LLOYD'S

Volume 21 October 1999

SHIPPING *economist*

Auto trades: the race is on

LLOYD'S SHIPPING economist
Volume 21 No. 10 October 1999

VOLUME 21 NUMBER 10 OCTOBER 1999

Lloyd's Shipping Economist is published 12 times a year, at the beginning of the titled month, by Informa Business Publishing.
***Editor:** Craig Jallal*
Tel: 0171 553 1343 cjallal@llplimited.com
***Business Reporter:** Mark Warner*
Tel: 0171 553 1781 mwarner@llplimited.com
***Liner Trades Correspondent:** Paul Gardiner*
***Reporter:** Stelios Makris*
Tel: 0171 553 1729 smakris@llplimited.com
***Publisher:** Sean Moloney*
Tel: 0171 553 1339 smoloney@llplimited.com
LLP Limited Internet Address:
http://www.llplimited.com
***Graphics:** Stuart Lewis-Smith*
***Picture Editor:** Alf Tarling*
***Picture research:** Barbara Borkowy*
***Production Editor:** Nick Blaxill*
***Sub-editor:** Sonja Theuerkauf*

Editorial, Subscription, Circulation & Advertisement Offices:
Informa Business Publishing
69-77 Paul Street
London EC2A 4LQ
Tel: 0171 553 1000
Editorial Fax: 0171 553 1104
***Head of subscription sales:** Andrew New*
Tel: 0171 553 1801
***Subscriptions Fax:** 0171 553 1131*

***Group Advertisement Manager:** Ian Houghton*
Tel: 0171 553 1272 lseadvertising@llplimited.com
***Advertising Manager:** Ventis Brown*
Tel: 0171 553 1538
Fax: 0171 553 1104

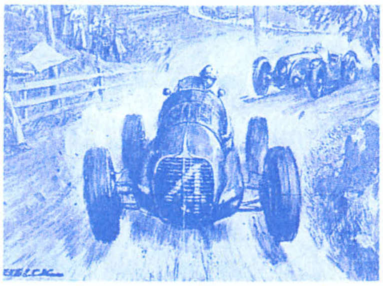
South East Asia Sales Representative:
LLP (Asia) Ltd
1101 Hollywood Centre
233 Hollywood Road, Hong Kong
Tel: (852) 2854 3222
Fax: (852) 2854 1538; 2543 3471

Annual Subscriptions (including CD-Rom archive) UK £650, Europe £725, North America & SE Asia $1415, other areas £830 inclusive of first class/air-mail postage.

Origination by:
Informa production
Printed in Great Britain by St. Ives
ISSN 0144-6673 © Informa Publishing Group Ltd 1999

Published by Informa Publishing Group Ltd
69-77 Paul Street
London EC2A 4LQ, UK

An informa publication



Cover reproduction with kind permission of Jerry Helck. For interested readers, the original artwork can be seen at Watkins Glen Library, New Jersey, US.

FEATURES

NEWS & REGULARS

ABN AMRO and Pakhoed cancel investment scheme

CONSTANT suspense about the Dutch tax position of private investors has led to the cancellation of a major Dutch CV investment scheme. Leading Dutch bank ABN Amro and the prominent Dutch logistics operator Royal Pakhoed had previously proposed a placement among private investors to finance six Pakhoed vessels, but abandoned the placement last month, due to potential changes in the fiscal position of private investors.

Although founded on an old concept, CV investment schemes (limited partnerships) came to prominence in the Netherlands in 1996, after the introduction of the Dutch tonnage tax regime. By capitalising on certain tax loopholes within the regime, shipping banks such as ABN Amro and ING found that they were able to attract private investors to ship financing programmes.

With the qualification of private investors as entrepreneurs, the banks are able to offer not only an increased tax deduction, but with special managerial agreements they are able to arrange 'bareboat charters'. Thus they effectively minimise the risk and costs associated with other charter agreements by removing the effect of market forces.

Storm clouds gathered on the horizon for CV investments in June, when a subcommittee of the Dutch treasury deemed that the exploitation of the current tax position was creating windfall profits for the investors and subsequently proposed plans to combat the situation.

Sensing government 'finger pointing' and uncertainty to market development, both ABN Amro and Pakhoed felt the time was right to pull the plug on the proposed placement for six Pakhoed vessels (four existing and two under construction).

