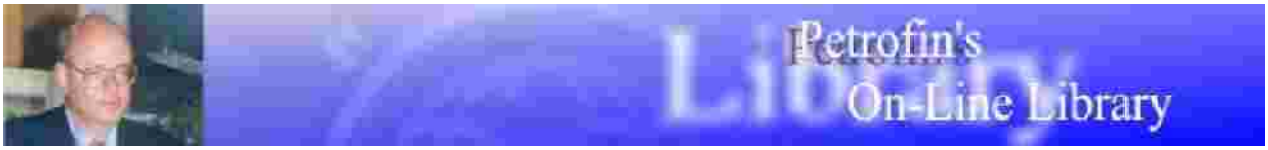

Shipfinance and the small owner

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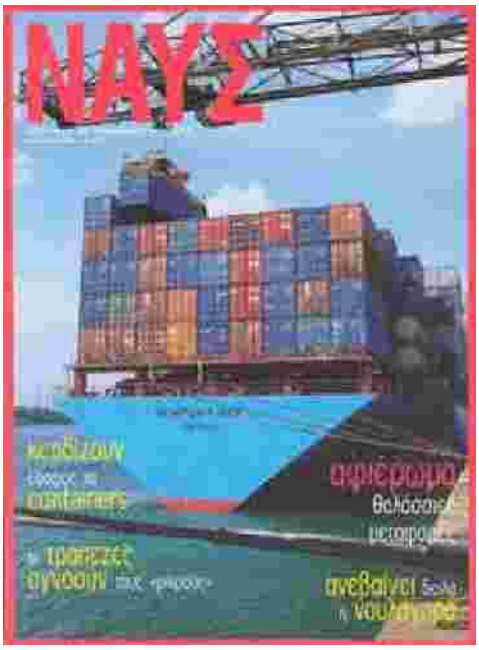

The development of Greek Shipping, the leading maritim nation in the world, has been a truly remarkable one. According to t e latest statistics, Greek owned vessels, in terms of Deadweight, accounted or 18.85% of the world fleet compared to 17.4% last year (Institute of men) and 21,000,000 tons are being built and delivered on behalf of Greek owners between 2001 and 2003. Although there have always been number of prominent names at all stages in the development of modern Greek Shipping over the last 100 years, the vast majority of owners consisted of relatively small size with one or two vessel fleets. These owners, usually, came from within the ranks of shipping as such, being either ex-captains or engineers or, at times, merchants and traders.

The success of Greek Shipping is primarily due to the commitment and skills of such small owners who ventured into shipownership seeking their fortunes. Some of them developed into names of near my hical proportions, such as, Onassis, Livanos, etc. whose "rags to riches" stories fuelled the imagination of many who sought to emulate their success.

In more recent years, however, despite the continuing growth of Greek Shipping in both Deadweight and number of vessels term he number of Greek Shipping firms has begun to fall. Petrofin Research © published statistics has shown that over the 5-year period of 1998 to 2002 inclusive, the number of Greek Shipping firms has fallen from 926 to 749 i.e. a decline of 19.11%.

Readers will be familiar with the forces of globalisat in which companies must compete on a global basis and strive for market share. In their search for global domination, firms grow larger via mergers and acquisitions. In shipping too, a traditionally highly fragmented industry, the process has already begun with container shipping leading the way, followed by the tanker industry and with dry bulk ship g being the last to respond to the above challenges.

Issues, such as, economies of scale in terms of ownership, investment and operating terms have come to be used to explain this trend. Commercial employment pools consisting of the largest names have flourished. The influx of regulatory restrictions enforced by vessels' flag and class, as well as, port state and ISM bodies, have favoured the well organized and larger shipping company with larger and more modern fleets.

However, without doubt, the main contributory reason f r the consolidation of Greek Shipping into fewer hands has b the attitude of banks.

Among the many reasons put forward by banks to support heir preference for the larger owner, two stand out. The first relates to risk. Banks have come to believe that smaller owners represent a higher risk. As such, not only are smaller owners more likely to default or go into bankruptcy, but once they do, the bank's options and chances of avoiding losses are severely limited. Whereas a number of analysts and ban s have sought to develop their own statistics to support the above comm ly held view, there has not been any definite proof or overwhelming analysis published todate. Problems associated with secrecy may account f he lack of evidence. At the same time, most banks concentrate on the number of bad loans rather than the size of losses sustained per client, which does not favour the smaller owner.

