# FINANCING THE FUTURE

## Looking ahead in commodity trade finance

GTR Global Trade Review

holman fenwick willan hfw

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# INTRODUCTION

## Recent political and economic events have converged to make the current trading climate a difficult one, in no small part due to the uncertainty that exists in the market.

The teams at Holman Fenwick Willan and GTR wanted, however, to look beyond the current challenges and discuss the future of the commodity trade finance market, debating how these issues may have knock-on implications.

We invited survey respondents to give their opinions on four main topics: the role of securitisation in trade finance; alternative finance; digital solutions; and sustainability. We have discussed the mechanics of the survey on page 20.

The main message from the responses we received is that the commodity trade finance market is struggling to come to terms with new developments. In particular, it is lagging behind in exploiting certain novel structures, risk mitigation and payment methods and the rise of alternative finance providers is not mirrored in the actual use of such finance in the lending market. Shifting priorities, such as sustainability requirements, are also adding new challenges for market participants.

The question that this report addresses is whether, and if so why, there is a reluctance to adapt and whether the tools the market is being offered are simply not fit for purpose, or are not sufficiently understood or available.

The survey behind this report deliberately did not address the effect on trade finance of Brexit. However, we have included some introductory comment on its potential repercussions in order to fully address the future of trade finance.

We would like to thank everyone who took the time to respond to the survey – each response has made this report more relevant and helpful to readers.

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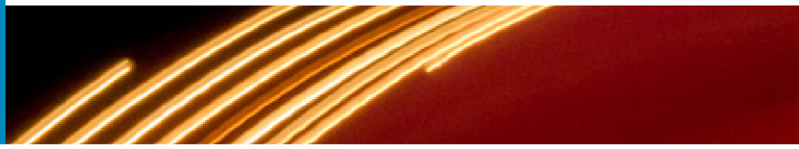
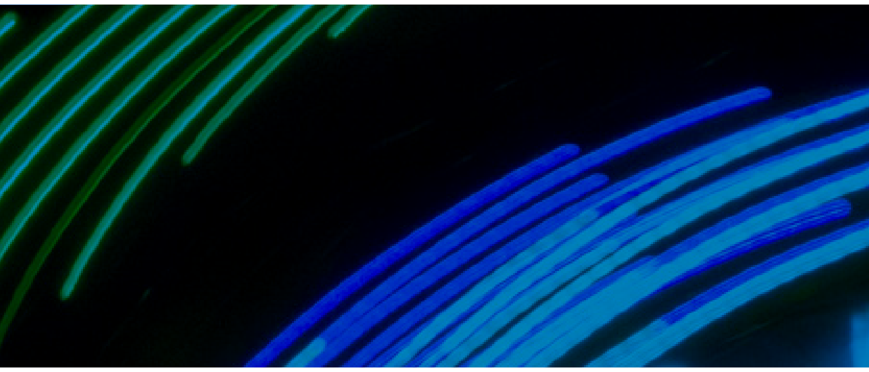


# BACKGROUND TO THE SURVEY



What is the future of trade finance? Start-up communities and even global traders are increasingly rejecting traditional sources of finance. Technology and sustainability are becoming increasingly prominent in the landscape.

In conducting this survey, we sought to gather the views of the commodity trade finance market on the future of its business. The survey was comprised of 18 questions covering the four main topics we chose to tackle.

Market participants responded in significant numbers and the results somewhat reflected the uncertainty prevalent in the market. For example, in relation to certain questions there was almost unanimity on points raised, but for other questions, the market was evenly split in its response.

There remains a need to address the barriers to trade finance. Almost half of respondents identified the reluctance of banks to participate in the market as a significant barrier to them accessing commodity trade finance funds. Over a third identified market regulation as an obstacle. Is technology able to overcome these barriers and assist with greater access?

Over half of the respondents to our survey identified that the cost of obtaining trade finance has risen or increased considerably in the last five years. Can technology and the advent of an increasing number of specialised trade finance digital solutions help to overcome the increasing costs? Is alternative finance the answer?

We explore the issues above in the remainder of this report. We hope you find it informative.

# TRADE FINANCE AND BREXIT: THE DANCE

One of the issues faced by the trade finance industry is the high level of uncertainty caused by Brexit. With many options apparently still on the table (which we will not discuss here), there is very little that can be said at this stage with any degree of authority. The industry will therefore need to continue to engage with the issues as they develop.

## Impact on trade finance

The most obvious immediate effect on trade has been the effect on the value of sterling. Many commodities contracts are priced in US dollars or euros, but it is possible that a trader could have an exposure to sterling if, for example, a supply contract requires payment in US dollars but the sales contract income for the goods is in sterling. Whilst larger institutions will have been able to hedge against such currency fluctuations and so, to an extent, mitigate their losses, it will be much harder for SMEs and start-ups to take such action. On the other hand, the currency fluctuation presents opportunities for overseas entities looking to invest in the UK.

We may also see a rise in the already widespread practice of invoice discounting. Traders may be eager to monetise their receivables, rather than wait for any further possible currency devaluation or other problems during Brexit negotiations. Invoice discounting is where a commodity seller has a receivable (usually an accepted invoice) which they then sell to a financier for less than the face value of the receivable, with the benefit that they receive funds much more quickly compared with waiting for settlement of the invoice from the original counterparty. The financier will then pursue the original counterparty for settlement in full of the invoice.

UK entities are also likely to start seeing an increase in the demand from credit institutions based in the EU to include Article 55 BRRD clauses in their documentation, which set out the bail-in rights of the EU institutions where non-EU law governs the underlying contracts.

Concerns about the taking of collateral (based on EU legislation) and the status of UK clearing houses have also been raised.

## Immediate actions

In the short term, very little is likely to change. Access to trade continues and a heightened sensitivity to currency volatility may be the only Brexit symptom to show itself until the details of the package the UK adopts have been made clearer.

There is some debate as to whether a material adverse change (MAC) clause could be triggered by Brexit. Our view is that this is unlikely to be the case – MAC clauses often require that the parties have no prior knowledge of the event, and business-related MACs are unlikely to include wording to capture these specific Brexit circumstances. It may be something, however, with which lenders attempt to bring borrowers to the table to renegotiate facilities.

It is therefore likely that the dance will continue for some time yet. We may just hope that it is a quickstep and not a slow English waltz.