Fred Weenig, head of ship finance at ABN-Amro, told LSE that after the subcommittee's announcement in June, both parties agreed that there was no room to push through the deal.

"Both ourselves and Royal Pakhoed have a reputation to uphold in the market, and we were discussing the deal with some of our most important clients. We felt that given the uncertainty attached to the deal, the risk was too great to take."

The move is certain to cause nervousness among investors, with the possibility of a domino effect on the remaining schemes in the marketplace, and brings the euphoria surrounding the revitalisation of the Dutch merchant fleet to an abrupt halt.

An in-depth report about shipping finance in the Netherlands will be included in the December issue of LSE.

Bocimar takes a calculated gamble

BOCIMAR NV has initiated a highly risky capesize strategy. The well-established operator currently manages a fleet of 55 vessels, 50 of which are capesize dry bulk carriers. Its operating performance has been badly influenced by the Asian crisis, but a bold attempt to influence the capesize market may change all that.

As can be seen from the table, reported fixtures attributed to Bocimar usually run to single figures per month, but August 1999 depicts a dramatic increase to 17 vessels.

Bocimar obviously believes that market demand will rise, especially in the Asia region. Indeed, the latest news is of rising requirements from the Japanese steel mills. In the meantime Bocimar put some of its vessels in ballast when offered unprofitable spot rates.

The consensus among the analysts is that the Bocimar has taken enough vessels to sway the general performance of the capesize market, but it all depends upon Bocimar's ability to maintain control over its chartered capesize fleet.

Number of Bocimar's charter vessels 1997-1999

	1997	1998	1999
Jan	1	0	1
Feb	1	1	1
Mar	2	0	0
Apr	2	2	2
May	0	0	0
Jun	4	0	2
Jul	1	0	1
Aug	3	0	17
Sep	1	1	
Oct	0	1	
Nov	0	2	
Dec	0	0	

Source: LMIS

IN THE NEWS

Fred Weenig

AGE: 38

EDUCATION: Naval architecture at Delft University of Technology

CAREER:

1986	management trainee, ABN AMRO Bank
1987-95	ABN AMRO corporate client department, rising to vice-president
1995-99	ABN AMRO global head of shipping and senior vice-president.

Mr Weenig is going to chair the upcoming 12th International LSE Shipping Finance Conference (see below).

Forthcoming events

GLOBAL AUTOMOTIVE TRADES AND LOGISTICS
- October 27-28
  Beurs, World Trade Center, Rotterdam

An exhibition and conference focusing on the international trade in vehicles and components.

LSE INTERNATIONAL SHIP FINANCE & SECURITY SEMINAR
- November 16-17
  Kennedy Hotel, London NW1

A comprehensive seminar on the law of ship mortgage finance and security.
Tel + 44 20 7435 5492 for further details.

LSE/CARTER LEDYARD AND MILBURN ROUND TABLE
- November 17
  London

An invitation-only roundtable discussion sponsored by Carter, Ledyard and Milburn. Moderated by former LSE managing editor Ian Staples (now with SSY Research), the discussion will focus on current issues in ship finance. Edited highlights will appear in the January 2000 issue of LSE.

THE 12TH INTERNATIONAL LSE SHIPPING FINANCE CONFERENCE
- November 18-19
  Royal Garden Hotel, London W8

The premier ship finance gathering and conference chaired this year by Fred Weenig of ABN AMRO. Usually a sell-out, so book early.

For further information on all conferences, contact: Jennifer Mountford, tel +44 171 453 5492, fax +44 171 636 6858, email cust.serv@ibcuk.co.uk, on-line booking website: www.ibc-uk.com/lm1160

RESULTS

Company	Period	Net Profit	Turnover	Change on Net Profit (%)	Change on Turnover (%)
Bergesen	1H99	32.34m	311.38m	(34.9)	(11.9)

Despite increased activity in the second quarter, the average income for Bergesen's vessels was lower than expected. Half-year results for the Bergesen group show a net profit of NKr250m, while the turnover for the same period was NKr2.41bn. The group's tanker fleet produced an operating profit of NKr196m, down from NKr286m in 1998, with quota reductions by Opec significantly influencing spot rates. The gas carriers generated profit but at lower levels. The dry bulk fleet, which is mainly fixed on long-term charters, acknowledged a loss in earnings due to poor performance from vessels operating in the spot market. At the end of the period, the group had liquid assets of NKr4.37bn and it has acquired a 67% stake in Scantank Offshore ASA. Earnings forecasts for the rest of the year remain far below those of 1998.

