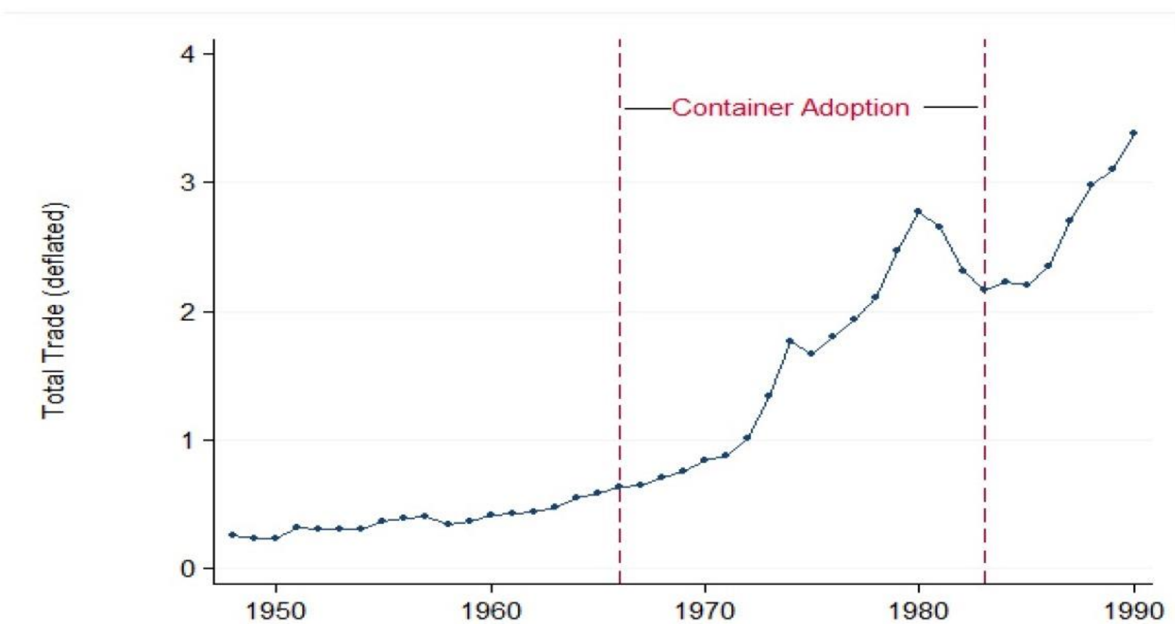
Fifty years of development of Greek shipping and Greek shipfinance in a global context
By Ted Petropoulos
Nafs
November 2015

There has been a parallel and rapid development by Greek shipping and Greek shipfinance over the last 50 years. In this article, we will focus on the key changes to both and on how today's Greek shipping and Greek shipfinance have evolved to unprecedented heights which thrusting Greek shipping to the top position globally, enjoying a 16% market share. This performance has also to be seen in the context of the development of global shipping over the period.

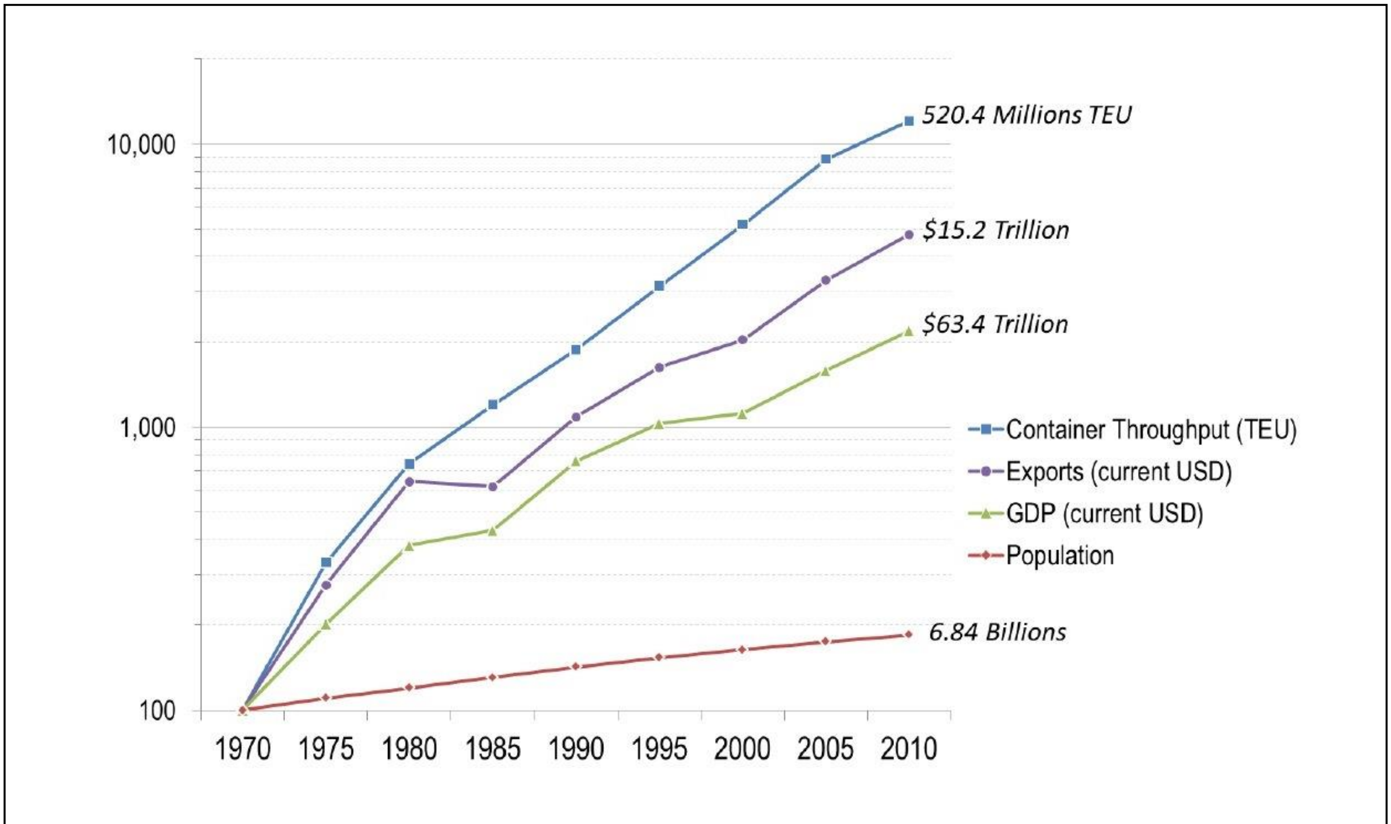
In 1965, containerised transport was the new system that swiftly replaced general cargo transportation by cargo liners please see Graph 1 showing the growth of word trade assisted by the container adoption process.

Graph 1: The growth of world trade (deflated): 1948-1990
Source: " Estimating the effects of the container revolution on world trade", Daniel M. Bernhofen et al, February 7, 2014



In Graph 2, you may observe the growth of container throughput, which outpaced the growth of exports and GDP.

