

A long history: fraud before 2020

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The frauds of 2020 form part of a long history. Commodity-backed financing has been exposed, since its origins, to the temptation to pledge goods that do not exist or to pledge them several times over. As early as the nineteenth century, scandals involving empty warehouses or forged receipts had struck European and American banks.¹ The fall of Noble Group, one of the biggest names in Asian trading, at the end of the 2010s had already shaken the confidence of financiers.²

This recurrence stems from the structure of the business. Asset-backed financing presupposes that the bank places its trust in documents and in third parties — carriers, warehouse keepers, inspectors — for goods that it does not see. Each intermediary is a point of vulnerability. Periods of prosperity, when credit is abundant and controls slacken, prepare the ground for the frauds that crises reveal.

The lesson of this history is that the measures taken after each scandal — tighter controls, new technologies, the withdrawal of certain banks — mitigate the risks without eliminating them. Vigilance must be permanent and must withstand the commercial pressure which, in good times, pushes banks to finance more with fewer controls.

1 Notes

1. Wikipedia (en), art. “Salad Oil scandal”: Anthony “Tino” De Angelis (Allied Crude Vegetable Oil) pledged 900,000 short tons of oil as security for 180 million dollars of loans when the actual stock was 55,000 tons, the tanks being filled with water and the warehouse receipts forged; bankruptcy from 18 November 1963, American Express Warehousing bankrupt with 210 million of claims; GTR, “Qingdao’s legacy”: the 2014 fraud at the port of Qingdao, where Decheng Resources “used fake warehouse receipts to secure multiple loans, using

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single cargoes of copper and aluminium as collateral”, international losses exceeding 1 billion dollars, Chinese banks exposed to more than 3 billion, Mercuria v Citi litigation in London (a 270 million dollar repo transaction) concluded by a settlement. ↩

2. “SocGen shuts Singapore trade commodity desk after Hin Leong”, Bloomberg, 1 August 2020, which mentions the fall of Noble Group among the earlier scandals. ↩

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