Company	Period	Net Profit	Turnover	Change on Net Profit (%)	Change on Turnover (%)
'K' Line	AR to 3/99	13.2m	4.36bn	(4.3)	0.25

"K"LINE.

This year 'K' Line celebrated its 80th anniversary and continued to reorganise and consolidate its operations. The company reported a net profit of ¥1.60bn – down from ¥1.67bn in 1997. The operating revenues from the container business amounted to $1.50bn, but the overall performance did not reach forecasted levels. The company's bulk- and car-carrier services were down 0.5% compared with the previous fiscal year, while the tanker and energy transportation services were down 1.9%, to ¥35.75bn. 'K' Lines' chairman attributed the poor results to weak trading conditions and low levels of demand. The long-term goal of the company is to improve its overall performance, to develop and exploit new markets and to implement New K-21, a reorganisation plan for the new millennium.

Company	Period	Net Profit	Turnover	Change on Net Profit (%)	Change on Turnover (%)
Neptun Maritime	H199IR	1.09m	286.30m	105	5.4

NEPTUN MARITIME

In its first published results since its transfer on April 20 to Sijla Holdings Limited, a subsidiary of Sea Containers Ltd, Neptun Maritime Group posted an operating profit for the half year ended June 30, 1999, of €15m, an increase from €2m in 1997. The half-year earnings mainly resulted from the reduction of the group's operating costs, the divestment on other financial items, as well as from the improvement to Silja Line's operations. The cruise vessels produced an operating profit of €5m, and flexible long-term agreements have already been signed for two of them. The group remains confident about the future prospects regarding expenses and investments, and clear profits are expected for the whole year.

Company	Period	Net Profit	Turnover	Change on Net Profit (%)	Change on Turnover (%)
Royal Olympic Cruises	AR98	4.54m	125.8m	(41.2)	11.5

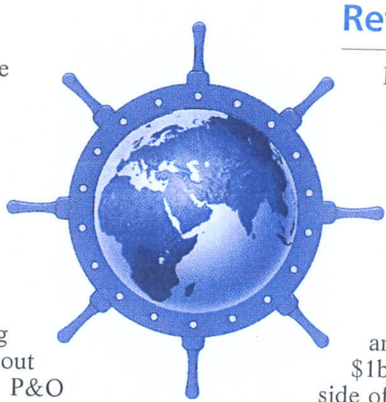
Royal Olympic Cruises (ROC) reported a net profit of $4.54m for 1998, a decrease of 41.2% from $7.7m in 1997. The decrease in profits was attributed primarily to disruptions in the company's cruise operations caused by accidental damages, ship breakdown and political uncertainties in the Middle East region. As result of this, occupancy levels fell from 83% in 1997 to 78% in 1998. In February 1998, the company order two high-speed cruise vessels at Blohm+Voss Hamburg, for delivery in 2000 and 2001 respectively. ROC states that it has already started a comprehensive management review.

Company	Period	Net Profit	Turnover	Change on Net Profit (%)	Change on Turnover (%)
Torm	H199IR	(4.54m)	114.12m	(83.3)	(15.1)

Half-year results for the A/S Dampskibsselskabet Torm depicted net losses of $4.54m, while the turnover for the same interim period decreased to $114.12m. The company's consolidated profit and loss account also reflects a decrease in earnings from shipping to DKr48m, compared with DKr99m in 1997. The diversified fleet was no protection from the poor freight rates. The declining naphtha trade at the end of the first quarter resulted in idle days for the company's product tankers, while the pooled bulk carriers continued to provide poor returns. The liner trade has been hit by intensified competition, while the anchor handling and supply vessels suffered technical difficulties. The second half of 1999 is expected to provide better returns for the shipping sector of the company, although not enough to cover the sharp losses of the first half period.

Notes: All figures in US$ unless otherwise stated. Exchange rates used (period averages): NKr–$ = 7.730; ¥–$=120.55; €–$ = 0.91862; DKr–$= 6.826.

Rumours in the world of solid gold shipping



In a world of tarnished scrap grade shipping companies, **Carnival Corp** is solid gold shipping. It has money and access to more and is therefore a natural magnet for rumour and speculation.