Graph 2: Global Trade and Container Throughput (1970=100)
Source: " Estimating the effects of the container revolution on world trade", Daniel M. Bernhofen et al, February 7, 2014



In addition, the economics of vessel size started to produce larger vessels to handle the increased flow of commodities in both the dry and wet sectors all aimed at reducing transport costs. It should be noted that the gradual lifting of trade restrictions quotes and tariffs, as well as the commencement of the globalisation process and the opening of new trade areas, lifted economic growth and multiplied the demand for shipping. Sea trade grew from 1.6bn tons in 1965 to 10.3n tons in 2015. (*Source: "Will the next 50 years be as chaotic as the last?", Martin Stopford, Lloyd's List, Friday 15 May 2015)*

Fifty years of development of Greek shipping and Greek shipfinance in a global context
By Ted Petropoulos
Nafs
November 2015

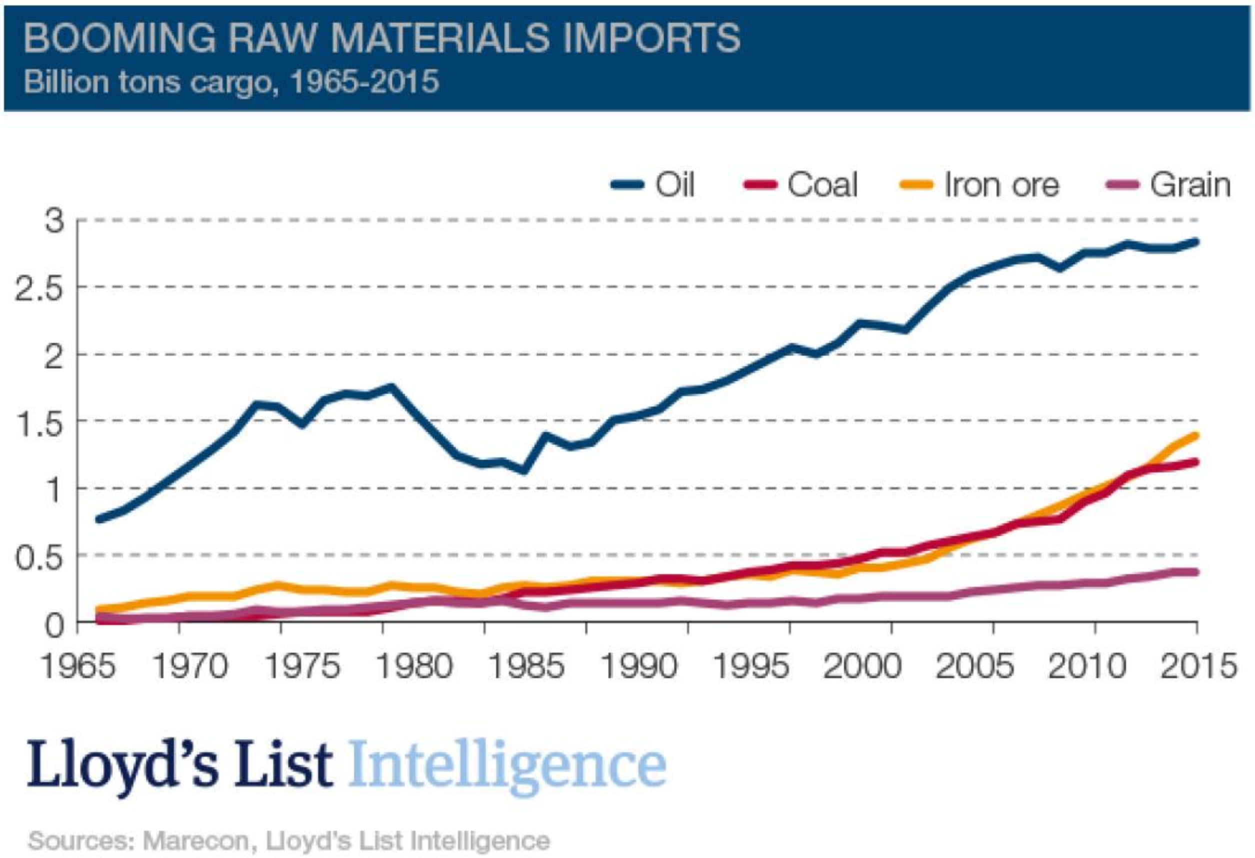
In the Table 1 below we note the progressive increase of seaborne trade between 1970 and 2014 –

Table 1: *Source: UNCTAD October 2015*

Developments in international seaborne trade, selected years (millions of tons loaded)				
Year	Oil and Gas	Main bulks	Other dry cargo	Total (all cargoes)
1970	1440	448	717	2605
1980	1871	608	1225	3704
1990	1755	988	1265	4008
2000	2163	1295	2526	5984
2005	2422	1709	2978	7109
2006	2698	1814	3188	7700
2007	2747	1953	3334	8034
2008	2742	2065	3422	8229
2009	2642	2085	3131	7858
2010	2772	2335	3302	8409
2011	2794	2486	3505	8785
2012	2841	2742	3614	9197
2013	2829	2923	3762	9514
2014	2826	3112	3903	9841

In Graph 3 you can see this growth for oil, coal, iron ore and grain over the period

Graph 3: *Source: Marecon, Lloyd's List Intelligence*



Specialist vessels, such as Chemical tankers, LNGs, car carriers and open hatch bulks also emerged and soon were joined by LPG, offshore support vessels and other specialised vessels.

Aided by the adoption of flags of convenience, which further cut costs, shipping companies looked for time charters and contacts of affreightment in order to secure income and finance their newbuildings.

However, the economic and trade growth was not steady. In the last 50 years there were 11 business cycles, which created problems for the industry and lead to notable failures. We should draw attention to the two oil crises in 1973 and 1979, the financial crises of the early 90s and 2008, as well as the 1997 Asia crisis all which occurred which occurred in the last 40 years. Earlier, in the 1960s and 1970s, the growth of Japan as the new 'star' of shipping, as well as

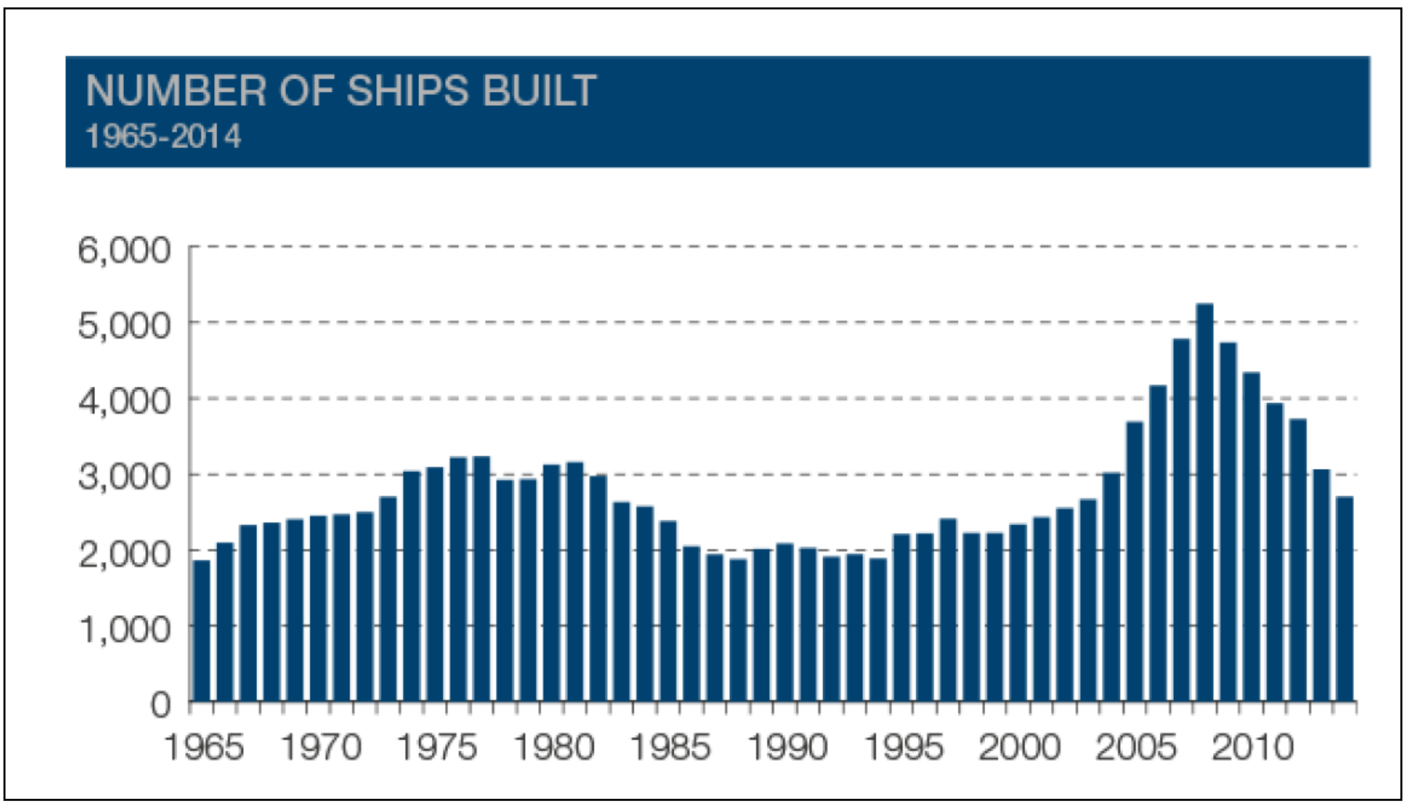
Europe and the US, provided more consistent growth. In the 1980s, we saw the growth of South Korea and the Asian tigers, whilst in the 2000s we saw the emergence of China, as a world player. Currently, China accounts for two thirds of iron ore imports worldwide and 20% of global coal imports, 60% of container import values and 16% of global oil imports.