# ALTERNATIVE FINANCE

## Current state of the market

Alternative finance has flourished into a considerable global industry in recent years.

In the UK alone, the alternative finance market has grown from €350 million in 2012 to €2.3 billion in 2014. The European alternative finance market (excluding the UK) grew from €137 million in 2012 to €620 million over the same period[1].

Globally, China is the largest market for alternative finance in the world, and delivered over US$100 billion in 2015[2].

This market has had plenty of press coverage in recent years as traditional sources of finance have been affected by the financial crisis.

However, according to the results of our survey, these sources of alternative finance now available to the trade market have not made as big an impact as they have, for instance, in the consumer lending market (through peer-to-peer platforms) or in the start-up market (through crowdfunding).

**54%** of respondents said the cost of obtaining trade finance has increased considerably in the last five years

"Almost one third of respondents stated their main reason for not using alternative finance was their desire to keep the relationship with their primary finance provider."

1 Moving Mainstream – The European Alternative Finance Benchmarking Report (University of Cambridge/EY), February 2015

2 Cambridge Centre for Alternative Finance

**WHY DID YOU START USING ALTERNATIVE FINANCE?**

# "Banks are shying away from perceived risk."

## An adequate label?

The results of our survey raise the question of whether the label of "alternative finance" is adequate for the now vast spectrum of finance sources. It seems that it may have become confused with the advancement of disruptive technologies such as online receivables (contract or invoice-based) financing platforms and specialist trade finance lending sources that provide traditional trade finance products (such as letters of credit, pre-export financing and structured loans) as well as bespoke financial solutions to market participants.

The "alternative finance" label has traditionally been viewed as anything that is non-bank finance, specifically any finance provided by an entity other than a bank. As documented in Table A, there are many more options for alternative finance, such as peer-to-peer platforms and specialist trade finance lending sources.

Of the approximately 40% of participants who said they use sources of alternative finance, almost 25% said that they use private funds/equity, with the remainder making use of commodity traders. This is not particularly surprising as commodity trade finance has traditionally looked to encompass sources of alternative finance in the form of funding from commodity traders and private equity funds, whereby they have passed on their lines of traditional (bank) credit to commodity trade finance participants.

So, on the one hand, our survey results illustrate a lack of uptake by participants (almost 60%) for alternative finance and, on the other, there may be some confusion as to the definition of alternative finance in this market, given that the sources of alternative finance that are being utilised are the more traditional sources of funding (from commodity traders and private equity funds) as opposed to the disruptive technologies (online receivables financing platforms and specialist trade finance lending sources).

## TABLE A:
## Alternative finance sources for commodities

| | |
|---|---|
| **Commodity traders** | Commodities trading houses make loans or extend credit periods available to their counterparties. |
| **Receivables financing** | Firms sell their receivables (contract or invoice-based) to an investor (can be pools of investors or a single investor). There are a growing number of online platforms making this type of financing more accessible for all businesses. |
| **Peer-to-peer business lending** | Debt-based transactions between individual/institutional investors and existing businesses (most popular in the SME market). |
| **Private equity funds** | Private equity funds pass on their lines of traditional (bank) credit to market participants. |
| **Specialist trade finance lending sources** | Non-bank entities, particularly those operating in the SME market, which provide traditional trade finance products (letters of credit, pre-export financing and structured loans, etc) as well as bespoke financial solutions to market participants. |

## TYPES OF ALTERNATIVE FINANCE USED

58%
None

24%
Private funds/equity

20%
Commodity traders

2%
Technology enabled financiers

"Respondents identified specialist trade finance funds as being one of their alternative financiers."

Therefore, perhaps the question that should be asked of participants is with regard to their underlying desire to adopt disruptive technologies, as opposed to more traditional sources of alternative funding.

### Lack of uptake

The relative lack of uptake may be owing to the suggestion that the newer sources of finance available to participants are not sufficiently fit for purpose, or are not adequately explained or understood.

Feedback from the participants in our survey as to why they did not use alternative finance included that they do not know enough about the products available in the market, that the financial institutions currently being used provide finance at more affordable rates, and that participants do not have a need for alternative finance sources in their businesses.

However, the main reason highlighted by participants (30.1%) for not using alternative finance sources is that they wish to keep the relationship with their main finance provider. This indicates that *relationship lending* is still very much a significant part of the commodity trade finance market, as it has been for a number of years – and given the current political and economic upheaval, perhaps even more so now. Participants are seemingly not willing at this stage to embrace the new, innovative alternative finance sources that are now available and prefer instead to keep within their funding comfort zones.

Factors such as price (19.3%) and not knowing any alternative finance providers (15.7%) also feature highly as to why participants are unwilling (or unable) to embrace alternative finance sources. These results are not surprising as bespoke alternative finance options are not only difficult to identify and access, but can also be costly.

# WHY DOES ALTERNATIVE FINANCE APPEAL TO YOU?

## "Available, negotiable and not complicated."

Having said this, online platforms (such as peer-to-peer and online receivables financing platforms) have attempted to make alternative sources of finance more accessible and affordable. Examples of these online market platforms include the Trade Finance Market platform[3], which launched in 2015 with the aim of granting quicker and cheaper access to funding for exporters, and Interlinkages[4], launched in Hong Kong in 2016, an online trade finance origination and bidding platform that matches the trade flows of corporates with the global trade finance capacities of financial institutions. So, there are certainly options available to those participants that are willing to embrace digital platforms for their trade finance needs.

## What does this mean for the future?

### Regulation

The alternative finance industry as a whole, and especially in comparison to the banking industry, remains largely unregulated. The Chinese government, for one, has taken steps to mitigate the existence of fraudulent peer-to-peer lending platforms operating in the market by enacting policies designed to foster the growth of internet finance and opening up new platforms that can be standardised and regulated.

These measures are, however, aimed at peer-to-peer lending on a consumer level (debt-based transactions between consumers) rather than peer-to-peer lending at a business level (debt-based transactions between investors and businesses), and perhaps a regulatory regime needs to be focused globally at the business level (which is where the mainstream commercial/trade market operates) in order for peer-to-peer platforms to be more attractive to the trade finance community.