A UK national newspaper published a story that Micky Arison's Carnival Corp has offered £7bn for **P&O**'s **Princess Cruises**. Both sides admitted talks had taken place as part of an ongoing dialogue, but analysts were quick to point out that £7bn represented poor value for P&O shareholders and that a realistic price was closer to double that amount.

Meanwhile Carnival Corp subsidiary **Holland America** has sold the 1983-built, 1,200 passenger *Nieuw Amsterdam* to **American Classic Voyages** (ACV) at a substantial discount. Immediately the speculation was that the deal included options for Mr Arison to buy a stake in Sam Zell's ACV.

Observers feel this is unlikely as ACV has two cruiseships under construction at the Ingalls yard in the US. It has been 40 years since a cruiseship was built in the US, and many observers have been openly sceptical that the ships will be completed on time and to specification and price. So why would Carnival Corp once again become involved in a potentially difficult shipbuilding situation?

When the old **Wartsila** shipbuilding concern in Helsinki went bankrupt, the blame was laid at the feet of those executives that had agreed to build prestigious cruiseships below cost. One of the main beneficiaries of this win-the-order-at-all-costs policy was Mr Arison's Carnival Corp. But as the gates closed, Carnival had partly built cruiseships in the Finnish yards and needed a strong man to turn the steel into dollar-earning reality.

Micky and Masa show

Step forward one Martin Saarikangas (nickname Masa), and the biggest industrial employer in Helsinki was renamed **Masa Yards**. Others joked the name stood for 'Micky Arison Sails Again', for Carnival Corp was highly leveraged and needed the ships in the water and earning as soon as possible. Mr Saarikangas did a tremendous job and even squeezed more money out of Carnival, and became a folk hero in Finland. Indeed, Masa Yards was bought by **Kvaerner** and Mr Saarikangas was moved to its London headquarters.

But life is strange, and once again Carnival Corp, Masa Yards and Mr Saarikangas are linked together and in the news. Carnival has taken up an option on two cruiseships to be built at Masa Yards, even though Kvaerner has put the yard up for sale. Mr Saarikangas is believed to be putting together a management buyout. Meanwhile, **Gdynia Shipyard** of Poland, which recently bought **Gdansk Shipyard**, has tabled an offer for the yard. Gdynia Shipyard knows the value of a good man and has not ruled out a deal involving Mr Saarikangas.

The Finns would undoubtedly like to see Mr Saarikangas at the head of Masa Yards and, while it appears Mr Arison is backing Mr Saarikangas with the latest cruiseship orders, it remains in Carnival Corp's interest not to become a shipyard owner.

Return to sender

Meanwhile **Kvaerner** has sold the **Kleven Shipyard** to a consortium including the Kleven family for NKr48.5m ($6.1m). Kvaerner bought the yard some 10 years ago from the Kleven family for NKr450m.

Hyundai Heavy Industries is poised to become the owner of **Halla**'s bankrupt Samho shipyard. Halla is saddled with $640m of debt, and the **Rothschild Corp** has prepared a $1bn bridging loan. A possible thorn in the side of the takeover is the construction of a series of 23 low price vessels that the shipyard previously negotiated to convince creditors that it has a future as a shipbuilder.

Italian shipyard **Inma** has finally been sold to the Venetian Calderan family for a transaction rumoured to be in the region of $8m. The family beat off competition from two of Italy's other shipyards, **San Giorgio** of Genoa and **Sec** of Viareggio. The family will have its work cut out, straight away dealing with the prickly issue of illegal subsidies the yard received from **Itainvest**, its state-owned holding company. Meanwhile, the Italian shipyard privatisation programme continues to gather momentum, with the **NCA** shipyard in Marina di Carrara coming under the spotlight in the forthcoming weeks.

Ferry flurry

Elsewhere in Italy, alleged illegal subsidy payments are also proving problematic for Italian state ferry operator **Tirrenia di Navigazione**. Company plans for a $400m investment programme, including the construction of two new vessels and reconstruction of five existing vessels, have been put on the back burner, due to a Brussels-led investigation into its public service operations.

Continuing the Italian subsidy scheme, **Grandi Navi Veloci**, the cruise ferry subsidiary of **Grimaldi Group Genova**, has taken steps to demonstrate that private shipowners can supply domestic ferry services in Italy without the aid of state subsidies. The company aims to run a year-round daily service linking Genoa and Porto Torres in Sardinia, offering a 20% discount to customers.

