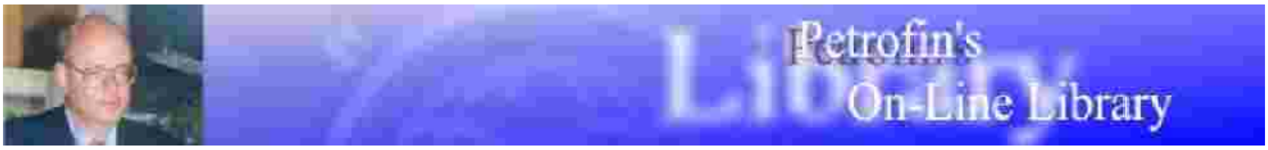

A Different Form of Shipfinance

Opportunities presented to banks to tap the neglected sector of suppliers of goods and services to the shipping industry

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Readers are well aware of mortgage lending being the classic form of shipfinance. Petrofin Bank Research © published in late 2001 showed that both foreign, as well as Greek banks have built up $16 5bn in loans to Greek shipping, a figure that has grown considerably over the last decade due to the upgrading of the Greek controlled fleets.

Very few are aware though that there exists another form of shipfinance, provided on an unsecured basis to every ship of the fleet and which finance constitutes an indispensable part of the very existenc f the Greek shipping fleet. I am referring to the substantial credit support provided to shipping by all providers of goods and services, namely bunker and lubricant suppliers, shipyards and repair shops, spare part suppliers, agents, stores and provision suppliers, paints manufacturers, providers of technical, financial, software and other services, classification societies and many others.

The above credit is provided to the vessel and / or th shipmanagement company and extends from 30 days to, in some cases, up o 6 months. I am referring of course to agreed credit periods provided at the time of the provision of goods and services and not any delays in the settlement of credit obligations.

For easier reference, we shall refer to this credit as 'trade credit', as opposed to 'bank credit'.

In order to assess its importance to Greek shipping, P rofin has been researching into the average amounts of trade credit per vessel. Such trade credit is influenced by the type and size of vessel an by the confidence of trade credit providers to the industry as a whole and to individual Greek shipping clients. In addition, extended trade credit m be favoured and requested by some owners, whereas minimized by others who believe that keener prices can be secured by reducing or even eliminating trade credit.

Petrofin Research© thus far has shown that trade credit to Greek controlled vessels, extended whether directly to the owner or indirectly via charterers as maybe the case for bunkers if vessels are on time c arter, amount to an average of approximately $200,000 per vessel. This trade credit tends to increase to approximately $250,000 per vessel during t mes of recession, as both customers and suppliers realize that owners' cash ws are tight. In many cases, during recession especially, the provision long term credit is the chief determinant in the decision of an owner a o which supplier to select.

Bearing in mind that the Greek controlled fleet is fast approaching 4,000 vessels, we are looking at another form of shipfinance, which represents approximately $1bn of unsecured credit that is extended to the Greek controlled shipping fleet by a vast number of suppliers, which are either major international organisations or locally based small businesses.

Trade credit to the shipping industry is a very useful cashflow support and provides much needed liquidity especially to the smaller owner.

Despite the large size and importance of trade credit this aspect of the shipping industry has not received any attention over the years. Without trade credit, however, the whole shipping industry wou d suffer and would necessitate either additional calls for capital, somet ing that is not favoured by the majority of owners, looking to minimize their own capital and increase their capital returns accordingly, or working pital facilities and / or higher finance from banks.

Banks have not focused on the shipping providers of goods and services as potential clients. Large international oil companies, paint manufacturers and shipyards do obtain banks support due to their siz corporate structure and international scope. However, the small to medium sized providers mostly based in Greece are a truly forgotten sector. They try to provide credit to their clients without themselves enjoying cr dit facilities from locally based foreign or Greek banks. This by its natu severely limits their ability to grow and achieve the necessary econom es of scale to compete against their larger, richer and better bank supported international companies.

Local trade providers of goods and services consist of ainly, family owned businesses, long in history and expertise and highly committed to their businesses. Whether as brokers or local manufact rers, representatives or experts, they provide the necessary infrastructure to the Greek shipping industry. Since their business is usually spread across a number of shipping clients, they provide their bankers with a diversified client base well able to support and service credit fa ities.

Banks, in addition to the usual corporate and personal guarantees provided by their clients, can draw additional comfort that any n they may provide to credit suppliers would be secured by assign ent of invoices from a number of shipping clients. Furthermore, banks would normally provide credit lines supported by 150 to 200% of clien invoices, which can, of course, also be individually assigned to the bank. Additionally, banks could predetermine on credit quality criteria, which shipping clients' invoices would regard as acceptable security based on their knowledge of the creditworthiness of Greek shipping names.

Payments in settlement of invoices would directly come to the financing bank and as a last resort the bank, if necessary, could obtain direct confirmation from the shipping client that any and all payments shall be routed via the bank.

The above bank credit lines to local providers of goods and services are common practice throughout the world. Greece, however, represents an exception as even prominent shipfinance banks are relu ant to finance this shipping sector. The main reasons for this are a) tuning such facilities can be administratively burdensome and b) it requires for banks to have a wider knowledge of the shipping sector and its partici ants.

In favour of lending, though, are the following factors:

1. the facilities are usually well secured,
2. the banks can tailor-make its facilities to suit its own preferences and views,
3. the credit history of each firm can be reviewed and used in the structuring of the bank facility,
4. banks have ultimately the right to arrest vessel,
5. high turnover and in / out payments provide excellent utilization of bank services,
6. the pricing of such facilitates is normally high, e.g. up to 3% over LIBOR and
7. the banks enjoy relatively enormous fees and charges for their services. It is not unusual for bank yields from redit and use of services to reach 600 to 800 basis points - something which is far in excess of what can be provid d by other forms of banking.

In these days of swift communications with interaction y banks and clients and better credit information flows, providing dit facilities to providers of goods and services to Greek shipping shou not pose any insurmountable challenges.

Should banks continue to ignore this sector locally, m y firms would undoubtedly fail to reach the necessary economies of scale and shall cease to exist and continue to provide their highly useful services to the Greek shipping industry.

In recognition of their contribution to Greek shipping as well as their potential as alternative clients able to yield substan rofits, I call upon all banks to re-evaluate this sector and redefine their posture and involvement.

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