

SPECIAL EDITION

Commodities in Focus



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Introduction

Welcome to the twelfth edition of Commodities in Focus (CIF); our bulletin for clients engaged in the production, trading, carriage, storage and financing of commodities.

Supply chains are under great strain. In a recent article entitled "[Archaic financial plumbing of global trade needs a refit](#)", the Financial Times blamed a "trade finance gap" on the architecture of trade finance "... lift the floorboards and check the plumbing in the form of trade finance... the conduits of trade finance, while not bunged up, could be doing better".

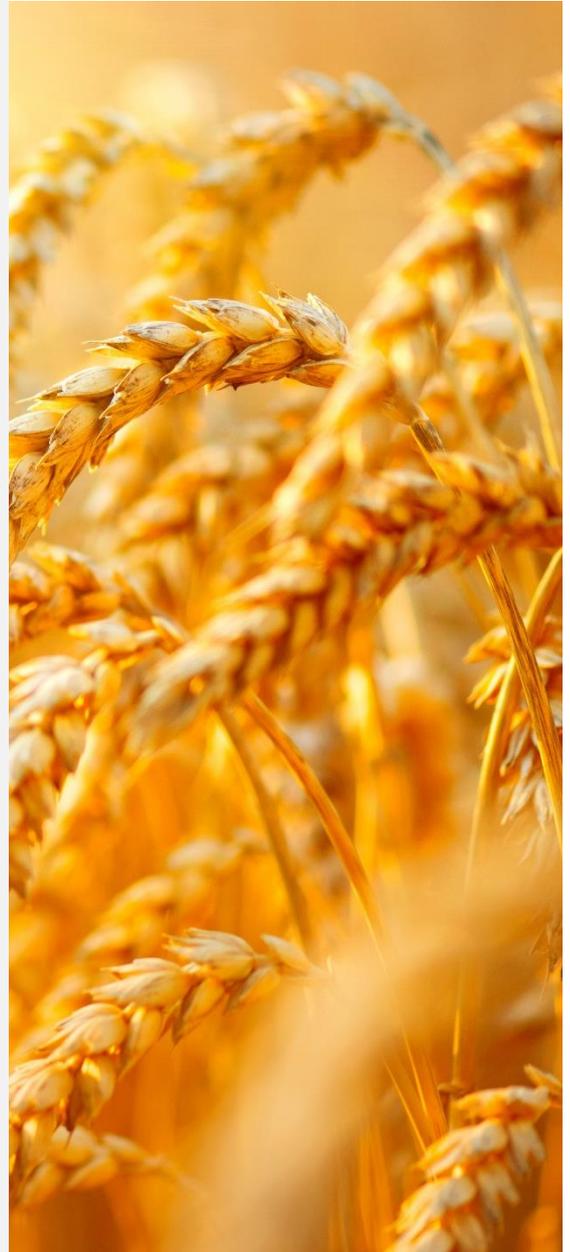
Many of our readers will agree with the FT that "...trade finance has traditionally been a notoriously opaque and technologically backward area, and a lot of documents for goods trade aren't even digitised. (It's not like they haven't had time to modernise: rudimentary letters of credit date back to Babylonia in 3,000BC.)".

This issue of Commodities in Focus hosts a very timely article on the transformative potential of digitalisation for trade finance and the steps already taken in an industry ripe for large-scale disruption.

The authors are two new partners who recently bolstered our Marine and International Trade practice, Philip Prowse and Jameel Tarmohamed, and Andrew Green, associate. Alongside decades of experience advising clients on traditional trade finance structures, Philip and Jameel specialise in the emerging area of digitalisation within the trade finance industry.

We hope that you find this bulletin both useful and interesting. If you have any comments or would like to learn more on any topic, please get in touch.

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"Stephenson Harwood fields a 'practical and knowledgeable' team that is 'a major force in the commodities market thanks to its wide and deep knowledge of the law and commercial practicalities'."

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Digitalisation – the future of trade finance?

The Issues

Trade finance has been essential for both domestic and cross-border trade flows for centuries and remains so to this day – according to a report published by McKinsey & Company in November 2021, the global trade finance ecosystem amounted to \$5.2 trillion.¹ However, this vital industry is showing its age and faces some significant interconnected issues regarding availability and adaptability.