Meanwhile, the ferry market across the Hellenic frontier has seen major developments in the last month. Driven by impending deregulation in the Greek domestic ferry market, **Attica** has moved to acquire 38% of **Strintzis Lines**. The emerging group will dominate the market with 16 ferries in the Adriatic and Greek domestic routes. This news has caused raised eyebrows at the other two big Greek ferry operators, **Anek** and **Minoan**, which are pressing the government regulators to scrutinise the deal.

Minoan, the largest operator which prevails on the Piraeus-Heraklion route, enjoys a market capitalisation at the Athens stock exchange of approximately Dr465bn, while the forecasts for its fiscal 1999 profit approach Dr12.8bn ($41m).

Greeks in search of capital

Bank executives have long accepted the lack of corporate structure in Greek shipping, but recent foreclosures may change their attitude for good

The Asian crisis has adversely affected the development of the global economy and that of shipping. The economic recession enhanced the competition worldwide, forcing small and big players to fight for the same market share. This extra competitive edge rewarded those players prudent enough to secure long-term contracts, but the bulk of companies operating in the spot market fell under the burden of uncertainty, and some have been forced to exit the market.

The same applies to banks which, being heavily involved in shipfinance, did not manage to alleviate the risk of defaulting loans. The foreclosure upon assets came quickly, and in many cases the refinancing of vessels has been initiated and loan repayments rescheduled. Nowadays, asset protection management and debt securitisation are becoming key elements in shipping finance.

Greek shipping, with its almost genetic reliance on cross trading and the spot market, was hit hard. In a series of fatal actions, the Lygnos family had to foreclose on more than 25 ships. There were also several other cases, which made bankers cautious. Dimitris Anagnostopoulos, general manager at ABN Amro, said: "We have experienced one unlikely event, after nine years, in which the behaviour of a customer was disappointing."

Mr C Kokkinis, manager of Alpha Credit Bank, belongs to the few lucky ones when it comes to foreclosures. "Fortunately we have no problems whatsoever. All our loans are fully current," he noted.

The banks are now more proactive and more selective in terms of business operations. Marianna Moschou, deputy industry head and southern Europe shipping head at Citibank, said: "Our policy embraces a long-term approach. We choose the clients we want to deal with, based on a positive balance sheet, a proper structure and a very good performance over a long operating history."

Citibank and Chase Manhattan are two traditional and well established shipping banks very active in the ferry sector. Recently, Citibank joined the National Bank of Greece

and Salomon Smith Barney as global co-ordinators to provide a long-term loan of €250m ($236m) for Minoan Lines.

Chase Manhattan, on the other hand, seems to be the major contributor to a syndicated loan of $290m designated for Anek Lines. The competition is fierce between banks when the top ferry operators ask for loans.

As syndicates or alone, Prime Piraeus Bank, Ergo Bank, ABN Amro Bank and the Bayerische Vereinsbank are some of those active in the ferry market at present. In the cruise sector, Credit Agricole Indosuez is visible as an active player.

Reducing exposure

In this era of syndicated loans, banks are searching for ways to reduce their risk exposure. Mr C Ploumides, division manager of Commercial Bank, said: "As a bank, our credit policy is conservative, we address a selective number of customers with high quality standards and are reluctant to finance high amounts. We prefer to participate in syndicated loans with credit risk allocation and better securities."

In Greek ship finance, the largest lender still remains the National Bank of Greece, currently on induction at the New York stock exchange. Commercial Bank of Greece entered the market in 1994 and has a current loan portfolio excess of $500m. Both institutions are active and ambitious, but also under strong political influence.

The consensus among the analysts is that an average deal in the market carries an interest rate of LIBOR plus 1.3%. Some deals, however, have been closed at the high interest rate of LIBOR plus 2.5%. Yet, more than a few bank executives believe that prudent shipowners can fund their plans using cheap capital at attractive levels. Alex Rodopoulos, manager of Royal Bank of Scotland in Piraeus, noted: "We believe that the big names have enough liquidity to support their future plans."

Acquisition plans

Greek shipowners have proved this, since they are on the acquisition trail for secondhand vessels as well as for newbuildings all over the world. A Greek presence is increasingly evident in Far Eastern shipyards, with Chandris (Hellas), Ceres Hellenic, Anangel, Costamare and N.S. Lemos among others on the lookout for ships.

