

Challenges and Prospects in
Shipping Finance

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Regulatory Factors Causing Structural Changes in the Shipping Industry

- **Oil Pollution Act 1990 (OPA)**
 - Unlimited Liability
 - New Design Provisions
 - Phasing out Single-Hull Tankers over a 20-Year Period
- **International Safety Management code (ISM)**
 - Improving Safety of Seafarers
 - Protecting Property
 - Preventing Marine Pollution

Structural Changes in the Banking Sector

Capital Adequacy Rules 1993

- Minimum Risk Asset Ratio 8%

Expected Capital Adequacy Rules 2006

- Not Finalised
- Assessment of Risk
- Measurement of Risk (standardized and Internal Rating Approach)
- Required Economic Capital
- Higher Return on capital Employed

Shipping vs other sectors

Structural Changes in the Banking Sector (continued)



- **Mergers and Acquisitions in the banking sector**
 - larger financial institutions

- **Interest in financing large shipping companies**
 - lower perceived risk
 - relatively stable performance
 - higher profitability

Structural Changes in the Banking Sector (continued)



- **Avoid smaller shipping companies due to**
 - higher perceived risk
 - relatively unstable performance

Capital Markets

Public Equity (for growth companies)

- Equity capital increases, but
- Small capitalisation
- Small percentage of shares to the public/limited liquidity
- Shipping market volatility/volatile cash flow
- Underperformance of shipping stocks

Private Placement (for capital gains)

- Capital increases, but Investors locked in

Capital Markets

High Yield Bond Issues (Non investment grade)

- Bullet Repayment
- Savings can be invested into new projects

But

- Cash flow volatility
- Defaults

Other Examples of Structural Changes

- **British Fleet**
 - Bulk
 - Passenger
 - Liner
- **New Shipping Model (1950s & beyond)**
 - Single Vessel Company
 - Time Charter
 - Bank Finance
- **Eurodollar market**

Structural Change in Shipping Companies: Consolidation in Bulk Shipping

Pools - Alliances - Mergers and Acquisitions

ROCE = Earnings before Interest and Tax / Capital
Employed

Objectives in Fleet Renewal and Expansion Schemes

Small Companies

- Better fleet utilisation
- Improving chartering activities
- Economies of Scale
- Appropriate timing of sale and purchase

Objectives in Fleet Renewal and Expansion Schemes

Large Companies

- Increasing market share
- Improving customer relations
- Fixing COA
- Better fleet utilisation
- Improving financial flexibility
- Reducing cost of finance
- Economies of Scale

To Recapitulate

Structural changes such as

- OPA 90; ISM

New Bank Capital Adequacy Rules

- Consolidation in Shipping and Banking
leading to larger shipping companies
and
to wider use of various finance sources.

Small companies may attract the interest of
specialised funds/institutions