Sea trade, 50 years ago, was focused by 2/3 into OECD consumers with non OECD consumers accounting for only 1/3. This has reversed today with non-OECD consumers now accounting for 2/3 of global sea trade.

To carry this growing trade, the shipbuilding industry too has changed with the increasing newbuilding focus, especially for non-specialised vessels, away from European yards and towards Japanese yards in the 60s-80s.

South Korea took over the lead newbuilding role in the 2000s, as it developed a massive newbuilding capacity. Over the last decade, though, China took over the lead position but with Japan and Korea still providing substantial newbuilding volumes. Overall, the number of vessels being delivered increased over the last 50 years with DWT growth being even more significant (see Graph 4).

Graph 4 – *Source : Marecon, Lloyd's List Intelligence*



Financing the growing Greek fleet

Financing such fleet growth was initially the domain of UK and European banks, with prominent names such as Williams and Glyn, as well as a plethora of banks. The development in the early 70s of the US Eurodollar market unleashed the potential of US banks, which became global banks and focused into shipping as very promising industry to build up their lending.

The 80s' shipping crisis took its toll among US banks which with Citibank as a notable exception, reduced their exposure or withdrew from shipfinance, only to begin to re-emerge recently.

In the last 20 years, it was European banks and primarily German banks that lead world shipfinance with Deutsche bank, Deutsche Schiffsbank, HSH Nordbank and many others building up large loan portfolios. In Table 2 we provide the leading Greek shipfinance banks as of end 2014.

Table 2: *Source: Petrofin Bank Research © - May 2015*

Greek shipping portfolios as of end 2014				
Bank Ranking				
Rank	Bank	Drawn	Committed but Undrawn	Total
1	Royal Bank of Scotland	$7,600	$0	$7,600
2	Credit Suisse*	$5,300	$619	$5,919
3	DVB	$4,200	$347	$4,547
4	Piraeus Bank	$3,850	$0	$3,850
5	National Bank of Greece	$2,652	$281	$2,933
6	HSH Nordbank	$2,171	$397	$2,568
7	Commerzbank**	$2,500	$0	$2,500
8	Alpha Bank	$2,420	$0	$2,420
9	DNB	$1,850	$460	$2,310
10	DB - Deutsche Shipping*	$2,000	$0	$2,000
11	CHINA EXIM*	$1,400	$600	$2,000
12	HSBC	$2,000	$0	$2,000
13	ABN AMRO	$1,725	$263	$1,988
14	BNP Paribas	$1,644	$311	$1,955
15	Nordea	$1,160	$460	$1,620
16	Citibank	$1,100	$500	$1,600
17	China Development Bank*	$1,100	$500	$1,600
18	Unicredit	$1,480	$93	$1,573
19	ING*	$1,350	$0	$1,350
20	Eurobank	$1,160	$155	$1,315
21	KEXIM*	$600	$400	$1,000
22	KFW	$616	$316	$932
23	Calyon*	$800	$0	$800
24	Bremer Landesbank	$694	$36	$730
25	Nord LB	$615	$40	$655

26	China Everbright Bank*	$350	$150	$500
27	CIT Maritime Finance*	$400	$0	$400
28	Qatar National Bank*	$335	$0	$335
29	Barwa Bank*	$335	$0	$335
30	Aegean Baltic	$296	$6	$301
31	LBG Shipping Finance **	$300	$0	$300
32	NIBC	$163	$88	$250
33	Natixis**	$100	$0	$100
34	Deka*	$100	$0	$100
35	Bank of Ireland **	$33	$0	$33
	OTHER BANKS (14)	$3,600		$3,600
	Overall number of banks	49	Total Greek portfolio	$64,019.5
May 2015				

The shipfinance industry over the last 35 years became more regulated and affected by the Basel I, II and III accords, regarding capital adequacy. Banks increasingly focused on an evaluation of risk and built up their risk departments alongside their credit departments in an effort to develop safer lending policies. As a result of the emphasis on risk control and in need to deleverage and slim their balance sheets, banks became increasingly selective and approached ship finance differently.

Whereas, from 1965 until the early 1990s, bulk shipping, as a family oriented business and shipfinance primarily focused on ‘name’ lending and the long term bank client relationship, a shift occurred over the last two decades. Banks increasingly focused on the larger owners as part of their risk containment efforts. Large shipping companies became increasingly more financially transparent offering audited, as well as consolidated, financials and adopting a corporate holding structure that provided greater comfort to banks.

In the 2000s, we saw the rapid rise of shipping publicly quoted companies primarily in the US and there followed in the last decade increasing interest in shipping by Private Equity funds via Joint Ventures with established owners across all shipping sectors on a global basis. (Table 3)

Table 3: List of the 33 US and UK publicly quoted Greek shipping companies – *Source: Newsfront Naftiliaki, 20 November 2015 Vol. 16 / No. 44*

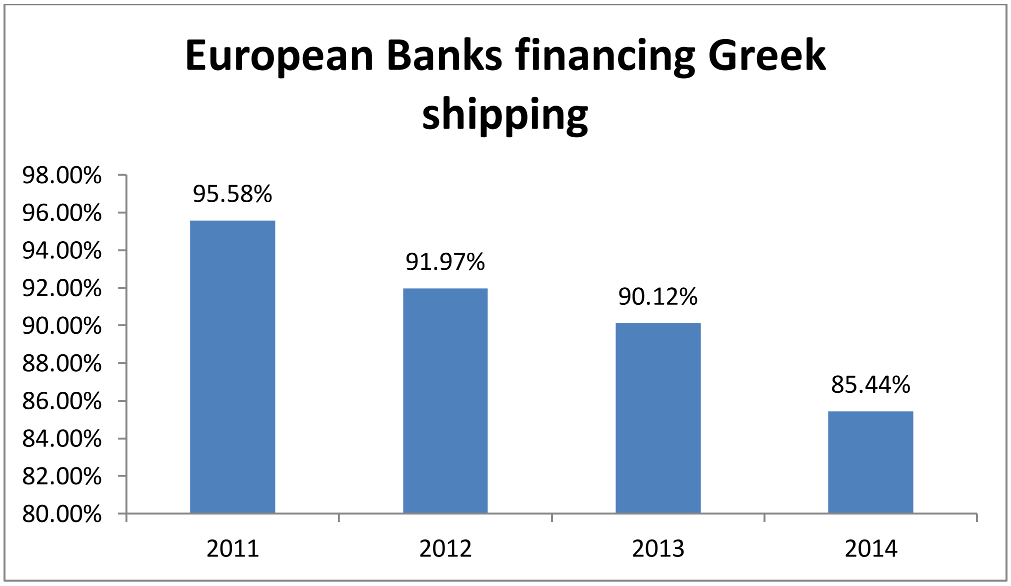
Aegean Marine US	US
Box Ships Inc	US
Capital Product	US
Costamare Inc	US
Danaos Corporation	US
Diana Containerships	US
Diana Shipping	US
Dorian LPG Ltd	US
DryShips	US

