A slow burner?

Export support and Indonesia’s plodding coal-fired power plan
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Plath’s fairly cynical view of change will be understood by some global trade finance players – especially those hit by low commodity prices, economic woes and stiff competition. These factors have led to a situation where lenders have been forced to move into new areas of business.

The commodity price situation is the most applicable. Once viewed as “easy money”, a dramatic drop in prices led to many pulling back and focusing on sectors – or regions – that offer less risk and higher returns.

Yet, as one senior trade finance banker recently told me: the concern is moving in a new direction and then finding you have lost your place in the market.

This issue takes a closer look at some of the regions still ploughing ahead. On pp21-23, Jason Torquato, Americas Editor, writes that while Latin America has encountered tough times over the last few years when it comes to commodity financing, there is hope in the form of softs.

In fact, coffee, sugar, cocoa and cotton have all shown a resiliency that has otherwise not been replicated by other forms of commodities.

A different strategy may also have to be taken by Nigeria (pp28-30), which has for many years relied on oil to prop up its GDP. As prices tumbled and investment pared back, the country has found itself in a situation where financing is hard to come by.

Merle Crichton, EMEA Reporter, writes that banks are either withdrawing their business from the oil sector or purely witnessing less activity.

Sticking with the energy theme, the cover feature this month discusses the state of Indonesia’s power sector. Sean Keating, News Editor, finds that JBIC and Kexim export support has been the financial fuel behind coal-fired power in the country (pp24-26).

However, there are new OECD rules on the horizon, and these may change the nearer Indonesia gets to its 35GW expansion target.

Regular readers will also spot a few new features in this issue of Trade Finance, including an ECA profile, borrower interview, and SCF deal table.

This month we speak with UKEF about the outcome of its annual results (p37) and Ted Young, chief financial officer at Dorian LPG, about the financing requirements for shipping companies (pp45-46).

Before I sign off, I thought it only right to mention that this comment is being penned on the eve of the EU referendum, which will decide whether or not the UK leaves or remains part of the Union.

Trade is a topic that has been bandied around no end in relation to this vote, with many warning of the significant implications leaving the EU could have on the import and export opportunities the country has for years relied on.

Trade Finance readers will by now know the result of the referendum, but rest assured, whichever way it swings, we will be here to provide you with the latest updates on how trade is affected.

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NLMK Sales Europe signs €130m borrowing base

Steel group NLMK Sales Europe (NSE) has signed a €130 million ($147.4 million*) four-year borrowing base revolving credit. Proceeds will be used for general corporate funding and working capital. The financing will be used to fund the acquisition of raw material and semi-finished products, and to finance their transformation in finished products, including all general costs (such as insurance, wages, utilities and transport), NLMK told Trade Finance.

The loan came in oversubscribed following strong interest from NSE’s core relationship banks. NLMK did not put the pricing up, despite the oversubscription, in order to align with the guarantee offered by its minority shareholder SOGEPA. ING Bank acted as coordinating bookrunner, mandated lead arranger (MLA), and facility and security agent. Rabobank, DZ Bank, Raiffeisen Bank and Societe Generale joined as bookrunners and MLAs.

The first drawdown was made on June 3 for €70 million. NLMK confirmed that the facility is refinancing a previous facility but is priced cheaper. Pricing was not disclosed, but it was "competitive."

The facility is guaranteed by Walloon Region-owned SOGEPA which has a 49% shareholding in NLMK Belgium Holdings.

Richardson International refines $709m dual-currency loan

Richardson International has refinanced its $709 million dual-currency revolving credit facilities, extending its debt maturity.

The Canadian agriculture company signed the two tranches with a three-year tenor, maturing in June 2019. They are made up of a C$875 million ($689.1 million*) tranche and a $25 million facility. CIBC was the bookrunner. RBC, Rabobank, Scotiabank and TD Securities were mandated lead arrangers. Alberta Treasury Branches, HSBC, National Bank Financial and Wells Fargo.

PotashCorp begins $3.5bn refinancing

Canadian fertilizer manufacturer PotashCorp has begun the refinancing of its $3.5 billion revolving credit – just six months after its previous refinancing in January.

The borrower is seeking a five-year term – the previous facility was due for maturity in May 2020 – with pricing unlikely to stray far from the 100bp over Libor agreed upon in January’s signing.

Longer-term working capital is key for Potash as revenue has suffered due to weak fertilizer prices and the borrower has plans to ramp up investment to increase output from its Saskatchewan mines following closures in New Brunswick. Capital expenditure over the next year will be around $1 billion, with the company planning investments in South America, the Middle East and Asia.

Scotiabank is sole bookrunner on the deal, with BMO Capital Markets and RBC as mandated lead arrangers.

Also lending are: Bank of America Merrill Lynch, CIBC, Export Development Canada, Goldman Sachs, HSBC, Morgan Stanley, MUFG, Rabobank, SMBC, TD Securities, UBS and Wells Fargo.

Louis Dreyfus Asia launches annual refinancing

Louis Dreyfus Commodities Asia has mandated ANZ, BNP Paribas, DBS, OCBC and Westpac to arrange a $500 million three-year revolving credit. The deal was roadshowed in Singapore on June 23 and banks have until July 20 to submit commitments.

The fundraising comes with a parent guarantee from Louis Dreyfus Company and will be used for refinancing, general corporate purposes, capex and working capital.

The deal is priced at the same level as the borrower’s $400 million three-year revolver signed in 2015. Mandated lead arranger commitments are $40 million for a 51bp fee and 157bp all-in, lead arrangers get 45bp in fees and 155bp all-in for takes of $25 million; and arrangers get 39bp in fees and 153bp all-in for $10 million.

Banks also earn a utilisation fee dependent on the amount drawn: 10bp for up to 33% of the facility; 20bp for 33%-66% and 40bp for 66% or higher.

Tourmaline Oil refinances C$1.8bn revolver

Tourmaline Oil has closed a dual-tranche C$1.8 billion revolving credit. The facility is backed by the Canadian firm’s production assets and reinforce its cash liquidity, although Tourmaline expects capital expenditure to fall significantly this year.

The four-year loan is split into tranches of C$1.75 billion ($1.42 billion*) and C$50 million and refinances a facility that was due to mature in 2019. Scotiabank is sole bookrunner and has been joined by mandated lead arrangers BMO Capital Markets, CIBC World Markets, National Bank Financial and TD Securities. Alberta Treasury Branches, MUFG and Wells Fargo are also participating.

Polymetal nears financial close on Kyzyl gold project

Russian precious metals miner Polymetal has reached agreement in principle with Sberbank on around $350 million of six-year debt to finance the Kyzyl gold project in Kazakhstan. The financing is still in documentation but is expected to close soon.

The Kyzyl project is a major gold deposit with JORC-compliant probable gold reserves of 7.5 million ounces in 25.2 million tonnes of ore graded at 7.7 g/t for Au and resources of 3.1 million oz in 14.2 million tonnes grades at 6.8 g/t.

Initial capex on Kyzyl is estimated at $328 million. Polymetal plans to start processing in the second half of 2018 with production at full capacity planned for 2019.

Goldcorp extending tenor on $3bn RCF

Vancouver-based miner Goldcorp is extending the tenor on a $3 billion revolving credit – upping maturity to June 2021. The revolver increased from $2 billion to $3 billion a year ago. It was priced at Libor plus 120bp and intended for use as extra liquidity and a buffer against price volatility in the gold market.

The loan’s bookrunners are BMO Capital Markets, CIBC World Markets and Scotiabank. The mandated lead arrangers are Export Development Canada, HSBC, RBC and TD Securities. Also lending are BNP Paribas, Bank of America Merrill Lynch, Citi, Credit Suisse, Goldman Sachs, ING, MUFG, Mizuho, Morgan Stanley and National Bank Financial.

*Conversion made in June 2016
**MET Group** increases multi-currency facilities to €500m

Switzerland-based multi-commodity trader MET Group - which is 40% owned by Hungarian oil refiner MOL - has increased its senior multi-currency credit facilities to €500 million ($562 million*) from its €400 million debut loan signed in February 2015.

The original one-year €400 million facility was extended for a further year with all original lenders in February 2016. Due to strong bank appetite, MET has re-opened its books in a private syndication to involve new lenders - Rabobank and Raiffeisen Bank. The facilities comprise committed and uncommitted tranches for loans and trade instruments, secured by inventory and trade receivables in several European countries.

The expanded lender line-up is Credit Suisse, ING Bank (also facility and security agent), Citibank (Europe), OTP Bank, UniCredit Bank (Hungary), Rabobank International and Raiffeisen Bank. Clifford Chance provided lender legal counsel.

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**Mercuria** closes annual working capital refinancing

Despite a 25% oversubscription, Swiss energy and commodity trader Mercuria has upped its annual loan refinancing by just $100 million over the $2.1 billion launch size.

Mercuria raised a $2.25 billion facility in 2015 but is taking less funding this year due in part to funds raised in January from the sale of a 12% stake in the borrower to China National Chemical Corporation and the downturn in some commodities prices. Mercuria’s profits rose marginally last year - strong results from oil trading and contango business were offset by provisions taken for potential losses from metals and lower asset valuations.

Proceeds from the refinancing are for general corporate purposes and working capital. The $2.2 billion facility comprises a 364-day multicurrency revolving credit, a 364-day multicurrency revolving credit/swingline and a three-year revolving credit. All facilities include a 364-day extension option.


Joining with arranger status are BTMU, First Gulf Bank, HSH Nordbank, Nedbank and UBS. And the co-arranger line-up comprises Banco do Brasil, Commerzbank, Hang Seng Bank, KFW IPEX Bank, Lloyds Bank, Raiffeisen Bank International, Scotiabank, Sumitomo Trust and Banking Corporation and Zurich Kantonalbank.

The lender line-up was filled out at the manager level by Bank Leumi, Banque Cantonale de Geneve, Banque Cantonale Vaudoise, Banque de Commerce et de Placements, DZ Bank, Garanti Bank and Union de Banques Arabes et Francaises.

The deal - like Mercuria’s $2.5 billion in total. The seven senior mandated lead arrangers have made commitments of around $1 billion in total. Sullivan & Worcester has been re-mandated as lender legal counsel for the deal.

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**Cocobod annual PXF general syndication launched**

Senior syndication of Cocobod’s pre-export financing has closed with seven banks joining the initial mandated lead arrangers (IMLAs). General syndication has also been launched and following a bank meeting in London on June 16.

The $1.8 billion one-year facility - which is raised annually to finance Ghana’s cocoa crop - is priced a few basis points higher than the 62.5bp over Libor the borrower paid for its 2015 loan.

The initial leads on the deal are BTMU, Deutsche Bank (also documentation bank), Natixis, Nedbank, Rabobank, Societe Generale and Standard Chartered. DZ Bank and Ghana International Bank joined with arranger status. All the initial leads, with the exception of Ghana International, underwrote the loan.

Joining in senior syndication are Bank of China, Credit Agricole, Intesa Sanpaolo, Rand Merchant Bank, SMBC, ABN Amro and KfW IPEX-Bank. The seven senior mandated lead arrangers have made commitments of around $1 billion in total.

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**PDO PXF general syndication appetite strong**

Petroleum Development Oman (PDO) is expected to be able to raise an additional $1 billion in general syndication for its debut five-year pre-export financing following a bank presentation on 27 May in London.

Launched earlier in May as a 10-bank club deal with $300 million takes on offer, the borrower received commitments in excess of the $3 billion it was initially looking to raise - consequently it has taken the opportunity to broaden its future lending pool. Around 20 banks have been approached for general syndication.

HSBC is sole financial adviser on the deal which is priced at 190bp over Libor all-in. PDO is 60% owned by the government of Oman, 34% by Royal Dutch Shell, 4% by Total and 2% by Partex. The borrower has given banks proof of orders from multiple buyers to give lenders additional comfort.

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**Bunge repeats $700m trade receivables securitisation**

New York-based global agribusiness Bunge has repeated the $700 million five-year trade receivables securitisation programme it closed in 2011.

Details are sketchy but the new deal is essentially an updating of the 2011 deal with “slightly better pricing and purchasers already in place” according to Bunge. The new deal has an initial tenor of three years - each committed purchaser’s commitment to buy receivables terminates on 26 May 2019 unless extended for an additional one or two year period in accordance with the terms of the receivables transfer agreement - and is being administered by Finacity Corporation.

The 2011 deal - one of the first of its kind in the trade finance market - had an all-in cost of 115bp over one-month dollar Libor and a margin of 85bp. It was led arranged by Rabobank, which also acted as a committed purchaser along with BNP Paribas, Credit Agricole and HSBC. Lender legal counsel was Mayer Brown, with Reed Smith acting for the sponsor.
Central Java power project
JBIC-backed debt signed

Bhimasena Power Indonesia – a special purpose company owned by Adaro (34%), J-Power (34%) and Itochu Corp. (32%) – has signed a $3.421 billion JBIC-backed debt package for the $4.3 billion 2000MW Central Java ultra-supercritical coal-fired power project in Indonesia.

The deal comprises a $2.052 billion JBIC tranche and a $1.36 billion commercial bank tranche with JBIC political risk cover. The 17-year loan is said to be priced at 200bp to 250bp over Libor.

The debt comes with the additional lender comfort of a 25-year power purchase agreement between the sponsors and PLN. The project is also the first to be backed by the Ministry of Finance-controlled Indonesia Infrastructure Guarantee Fund (IIGF).

Commercial lenders are SMBC, BTMU, Mizuho Bank, Sumitomo Mitsui Trust Bank, Mitsubishi UFJ Trust and Banking Corp., Shinsei Bank, Norinchukin Bank, DBS Bank and Overseas-Chinese Banking Corp.

SMBC and Shearman & Sterling are advising the lenders. The IFC advised PLN on structuring the deal.

Coface providing LOC for GE turbine exports

General Electric (GE) has signed a framework agreement with Coface for an additional line of credit (LOC) to back exports of combined cycle gas turbines from GE’s manufacturing plant in Belfort, France.

The deal builds on a 2015 agreement for a Coface line of credit for 50 hertz global power projects manufactured in Belfort. The new LOC indirectly supports the development of 60 hertz heavy duty gas turbine manufacturing capability at the same plant, into which GE is investing €35 million ($39.4 million*).

OPIC backs Turkish hospital projects

OPIC has approved two $250 million 18-year facilities to part finance Turkish healthcare projects in which GE Healthcare has minority equity stakes.

The two projects – the TL1.6 billion ($550 million) 2060-bed Izmir Bayraklı hospital and the TL1.09 billion 1180-bed Kocaeli hospital – are sponsored by developed by Turkerler (45%), GAMA (45%) and GE Healthcare (10%) under a 28-year concession from Turkey’s Ministry of Health.

In addition to the OPIC facility, the EBRD is to make a decision on whether to provide an €85 million A loan and €230 million B loan for the Izmir scheme, and a €40 million A loan and €50.7 million B loan for the Kocaeli project. Export Development Canada (EDC) is also expected to join the financing.

Bahri refinances purchase of two VLCCs

National Shipping Company of Saudi Arabia (Bahri) has raised a $126 million 10-year shariah-compliant loan from BTMU to finance the purchase of two 2010-built secondhand VLCCs.

The vessels – Blue Topaz and Blue Pearl – were purchased by Bahri from from Daewoo Shipbuilding & Marine in October last year for $157 million and were delivered in the first quarter of this year. Prior to the sale the assets had been operated by Korea Line.

Dana Holding Corp signs new $500m RCF

Dana Holding Corp has linked a $500 million revolving credit facility (RCF) to increase its working capital and help with capital expenditure plans.

The five-year loan has been priced at 175bp above Libor, with unused portions of the loan drawing a commitment fee of 37.5bp.

The auto part manufacturer will use the proceeds of the loan for increased capital spending, having generated new business in North America, Europe and Asia. Citi and Goldman Sachs were the loan’s bookrunners.

Barclays, Citizens Financial Group, JP Morgan, RBC Capital Markets and UBS are mandated lead arrangers and Bank of America has also committed funding.

Railserve seals $10m US Ex-Im guaranteed loan

Railserve has received a $10 million loan from American Trade & Finance Company to finance the sale of LEAF locomotives to Societe d’Exploitation du Transgabonais, a Gabonese railway operator. The loan has been guaranteed by US Ex-Im.

The deal is Railserve’s first export contract into Gabon. Both Railserve and US Ex-Im President Fred Hochberg said that the firm would have lost out to foreign competitors if not for the ECA guarantee. The deal came in at the limit of the export credit agency’s current $10 million guarantee capacity.

Mega International mandated for Vietnam paper plant capex facility

Taiwan-based paper manufacturer Cheng Loong Corp. has mandated Mega International Commercial Bank to arrange a $165 million dual-currency loan to fund capital expenditure at its manufacturing plant in Vietnam.

The five-year on-balance sheet facility comprises a $150 million offshore tranche and a $15 million equivalent tranche in Vietnamese dong. Two other commercial banks and Chexim are considering participation.

CAMCE begins construction on Chexim-funded Uganda transmission project

China CAMCE Engineering has begun construction on Uganda Electricity Transmission Company’s transmission sub-station project, which comprises development of sub-stations at Luzira, Namavne, Mukono, and Iganga industrial parks. The scheme is expected to be completed in 30 months.

The project is being funded by a $110 million 15-year loan from China Exim Bank (Chexim) signed in 2013. The tenor comes with an additional three-year grace period and the 15-year debt is priced at 250bp per year.

The project will upgrade transmission to the 132KV voltage level compared to current transmission of 33KV. The EPC contract includes: Construction of 15km of 132KV double-circuit metallic transmission line from the proposed Namavne South Industrial Sub-station to the proposed Luzira Industrial Park Sub-station, and construction of the 132/33KV, 3×32/40MVA Luzira Industrial Park.

Construction of 8km of 132KV double circuit metallic transmission line form the existing 132KV Mundubale-Namavne transmission line to the proposed Mukono Industrial Park sub-station and construction of 132/33KV, 3×40/63MVA Mukono Industrial Park.

Construction of 10km of 132KV double circuit metallic transmission line from existing 132KV Bujagali-Tororo transmission line to the proposed Iganga Industrial Park sub-station and construction of 132/33KV, 3×32/40MVA Iganga Industrial Park.

And construction of 5km of 132KV double circuit metallic transmission line from the existing 132/33KV Namavne sub-station and 132KV Namavne-Namavne transmission line to the proposed Namavne South Industrial Park sub-station and construction of 132/33KV, 3×40/63MVA Namavne South Industrial Park.

*Conversion made in June 2016
**News in brief:** Export & agency finance

**D4/R7 road project closes with heavy DFI backing**

Ochvat Nula (Bypass Zero) – a consortium comprising Cintra, Macquarie Capital and Porr - has reached financial close on €875 million ($987 million*) of 32-year debt for the €1 billion Slovak D4/R7 road project with heavy backing from the EIB and EBRD. The deal signed on June 21. The 34-year availability payments-based concession has TENs status and comprises construction of 27 km section of motorway D4 between Jarovce and Raca and a 32 km section of expressway R7 between Prievoz and Holice.

