



## **Millenium - International Developments and its Effects on Greek Shiplending**

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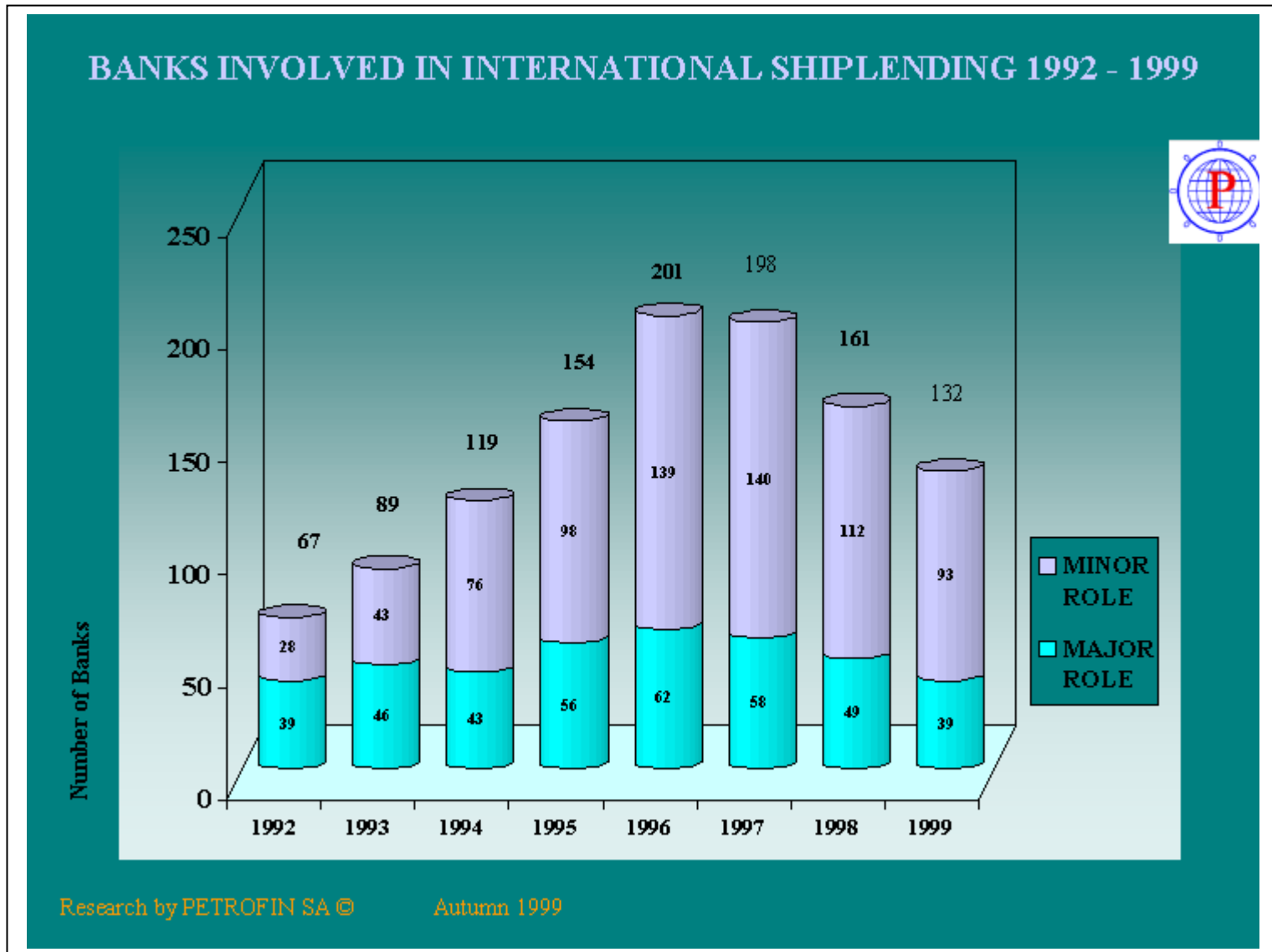
There are strong signs that we are finally emerging from the 1997 crisis and we are expecting overall that the year 2000 will be even more positive for shipping than 1999. There is a marked rise in charter rates and vessel prices and a vigorous approach to newbuildings in every sector. The Far East and South East Asia have stabilised and are beginning to show positive growth. China's joining the **World Trade Organisation** and the projections for growth regarding world trade are two positive factors that will support market expectations.

The shiplending sector is, as always, following a pattern that is directly influenced by the state of shipping. Currently, though, it is showing certain decisive trends that are a result of the Banks' long experience with many shipping cycles and with the survivability ratios of their clients.

Let us examine first the development of the actual numbers of shiplending banks. As can be seen in **Table 1**, the fall in the number of the shipping banks continues at a fast rate into 1999 (from **161** banks in 1998 to **132** in 1999). We also observe that after a remarkable rise from 67 in 1992 to 201 in 1996, the

current numbers have fallen to 1994 / 1995 levels. More specifically, the number of banks with a major role in shiplending has been reduced from 48 banks in 1998 to 39 in 1999. It is significant to note that the number of active shiplending banks has fallen back to the original 1992 numbers.