Dynagas LNG Partners	US
Euronav NV	US
Euroseas	US
FreeSeas	US
GasLog Ltd	US
GasLog Partners	US
Genco Ship & Trading	US
Gener8 Maritime Inc	US
Globus Maritime Ltd	US
Goldenport	UK
Hellenic Carriers	UK
Navios Holdings	US
Navios Marit Acquis	US
Navios Marit Partners	US
Navios Midstream	US
Ocean Rig	US
Paragon Shipping	US
Pyxis Tankers Inc	US
Safe Bulkers	US
Seanergy Maritime	US
Star Bulk Carriers	US
Stealthgas	US
TEN	US
Top Ships	US

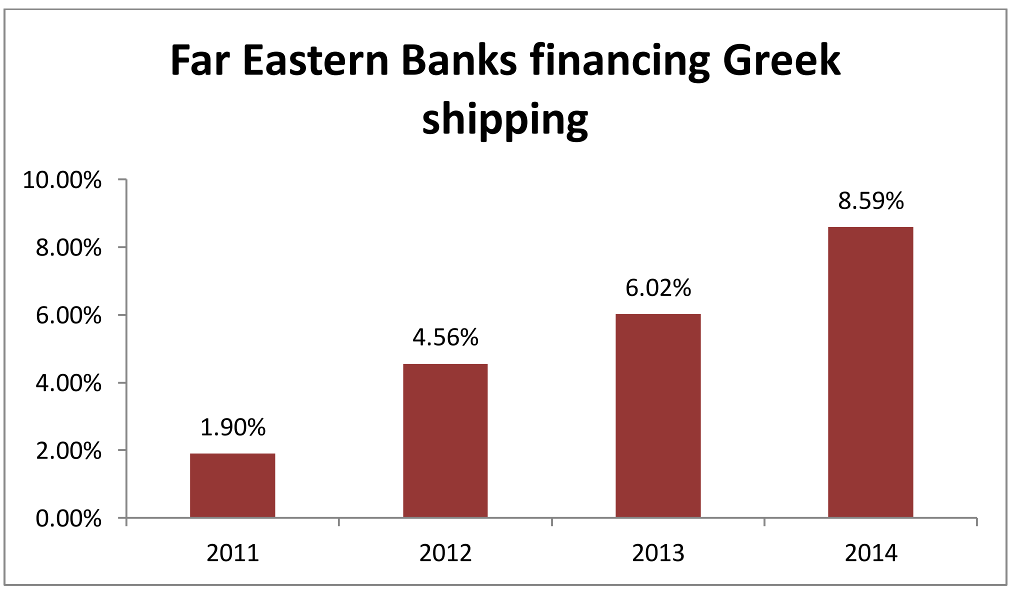
As the western banks' role reduced in importance over the last decade, primarily due to stringent capital constraints, the financing gap for newbuildings increasingly came from banks and leasing institutions from shipbuilding nations, i.e. China, South Korea and, lately, Japan. Export credit finance was linked to such loans in the Far East, but also for specialised vessels in Europe, such as offshore, dredges, chemical carriers, etc.

Towards the end of the 50-year period, we find the European banks' market share declining from 95.58% in 2011 to 85.44% currently (Petrofin Bank Research ©) (see Graph 5), whereas Far Eastern banks share has risen from 1.9% in 2011 to 8.6% currently (see Graph 6).

Graph 5: European banks financing Greek shipping – market share
Source: Petrofin Bank Research © - May 2015



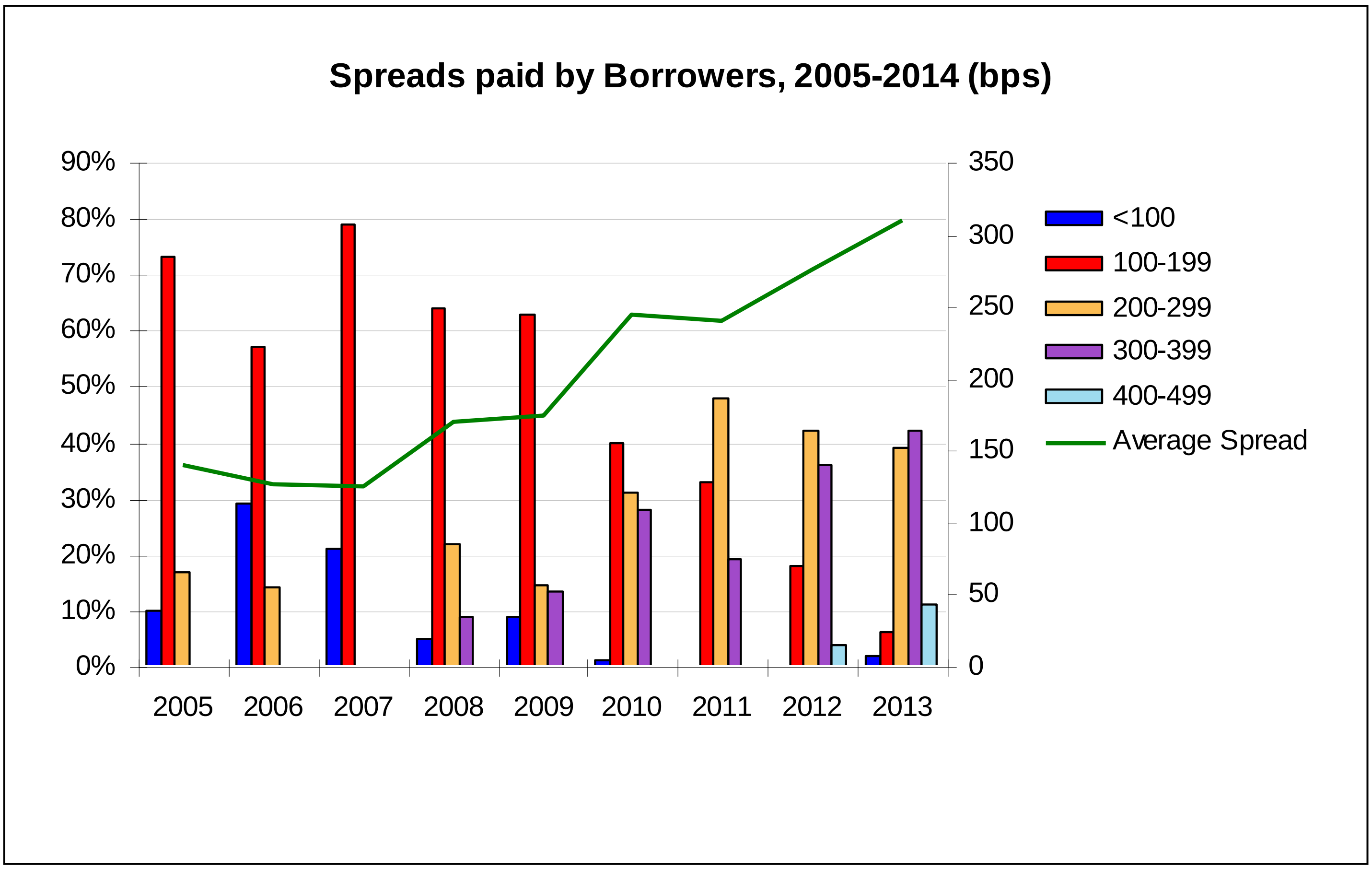
Graph 6: Far Eastern banks financing Greek shipping – market share
Source: Petrofin Bank Research © - May 2015



The shift towards the bigger shipping companies, has now developed to such an extent, that small to medium size owners find it increasingly difficult to find lenders and when they do, they face very stringent terms and conditions.

