

CERs fuelling new opportunities



HSBC and Calyon signed a landmark €33mn prepayment facility for trading company and supply chain manager Noble Group in June 2007. The transaction marks the first time that a pre-payment financing structure has been used for the purchase of carbon credits (CERs).

Under the terms of this facility, the lenders have extended €33mn to Noble, enabling it to buy certified emission rights (CERs) from Gujarat Fluorochemical (GFL), a public limited company in India.

"Structured trade finance (STF) usually deals with physical commodity offtake and performance risk, but here, rather than pre-paying goods, we are dealing with the future flow of an unconventional commodity," remarks Jean-François Lambert, global head of structured trade finance at HSBC.

"We are delighted to win this award for this sophisticated transaction, as it epitomises the depth of our commitment to working with our customers to innovate and create financial and practical solutions that meet their needs."

Jean-Baptiste Ciet, associate, Asia & Central Asia, structured commodity finance, at Calyon, further comments: "The transaction certainly constitutes a stepping stone for rolling out further such pre-payments in this nascent but potentially huge emissions market."

Deal Information

Borrower: Noble Group
Amount: €33mn
MLA and facility agent: HSBC
Joint MLA: Calyon
Tenor: 3.5 years
Law firm: Norton Rose (Singapore)
Signing date: June 2007

Noble is a major player in CER trading having established its carbon credits business in mid 2005. It will be using the purchased CERs to provide its carbon team with a comfortable volume of credits with which to trade.

CERs are issued in return for a reduction of carbon emissions through projects that fall under the Kyoto Protocol's Clean Development Mechanism.

GFL, which produces compounds used in refrigerators or air conditioners, was the first company to be certified to produce CERs by the United Nations Framework Convention on Climate Change (UNFCCC). It produces the CERs by capturing, storing and destroying ozone depleting gases. The credits can then be sold on to trading firms or companies, generally in the developed world, which can use them to offset their emissions, and therefore hit Kyoto targets for the reduction of harmful carbon dioxide.

GFL will be using the proceeds

of the sale of CERs to invest in environmentally-friendly projects in the renewable energy sector. It has already invested US\$35mn into a 23MW wind farm in Maharashtra in southwest India, which was commissioned in March 2007. It is also considering a further US\$115mn investment in the next 12 months.

Structured as a typical STF deal, the key risk with this award-winning deal faced by the arrangers is performance risk. However, the added twist is that usually performance risk is judged on whether the supplier delivers the goods.

In this case, there is the additional complication of a specific procedure to validate and deliver the CERs, organised through regular audits arranged through the UNFCCC.

Despite the pioneering and challenging nature of the transaction, both banks took comfort in the fact it was working with experienced partners.

"We viewed positively the involvement of Noble Group in the deal, as the company has been a trustworthy name for many years. In addition, the well-established framework of the industry with the primary role led by the UN along with the quality of the Indian project and related company has been very supportive," comments Ciet. The deal also heralds further CER-related transactions as demand for carbon credits in industrialised countries increases, and appetite from European buyers grows due to constraints and obligations imposed by the Kyoto Protocol.

"We believe that provided there is a good understanding of the CER process and market, other opportunities are likely to arise," remarks Lambert.

"As environmental constraints increasingly reshape the marketplace, new products will be developed. But, this also gives rise to new risks as well which will have to be well comprehended to create new opportunities beyond the conventional frontiers," he concludes.



TRADE FINANCE
Deal of the Year

A new use for a familiar structure

Noble/GFL – CER pre-payment

MLAs:	Calyon & HSBC
Borrower:	Noble Group
Amount:	€33 million
Tenor:	3.5 years
Legal counsel:	Norton Rose

This transaction combines a well-known structure – a pre-payment scheme – with an innovative underlying product, as the issuance of carbon credits (CERs) is relatively new. Both MLAs here demonstrate their ability to create a strong financial structure with unconventional forms of collateral.

It is believed that this is the first time that a pre-payment structure has been created for CERs, as opposed to traditional physical commodities, as permitted under the United Nations Framework Convention on Climate Change and the Kyoto Protocol.

