

ACTIONS NEEDED IN SHIP FINANCE

SHIPPING POLICY SEMINAR

Mariehamn

21.5.2015

Per Arvid Skult

Background

- **Maritime strategy for Finland 2014-2022:**
 - need for renewal of the Finnish-flagged merchant fleet
 - need to improve the financing possibilities for ship investments
- **Assignment by Ministry of Employment and the Economy**
 - study re. the current status of ship finance from the perspective of SMEs
 - steering group MEE, MTC, Finnvera, Finnish Shipowners

What is the problem?

- **Very difficult for shipowners (SME) to get finance**
- **Reasons:**
 - **Situation prior to 2008 (finance available, high freight rates, booming new-building market)**
 - **Financial crisis and global recession changed the scenario (oversupply of second-hand vessels, ship values collapsed, loan defaults)**
- **Consequence:**
 - **Tougher banking regulations (Basel III)**
 - **Banks have reduced exposure to ship finance or exited the sector entirely**

Responses from shipowners

- **Investment needs**
 - due to stricter environmental requirements
 - up to 15-20 ships (newbuildings and second-hand)
- **No finance available; very few shipping banks**
 - different for SMEs compared to big shipowners
- **Maturity of loans**
 - now only 5-7 years, the need is 15 years
- **Loan-to-value ratio**
 - 50 - 60% can be financed against ship mortgage
- **Additional security / finance needed**
 - could Finnvera take more risk?

Comments from the banks

- **Demand for finance for newbuildings, second-hand ships, scrubbers, working capital etc.**
- **Difficult for SMEs; shipping banks prefer big, strong shipowners (consequence of tougher bank regulation)**
- **No project financing; focus on shipowners**
- **Stricter criteria for granting loans (financially strong, good track record, additional security, covenants)**
- **Funding available also for ship investments but banks are very cautious and unwilling to take risks in shipping; shipowners (SME) cannot meet the stricter requirements**

Role of Finnvera

- **Finnvera is a specialized financing company owned by the state**
 - **Official Export Credit Agency (ECA)**
- **Finance for SMEs and the export industry**
- **Self-supporting in the long run; possibility to greater risk taking as the state covers part of credit losses**
- **EU rules on state aid and guarantees set limits**
- **Products important for the shipping sector:**
 - **Ship Guarantee (security for credits granted to Finnish companies)**
 - **Buyer Credit Guarantee (security for foreign buyers)**

Proposals re. Finnvera products (1)

Ship Guarantee

- **Used as security for loans granted to a Finnish shipowner or yard; applies also to ships bought from abroad**
- **Cover is today only 64% of acquisition price due to current interpretation of the OECD consensus on export credits (loan max. 80% of price) and the Commission notice on state guarantees (guarantee max 80% of loan amount)**
- **Proposal: Consider applying a different interpretation of either of said rules, thus the cover could be increased to 76% or more of the acquisition price.**

Proposals re. Finnvera products (2)

Use of bonds (debt securities)

- Finnvera has currently the right to subscribe to bond issues of SMEs or enterprises with a turnover up to 300 meur; max 50% of actual subscriptions
- Consider using bonds also for financing ship acquisitions – (cooperation between shipowners, loan amount, costs)

Proposals:

- Bonds secured by ship mortgages / two tranches - Finnvera to subscribe to the tranche carrying more risk
- Finnvera to guarantee bond issues (even up to 100%?)

Proposals re. Finnvera products (3)

Finnvera loan

- Intended for newly established and existing SMEs; used for finance of various investments and working capital

Proposal:

- Extension of the Finnvera loan to complement bank financing; especially in respect of interval 60-90% of ship value
- Security: secondary mortgage; earnings from long-term charterparty etc.
- In comparison: Svenska Skeppshypotek: loans up to 90% against ship mortgage

Other alternatives

- **European Investment Bank (EIB)**
 - shipping finance; clean technology and fuel efficiency
 - direct loans (large projects more than 25 meur)
 - smaller loans via intermediaries (local banks)
 - max 50% of investment
- **Nordic Investment Bank (NIB)**
 - transportation sector and environment important;
shipping currently not core business
 - projects in excess of 50 meur; max 50% of investment
- **EU financial instruments TEN-T; CEF; MoS**
 - funds available; difficult for SMEs to access

Conclusions

- **Shipping of vital importance; renewal of the fleet necessary; financing a problem for SMEs**
- **The National Emergency Supply Agency:**
 - ”finance arrangements must be developed so that domestic shipowners can obtain finance for their ship investments”*
- **Need for actions**
 - **short terms basis:**
 - **increase risk taking possibilities for Finnvera;**
 - **get access to EU financial instruments**
 - **long term basis:**
 - **visions for the future: new logistical solutions; alliances etc.**

THANK YOU !

Per Arvid Skult

perarvid.skult@neptunjuridica.com

+358 400 416295