Shipfinance lending percentages which traditionally were 60-70% of asset values, have declined substantially in line with lower cashflows in the last 8 years, across most shipping sectors. Loan margins which had fallen to below 1% in the heydays of the 1970s and early 1980s, as well as in the early 2000s, saw a rapid rise, as bank lending appetite and ability reduced and the loan risk profiles became more scrutinized. (see Graph 7 – average margins – from Marine Money Bankers survey 2014). Currently, the overwhelming majority of loans in Greece have spreads between 2-4%.

Graph 7: *Source Marine Money Bankers' Survey - 2014*



Fifty years of development of Greek shipping and Greek shipfinance in a global context
By Ted Petropoulos
Nafs
November 2015

The development of Greek shipping and Greek shipfinance over the last 50 years

Greek ship finance has followed the rapid development of Greek shipping over the last 50 years. As such, I will firstly focus on the key changes in Greek shipping and secondly on changes in Greek ship finance and draw on their parallel development.

In the 50s, Greece was emerging from the disastrous economic consequences of the Second World War and the Greek Civil War. Traditional Greek owners originating mostly from Andros, Chios, Kasos and the Ionian islands and operating primarily out of London, took advantage of the 'Liberty ships' to resurrect the WWII destroyed Greek merchant fleet. Greece too, assisted by the 'Marshall Plan', commenced a period of rapid development and growth.

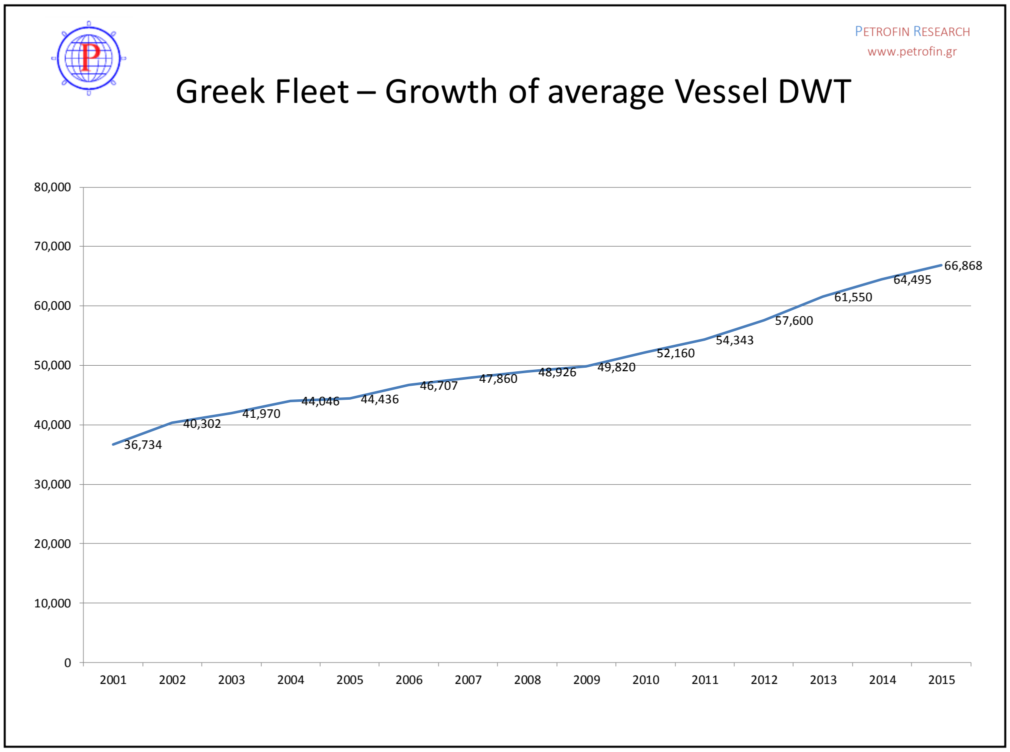
The principal centres of Greek shipping in the 50s were London (about 45%), New York (about 35%, followed by Piraeus and other centres in South America, Europe, S.E. Asia and South Africa. In all, there were about 350 Greek shipping offices worldwide in 1958, 600 in 1975, 800 in 1990, 835 in 2000 and 648 today (Petrofin Research ©).

The Port of Piraeus which accounted for 96% of pre-war Greek trade fell to 18% in 1958, but then started to rise to 34% in 1974, 60% in 1990 and even higher today.

Fifty years ago, the bulk of Greek shipping consisted of about 100 Greek families most of them traditional London and New York based names. There were, however, two dynamic Greek names, Niarchos and Onassis who although not from the traditional shipping islands, were responsible for a mass of newbuilding orders in the 1950s and 1960s, which transformed Greek shipping. They were the main protagonists for the growth of the Greek fleet from 627 vessels of 0.295m grt in 1950 to 1520 vessels of 1.22m grt in 1960. Vessels, however, in those days, were mainly small tween deckers dry cargo vessels and increasingly, crude oil tankers. The average size of vessel in the Greek fleet was only 4,700 tons grt in 1950, but rose to 8,026 in 1960, 9,307 in 1970, 25,173 in 2000 (Source: *The evolution of the Greek-controlled fleet (from presentation by Nikolas Tsakos on November 17th 2006 at the 8th Annual Capital Link Forum)*

From 2001 onwards, Petrofin Research © has been producing data on the Greek fleet and on Graph 8 we show the evolution of the average vessel size in DWT terms.

Graph 8: *Source – Petrofin Research ©*



Moreover, Greek shipping has by now diversified into all segments of shipping, including container vessels, product carriers, reefers, LPGs, LNGs, Offshore support vessels etc. which is evident of the strength and development of the Greek fleet.

In the 70s and 80s there began the influx of non-traditional owners mostly in Piraeus, often called the "Piraeus Greeks". They were assisted by the Law/67 tax advantages and the low cost of a Greek operation. Whereas in the 50s the main names were Niarchos, Onassis, Kulukundis, Goulandris, Livanos, Lemos and Chandris, in the 1990s only Livanos remained in the top 10 Greek owners and new names such as Haji-ioannou, Latsis, Martinos, Fragistas, Kallimanopoulos and Papachristidis appeared, many of them from the Athens / Piraeus area, the Peloponnese and Crete.

The Greek controlled fleet continued to grow and in the last years has undergone a qualitative revolution, whereby its average age has fallen from about the mid-30s in the 1950s, to about 30 years in the 1970s, to 20.3 years in 2000 (Naftiliaki – Summer 2011), 19.4 years in 2006 and 12.73 in 2015 (as of 2015 Petrofin Research statistics, covering all types and sizes and excluding undelivered newbuildings). In addition, Greeks who were the kings of buying older second-hand vessels, have developed into the champions of newbuildings currently controlling about 412 newbuilding orders or 15.9% in DWT terms (Table 1 below) of the total world orders and about 57% of the orders placed by European countries, compared to 40% in 2007. This has recently accelerated, as Greek owners wished to build up their eco shipping and to compete with modern vessels.