If the sources of alternative finance are not perceived as trusted by market participants (10.3% of respondents to our survey identified the lack of a legal framework as being a reason why they do not use sources of alternative finance) then it is unlikely that the community will engage with these platforms to their full potential. A regulatory framework aimed at alternative finance would likely foster transparency and give participants the confidence to use the newer alternative finance sources, particularly if it also provided regulatory capital and liquidity relief. Conversely, overregulation could dampen the growth of the industry and discourage participants from seeking out such sources of finance, particularly in an economy where participants are already exposed to an avalanche of regulation.

### Redefining

Traditional types of funding may be grouped into the term "alternative finance", with other funding sources such as peer-to-peer platforms and specialist trade finance lending sources grouped into the term "disruptive financing". This distinction may enable participants to be more readily aware of other funding sources which can complement the more traditional types of funding. This may also protect a participant's position in the market by spreading the risk profile of its funding sources, and may eventually lead to lighter regulation for certain funding sources. Furthermore, as "disruptive financing" sources advance technologically, this will make them cheaper for participants to use, which should benefit the alternative finance industry as a whole.

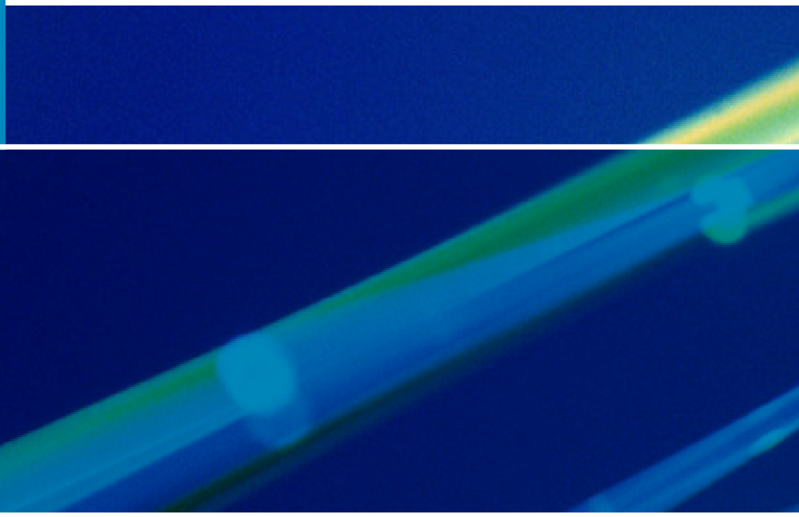
### Thinking outside the box: securitisation?

Securitisation is a relatively unexplored structure in the trade finance sector, but can be a useful platform for providing alternative finance to participants in the market, particularly because of its ability to offer de-risked investment opportunity. We explore this further in our section on securitisation.

3 http://www.tradefinancemarket.com/index.html

4 https://interlinkages.online

# DIGITAL SOLUTIONS



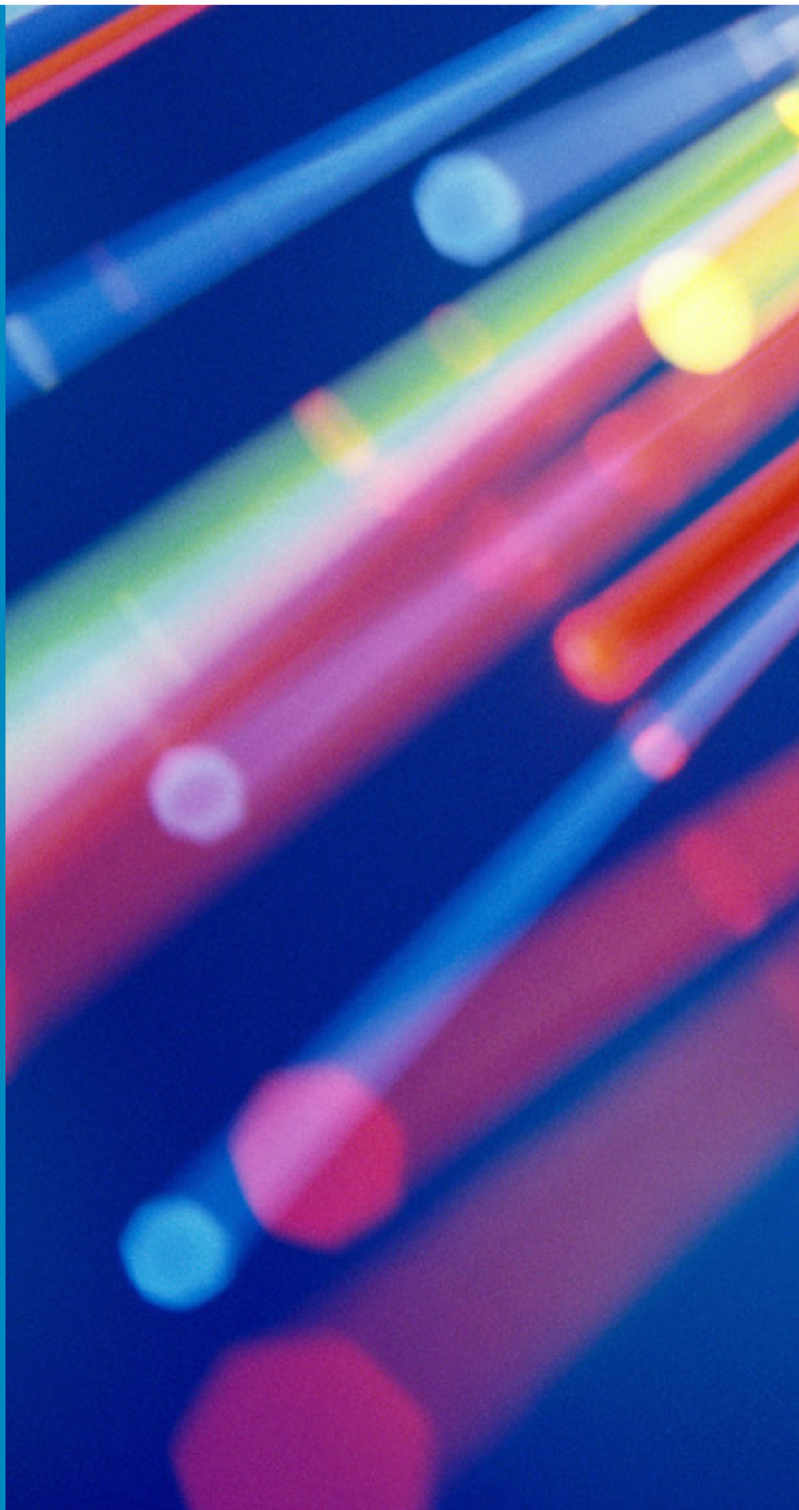
From e-invoicing and e-payments to e-trade documentation, innovation means that digitisation should be sweeping across the trade finance community as companies and financiers look to embrace the latest technologies.

