

The banks and their retreat

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The commodity trade of Switzerland was financed for decades above all by banks in Geneva, where several French, Dutch and Swiss banks maintained specialised commodity finance departments. The Geneva volume describes this business and its history. The traders of Zug drew on the same banks, on the large Swiss banks in Zurich and on banks in London, Paris, Amsterdam, Singapore and Tokyo.

In the years after 2015, and above all after 2020, several European banks reduced their commodity finance business or withdrew from it altogether. The reasons included losses from fraud, the rising costs of compliance with anti-money-laundering and sanctions rules, the capital requirements of the Basel framework and the reputational risks associated with financing fossil fuels.¹ The series of frauds uncovered in Singapore in 2020, when several trading companies collapsed with debts to banks that had financed cargoes that did not exist or that had been pledged several times, was a turning point.² The banks that remained in the business tightened their standards, concentrated on the largest traders and increased their prices.

The retreat of the banks has changed the financing of the trade. The largest traders, including Glencore, have access to the capital markets and have diversified their sources of financing. Medium-sized and smaller traders have turned to other lenders: private credit funds, trade finance funds, commodity-focused investment firms and, in some cases, the traders' own customers and suppliers. The shift from regulated banks to less regulated lenders raises questions of transparency and of risk that the regulators have begun to examine. For the canton of Zug, whose traders do not have a local banking cluster to rely on, the availability of financing is a factor of competitiveness that the canton cannot influence directly.

1 Notes

1. Global Trade Review, "ABN Amro to exit trade and commodity finance after losses", 12 August 2020, gtreview.com: ABN Amro announced that its trade and commodity finance activities would be discontinued completely, with a focus on European clients, after losses including about USD 300 million on Hin Leong; Société Générale closed its Singapore commodity finance unit and BNP Paribas suspended new commodity trade finance deals. Pirrong, abridged white paper (Trafigura, 2015), p. 14: deleveraging and dollar funding constraints on European and French banks had reduced bank extensions of commodity credit. ↩
2. Global Trade Review, "Analysis: Hin Leong's 'vicious cycle' of trade finance fraud", 19 August 2020, gtreview.com: liabilities of about USD 3.5 billion to numerous banks; fictitious trades, double pledging of collateral and forged bills of lading and invoices. Public Eye, "The Intricacies of Commodities Trade Finance", September 2020, p. 11: ZenRock obtained funding linked to the same cargo of crude oil from numerous banks; HSBC and ABN Amro suffered losses. ↩

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