

Report delivered on 29 June 2023 to

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Sovereignty

Éric Dupond-Moretti, Keeper of the Seals, Minister of Justice

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Affairs

Speeding up the digitization of trade finance

Mission co-chaired by Béatrice Collot and Philippe Henry

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SUMMARY

In a mandate dated 28 November 2022, the Minister of the Economy, Finance and Industrial and Digital Sovereignty, the Keeper of the Seals, Minister of Justice, and the Minister Delegate for Foreign Trade, Economic Attractiveness and French Nationals Abroad, attached to the Minister for Europe and Foreign Affairs, entrusted Philippe Henry and Béatrice Collot, representing the association Paris Europlace, and ICC France, the French International Chamber of Commerce National Committee, with a mission on the digitization of trade finance processes.

International trade between professionals is built on a complex documentary chain, yet it is far less digitized than e-commerce. The latter enables consumers to order or exchange goods and services, cancel orders, have items delivered and to pay without a single paper-based document. Less than 0.1% of the 4 billion new documents produced each year in international trade were digitized in 2022.¹ While there are digitization initiatives for several international trade documents, such as customs dockets, certain documents, including some of those most used in international trade such as bills of lading, are historically paper-based and signed manually.

This state of affairs, which is due in part to the fact that **French law, and almost all other legal systems, do not recognize the evidential value of the electronic value of “transferable” documents**, meaning those that incorporate a right such that said right may not be exercised or transferred independently of the document, results in lead times that are far from usual in business today. For financial intermediaries responsible for distributing trade finance products, it leads in particular to high processing costs that, ultimately, weigh on their ability to effectively support the international development strategies of their clients, which is by nature a risk activity when not secured by instruments such as documentary credit and international guarantees.

Yet these long-standing activities are central to the traditional universal business model of French banks. All France’s international financial establishments offer services, financing and instruments to secure the international strategies of their customers, including documentary credit, letters of credit and international guarantees. More than 20% of foreign trade flows – €395 billion in France in 2022 – are believed to be backed by this type of finance. There is very little automation in these activities, which in France concern almost 2,000 employees in the main French establishments but which are relatively unprofitable given small margins and high overheads that push banks into offshoring strategies.

The adoption by the United Nations Commission on International Trade Law (UNCITRAL) of a Model Law on Electronic Transferable Records provides a benchmark for the implementation by States of legal frameworks conducive to the digitization of international trade’s documentary flows. Realizing this opportunity, several States have already adapted their laws in this way or are now doing so, like the United Kingdom which may adopt such a law by the end of 2023. The benefits of such changes include reduced costs and better profitability, particularly for banks, which will support finance for the

¹ ICC France White Paper, 2022.

stakeholders concerned; greater security, simplification and fluidity for logistical chains, benefiting exporters and importers; increased transparency and traceability of trade; and improved accessibility of trade finance and security tools for companies of sizes. This means France should swiftly undertake the necessary transformations.

The digitization of documentary flows in international trade is far from a minor issue; it is a doubly strategic question for:

- **The legal attractiveness and competitiveness of the Paris financial centre for trade finance**, in which competition is currently fierce.
- **Supporting and financing French companies, including small, medium and intermediate-sized enterprises, in their international transactions**, in the context of many persistent macroeconomic and geopolitical uncertainties, a structural French trade deficit at €164 billion in 2022, and the relative weakness of the French exporting fabric, with fewer than 150,000 exporting companies in 2022.²

In this context, the mission’s work between November 2022 and March 2023 particularly identified:

- The existence of a consensus among all stakeholders, including banks, insurers, transport and logistics companies and their exporter and importer companies when it comes to improving the fluidity of the logistics chain that underpins international trade, and the lever offered by the digitization of international trade documents in this respect;
- The need, specifically concerning “transferable” documents, for legislative and regulatory changes in French law in order to enshrine the full acknowledgment in French law of their electronic form and to define the conditions of their equivalence with paper-based versions, in an approach adapted to the specificities of French law but compatible with the general principles of the UNCITRAL Model Law, the value of which as a benchmark is also consensual in France;
- **High expectations** as regards the short-, medium- and long-term benefits of digitization, including cost reduction for financial intermediaries and businesses, improved security and traceability of transactions, and widened access to financial products for companies operating internationally, with expected savings of €3.8 billion by 2030;³
- **The benefits of acting swiftly in this sense**, as other financial centres, particularly in the United Kingdom and Germany, are already leading the way on these changes and France could work alongside them to mobilize other trading partners so as to increase the collective gains of digitization;

² 2023 Report on Foreign Trade, Directorate General of the Treasury.

