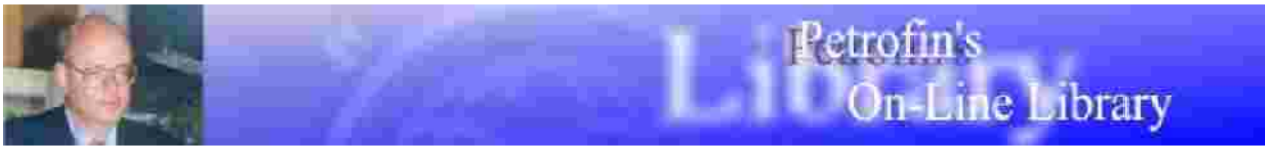

New Role for Banks

May 28th-June 3rd 1993

by Ted Petropoulos

The inability to meet shipping's credit needs sees a new role for shipping Banks in the 90's according to Ted Petropoulos of PETROFIN LTD.

There has recently been observed a widespread view that shipping is experiencing a "credit squeeze".

However, shipping is experiencing a recovery and has enjoyed since 1987 a period of relative prosperity. In addition, the outlook from a demand and supply point of view appears positive and able to sust a longer period of prosperity. Why then a "credit squeeze"?

There are serious grounds to believe that the industry experiencing a structural "credit squeeze" since both the number and ability of shiplending Banks have declined alarmingly over the last decade. As such, the problem does not so much arise from a sudden and m increase in the demand for shipping loans (not yet anyway) but fro the unavailability of sufficient credit to meet the industry's fleet renewal requirements.

The number of Banks with a major role are only 39, of ich 77% are European based and only 18% North American based. With this number, however, are numerous Banks, which may be described as major regional rather than International shiplending Banks. Indeed, t e small number of Banks with a major shipping involvement is truly start g.

The minor lending Banks (28) are those which either en small market "niches" or consider shiplending as just one of their many cred areas.

EUROPEAN BANKS DOMINATE

It is important to note that European Banks account for 77% of the total and that their share of shiplending has come to dominate the industry, whereas only a decade ago it was US based Banks that provided the bulk of the industry's requirements.

The main reason for the small number of shiplending Banks lies with the poor lending record of the industry for many Banks in the 70s and, more importantly, in the 80s. A number of Banks faced considerable losses although it would be wrong to only blame the cyclical nature of the shipping industry. Still, shipping developed a name for complexity, specialization and high risk; hardly conducive to keeping, let alone attracting, new Banks to the industry.

In addition, obtaining shipping finance has become a h er exercise, especially for smaller owners and marginal credits.

The main characteristics and trends of shiplending are:

- The reduced percentage of offered finance.
- The concentration on standard types of vessels.
- The reluctance to finance the new entrants to the industry.
- The lack of shiplending for older vessels.
- Little interest in financing International Joint Ventures, and
- Increase in the average size of shiplending transactions.

OVERCOMING THE "STIGMA"

Shipping is steadily overcoming its "stigma" and it is only a question of time before the number of shipping Banks grows to take advantage of market opportunities and the higher yields offered by shipping credits.

International financial shipping consultants have a ma or role to play in this process through the services offered both to the shipping community and to shiplending Banks.

Reasons for the increasing importance of capital are n t only those outlined herein but ones linked with the need to replace older, poor quality tonnage.

How is it going to be possible for the shipping indust to attract the additional capital it requires?

Let us respond to the question by saying that the indu ry should not "pitch" itself as a high risk – high reward industry. It is not the speculative money that should be attracted but the investment qual y capital. This capital is looking for consistent returns, which are in line with those offered by other industries.

With reduced gearing, limited newbuilding orders and g d medium to long term prospects, the industry has begun to offer g d potential. The average age of the fleet is rising and, in order to re ew the fleet, net operating revenues must rise to justify investment.

Outside capital consists primarily of private capital individuals) and institutional investment capital.

The former is looking for somewhat higher returns and may participate either via the stock market, for hose relatively few p blicly quoted shipping companies, or via private investment funds.

The industry's ability to raise quality private capital has been rather poor and, although this type of capital is expected to contribute more to the industry's needs, it is not regarded as sufficient to meet the massive capital requirements of the 90's.

The institutions we refer to are investment funds, pen ion funds and, in general, all funds, which are run by professional inve ment managers and are seeking to provide to their clients attractive returns over the medium to longer term. These institutions put "safety firs" and have in the past tended to invest their funds in bonds, shares etc.

LESS RISK, MORE CO-OPERATION

The way to also attract such capital would be by reducing shipping investment risk. This can be done by reduced gearing, investing in quality tonnage, good timing of investments that are looking weak on fundamental and/or technical grounds i.e. excessive supply of tonn e, inadequate returns and high volatility.

Moreover, the industry must reduce its risk through mo int Ventures between cargo and shipowning interests, as well as, th se of longer term employment contracts. As the shipping industry's fundamentals improve and the potential returns become attractive, the biggest problem to be overcome will be the lack of familiarisation and, may we say, trust between the institutional investment community and the shipping industry.

It is here that we see the greater service being perfo ed by shipping Banks for their clients and the industry as a whole. S ipping Banks must become ambassadors to the shipping industry for those clients that they know and trust.

Back to top

From SEATRADE WEEK NEWSFRONT
May 28th-June 3rd 1993