**ICF and CDC pull out of funding Egypt’s solar FIT programme**

ICF and CDC Group have pulled out of funding round one of Egypt’s 2000 MW solar feed-in-tariff (FIT) programme. The fundraising is being dogged by the Egyptian authorities’ unwillingness to agree to a neutral location for any future arbitration on the projects – the documentation currently specifies Cairo.

According to an IFC statement, “some elements of the current round of the FIT programme are unfortunately not in line with our requirements, as well as what we have seen from other programmes launched around the world. We expect to invest in this sector in the next fiscal year.”

A spokesperson for UK development bank CDC Group also acknowledged issues around the scheme, stating: “CDC is struggling to get involved in the programme as it currently stands but remains committed to working with our partners to build solar power plants in Egypt...We expect to invest in this sector next fiscal year.”

With Egypt’s first round solar tariff of $0.1434 per kWh only available for deals that reach financial close by 26 October 2016, and IFC expected to finance around $1 billion across 12 projects, the departure of both DFIs is a major setback to what is Egypt’s solar tender debut.

Others may yet follow. According to an EIB statement the bank is “interested to work with the Egyptian authorities to make this FIT program a success, but will require an arbitration provision in line with customary international standards to allow its involvement.”

Other DFIs considering funding projects under the scheme include the EBRD, OPIC, and Proparco. The African Development Bank and Islamic Development Bank are also considering loans for the programme, though they are not impacted by the location issue.

**Sovcomflot signs construction loan for Yamal LNG tanker**

Russian petro-shipping operator Sovcomflot has signed a $260 million 13-year loan with VTB Bank to finance construction of an ice-breaking LNG tanker for the Yamal LNG project.

The new tanker will be able to carry up to 172,600 cubic metres of liquefied natural gas (LNG) and has an Arc7 enhanced ice class LNG newbuilds that have been contracted to serve Yamal LNG. Sovcomflot, MOL, Teekay and Dynagas have one, three, six and five vessels under construction respectively, and all vessels are scheduled for delivery over the next four years.

**United Airlines issues $1.05bn EETC for Boeing deliveries**

United Airlines has financed 18 new Boeing aircraft - four B737-800s, five B737-900ERs, two B787-9s and seven B777-300ERs delivering between January 2016 and March 2017 - with a $1.05 billion enhanced equipment trust certificate (EETC) issue.

The issue - which has a final maturity date of 7 January 2030 - comprises a $728.72 million AA tranche and a $324 million A tranche. The AA tranche carries an interest rate of 3.10% and the Class A tranche 3.45%. The initial loan-to-value (LTV) of the AA tranche is 38.8%, while the initial LTV of the A tranche is 56%. The weighted average life of both tranches is nine years.

Bookrunners are Morgan Stanley Credit Suisse and Goldman Sachs, Citigroup, Deutsche Bank, Bank of America Merrill Lynch, Barclays, BNP Paribas and Credit Agricole. Wilmington Trust is subordination agent, trustee, paying agent and loan trustee. Natixis is acting as depositary and Commonwealth Bank of Australia is liquidity facility provider.

Moody’s rated the senior AA class notes at Aa3 - nine ratings above United’s BA3 corporate rating and three notes above other EETCs that the airline has issued. “The additional notches compared to pre-2015 EETCs reflect the larger equity cushions, expected relatively low coupons, and Moody’s opinion that having B777-300ERs in the collateral lowers the probability of disaffirmation of the Series 2016-1 Enhanced Equipment Trust Certificates versus United’s other EETCs,” says Moody’s senior credit officer, Jonathan Root.

Hughes Hubbard is advising United and Milbank is legal counsel to the underwriters. Morris James is advising Wilmington Trust.

**Ethiopian Airlines closes $107.5m PDP financing**

Ethiopian Airlines has signed a $107.5 million pre-delivery payments (PDP) financing for 14 Airbus A350-900 aircraft, the first of which is scheduled to be delivered by Airbus in June 2016. ING Capital was the sole lender and facility agent.

Ethiopian Airlines is also near to mandating financing on two new Bombardier Q400 deliveries. The carrier launched a tender earlier this year with a deadline for bids in May. Both aircraft are due to deliver at the end of this year.

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*Conversion made in June 2016*

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MIGA guarantees
Saudi Arabian steel
dust recycling plant

MIGA issued $15.3 million in guarantees to Global Steel Dust of Switzerland (GSD) to back the construction and operation of a steel dust recycling project in Dammam.

GSD has a 50/50 joint venture Global Steel Dust Gulf with local partner, Khudair for Trading & Contracting. In November 2014 the company signed a loan agreement with Saudi Industrial Development Fund (SDF) to kickstart construction on the $35 million project.

The greenfield plant will recycle electric arc furnace (EAF) dust – a hazardous secondary waste generated in steel production – and produce key metals in Saudi Arabia.

The facility will produce zinc oxide and iron products as main outputs. The zinc oxide will be exported to European markets, while the iron will be used in road construction, cement manufacturing and steel production in Saudi Arabia.

100% reinsurance for Mitsui Sumitomo's policies.

The agreement covers export contracts, intermediary trade contracts, and UK domestic sales contracts for policies of up to one year and 90% indemnity.

Coface makes two new director appointments in UK

Coface has also hired John Nicholas as risk underwriting director. Nicholas takes over from Grant Williams who has become political risk director.

Nicholas will head up the underwriting team in the UK and Ireland. He joins from global steel trading group Stemcor, where he served as credit risk director for 12 years. Prior to that, he held various roles at Euler Hermes UK, most recently as regional risk manager.

Williams has been with Coface since 2000 having previously worked at Euler Hermes as a senior underwriter.

Davies joins AIG Europe trade credit team

Nick Davies has joined AIG Europe's London-based trade credit team as senior underwriter. Davies joins from Dutch credit insurer Atradius, where he spent the past 10 years. He will report to Yvonne McCormack, head of AIG Europe's account management.

Lockton appoints ex-Euler Hermes exec

Insurance broker Lockton Companies has appointed Jerry Paulson as producer and senior vice president. Based in Chicago, Paulson will evaluate the political risks and credit risks associated with trade and investment in emerging and domestic markets.

Paulson joins from Euler Hermes North America, where he served as head of bank channel in the Americas region for Hermes North America.

He has previously also worked for US Ex-Im before a move to the private sector.

Nexus CIFS grows trade credit team

Nexus CIFS, the specialist trade credit insurance underwriter, has appointed Ed Cornish as senior underwriter on the single situation trade credit team, based in London. He joins from Beazley, where he was responsible for writing single situation credit, contract frustration and political risk business.

Markel hires Lee as trade credit underwriter

Markel has appointed Howard Lee as a senior underwriter in its trade credit team. Lee’s appointment boosts the two-year old New York team to three members. He will report to Philip Amlot, underwriting manager.

Lee joins from Chubb, where he was a senior writer in the political and trade credit division. He will be responsible for business development, expanding broker relationships and managing the insurer’s client portfolio.

Aspen appoints new global head of credit and political risk

Paul Sanders has been appointed global head of credit and political risk at Aspen Insurance. He will report to David Cohen, president and chief underwriting officer for Aspen.

Sanders will be based in London, having joined the Bermuda-headquartered firm in 2014 from Zurich where he managed the London market portfolio for political risk and credit business.

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StanChart adds to transaction banking Europe

Standard Chartered has made two senior promotions to its transaction banking Europe team - Francesco Miccoli has been appointed head of financial institutions (FI) and Owen Davies is now head of implementation and client management. Both will report to Richard Jaggard, head of transaction banking Europe. Miccoli was appointed CEO of Standard Chartered Italy in 2011, having joined the bank in 2008 to look after its Southern European FI clients. He will also continue in his role as Italy CEO. Davies joined Standard Chartered’s transaction banking team in 2015 working within implementation and client management. Prior to that he spent 17 years at Citi within treasury and trade solutions, holding roles in operations, sales and implementation.

The transaction banking team has also made new appointments to its Germany and Nordics corporate offerings. Jan Willem de Vreeze joins the Frankfurt team from Bank of America where he headed the cash management and trade finance team for the Benelux region. And Nicolas Saoudi joins the Stockholm team from Credit Agricole.

Citi appoints new Asia Pacific head of TTS

Citi bank has appointed Jonathan Lindenberg as head of cash management for treasury and trade solutions (TTS) Asia Pacific based in Hong Kong. She will report to Amol Gupte, Asia Pacific head of TTS, and globally to Ebru Pakcan, global head of payments and receivables.

Lindenberg will manage the role in conjunction with being head of structured finance in the New York office. Within this newly-created role he oversees the commodity and structured trade finance portfolios among others. He will report to Fumitaka Nakahama, head of investment banking for the Americas.

Sace appoints new CEO and chairman

Alejandro Decio, CEO of ING Bank Italy, has been appointed as the new CEO of Sace. He replaces Alessandro Castellano, who had held the post since 2007.

Beniamino Quintieri, a professor of economics at the University of Rome, has also been elected chairman of the board. Quintieri replaces Giovanni Castellana.

ING confirms that Decio will leave the bank with immediate effect, with a successor to be announced in due course.

Decio’s appointment initiates a new cycle of development for the export credit agency that is in line with the 2016-2020 business plan of CDP Group - Sace’s parent company - to mobilise €63 billion ($71.9 billion*) in resources by 2020. “Faced with the possibility of doing something I hope can be important for Italy’s development, I felt obliged to accept this important challenge and the important responsibilities as CEO of Sace,” says Decio.

ICBC Standard Bank names commodity coverage head

ICBC Standard Bank has appointed René Baars as head of international commodity coverage based in London.

In his newly created role, Baars will lead the bank’s commodity coverage globally, reporting to Kent Hilen, head of international coverage. Baars has over 15 years of experience in commodity finance roles, most recently serving as managing director and regional head, Europe commodity traders and agribusiness at Standard Chartered. He previously held senior sales positions at ING and ABN AMRO.

Vitol appoints former Total head of trade

Global oil trader Vitol Group has appointed Pierre Barbe as head of its African operations. Barbe, who will be London-based, was previously with Total S.A where he served as global head of trading and shipping from 2007, having worked at the company since 1983.

Total has appointed Thomas Waymel, former head of crude trading at Total in Geneva, as Barbe’s replacement.

ICC elects Sunil Bharti Mittal as new chairman

The International Chamber of Commerce (ICC) has elected Sunil Bharti Mittal, as its new chairman. He replaces Terry McGraw, chairman Emeritus of S&P Global, who becomes ICC’s honorary chairman. McGraw was elected chairman in 2013, and drove the 2013 Trade Facilitation Agreement.

Mittal is the founder and chairman of Bharti Enterprises, the world’s third largest telecommunications company. He has also served on the Prime Minister of India’s Council of Trade and Industry.

John Denton, partner and CEO of Corrs Chambers Westgarth, will replace Mittal as the ICC’s first vice-chairman.

ADB vice president to join AIIB

The Asian Development Bank (ADB) has announced that Thierry de Longuemar, vice president for finance and risk management, will retire from ADB in September 2016. He will go on to join the Asian Infrastructure Investment Bank (AIIB) as chief financial officer.

De Longuemar became vice president for the ADB’s finance and risk management in January 2013. His term was extended by two years in November 2014. Previously De Longuemar served as ADB treasurer twice (2002-2014 and 2010-2011).

MUFG promotes Lindenberg

MUFG has promoted Jonathan Lindenberg to deputy head of investment banking for the Americas.
News in brief: Market moves

**Tawreeq Holdings** appoints head of payables and structured finance

Shariah-compliant supply chain finance solutions provider Tawreeq Holdings has appointed Sinan Oczan as director of payables and structured finance. From 2013 to June 2015 Oczan was UKEF regional director for Europe, MENA and Central Asia based in Istanbul. Prior to that he held various trade finance roles at CNH Industrial from 2007 onwards, rising to head of trade finance APAC and head of financial services Turkey.

**HFW** appoints new commodities, aviation and shipping partners

Holman Fenwick Willan (HFW) has promoted a number of senior lawyers to partner in sectors including commodities, aviation and shipping.

In aviation, Kate Seaton and Zohar Zik become partners in the Singapore and London offices. In commodities, Sarah Hunt has been elected as a partner in the team, based in Geneva (Hunt has been with the firm since 2010). And in shipping, Trevor Fox (Shanghai), Angie Lo (Hong Kong) and Scott Pilkington (Singapore) are also all promoted to partner.

**ITFC** appoints CEO

Hani Salem Sonbol has been appointed CEO of the International Islamic Trade Finance Corporation (ITFC), a member of the Islamic Development Bank (IDB) Group. The appointment was made during the IDB’s annual meeting held in Jakarta, Indonesia, on Sunday May 15.

Hani Salem Sonbol has been serving as acting CEO of the ITFC since 2014. His previous positions include acting CEO of Islamic Corporation for the Insurance of Investment and of Islamic Corporation for the Financing of Development (ICIEC), and director of IDB’s regional office in Morocco.

**Thai Exim** announces new president

Pisit Sereiwattana has been re-appointed as the new president of the Export-Import Bank of Thailand (Exim Thailand). He replaces acting president Suthanai Prasertsan. Sereiwattana assumed office on June 1. He will serve a four-year tenure as the fifth president of the bank since its inception in 1994. Formerly, he served as senior executive vice president of Government Savings Bank.

**UK Export Finance (UKEF)** announces new business group head

UK Export Finance (UKEF) has promoted Gordon Welsh to head of business group. Based in London, he will lead the department’s underwriting, product development and new business.

Welsh replaces Steve Dodgson, who has been in the role since 2006 and is now retiring. Welsh joined UKEF in 1998. He most recently served as head of the aerospace division, overseeing the world’s first ECA-backed sukuk last year.

**Boyle joins Sullivan & Worcester**

Sullivan & Worcester has poached Marian Boyle from Dentons to join its London office as partner and head of the UK’s insurance and disputes practice. Boyle will work closely with the firm’s trade and export finance team, and US-based disputes team, offering advice on insurance, risk management and commercial dispute resolution.

**Parente appointed head of Petrobras**

Pedro Parente has been appointed CEO of Petrobras, the beleaguered Brazilian state-owned oil company. Parente has been CEO of Bunge Brasil as well as chief of staff for former President Fernando Henrique Cardoso and will be tasked with reviving the most indebted oil company in the world.

**Zurich appoints new head of credit and political risk**

Dave Anderson has been appointed global head of credit and political risk at Zurich. Anderson was most recently global business development director, having spent 14 years at the insurer. He replaces Jim Thomas, who left in April to join Everest Underwriters.

Anderson will report to Bryan Salvatore, president of Zurich specialty products, and will be responsible for the underwriting teams and the short-term multi-buyer trade credit team.

**Chaucer poaches second XL Catlin underwriter**

Chaucer, the specialist Lloyd’s insurance group, has appointed Jonathan Bint as political risk underwriter and analyst.

Bint is the second recruit to join from rival XL Catlin in the last few months. In March Chaucer poached Deborah Wyatt, previous head of UK political risk and trade credit at XL Catlin, to spearhead the emerged markets team for the political risk team.

Bint was a credit analyst for six years at XL Catlin, working in the global credit and political risk underwriting teams and crisis management business group. His previous roles include a reinsurersecurity analyst at Catlin Group and a rating analyst at Standard & Poor’s.

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Axion Energy's $378 million loan has created a stir in Argentina as public and private lenders have begun to eye the country with less suspicion, Jason Torquato, Americas Editor, reports.

The financing of an oil refinery capacity upgrade does not usually attract as much attention as the deal to boost output at Axion Energy's Campana facility. This particular loan marked a return for the International Finance Corporation (IFC) to Argentina with a long-tenor syndicated loan.

Argentina's ability to attract syndicated loans has been hugely impaired in recent decades as it was virtually cut out of capital markets over a refusal to pay longstanding debts and due to a lack of economic transparency surrounding vital information such as inflation rates.

The loan came in at $378 million, with $78 million provided by the IFC alone with an eight-year tenor. The remaining $300 million is split into tranches of $200 million and $100 million by private lenders with tenors of six years and five years respectively.

“The long-term loan is a very important source of financing, which will add to the more than $600 million dollars invested in Axion since 2013 with the aim of increasing Campana’s efficiency and quality of fuel production,” said Adrian Suarez, CEO of Axion Energy.

Suarez said that the company's refinery renovations were a result of its plans to increase lower emission fuels as environmental standards increase as well as vitally cutting down the country's import requirements, which have spiralled in recent years.

While grace periods vary by tenor, none is longer than 30 months and each loan was agreed in a floating dollar rate, with semiannual payment instalments required.

The lending consortium was international in nature, with commitments made from BBVA, Citi, Credit Agricole, Industrial and Commercial Bank of China and Santander, all as mandated lead arrangers. Five banks from four different countries lending to an Argentine company is something that would not have happened in recent years.

The increase in private lending is a testament to President Mauricio Macri's attempts to turn around the beleaguered Latin American economy since his accession to power last December.

One banker involved in the syndication process told Trade Finance that even now, given initial reforms, that few banks would contribute without a guarantee from the IFC or a similar development bank.

It was the second loan signed by Axion with the help of a guarantee in the past two years.

The overhaul of the facility began in 2014 but extra funding was needed by Axion to complete it. The company's refining volume is critical to Argentina's fuel sector, making up more than 15% of the total capacity in the country.

According to the development bank, Axion's planned capacity increase and enhancement of fuel quality will provide employment opportunities, create value addition for Argentina with increased utilisation of the country's own crude resources and increased domestic supply of refined products and, critically given the environmental restraints of financing made by the IFC, reduce emissions and lower sulfur dioxide levels.

### Legal Advisors
Axion: Pérez Alati, Grondona, Benites, Arntsen & Martinez de Hoz (Argentina), Linklaters (New York)
IFC: Estudio Beccar Varela (Argentina), Chadbourne & Park (New York)

### Tranche Breakdown

<table>
<thead>
<tr>
<th>Tranche Breakdown</th>
<th>Value</th>
<th>MLAs</th>
<th>Tenor</th>
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<tbody>
<tr>
<td>Tranche 1:</td>
<td>$78 million</td>
<td>IFC</td>
<td>8 years</td>
</tr>
<tr>
<td>Tranche 2:</td>
<td>$200 million</td>
<td>BBVA, Citi, Credit Agricole, Industrial and Commercial Bank of China and Santander</td>
<td>6 years</td>
</tr>
<tr>
<td>Tranche 3:</td>
<td>$100 million</td>
<td>BBVA, Citi, Credit Agricole, Industrial and Commercial Bank of China and Santander</td>
<td>5 years</td>
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More on the margin, but not marginalised

Access to fast, cheap, short-term debt is more important in commodities trading than most sectors. But not all traders get similar margins or speed of delivery. So what generates the tightest margins and is there a growing mismatch between timing in the lending/borrowing dynamic of both markets? Sean Keating, News Editor

Three global commodities trading houses – Noble, Glencore and Gunvor. Three one-year annual short-term borrowing refinancings in the same month. Three sets of margins that are not even with 50bp of each other.