Increasingly, businesses are looking to deploy innovative solutions that automate their payment and trade finance processes, thereby speeding up transaction times, securing greater efficiency, reducing operational costs, and ultimately enabling them to optimise their working capital.

Moreover, there is a growing emphasis on fully automating transactions with third parties, the buyers and suppliers with which companies engage, as well as their banking partners.

Emerging e-trade finance solutions such as the bank payment obligation (BPO), a payment guarantee and risk mitigation instrument that performs a similar function to a letter of credit, and e-documentation solutions such as the electronic bill of lading, are now finding increased traction among certain sections of the corporate community.

In the commodity finance arena, a large international agricultural group has been involved in a number of digitisation “firsts” in its bid to move to paperless trade: it made its first grain shipment using an electronic bill of lading back in 2013, and a year later completed the first such transaction in the sugar sector. More recently, in mid-2016, the same trader collaborated with a large bank on the first electronic export letter of credit (LC) along the US to Taiwan shipping route, using the essDOCS platform, marking its inaugural use of the third-party buyer export LC for an electronic bill of lading.



> “Over a quarter of survey respondents listed a dearth of knowledge of digital solutions as the reason for their lack of take-up.”

Despite the benefits, corporates’ adoption of digital solutions is not always a straightforward task, and there are a number of considerations to take into account, including research to make sure they invest in the most appropriate and futureproof solutions, speed and cost of implementation, and overcoming the possibility of resistance to change.

As such, trade digitisation may struggle to reach critical mass: even though the commodity trade finance industry is ripe for disruption in this space, our survey shows that only 27% of respondents currently use digital solutions for their trade finance needs. Close to 44% of respondents said that this was because of the low uptake of digital instruments thus far, which they believe renders their own use of such solutions of less value.

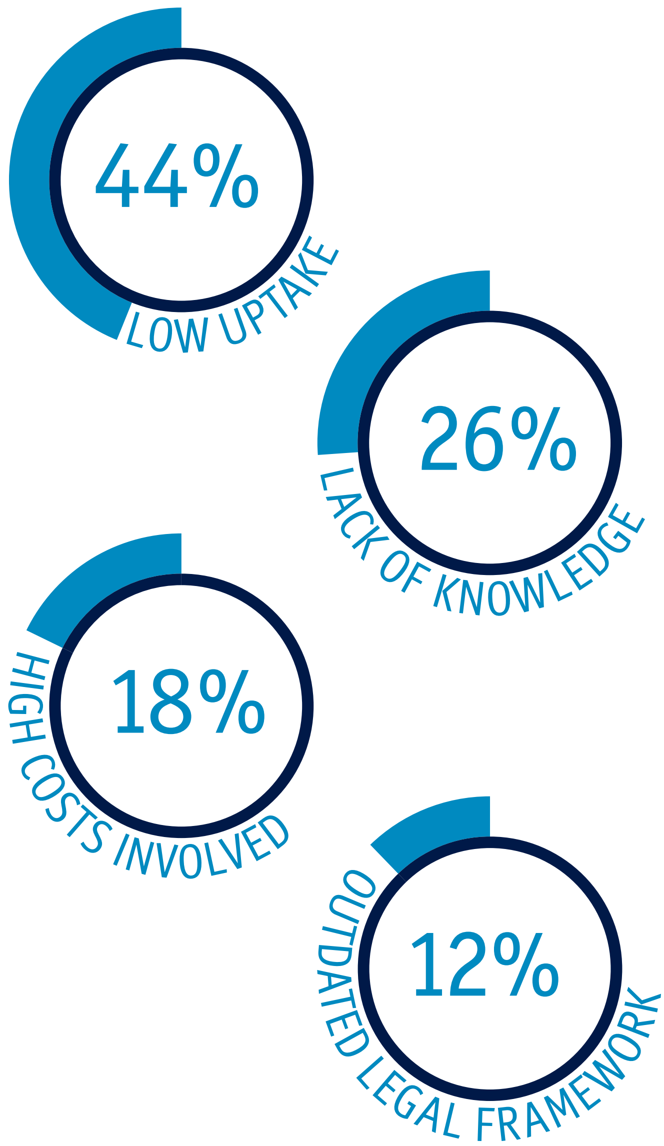
Meanwhile, over a quarter of survey respondents (26.2%) listed a dearth of knowledge of digital solutions as the reason for their lack of take-up, signifying that solution providers still have much work to do to make companies aware of the options and solutions available to them.

## Evaluating the options

There has been a muted response among corporates to the idea of using the BPO ever since the International Chamber of Commerce’s Banking Commission gave its rules the green light back in 2013.

Although banks that have gone live with the BPO continue to praise it as a compelling settlement tool, take-up across the trade finance industry has been slow. This may be as a result of the way it has traditionally been positioned in the market, as a “solution in a box”, when it is in fact a mechanism that the industry can and perhaps should use to drive and customise solutions to clients and geographies, including in the open account arena.

**REASONS FOR NOT MAKING USE OF DIGITAL SOLUTIONS**



“The need for a comprehensive digital infrastructure for trade finance is clear.”

Given the slow take-up of the BPO, it is somewhat surprising that 35% of our survey respondents pinpointed it as one of the most appealing digital solutions to their businesses (although it is unknown whether they have actively engaged in BPO transactions).

Votes for the BPO were matched in number by those for the electronic bill of lading (34.3%), which is a less surprising result.

It is widely believed that certified electronic documents are more secure than their paper equivalent, leading to a reduction in risk and significantly increasing speed and efficiency in the financing process. The digitisation of bills of lading has been hailed as the biggest breakthrough in trade technology in recent years: everything else around a trade transaction can be digitised fairly easily.

