Greece's market influence increases

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Greece has always been a vital market for international shipping finance, even more so since Greek owners began investing more heavily in newbuild vessels. Ted Petropoulos, Managing Director of Petrofin S.A. in Greece, analyses the latest trends.

According to the latest Petrofin Bank Research ©, total worldwide shipping debt at the end of 2002 amounted to $160bn. This total includes leasing debt, offshore debt, Far Eastern trading house shipping debt and approximately $10bn in committed but yet undrawn facilities.

Arriving at precise numbers has been extremely difficult due to a number of areas where figures are either not available or are unclear. While some debt is clearly attributable to shipping, there are, as always, some grey areas where there is room for debate as to whether they qualify as shipping-related, such as whether or not to include quasi-shipping assets. Detailed information on shipping debt in the Far East is still limited. Some banks, although declining in number, are still reluctant to release ship lending statistics.

However, this assessment of $160bn is consistent with other published research. For example, *Marine Money* arrived at the same global figure of $150bn of existing shipping debt, which together with the committed debt of approximately $10bn is the same as the above findings of our research.

In the same issue, Marine Money estimates $30bn per annum in new deals. During our survey, a total of $28bn for 2002 was the estimated figure, which was arrived at by two calculations:

a. the differences in available bank lending figures between the end of 2001 and 2002 respectfully; and

b. the total value of newbuildings for 2002 representing approximately $30bn and for second-hand acquisitions of $7bn and their respective estimated financing.

In the light of the busy shipyard newbuilding schedule and the pick up in second-hand sale volumes and values, it is believed that annual shipfinance activity will exceed the $30bn mark for 2003.

The Greek shipfinance market is an important one in the world shipfinance scene. According to the latest Petrofin Bank Research © published data, the total Greek-related shipfinance debt at the commencement of this year, including commitments, amounted to $21.26bn or 13.28% of the global total of $160bn.

In the light of the unprecedented newbuilding and second-hand purchase activity by Greeks, it is expected the significance of Greek shipfinance will increase further over the years.

The nationality of the banks that provided the above finance were as follows:

Nationality	No	Loans	%
German	10	$6.614	31.2
Greek	11	$4.472	21
UK	3	$4.430	20.8
Dutch	4	$1.280	6
French incl. Belgiun	3	$1.235	5.8
Others	20	$3.230	15.2
TOTALS	51	$21.261bn	100%
Petrofin Bank Research©			

Following a period from 1992 to 2001 of consolidation as a result of mergers, acquisitions and some withdrawals, the number of banks rose from 40 to 51 between 2001 and today, as a result of the increasing strengths and importance of Greek shipping attracting the renewed interest by banks.

The annual new loan production, excluding commitments and after repayments, is estimated by us at $2.636bn over the end 2001 / Jan 2003 period and the above figure is expected to increase considerably over the next years.

The increasing importance over the years of the Greek banks is noteworthy. The liberalization of foreign exchange and the relative attractiveness of shipfinance compared to other domestic lending has supported Greek bank shipfinance so that year on year drawn loan volumes increased by 19,24% and if we count the committed but undrawn facilities, the increase was even higher.

Although the above rate of growth is not sustainable, the recent entry of new players such as AB and Marfin, as well as build up of market share by Commercial Bank of Greece, Eurobank, FBB and Laiki, points to higher Greek bank loan volumes and an increasing market share.

It is too early to determine the exact lending profiles and appetite of the newcomers. However, coupled with the booming shipping market, there is a widespread feeling of greater expectations from the Greek sector.

Among the 10 banks with a Greek physical presence, RBS and HSBC are continuing with their own formula of stand-alone loans, which has served them well in the past and has built up a good client loyalty. It is noteworthy that ABN in Greece is now the worldwide shipping centre for the bank, which acknowledges the importance of Greek shipping and the experience of its Greek shipping team. Higher lending is also the case for the remaining Dutch and other lenders in this category with the exception of BCV, which has retrenched to Switzerland.

In the 30 banks that provide loans to Greek owners from abroad, the most active are undoubtedly the German banks that are displaying enormous increases. The switch of Greek shipping towards newbuildings and younger second-hand tonnage has been enthusiastically welcomed by the German banks that are commanding an increasing following among Greek owners.