That 50bp-plus margin difference has more significance in the commodity trading market than other sectors. Cheap credit is the lifeblood of commodities trading, where margins are size zero and profits rely on shipping large volumes. Consequently, the cheaper the debt the more significant the competitive trading advantage of the borrower.

In May, all three trading houses closed one-year revolvers, either as standalones or as part of larger deals.

The margin on Noble’s $1 billion one-year tranche (part of a $3 billion deal that included a $2 billion one-year revolving borrowing base facility) was 225bp over dollar Libor – more than double the 85bp margin Noble paid for a similar $1.15 billion facility in May 2015.

Gunvor Singapore (with a parent guarantee) also closed a $955 million one-year revolver (part of a $1.041 billion deal that included an $86 million three-year tranche) with a margin of 140bp over Libor – a 15bp decrease in margin on the previous year’s facility.

Glencore raised $7.7 billion of one-year debt, priced at an all-in of 95bp over three-month Libor with a 50bp margin – 10bp higher than the previous year.

The pricing comparison verges on artificial: Gunvor is a private company while Noble and Glencore are listed. Gunvor is not rated while the latter pair are. And performance of all three in a down market has also been radically different. Gunvor posted record net income of £1.25 billion in 2015, Noble a net loss (its first in 20 years) of $1.67 billion after taking $1.2 billion in write-downs related to the value of long-term contracts it has been accused of overstating; and Glencore net income of $1.34 billion, down 69% on the previous year.

But there is also a lot of commonality between the three traders. They make much of their revenues from oil, mining and metals (albeit Gunvor and Noble are scaling back on mining and metals). And all three, theoretically, as buyers and sellers of commodities, should have the ability to fix their own margins.

Given the performance of the traders, it is unsurprising that Gunvor’s record result spawned a 10bp decrease in pricing year-on-year and Noble’s record loss more than doubled its cost of debt. However, the 10bp increase in margin on Glencore’s facility – still giving it the lowest cost of debt among all three borrowers – is harder to fathom given a 69% drop in net income.

But as one London-based banker notes of Glencore: “What you don’t see is the vast amount of trade financing fees that Glencore generates for its lenders. That additional business is lucrative and very short dated. So Glencore is a good fee earning account that has relatively low capital against it for most banks”.

None of this bodes well for Noble which, like Glencore, is about to generate a lot of ancillary fees for lenders – but not the kind that boost bank appetite and bring margins down.

Noble continues to lunch from liquidity crunch to liquidity crisis. Having hoarded cash at the expense of trading volume, to maintain its credit rating prior to its fundraising, Noble has just had its rating downgraded again by Standard & Poor’s (S&P) from BB- to B+ with a negative outlook post-fundraising.

The downgrade puts Noble a notch below non-investment grade and is particularly onerous given the margin on Noble’s $3 billion combined RCF and borrowing base facility is linked to its maintaining a Ba3/BB-/BBB- rating.

According to S&P, Noble’s liquidity is still “less than adequate,” in part because the company will need to refinance a large chunk of its loans over the next year and “continued commitment from banks will depend on the successful execution of the company’s business rationalisation [the sale of Noble America Energy Solutions which is being arranged by Morgan Stanley and HSBC].”

The main reasons for many of Noble’s woes are well documented: a vast increase in leverage and costs spawned by acquisitions that subsequently backfired; upfront accounting for a portion of gains from long-term marketing and supply agreements in a volatile commodities market where the amount of cash eventually received from deals can be lower than the recorded profits (net fair value gains on contracts and financial derivatives became equivalent to more than 80% of Noble’s equity value); and an unwillingness to downsize the business and reduce leverage.

But there are other issues plaguing Noble that go to the heart of the commodities trading business. For example, since listing, both Noble and Glencore have had to smooth revenues to keep shareholders comfortable – not easy in the volatile world of commodities and the reason behind Noble’s adoption of its upfront accounting practises. In short – public shareholders and commodities trading are not an easy match which for many traders means fundraising via an IPO is out of the question.

Furthermore, since the global downturn in commodities pricing and tightening Basel regulation on lenders, bank due diligence is taking much longer and facilities that once took commodities traders 30 days to arrange are now taking three months.

Consequently, there is a growing timing mismatch between fast paced, high volume commodities trading and access to short-term liquidity. Borrowers now have to take on much larger volume and longer tenor short-term debt to ensure they have the liquidity in place to meet all circumstances, whether it is drawn or not, simply because the arranging period has become so much longer.

Despite the problems, the bank market continues to keep faith with major commodities traders. No commodities trading borrower has failed to raise fundraising this year and margins have been relatively competitive given the backdrop in both the bank and commodities market.

Margins are not going to tighten for some time, but liquidity appears to be available – even for Noble.
Uralkali signs $1.2 billion PXF

Despite continuing sanctions, Uralkali, the Russian potash fertiliser producer, has signed a five-year $1.2 billion pre-export (PXF) facility with 16 international banks.

Merle Crichton, EMEA Reporter

A mid a backdrop of low commodity prices and Western sanctions on Russia, Uralkali secured its $1.2 billion PXF in late April this year. The facility will be used for general corporate purposes, including refinancing of its existing loans.

Anton Vishanenko, the company’s CFO, highlighted that the new self-arranged credit facility received strong commitment from international lenders, despite the difficult conditions surrounding the region as well as the sector the loan was secured in.

“Despite the unstable situation in commodity markets, the company managed to attract the largest syndicated loan in its history from 16 banks-participants,” he said.

Sberbank added that its interest in the deal was largely down to the strength of the global potash miner, which has been able to build its reputation as a reliable borrower over many years of success.

The Russian bank has a long-standing commitment with Uralkali. It previously signed an unsecured six-year $2 billion facility back in 2014, followed by a non-revolving $1.5 billion credit line later the following year.

“By signing this deal, we reconfirmed our role as a bank that aims to build business bridges between Russia and Europe,” Igor Strehl, board member at Sberbank Europe, said.

However, Sberbank’s positivity cannot quite overshadow the challenges that the lenders faced in closing the deal.

“The main challenge was to overcome the dimension of uncertainty in the sanctions environment,” said Rakinsev. “The syndication of a billion-dollar transaction appeared a Herculean task.”

Sanctions were inflicted on Russia by the US and EU in March 2014, following tensions in the Ukraine and Crimea, inevitably shrinking the accessibility of financing for Russian corporates.

But from a legal perspective, financing is not always necessarily hampered by the obstacle of sanctions. “Sanctions do not prevent all dealings with Russia,” said Andrew Taylor, finance partner at Hogan Lovells, who led the team in the transaction.

He added: “If sanctions do not prevent the financing, and the lenders are in the usual way comfortable with the borrower’s credit standing, then deals can get done.”

Taylor stated that, ultimately, the Western sanctions do not restrict the borrower’s access to financing because “Uralkali itself (and its affiliates) are not sanctioned entities.”

Despite the green light from legal, Taylor did admit that navigating both the US and EU sanctions regimes remained the key challenge for the banks and compliance teams involved, as Sberbank’s Rakinsev stated.

However, Sberbank added that “common sense prevailed” and the transaction ended up oversubscribed.

Uralkali’s net debt rose $2.2 billion during last year, as the company financed its share buyback programmes, hitting $5.4 billion by the end of 205.

Deal specifics

Priced at an interest rate of 325 basis points (bps) over Libor, Uralkali’s $1.2 billion PXF will be used for general corporate purposes, including refinancing of its existing loans.

ING Bank, Natixis and UniCredit Bank acted as global coordinators.

The mandated lead arrangers (MLAs) and bookrunners of the PXF facility were:

- ING
- Natixis
- UniCredit
- Sberbank
- Societe Generale
- Rosbank

Bank of China (Hungary), Credit Agricole and Intesa Sanpaolo also joined the facility as MLAs. The arrangers were:

- Merrill Lynch
- Citibank
- Commerzbank
- Deutsche Bank
- Raiffeisenbank
- IKB
- Agricultural Bank of China (Moscow)
- Bank ICBC

Hogan Lovells assumed the role of legal advisor. ING also acted as documentation, facility and security agent. UniCredit assumed the role of passport bank.

Natixis and Societe Generale became market hedge providers, and Credit Agricole, ING, Intesa Sanpaolo, Natixis and Societe Generale acted as fixed rate providers.
It’s not just about the finance

Close on the £1.95 billion ($2.85 billion), 19-year debt, financing for Beatrice Wind has put offshore wind back on the agenda at lead sponsor SSE. The reason, in part, is that lower supply chain costs and cost-saving new technology have become as big a driver of UK offshore wind as export and DFI support.

Sean Keating, News Editor

In 2014, SSE cancelled two UK offshore wind projects and put investments in the Dogger and SeaGreen projects on ice, citing doubts about the economic viability of the sector. Two years on and it has reached financial close on the only offshore project it kept faith with – a £1.95 billion ($2.85 billion) 19-year (inclusive of three construction period) EKF/EIB-backed non-recourse debt financing for the £2.6 billion 588MW Beatrice offshore wind project.

According to Paul Cooley, director of renewables at SSE, the deal “reaffirms SSE’s commitment to offshore wind”. That reaffirmation – which defrosts Dogger and SeaGreen as potential projects – is driven in part by the lower costs associated with a growing UK-based offshore wind supply chain, and new and more cost-effective technology.

In short, Beatrice is as much about physical supply chain and technology costs as cost of financing and subsidies, and that is reflected in the relatively small amount of DFI and ECA support the financing required.

Located 14km off the Scottish east coast in the Moray Firth, the 588MW wind farm – which is sponsored by SSE (40%), Copenhagen Infrastructure Partners (35%) and SDIC Power of China (25%) – is expected to inject £680 million into the UK via employment and supply chain opportunities during the construction phase, and £400-525 million during the wind farm’s 25-year operational life.

The project is being developed with a tier 1 supply chain comprising Seaway Heavy Lifting (SHL), Subsea 7, Nexans and Siemens. SHL/Subsea 7 have secured the £1.3 billion EPCI contract – which includes turbine foundation, array cable installation, and transport and installation of transmission modules. Siemens is supplying 84x7MW turbines and two of its offshore transformer modules (OTMs). Siemens will also deliver grid connection along with Nexans.

Supply chain

Key supply chain and technology cost savings in the deal include the provision of turbine blades from Siemens’ new UK-based manufacturing facility in Hull, and commercial roll-out of the first confirmed order for Siemens new OTM system (Mainstream Renewable Power’s Neart Na Gaoithe offshore project to is also use the system but the order has yet to be confirmed and the wind farm has failed to meet its subsidy deadline).

The new OTM system – which replaces a traditional AC substation with 250MW OTMs that are 35% of the weight of an AC platform, eliminate the need for special heavy-lift vessels and shorten the installation time by about 20% – achieves a grid system cost reduction of 30-40%, compared with a traditional solution. That could translate into a 10% cost reduction in the whole offshore system.

The OTM system is also ‘plug-and-play’, giving the sponsor the option to easily transport transition modules onboard where maintenance costs are considerably lower than performing the same tasks in situ offshore. Siemens has a 15-year operations and maintenance contract for the project and construction of an operations and maintenance facility in Wick and transmission works in Moray will start this year. Offshore construction will begin in 2017 and the plant is expected to be commissioned in 2019.

The financial engineering behind Beatrice is fairly standard and closed relatively quickly. Although originally expected to close in March 2016, the facility was still underwritten in just eight months from mandating in October 2015, and with very little DFI and ECA backing (around 25% of total debt).

In terms of DFI and export credit support, the deal features two direct loans from the EIB: a £225 million tranche and a £300 million tranche that is covered by EKF on the back of a contract with Siemens to supply 84x7MW turbines which will be built in Denmark.

On the captive finance side, Siemens Bank also came in as a commercial lender, although according to arrangers the participation was not linked to the turbine contract but the roll-out of the new OTM system.

210bp and rising

The £1.95 billion 19-year (inclusive of three construction period) debt package comprises a £225 million direct loan from the EIB, the £300 million EIB tranche guaranteed by EKF and around £1.425 billion of commercial bank debt from BNP Paribas, BTMU (also financial advisor to the sponsors), Commonwealth Bank of Australia, ING Bank, KfW, La Caixa, Lloyds, Natixis, Royal Bank of Scotland, Banco Santander, Siemens Bank, Societe Generale and SMBC.

Copenhagen Infrastructure Partners is also providing a £70 million sponsor loan, which will be refinanced at a later date. Linklaters provided sponsor legal counsel with Norton Rose Fulbright acting for the lenders. Coordinating bookrunners BTMU, BNP Paribas and Natixis are still out to general syndication with the commercial debt. The facility is priced competitively during construction at between 200-210bp over Libor, and steps up over the 15-year post-construction tenor.

The equity content on the project is SSE £376 million, SDIC £235 million, Copenhagen Infrastructure I K/S £164 million and Copenhagen Infrastructure II K/S £164 million.

Approved by the Scottish Government in March 2014, Beatrice is the last of five offshore wind projects awarded a 15-year investment contract by the UK government to reach a final investment decision (the FID signed three days after financial close). The market-based support mechanism runs for 10 years starting from April 2015 and Beatrice is set to receive an inflation-linked £140 per MWh of power it produces.

Lenders also have the comfort of a 15-year power purchase agreement (PPA) between Beatrice and Danske Commodities. Under the agreement, Danske Commodities will handle all forecasting and trading for 294MW, equivalent to 50% of the park’s production. The PPA is Danske Commodities’ first long-term balancing contract in the UK market.
Feature: Mexico economy reforms

Mexican economic reforms hit rocky patch

Mexico is facing an uphill battle to maintain the success of its economic reforms – can it continue to attract foreign direct investment and preserve export growth?

Jason Torquato, Americas Editor

Reforms to Mexico’s economy have been sweeping and far-reaching since President Enrique Pena Nieto came into power in 2012, replacing Felipe Calderon on a platform of speeding up economic growth through the development of the private sector. The president has made it his priority to attract investment and financing from foreign sources to the oil and gas sector, add competition to the telecoms industry and to overhaul the power business.

For the most part the reforms appear to be taking shape, but as he passes the halfway mark in his presidential tenure, the country’s growth has begun to slow and could leave Mexico short of meeting Pena Nieto’s lofty aims.

An auction by the government to sell offshore drilling rights, part of the much-feted energy sector reforms that would open the industry up to foreign investment for the first time, fell flat last year as just two of 14 blocks were sold. While some of this was down to a lack of interest as oil prices fell to long-term lows it marked a dark day for Pena Nieto’s flagship policy.

Reforms to the telecoms and electricity sector have, however, been steps in the right direction, with prices falling and companies attracting significant interest from foreign lenders.

America Movil recently refinanced a $2 billion loan with 16 of the world’s largest banks and the Canadian export credit agency. The five-year loan, which was priced at a staggeringly-low 45bp above Libor, demonstrated the extreme confidence foreign lenders have in the largest telecoms firm in Mexico.

The involvement of Export Development Canada (EDC) was linked to the involvement of Canadian companies in network upgrades and telecoms expansion in Mexico in the coming years.

“América Movil is a very dynamic telecom company, and we believe that up to 30 Canadian companies in this sector are already well-positioned to capitalise on their evolving supply chain needs,” said Carl Burlock, senior vice-president of financing and investments at EDC.

Similarly, Japanese export credit agency JBIC has been involved in financing a loan in conjunction with MUFG for CFE, the state-run electricity operator, with guarantees provided by NEXI.

Bancomext’s involvement in a $477 million loan for CFE also attracted seven major banks to commit to a 27-month project financing credit facility. Another project financing was also secured with Banco de Sabadell, HSBC and Societe Generale for $323 million with the same tenor.

The Mexican export credit agency has, however, said that it is looking to pull back from public sector lending for firms like Pemex and CFE.

“We’re funding the private sector in particular and let the commercial banks take care of the public sector,” said Marian Aguirre Nienau, subdirector of energy projects at Bancomext.

Mexico’s biggest success since Pena Nieto’s inauguration is the auto-sector, however. Several of the industry’s largest manufacturers have moved business to Mexico following the creation of maquiladoras, special economic zones designed to attract business by lowering tariffs.

In addition, “China has lost some competitiveness, mostly because salaries have increased in the last five years, and the currency has appreciated significantly,” said Ricardo Velazquez, managing director and head of the international banking division and financial institutions group at Banorte.

“This means that Mexico has returned to being more attractive to foreign direct investment (FDI) for production. So some manufacturers in Europe, Japan and Korea are looking at relocating to Mexico,” he added.

Among the biggest investors are firms such as Kia Motors, BMW, Audi and Mercedes Benz, each of which have ploughed more than $1 billion, involving banks and export credit agencies to contribute to a sector receiving more than $30 billion of investment since Pena Nieto came to power.

The ability for Pena Nieto’s reforms to succeed was always going to be contingent on its trading partners’ economies performing strongly. Difficult times for China have impacted negatively, as have weaker currencies in other emerging markets, which have made their goods even more competitive before, decreasing the appeal of Mexico.

Companies from the United States hoping to access a more open Mexico have found a stumbling block in the Export-Import Bank of the United States’ inability to lend or guarantee more than $10 million.

Just last year, prior to the export credit agency’s shutdown, it had been eyeing further opportunities in financing and guaranteeing loans for ports and airports, having experienced success in doing so in the past. A fall in loan pricing across other sectors pushed the bank to look at sectors where competition might be lower.

“We had some early success with airports but got busy with energy. It’s something we’re looking into again,” said Paula Swain, vice-president of financing and investments at EDC.

Feature: Mexico economy reforms

Notable Mexican deals in the past 12 months

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A regulatory shadow continues to be cast over the outlook of key commodity players, from traders to insurers, who attended this year’s Trade Finance Global Commodities Finance & Working Capital Optimisation conference in Geneva.

Merle Crichton, EMEA Reporter

It goes without saying that the commodity price turmoil that has plagued export markets for the past two years was a focal point of discussions held in Geneva, but another angle that received a lot of attention was the increasing requirements for compliance and legal procedures. These issues have heavily weighed upon the trade finance business during the last 12 months.

Panellists concurred that we are not in the “super cycle”. In other words, there is nothing standing in the way of facing up to regulatory pressures.

But all bankers in attendance seemed to accept that compliance has risen in importance and obligation.

“The strategy is not changing,” commented one conference delegate. “We are just getting used to a new reality.”

Yasmin Saadat, global head of trade and commodity finance products at the IFC, emphasised how the “huge” compliance offering has always been there, through the standard measures of AML, KYC and sanctions. But sustainability measures have become more apparent and the case of the Panama papers stressed the inherent need to check every shareholder of every entity in the chain.

“Regulations perceive trade finance as risky,” said speaker Geoffrey Wynne, head of trade and export finance group at Sullivan & Worcester. He noted that markets did not react as well as they should have done, perhaps due to the fact that statistical information took a long time to start being collected as it all showed very low defaults.