**Table 1: Banks involved in international shiplending 1992-1999**



The fall can be attributed to the following factors:

- a. the pronounced shipping slump since 1997;
- b. the poor risk / reward offered by shipping;
- c. the record number of incidences of Bank consolidation in the banking industry through mergers and acquisitions;
- d. the greater emphasis shown by banks to risk free products and services;

- e. the heavy capital requirements of the shipping industry and the 100% equity risk weighing on shipping loans;
- f. the relative attractiveness of other lending sectors that compete with shipping.

## Portfolio Re-distribution

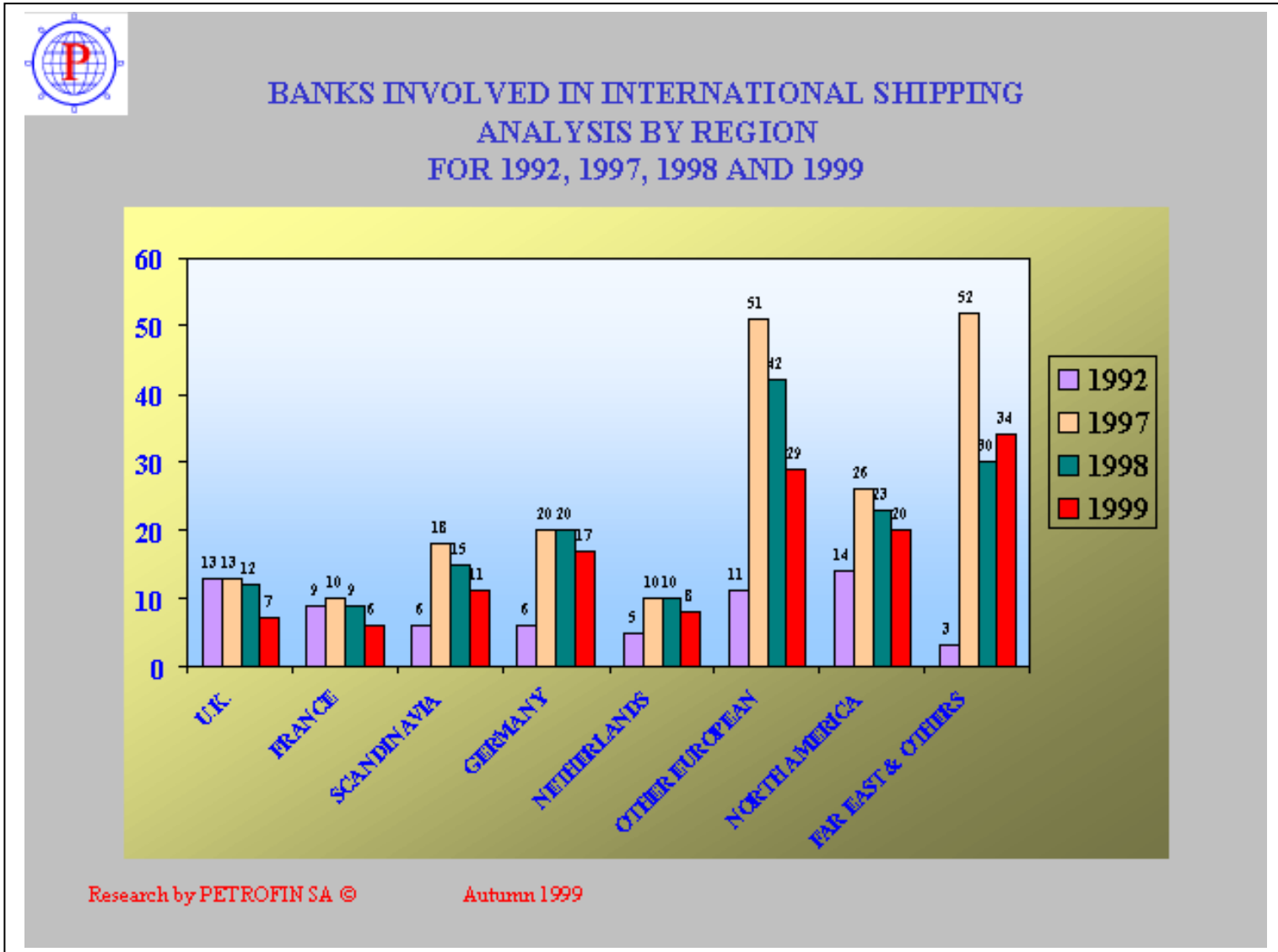
Due the above, banks that have a higher shiplending involvement as a percentage of their lending assets are being considered by the market as “higher risk” banks. As such, the emphasis has been to reduce each major shiplending bank’s dependency on shiplending.

The number of active minor shiplending banks has also fallen from 112 banks in 1998 to 93 banks in 1999. The same factors apply for the above fall, including the relative unattractiveness of the shiplending sector over the past years, which has a) reduced the number of new entrants and b) encouraged the exit of a number of banks who had low commitment to the industry in the first place.

