DEMYSTIFYING DOWNSTREAM

Funding Oil

Types Funding

Banks

Letter of Credit

- Usance LC
- Sight LC
- Standby LCs

<u>Supplier</u>

Supplier's Credit

- Open Account
- Collateral Management



Bank Financing

CURRENT

Vessel Arrives Local Bank Issues LC

Foreign Bank Guarantees (confirmation)

Vessel Discharges Cargo ready for sale to OMCs

PREVIOUSLY

Local Bank Issues LC Foreign Bank Guarantees (confirmation)

Vessel Loads and sails to Ghana

Vessel Discharges

Cargo ready for sale to OMCs

Supplier's Credit

OPEN ACCOUNT

Terminal **Terminal** Discharge Transfer **Execute Open Account** Operator Operator Set Credit Limit Vessel into payment to permits Sale up Contract Renews Credit Tanks supplier to Credit Limit limit for liftings

COLLATERAL MANAGEMENT AGREEMENT

Discharge Effect permits Sale up to amount paid

Discharge Vessel into Tanks LC or Transfer

Effect permits Sale up to amount paid

Sell to OMCs Payment for more liftings

Notes

Banks

- Bank financing (both direct and partial under the CMA arrangements) is the main mode of funding oil imports.
- Due to the size of transactions, there are comparatively immaterial immovable collateral to back funding.
- Proceeds from sales and stock remain the main form of collateral.
- Failure to realise full sale proceed due to under-recoveries thereby poses a major default risk.
- The BDC industry exposure to banks stands in excess of <u>USD1bn</u>. Any default risk poses a systemic risk to the entire financial sector.

Supplier's Credit

- Comparatively cost effective. Reduced demurrage risk.
- This has become a major model for managing the crunching credit lines from the banks.
- Supplier's credit transactions are very limited due to the BDC exposure to Government liabilities.