However there was the general consensus among delegates that trade finance within the commodity sphere is nothing like as risky as new regulations and compliance seem to believe.

Wynne has been among the first to state that the business of trade finance itself is not one of high risk, insisting that: “We can deal with credit issues and the structural risk.”

Another delegate argued that there is not a great deal of money laundering in trade finance, but everyone just “has to regulate” on the same level, despite what business they are in. One banker propositioned: “how do we educate some of the more reasonable regulators so there is a practical approach?”

Another panellist complained about the unintended consequences that new regulations have brought, including the cost of regulation and how this has unsurprisingly hindered traditional access to finance.

Wynne similarly said that the capital costs for doing trade finance transactions are “clearly too high,” stating that we need to look at structures for reducing this.

“Dealing with the perception of the regulator, which is that banks are cheating the system, this has adverse effects on trade finance,” said Wynne.

Many banks simply decided to “de-risk” as a solution. Wynne explained, by getting rid of a number of relationships that are especially hard to maintain. However, moving to the de-risk approach does not necessarily help, as determining who you actually have a relationship with in an emerging market becomes hazy.

Colin Heritage, managing director at Stemcor Trade Finance, pointed out that a lot of traders are keen to move assets off their own balance sheets. “Traders today are looking to offload that risk,” he said.

Don’t hate the player

The role (compared to banks) of the commodity player was another key talking point of the conference. The majority of global bankers saw the trader as necessary and not as comparable competition.

“Traders remain a big part for business,” insisted one banker. “With less experience, traders can do a lot of restructuring.”

Another banker said that the apparent upsurge of activity among traders was “nothing new.” Back in the 1980s, most deals were driven by traders, he said. “Traders are much closer to the market – they don’t always structure in the way that we see as ideal from a bank’s point of view”.

“Banks are more selective,” another delegate agreed. “Companies need funding and this is when the traders come in.”

Those delegates in the insurance industry offered an insight into why traders may excel in terms of market exposure. “Traders are in regular contact with suppliers and producers of commodities,” said Andreas Seubert, head of structured trade finance at Swiss Re.

“Insurers don’t have that type of access.”

Wynne, although admitting that the trader is one of a number of helpful third parties that, suggested you may not want to bring more participants into the transaction from a “de-risk” perspective.

In addition to the merchant, George Bellord director at BPL, emphasised the role of the broker. “The learned client understands the added value of specialised brokers” - an understanding is vital in the current regulatory environment.

The impact of the evolving relationship between banks and insurers was another topic of interest at the event. Bellord highlighted the necessity of a concrete understanding between the insurer and financial institutions, in an environment where there is increased pressure on the insurers.

Outlook

Despite the backdrop of regulatory pressures, delegates at the conference in Geneva still maintained their faith in emerging markets.

“Considering the digital push in the trade finance industry, what we will see in the next five years could be quite disruptive,” concluded Philippe Penet, head of specialised trade solutions at BNP Paribas.

“The future is uncertain, but that’s where the challenge is,” Wynne concluded.
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#WIES16
Deals stalled as US Ex-Im stalemate continues

Six months after the reauthorisation of the Export-Import Bank of the United States, the bank's inability to finance or guarantee loans worth more than $10 million is having significant effects around the United States and abroad.

Jason Torquato, Americas Editor

The saga surrounding US Ex-Im's reauthorisation last year meant that it was unable to conduct any new business from the end of June until mid-December. But when the bank was finally granted a new mandate after months of political gridlock, many assumed that it would be plain sailing for it to begin clearing the backlog of applications from companies seeking funding and guarantees.

Yet, the lack of a board of three members meant that the bank did not have a quorum necessary to vote on pending transactions worth more than $10 million, those that make up almost three-quarters of the bank's overall lending.

Two directors' terms expired during the bank's shutdown last year, leaving only two of the five seats on the board filled. Chairman Fred P. Hochberg and Vice Chair Wanda Felton are on the board with the nomination of Tim McWatters by President Barack Obama delayed up by Senate Banking Committee Chairman, Richard Shelby.

There has been vehement opposition to Shelby's view in recent weeks as politicians urge him to consider the nomination. There was similar dismay during the nomination of Patricia Loui-Schmicker last March, which was eventually withdrawn.

Shelby recently said that he will not consider the nomination under any circumstances because he is personally opposed to the bank's existence.

At the time, Senate Banking Committee minority leader Senator Sherrod Brown said: “the Export-Import Bank helps businesses of all sizes grow, compete, and create jobs. Every week Ms. Loui-Schmicker's nomination is delayed puts more jobs at risk.” His concerns have continued with the delay over McWatters's bid.

 Whip Steny Hoyer and Representatives
Maxine Walters, Gwen Moore and Denny Heck wrote a letter to Shelby, who has been stalling since January on allowing the committee to vote on McWatters’s nomination.

“We understand that you have a different view on ensuring American companies have access to financing to compete for export opportunities, and we respect the position you have taken,” the letter said.

“However, we urge you to allow members of your committee – and the full Senate – to vote up-or-down on McWatters’s nomination.”

Deals stalled

Much like the second half of 2015, when no deals of any sort could be made, there has been much consternation among companies that rely on financing from the export credit agency to help them gain the competitive advantage to access foreign markets that would otherwise be off limits.

1,077 loans failed to receive authorization during the shutdown, 917 of them for small business, resulting in a $5.9 billion loss in financial support, the American Action Forum said. Several similar industry lobby groups have also been vocal about the inability to lend.

The International Association of Machinists and Aerospace Workers has written to senators urging them to proceed with McWatters’s nomination.

“There’s a $10 billion backlog that exists because the Senate isn’t doing its job,” Brown said.

Martha Montoya, president of Los Kitos Produce, told Trade Finance that it has impacted the produce exporter’s ability to plan long-term as a beneficiary of US Ex-Im financing. Montoya said that the credit lines offered by the bank allowed her business to access more private sector funding.

Similarly, Sam Yohanan, chairman of Gulf South Forest Products, a lumber exporter, said that the uncertainty over the bank’s future has been a large concern. It has been able to export goods to 43 countries worldwide in the past with the bank’s help.

Another company facing a realistic proposition of missing out on a deal worth more than its average annual revenue is Hoffman Equipment.

The New Jersey-based firm agreed to sell 250 pieces of construction equipment to the government of Cameroon in a deal worth $75 million that would be underwritten by Societe Generale. However, the French bank required export credit agency (ECA) guarantees in order for Hoffman to complete the deal.

“There is no way that any bank would consider financing this deal without an ECA,” Tim Watters, president of Hoffman Equipment said, noting that the firm’s average annual revenue of $70 million is less than the value of this single deal.

The deal was subsequently submitted to US Ex-Im, which processed a similar transaction, worth $45 million, for the same parties in 2013, which was the basis for them working together again.

As of June, US Ex-Im was processing the paperwork and carrying out due diligence that Watters expects to go through without any issues considering the parties involved. If it does proceed, it will join a queue of more than 30 transactions worth over $10 billion that require board signoff in order to proceed.

When the rubber stamp can be granted is still up in the air. Even if Shelby proceeded with the nomination, the process would take months rather than weeks and then further time would pass before the board was able to reach the Hoffman transaction, by which time the buyer might have pulled out of the deal.

Watters expects the buyer to go elsewhere, likely China, if the process drags on, with Chinese companies able to easily gain backing from their ECA, the Export-Import Bank of China.

The Republican Party members that held the bank back from reauthorization primarily complained that it was funding large companies in the United States that had little need for ‘corporate welfare’ as they could access capital markets easily, nicknaming the institution ‘Bank of Boeing,’ for its frequent dealings with the US-aerospace firm.

Watters believes the lack of progress on the board nomination is having unintended consequences.

“What’s significant in our case is that they don’t want to support [US Ex-Im] because it only supports big businesses, but we’re exactly the small business that everyone wants [US Ex-Im] to help,” he said.

Companies starved of US Ex-Im support will look at completed deals like those with Railserve to demonstrate what they are missing out on. The Texas-based manufacturer was able to receive a $10 million guarantee from the ECA on a loan provided by the American Trade & Finance Company.

Railserve used the funding and guarantee to manufacture locomotives for sale to Societe d’Exploitation du Transgabonais, a Gabonese railway operator. The deal came exactly at the $10 million cap allowed for guarantees and financing without requiring a board vote.

Hochberg said that the guarantee meant that Railserve was able to outbid Chinese competition for the tender.

“It’s our first sale outside of North America so this is a big step for us,” said Railserve LEAF Program manager, TJ Mahoney.

“It was very important that we had the support of [US Ex-Im], because that was a critical element in the buyer’s selection of Railserve.”

Looking elsewhere

Several of the biggest beneficiaries of US Ex-Im funding expressed their anxiety at the...
bank’s shutdown last year. This mood has continued into 2016.

General Electric initially looked overseas last year when support from the ECA was uncertain and a deal was recently agreed to move production of its Waukesha brand gas engines to Welland in Canada.

The move was aided by Export Development Canada, which offered finance for several products manufactured by General Electric in exchange for the US-headquartered company moving production of the engines and 350 jobs to Canada from Wisconsin.

In order to receive the funding, General Electric vowed to invest $265 million in the new plant, investment that would almost certainly have been destined for the US.

The corporate has already inked deals with UK Export Finance to move production to the UK along and has made separate announcements noting plans to increase operations in Hungary, France and China.

Several ECAs clamoured to attract General Electric to move production to their country once it announced the closure of US Ex-Im could open up such opportunities.

The deal builds on a 2015 agreement for a Coface LOC for 50 hertz (hz) turbines, also manufactured in Belfort. The new LOC indirectly supports the development of 60hz heavy-duty gas turbine manufacturing capability at the same plant, into which General Electric is investing €35 million ($39.3 million)*.

This sort of fundamental change in strategy was not restricted to just General Electric. Boeing’s former chairman, James McNerney, threatened to move some of its manufacturing abroad in an attempt to benefit from export credits in other countries.

McNerney’s replacement, Dennis Muilenberg, was optimistic upon the bank’s mandate renewal, saying “by reopening the Export-Import Bank, Congress has taken strong action enabling American exporters and the skilled workers they employ to compete successfully in tough global markets”.

Muilenberg’s statement appears to be premature given the political stalemate. With Boeing relying heavily on US Ex-Im for financing and guarantees often in the hundreds of millions, its view on relocating manufacturing is yet to change.

The aerospace firm also said that a deal with Asia Broadcast Satellite has fallen through because it was unable to secure $85 million in financing for procurement of a satellite. It would usually rely on the United States’ ECA to guarantee a loan allowing it to benefit from favourable interest rates. Shortly after the announcement it said it has begun the process of cutting staff count at its satellite business.

US airlines has also increased purchases of Bombardier aircraft in order to benefit from guarantees from Export Development Canada.

Orbital ATK was frontrunner in a tender to build a satellite for Azerbaijan’s Azercosmos before the bank’s lending squeeze came into play. Without support from US Ex-Im, Azercosmos was unwilling to proceed with Orbital’s bid. The deal eventually went to SSL, which, through its Canadian parent company MDA Corp., received a commitment from Export Development Canada to provide the necessary financing.

What lies ahead?
The vote that was forced in December that eventually led to the renewal of the bank’s mandate came about through a rarely-used parliamentary mechanism known as the discharge petition, a manoeuvre not used for nearly 14 years. It could take similar inventiveness to force a vote on the nomination of McWatters.

Any senator can move to discharge the Senate Banking Committee from considering the nomination, however the attempt can only be made during a session considering other nominations, limiting its viability.

Shelby himself has recognised the potential for this to happen, saying that legislation for the renewal passed without the Committee’s approval so it could in theory do the same for McWatters’s nomination.

There is no way that any bank would consider financing this deal without an ECA.

Tim Watters, president of Hoffman Equipment.

*Conversion made June 2016

www.tradefinanceanalytics.com
Coal-fired power
a slow burn that may get slower

JBIC and Kexim export support has been the financial fuel behind Indonesian coal-fired power – despite a dysfunctional PLN. But with new OECD rules on ECA lending to the coal-fired sector, that support will lose potency the nearer Indonesia gets to its ambitious 35 GW expansion target.

Sean Keating, News Editor
Two issues are dogging Indonesia’s ambitious 2014-2019 target of an additional 35 GW of additional independent power production – PLN and coal (now a dirty word at many export credit agencies following changes to OECD regulations on financing coal-fired power).

uncertainty. A House of Representatives special committee is investigating the tender following claims that the winning consortium had been eliminated in the early stages of the process for not submitting estimates for engineering, procurement and construction costs. And state-owned miner PT Bukit Asam has also protested over a $1.6 billion power project and a high voltage transmission line that had secured financing, but which were excluded from a draft of PLN’s next 10-year energy plan.

Several issues have arisen with PLN’s procurement process, of which a 10% upfront payment imposed on bidders at pain of disqualification is proving the biggest hurdle. One of the short-listed bidders on the cancelled Java 5 – a combination of YTL Power International, Marubeni and Indika Energy – was disqualified after being informed it had to comply with the 10% rule. The payment is designed to ensure certainty of commitment but is proving deeply unpopular and is under review.

Many bidders and their would-be lenders also argue that PLN lacks staff with the necessary technical, legal or financial experience to administer an international tender process. That lack of expertise has produced tender documents that need to be thoroughly reviewed and adjusted.

New power procurement legislation

The Indonesian government has reacted with Presidential Regulation No. 4 of 2016 on Acceleration of Power Infrastructure Development (PR 4/2016) – a sweeping piece of regulation designed to reduce bottlenecks.

The two main features of PR 4/2016 are the introduction of a new government guarantee for development of power projects, which would cover both projects developed by PLN and IPPs; and a shorter licensing and permitting process.

The inability to obtain a government guarantee to back-stop PLN’s payment obligations under power purchase agreements with IPPs has been the single biggest obstacle to build-out ambitions. Before the issue of PR 4/2016 there were only two types of government guarantee available for IPP projects. If the project was listed in Indonesia’s “Second Fast Track” programme it could tap a business viability guarantee issued by the Minister of Finance (MOF). And if the project was a public-private-partnership it was eligible for guarantees provided by the Indonesia Infrastructure Guarantee Fund and the MOF.

There are a large number of IPP projects that are not on either of these two lists, leaving developers of those projects with the task of convincing bank credit committees to take credit risk on PLN.

Under the new law, any IPP project listed in PLN’s Long Term Electricity Generation Plan is now eligible for the MOF guarantee if PLN has submitted a proposal for the granting of the guarantee to the MOF before the procurement process.

The idea is good but may raise more problems. Given a reference to the guarantee must be made in the PLN procurement documentation, schemes already underway cannot benefit unless the procurement process is relaunched.

Furthermore, given PLN is already coming under fire for its procurement process, and with no MOF guidelines on which projects it should put forward for the guarantee, leaving the process to PLN’s discretion may make the state utility hesitant for fear of allegations of a lack of transparency or giving preferential treatment to certain developers.

On the licensing side, progress has been better. PLN and IPPs can now submit applications to one entity – BKPM’s one-stop service centre (PTSP) – rather than a myriad of different local and national bureaucracies. BKPM will now be responsible for submitting the applications to the relevant governor or regent/mayor through its local PTSP branches.

PLN gets dirty

While PR 4/2016 attempts to smooth the procurement process, Indonesia’s concentration on coal-fired power continues to attract the ire of environmental groups. Given Indonesia’s abundance of low calorific value coal reserves (which are less attractive to the export market), and under pressure to lower production costs after power subsidies were cut in 2014, PLN has followed the cheapest feedstock mix available to it: coal 65.6%, natural gas 16.6%, geothermal 11%, water 5.1%, and oil and other resources 1.7%.

Little has changed since 2014, although the coal input has dropped to around 50% in PLN’s latest 10-year plan, the difference being replaced largely by gas.

Going forward, the problem with such
a large concentration on coal is that new Organisation for Economic Co-operation and Development (OECD) ECA rules on coal-fired power, which take effect on January 1, 2017, will make it impossible for member ECAs to support projects in countries that have a national electrification rate (NER) of 90% or above. Indonesia currently has an electrification rate of around 85% and plans to up that to 96.6% by 2019.

Once Indonesia hits the 90% electrification rate, it will have two options in terms of attracting ECA support for coal-fired power. The first will be to only use ultra-supercritical technology. Under the new rules, if a coal-fired power project uses ultra-supercritical technology, it will remain eligible for export credit support, subject to a maximum 12-year repayment term.

But a move to ultra-supercritical will not only limit debt tenors, it will also limit choice of ECA to mainly JBIC – and to a lesser extent Kexim – given Japan is one of very few, and certainly the most advanced, manufacturers of clean-coal technology. And a recent change to the JBIC Act to enable the ECA to finance projects that do not meet its standard funding criteria will have no impact on its inability to fund deals that do not meet OECD requirements.

The second option is for PLN to award more deals to Chinese and Indian sponsors – Chexim and India Eximbank are not subject to the OECD ruling. Were that to happen, the technology employed would be considerably less environmentally friendly and the option would still put a limit on the pool of competitors for both projects and debt mandates, with an inevitable cost implication somewhere in the mix.

**JBIC and Kexim backing still the driver**

To date, JBIC and Kexim have been the main financial drivers behind Indonesia’s power programme. And that remains the case for those coal-fired deals that have been awarded since 2014 and are nearing financial close.

For example, the 1,000MW Cirebon 2 project – which is being developed by a consortium comprising Marubeni (35%), Indika Energy (25%), Samtan (20%), Korea Midland Power (10%) and Chubu Electric (10%) – is expected to reach financial in the third quarter of 2016 with heavy support from, JBIC, NEXI and Kexim – around 60% of the debt in total.

The $2 billion project is expected to be financed on an 80:20 debt-to-equity ratio with Credit Agricole, ING Bank, Mizuho Bank, SMBC and MUFG as mandated leads on the commercial debt.

Sponsors of the 2x100MW $540 million KalSel coal-fired independent power project – Adaro Energy (65%), Tanjung Power Indonesia and Korea East West Power – are also aiming to reach financial close by the end of July. The original financial close target for the frequently delayed project was the end of 2015.

The deal will comprise $422 million of 20-year debt split between a $401 million tranche covered by K-Sure and a $21 million tranche from Korea Development Bank. Five commercial banks – MUFG, DBS, HSBC, Mizuho and SMBC – will be lending under the K-Sure umbrella.

And financial close on the $4.2 billion 2,000MW Tanjung Jati B unit 5 & 6 expansion project – sponsored by Sumitomo Corporation (50%), KEPCO (25%) and Astra Group affiliate PT United Tractors (25%) – is nearing financial close on a partially JBIC-backed $3.2 billion loan. The debt is expected to be split 50/50 between a JBIC direct loan and a commercial bank tranche from BTMU, Mizuho, SMBC, Sumitomo Trust, Credit Agricole and Societe Generale.