Table 4: Top 10 Owner Nationalities and their Newbuilding % of the World Orderbook
Source: Clakrsons World Fleet Register 2015

	Owner Nationality	Number of Vessels on order	Total Dwt on order	% of Total Orderbook	Average DWT of vessel on order
1	Greece	482	48,194,717.00	15.9%	99,989
2	China P.R.	619	48,066,044.00	15.8%	77,651
3	Japan	379	30,008,190.00	9.9%	79,177
4	Norway	240	16,300,666.00	5.4%	67,919
5	United States	226	14,163,702.00	4.7%	62,671
6	Singapore	363	11,760,971.00	3.9%	32,399
7	Germany	202	10,807,786.00	3.6%	53,504
8	South Korea	115	9,087,338.00	3.0%	79,020
9	Italy	126	8,904,144.00	2.9%	70,668
10	Hong Kong	111	8,213,736.00	2.7%	73,998
	Others	2325	98,489,656.00	32.4%	42,361
	Total	5188	303,996,950.00	100.0%	

The number of Greek ton millionaires has grown (Table 5) and so has the concentration of the top 50 Greek owners, who now account for 68.42% of the fleet

Table 5: *Source: Petrofin Research ©*

	Number of companies owning over 1 million ton DWT	Number of vessels	No of vessels added	Total DWT tonnage owned by these companies	DWT added	Average Vessel DWT	Average vessel age	% of the Greek fleet
2011	62	1764		178,495,577		100,617	8.56	69.7%
2012	60	1769	5	184,692,854	6,197,277	104,405	8.7	70%
2013	61	1848	79	201,305,030	16,612,176	108,931	8.6	71.33%
2014	63	2121	273	224,538,613	23,233,583	104,388	8.6	73.96%
2015	68	2434	313	251,757,001	27,218,388	103,443	8.3	76.7%
Petrofin Research © October 2015								

Despite the difficult market conditions in recent years, the Greek fleet has continued to grow and has reached 4909 vessels and 328m tons DWT.

Adversely, the number of Greek seamen has declined as they are being replaced by other, more populous and poorer nationalities, i.e. Philippinos, Ukrainians, Pakistanis, SriLankans, et al. However, most of the Greek seamanship and know-how has been kept within the industry and became office staff comprising of ex captains and chief engineers of the fleet.

The quality of management has also undergone transformation as well educated offspring and outside quality managers and staff have been brought in to manage what are new, large, sophisticated, modern Greek shipping concerns spanning and competing on a worldwide basis. This quality management has provided Greek shipping with greater transparency and ability to comply with the ever changing stringent regulations and compliance issues.

By now, the 'traditional' versus the 'non-traditional' versus the 'Piraeus Greek' images have started to fade as Piraeus has developed into the leading centre of Greek shipping far outshining London, New York and other centres in terms of concentration of owners and vessels. Moreover, there are new dynamic names in shipping that only emerged in the last decade or so and who view shipping as any other industry where profits can be made by exploiting its cyclicality. Over especially the last 10 years, Greeks (especially the young dynamic names) turned to the public markets and private equity providers to finance their fleet investment plans.

The development of Greek shipping finance

Fifty years ago, Greeks borrowed mainly out of London and using primarily British banks such as Williams and Glynns and the merchant banks, such as Hambros, Rothschild's etc. Amounts were small, terms and loan documentation simple and credit decisions were a matter of trust between the banks and owners.

With the exception of the National Bank of Greece (the other Greek banks financed mostly the ferry and passenger Greek shipping segments), there were no foreign banks in Piraeus actively financing Greek shipping.

The 50s and 60s, were dominated by two well-known owners, Onassis and Niarchos. How did they finance their vessels?

We know that, after the war, a lot of vessels were in the market at rock bottom level prices.

Owners with cash liquidity from other activities, bought these vessels, and immediately put them to use in the immediate post-war period.

In order to finance their newbuilding tankers in the late 40s and 50s, Onassis and Niarchos, both, copied the tactics of the Norwegians for the financing of the new projects. With the Norwegians crippled by legislation that forbade the building of ships abroad, both owners ordered vessels having first secured long time charters from the oil companies for the ships that they intended to build. Then, using these charter parties they secured the required finance.

They secured lower prices by ordering series of ships as opposed to isolated units, in order to save on building costs.

The situation changed rapidly in the 60s and 70s as Piraeus started its rapid growth. I believe Bank of Nova Scotia was the first bank in Greece engaged in shipping, having opened a branch about 70 years ago. There followed Citibank in 1967, Williams and Glynns (now RBS) in 1972, ABN in 1974, Nedship in 1979 and soon National Westminster, BIAO, Continental Illinois, First Chicago, BNP, Credit Agricole, Manufacturers Hannover, Chase, Bank of America, HSBC, Barclays and others, all opened up in the 70s and 80s.

In Table 6 we present the number of banks engaged in Greek shipfinance for 1979 and up to now (Petrofin Bank Research ©). As a result of bank departures in the 1980s, bank mergers and acquisitions over the period, the overall number of banks has fallen.

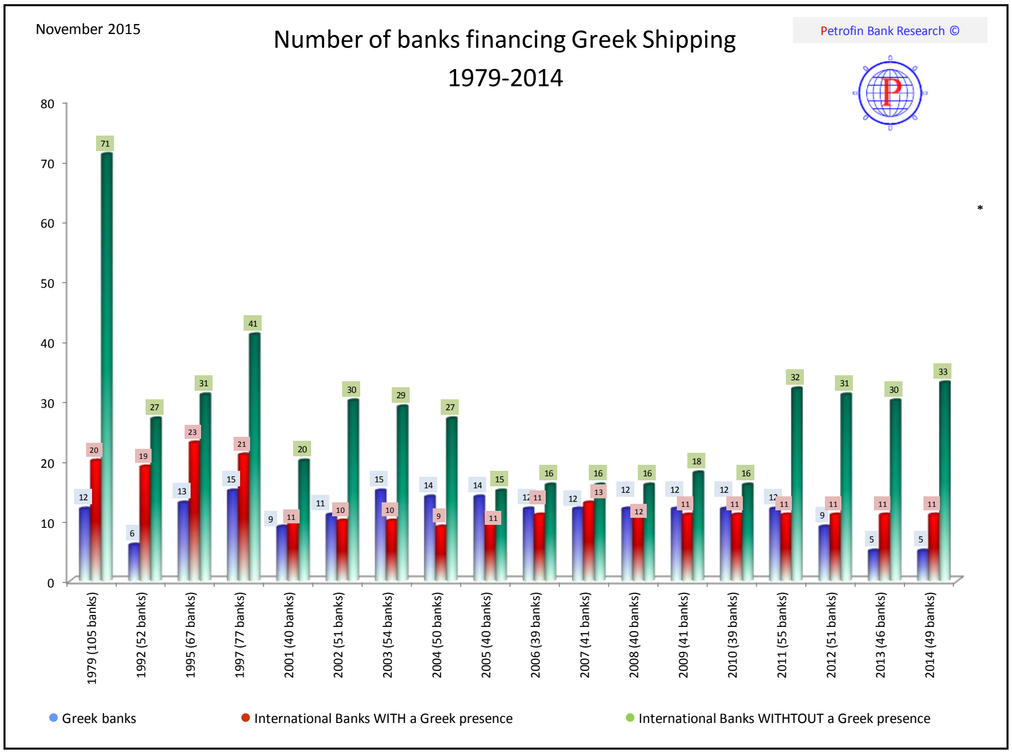
Table 6: Number of Banks engaged in Greek Shipfinance – comparative figures