All banks, however, are being prepared for Basel II and in developing their new accreditation systems. The vast majority have set up new departments, whose opinion in the quantity of the credit and its pricing is becoming paramount.

From our discussions with banks, most are concerned over the implications of Basel II. These are, in general, their concerns:

The first has to do with the objective nature of the credit assessment process that downplays significant subjective or historic strengths in a client and the bank-client relationship. These 'strengths' cannot be properly assessed in a numerate context and may result in quality owners receiving lower ratings. As such, the credit rating systems may unduly interfere with credit decisions. The second has to do with the attractiveness of shiplending as compared to other forms of lending. The nature of shipping company structures and shipping as such, the reduced importance according to Basle II of ship mortgages as security and the whole focus of Basel II being geared for non-shipping credit business, may lead to shipping credits being downgraded as opposed to credits extended to other sectors.

The third concern is the ability to convince clients to pay higher cost of funds as a result of Basel II, as well as higher spreads, fees, etc. Banks are only too happy to have observed a hardening of shipping loan yields over the recent years in addition to the improvements in the quality of their clients' ownership and organizational structures, financials, age and quality of their fleets and improved maintenance. Overall, they have been able to earn higher yields from higher quality clients and involving higher quality vessels. To the extent that the effects of Basel II shall have been assimilated up to its full introduction, the negative effects are expected to be subdued.

All banks view shipping performance over the last five years or so as excellent. This has lead to a re-appraisal of shipping risk as such, especially in the light of the recent prominent dot com failures and US stock market excesses. As has been pointed out by Mr. Anagnostopoulos, Head of Shipping of ABN, shipping loans are secured on real cashflow and real assets.

In a period whereby the world economy is facing the threat of deflation and where corporate cashflows in the western world are weak, shipping as a capital intensive industry has benefited the most from historically low interest rates, as well as the recent market boom.

Whereas most bankers are cautious about the longevity of the current cycle highs, there is no doubt that there has been a re-determination by banks for shipfinance in general and Greek shipfinance in particular. Given the above, it is now widely expected that there shall be additional fresh lenders over the next few years, emanating primarily from Europe, as well as further 'niche' players and / or financing boutiques / investment banks that shall add 'salt and pepper' to the shipping industry.

Looking at banking practices, club deals continue to the preferred rather than syndications. However, the confidence of banks is such nowadays that banks can handle financing 2 or more newbuildings on their own without any signs of strain.

Given the younger age of the assets themselves, it is not surprising that the average term of shipping loans is becoming longer and 10-12 year or longer loans are now the norm rather than the exception. Typically, the 15, 18 or 20 years of age still represent loan termination barriers, at which point the balloon kicks in, but the restrictions are becoming blurry, aided in part by the high scrap value at present.

A useful feature that has been incorporated into loans by the bigger clients, involving usually newbuildings has been the introduction of skipped principal instalments during the period of the loan to accommodate cyclical laws. In short, assuming a 15-year loan repayment, i.e. 30 semi-annual instalments, the loan is in fact divided by, say, 28 instalments which allows the borrower the discretion of electing to execute a zero instalment payment at times of trouble. Usually, these skipped payments are not consecutive and are guided by the bank's desire to assist a vessel / owner to overcome a recession without, though, fundamentally affecting the bank's position over a period of time. This element of flexibility is positively viewed by the shipping community both as a tool, as well as a sign of increased confidence / maturity by ship financing banks.

All banks have begun to focus more closely on developing their non-risk products and services, i.e. F/X and interest rate hedging, banking services, ancillary services, advice on mergers / acquisitions, private banking, intermediation, access of equity capital, etc.

In addition, the excellent investment returns offered by shipping over the recent years has attracted the interest of banks, the wider financial community and private investors, especially in the light of minimal returns offered by deposits, banks and shares. A number of banks have developed 'arm's length' investment companies and / or access to capital providers in order to develop business, especially for their trusted clients with undeniable strength and proven character, the ability to handle responsibly instrumental monies and involving projects with secure employment over a 3-5 year period.

In summary, therefore, mid 2003 finds shipping banks enjoying a period of confidence and optimism reminiscent of earlier decades, but this time based on long-term experience of shipping cycles, enhanced ability to overcome low points, select clients, structure transactions and identify better security. May it long continue.

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