If all these deals close this year, some of the political pressure on PLN will lessen. And while PLN’s coal-fired auction has not met government targets since launch in 2014, those targets were very ambitious.

Recent reforms in the procurement process will help – for example a consortium of Marubeni, Korea Midland Power, Samtan and PT Indika Energi recently signed a memorandum of understanding to build a $2 billion 1,000MW Cirebon 3 phase. But considerably more still needs to be done if the magical 35GW figure is to be reached by 2019. And once Indonesia hits the 90% national electrification rate, the pool of export credit support available for coal-fired power deals for anything other than ultra-supercritical technology becomes a puddle – and a dirty puddle at that.
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Reforming Nigeria’s oil and gas sector

The persistent overdependence on oil is Nigeria’s major setback. In the universal climate of a collapsed price in oil, Africa’s largest oil producer faces further challenges of a currency crisis and militant threat, including pipeline sabotages.

Merle Crichton, EMEA reporter, examines the most effective and secured methods of funding, including reserve-based lending (RBL) and pre-payment facilities.

A severe shortage
Nigeria undoubtedly has a problem: despite ranking as one of the world’s biggest oil producers, it imports most of its refined fuel and is struggling to feed its economy.

The irony of the crisis is that Nigeria is the only oil and gas producing country in the world that relies heavily on costly imported petroleum products to supply its service states. This is due largely to the exhausted state of the Nigerian National Petroleum Corporation (NNPC)’s four refineries.

This heavy reliance on petroleum exports is responsible for the exceptional economic blow Nigeria suffered following the collapsed price of oil, compared to its peers. For example, Norway is arguably in one of the most comfortable positions of any major producers. As well as boasting the world’s largest sovereign wealth fund, Fitch stated that even a low price of $40/barrel would balance Oslo’s budget. In stark contrast, oil accounts for roughly 75% of the Nigerian government’s revenue, and almost 90% of the country’s exports.

Any change is commodity prices will therefore have a significant impact on the country.

Despite these challenges, however, Standard Chartered’s Ogunlewe said that the fuel shortage has “not substantially or directly” affected the Nigerian oil and gas lending market, except those “with direct impact of increase operational lapses, interruptions and expenses.”

“This is largely because the direct impact of unavailability and increased costs were preceded by a general environment of rising prices and therefore fed into a trend, rather than being the cause of one,” he explained.

Further barriers
The lending market cannot be shielded from the wider political issues the country is facing. The government is not only unable to pay its debts, but it is also suffering from power cuts and fuel shortages because it lacks the infrastructure needed to refine its crude oil at home.

Nigeria faces another high political risk, which is the resurgence of militant attacks on the limited oil infrastructure that it has. The Niger Delta Avengers have claimed responsibility for a string of sabotages on oil and gas facilities, most notably blowing up the Forcados oil facility this June. Operated by Shell Petroleum Company, the pipeline transported 250,000 barrels per day and had already suffered attacks in February.

The Kaduna Refining and Petrochemical Company (KRPC) has been shut down again, after reopening in April. The refinery

Reforming Nigeria’s oil and gas sector

UK Prime Minister, David Cameron recently caused outrage among Nigerian officials by calling the nation “fantastically corrupt” during a conversation with Queen Elizabeth II. He made the comment in advance of a summit meeting in Britain on the topic of corruption, and, while the comments were deemed unacceptable, Nigeria has faced an undeniable amount of corruption in its oil industry.

Despite President Muhammadu Buhari’s best efforts to eradicate this, Nigeria’s general auditor revealed that $16 billion of Nigeria’s oil revenues disappeared in 2014. This, in addition to lower oil prices, led to the scaling back of international commercial lenders participating in Nigerian oil and gas financings.

According to a source with knowledge of the sector, the impact is also being faced in the domestic commercial banking sector, which he says is “overexposed to the energy market and facing some defaults”.

Dolapo Oni, head of energy research at Ecobank, which provides financing throughout African countries, concurred that market activity is “really low”.

Leke Ogunlewe, head of corporate finance for West Africa at Standard Chartered bank, added that his bank is seeing mix of asset restructurings, divestment discussion and some solicitations for new equity, but “few new deals and transactions.”

This is largely because the direct impact of unavailability and increased costs were preceded by a general environment of rising prices and therefore fed into a trend, rather than being the cause of one.

Leke Ogunlewe, head of corporate finance for West Africa at Standard Chartered bank
announced in June that it is ceasing operations owing to the lack of crude oil supply, caused by renewed violence in the Niger Delta. The dissolution only adds to the growing list of Nigerian refineries that have been forced to shut down owing to similar difficulties.

There is one significant key disadvantage of Nigeria's demography: all of Nigeria's production is done in the same area – Niger Delta – which just so happens to be the poorest region of Nigeria. The lack of stability and infrastructure naturally makes country's oil hub an easy target. The old Nigerian government used to in fact pay the Avengers not to cause damage but they have retracted this corrupt approach.

That is not to say that the isolated impact of the pipeline sabotage has explicitly lowered deal activity, according to Ecobank's Oni.

“The practice remains the same,” Oni insists. “We screen each deal closely for any links to politically exposed people and avoid such deals.”

With risks ranging from environmental to reputational and political, the obvious question would be why anyone would lend to not only Nigeria itself but to Nigeria-based oil and gas companies.

There is of course the option of offshore oil and gas projects, which have significant upsides for banking.

In June, oil price fell below $50 per barrel, in which experts are pointing the blame to Nigeria for its ongoing supply disruption. The Organisation of the Petroleum Exporting Countries (OPEC) reported that Nigerian oil production in May was at its lowest in more than a decade, due to Niger Delta's bombing of pipelines.

However, Oni contrastingly views the fuel shortage as “over”, due to the increase in petroleum product prices. “We have continued to lend to the importers who have access to dollars and can partly fund letters of credit with dollars,” Oni said. “Most banks ask for full cash-backing of the letters of credit while some allow part funding.”

Currency: running on empty

Oni highlights one critical advantage that importers must lever: access to dollars.

The currency crisis is one of the persistent difficulties that the Nigerian lending debt market faces. Foreign reserves plummeted in mid-2014 as the central bank defended the peg on the currency, while foreign investors sold Nigerian assets at the fear of a prospective devaluation.

Oni explained that the Central Bank of Nigeria is stretched in terms of dollars, with reserves down to $25.7 billion, so they have “no real latitude to defend the naira.”

“The government has therefore maintained an artificial level of currency in order to mitigate inflation,” one source explained to

“You're not likely to get a dollar loan currently, so it's likely local currency and that attracts between 19% and 25% currently, besides other fees.

Dolapo Oni, head of energy research at Ecobank

Trade Finance. The naira has been held at an exchange rate of 197-199 per dollar since March 2014, even as other oil exporters such as Russia allowed their currencies to drop in light of the oil price slump. This preserved rate restricts access to the dollar, and those who do succeed in acquiring it will most commonly use the currency to trade on the black market.

Access to financing is therefore sparse for borrowers. “You're not likely to get a dollar loan currently, so it's likely local currency and that attracts between 19% and 25% currently, besides other fees,” said Oni.

There is a general negative consensus of the Nigerian Central Bank's currency controls. “The naira is pegged to the dollar but this doesn't reflect reality,” said a London-based lawyer. Another insider of the sector similarly predicted the possibility of a currency devaluation soon at a time where local banks have having trouble raising dollars.

The Central Bank of Nigeria announced a new flexible FX policy on June 15 as predicted. The bank will now allow the naira exchange rate to be market-driven, setting the exchange rate and the bank will intervene in the market to buy or sell foreign exchange.

Oni predicts N400 + rates before the end of the year. “I think the key is when we are able to see foreign investors return, which may be later in the year or early next year,” he said.

But on a positive note, there are still investments being made in Nigerian refineries

An attractive funding tool?

Banks are undoubtedly either withdrawing their businesses from the sector or purely witnessing less activity.

One law firm revealed that BNP Paribas was the only global player it knew of which has categorically pulled out of the Nigerian oil and gas lending market – perhaps acting out of caution following the French bank’s record fine of $9 billion in 2014 to settle sanction violations.

However, speaking to Oni from Ecobank, it seems that BNP is not the only lender to get cold feet. “Most banks are out of the market,” he stated. “They are not lending to oil and gas anymore.”

The lending market in Nigerian oil and gas is further dragged down by the financial costs, which have “gone up quite a bit to reflect the complexities and realities of the market,” Ogunlewe revealed. These costs are particularly apparent in reduced incremental loans, advised or pre-emptive loan restructures, and limitations or concerns about dollar availability.

For this reason, “some traditionally active lenders have either stopped or reduced incremental lending for the above reasons or/and because of portfolio limitations around certain exposures,” according to Ogunlewe.

Despite the seemingly gloomy prospects, deal activity continues, with many UK-based institutes reporting a relatively active year for financing transactions in the area. Ecobank's Oni reported the bank is seeing varying amounts of deal “from as low at $50 million to as high as $400 million.”

In particular, Nigerian companies were seeking financing to fund their acquisition of oil and gas assets.

One of the financing trends is the structuring of these loan facilities for the acquisition of oil and gas assets in the form of reserve-based loans (RBLs). Given the slump in oil prices, the oil prices assumptions included in many reserve-based lending facilities no longer reflect current oil prices.

The attraction of the reserve-based lending lies in the expectation that the loan agreement will restrict the borrower from

some traditionally active lenders have either stopped or reduced incremental lending for the above reasons or/and because of portfolio limitations around certain exposures.

Leke Ogunlewe, head of corporate finance for West Africa at Standard Chartered bank

in order to attract foreign currency. One source explained that Nigeria used to sell oil and buy it back refined but now the government has changed its procedures so that it won't have to buy it back. “It can sell it straight already at a premium,” the source said.

Fuel scarcity in Nigeria remains because of the initial inability of fuel marketers to source adequate foreign currency to make imports or secured letters of credit from commercial banks, which led to major importers simply halting imports of petroleum products, according to an Ecobank Middle Africa energy report.

www.tradefinanceanalytics.com
There’s a general consensus that we are still some time away from stable oil prices but there’s better gauge of demand to expect some price stability around a band of $40 to $50 per barrel over the next few months.

Leke Ogunlewe, head of corporate finance for West Africa at Standard Chartered bank

repaying additional debt. However this does depend on the credit restriction – if a borrower can satisfy these credit requirements of the financier, it has the option of the RBL.

Eran Chvika, senior associate at Norton Rose Fullbright whose areas of specialism include acquisition finance and multi-sourced energy project financing, explains:

“Lenders may limit their risk by linking facility amounts to the net present value of one or several of such assets (whether or not currently producing), which corresponds to the difference between the present value of the amount of oil and gas that could be recovered and the project costs.”

While banks are participating in RBL, oil and gas merchants tend to be involved with prepayment facilities. “Commodity traders are getting more of an influence, with the opportunity to leverage their balance sheet,” said another lawyer. He views the trader as a “bridge between banks and borrowers who are battling.”

When comparing the use of RBL to prepayment facilities, Oni explains: “There’s more risk-sharing in the prepayment facility between the bank and the oil trader, than in the RBL.” Although he admits that Ecobank has not completed very many deals in the last few months, the opportunities that it has seen are for RBL deals, as “even traders are not certain of the volumes from here so they are less interested in offering prepayment financing deals as before.”

Ogunlewe explained that “both models are influenced by the same factors”, including operational costs, market demand and price predictability.

“Prepayment facilities with relatively shorter tenors appeal somewhat better than the traditional robustness and valuation that underpins reserve-based lending,” said Ogunlewe.

Many legal advisors are in fact promoting this lending method for oil and gas asset acquisition. Herbert Smith Freehills (HSF) recently advised Standard Bank and Access Bank in relation to their approximately $400 million reserve-based loan to Nigerian exploration and production company, Neconde Energy in relation to assets in Nigeria.

However despite the promotion of the financing method, not all bankers are convinced. “Reserve-based loans are only attractive now where you can break even way below $30,” Oni states.

He even argues that despite current borrowers experiencing major financial pressures due to low oil prices, they can “survive” due to the fact that oil production is “really low-cost” in Nigeria. “There are many loans that are not performing because of a combination of low production and low oil prices,” Oni concludes.

Ogunlewe similarly argued that reserve-based lending is “limited,” in terms of the underlying price (and now volume) volatility and production access limitations – “with probably more interest from traders than traditional lenders.”

That is not to say however that reserve-base lending is the only remaining financing option for the oil and gas sector in the region. Ecobank Nigeria secured a $170 million term loan facility at the end of last year, in order to refinance a $150 million syndicated loan facility, which was raised for general corporate purposes and trade financing.

The one-year loan will help the bank fund large-ticket transactions in sectors such as telecoms, heavy industries and oil and gas, Ecobank told Trade Finance. With Standard Chartered, Commerzbank, First Gulf Bank and Mashreqbank arranging, the successful closing of the deal challenges the view that global banks are pulling out of the Nigerian debt lending market.

“This transaction is driven by a need to have longer-term funding available for corporate clients,” said Jibril Aku, managing director at Ecobank Nigeria.

On the rise?
The supply disruptions in the market have really helped the market rebalance in the first weeks of June this year, according to Oni. However the future of the oil price remains in limbo. “As oil prices rise, there could be another reversal on account of [recent] rising shale drilling, a high level of floating inventory and shut-ins in Nigeria, Canada, Libya and Ghana.”

“There’s a general consensus that we are still some time away from stable oil prices but there’s better gauge of demand to expect some price stability around a band of $40 to $50 per barrel over the next few months,” Ogunlewe predicted, although stressing his awareness of “wrong calls” being made over correct predictions.

These factors could result in prices retracting back below $50 per barrel in the coming weeks. However, Ogunlewe predicts that by the end of the year, “we could see prices stabilise in the mid-50s.”

Similarly, another banker views the prospect of the price of oil going up to $60 per barrel unlikely “due to the main issues of violence and currency controls.”

“Stability and better predictability in the supply or demand factors will probably support better prices but very few expect the heights of 2014,” said Ogunlewe.

However it is the fact that the Nigerian oil and gas lending market is pegged to the fluctuation of the oil price that is the never-ending problem. The Nigerian Central Bank’s announcement on June 15 to float the battered currency is the first steps in a rejuvenation of the oil and gas market. Given the over exposure of Nigerian banks to the energy sector, there is still trouble ahead.
Despite political instability, the shapeshifter that is Turkey’s economy, along with the trade and export market, continues to defy negative ratings forecasts. Arguably the ratings agencies rarely get the market right – for example, while Greece (then rated A stable) was very obviously committing financial suicide in the debt markets, Turkey’s fundamentals were not even deemed investment grade despite consecutive years of relative stability in the Lira, growing GDP and a major privatisation programme.

The market continues to surprise –although not always positively, either from an economic or a political perspective. In recent years its inflation numbers have seldom been in line with the 5% target set by the Central Bank of the Republic of Turkey (CBRT), and CPI overshot the target by some distance last year.

The recent political power struggle between Turkish prime minister Ahmet Davutoglu and president Recep Tayyip Erdogan that came to a head in May, sparked a fresh round of volatility in Turkish assets, with the lira

Trading in the unexpected

Over the past 12 months Turkish trade and export finance has faced political uncertainty, a plummeting lira, weakness in traditional export markets, and higher cost of funding for Turkish trade finance lenders. But weak commodities pricing has been a boon for the economy and both trade and export markets are feeling the benefit. By John Tomlinson
sliding and bond yields widening following the resignation of Davutoğlu.

But, as has been the case in recent periods of political volatility, Turkey's savviness in the capital markets has helped insulate it from a sharp sovereign bond sell-off. The resilience of its spreads has in part been due to the sovereign having lower external financing needs for this year. That means that 2016 looks likely to be one of consolidation of funding sources for the country rather than further diversification.

Unexpected positives
Positive surprises in Turkish economic performance also outweigh the negatives. In 2015 GDP grew by 4%, up from 3% in 2014. This was in spite of a barrage of negative influences which could reasonably have been expected to weigh heavily on economic growth. These included rising capital outflows, a plummeting lira, weakness in traditional export markets such as Russia and the Middle East, and an increasingly fragile security situation on Turkey's borders.

The resilience of 2015 was extended into the first quarter of this year. Expanding industrial production, higher capacity utilisation and rising exports all point to continued growth in 2016.

Other encouraging indicators in the first quarter of this year included a narrowing current account deficit, a decrease in the central government budget deficit and a decline in CPI to its lowest level in three years. These healthy indicators were recognised in early May by Standard & Poor's, which revised its outlook on Turkey from negative to stable.

As the Turkish economy continues to defy expectations, short-term trade and export finance is also doing better than many expected at the start of 2015 when SMEs were predicted to face rising funding and import costs.

SME lending continues to rise
In the big-ticket market Turkish banks have always struggled to provide true off-balance sheet long-term project financing - 99% of domestically funded deals are actually corporate-backed - due to the mismatch between the short tenors they can borrow at and the long tenors required by project sponsors.

But the one- to three-year borrowings available to Turkish banks lend themselves to funding trade finance, particularly at the SME level, and the market has grown exponentially.

In 2012, SMEs made up 99% of all corporate entities in Turkey, employed three quarters of the country's workforce and produced 55% of total revenues. Nearly 40%, however, had no bank debt of any kind, an enticing prospect for lenders with access to liquidity.

Lending to smaller companies also offered much more attractive returns than were available from their larger counterparts, as well as the opportunity to grow ancillary business. Spreads on SME loans are at least 200-300bp higher than those on commercial and corporate loans.

The SME segment has also benefited from increasing support from the Turkish authorities. For example, in 2015 Türk Eximbank began offering a new post-shipment credit program for SMEs under which it insures bank loans for exporters without the need for SMEs to raise any additional collateral. The program is financed through the central bank rediscount facility at 75bp over Libor.

These efforts have been very successful. Leading lenders such as Akbank and Garanti Bank grew their SME loan books by as much as 30% in 2014 and by the end of September, SMEs accounted for around 30% of total lending in Turkey, up from 19% in 2009.

That trend is expected to continue on the back of the country's recent - albeit unexpected - economic results. And with 'Turkey's banks beginning to push the envelope on length of tenor and the source of their annual trade finance fundraisings in the international debt markets, SME access to longer term trade funding is a very real prospect - albeit years rather than months away.

In 2015 GDP grew by 4%, up from 3% in 2014. This was in spite of a barrage of negative influences which could reasonably have been expected to weigh heavily on economic growth.

Pushing the tenor on trade borrowing
Akbank is out to market with its second trade fundraising of 2016 and has added a three-year tranche to the deal and appointed Korea Development Bank to arrange the facility in a move to broaden its fundraising base and tap into Asian lenders.

Akbank's is a smart move - and one being mirrored by Türk Eximbank which also has a $300 million fundraising out to the Asian market. Cost of borrowing for Turkish banks has been rising, up by 15-20bp on the previous year. And borrowing in dollars is proving particularly difficult - despite Turkish banks offering a 10bp premium for dollar debt, many trade finance fundraisings have failed to maintain the level of dollar commitments they received for similar deals in 2015.