Analysis by the Asian Development Bank highlights that the **global trade finance gap** – the difference between how much trade finance is requested by businesses and the actual amount of funding that banks are willing or able to provide – grew to an all-time high of \$1.7 trillion in 2020, fuelled by pandemic-related disruption throughout the global economy, representing a 15% increase from two years earlier.² While the largest players are posting record profits, with ample access to financing, it is the small to medium sized businesses who are really feeling the gap.

The trade finance industry also experiences problems relating to the use of paper-based documents and manual processes within the global supply chain, which impacts the **speed, cost and efficiency** of trade finance transactions. That an eighteenth-century businessperson would find little has changed to flow of credit and documents since their day is cause for concern. Further, trade finance usually involves multiple parties, be it buyers, sellers, financiers, insurance providers or logistics companies, all of which need to be connected. However, there is no single platform which connects all of these parties, and it is this **lack of connectivity** within trade finance systems that plays a big part in escalating costs and time attributed to trade finance transactions, and this in turn feeds into the growing trade finance gap.

Therefore, is the digitalisation of trade finance the answer to alleviating these issues?



Digital Trade Finance

Blockchain

Interest in blockchain over the last few years has been fuelled by the launch of the cryptocurrency, Bitcoin. However, the use of blockchain to remove some of the aforementioned trade finance issues is something that is actively being put into practice in the industry.

Amongst a host of established and emerging players, in December 2021, blockchain platform **MineHub** financed its first live metals financing transaction using its trade finance application. The live transaction, which was carried out by MineHub Trade Finance, involved alternative financier Kimura Capital financing three consecutive shipments of silver concentrate from Peru to China for its client PY Commodities.

MineHub Trade Finance was launched in November 2021 and focuses on trade operations and document flows between metals and mining companies. It allows parties to a transaction to **collaborate securely in real time**, sharing electronic information, rather than couriering or emailing documents that are subject to delay, interception, fraud and cyber threats. This sharing of information is done at a **very granular level**, with the borrower inviting the lender to the transaction on the platform and giving the lender access to those parts of the transaction that the lender wants to see as part of their credit requirement. This aspect of the platform is particularly appealing given the numerous fraud cases that have blighted the commodities finance industry.

¹ <https://www.mckinsey.com/industries/financial-services/our-insights/reconceiving-the-global-trade-finance-ecosystem>

² Kijin Kim, Steven Beck, Ma. Concepcion Latoja, and Mara Claire Tayag, "2021 trade finance gaps, growth, and jobs survey," *ADB Briefs*, Number 192, October 2021, adb.org.

Further, the ability of the platform to offer **transparency and connectivity in a secure communication channel** between all parties whilst taking paper out of the process is a very positive step in attempting to mitigate the silo nature of paper-based transactions. Blockchain technology is used throughout to ensure users can verify the authenticity of key documents, improve control over key risk events and reduce inefficiencies in the metals and mining supply chains, therefore impacting administration costs and time significantly.

Another recent example of how blockchain technology is infiltrating and affecting the trade finance industry for the better is the development of **Covantis**, a digital platform launched in February 2021 by some of the leading players in the agri commodities industry (ADM, Bunge, Cargill, COFCO, LDC and Viterra) with the purpose of creating **more efficiency and value in the agri post-trade execution process**, and with the long term objective of digitalising the entire execution process for international agri bulk commodities.

The Covantis platform has several key attributes which enable it to handle complex scenarios in a data secure environment. It has **low operational risk and cost** through simplifying execution by operating in a paperless environment, with all information and documents readily accessible within the Covantis platform, therefore cutting down on paperwork and costs, and **improving efficiency** by speeding up the documentation process. Further, the platform can **easily track changes** by allowing users to see the full history of any changes that have been made or requested and it creates **end-to-end visibility** at all stages of vessel execution through tracking every process, from loading to transit to discharge, in real-time. Additionally, the platform **diminishes the likelihood of errors** by automating repetitive data. Therefore, it is hoped that the agri post-trade execution process, which is both labour-intensive and error-prone, can be digitally upgraded with the use of the Covantis platform.