Mr Kokkinis had something to say about this: "Greek shipowners have taken advantage of the current market conditions to renew their fleets. Shipping, in general, is a high-risk industry and consequently shipfinance requires special knowledge of the market. The evaluation of a project begins with the evaluation of the owner with an examination of the owners' track record, capacity as an operator and financial background. Thereafter the project itself is analysed and evaluated."

All executives involved in shipfinance acknowledge that their business should be heavily based upon strong relationships with the clients. Mr Rodopoulos said: "Our business is done on the basis of building up business relationships, and not making deals. In this regard we might have lent at times when the ship sale and purchase market was high, but because we have knowledge based on experience in handling business relationships, for us it becomes a 'routine matter' and not a 'surprise'."

Mr M Hessels, manager of Nedship Greece, closely monitors his bank's exposure in the bulk sector. However, he does not hesitate to ⇨

'The present depressed dry bulk markets offer sound investment opportunities for fleet renewals. Committed owners, who run ongoing concerns prudently, have the chance to expand' – Dimitris Anagnostopoulos

⇦ admit that the $500m loan portfolio has been built upon a friendly client basis, which sometimes accepts the lack of corporate structure and financial overview. He said: "I do not believe in aggressive finance in shipping. Furthermore, the signal for a serious upturn in the market has not really announced itself yet. Although we have seen quite some purchase activity lately, there are still many owners who either wait for such improvements, or feel that the lowest point in the market has never reached the level they were aiming for (return or investment wise)."

Banks are not very keen to be involved in the financing of old fleets, being always aware of the implications of non-compliance with the ISM Code, among other difficulties. They are also wary of the idea of counter-cyclical loans, since loans for undervalued tonnage are accompanied by rock-bottom freight rates. In addition they believe that enormous zeal over speculative newbuildings could result in a new recession in shipping.

Mr Rodopoulos told LSE: "We are aware that overcapacity could create a recession in the market, but due to the restrictions and regulations affecting the trading of older ships a lot of them will be scrapped. On the other hand, the prices of newbuildings are currently very low and therefore the depreciation of the debt is much easier for these vessels now than it was some years ago."

Sector overview

Currently no shipping sector is enjoying a boom, but some are worse than others. Mr Rodopoulos said: "We are looking at a downturn in some shipping sectors of the market such as the tanker market, which we expect to decline further next year."

Crude oil prices continue to be supported by speculative buying, since, due to OPEC's production cuts, supply shortfalls are expected in the northern hemisphere this winter. In the light of the orderbook and the increase in bunker prices above $100 per tonne, imminent scrapping is needed to revive that sector.

In the dry bulk sector the BFI holds its head above 1,000 points, but – in conjunction with the increase of the bunker prices – it seems that there are some choppy waters ahead.

There is a buoyant sentiment these days in the bulk industry, which hopes that shipping will reap the benefits, as market demand picks up. Mr Anagnostopoulos seemed quite positive: "An old ship is not the likely candidate for any ship financier to consider. The present depressed dry bulk markets offer sound investment opportunities for fleet renewals. Committed owners, who run ongoing concerns prudently, have the chance to expand."

Consolidation

Concerted actions can strengthen the companies' market position, achieve economies of scale and provide the platform for further expansion in an increasingly competitive and volatile market. An analyst said: "Greek shipping is far behind the other shipping nations in terms of consolidation. However, the ferry market experiences a different story. The big deals have now been done, and we have got four big players, Strintzis, Attica, Anek and Minoan, which have set out their stalls and will go ahead and consolidate the market."

Anek recently stepped up the Cretan assault on the Greek market with the launch of a massive investment programme. The company has a market capitalisation on the Athens stock exchange of around Dr224bn ($726m), and has made a Dr72m investment on newbuildings for the Piraeus-Chania route. The Chania-based ferry operator follows the path of Minoan Lines, the largest of the Greek Ferry operators, in the consolidation labyrinth. It is certain that Anek will merge with the Lesbos-based NEL Lines, and another scenario envisages its takeover of Dane Lines, even though the whole process is pending.

Further consolidation among Greece's smallest companies operating in the spot market could be gradually achieved, but family-owned structures make take-overs or mergers a difficult task. The number of Greek shipping companies that manage and control just a few ships is astounding. Big is certainly not beautiful for Greek interests.