Nationality	1979	end 2003	end 2004	end 2005	end 2006	end 2007	end 2008	end 2009	end 2010	end 2011	end 2012	end 2013	end 2014	Total Portfolios per Geographical region as of end 2014	Percentage of total of Greek ship finance as of end 2014
UK & Ireland	18	5	5	4	5	5	6	5	4	5	5	4	4	2014: $9,933 2013: 2012: 2011:	2014: 15.52% 2013: 7.93% 2012: 0.65% 2011: 2.95%
France / Belgium	14	8	6	3	3	3	4	4	3	5	5	5	5	2014: $3,005 2013: $3,065 2012: $3,813 2011: $4,401	2014: 4.69% 2013: 4.98% 2012: 5.8% 2011: 6.5%
Scandinavian	4	2	2	2	2	2	2	2	2	6	6	6	6	2014: $5,280 2013: $4,676 2012: $5,029 2011: $5,325	2014: 8.25% 2013: 7.6% 2012: 7.65% 2011: 7.9%
Germany	7	10	10	9	10	11	11	11	10	10	10	10	10	2014: $15,805 2013: $16,617 2012: $17,006 2011: $17,717	2014: 24.69% 2013: 27% 2012: 25.8% 2011: 26.17%
Holland	8	5	5	4	3	3	3	2	2	2	3	3	3	2014: $3,588 2013: $3,493 2012: $2,800 2011: $1,632	2014: 5.6% 2013: 5.68% 2012: 4.26% 2011: 2.41%
Greece	12	15	14	14	12	12	12	12	12	12	9	5	5	2014: $10,819 2013: $10,487 2012: $12,704 2011: $14,517	2014: 16.9% 2013: 17.05% 2012: 19.31% 2011: 21.45%
Other European	7	4	4	2	1	1	1	2	3	5	3	3	3	2014: $6,269 2013: $6,080	2014: 9.79% 2013: 9.89%

														2012: $5,566 2011: $5,575	2012: 8.5% 2011: 8.24%
European Total	70	49	46	38	36	37	39	38	36	45	41	36	36	2014: $54,669.47 2013: $55,447.46 2012: $60,500 2011: $64,700	2014: $85.44% 2013: 90.12% 2012: 91.97% 2011: 95.58%
North America	26	4	3	1	2	3	1	1	1	3	3	3	4	2014: $2,800 2013: $1,950 2012: $1,780 2011: $1,408	2014: 4.37% 2013: 3.17% 2012: 2.71% 2011: 2.08%
Far East	9 Far East and remaining countries	1	1	1	1	1	0	2	2	6	6	6	6	2014: $5,500 2013: $3,700 2012: $3,000 2011: $1,286	2014: 8.59% 2013: 6.02% 2012: 4.56% 2011: 1.9%
Middle East													2	2014: $670	
Australia										1	1	1	1	2014: 350 2013: $400 2012: $500 2011: $300	2014: 0.55% 2013: 0.65% 2012: 0.76% 2011: 0.44%
World Total	105	54	50	40	39	41	40	41	39	55	51	46	49	2014: $64,019.47 2013: $61,497.46 2012: $65,780 2011: $67,694	
Petrofin Bank Research © November 2015															

In Graph 9 we present the evolution of banks in terms of nationality over the last 36 years, depicting banks' trend of entering and /or leaving the Greek shipfinance sector at historically different shipping conditions.

Graph 9



The main departees in the 80s were the North American banks where only Citibank remained active and the British banks, including all the smaller 'niche' banks, such as the UK based merchant banks, e.g. Hambros, Guinness Peat, Henry Ausbacher etc., which have since disappeared. In 1979, there were a number of banks which were also engaged in shiplending as a side activity without necessarily having a specialist shipfinance department or a commitment to shipping. These have largely disappeared. Shipfinance today has been left mostly to the larger international and primarily European banks.

Loan Volumes

Currently, a number of major shipfinance banks, such as RBS, HSH and Commerzbank have severely restricted their lending or are exiting ship finance and this has had an adverse effect on Greek shipfinance. Owners are increasingly looking at alternative financing solutions.

In loan volume terms, however, there has been substantial growth as Greek shipping loans have having risen exponentially from $16.53bn at the end of 2001 to $64bn as of end 2014(Petrofin Bank Research©). This was as a result of massive newbuilding orders and the growth both in quality and size of the Greek-owned fleet. In the past years, the effects of the poor shipping markets for most sectors, the decline of traditional banks and the effects of the Greek political, economic and banking crisis are self-evident.

There are no corresponding figures for 1965, but, based on our own investigation it is believed that the corresponding figure for 1979 may have been standing at approximately $9-10 billion spread widely over the numerous banks involved in Greek shipfinance. Readers may remember the 1982-1987 slump during which vessel values plummeted and a great number of vessels were arrested and changed hands. In terms of loan volume, therefore, it is believed that total Greek shipfinance fell during the above period before starting to pick up in the late 80s and especially during the 90s.

What distinguishes Greek shipping lenders today is the commitment to the of the remaining banks, their considerably larger loan portfolios and their dedicated and specialized shipfinance organization and know-how. Although loan approvals in non-Greek banks have inexorably drifted away from local centres and towards far away headquarters, bank's lending strategies are, however, much more clearly defined and focused on their preferred clientele and on transactions that meet the risk/rewards criteria under Basel III.

Twenty five years ago banks themselves and their credit approval criteria varied greatly. Consequently, marginal owners could find a bank to finance a substandard older vessel although at a higher cost. Loan losses in the 70s and 80s were colossal, especially for banks which treated Greek shipfinance without due care and attention. Owner size was also less important in the old days and lending to start up owners was much more common than today.

Risk analysis today and the thoroughness of credit investigation as well as credit presentations are especially better. Consequently, due to better systems, analysis and controls as well as a better performance by the shipping industry, shipfinance is no longer stigmatized or regarded as 'exotic' lending. However, the pronounced and long lasting slump in dry bulk and container shipping has adversely affected bank's loan portfolios and has resulted in a number of loan portfolio sales over the last years to other banks and financial institutions.

Attitudes of banks to owners and vice versa

There has been a remarkable change over the years in the attitude of banks towards Greek owners and vice versa.

Scanning through the news of the past, one sees abundant evidence of mistrust between banks and owners. Foreclosures and vessel arrests by banks raised the concern of both the banks and owning communities and created deeply held suspicions. Despite the difficult market conditions, there have been few Greek owner bankruptcies in the last decade.

In some cases in the past, Greek shipping ministers and other bodies made pleas to banks to be patient and accommodating to Greek owners. Banks in the spotlight with prominent disputes with owners often felt the need to explain their actions or policies in interviews in an effort to limit the damages to their reputation and ability to conduct further business. Although the situation worsened in the 80s as a result of the shipping slump, the late 90s also witnessed numerous Greek owner failures. There were numerous articles in the shipping press where banks were blamed for overlending and for being co-responsible for many failures.

Greek owners' attitude to banks in general was one of caution. Owners were used to banks entering / leaving the industry based on shipping market conditions and prospects. With the exception of some bank names still prominent today, the vast majority of banks (and bankers) have disappeared which gives credit to owners' caution. On the other hand, many owners were only too keen to over-borrow and paid little attention to their liquidity which gave little room for flexibility by banks hardly helped by owner secrecy.

Today the attitudes have considerably improved to one of healthy respect and mutual understanding of each other's requirements and expectations. The success of Greek shipping and its impressive performance have transformed the attitude of shipping banks which can be evidenced by the growth in their loan portfolios.

Transparency

If corporate transparency is one of today's issues, financial transparency (or lack of it) was the main issue 30 to 50 years ago. I saw an article in 1984 by Mr. Dimitris Krontiras, G. M. of Citibank at the City University Conference in Greece in which he raises concerns about the lack of audited financial statements and the attitude of Greek owners towards banks requesting information as an 'invasion of privacy'.

Today, banks expect to receive in addition to audited financials substantially more detailed financial, organizational and structural information, as well as a clear investment and financial strategy.

Quality of vessels

Banks in the 50s, 70s and up to the 90s were quite concerned with the quality of the vessels they financed. Repair and maintenance standards were more relaxed then and banks often found out about the real condition of their collateral at the time of foreclosure or serious breakdown. Consequently, many banks insisted on vessel inspections before granting a loan and on regular inspections thereafter.

Today, not only has the standard of maintenance greatly improved but the stringent regulatory, insurance and chartering requirements leave less room for owners operating substandard vessels.

Coupled with the fact that the Greek-owned fleet is now much younger than 25 or 50 years ago and bank-client relationships are closer and stronger, concerns over a vessel's condition have largely subsided as banks have numerous ways to monitor vessel quality, e.g. PSC record, insurance claim record, etc.