Smart Contracts

There are further ways that blockchain technology can be utilised within the industry, and one such way is through the use of **smart contracts**, which are based on decentralised consensus as well as tamper-proof algorithmic executions. While still an emerging tool within the trade finance ecosystem, research indicates that smart contracts could reduce costs for gathering and processing information, drafting and negotiating contracts, monitoring and enforcing agreements, and managing contractual relationships. However, whilst the likes of IBM have been spearheading the application of smart contracts to trade finance and the Law Commission, in November 2021, stated that the existing law of England and Wales was able to accommodate and apply to self-executing 'smart' legal contracts without the need for statutory law reform, we have not seen smart contracts widely used in the industry as of yet, but there is certainly enough industry participant buy-in to make using smart contracts the norm in the not so distant future.

Conclusion

The launch of the ICC Digital Standards Initiative in September 2020 was an important step towards the development of globally accepted digital standards for trade, with the hope that a harmonised trade environment can be fostered, bridging the digital gap and creating new frameworks to unify digital trade processes. However, blockchain technology, as the most high-profile emerging technology in the trade finance space, still encounters complex roadblocks, such as the need for all legal systems to recognise digital documents in trade (despite significant developments on this front in the UK and abroad, such an international industry requires international consensus), the high costs associated with adopting and operating the blockchain and information transmission and privacy concerns. Nevertheless, in our view, increasing adoption of blockchain technology can only help to modernise the architecture of trade finance, and critically, reduce the global trade finance gap.





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In the news

Jameel Tarmohamed joins Stephenson Harwood Commodities team

The team are pleased to welcome commodities trade finance specialist Jameel Tarmohamed to the commodities team, who joins as a partner, based in the firm's London office. Tarmohamed specialises in structured commodities trade finance. His experience includes advising banks, investors, corporates and traders – across the commodities supply chain – in many emerging jurisdictions in addition to the main commodity trading hubs of London, Switzerland, Dubai, Singapore, Shanghai and Hong Kong. His expertise covers all forms of structured trade and commodity financings, including pre-export, pre-payment, inventory, limited recourse, receivables financings and repo and true sale transactions. He joins the firm from HFW.



To read the full press release, please click [here](#).

Philip Prowse joins Stephenson Harwood Commodities team



The team are pleased to welcome commodities trade finance specialist Philip Prowse to the commodities team, who joins as a partner, based in the firm's London office.

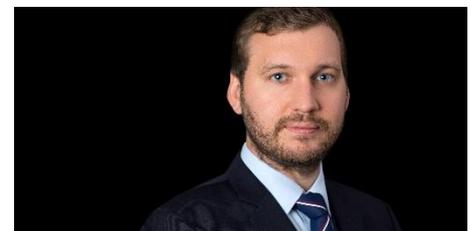
Prowse has acted for a wide range of entities across the global commodities supply chain. Clients include lenders, borrowers, suppliers, producers, processors, distributors, insurers, logistics operators and end-users. His experience covers the full spectrum of trade finance arrangements, including syndicated secured debt facilities, bilateral/regional (uncommitted) facilities, pre-export and post production/prepayment structures, tolling transactions, borrowing base financings and debt capital markets offerings for investment into the trade finance asset class.

To read the full press release, please click [here](#).

Mark Lakin named in Seatrade Maritime Middle East's inaugural '20 under 40' list

Stephenson Harwood Dubai-based partner Mark Lakin has been included in Seatrade Maritime Middle East's inaugural '20 under 40' list.

The list celebrates the top 20 maritime industry professionals under the age of 40 who have demonstrated leadership, ambition and commitment to the industry within the Middle East region. The top 20 were announced at an award ceremony, which was supported by the UAE Ministry of Energy and Infrastructure as part of UAE Maritime Week.



To read the full press release, please click [here](#).

Get in touch

If there is a topic or area that you would like us to cover in future editions, or if you have feedback or comments, please get in touch by email (haris.zografakis@shlegal.com) or telephone (+44 20 7809 2144).

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Commodities in Focus Edition 11

[Commodities in Focus - Edition 11 2021 \(shlegal.com\)](#)

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