The consolidation carousel is drawing the banking system onboard. Recent mergers and acquisitions have consolidated the Greek banking system and fundamentally altered its obscure structure. The new status has calmed the jitters in the investment-banking sector, but Mr Anagnostopoulos said: "Further consolidation in the international and Greek banking sector means that the absolute number of banks involved in shipping will reduce."

The two major contestants in the consolidation battle are Piraeus Bank and Eurobank. Piraeus Prime Bank is the shipping instrument and a subsidiary of Piraeus Bank, which successfully completed the acquisition of Credit Lyonnais of Greece, Macedonian Thrace, Xiosbank and Natwest Bank of Greece. Natwest and Credit Lyonnais were quite active in Greek shipfinance, with small but solid portfolios. However, they did not manage to recover from the Asian 'flu'.

In the past few years Eurobank launched a dynamic programme including a series of hostile takeovers and acquisitions. Since 1997, the bank acquired Interbank, the retail part of Credit Lyonnais of Greece, Bank of Athens, the Bank of Crete, and it now manages Ergo Bank. Eurobank is supported by the Latsis group, which has significant shipping interests.

Alpha Credit Bank is considered the second biggest bank in Greece, after National Bank of Greece. During the past few years Alpha Credit and Midland/HSBC Bank have been acquiring anything that has a good performance. The first consolidation signs can be traced back to the early 1990s when Midland acquired the Barclays portfolio in a strategic move. Since then the large concrete structure of Greek shipfinance has been transformed into a small but flexible one.

The smallest piece of the Greek shipfinance pie belongs to a group of discreet banks with conservative criteria but flexible portfolios. Credit Agricole Indosuez, Banque Nationale De Paris (BNP), CCF Banque Privee Internationale, ANZ Grindlays Banks and Banque Cantonale Vaudoise, prefer to co-operate with shipping companies on an exclusive and global basis.

Alternative sources

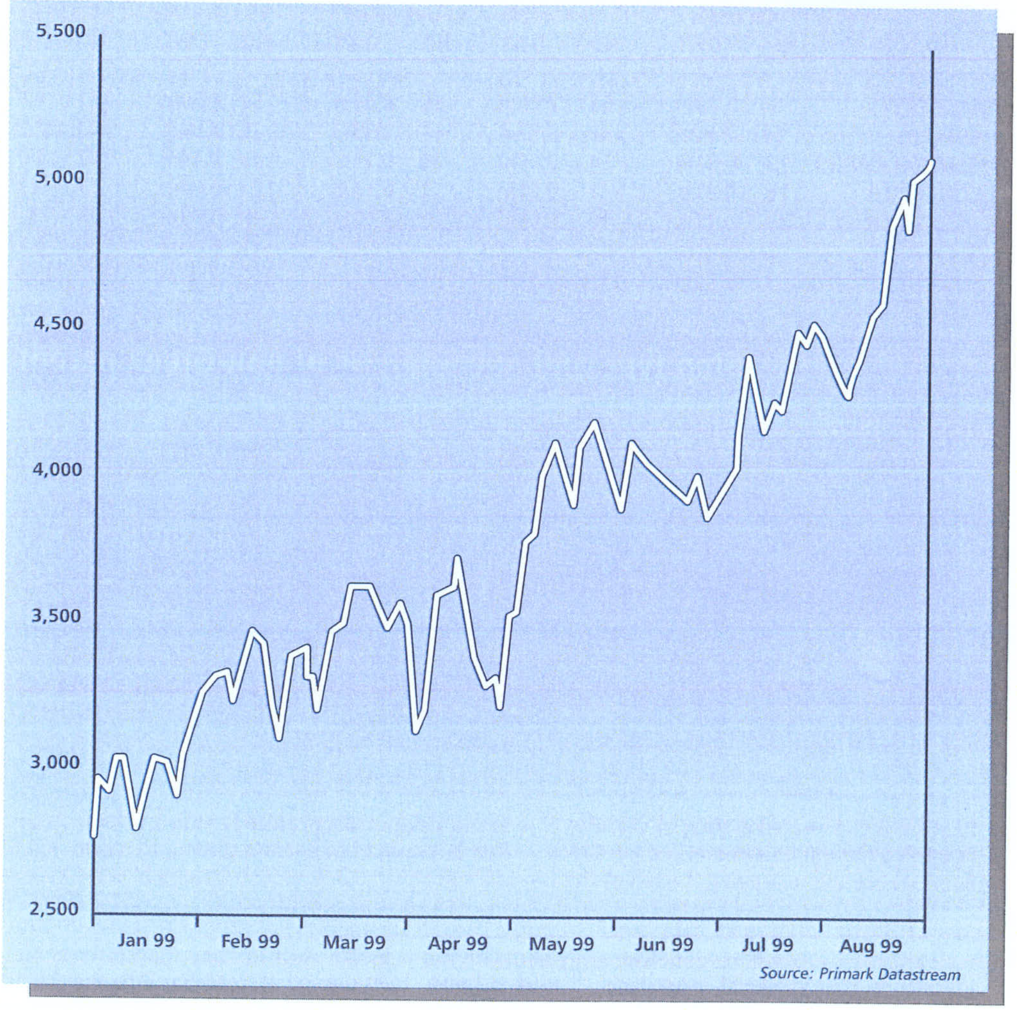
Without an injection of additional equity or other sources of financing, an essential amount of future deals in the Greek market will be neglected or even fail to provide enough cash output to make vital acquisitions of undervalued tonnage. Greek shipping companies may well dominate the world in terms of ownership, but the average age of its fleet is very old. For shipowners and bank executives, shipping is a business yielding sufficient profit margins and they foresee the use of alternative sources of finance.

