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Should alarm bells ring?

CHINA'S promise of \$10bn worth of finance for Greek shipowners who place orders with the country's shipbuilders should set off alarm bells.

For China's shipbuilders, of course, the prospect of new work at a time when there is so much surplus yard capacity will be hugely welcome. Likewise, shipowners who have found it hard to raise funds since the banking crisis unfolded will also be tempted by the availability of credit, particularly if the terms compare favourably with those available in the international money markets.

But the shipping industry hardly needs new vessels of the type Chinese yards are likely to build. And more capacity will drive down freight rates.

Is that the thinking behind the Chinese offer as it addresses the needs of the country's fast-growing economy with its insatiable demand for raw materials?

For it is unlikely to be export-carrying containerships Greek owners would order, but vessels suitable for inbound commodities.

Hellenic Chamber of Shipping president George Gratsos has described shipyards as "freight market destruction mechanisms that help keep input costs low", noting it was "not by coincidence that England and Europe in the days of their empires had a large shipbuilding capacity".

Now it is China's turn, and it would take considerable willpower to resist the offer China has made to the Greek shipping community, with the added sweetener from Cosco boss Wei Jiafu that his company would be prepared to charter Greek-owned ships built in China. Naturally, since charter costs would be rock bottom if the bulk and tanker markets are swamped by even more tonnage.

But Chinese finance is not the only worry for an industry that was brought to its knees by readily-available cheap money that fuelled an ordering boom.

Other financial institutions, led by HSH Nordbank, are now intent on expanding their shipping portfolios again after, in the opinion of many, doing so much harm in the first place.

As one industry veteran remarked, this industry "does not need more debt or more ships". But that is the macro viewpoint, and not China's problem.

A cautionary tale

BRITAIN'S inability to airlift nationals out of Libya highlights what can happen when governments rely on the private sector to get them out of a jam in an emergency situation.

There is a cautionary tale here for those who favour current plans to end 24/7 emergency towing vessel cover round this country's coast.

When the Department for Transport announced last year that the ETV contract would not be renewed,

it argued that public provision was not an appropriate use of taxpayers' money, and that salvage should be a commercial matter between a ship's operator and the salvor.

Not only is there a lot to be said for such a stance, but the move will save £32m (\$51.6m) over a four-year period. That should make the proposition a no-brainer.

Except it doesn't, because of the real risk of things going horribly wrong. As the *Braer*, *Erika* and *Prestige* casualties underline, oil spills have consequences for many more parties than those with direct involvement. Woe betide any government caught asleep at the wheel.

Yes, there are excellent commercial salvors with tugs at the ready, just as there is a commercial aircraft hire sector with planes for rent. But the failings of the latter saw a jet chartered to get hundreds of Britons out of a country descending into anarchy stuck on the tarmac at Gatwick thanks to technical problems.

How embarrassing for the Foreign Office. The maxim here must be that, in a pinch, there is no substitute for keeping things in house. ■

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Industry Viewpoint



BASIL KARATZAS

Greek owners are exploring alternative financial possibilities, both in the public and the private markets

THAT there has been a sea change in the shipping finance markets after the financial turmoil of the last two years is a well-known fact.

It is not only that the green waters of super-activity are receding from the deck as shipping finance steadies itself in terms of quality of charterers, and their credit in terms of better-educated equity investments in shipping assets, but mainly through lower advance rates and higher credit standards as a premise of obtaining – still limited – debt financing.

The impact of curtailed debt finance is having a higher impact on the Greek financial markets, where the typical Greek shipowner was depending substantially on long-standing relationships with banks to finance, by way of mortgage, the acquisition of dry bulk vessels to trade on the spot market.

There are still 'captains of industry' shipowners who can depend on name lending even today, but there are nominally several hundred family-run, private Greek owners whose traditional business model has been impacted.

Their finances have been affected by the higher lending criteria – for example, there is minimal debt finance for older vessels – but also by the fact the original financial crisis and the subsequent Greek aftershocks of 2010 have put special pressure on the the country's lending institutions through the fall in deposits.

As a result, the shipping finance situation in Akti Miaouli is ever more strenuous.

It is no surprise several private Greek owners have actively been exploring alternative financial possibilities, both in the public and private markets. There has been a tidal wave of Greek shipowners attempting to access the public markets, mostly in the US, in the form of initial public offerings.

In the private markets, possibilities such as co-investments, joint ventures with private equity/investors, leasing structures and the like are being re-evaluated.

The case of the IPO has been presented eloquently elsewhere, but liquidity, continuous access to the capital markets in the form of secondary offerings, prestige and visibility are the most obvious.

In the past decade, and prior to the Lehman collapse, about 20 companies from Greece had been listed in the US capital markets, some of them as easily as tying five vessels 'subject to IPO', attaching a management team to them and spinning off a story.