Having been closely involved with shipfinance over the last 30 years, I believe that the reasons for bad loans by banks have been more linked to poor client selection, loose credit policy and insufficient monitoring rather than client size. Nevertheless, the senior managements and / or credit committees of banks have linked size to losses and have laid out their lending criteria and client targets accordingly.

The second main reason why banks prefer the larger own as to do with their own development. Banks have also been caught up in the globalisation race and there has been an unprecedented number of mergers and acquisitions on a worldwide basis. As banks grow l rger, the clients they are seeking also grow since small owners and smal ns become relatively insignificant to them. Furthermore, as bank row, they develop more sophisticated products and services for which the larger clients have an appetite whereas the smaller ones are primarily loo ing for loans.

Petrofin Bank Research © has shown that the number of banks servicing the Greek Shipping community has been fallen from 77 in 1997 to 40 at the end of 2001. Whereas overall Greek Shipping loan exposure has grown from approx. $9 billion in mid 90s to $16.535 billion by 2001, the trend has been for fewer larger banks primarily focusing on e larger owner.

The lack of interest by banks towards the smaller owner has been amply highlighted over the years as the trend begun in the 1 's and gathered pace in the 1990's. One by one the smaller Greek or foreign banks that tended to support the smaller owner were absorbed by larger banks that have opted for the larger owner.

All banks nowadays target the same top 30-40 names and compete fiercely for their share within this segment. The relatively sm anks or those with a strong and successful shipping history that has allowed their shipping departments some flexibility, have also favou the medium sized owner with fleets of between 5 to 15 vessels, especially if they have enjoyed a good relationship over the years.

Where, though, does the above bank policy and trend leave the vast majority of smaller owners with fleets of 1 - 4 vessels and who, according to Petrofin Research © statistics, still account for 65% of the total number of owners?

Smaller owners have been increasingly frustrated by th lack of interest shown by shipping banks. Even though a large number of hem are traditional names with an enviable record of performan e over the years, good management skills and adequate liquidity, they too have struggled to obtain finance, let alone competitive terms as they sought to grow or replenish their fleets.

Lack of finance is viewed as their number one concern by the smaller owners, although they often do not wish to draw publicity to this aspect, as they feel embarrassed and ill at ease by publicly admitting their problem.

The situation for new entrants into the shipping industry is even more desperate. No bank wishes to lend to a newcomer withou their own operating history, even though they may possess the required knowledge, skills and liquidity.

Is this trend, however, a healthy one? Is it good for the Greek Shipping industry?

My personal opinion is that Greek Shipping, just like all industries, requires new entrants with dynamism and vision. They provide the seedlings out of which some will grow to large oak trees.

If you consider that all shipping names started in a small way, it is clearly a mistake to throttle new entrants and raise the barriers to entry. Such policy, clearly favours the existing large players, even thoug they may publicly express other opinions or say that new entrants do not ose a threat to them.

It is said that the market does not allow for vacuums to exist for long. Clearly, in shipping, for the small owner, demand for far outstrips supply and this inequality should allow for good opportunities by banks that target this sector.

After a long period of decline in the number of shipfinance banks, there are some signs of a revival. Recent entrants are General B k, First Business Bank, Marfin Bank and the Aegean Bank. Although it is still early to conclude what their policy shall be towards the smaller owner, it is felt that smaller banks entering the shipfinance market will be more sympathetic to the smaller owner.

What is clearly needed is a number of banks focusing on the opportunities offered by the smaller owner. These banks could either be dedicated shipfinance institutions or small client departments of larger banks.

Strict client selection, a conservative lending approach and an emphasis on quality modern vessels should form the bedrock of bank redit policy for the smaller owner. These criteria, together with numer us others that each bank shall select, ought to reduce potential loan defaults to acceptably low levels. In addition, where loan levels are relatively low and vessels are in good condition and relatively modern, banks will have e opportunity to adopt loan recovery policies that should minimize, if not eliminate, losses.

On the other hand, the pricing opportunities offered b the smaller owner market are very attractive. Spread and fees are considerably higher than those granted to larger owners. In addition, small own all channel also their auxiliary business via their lending bank, which hances considerably the bank's overall yields.

As large banks become increasingly similar in their credit criteria for target clients, smaller banks could profitably exploit the opportunities offered by concentrating on the smaller owner. They could develop into successful "niche" players that will help both themselves and the shipping industry. Such development should also bring forward much needed ew flexibility, innovation and dynamism into the shipfinance market.

After all, these new banks will be safe in the knowled e that among their new clients will surely lie some of the biggest new names that will develop and play a leading role in the future.

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