Blockchain, too, has become a buzzword in the world of trade finance of late and 15.3% of survey respondents identified the technology as appealing to their business. Blockchain technology, a distributed and decentralised immutable ledger, originally developed as the infrastructure on which to underpin bitcoin transactions, has attracted attention for its potential to reduce costs and improve the speed, transparency and security of financial transactions, helping to de-risk in the process. Thus far, progress has been limited to exploratory efforts, the developments of proof of concept and partnerships involving banks, emerging fintech players and established tech giants.

IBM, for one, has announced plans to open a blockchain innovation centre in Singapore. Its first projects will focus on blockchain-based solutions to improve efficiency of multi-party trade finance processes and transactions, and the research centre will also work with various stakeholders to develop products based on enterprise blockchain, cyber-security and cognitive computing technologies.

Despite these advances, there is some concern that this could lead to a gap in the global supply chain as the connectivity needed in emerging markets is not yet developed enough for these ‘paperless’ options to be fully viable. Although many emerging markets are increasingly embracing digital solutions, the infrastructure can be such that the reliability needed for major global commodity trade finance transactions is not yet in place.

The need for a comprehensive digital infrastructure for trade finance is clear. Yet the creation and implementation of such an infrastructure will, of course, require considerable time and resources along with co-operation from the entire industry. For the time being, therefore, this remains a long-term goal. Perhaps one answer is to seek to harmonise the playing field for market participants by incentivising the adoption of the main technologies, through consideration by the regulators of the lower risk profile of such transactions.

# 73%

of respondents stated they used **NO** digital solutions for their trade finance needs

# SECURITISATION

Securitisation is not the most obvious vehicle for commodity trade finance. So why is it that we are seeing an increasing number of companies using, or looking to use, the structure?

## What is a securitisation?

Essentially, this is when one party (the issuer) issues bonds/notes, into which investors (noteholders) invest. The issuer then uses those sums for whatever activity the bond permits; so for our purposes, commodity trade finance. The proceeds received from the underlying commodity trade finance deals are then used to repay the noteholders and any excess is dealt with in accordance with the terms of the prospectus and related documentation (such as the contractual basis that sets out the terms and conditions for the notes issuance) which has been issued.

## Problems with the securitisation structure

The main problem in using securitisation is often the tenor of trade finance deals compared with the duration of a bond.

Trade finance securitisations to date have often taken the form of one investor becoming the noteholder in relation to one company's portfolio of trade finance assets. This is relatively easy to manage. The complexity arises where there is an issuer whose sole purpose is the investment of note proceeds in multiple origination trade finance deals. This issuer will have numerous deals with counterparties, who then themselves have various counterparties.

**75%**

of respondents said they would be inclined to engage in a securitisation programme in relation to trade finance

**CONCERNS ABOUT PARTICIPATING IN A SECURITISATION PROGRAMME:**

**45%** Cost of putting programme together

**38%** Lack of relationship with commodity

**30%** Reputational risk

**26%** It's a new instrument

**10%** Other

## WHAT CONCERNS YOU ABOUT PARTICIPATING IN A SECURITISATION PROGRAMME IN RELATION TO TRADE FINANCE ASSETS?

"Credibility of the issuer."
"Lack of understanding."

Whereas a bond programme is likely to run for a year or more (often three, five or seven years), most trade finance receivables will have a maturity of 60-180 days, so there will be a continual need for churn if the bond is to succeed, lest there be unused investment idling away and therefore being unable to service the bond payments. However, not all market participants have been deterred – please see the case study for further details.

The securitisation process is also not cheap. The issuing of a prospectus can often cost many hundreds of thousands of pounds in professional advisor fees, much of which will often have to be financed upfront before noteholders become involved. Indeed, our survey reveals that cost is the main issue in deterring market participants from using securitisations. It can also take some time to establish the necessary structures and complete the process of issuing a prospectus, which again can contribute to high costs.

A close second deterrent in our survey is the perception that the securitisation procedure means that there is a lack of relationship with the commodity, because the deals are generally a level removed from the direct investments that are being made. One of the respondents identified their key concern as being a "lack of control of assets in the programme... and the asset conversion cycle". This can, however, all be avoided through the detailed requirements of prospectus documentation and through carefully defined investment eligibility criteria.

"Another option to diversify."

### Case study: Synthesis Trade Finance

HFW has advised a client, Synthesis Trade Finance, on the establishment and issuance of a US$500 million bond series for investment in commodity trade finance transactions sourced from various originators.

The bond is to be listed on the Luxembourg Stock Exchange and the proceeds from the issuance will be invested in commodity trade finance deals across various geographies and commodity types.

As the underlying investments were the subject of multiple originations, the bond was novel for the Luxembourg listing authorities and the process to have the prospectus approved was complex, but it does demonstrate the willingness of the authorities to co-operate in such novel deal structures and could be an indication that securitisation is a viable structure for the commodity trade finance sector.

# The cost of securitisation is the overwhelming off-putting factor for finance providers

## Advantages of the securitisation route

The advantages of using securitisation can be manifold.

For noteholders, all the work of sourcing deals is carried out by someone else. The bond issuer will also take care of burdensome regulation, like sanctions, KYC and so on. The prospectus regime is detailed and highly exacting, which means noteholders often feel more comfortable with the structure and risk, irrespective of the expected performance of the underlying assets, even in a turbulent market. Furthermore, bonds are usually secured in this asset class, so there will be security to enforce in the event of a default, which should mean that noteholders are preferred even in the event of issuer insolvency. A properly secured liability will also be one that will not be subject to the new EU laws on "bail-in" of financial liabilities under the Bank Recovery and Resolution Directive.

For financial institutions, the attraction is the chance to de-risk. They can also widen their risk portfolio, achieving a broader spread of investment across different asset pools. This aligns with the findings of our survey: when asked what appealed about the securitisation process, the majority of respondents (48.3%) selected the opportunity to de-risk as the main factor.

In essence, the structure offers a complex, defined and managed investment opportunity that was (until recently) available in bespoke pre-export structured commodity finance deals only, but which has dropped away due to the burdens of regulation.

