

## The instruments of trade finance

*Dr Alexander Ressos, TEP  
Attorney-at-Law (Switzerland), Solicitor (Hong Kong),  
Solicitor (England & Wales)*

The instruments of commodity trade finance range from the traditional to the complex. The oldest and still one of the most important is the documentary letter of credit. The buyer's bank undertakes to pay the seller against the presentation of specified documents, usually the bill of lading, the commercial invoice, the inspection certificate and the insurance policy. The seller's risk thus shifts from the buyer to the buyer's bank, whose obligation is independent of the underlying sale. Letters of credit are almost universally governed by the Uniform Customs and Practice for Documentary Credits of the International Chamber of Commerce, currently in the version of 2007, known as UCP 600.<sup>1</sup>

Transactional financing covers individual cargoes. The bank advances a percentage of the value of the cargo against security over the goods and assignment of the receivable and is repaid from the buyer's payment. Borrowing base facilities, which are the backbone of the financing of the medium-sized traders, finance a revolving pool of inventories and receivables. The amount that the trader may draw is determined by the value of the eligible assets, discounted by margins that reflect their risk. The bank monitors the pool through regular reports and inspections. The largest traders finance themselves increasingly through unsecured instruments: syndicated revolving credit facilities, bonds and commercial paper, which they obtain on the strength of their size and their credit rating.<sup>2</sup>

Prepayment financing turns the trader into a lender. The trader advances money to a producer, often a state-owned oil company or mining company in a developing country, against the obligation to deliver future production. The trader refinances the prepayment with a syndicate of banks, to which it assigns its rights under the prepayment agreement. Prepayments have been an important source of financing for producing states and companies that had difficulty raising money in the capital

markets, while giving the traders privileged access to supply. They have also been criticised because they can burden producing states with debts secured on their future production outside the scrutiny of their budgets and their creditors. Several of the corruption cases described in Chapter II concerned the negotiation of such arrangements.<sup>3</sup>

## 1 Notes

1. ICC, "ICC's new rules on documentary credits now available", 4 December 2006, [iccwbo.org](http://iccwbo.org); the 2007 Revision of the Uniform Customs and Practice for Documentary Credits (UCP 600, ICC Publication No. 600) was approved by the ICC Commission on Banking Technique and Practice on 25 October 2006, with an implementation date of 1 July 2007. ↩
2. Mark Abrams, "Borrowing base facilities", Trade Finance Global, [tradefinanceglobal.com](http://tradefinanceglobal.com) (first published 14 November 2018, updated 6 April 2026): the amount the borrower may draw depends on the value of a pool of receivables and inventory, discounted by a margin; the lender monitors the collateral regularly and adjusts availability. Public Eye, "The Intricacies of Commodities Trade Finance", September 2020, [publiceye.ch](http://publiceye.ch), pp. 14–17: revolving credit facilities of USD 327.7 billion raised by the five largest Swiss traders in 2013–2019. Pirrong, abridged white paper (Trafigura, 2015), p. 14: unsecured syndicated credit lines. Glencore, "Debt investors", [glencore.com](http://glencore.com) (accessed September 2026): bonds issued under an EMTN programme; long-term and short-term ratings of BBB+/A-2 (S&P) and A3/P-2 (Moody's). A commercial paper programme is not named on that page. ↩

3. Public Eye, "The Intricacies of Commodities Trade Finance", September 2020, publice.ch, pp. 24–27: Glencore's pre-financing rose from USD 232 million (2014) to USD 1.172 billion (2019), Trafigura's prepayments from USD 700 million to USD 5 billion (2013–2019); where pricing formulas remain opaque, such a loan "risks becoming a financial liability for future generations"; Chad's debt to Glencore. OCCRP (Michael Gibb), "African Economies Haunted by Oil-Backed Loans as Traders Call in Debts", 25 November 2020, occrp.org: loans from banks and commodity traders "tend to be the least transparent" (Jubilee Debt Campaign). ↩

---

*For general information only. This article does not constitute legal or tax advice, does not replace advice on an individual case and creates no lawyer-client relationship. It reflects the legal position as of September 2026.*

Online version: [helveticaregister.com/zug-the-instruments-of-trade-finance](https://helveticaregister.com/zug-the-instruments-of-trade-finance)