The structure was arranged by Calyon's structured commodity finance team in London, and HSBC's structured trade finance team in Hong Kong in close partnership with Noble Group. Noble Group acted as offtaker of the CERs generated by their Indian business partner Gujarat Fluorochemicals (GFL). The Noble/GFL project was the first to be registered under the CER-qualification requirements of the Clean Development Mechanism.

"We are delighted to receive a Deal of the Year award for this rather unique and sophisticated transaction. It recognises both our commitment to developing innovative financial and practical solutions which meet our customers' evolving business requirements, whilst also underlining our ability to apply intellectual and financial solutions to situations which are beyond the conventional," comments Jean-François Lambert, global head of structured trade finance at HSBC.

Noble Group's global head of structured trade finance, Jaime Teke, notes: "Our carbon credits business has performed well since its establishment in mid-2005 and our strong partners such as Gujarat Fluorochemicals and HSBC

are key contributors towards our success. We remain focused on our strategy of origination and to leverage existing Noble synergies. As a result, we have become a leading originator of CERs to the carbon credits market globally with an estimated 28% share."

He adds: "Pre-financing our suppliers of CERs is an important element to secure long term offtake. Through this deal, we have ensured substantial volumes and future supply for our customers. The main challenge for this deal, using a well known pre-export financing structure, has been to demonstrate to our banks that CERs belong to the commodity family and therefore existing structures for financing commodities also apply to CERs."

"Relatively few innovations are possible alone. Noble has been the ideal partner for HSBC when developing new ideas and exploring new opportunities. In this case Noble Group's strong understanding of the carbon credit market was the trigger to making this successful transaction possible," explains Lambert.

"We were attracted by the intellectual challenge of structuring this facility – especially the pre-payment of an intangible, and tradable, commodity. We view this as a very interesting and promising angle. It underpins our strategy to better assess and understand our customers' supply chains and the financing opportunities they encompass – upstream and downstream – beyond the tangible into intangibles," he adds.

The transaction certainly constitutes a stepping stone for rolling out further such prepayments in this nascent but potentially huge emissions market.

Gilles Sayer, executive director, head of Asia & Central Asia, structured commodity finance at Calyon, concludes: "Demand of CERs from industrialized countries is increasing and appetite from European buyers in particular is likely to continue due to constraints and obligations under the Kyoto Protocol. On the supplier's side, similar projects have arisen in Asia, whilst the CIS could also offer interesting opportunities in related industries. Since traditional trade finance structures can be applicable to the carbon credits, and as long as financing needs are there, similar scenarios could take place." ■



TRADE FINANCE
Deal of the Year

New frontiers for Indian oil

Indian Oil Corporation – bilateral loan

MLAs:	BBVA
Borrower:	Indian Oil Corporation
Amount:	\$300 million
Tenor:	Up to 12 months

This deal represents the first ever bilateral facility signed by Indian Oil Corporation with an entity without a presence in India, underlining the increasing openness of the market. To complete the deal special documentation had to be designed to adapt the facility to the specific legal regulatory environment of the country.

BBVA granted a total of \$300 million in the form of a buyer's credit facility to Indian Oil Corporation (IOC) as

the sole arranger and sole lender. The proceeds of the loan financed IOC's import of crude oil with a tenor of up to 1 year.

Explaining the significance of the deal, Grace Li, head of global trade finance Asia at BBVA, says: "This facility is a first, in different aspects, for both IOC and BBVA. This is the first time that IOC entered into a bilateral buyer's credit facility with a foreign bank without any branch presence in India. BBVA has now become one of IOC's leading core banks in supporting its crude oil import. The requirement of crude oil import jumped significantly in India coupled with the increase in oil price, providing a good opportunity for BBVA to enter into the market."

She continues: "For the bank, this is the first bilateral facility that BBVA has granted to an Indian corporate providing BBVA a milestone in entering into the Indian market with special focus on the leading corporate." ■