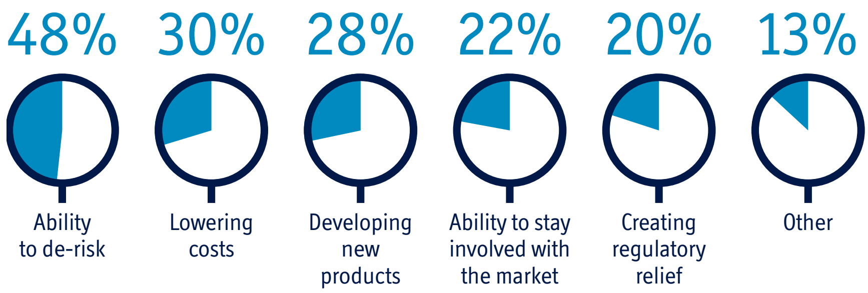
## A method for the future?

There remains a desperate lack of liquidity in the trade finance space. Securitisation may be one method by which investors not normally involved in the commodities markets could be tempted to invest. It may also be another way in which banks can re-enter the market, challenging the common perception that banks are simply not willing to participate in the market (as identified by our survey with 47% of respondents selecting reluctance of banks as the main barrier to accessing finance).

For example, a major European bank in December last year closed the largest trade finance securitisation to date, with a value of US$3.5 billion. This was done via a synthetic collateralised loan obligation, which is unfunded, meaning that the assets sold stay on the bank's balance sheet, but the risk is effectively passed to the investors. The third such transaction carried out by the bank, it stated at the time that it intended to use the method again to reduce its risk-weighted assets (and accomplish regulatory relief in this way).

Over half of the respondents to our survey said that they are moderately inclined to engage in a trade finance securitisation programme – an indication perhaps of the market's willingness to innovate to overcome barriers in accessing finance.

### AS A FINANCE PROVIDER OR BORROWER, WHAT APPEALS TO YOU ABOUT A SECURITISATION PROGRAMME IN RELATION TO TRADE FINANCE ASSETS?



# SUSTAINABILITY

According to the United Nations, the process of converting forest into agricultural land accounts for more emissions than the entire global transportation sector and is second only to the energy sector. In fact, the non-sustainable production of just four commodities (palm oil, soy, beef and timber products) causes around 50% – although some say it could be as high as 80% of tropical deforestation.

Whether it is agricultural supply chains or energy sources, there is increasing momentum behind sustainability as it rises up the trade and commodity agenda.

In the financial world, the Banking Environment Initiative (BEI) was set up six years ago by the chief executives of some of the world's largest banks to lead the industry in collectively directing capital towards environmentally and socially sustainable economic development.

The work of the BEI thus far has included the development of the Soft Commodities Compact, which aims to align the banking industry with the Consumer Goods Forum's zero net deforestation resolution, and the establishment of the Sustainable Trade Finance Council, a group of trade finance bankers, traders, importers and industry bodies, convened by the University of Cambridge Institute for Sustainability Leadership (CISL). A key focus of the Council to date has been to understand how to scale up the role that banks can play in supporting the shift towards sustainable soft commodity supply chains.

**WHAT DO YOU THINK IS NEEDED TO INCREASE PRODUCT INNOVATION FOR SUSTAINABLE TRADE FINANCE?**

"More awareness of the availability of the solutions to the borrowers."

"More flexibility and better regulatory framework."

"Better co-ordination across borders by regulators and policy makers."

## A question of risk

Until now, financiers' approaches to sustainability have largely been voluntary. This is changing due to strategic drivers, which the BEI identifies as: managing risk; generating or seizing commercial opportunity; developing a better understanding of evolving client needs; increasing shareholder value and deepening the positive contribution to society.

Broadly speaking, our survey unveiled that whereas a couple of years ago, sustainability might have been perceived as a reputational issue, it has since become more of a compliance-related matter, and we are now seeing it being linked to reputational and business opportunities: businesses are concerned about being left on the wrong side of that transition.

When asked what business risks respondents see arising from failing to cover sustainability issues, close to 35% opted to vote for compliance risk. When looking more closely at those who responded, we noted that commodity trading businesses put compliance risk and business risk (the risk of missing out on new business) on the same level (each option garnered 25% of their votes).

The same was not true for those that provide the financing for commodity trade: 43% of them are concerned by compliance risk (unsurprising, as this drives their business) while only 6% are fretful about business risk. Reputational risk is higher on financiers' agendas, with 22% perceiving that as the highest risk.

In summary, our results would seem to suggest that commodity financiers are more concerned with regulatory risks, while their customers are more worried about missing out on business opportunities.

As a recent case in point, this year an international palm oil producer was suspended from the Roundtable on Sustainable Palm Oil (RSPO), a not-for-profit organisation that develops and implements global standards for sustainable palm oil.

The RSPO's ruling against the entity was based on a year-long investigation which discovered alleged violations against RSPO principles and criteria relating to, amongst other activities, draining peatlands, clearing forests and failing to prevent fires in its concessions in Indonesia.

Since the suspension, the company concerned has seen a very public withdrawal of support from many of its main counterparties due to its alleged non-compliance with sustainability requirements. As such, it would be prudent for companies to speak to their financiers about where they stand on the issue of sustainability, especially if they have a longstanding financing relationship.

For the simple reason that trade finance is a primary facilitator in enabling the production, trade, shipment and processing of all commodities, there is no denying the systemic impact that all industry players have on these processes. Financiers have the ability to act powerfully if there is client demand.

It is a shared responsibility for both parties: companies have a duty to inform their financiers of their needs, and financiers are obliged to assist in meeting these needs where they can, specifically if they are being asked to do so.

## The right kind of support

The importance of regulation was highlighted again in response to the question on the kind of support respondents need to act on sustainability issues, with 28.7% voting for a secure regulatory framework.

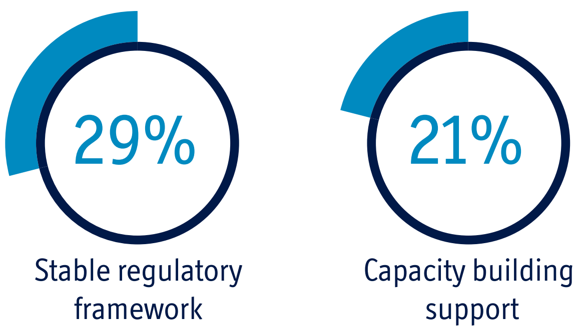
Regulation as it pertains to sustainability is changing: the sustainable shipment letter of credit (SSLC) is a financial solution developed by the BEI that opens up the opportunity for banks to incentivise the trade of sustainable palm oil. It is backed by the International Finance Corporation (IFC), which offers preferential terms for this type of shipment to its partner banks in the form of potential reductions in the cost of capital, which banks can choose to share with their customers.

