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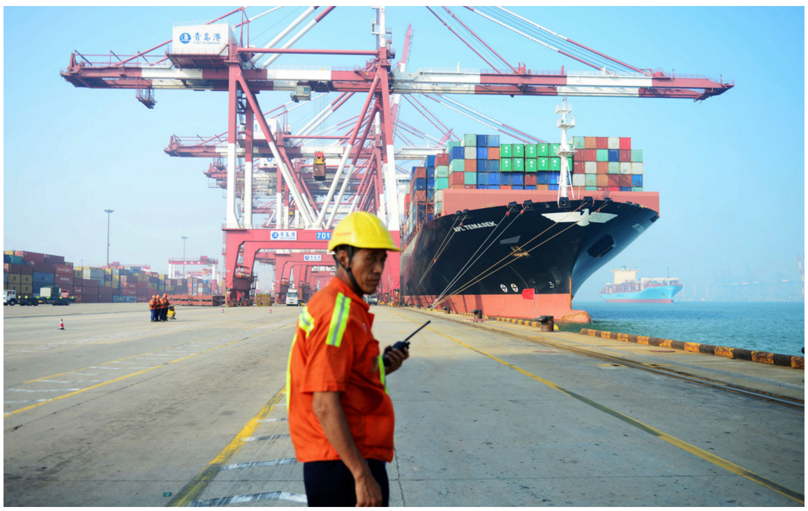
BUSINESS

China, Flush With Cash, Sets Sights on Shipping

Growth comes as European financiers that were once shipping heavyweights have pulled back



China is investing more in the shipping sector, a sign of its growing maritime ambitions, as Europe's banks have pulled back.
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By Costas Paris and Joanne Chiu

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China poured $20 billion into ship financing this year, reflecting the country's ambition to become the world's dominant maritime player as European banks have scaled back their investments.

That is 33% more than Chinese banks invested in 2016, according to the leasing arm of Industrial & Commercial Bank of China Ltd. It dwarfs China's financing as recently as 2008, when its lessors lent just a few million to shipowners that built their vessels in the country's shipyards.

ICBC's numbers only include leasing deals, China's preferred financing method. Bilateral loans, ship mortgages and private placements aren't reported, but research firm Marine Money estimates that Chinese financiers such as ICBC, China Minsheng Banking Corp. 1988 -0.72% ▼ , Bank of Communications Co. and China Merchants Bank Co. CIHKY -0.02% ▼ account for as much as one-quarter of a ship-financing sector it values at $200 billion a year.

European banks like Norway's DNB AS DNB -2.73% ▼ A, Sweden's Nordea and France's BNP Paribas still hold some of the world's biggest shipping portfolios, but China's growth has drawn notice.

"It's an unprecedented shift in ship financing," said Basil Karatzas, a New York-based maritime adviser who has arranged many such deals. "We've come from export credits, to a few Western owners, to China becoming a mainstream financier in both new and used vessels."

Three of China's biggest leasing firms, ICBC Financial Leasing Co., Minsheng Financial Leasing Co. and Bank of Communications Financial Leasing Co., own more than 800 vessels, valued at $23.6 billion. ICBC's shipping portfolio has grown to $10 billion this year from around $600 million in 2009, while Minsheng Financial Leasing has doubled its shipping assets in the past three years to $6 billion, or more than 300 ships, Chief Executive Jerry Yang said.

In contrast, European financiers that were once heavyweights in the industry, including Royal Bank of Scotland Group PLC and Lloyds Banking Group PLC, have withdrawn from shipping. Others, like Germany's HSH Nordbank AG and Nord/LB Group, are looking to divest themselves of part or all of their shipping portfolios. HSH has cut its portfolio to €12 billion in September from around €17 billion at the end of last year, while Nord/LB has shrunk its holdings to €13.3 billion from €16.8 billion over the same period.

"The traditional financiers have either eliminated or drastically reduced their exposure," said Soren Skou, chief executive of A.P. Moeller-Maersk A/S. "It's more or less impossible to raise significant amounts of finance from European banks, so others like the Chinese have stepped in a big way."

European firms are pulling back because of shipping's long down cycle, in which overcapacity kept freight rates low and made investments risky. Chinese banks are rushing in, but they too may reconsider if the economics don't improve, said Marine Money President Matthew McCleery.

"As the portfolios of Chinese leasing companies grow, so too will the likelihood that they will have some defaults, which are inevitable in a cyclical industry like shipping," he said. "How Chinese leasing companies will manage these defaults, especially when bankruptcy is involved, has yet to be seen."

ICBC Financial Leasing's executive director, Bill Guo, said the bank is working with established operators such as Denmark's Maersk Line, Swiss-based Mediterranean Shipping Co. and France's CMA-CGM SA, which "makes default risk lower."

People in the industry expect China to play an increasing role in ship financing in the coming years. Its banks are flush with cash, they expect a strong industry recovery and if things go wrong, they can deploy their ships to state-owned operators or scrap them in exchange for government subsidies.

“China controls up to 40% of the global shipbuilding capacity, and that’s a natural metric of where they want to be in the financing business,” said Arlie Sterling, president of Boston-based shipping consultancy Marsoft Inc., which works with Chinese financiers.

China’s ship leasing typically entails lending enough to pay for up to 85% of a vessel, then charging a 5.5% average annual interest rate. Traditional bank loans usually consist of lower upfront loans and interest rates. The country’s banks are quicker than their European counterparts to recover ships if payments are missed.

“The Chinese own the vessel, so the cargo is unloaded at the first port of call and the ship is seized,” said George Lazaridis, of Athens-based Allied Shipbroking. “It keeps operators on their toes, because if they can’t deliver the cargo, their reputation gets a big blow.”

Scorpio Tankers Inc., one of the world’s biggest operators of petroleum tankers, leased five vessels from Bank of Communications in September. Company President Robert Bugbee said the Chinese banks are lending “at great rates.”

In shipping, where personal relationships between bankers and owners remain an important part of doing business, industry watchers say some shipping companies could relocate to Asia to build those ties with Chinese lenders.

“You no longer have your banker a short distance away so that you can meet up for coffee and talk business,” Martin Kroger, managing director of the German Shipowners’ Association said at a shipping conference in Hamburg in November. “That’s a total mind-set change.”

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