack of available credit from traditional banks due to shrinking balance sheets; the proposed regulatory changes from Basel III; and political pressure to support domestic lending – all have long-term implications for the role of both banks and independent financiers in the financing of global trade.

Certainly, many banks retreated from trade finance as a result of the downturn, which paved the way for independent providers, such as Falcon, to step in and take market share. And the planned regulatory changes to banking practices – which will make it even more difficult for the financing of global trade by encouraging banks to reduce their lending books – may mark a permanent shift in favour of the independents.

A survey carried out by the International Chamber of Commerce (ICC) in September 2009, for example, found that there are still serious concerns about the ability of banks to meet the rising demand for trade finance, despite agreement among the G20 countries to support the flow of trade.

Loose fit

For western banks, emerging market trade doesn't always fit well with their normal course of business. Faced with their own constraints, some banks are under political



pressure to use any lending capacity to support domestic borrowers on the one hand, and under regulatory pressure to shrink their balance sheets on the other. This means that their appetite for non-OECD credits has all but dried up. Yet such restrictions have come at the very moment trade between emerging markets – so-called south-south trade – has increased.

South-south trade also brings with it a need for strong local-market knowledge, something not all banks have – making them reluctant to support what is a sustained trend in trade flows. As a result, even highly-rated emerging market corporates with well-established banking relationships are struggling to gain access to liquidity – forcing them to look elsewhere for alternative financing solutions.

Banks are unlikely to regain their appetite any time soon, not least because the world is entering an era of heightened bank regulation. Basel III is even less kind to trade finance than Basel II – taking a blanket approach to all off-balance sheet exposures that will make trade finance more capital intensive for banks, despite the

strong underlying security structure inherent to trade finance.

In this respect, credit is due to the ICC and the World Trade Organization (WTO), who have lobbied the Basel Committee to make allowances for trade finance due to its self-liquidating nature and strong track-record. They argue that trade finance transactions are supported by the sale of goods and, since those transactions are prompted by a request from a client, banks are unlikely to use them to avoid leverage constraints.

Yet the overall result of these issues facing traditional trade finance is a void that specialist financiers, such as Falcon Group, can fill. Specialists do not have the same balance sheet constraints as banks and are able to be more innovative and tailored in their approach. This can go way beyond financing one-off deals. For instance, at Falcon we are increasingly able to build strong and long-lasting relationships with clients across many sectors, involving myriad financing structures – not just immediate supply-chain concerns.

Certainly, we are able to structure deals tailored to the client's needs, instead of offering the standardised products that major banks tend to push on their clients. Also, as we specialise in facilitating emerging market trade, we have been able to maximise the opportunities presented by the difficult market conditions. Indeed, we are increasing our presence in Asia and the Americas and are still continuing to grow in the Middle East and Europe. And far from becoming wary of credit risk, it is in crises such as the recent one where we can prosper from our specialist local market knowledge. □

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