The SSLC is an example of new business opportunities that are, by definition, sustainable – and there is no compliance risk in lending with the instrument.

Issues relating to sustainability are also resonating with national legislators: for example, Southeast Asia's infamous transboundary haze caused by the annual burning of land for the production of pulp, paper and palm oil on the Indonesian islands of Sumatra and Kalimantan has led to legal action from Singapore against Indonesian firms that could result in massive fines.

Perhaps a time will come when regulatory bodies will start changing the laws with respect to sustainable trade finance.

## WHAT IS NEEDED FOR THE MARKET TO ACT ON SUSTAINABILITY ISSUES?




## Creating awareness

Close to 21% of respondents suggested that they require greater capacity building support to deal with sustainability issues. Because sustainability is a fairly recent field, market players could be forgiven for lacking the required knowledge and skills at this point in time. (And this certainly augments the case for the launch of GTR's regular sustainability section – dedicated to educating the trade finance market.)

The suggestion that there is a lack of awareness on the topic was echoed in the open-ended responses to the final question, which asked respondents what they think is needed to increase product innovation for sustainable trade finance. The majority of respondents suggested that they needed more training and awareness, as well as more support and flexibility from lenders.

One respondent called for "a decent explanation of why sustainability is an issue that deserves attention and requires product innovation", another expressed a need for "more occasions to meet with players involved in this field" and there were a number of demands for 'proven deals'.

Perhaps it would be worthwhile for those parties that have successfully engaged in sustainable transactions to date to inform the wider market about the solutions on offer. By celebrating these good examples, we may be able to fan the competitive instincts of both traders and their financiers and, ultimately, ignite the flow of deals that support sustainability.

For its part, the CISL's Sustainable Trade Finance Council has recommended that sustainability be integrated into the mainstream education of credit risk officers.