Instead, banks today are worried to limit their own potential liability in the event of vessel's pollution (especially tankers), as well as if their clients have the organizational ability and know-how to overcome all the regulatory obstacles continuously being raised in front of them.

Average loan amount and related terms

In the 1950s, a $1m and in the 70s a $5-7m was a fair medium-sized loan. Corresponding figures today would be $20-40m and large deals of $50-100m.

In addition, whereas bank loan portfolios in the past would consist of a few top names with relatively large exposures and the remainder well spread across many clients with a diverse type of fleet and age profile, nowadays, banks have fewer clients with much higher average loan exposures. Furthermore, whereas a 15-year old vessel in 1979 was well able to obtain medium term finance, most banks today wish their loans to expire by the time vessels reach about 15 years of age.

As vessel collateral became younger so did to an extent the loan period become longer. As such, from some research into loans being granted in the 70s, the average loan period was shorter than today by about 2 ½ years on average, i.e. 5 years in the 70s and 8 years today. The average age of the vessels being financed, however, had improved by at least 8-9 years on average in the 2000s. However, the capital restraints imposed on banks today has resulted in reduced loan repayment to about 5-6 years plus balloon with the loan profiles being approximately 12 years for newbuilding finance.

Loan financing percentages have not greatly changed over the period with 65-70% regarded as the industry norm until the last years, where banks have adopted stricter rules, looked for additional securities and, in general, the cashflow did not allow high levels of finance. Consequently, current financings range from 30-60% on average depending on the merits of each case. In dry bulk, the very tight cashflows has resulted in many vessels being acquired for cash.

What has also changed is the Greek loans spreads structure. In the 50s, spreads and fees were individually set and secret. In the 70s, an average loan spread of 2% was quite normal, whereas in the 1990s, and despite pressures from Basel II, average loan spreads were undeniably lower and closer to 1%. Following the 2008 financial crisis and the restrictions on the availability of bank loans, margins have risen (see Graph 5). Currently, they stand at between 2.5-4.5% over LIBOR, depending on the risk profile of each loan. Client quality has, however, much improved and it may be argued that shipfinance today net of loan default provisions provides higher net returns to banks. The deviation from the spread average has, however, reduced with fewer banks having very high or low spread margins. Giveaway extremely low spreads that were a feature of the 90s have however, virtually disappeared since all banks have inflexible minimum spreads and are also unlikely to be swayed by large spreads to accept sub-standard business. Greater use of financial covenants and ratios as well as better loan monitoring is being made today and the whole complexity of documentation has grown enormously.

First Mortgage lending is still the norm for Greek shipfinance. Nevertheless, financial complexity has increased and Greek owners were among the first to make use of junk bonds in shipping with undeniable success (to themselves) as well as increasing use of public markets. Banks too have started to become more seriously involved in supporting their Greek clients' efforts to tap the public markets as well as to promote their non-risk products and services (including hedging) in shipping and in other areas such as private banking, investment banking, etc. Consequently, income from non credit related services is now a significant portion of shipping banks' overall income by their shipping departments.

Syndication lending was not existent 50 years ago, but more prevalent for large owners twenty five years ago. It was relatively easy to find participating banks whilst the lead banks were only a handful.

Difficulties with syndications especially during the 80s' shipping slump lead to their increasing unpopularity. In any case, Greek owners used but were never the 'protagonists' in this form of finance. What has become increasingly more popular for Greek owners is the club loan consisting of 2-3 banks sharing similar views to shipfinance and financing owners they know and with whom they feel comfortable.

Over the last 10 year, new forms of finance, ranging from mezzanine to leasing and / or combinations of equity and finance have developed with many financial institutions providing higher and more flexible forms of finance. The cost of such structures is, however, significantly higher than for bank loans.

Risk attitude by banks

Banks over the last decade have developed separate risk departments, whose approval is required for each new loan. This development sets the minimum loan yield in line with the risk profile of each loan and the bank's pricing/risk model approved by regulatory authorities.

In addition, banks have over the last 5 years set up separate 'restructure' departments, where all non-performing loans are handled.

In general, banks have become much more risk aware and have sophisticated models for risk evaluation and loan margin setting.

The above developments are a far cry from the practices of the past, where loans were either approved within the credit limit of the bank official or by a local credit committee. Later in the 90s such credit approvals shifted to a bank's head office. In case of loan defaults, the same credit officer that was responsible for the loan would handle the recovery of the loan. As risk appetite was reduced, especially since the 2008 financial crisis and the more stringent capital constraints imposed by regulatory authorities, banks would become increasingly more selective as to the size of client, financial strength and the type of vessel involved. This opened a financial gap, whereby man small to medium owners were rejected on risk criteria. Such owners often looked for financial institutions that would provide higher loans at an increased cost or looked for a JV with private equity funds with the latter providing the majority of the equity. Vessels would often be acquired by such JVs for cash or with modest loans.

As a result of the bank's recent reduced risk appetite, resulting in loans to primarily the top names or public companies, as well as due to the economies of scale, vessel ownership has become more concentrated among fewer names (see earlier).

Overall, banks have benefited over the past 50 years from three factors:

a) their own better strategy, organisation, systems, analysis and monitoring;
b) the quality improvements in Greek owners and their fleets, and
c) higher transparency of Greek owners.

Additional factors influencing Greek shipping and shipfinance

In addition to the factors already outlined, there has been a qualitative shift in the modus operandi of Greek management companies, which has increased their efficiency and attractiveness as potential clients to banks.

Assisted further by a world-wide improvement in telecommunications, greater and swifter information flow and improved training and education, the Greek shipping industry has evolved into a modern and serious competitor for efficient management of vessels whilst keeping its well known commitment, flexibility and commercial flair.

Most shipping companies have remained family owned over the decades. An increasing number of Greek companies have developed corporate holding structures, which is a key requirement by most banks. Numerous companies have also set up offices in other countries in order to develop a presence in areas that offer better opportunities for chartering and / or finance. Singapore, Hong Kong, Dubai and London are the most popular places. In addition, with the Greek political and economic crisis over the last 5 years and the increased and threatened taxation for Greek shipping, many companies have developed alternative plans for transferring part or all of their offices to Cyprus, London, Dubai, Monaco and elsewhere.

Latest Clarkson's valuations of the Greek fleet stand at $86.7bn. This needs to be compared with the $64bn in Greek shipping loans. It is self-evident that Greek shipping, despite the poor shipping conditions, in most sectors, has maintained an overall good asset cover position. Of course, care should be showed as individual owners' asset covers do differ and so does each owner's liquidity.

The ability of Greek banks to recommence lending is of vital importance to Greek companies, especially the smaller owners. Greek owners have become very sophisticated financially and have been active in exploiting opportunities to increase their fleets and acquire new eco vessels. The development of Greek shipping has outpaced the development of Greek finance. This is understandable due to the current shiplending restrictions and as many vessels are being acquired with cash and / or higher equity contributions by owners.

Turning to the future of Greek shipfinance, it is anticipated that over time more banks shall be willing to lend to Greek owners. There could be new banks attracted by the generous loan yields, e.g. US, Canadian, Middle Eastern banks or via higher levels of finance by Far Eastern banks and / or shipleasing companies in support of local orders. The prolific capacity of the German banks shall be missed although it is possible that after a recovery of the container and dry bulk sectors, some German banks may start relending again.

A vital role shall continue to be played by the US capital markets for existing and new publicly quoted companies.

The biggest questions overhanging the market concerns the fate of the numerous JVs with private equity funds and how these shall unfold and whether the Greek companies involved shall be able to find the resources, bank finance or alternative finance to keep the JV fleets to themselves.

The continuous further growth of the Greek fleet shall require both additional capital resources, as well as increased bank and other forms of finance. Current global weak economic prospects, as well as the poor state of most shipping sectors, may result in the slowdown in the growth of the Greek fleet in the next years.