However, last year there were five filings for maritime IPOs in the US, and, all but Alba, from Greece, have been successful, raising \$653m in their initial offerings, or \$890m including secondary offerings.

Baltic Trading and Crude Carriers priced at the low end of the range and

Options, yes, but no 'idle pools of money'



Costamare's vessel *New York Express*: the company launched a successful IPO in the US last year.

their dividend policy was based on the full-payout model.

The other two successful IPOs, Scorpio Tankers and Costamare, were priced low as well, and the dividend policy for the former has been no dividends whatsoever and partial dividend payout for the latter.

At present, there are reported to be more than 20 Greek shipowning companies with their sights set on the IPO market in the US, in the dry bulk, tanker and containership sectors.

Allegedly, there are idle pools of money seeking opportunities in sectors such as shipping. However, this time around the shipowner has to be a legitimate company with a solid track record in the shipping and financial markets, and on average, eight-times multiple earnings before interest, taxes, depreciation and amortisation are required to have a chance to succeed.

Further to the higher standards of floating IPOs, freight rates have been particularly anaemic over the last six months and this further dims the prospects of numerous offerings.

The attractiveness and validity of the IPO markets aside, one has to concede the public markets are no panacea to a capital-intense industry like shipping,

"It is no surprise several private Greek owners have actively been exploring alternative financial possibilities, both in the public and private markets"

and especially to the owners coming out of Greece in a time of weak debt markets.

Setting up private transactions and joint ventures where private investors can pour in significant equity along with the shipping expertise of a shipowner, away from the scrupulous sight of financial regulators, has its own advantages.

A lot of these private equity investors have almost as deep pockets as the capital markets and they are seasoned to think of returns in terms of patience (years versus quarters), counter-cyclical, cross-industry expertise and flexibility in terms of control (minority versus majority equity stakes) and returns, such as deferred earnings.

Alternative forms of financing to either alleviate cash flow problems or back organic growth could be arranged in the form of lease transactions, where a bankable charter can be utilised to effectively provide 100% financing.

In 2010, there were several privately structured and financed deals.

Although such transactions are usually off-the-market and bilateral, and thus little information can be made publicly available, in our estimate more than \$1bn has already been invested privately in shipping projects west of the Suez, which is more than the amount raised through IPOs in the US.

It seems that despite the current weakness of the freight markets and asset prices, or perhaps because of them, shipping is on the radar of the investment community.

Who said shipping projects and shipowners do not have options? ■ Basil Karatzas is a director for Compass Maritime Services in New York

Maritime Blogspot

Where there are people there is scope for corruption

THE mob is still at it, or so one would believe judging by the recent spate of arrests going on at the New York and New Jersey docksides.

Last year I turned my beady eye on the Waterfront Commission of New York, the corruption-busting body set up in the aftermath of a series of journalistic scoops detailing widespread corruption in the port in the early 1950s.

Last year, a New Jersey senator proposed disbanding the commission, but in the intervening period it has claimed its part in a number of high-profile arrests of mobsters doing what mobsters do: extortion.

In January, Nunzio LaGrasso, vice-president of the Atlantic Coast District of the International Longshoremen's Association, was indicted on charges of bribery, corruption, conspiracy and money laundering.

Also arrested was a timekeeper at the Maher Terminal, Rocco Ferrandino, on the same charges, and LaGrasso's nephew, Alan Marfia, a Newark police officer who allegedly used his access to police databases to obtain information on undercover police vehicles that were conducting surveillance near LaGrasso's union office.

The case revolves around charges that dockworkers were forced to pay LaGrasso tributes out of their Christmas bonuses "to receive high-paying jobs, preferred shift assignments and overtime", according to the Waterfront Commission.

The year-end bonuses are known in the union as container royalty cheques, and were mostly collected on LaGrasso's behalf by Ferrandino.

It is alleged the extorted money was funnelled to the Genovese and Gambino crime families, and the arrests were part of a wider FBI mafia investigation that saw 127 people charged in January.

The extortion is nothing new – New York's stevedores have been paying kickbacks for decades, and as I suggested last year, the port continues to operate like this much of the time.

Of course, the nature of dock work has changed considerably since the birth of containerisation, but where there is cargo there is theft, and where there are people there is scope for corruption – and the ILA has 65,000 paying members, 4,000 in the port of New York and New Jersey alone.

Most of them are honest, law-abiding citizens, to borrow a Hollywood cliché, and for law enforcement officials to subsequently call the strip between the container terminals at Newark and Newark International Airport "the most dangerous two miles in America" is, if you'll forgive my cynicism, overreaction and hype. ■ *Barratry's is an irreverent place, designed for opinionated takes on daily maritime news, where the only unwelcome opinion is a conventional one. We invite you to join the discussion, http://barratry-blogs.lloydslist.com*