# ABOUT THE SURVEY

## MAIN BARRIERS TO ACCESSING TRADE FINANCE IN THE CURRENT MARKET

47%
Reluctance of banks to participate

36%
Market regulation

25%
Price

23%
Awareness of range of trade finance instruments available

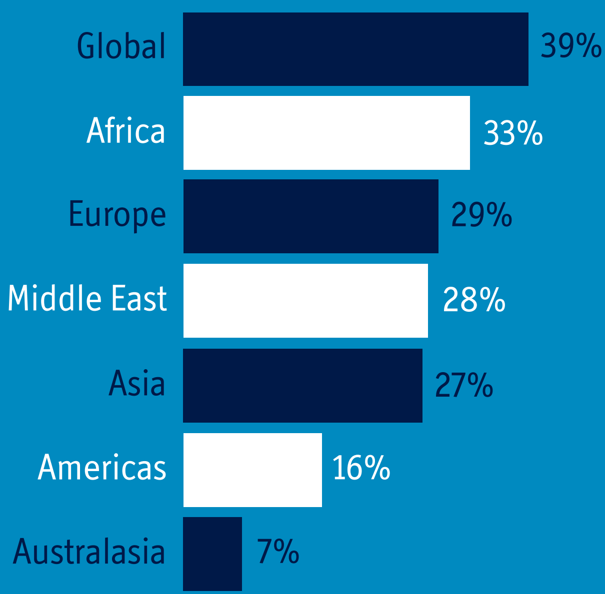
13%
No barriers

## Number of employees in organisation

57%
**OVER** 250 employees

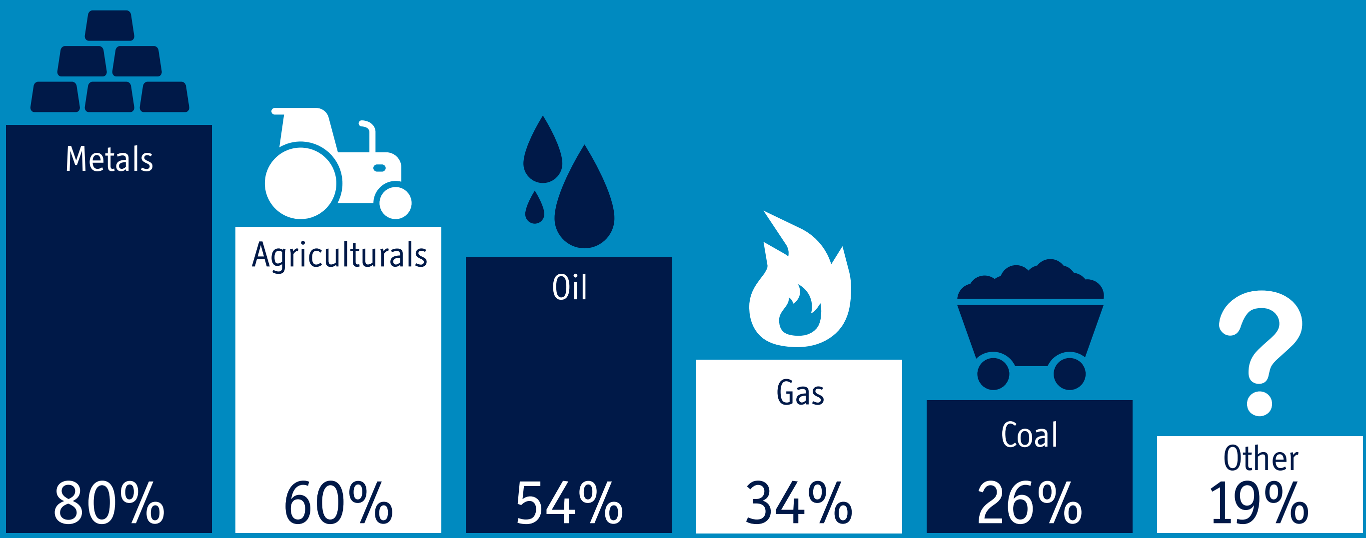
43%
**UNDER** 250 employees

## Main geographical areas of operation

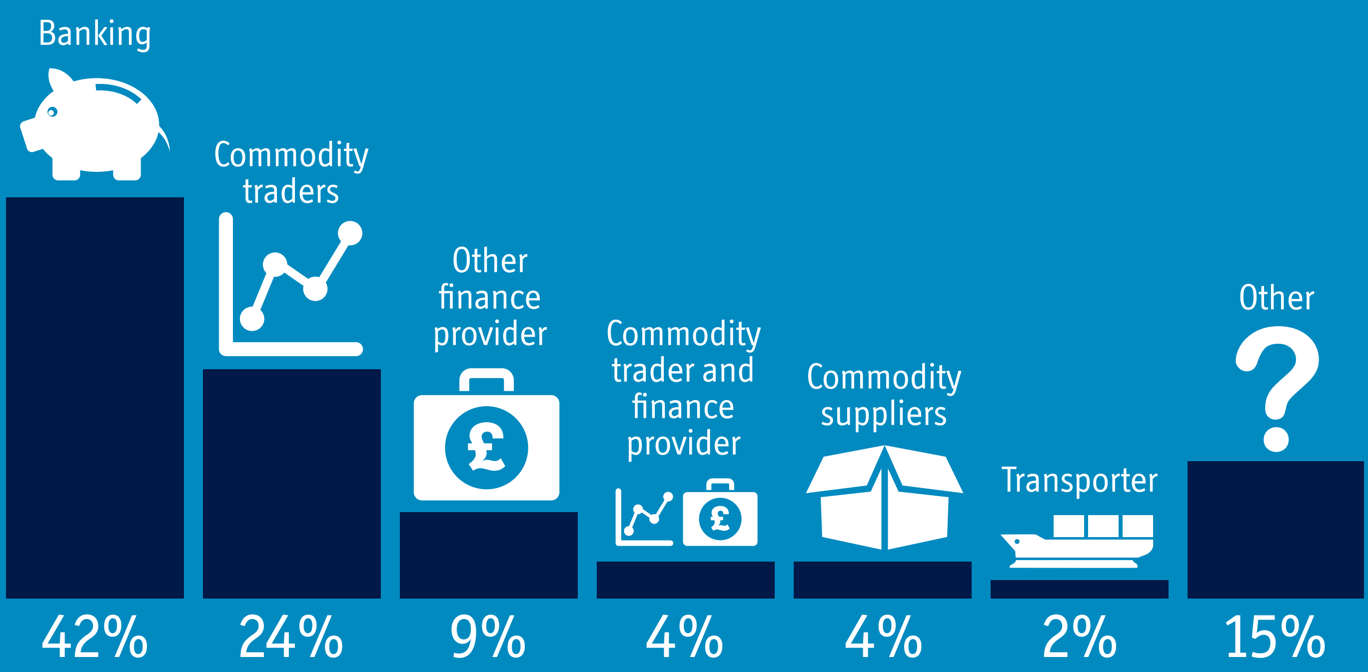


HFW and GTR drafted a survey which was then sent to commodity trade finance market participants and advertised on both the HFW and GTR websites. Many respondents took the time to give their views on the issues we raised. The infographic below gives further detail about the mix of entities that responded.

**Main commodity types traded/funded**




**Main sectors of operation**



# ABOUT HFW

Holman Fenwick Willan (HFW) is an international law firm specialising in all areas of international trade and commodities. With over 450 lawyers working worldwide, HFW has a reputation for excellence and innovation in providing legal advice to the international trade market.

Our global dedicated trade finance practice combines our comprehensive knowledge of commodities with our banking expertise. Our team's experience is spread across a broad range of commodities including oil and gas, soft commodities, mining, metals and minerals, power and freight.

The trade finance team work closely together, alongside other legal service sectors to advise banks, traders, mining companies, grain houses, governments and their agencies, brokers, insurers and trade associations. Our ability to provide legal advice at every stage of the deal and our in depth understanding of the commodities industry allows us to provide an unrivalled and dynamic service to our clients.

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# ABOUT GTR

GTR Global Trade Review

Established in 2002, GTR is the world's leading news source, publisher and event organiser for the global trade, commodity and export finance markets, with offices in London and Singapore.

## GTR magazine

Published six times a year, GTR is the world's number one trade finance magazine, providing essential news and analysis for companies and organisations involved in international trade.

It is read by and features the industry's top financial institutions, corporates, insurers, traders, law firms, brokers, consultants and regulators, and is printed in and distributed from both London and Singapore to over 90 countries.

Our annual supplements complement the magazine, providing in-depth coverage on specific regions and sectors.

As well as being available in print and online, subscribers can also access the GTR magazine app on Android and iOS devices.

For more information, please contact GTR Editor Shannon Manders at smanders@gtreview.com

## News

Supporting GTR magazine is our online news section, with stories published daily by our in-house editorial team.

News is segmented into five GTR regions – Africa, Americas, Asia, Europe and Mena – while our 'On The Move' stories keep the market updated on key moves and hires across the world.

Our Multimedia section offers further insight into the goings-on in global trade finance, featuring expert interviews and market reports.

Meanwhile, the weekly GTR eNews delivers the latest industry news to over 25,000 recipients, while our fortnightly regional GTR eNewsletters cover news and events from each of our five GTR regions.

## Events

As the leading specialists in international trade, export, commodity and supply chain finance conferences, we hold over 25 events around the world each year, in countries such as Mauritius, Iran, Nigeria, Indonesia, Russia, Mexico and many more.

With strong focus placed on a number of exciting emerging markets, we go to places others in the industry do not, and know that travelling to a market and facilitating networking directly on the ground is the best way for delegates to get business done.

A number of GTR events have been shortlisted for industry awards, with our annual conference in Singapore winning 'Best Asian Conference' at the Conference Awards 2015.

Ahead of producing our event programmes each year, we travel to key markets to meet with companies and financiers currently involved in exporting and funding the movement of goods globally, and invest heavily in making sure our agendas are always timely and relevant. With close working relationships with the industry's primary regulators and decision makers, on and off-stage contributions read like a Who's Who? in the world of global trade finance, featuring discussion and debate on market trends via interviews, panel discussions, case studies and extensive audience participation.

Networking forms an integral part of all GTR events. As well as plenty of built-in networking opportunities, the private GTR Members Area allows all registered delegates to connect with fellow delegates before and after an event.

For more information, please contact GTR MD Peter Gubbins at pgubbins@gtreview.com