A more detailed analysis by country / continent is shown in **Table 2**. It is interesting to note that the European subtotal consisting of all European Banks has fallen from 32 major banks in 1998 to 26 in 1999 and from 76 minor banks in 1998 to 52 in 1999. As this represents a major fall, it would seem that the Asian crisis had had an initial major impact on the Far Eastern banks, which was later followed by the European banks as the shipping crisis intensified.

In **Table 3** we may observe the relative performance over the years by country / region. As you will see, Germany and the Netherlands continue to be the **main providers** of ship finance and their numbers have remained largely the same. However, the UK continues to *decline* in importance followed by France and Scandinavia.

**Table 2: Banks involved in international shipping - Analysis by region**



Interestingly enough, the effects of the Far East crisis seem to have abated, as the number of Far Eastern banks has actually risen from 30 in 1998 to 34 in 1999, still though significantly down from the 52 banks in 1997.

Within each subsector, it is noteworthy that Greek banks that had until 1995 shown little interest in International shipping, have now increased their numbers, as well as loan portfolios. However, in Greece also the number of shipping banks is beginning to be influenced by bank consolidation, eg. The consolidation of Egnatia bank and the Bank of Central Greece; also of Prime bank which is the result of the consolidation between MacThrac, NatWest and Piraeus banks.

### **Banks Selective of Clients**

An interesting development has been that overall shiplending capacity has not declined in line with the reduction of the number of banks involved in shipping. The greater emphasis in quality, size and fleet age of the client has resulted in a massive shift towards newbuilding finance and higher lending limits for a smaller number of clients. Thus, we observe the phenomenon of banks competing for a selectively small number of clients, but big in terms of fleet size and of rejecting or filtering through with harsh criteria practically everybody else.

The latter, irrespective of their cashflows, successful records and sound projects hardly get a hearing. An important role in this approach has played the streamlining of shipping departments, largely as a result of mergers and acquisitions. This does not mean, however, that shiplending capacity has been necessarily lost. Shipping banks have tended to promote their non-risk products and services. As such, shiplending is regarded as an essential prerequisite for the cross selling of other bank services.

The bank numbers shown are for commercial shiplending banks and do not cover the significant new-found interest in shipping by US and European Investment Banks. Their role in finding transactions is minor and short term and, as such, they do not add to shiplending capacity as such. They are, however, significant in attracting long term funding to the industry and via the Capital markets.

In conclusion, although the bulk of shiplending capacity has not been severely affected, the number of shiplending banks has been reduced and the required criteria (of fleet quality and size) have been made much harsher. A finance vacuum has been created for the smaller shipowner. What is missing is banks enthusiastic and flexible enough and capable of seeing that a large number of small owners with serious cash reserves is out there ready to expand using small loans of \$3-7m.

Petrofin research over the years has shown that the number of shipping companies that manage 1-4 vessels is large, i.e. 491 out of a total of 754 for the year 1999, in other words an overwhelming 65%. These owners are the backbone of Greek shipping. Many of these owners have emerged safe and sound from the last crisis, but are forced to buy in cash, since banks do not support them any more. A significant percentage of these owners are also very capable, with years of experience behind them.

If small owners are not going to get any support, then their numbers will continue to reduce dramatically, as the annual Petrofin research has shown for the last two years. This will alter the structure of Greek shipping, will reduce the market's fragmentation and it will finally focus its power in the hands of the few and very large companies. Although the above is a direct result of international developments, it is certain that a large part of the dynamism and the power of Greek shipping shall be irrevocably lost.

In the past, whenever we had these financial vacuums, there were always a number of banks that would emerge to cover them, as banks are always in search of opportunities. Will this happen this time round? Will this niche market be noticed and its potential realised? We think that it will take time for the vacuum to be noticed and closed. This will result in even more pressure upon the small owner.

The combination of the above factors together with the continuation of the bank consolidation trend is creating a new mix, unknown thus far to Greek shipping.

One is for sure: future developments are going to be very important, very interesting and decisive for the structure and competitiveness of Greek shipping.

<b>Table 3: BANKS INVOLVED IN INTERNATIONAL SHIPLENDING 1998-1999</b>								
<b>COUNTRY/REGION</b>	<b>MAJOR ROLE</b>		<b>MINOR ROLE</b>		<b>TOTAL</b>		<b>%</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
<b>UNITED KINGDOM</b>	3	5	4	7	7	12	5.3	7.5
<b>FRANCE AND BELGIUM</b>	2	5	4	4	6	9	4.5	5.5
<b>SCANDINAVIA</b>	4	4	7	11	11	15	8.3	9.3
<b>GERMANY</b>	7	8	10	12	17	20	12.9	12.4
<b>NETHERLANDS</b>	5	5	3	5	8	10	6	6.2
<b>OTHER EUROPEAN</b>	5	5	24	37	29	42	22	26.1
<b>NORTH AMERICA</b>	8	10	12	13	20	23	15.2	14.2
<b>FAR EAST &amp; OTHER COUNTRIES</b>	5	7	29	23	34	30	25.8	18.6
<b>GRAND TOTAL</b>	39	49	93	112	132	161	100	100

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