³ The methodology used for this calculation (see annex) draws on that used in the impact assessment on the UK’s Electronic Trade Documents Bill. In its best-estimate scenario, the assessment anticipates benefits of close to €1 billion within 10 years.

- **The importance of immediately starting to anticipate practical and technological challenges, alongside changes to the law, of digitization**, to ensure real stakeholder ownership of the reform and swift implementation;
- **The benefits of strengthening the organization and structure of the Paris financial centre as regards these long-standing activities of French banks**, which are essential for financing the real economy and supporting exports and which generate revenue, despite being poorly identified and insufficiently attractive.

In light of these different points, this report includes several recommendations for the public authorities, and more generally for the whole trade finance ecosystem, covering four main aims:

1 – Foster the adoption of legal frameworks compatible with using transferable electronic records in international trade

The report's main recommendation concerns the need to change French law to enable full acknowledgement of the electronic form of transferable documents. While it is legally possible under current law to issue an electronic document with one or more signatures, also electronic, nothing in law establishes the functional equivalence between an electronic document, which is by essence intangible, and the possession of the original of the transferable document on a paper-based medium. Yet such possession is essential to exercise or transfer the rights represented by the transferable document and to avoid a right being exercised several times or being transferred to several different persons. A draft bill, including both independent provisions and codified sectoral amendments, is annexed to this report. The text was drawn up on the basis of work that brought together legal experts from banks and shipping companies, legal specialists in bills of exchange and digitization of law, and law professors. It introduces into French law a definition of transferable documents, formalizes full acknowledgment of their electronic form, specifies the conditions for functional equivalence between their paper-based versions and electronic versions, and supplements the sectoral codes concerned by several transferable documents with the required provisions.

In relation to this proposal, and because the impact of the proposed reform presupposes the widest possible adoption by States of legal frameworks compatible with the UNCITRAL Model Law and norms governing the use of digital technologies in international trade logistics chains, the mission recommends accompanying reforms at national levels with initiatives at European Union and multilateral levels.

2 – Promote the TradeTech ecosystem, ensure viable technological solutions are available, and ensure stakeholders use digital tools effectively

Digitization requires the existence of secure technological solutions accessible to the whole ecosystem, especially banks and businesses. In light of this fundamental aim, the mission considers it is necessary, without taking a position on underlying technologies in line with the technological neutrality enshrined in the UNCITRAL Model Law, (i) to foster the French TradeTech ecosystem, the solutions of which are often mature and can help achieve the goals of the reform; (ii) to support the creation of a conducive framework for digitization of international trade documents at European Union level, notably when it comes to certification and management of open and interoperable ledgers. The development of interoperable

platforms capable of managing the exchange, secure storage and traceability of the very large quantities of data of stakeholders would enable extensive usages of benefit to both public and private stakeholders.

Lastly, with the aim of setting an example for all stakeholders, the mission recommends the creation of totally digitized corridors concerning a few specific transactions with France's leading trading partners.

3 – Strengthen institutional representation when it comes to trade finance and coordination between stakeholders

On the private sector side, the insufficient institutional representation of trade finance activities can slow the adoptions of harmonized and concerted financial centre-wide positions on trade finance challenges, while synergies with other related sectors, such as export credit, could be considerable. Moreover, concerning the public sphere, there is currently no dedicated window for these subjects, given the cross-cutting and interministerial nature of the activities concerned.

The mission recommends action in both these areas. Firstly, by further strengthening and formalizing dialogue and cooperation between the financial centre's different institutions and professional federations. Secondly, by fostering strong interministerial efforts on these subjects, through the creation of an interministerial taskforce.