The 10bp dollar premium reflects the increase in dollar funding costs for banks that don't have a natural dollar deposit base. But the premium is not proving high enough to make lenders go for dollars over euros - dollar lending, even with the premium, is still verging on break-even.

Cost of borrowing this year has been roughly the same for all the trade finance banks - around 75bp over Euribor for euros and 85bp over Libor for dollars.

Isbank and Akbank both priced deals at that level in March: Isbank with a one-year, dual-currency syndicated loan, comprising $24.3 million and €79.5 million tranches, placed with Standard Chartered, Wells Fargo, Aresbank, BayernLB, Commerzbank and UniCredit. And Akbank with a 367-day $1.2 billion equivalent facility lead arranged by Bank of America Merrill Lynch, National Bank of Abu Dhabi and UniCredit as joint co-ordinators and comprising a $370.37 million tranche and a €783.48 million tranche.

Yapi Kredi and Garanti followed in May - Yapi with a 367-day facility (the 367-day tenor benefits from preferential capital treatment from TCBM for funding longer than one year) comprising a $381 million dollar tranche and a €959.1 million euro piece, and Garanti with a $1.4 billion-equivalent dual-currency one-year deal (comprising a $479 million tranche and €815 million tranche) lead arranged by Bank of America Merrill Lynch (also documentation agent), BNP Paribas, Deutsche Bank, Goldman Sachs, ING (also facility agent), Standard Chartered, SMBC and Wells Fargo.

Most recently, ING Bank Turkey has also signed a €459 million ($519 million) 367-day loan to fund its trade finance lending operations. The deal is split 75/25 into euros and dollars with margins of 75bp over Euribor and 85bp over Libor respectively.
The Middle East’s trade gateway

Located at the Asia-Europe crossroads, while at an ideal proximity to Africa, Dubai has always been well positioned to capitalise on the large trading volumes that pass through the region. Merle Crichton, EMEA Reporter, takes a look at the state of the country’s import/export situation.

The economy of the United Arab Emirates (UAE) is the second largest in the Arab world, after Saudi Arabia, and the 30th largest globally with the highest 18th highest GDP per capita. While the region has been traditionally reliant on the oil and gas sector for trade opportunities, the commodities downturn forced significant diversification if GDP levels were to remain stable.

For the most part, this has been achieved, with the UAE diversifying its economy away from oil, so that now non-oil sectors contribute to approximately 70% of GDP, according to UK government reports. Specialist trade credit insurer, Atradius, maintains that while Abu Dhabi’s economy is highly dependent on oil, which it is able to produce at a fraction of the cost of its global competitors, Dubai is an important regional hub for other trade and services, with oil accounting for only 5% of the country’s GDP.

In 2015, Dubai’s global non-oil import volume, amounting to AED 796 billion ($209 billion), drastically exceeded the total amount of exports of AED 132 billion. In the same year Dubai’s top trading partner by far was China, with non-oil exports and imports amounting to AED 176 billion, according to Dubai Customs statistics.

In terms of product, petroleum (under different forms) is the most exported product in the Emirates, accounting for more than 60% of the country’s total exports. Dubai and the other UAE states also successfully export gold, aluminium and other metals. With respect to imports, the most imported products by Dubai-based companies include cold, jewellery and vehicles.

Dubai’s rise to importance as a trade hub was cemented when it was chosen ahead of locations including Turkey, Sao Paolo and Ekaterinburg (Russia) to host the 2020 World Expo – a six-month long exhibition that incorporates trade, innovation and associated products from around the world.

Of the expected global audience of 25 million set to attend the expo, 70% of visitors are expected to come from outside of the UAE. This will be the first time that a World Expo is staged in a country from the Middle East, North Africa and South Asia (MENASA) region. The award to Dubai derives from the flurry of market activity the UAE state has witnessed in recent years.

According to Ankit Goel, managing director at DS-Concept Intelligent Trade Finance, Dubai has rapidly emerged as a major hub for the financial services sector.

“The specialised free trade zones structure provides the flexibility and adequate infrastructure appealing for many industries as they setup base in the region,” Goel said.

Moving in

As a result of the opportunity Dubai holds, there has been a growing intake of Western institutes, from export credit agencies (ECAs) to insurers, who have set up shop in the country during the last 12 months.

Specialist credit and political risk insurance (CPRI) broker, BPL Global opened a representative office in Dubai in July last year, taking the number of global BPL offices to five. Based in the Dubai International Financial Centre (DIFC), the office will be headed by Harriet Smith.

“Dubai is becoming an important hub for global business with an increasing number of our multinational clients, as well as insurers, establishing a presence in the DIFC,” said BPL global chairman Charles Berry.

BPL has moved in right across from Lloyds, which opened its Dubai platform in the DIFC only a few months earlier in 2015. The global expansion of both insurers gives them an underwriting base in the MENA region.

“Significant Sub Saharan business is done in MENA,” Smith said, commenting on BPL’s decision to branch out to Dubai.

“This is an important region, with strong economic growth and rates of investment, but little insurance to protect that investment,” said Vincent Vandendael, Lloyd’s director of international markets.

In May, the Italian ECA Sace opened its first Middle Eastern office in Dubai. With growing demand for Italian goods and services, Sace’s Dubai office, led by Marco Ferioli, manages a €4.7 billion ($5.33 billion) portfolio of insured transactions and guaranteed investments in the MENA region – over 70% of which concentrated in Gulf countries.

The ECA is working on a pipeline of new projects worth well over €5 billion, involving both large corporates as well as many Italian SMEs.

DS-Concept, a Germany-headquartered trade finance firm, was another European
The source of funding is more expensive for UAB

Sabayachi Malik, vice president of trade and supply chain at UAB

institute expand its Middle Eastern coverage by opening an office in Dubai. “With this new location, our firm is well positioned to ensure the support and success of the massive amount of SMEs in Dubai and surrounding regions,” said Ankit Goel, managing director at DS-Concept.

Earlier this year, the International Islamic Trade Finance Corporation (ITFC), a member of the Islamic Development Bank (IDB) Group, also inaugurated its first office in Dubai, having approved 13 trade finance operations for the UAE amounting to $288.5 million.

The whole range

In terms of product, BPL’s Smith revealed that most of her Dubai-based enquiries have been for structured credit purposes, particularly for power companies that are based in Dubai but carrying out projects in Africa.

BPL is also seeing interest for trade receivables, discounting, shipping (such as sugar and oil), usually from exporters and distributors. “It’s not necessary the shipment of goods, but trade receivables,” Smith stressed.

Omar Benkirane, head of global transaction banking for the Middle East at Natixis, similarly disclosed that the bank is witnessing more demand for trade receivables financing in Dubai. “ Corporates anticipate a potential lengthening of their receivables collection cycle,” he explained.

The United Arab Bank (UAB) admitted that it needs to broaden its portfolio, which last year was mainly focused on small and medium enterprises (SMEs).

“The source of funding is more expensive for UAB,” explained Sabayachi Malik, vice president of trade and supply chain at UAB. This is owing to the margins being thin.

The biggest hindrance for the UAE-headquartered bank, according to Malik, is the cost of funding. “Every bank in this region wants to increase the price,” he said.

Malik stated that the bank tends to avoid the more “risky” products, such as pre-export finance (PXF) facilities. There is a trend, however, for letters of credit, credit insurance guarantees and commodity transactions.

Investec recently closed a $1 billion 12-year sale and leaseback deal with Emirates for the delivery of four A380-800s. Two of the aircraft are to be financed via a sharia-compliant facility.

ECA financing also remains consistent, demonstrated by the Hungarian Export-Import Bank’s $406 million credit line to facilitate trade cooperation between the UAE and Hungary.

Oil

While many international oil companies have had to reign in production following the commodities downturn, suppliers in the Middle East have remained somewhat consistent in activity owing to the dramatically lower production costs experienced in comparison with global oil-producing peers. As a result, deal flow has remained steady.

UAE-based Al Ghabria Pipe Company (AGPC) – a joint venture between Senaat (51%), JFE Steel Corporation and Marunibunto Steel – has raised a $185 million 10-year JIBC-backed loan to part-finance a new $300 million pipe manufacturing plant. AGPC will produce large diameter sour grade steel pipes for oil and gas pipelines and will have a production capacity of up to 240,000 tonnes per year.

The debt comprises a $111 million direct loan from JIBC with the $74 million balance provided by Sumitomo Mitsui Banking Corporation (SMBC), Mizuho Bank and National Bank of Abu Dhabi (NBAD). SMBC was sole financial advisor on the transaction.

Yet, despite the favourable conditions, Benkirane maintains a cautious view due to the oil market in GCC in general and in the UAE in particular. The trade finance growth, according to Benkirane, is directly linked to the economy and trade activity in the region.

According to Smith, traders are “not that concerned about the drop in oil prices, as their profit is based on margins”, which has led to an upsurge of competition as UAE-based traders have to be more aggressive. Now, is the most essential time to take on political risk insurance to protect deals from political volatility and violence, she said.

The UAE’s non-oil foreign trade reached AED 1.75 trillion in 2015, which is a 10% increase compared to 2014, according to UAE Ministry of Economy.

In March this year, the crown prince of Dubai and chairman of Dubai Executive council, announced that Dubai recorded a non-oil foreign trade of 1.283 trillion dirhams in 2015, a 10% increase from 2014. The figures reflect that the UAE is propelling its economic diversification strategies, highlighting the region’s economic resilience and its ability to adapt to fluctuation in international markets.

The diversification remains on the rise, as Dubai Customs’ statistics revealed that Dubai’s non-oil foreign trade has already soared to 319 billion dirhams in the first quarter of 2016. The volume of traded goods jumped by 17% from the same period last year to reach 24 million tonnes.

“None of the contracts in Iran are dollar-dominated,” Smith said.

Playing the field

Robin Abraham, managing partner in the Clifford Chance Dubai office, said that the legal firm has seen less activity in Saudi Arabia in the last two to three years owing to the oil price drop.

However, Abraham expects a lot more to come out of the region, as part of Saudi’s National Transformation Plan, which was released at the start of June. The ambitious “Vision 2030” agenda plans to cut state spending on salaries and raise non-oil revenue as part of its aim to diversify the economy. BPL also expressed its plans to venture into other parts of the Middle East, including Oman. For example, the insurer has recently covered a transaction in the country. While details of the deal remain under wraps, BPL noted that it involves a government-owned Oman oil trader.

Bas Welling, head of commodity clients for MENA, East Africa and India, spoke of the trend of countries coming in the long market, in particularly Oman and Qatar.

With regards to sectors, Smith said that the “enquiry flow has predominantly been from commodity,” including plentiful power and infrastructure inquiries.

Out of the UAE, Dubai in particular has close business ties with Iran. Smith revealed that BPL is witnessing a significant uptick in enquiries for Iran, particularly from local companies. BPL has the distinct advantage as a global political risk and trade credit insurance in that it has no US ownership.

Therefore, it only has to take EU sanctions into consideration, rather than the addition of US regulations.

“The GCC region used to rely on oil and gas,” commented Benkirane. “But we have seen a gradual shift in global transaction banking away from traditional large oil-based commodities to industries such as telecoms and power & utilities.”

Telecoms represented the most traded commodity in 2015, with a total value of 185 billion dirhams. Computers ranked sixth, amounting to 46 billion, supporting Dubai’s aspiring status as a global and regional technology hub.

Benkirane pledged his intent to drive forth the digitisation and technological sphere of Dubai’s trade finance sector. Electronic letters of credit and bank payment obligations (BPO)-related services or products are all means of taking advantage of the digital space.

However, there are still obstacles to overcome in order to achieve this. “We still need physical paper documents largely due to the legal and regulatory requirements where paper evidence is still required,” Benkirane admitted.
**Soft commodities on top in Latin America**

Commodity financing in Latin America has encountered tough times over the last few years as fragile economies have combined with lower commodity prices to diminish the attractiveness of the region for trade financiers, Jason Torquato, Americas Editor, reports.

The sudden slump in commodity prices caught most in the industry off-guard, as many expected the supercycle to continue through to at least the end of the decade. However, the premature slowdown in China’s economy has deprived many Latin American exporters of a critical destination for their goods.

The result has been a sharp decline in trade finance volumes, which is an important source of liquidity throughout the supply chain.

There is some optimism, however. “There has been a deflation of balance sheets because of commodities that has happened so fast. I don’t think we’ll have to wait too long to see trade taking place and starting to grow again, it just won’t be as massive and immediate as oil going from $100/bbl to $30/bbl,” said Alex Manson, global head of transaction banking at Standard Chartered.

Crucially for Latin America’s growth prospects, soft commodities have been on the rise. While some, such as orange juice, have struggled in recent years, coffee, sugar, cocoa and cotton have all shown a resiliency that has otherwise not been replicated by other forms of commodities, according to Judith Ganes, president of J. Ganes Consulting.

Traded volumes of those commodities have all increased over the past five and 10 years, while others have fallen off the radar, with the price of sugar now even reaching its pre-crash peak.

These developments have been critical for firms like Clealco Açucar e Alcool, a Brazilian sugar cane producer, which signed a BRL 300 million ($79.87 million) pre-export finance loan. The loan, which was financed by Itau BBA and Rabobank of a four-year nine-month tenor was a coup for the exporter, which said that financing has been hard to come by at competitive rates because lenders have been wary of Brazil, where corruption scandals are rife.

While that was one of the larger deals in recent months in Brazil, Vale do Tijuco Açucar e Alcool, Usina Santa Fe, Usina Nardini and Usina Acucar e Ester have all signed pre-export financings with foreign lenders in the past year.

Cotton has been one of the strongest drivers of financing. It is one of few commodities that has witnessed a dramatic decline in exports to China. While it has decreased its imports slightly, China’s gap has been more than filled by countries like Vietnam, where imports have increased fivefold, according to Ganes.

It has been a boon to SLC Agricola, one of Brazil’s largest cotton producers, which was able to secure a credit facility worth $60 million from MUFG to export its produce.

“The deal was easier to sign because we have US dollar revenue and were able to get a US dollar loan without concern that the real would go bad but the most important thing was that cotton prices are rising”, said Ivo Marcon Brun, SLC Agricola’s chief financial officer.

Some of Brazil’s biggest companies will face harder times coming across larger loans going forward, with the country’s export credit agency, BNDES, severely reining in lending in an attempt to help the country’s Treasury maintain a semblance of liquidity.

It is thought that cocoa could be the next recipient of a trade financing boom. With demand outstripping production, global reserves are being eaten into, perpetually leaving “production at a constant risk of...”
It is usual for the lender to require the borrower to arrange insurance cover for the goods that serve as collateral for the loan. This is because if the goods are damaged, lost, or stolen, the borrower may be unable to repay its indebtedness under the loan when due.

Paul Skeet, a partner at Reed Smith

weather issues, disease and political risk,” said Ganes.

Brazil and Ecuador are two of the countries set to benefit from this. Pre-harvest financing is one of the most sought after options for borrowers, according to Robin Dand, managing director at Robin Dand Commodities. This would allow farmers the ability to pay for set-up costs, ongoing input costs and the harvesting process after securing a contract for sale.

Supply chain finance

The role of supply chain finance providers has been key for corporates in the commodities sector. An increase in viable technology platforms has allowed for a much safer transaction for both borrower and lender.

With typical bank-to-borrower relationships, archaic operational processes and practices add valuable time to carry out a transaction and evermore onerous regulatory pressure is forcing many banks to be less competitive in trade finance and in some cases has edged them out of the market altogether.

Increased anti-money laundering and know-your-customer regulations have not aided the speed at which business can be done either. More stringent requirements have meant that the processing of a letter of credit, which could have been completed in just four hours, now takes between one and two days, according to Valeria Sica, global trade services head at Citi. This can result in goods sitting idle, costing companies at both ends of a trade transaction.

One concern for corporates is that some could lose out as a result of heightened regulation as banks might opt to lend to only the highest-tier corporates. Increased scrutiny will be placed on credit risks as stricter covenants become routine.

One bank that expects costs to rise is Citi. It suspects that costs could increase between 30 and 50% for banks if they are to maintain the margins made earlier in the decade.

However, this provides a great opportunity for supply chain finance providers, which have often seen a rise in business when there is an uncertain economic outlook or in periods of market disruption.

Increased regulation could once again provide this opportunity. Short-term trade finance products are more favourable to lenders as contracts with a one-month or shorter maturity are not subject to the same regulations imposed by Basel III as those that are longer.

Even more critical than ever in a low-risk environment is that lenders and borrowers both have suitable insurance protection against deals that go awry.

“It is usual for the lender to require the borrower to arrange insurance cover for the goods that serve as collateral for the loan. This is because if the goods are damaged, lost, or stolen, the borrower may be unable to repay its indebtedness under the loan when due,” said Paul Skeet, a partner at Reed Smith.

More important than that, now, is that lenders are able to exercise direct rights over the proceeds of the claim in the event that a borrower fails to pursue a claim or is not inclined to do so if it becomes insolvent. This is something that has taken place in North American commodity markets following a spate of oil and gas-related insolvencies.

This has sparked the rise in the frequency of the “loss payee clause”, which ensures that the proceeds of any claim by the borrower will be paid by the insurer to the lender, rather than the borrower.

Even more advantageous for any concerned lenders is for them to be named as co-insured under the policy, along with the borrower, Skeet said. While it is costlier, it allows the lender to claim in its own name even if the borrower has breached any agreement.

Companies that have never bought political risk insurance before are now calling insurer Marsh, relating that commercial banks are requiring borrowers to procure insurance before lending, says Donnie Di Carlo, senior vice president of the firm’s Latin America credit and political risk group.

Di Carlo says requests have increased by around 50-60%, noting that in Mexico and Colombia, banks need political insurance before they even consider lending.

Latin America is quietly considered one of the riskiest places to lend to at the moment, with a lack of military activity masking the presence of significant tension.

“The best thing to happen for Argentina and Venezuela in the last few years is that the rest of the world has been much worse,” said Jim Thomas, head of credit and political risk at Everest Specialty Underwriters.

“It’s not surprising that banks and multilaterals are demanding coverage. It’s definitely something we’ve been seeing,” Thomas says.

New sources of liquidity

Securitising trade finance loans has emerged as a new way to inject additional liquidity into the commodity finance market. By bundling loans, banks have been able to offload chunks of packages to institutional investors, although few packages have been able to secure ratings high enough to attract wide investor interest. Whether a true secondary market for loans will emerge is as yet unclear, but funds have made their interest in the industry felt, regardless.

“Asset managers, pension funds, and insurance funds are set to invest heavily in payables as an asset class,” said Peter Lopoukhine, managing director, institutional sales, commodities at LiquidX. This has improved pricing, Lopoukhine said, as suppliers leverage the strong credit rating of their debtor in order to attain dramatically better pricing.

“The current market standard has worked well but is facing some bumps in the road. Regulatory pressure is causing banks to second guess their trade finance and supply chain finance priorities,” he said.

