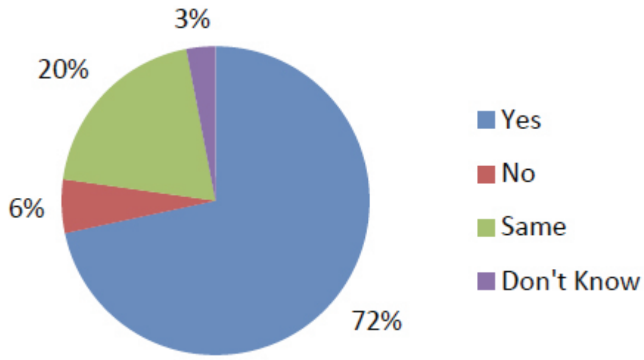
Exporting risk becoming more complex

Keen attention must be paid to a widening span of global risk, as a buoyant British exporting community continues to navigate its way to new overseas successes. Exporters' confidence has further improved this year and this trend is expected to continue for the next five years, according to the International Trade Survey 2014, sponsored by AIG. Almost three quarters of some 3,000 participants indicated that they were more confident about their prospects now than they were a year ago. Yet the macro environment remains loaded with political risk, able to generate potentially unknowable economic consequences, which can manifest quickly.

Are you more confident about your business prospects in 2014 than in 2013?



International Trade Survey 2014

"Nobody has a crystal ball. Who would have forecast the current situation in Russia and Ukraine 18 months ago? The bottom line is that you can create plans but predict little," says Will Clark, Head of Trade Credit at AIG in the UK. In terms of trade sectors, retail and consumer products are under a cloud, as illustrated by the recent failure of Phones 4U, while the construction and hotel sectors globally have lost momentum.

The reality is that numerous issues need to be tracked across a transforming landscape, where fresh uncertainties and changes to long-standing economic fundamentals are being created by dramatic price shifts in commodity and mining sectors – in obvious areas such as oil, but also including iron ore and cotton.

"These are altering balance of payments situations in both developed and emerging markets, and will impact the financial health of both exporters and importers, after a prolonged commodity boom," stresses Ray Antes, AIG's Regional Manager, EMEA Political Risk. "Moreover, quantitative easing from the United States Federal Reserve has finally been curtailed, which will put further pressure on the ability of developing countries to trade.

Elsewhere, the spotlight is rapidly increasing on the political threat of the UK pulling out of the European Union, with its associated consequences for trade and investment relationships. These include the potential for a stronger pound, which would make British exports less competitive on price. Bribery and corruption issues related to contracts are also a rising concern, as the bar for UK corporate behaviour is steadily being raised, making it more difficult in some situations to compete for business against overseas competitors.

Antes believes the environment may now be more risk-laden than for some time. "Everybody has seen the shocking events in the Crimea, and the political tensions in the South China Sea, and some analysts have indicated that there may be a new downturn in the credit cycle over the next 12-24 months, given the state of the global economic fundamentals," he underlines. "Moreover, the Ebola virus has cut back trade and investment flows in West Africa, and remains a very large unknown. Nigeria appears to be free from Ebola, but commodity sector projects in Guinea, Liberia and Sierra Leone have struggled to export their production, and there have been a few cases in Spain and the US. Nobody can predict how it will develop."

Under-appreciated risks

Notwithstanding this multitude of risks, the AIG survey unearthed several indications that the appreciation and awareness of geopolitical risks and their impact on trade and doing business is under-developed. For example, when asked which types of risks related to exporting were increasing, just 3.5% of respondents highlighted the risks associated with political and economic change in the countries to which they were selling their goods.

Also of note was the 11% of survey respondents that identified the Middle East as their prime exporting target over the next three years [Figure 1], at a time when escalating threats have permeated the region – most notably through the growth of the Islamic State (IS) group in Iraq/Syria, the continuing tensions between Israel and Palestine, and the continued turmoil in Egypt and Libya. These trends show how civil dissatisfaction can mutate into a number of channels that threaten business continuity. “People are now looking with some concern at the short- to medium-term prospects for Turkey, where the war with IS has reached the country’s doorstep,” says Antes.

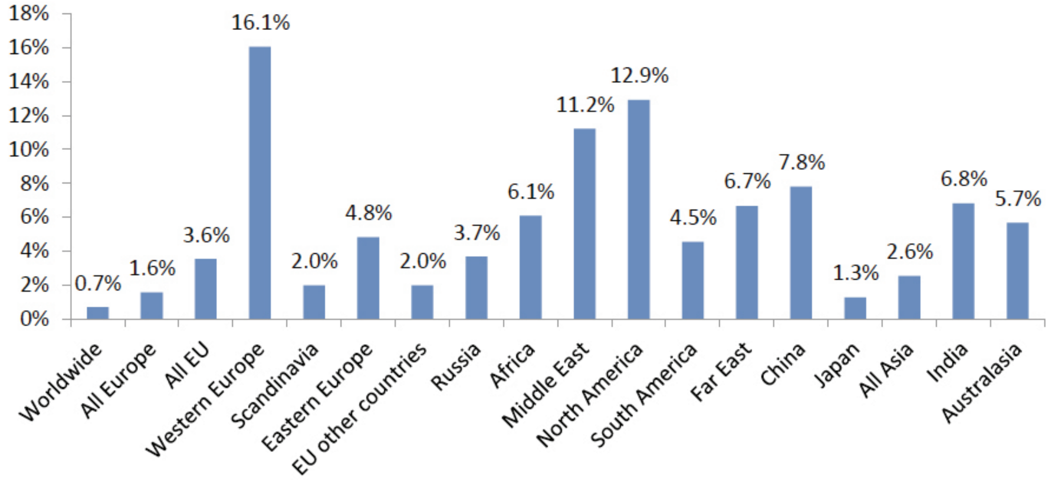
Regulatory developments – in particular the red-hot topic of sanctions compliance – are continuing to create other hurdles for exporters.

“Sanctions present a range of moving parts, and are forcing exporters and banks to focus more on the language in contracts and loan agreements,” observes Antes. He points to the record US$8.97 billion settlement which BNP Paribas has been ordered to pay for its dealings with sanctioned countries.

“As a result of the rising sanctions involving Ukraine and Russia, there is an uptick in demand for pre-shipment cover. We think that is good risk management – and see that large companies are generally better placed to undertake the necessary due diligence relating to sanctions, due to their human resources, whereas SMEs are far more vulnerable in this area.”

One conclusion is that any company that trades globally requires comprehensive non-payment cover, incorporating buyer and political risk. “The obvious answer is insurance,” says Antes, “but there is a range of alternative effective risk mitigation action that a company can take. Look hard at every aspect of the deal, know your customer, try and obtain a secure form of payment, and obtain a legal opinion on the contracts.”

Figure 1. Which country or countries (if any) do you see as having the greatest export potential for companies in your business sector over the next three years?



International Trade Survey 2014

The International Trade Survey 2014 was sponsored by AIG, supported by The Institute of Export and undertaken by Trade & Export Finance Limited. Just under 3,000 UK-based companies, with turnover from less than a million to more than £100m, were canvassed, to investigate the current issues that have an impact on the ability of exporters and importers to trade in global markets.