4 – Seize the opportunity of digitization to enhance the attractiveness of the trade finance business

Trade finance is a niche sector that has so far been bypassed by the general shift towards digitization in the financial sector and suffers declining attractiveness, particularly among students and young professionals. In addition to the relative lack of interest among young people, relevant continuous training is insufficiently clear and little used by professionals. Digitization is an opportunity to boost related training, professions and careers and rethink existing initial and continuous training.

The mission therefore suggests increasing the visibility of these professions among students through more systematic outreach in business and engineering schools and in universities, in relation to the challenges of the sector and the positive sides of related professions and careers, and strengthening the initial training available. When it comes to continuous training, the mission recommends facilitating the use of training modules by professionals by identifying and presenting all training available. Lastly, the mission considers that innovation in international trade and digitization of logistics chains could feed into more work in the field of research, and calls for greater dialogue between the private sector and researchers on these themes.

SUMMARY TABLE OF RECOMMENDATIONS

No.	Recommendation	Priority	Authorities concerned
Foster the adoption of legal frameworks compatible with using electronic documents in international trade			
Proposal 1	Adopt the required legislative and regulatory provisions in French law to enable use of electronic transferable records	1	<p style="text-align: center;">Ministry of the Economy, Finance and Industrial and Digital Sovereignty</p> <p style="text-align: center;">Ministry of Justice</p> <p style="text-align: center;">Ministry for the Ecological Transition and Territorial Cohesion</p>
Proposal 2	Advocate actively for the transposition by States of the Model Law and work in European and multilateral forums on this subject, so as to extend the reform in French law	2	<p style="text-align: center;">Ministry of the Economy, Finance and Industrial and Digital Sovereignty</p> <p style="text-align: center;">Ministry for Europe and Foreign Affairs</p>

Promote the TradeTech ecosystem and ensure stakeholders use digital tools effectively

<p>Proposal 3</p>	<p>Foster the creation of a regulatory framework conducive to digitization of international trade documents at European Union level when it comes to technological aspects, particularly for certification and management of open and interoperable ledgers</p>	<p>1</p>	<p>Ministry of the Economy, Finance and Industrial and Digital Sovereignty Ministry for Europe and Foreign Affairs</p>
<p>Proposal 4</p>	<p>Encourage and promote structuring of the TradeTech ecosystem to identify innovative solutions that could foster digitization and, more broadly, the efficiency of international trade's logistics chains</p>	<p>2</p>	<p>TradeTech businesses Ministry of the Economy, Finance and Industrial and Digital Sovereignty</p>
<p>Proposal 7</p>	<p>Establish digital corridors with France's major trading partners in order to demonstrate the efficiency and benefits of fully digitized logistics chains</p>	<p>2</p>	<p>Exporters Importers Ports Banks Insurers Shipowners TradeTech businesses</p>

Strengthen institutional representation when it comes to trade finance and coordination with the public sphere

<p align="center">Proposal 5</p>	<p>Improve the representation of trade finance within the Paris financial centre through work to identify data and increased institutional dialogue</p>	<p align="center">3</p>	<p>Paris Europlace ICC France French Banking Federation (FBF) French Business Confederation (MEDEF) International Chamber of Commerce (ICC) Professional organizations</p>
<p align="center">Proposal 6</p>	<p>Designate a focal point in the public sphere to steer and coordinate ongoing and future work on the digitization of international trade, through an interministerial approach and in liaison with all private stakeholders</p>	<p align="center">1</p>	<p>Ministry of the Economy, Finance and Industrial and Digital Sovereignty Ministry for Europe and Foreign Affairs Ministry for the Ecological Transition and Territorial Cohesion French Banking Federation (FBF) Paris Europlace ICC France Professional organizations</p>

Seize the opportunity of digitization to enhance the attractiveness of the trade finance business

<p align="center">Proposal 8</p>	<p>Take advantage of the simplification brought by digitization to enable more companies, particularly small, medium and intermediate-sized enterprises, to access these products, and develop the types of trade finance solutions</p>	<p align="center">2</p>	<p align="center">Banks Insurers</p>
<p align="center">Proposal 9</p>	<p>Increase the visibility and content of vocational training for trade finance to address the sector's recruitment challenges, prepare the digital transition and, more generally, enhance the attractiveness of these professions</p>	<p align="center">3</p>	<p align="center">Business schools Engineering schools Universities ICC France Training platforms</p>