“There are new non-traditional investors interested in commodities and working capital finance.”

if you have any comments or questions on this article, please contact: jason.torquato@euromoneyplc.com
UK export finance market “continues to grow”

Ahead of UKEF’s annual results, Merle Crichton, EMEA Reporter, meets with Gordon Welsh, head of the UK ECA’s business group, to discuss key objectives for the FY17.

UKEF, a government department and the UK’s export credit agency (ECA), has now been up-and-running for over 90 years, supporting exports to, and investments in, markets across the world. Gordon Welsh, although recently appointed head of business group, has worked at the ECA since 1998 and says that FY2016 has been “a good year” in terms of growth.

UKEF has been ramping up activity this year, with a particular focus on supporting small and medium sized enterprises (SMEs). As a result, UKEF has been able to increase the number of companies it supports.

“We are doing everything we said we would do for smaller companies,” he said, adding that measures including cutting application times for SMEs and moving towards a more digitised (and therefore more efficient) process have been top of the agenda.

Welsh also highlighted that not everyone will be aware of the companies being supported, as for every company UKEF supports others will benefit in its supply chain.

“Even when we support big deals, it benefits smaller companies in the supply chain,” he explained.

While UKEF supports thousands of companies in the supply chain, Welsh admitted that “we can still do a lot more”, pointing towards the ambitions UKEF has for the coming financial year.

Deal activity

One of the most talked-about deals that UKEF has been involved in recently is the memorandum of understanding (MoU) it has signed with General Electric (GE), which it is developing business with.

The cooperation framework on exports from the UK by GE could support up to 1,000 new GE jobs in the UK energy sector.

“We have seen our collaboration develop significantly since the signing. We want to align our offering and make sure it’s working for GE,” Welsh outlined.

UKEF has also been strengthening its ties with China. In July 2015, the ECA announced that Airbus, which supports 100,000 jobs in the UK, will benefit from a new delivery to China Southern Airways thanks to support from UKEF.

This was made possible by UKEF’s decision to add the Chinese currency Renminbi (RMB) to its list of supported currencies. This enabled the purchase of a single Airbus A330 aircraft by China Southern Airways.

The historic deal was the first by an ECA anywhere in the world for a loan in Chinese offshore RMB. It paved the way for opportunities for UK exporters and companies in the supply chain.

On the project financing side, UKEF has also adopted the Equator Principles, a global framework to promote sustainable environmental, social and human rights decision-making in financing projects followed by the majority of international banks.

“This makes it a lot easier for people. We advise exporters that if they can demonstrate that their principles are widely based, it will make sponsors want to work with them,” Welsh explained.

He also mentioned the UKEF business plan for 2014-2017, designed to support the government’s objectives to increase exports and achieve sustainable economic growth.

“We are delivering on the business plan, which are we are now going into the third year of. We said we would get into shorter-term, smaller projects and we are. We are actually working with direct suppliers,” Welsh said.

“We continue to commit to the wider government ambition to attract more exporters,” he outlined, adding that the target of attracting 100,000 by 2020 is “ambitious, but we are playing our part in achieving it.”

Volume

In terms of volume, UKEF has now had direct involvement in more export contracts than at any point in the last 25 years. Welsh stresses, however, that volume of support is more important than the value.

“It’s really more about the number of companies we have supported, rather than the total sum,” Welsh explained.

“Smaller companies have equalled lots of business, not necessarily one large figure.”

In terms of growth, UKEF is expanding. Now, with more than 200 members of staff, the ECA has supported £15 billion in export contracts over the last five years.

Regulation

One of the main considerations for all parties working in trade and export finance is of course regulation. Welsh outlined that there are many regulatory areas that UKEF adheres to on both the buyer finance and trade finance side.

For example, bribery and corruption – a topic that will likely be debated over the next 12 months – the insurance act, and OECD guidelines.

“We also like to get people to look at us critically, so one of the ways we do that is through the British Exporters’ Association, the trade association representing the export community in this country,” Welsh explained.

“They have monitored a range of ECAs over some years, and their members work with other countries. It is really good for us to see that we are now a 9 out of 10,” he added.

Going forward

Speaking about plans for the coming year, Welsh emphasised that UKEF doesn’t want to see any viable exports fail for lack of finance or insurance.

His list of objectives include: working more closely with banks – by removing duplicative processes to reduce transaction times for accessing trade finance products, for example; expanding the direct lending side; and pushing enhancements of UKEF’s working capital support, among other things.

All of these objectives will work towards helping to achieve the export target for 2020.

“The plan is to really scale the business in the smaller end through digitisation as well as working more closely with banks,” Welsh commented.

“We have really excelled on the direct lending side – our ambition was to get started only last year and we are now on our tenth deal,” he added.

During the next 12 months, UKEF wants to ensure it is not just reflective and sitting back, but proactive.

“That is where we would like to be,” Welsh concluded.

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**APAC trade finance: the impact of competition & commodities**

Trade Finance Analytics data reveals that export and agency volumes are down, owing to stiff competition from Chexim, while the commodities market continues to suffer from low prices and economic woes.

Export and agency volume is down year-on-year in the Asia Pacific region – no news in that. But the size of that decrease is surprising: according to data from Trade Finance Analytics, the value of deals closed during Q1 2015 dropped by 56% year-on-year.

The most prominent drop can be seen in March, where deal value fell from more than $18.3 billion in 2015 down to just $5.8 billion in the same month of 2016. In total, the amount of deals closed during Q1 fell from $51.8 billion in 2015 down to $22.6 billion in 2016.

This vast decrease came despite the fact that China Exim Bank (Chexim) – with its ability to offer very cheap debt and a fast turnaround – ranks number one as the largest export credit agency (ECA) debt provider. In short – the liquidity is available, it just can’t find any takers.

And that liquidity looks set to grow. While the Chinese ECA has been growing market share, its peers – JBIC and Kexim – have not fared so well, with the former announcing that its big-ticket lending halved in 2015 and the latter experiencing significant losses from shipping loans closed during the period.

Kexim’s domestic loan problems are likely to keep it on the backburner for the coming year. But a recent change to JBIC legislation means the bank could topple Chexim from the number one spot.

On May 11, the Japanese parliament approved The Act for the Partial Amendment of the JBIC Act – in effect enabling the Japanese ECA to start lending to higher risk projects via a dedicated JBIC fund. This will allow the ECA to compete more effectively with Chexim.

JBIC’s standard funding requirement is that potential borrowers have sufficient ability to repay loans on a standalone project level and that the projects are commercially viable enough to attract loans from commercial banks alongside JBIC.

Under the amendment, JBIC can finance infrastructure projects that “benefit a country’s economy” but do not meet the ECAs standard credit criteria.
The amendment is part of Japan’s Quality Infrastructure Initiative, which involves $110 billion of new investment in Asian infrastructure from 2016 to 2020. JBIC is also making efforts to provide more local currency loans and support for SMEs.

**Commodities**

On the commodities side, the value of closed deals has fallen from $30.6 billion in the months January-May 2015 to just $6.9 billion in the same period of 2016.

The most drastic decrease was seen in May, where values reached just $1.2 billion in 2016, down from $9.7 billion the year before.

These figures are largely expected, considering the number of factors affecting the commodities market. A commodities price downturn – which has been most prominent in the oil industry – has led to a significantly decreased amount of commodity deals being signed.

Economic woes have also plagued China, a factor that has led to an excess of commodity production and, in some cases, the dumping of cheap Asian exports in a bid to maintain cashflow and support debt payments.

All of these factors combined have also led to an increase in debt pricing in the APAC region. And although some commodities prices are beginning to stabilise – oil being no exception – margins on debt pricing are unlikely to tighten given so many banks have pulled out of trade finance lending in Asia.

Standard Chartered, ANZ and BNP Paribas have all pared back, especially in the mining sector, and the balance of power in pricing negotiations appears to be beginning to swing back from borrower to bank.

Margin increases in trade – albeit small – are a good sign that a market that has been working on razor thin profits may be heading in the right direction again – albeit at a snail’s pace.
**Global Bank Corp** signs $135.5 SME loan

Global Bank Corp has signed a dual-tranche loan worth $135.5 million with the intention of on-lending to SMEs in Panama.

The deal is very competitively priced, with funding coming from both public and private lenders.

The first tranche is a $95.5 million loan with a two-year tenor and a margin of 70bp above Libor.

The second tranche is a $40 million loan with a three-year tenor and a margin of 80bp above Libor.

The bookrunners are Bladex ($15 million), Citi ($20m) and Mizuho ($15m).

Mercantil Servicios Financieros ($12.5m) was a mandated lead arranger.

Also participating are: BAC Florida Bank ($5m), Banco del Caribe ($2m), Bank of Taiwan ($6m), Chang Hwa Commercial Bank ($10m), Export-Import Bank of China ($10m), JPMorgan ($10m), Land Bank of Taiwan ($5m), Mega International Commercial Bank ($10m), Taiwan Business Bank ($5m) and Taiwan Cooperative Financial Holding ($10m).

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**Rostec** signs $1.5bn factoring programme with VTB

Russian high-tech state corporation Rostec has signed a RUB100 billion ($1.5 billion*) seven-year factoring facility with VTB to part finance its energy efficiency programmes. Rostec is reducing energy spending across its group of 700 companies. The cost of the factoring programme will be offset by the reduced energy costs.

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**Impala Terminals** kickstarts digitization project

Netherlands-based port, warehousing and multimodal logistics services provider Impala Terminals (owned by Trafigura) is implementing an electronic documentation solution via essDOCS.

The sponsor is starting the project with its metals concentrate terminal in Huelva, Spain. essDOCS has created a bespoke electronic holding certificate, enabling Impala Terminals Huelva to issue an electronic document confirming to customers or financing banks that concentrate is being stored at the terminal.

The solution will replace the paper-based system in place at the facility and will eventually be rolled out across Impala’s global operations.

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**Tradeshift** raises $75m in latest fundraising

Web-based supply chain finance platform provider, Tradeshift, has raised $75 million in its latest funding round. The series D funding was led by venture capital firm Data Collective (DCVC) and attracted investments from HSBC (the first bank to invest in the start-up), American Express Ventures, Notion Capital, CreditEast Fintech Investment Fund and Pavilion Capital.

The funding will be used to grow Tradeshift’s application, platform and business-to-business marketplace development. The start-up will also use the funds to serve a wider range of global customers as it expands further into trade financing, spend and receivables management, lending and payments.

Stuart Tait, global head of trade and receivables finance at HSBC, commented that the Tradeshift service is a “smart supply chain solution” that integrates seamlessly with multiple platforms.

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**Finacity** providing $1.2m factoring facility for Ercros

Finacity, the US-based account receivables securitisation company, has signed a $12 million factoring agreement with Ercros, a Spain-based chemical producer, for a period of three years. The facility will serve as funding for Ercros’ dollar dominated export receivables.

The financing complements an existing euro denominated factoring programme of €102.15 million ($116.36 million*) for the period 2014 to 2017. Ercros, headquartered in Barcelona, manufactures and markets chemicals, plastics and pharmaceuticals globally.

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**Thermo Credit** puts up $0.5m factoring facility

U.S-based Thermo Credit is providing a $500,000 factoring facility to California-based underground utility services provider Integrity General Engineering Contractors. The funds will be used for working capital and to finance plans to expand into the distribution gas space. The facility was funded by Thermo Credit’s lending partner, Thermo Communications Funding.

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**SPRING Singapore** launches SME loans programme

Singapore’s enterprise development board SPRING Singapore has launched a S$2 billion ($1.45 billion*) loan programme – the SME Working Capital Loan Programme – with participation from 12 lenders: DBS Bank, Malayan Banking Berhad, Overseas-Chinese Banking Corporation, RHB Bank, Bank of East Asia, HSBC, United Overseas Bank, Standard Chartered, Hong Leong Finance, Ethoz Capital, IFS Capital and ORIX Leasing Singapore.

Under the terms of the scheme, SMEs will be eligible to receive unsecured loans of up to $330,000 with SPRING underwriting 50% of the loan default risk for the participating lenders.

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**IFC and ADM** launch SME loans platform

IFC and ADM Capital have launched a new lending platform – ADM Capital Somei Lending Platform – for financially stressed SMEs in Asia that do not meet bank lending criteria. Somei, which has seed capital of $50 million each from IFC and an unnamed investor, will provide long-term funding to SMEs whilst limiting the downside for lenders via over-collateralised positions and profit sharing agreements.

Individual loans are expected to range from $10 million to $15 million with maturities of three to five years. ADM will maintain environmental, social and governance standards in its lending, in line with IFC’s performance standards for environmental and social sustainability.

Borrowings will be syndicated and structured with a revolving senior tranche and junior tranche, and principal repayment to investors after eight years. The platform is targeting an eventual size of $200 million.

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**Bibby makes new UK appointments**

Bibby Financial Services has appointed Mary Sharp as commercial director for the northern UK and Joanna Cashmore as head of sales for Scotland.

Sharp has previously held sales and operations management roles at Lloyds Bank and PricewaterhouseCoopers. She has over 27 years’ experience in invoice finance and will head-up at team of 100 in Scotland and the North of England.

Cashmore joined Bibby in 2010 from Lloyds Commercial Finance where she worked in the asset finance team.
FinTech solutions: one size does not fit all

Trade finance has traditionally been considered to be behind the times when it comes to implementing technology to streamline transaction processes. Emma Hughes, Executive Editor, outlines the key themes discussed at the recent Trade Finance FinTech conference in Geneva to establish the current state of play.

Translating from paper-based trade to digital trade is proving to be a difficult task, made even more so by a plethora of new FinTech service providers. As one Geneva delegate put it, “the FinTech genie is out of the bottle – we’re not going to put it back”.

Risky business?
Despite pushback from the market, which in part still prefers paper-based documentation, trade finance banks have been investing in digital solutions for some time. Yet, owing to the fact that their in-house expertise is limited, FinTech companies are fast moving in.

PwC’s Global FinTech report survey found that 83% of respondents from traditional financial institutions believe that part of their business is at risk of being lost to standalone FinTech companies. Incumbents also believe that 23% of their business could be at risk from the further development of FinTech.

In the trade finance market specifically, moves have already been made to overcome this concern. Several conference participants noted that the future for FinTech lies in interoperability.

By partnering with FinTechs, incumbents could increase the efficiency of their business, cut costs, deliver a differentiated offering, improve customer retention and bring additional revenues.

Ian Kerr, CEO of software as a service (SaaS) business Bolero, noted that two of the key themes of SIBOS 2015 were blockchain and banks needing to partner with FinTechs.

“I am encouraged by recent discussions we have been having with banks from a Bolero perspective, regarding more joined up partnerships. I hope that this continues to grow value on a mutual basis,” he explained.

Andre Casterman, chief marketing officer of Belgium-based FinTech start-up INTIX, told Trade Finance, “Banks and corporates wishing to work by some FinTech propositions should start small and scale later when testing new products/service propositions. There is no need for them to migrate their full business to a new entrant.”

He added, however, that while banks are accelerating their collaboration with FinTechs, there is still an issue on the bank side in that decision-making is a slow process.

“I think banks still need to adapt their innovation cultures in order to allow themselves to make faster decisions, and this includes failing fast when needed,” Casterman noted.

A bank representative at the conference commented that partnerships with FinTechs do provide an easy way of harnessing technological capabilities within a safe test environment. They conceded, however, that more could be done on both sides to accelerate cooperation.

Oversupply
Owing to the vast increase in the amount of FinTech service providers in the market, in some cases there is an oversupply situation.

Kerr told Trade Finance that the area of supply chain finance/EIPP has been described as a vendor bloodbath with lots of competing platforms.

Having so many providers to choose from brings with it concern from both banks and corporates in terms of choosing a provider that is flexible, reliable and trustworthy.

One bank representative in Geneva commented that an issue that has come up for them is that one corporate may wish to work with service provider A, while another corporate client has experience of working with service provider B.

This can throw up difficulties unless some form of standardisation is reached. Otherwise, banks will be forced to plug into all manner of providers, which will be both costly and confusing.

According to Kerr, trade finance is still at a comparatively early stage in terms of standardisation, and the issue is “one of market acceptance and interoperability between approaches, as there are clear differences in accessing multi-bank trade finance services”.

Casterman added that standardisation is an enabler for mature technologies to scale in usage.

“The FinTech players are (...) far from maturity,” he told Trade Finance. “I think the FinTech companies acting as leaders will define the standards that their followers will have to adopt.”

Bankers agreed that “it is up to the banks to come up with standards and for the FinTech companies to provide solutions that match”.

One short-term solution to this issue could be to form a common platform that enables banks, corporates and FinTechs to communicate with each other.

“Banks and technical providers need to work together on this,” one bank representative stated.

Kerr agreed that “there may be a real case for an aggregating ‘network of networks’ to consolidate trade flows at banks.”

“This would require a trusted platform to be in place and a clear view of interoperability and a commercial model that reflects value,” he added.

Consolidation & trust
As with any sector flooded with new participants, the FinTech world is likely to see consolidation in future as market share is taken by the most trusted and flexible providers.

As Casterman puts it, the market that FinTech companies are after is huge, however this does not guarantee success for all.

“Only the most agile players will break through, so I foresee many losers. The successful players will be very successful and become either strong partners of banks or acquisition targets,” he explained.

Trust is also a key consideration – especially with start-ups – as the track history is just not extensive enough to prove reliability.

Kerr noted that there is a need for a global framework in trade digitisation to engender trust as all parties would play by the same rules.

“We have a rulebook within the Bolero network that supports this for our enrolled involved parties. [We] are encouraged by the ICC’s initiative to develop such a global standard,” Kerr added.
Specialist financiers move into the mainstream

As awareness of specialist financing grows, continued expansion of the industry is certain. Given this, are specialist financiers now moving into the mainstream?

Specialist financing is one of the fastest growing sectors in finance. Indeed, such is its growth and relevance to today’s needs, the term “alternative finance” no longer applies: it has become part of the mainstream. A recent Dubai-based forum held by Falcon Group explored a wide range of factors; including ongoing bank retrenchment, turbulent stock markets, fluctuating commodity prices and revised growth figures from the IMF – all of which have contributed to a climate of uncertainty in the global economy but have supported specialist lending as a means of filling the void.

The central cause of the void is, of course, that bank lending continues to be constrained. Since the 2008 crisis, banks have been nationalised, merged, regulated, deleveraged and liquidated – resulting in a pared-down banking sector with fewer active players and with a reduced capacity and appetite for lending. The result: banks have become increasingly selective.

“If banks do lend,” explained Emma Clark, head of UK and Europe business development at Falcon, in her presentation to the Forum, “they go down the path of least resistance – to the multinational corporations with the strongest balance sheets and least need to borrow.”

Meanwhile, the trade finance gap – between the supply of trade finance and the demands of industry for financial support – persists, not least because of the fragility of the economic recovery. This was a point emphasised by David Smith, the economics editor at The Sunday Times and a speaker at the Forum.

“A big concern for the world economy is world trade,” he said in Dubai. “In the period since the crisis, it has been unusually weak. A huge contributory factor is the lack of availability of trade credit due to global banks cutting back on riskier areas of activity – particularly with respect to cross-border lending.”

Added to concerns over the quality of bank balance sheets is the retrenchment of many banks from non-domestic markets. Public bailouts for many of the world’s leading banks have led to political pressure to focus on domestic borrowers, again adding to the squeeze in trade-related lending.

Of course, this situation has been apparent since the post-crisis period. Yet its continued currency has led many observers to conclude that the situation banks now find themselves in is a sea-change. Banks can no longer be considered the default, or even most important, providers of trade finance.

This was a point further emphasised by V. Shankar, CEO of Gateway Partners (and former CEO of EMEA and the Americas for Standard Chartered) – the Forum’s keynote speaker.

“The financial crisis has placed the traditional banking system under a fair degree of stress,” he said. “Today, banks suffer from a cornucopia of regulations. With increased capital requirements, banks have had to ring-fence their operations and are forced to become Balkanised under the belief that banks are global in existence but become purely a local problem when they fail.”

He added: “The old days of employing a high amount of leverage and relying heavily on off-balance sheet trading are no longer available. As returns on equity have decreased, banks have, naturally, retrenched from many of their previous markets. Meanwhile, post 2008, regulations have put the economic equation of running a bank in a completely different light.”

This is a view echoed by corporate commentators – including Gurpreet Singh, head of fleet and corporate sales MENAP at Jaguar Land Rover (JLR). He said: “With the pressures on liquidity, banks are no longer in a situation where they can look at clients in the same manner they used to. This is where specialist financing becomes vital”.

Indeed, this goes beyond trade finance as far as Singh is concerned.

“In such times, specialist and bespoke financing plays a key role in providing much needed support to transport and infrastructure projects.”

Non-bank financing options

Yet it is those companies – large and small – in need of working capital, or for financing capital expenditure, that are most challenged. As Clark pointed out, there are alternative routes for corporates in terms of raising funds, although all entail some degree of risk. For instance, corporates can turn to their shareholders, although Ms Clarke noted that this could irritate shareholders. Or they could approach their suppliers or customers for credit, although this might damage their business relationships. Or they could, she opined, turn to specialist lenders, which is increasingly becoming a mainstream solution.

Since 2008, a new generation of specialist financiers has entered the market – focused on specific corporate needs, rather than off-the-shelf products. Some go back further. As specialists, however, they are all in a strong position to assess deals based on need, rather than the purely credit-risk approach of the banks. And they are able to structure financing tailored to specific situations – again unlike banks that, other than for the giant corporations, are likely to offer “one size fits all” solutions.

“Specialist financiers can move faster – they are more agile, develop closer relationships with their clients and, as such, are able to retain the bonding,” emphasised V. Shankar.

Looking Ahead

In fact, despite current constraints in the global supply of credit, the specialist financing industry’s growth offers good reason for cheer. This is true of specialists offering loan products for different sectors, different geographies and to support trade between the two. Of course, emerging-market lending is perhaps the most exciting area of growth for specialist.

“I’m a big believer in emerging markets for four key reasons,” V. Shankar argued during his keynote address: “Firstly, demographics: with two-thirds of people under the age of 35, emerging economies will act as a powerful driver for consumption. Secondly, 2 billion people in emerging markets are set to become urbanised over the next 25-30 years – again boosting consumption. Thirdly, if we combine demographics and urbanisation, this means huge growth for both manufacturing and services. Finally, foreign direct investment: more than half of FDI now comes from emerging markets, thus indicating a massive paradigm shift.”

In fact, for much of the past decade, south-south trade has been expanding at a rate that has outperformed both world and south-north trade. Further growth could be impeded, however, by the withdrawal of banks from riskier markets: hence the huge opportunities for specialist lenders.
What are the issues facing borrowers in the shipping market at the moment?

As a general matter, throughout the shipping sector I think there is not much appetite from commercial banks in financing new builds unless there’s a charter attached with a creditworthy counterparty. Troubles on offshore and dry-bulk books have meant that lending capacity seems to be down at the moment. If you’re a regular client, then you should have a good shot at getting your deal done.

Issues with Korean shipyards have been well documented. They’ve all gone through massive waves of restructuring. Their operation is top-notch but the issue is that they mispriced some deals and incurred huge losses, so banks are wary and enter pretty detailed negotiations beforehand.

What were the major benefits of the $758 million ECA-backed loan that Dorian conducted?

I think the biggest thing that the involvement of the ECAs helped us with is it allowed us to do a deal in volume that commercial banks couldn’t do. It meant that we could take care of all our financing in one transaction rather than two, which was a huge home run.

Ted Young, Chief Financial Officer at Dorian LPG
of all our financing in one transaction rather than two, which was a huge home run.

We were going to do an all-commercial deal, but we decided it was important to look harder at the ECA route. Banks also wouldn't have done 12 years without ECAs being involved. It would have been a shorter tenor. Pricing wouldn't have changed though because in any event, the banks were taking Dorian risk all along and it would have been syndicated, meaning that no one party takes on too much volume and it would have been for less capital, which limits risk.

**How was the deal priced?**

The commercial tranche was priced on a sliding scale from Libor plus 225bp to 275bp. The banks proposed a flat 275bp fee but we negotiated a scale that would lower the pricing depending on what charter coverage we have. If we have more than 75% of ships on time charter then the margin is 225bp, between 50-75% it is 250bp and under 50% it is 225bp.

The Kexim direct lending facility is priced at 245bp above Libor, the Kexim-guaranteed piece was Libor plus 140bp and finally the K-Sure guaranteed piece was 95% covered and priced at Libor plus 150bp.

**How long does it take to complete a deal of this size?**

Well from the time we decided on a mixture of ECA and commercial tranches it was around six months, but after three months we already had credit committee approval. All parties intentionally negotiated a long-term commitment to lend, so the heavy negotiations were carried out in the first three months and there wasn't much to negotiate after that. The latter part took three months only because there were so many parties involved.

Some banks on the ECA-backed tranches had questions and were less familiar with us so we had some extra calls and meetings with them to make sure they were comfortable.

**This was the first deal we've conducted with an ECA.**

Our last major financing was in 2006/7 for new builds but that was just shy of $200 million and with commercial banks. At the time they were very aggressive and offered Libor plus 92.5bp, which was pretty tough for ECAs to compete with. 🔸

**Ted Young, Chief Financial Officer at Dorian**

**Did you consider approaching any other export credit agencies?**

Not really, we've always done business with the Korean shipyards. We got approached by the Chinese but we weren't really interested. We could have gone with Japan but they are a bit more expensive. It was really the shipyards that drove the decision, they build specialised vessels and there is a difference in their workmanship. Kexim and K-Sure were also great options to deal with.

**In terms of other corporate needs, we've looked at revolving credit facilities and we'll continue to contemplate that.**

Banks don't really love them, they're very capital intensive for them. We've looked at, and dismissed, bonds because they don't make much sense for us. There are some sale and leaseback opportunities that we could use to release both equity and vessels from our balance sheet. One other thing we've thought about is insurance companies looking to take long-dated shipping exposure, which would come with amortisation payments but we haven't fully investigated that.

**Charter rates are obviously an issue at the moment, how has that impacted on your demand for financing?**

Fortunately, even with freight rates down, our sector hasn't been hit too much and it hasn't impacted our immediate need for working capital. We've had a couple of good earnings years recently and even though rates have fallen we're still cash flow positive. 🔸

**Will Dorian be looking to access other forms of finance as part of its working capital, capital equipment purchasing or projects?**

In terms of other corporate needs, we've looked at revolving credit facilities and we'll continue to contemplate that. Banks don't really love them, they're very capital intensive for them. We've looked at, and dismissed, bonds because they don't make much sense for us. There are some sale and leaseback opportunities that we could use to release both equity and vessels from our balance sheet. One other thing we've thought about is insurance companies looking to take long-dated shipping exposure, which would come with amortisation payments but we haven't fully investigated that.

**Ted Young, Chief Financial Officer at Dorian**

<table>
<thead>
<tr>
<th>Tranche Breakdown</th>
<th>Value</th>
<th>Tenor</th>
<th>Bookrunners</th>
<th>Margin</th>
<th>Guarantees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tranche 1</td>
<td>$249 million</td>
<td>7 years</td>
<td>ABN Amro, Citi, DVB Capital Markets, ING</td>
<td>Libor + 225-275bp</td>
<td></td>
</tr>
<tr>
<td>Tranche 2</td>
<td>$204 million</td>
<td>12 years</td>
<td>Kexim</td>
<td>Libor + 245bp</td>
<td></td>
</tr>
<tr>
<td>Tranche 3</td>
<td>$103 million</td>
<td>12 years</td>
<td>ABN Amro, Citi, DVB Capital Markets, ING</td>
<td>Libor + 140bp</td>
<td>Kexim</td>
</tr>
<tr>
<td>Tranche 4</td>
<td>$202 million</td>
<td>12 years</td>
<td>ABN Amro, Citi, DVB Capital Markets, ING</td>
<td>Libor + 145bp</td>
<td>K-Sure</td>
</tr>
</tbody>
</table>

**Total Deal Value** $758 million

**Use of Proceeds** 18 Very Large Gas Carriers (VLGCs)
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*Source: Trade Finance Analytics, 01/01/14 - 20/10/15
The trade landscape has evolved. Globalisation has opened doors to relatively untapped markets that present almost unlimited opportunities for both developed and emerging market companies. Yet it is a landscape of opportunity that is balanced precariously upon an unsteady global economic backdrop, and relies on accessing unfamiliar markets with different cultural practices, currencies and regulations.

Trade in 2016 therefore requires sophisticated trade finance instruments that offer cost-efficiency and streamline the process underlying trade. New products and services have emerged to meet the ever-evolving needs of today’s economy – changing the way trade finance is conducted. Automation around Bank Payment Obligations (BPOs) and systems such as open account programmes, supply chain finance, and forfaiting mean trade companies now have a proliferation of choice with respect to trade finance products.

Yet “in with the new” must not mean “out with the old”. While such sophistication of the trade finance industry is absolutely beneficial, it can make it quite easy to overlook something as well-worn and simple as letters of credit (LCs) – despite their formative position as a lasting trade finance instrument.

The rich history of LCs
Certainly “old” is an adequate description of the LC. Indeed, although known by an array of different names throughout history, the LC can be traced as far back as 3000 BC, where Ancient Babylonian and Egyptian civilisations would use a rudimentary form of the trade instrument to ensure payment between parties.

Further evidence of LCs may be found in Europe during the 12th and 13th centuries. LCs not only removed the danger of travelling with gold, but also ensured payment for merchants and traders throughout Europe, Africa, and Asia – regions where commerce generated currency that was not sufficient to meet the needs of merchants.

Fast forward to World War I – a period characterised by the breakdown of international allegiances, and rising suspicion – where LCs bridged the gap between merchants that were considered no longer trustworthy, by inviting trusted sources such as banks into the trade relationship. This crucially helped cross-border trade continue during a period of devastating economic and political hardship.

Today, the LC is a widely-adopted trade finance instrument that ensures payment for buyers and sellers alike. For sellers, LCs not only ensure payments will be made promptly and in full, they also reduce the production.
## Feature: Trade Finance instruments

### Total transactions and default rate by product, 2008-2014

<table>
<thead>
<tr>
<th>Product</th>
<th>Total # transactions</th>
<th>Total # defaulted transactions</th>
<th>Default rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export to L/C</td>
<td>1,847,734</td>
<td>121</td>
<td>0.01%</td>
</tr>
<tr>
<td>Import L/C</td>
<td>3,164,200</td>
<td>2,509</td>
<td>0.08%</td>
</tr>
<tr>
<td>Performance Guarantees</td>
<td>1,615,351</td>
<td>2,736</td>
<td>0.17%</td>
</tr>
<tr>
<td>Loans for Import/Export</td>
<td>6,816,742</td>
<td>15,176</td>
<td>0.22%</td>
</tr>
</tbody>
</table>

Source: ICC’s Trade Register

### Risk in case the buyer cancels or changes an order.
LCs also provide sellers with the opportunity to receive financing during the period between the shipment of goods and the receipt of payment.

For buyers, LCs ensure that the seller will honour their side of the deal and provide products or services with documentary proof. LCs also allow buyers to demonstrate solvency and control the time period for shipping goods.

### The secure nature of LCs
Throughout history one thing is constant: the LC has been celebrated owing to its low risk nature – something the International Chamber of Commerce (ICC) Banking Commission’s Trade Register reminds us of, using data from 23 global banks and including 13 million transactions that encompass a total exposure of $7.6 trillion.

LCs and similar short-term trade finance products all performed well in the wake of the recession, with an average increased default rate of 0.3%. Moody’s Baa corporate default rate, on the other hand, increased by 80%. In fact, the overall Moody’s rated universe default rates tripled during this period.

Even in the unlikely event of default, LCs hold record high recovery rates – attributed to their ability to seize collateral associated with transactions. In fact, import LCs are fully recovered 98% of the time. This lies in stark contrast of performance guarantees, which are fully recovered only 38% of the time.

In addition to high recovery rates, LCs hold quick recovery times. The average recovery time for defaulted transactions between 2008-14 was 178 and 71 days, respectively. In contrast, loans for import and export have a recovery rate of 238 days.

Finally, with globalisation opening the door to many different players and markets – and therefore differing laws, practices, and cultures – LCs are governed independently with rules created and regularly updated by the ICC Banking Commission.

### A digital rebirth
Of course, just because LCs are old, doesn’t mean they can’t embrace the new. Today’s trade landscape requires security, but it also requires the benefits offered by technology – namely efficiency and automation.

While traditionally LCs have been paper-based – the name itself linking to its physical form – the LCs of 2016 are now not only requested and conducted online, but they may also be modified with a click of the mouse. What’s more, their transaction status is available to be viewed instantly online, so each participating party has an accurate and up to date view of each LC’s status. On top of this, LCs are now customisable and can be tailored to fit the unique needs of each party.

### Remembering the LC
The value offered by newer and more sophisticated trade finance instruments and techniques is indisputable – the trade landscape has grown more complex, and trade instruments must evolve in kind. But it is important to remember that sometimes beauty lies in simplicity. And in this case, simplicity means security – a quality that is invaluable against a volatile economic backdrop.

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SFTR: structured trade and commodity finance takes an indirect hit

Richard Wilkes, Associate, Norton Rose Fulbright LLP, London, looks at the reporting requirements of the new Securities Financing Transactions Regulations

The Securities Financing Transaction Regulations (Regulation 2015/2365) (the Regulation), was (as the name suggests) originally aimed at ‘securities’ and it is written in the language of those products. As a result, many of the provisions are difficult to apply to the commodities / commodity finance market. The provisions which more clearly relate to commodities do not use the language of the commodity finance market and may be unfamiliar to those active in this space.

Nevertheless, for those in-scope market participants and transactions, the reporting and other requirements of the Regulation cannot be ignored. Those within scope will be obliged to report and disclose and therefore need to start considering the Regulation now.

Scope of the Regulation: who and what

Subject to territorial scope, the Regulation applies to all “counterparties”, that is, all “financial counterparties” and “non-financial counterparties”, whether established in the EU or elsewhere i.e. for all practical purposes, everyone. The distinction between financial counterparties and non-financial counterparties is relevant at the reporting stage, but not to falling within the scope of the Regulation itself. A counterparty to an in-scope commodity transaction will be within the scope of the Regulation and will be required to report such transaction if the counterparty is either (a) established in the EU; or (b) established in a third country and the in-scope transaction is concluded in the course of operations of an EU branch of that counterparty. The assets concerned are (broadly) securities or commodities and the in-scope transactions are those falling within the definition of “Securities Financing Transactions” contained in the regulation. This definition includes (amongst other things) transactions described as “securities or commodities lending” or ‘securities or commodities borrowing”. Here a counterparty (typically a bank) leases / lends physical gold bullion to a borrower, who must (subject to the terms of the trade) typically either return the same or equivalent gold bullion to the ‘lender’ at a later date.

“Obligated” commodity ‘repo’ transactions would fall within the definition of “repurchase transactions”. Here a counterparty (typically a commodity trader) sells a quantity of commodities to a lender with a commitment by the commodity trader to repurchase them at a later date. There seems to be some degree of overlap from a commodities perspective between the definition of “repurchase transactions” and the definition of “buy-sell back transaction” or ‘sell-buy back transaction”, which is indicative of the fact that the Regulation was perhaps originally aimed at securities rather than commodities.

It is not uncommon for commodity ‘repos’ to be ‘unobligated’ i.e. the commodity trader has the option but not the obligation to repurchase the commodity. It appears that such unobligated repos would not fall within the definition of “repurchase transactions” for the purposes of the Regulation.

Similarly, it appears that some supply chain transactions may technically be out of scope, although it is not immediately clear as to why this line has been drawn.

To date, repos and precious metals leasing/loans have typically been bi-lateral and as such largely private structured trades – to use a securities analogy, they have been part of the “OTC” range of structured trade and commodity finance products. However, these structured trades would (subject to the other requirements of the Regulation) be in-scope and therefore reportable trades for in-scope ‘lenders’ and in-scope ‘borrowers’ alike.

Reporting requirements for in-scope commodity transactions

In-scope counterparties will need to report the details of any conclusion, modification or termination of in-scope transactions no later than the working day following such conclusion, modification or termination. Such trades must be reported to a trade repository established in the EU and registered with the European Securities and Markets Association (ESMA). In-scope counterparties must also keep records of such in-scope transactions for five years from the termination of the transaction.

According to the European Commission, “the reporting will be based on the existing reporting framework for derivative contracts established by EMIR and will work in a similar way”. The exact set of reporting standards required under Article 4 is yet to be developed by ESMA. It is expected that ESMA will send its draft rules for approval to the European Commission at the start of 2017.

Banks active in the commodity finance market will most likely constitute financial counterparties, either as an investment firm or a credit institution. In relation to commodity traders, unless they are alternative investment funds (AIFs), they will likely be classed as non-financial counterparties.

Additionally, in-scope UCIT’s investment companies and authorised managers of AIFs will be required to disclose commodity transactions to their investors in their annual (and half-yearly in respect of UCITIS) reports under Articles 13 and 14. This includes disclosing the names of their top counterparts.

Timelines

Investment firms and credit institutions, in particular banks active in the commodity sector, will need to start complying with the reporting framework 12 months after it enters into force. Commodity traders, unless they are an AIF, will likely be required (as a non-financial counterparty) to start complying with the reporting framework 21 months after it enters into force. Based on the intended date of submission of the regulation for approval by ESMA, the market expects the reporting regime to enter into force sometime during 2018.

Conclusions and takeaways

The task for market participants (at least initially) will be to accurately distinguish between reportable and non-reportable commodity transactions. Counterparties will need to take a view on this and probably a purposive rather than strict interpretation of the Regulation will be needed. The commodities market is hopeful that further guidance will be issued.
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