Leasing is a dynamic alternative to ship finance, but has yet to work for Greek shipping. The old generation of the owners, the family-based structure of shipping and the long interest of leasing projects have failed to initiate that alternative in Greek shipping.

Another alternative is the high yield bond market. Ermis Maritime, Enterprises Shipholding, Alpha Shipping, Global Ocean, Eletson Holdings, Pegasus Shipping and Pacific & Atlantic, constitute some Greek ventures on the high yields waves, even though they are not particularly successful.

The attractions and easy availability of the high yield bonds come with the inherent risk of bullet repayments. It is true that ship operators could raise a sufficient amount of funds for long maturities without restrictive covenants, but in a rock-bottom market such as this one, the bullet repayments have no mercy.

Athens General Index



Source: Primark Datastream

Equity markets

The Greek economy has witnessed a drastic reorganisation, in the run-up to its entry into the eurozone on January 2001. The reductions in inflation rates for this year were about 2.7%, according to OECD estimates, while the stock exchange recently dismounted the roller coaster at the high level of 5,000. The sharp rebound in Greek financial markets should ensure success for the ambitious shipping companies.

Petros Papas, owner of Oceanbulk Maritime, gives his support for the future listing of shipping companies on the Greek stock exchange, while many others are waiting for the right time to seize this opportunity. Mr Hadjipateras, president of the Greek shipping committee in London, said: "The Athens stock exchange is an interesting affair for a number of passenger companies. It may happen soon, but a large number of owners of dry and wet tonnage remains faithful to the old-fashioned way of financing their ships."

Of course, there is a long way to go before Greek shipping companies can gain access to the public market. The Greek government has not yet signalled its broad backing at this project, but even if it does, the shipping companies have to initiate fundamental changes. Companies will have to start producing annual financial reports, while it is certain that the exchange commission will require disclosures on legislative compliance with international regulations, judicial proceedings and liabilities to the market.

The Achilles' heel for all those shipping companies that consider themselves candidates for entry to the stock exchange is the lack of corporate structure and the limited financial information. Balancing the idiosyncrasies is a difficult task even for the most experienced investor with a long-term view. Recent developments, such as the uncertainty over interest rates and the equities' boom, have changed the attitude of Greek investors, who now recognise the need to hedge risks.

The financial institutions in Greece share the opinion that traditional bank lending will remain the major source of funds for Greek shipping operations, while other forms of finance will continue to exist and demand market share. But Mr Kokkinis did not hesitate to add: "We expect to see the first IPOs in the Athens stock exchange in the months to come, and it is our opinion that the Athens stock exchange can play an important role for the future of Greek shipping."

Along these lines Mathios Rigas, head of shipping at Piraeus Prime Bank, said: "The Greek stock market defines an excellent opportunity for alternative source of ship financing. We, as banks, should have the moral duty to set high quality standards and prevent the whole scheme from falling apart, when and if this actually happens."

Investment banking

Many analysts point out that the time is not far away, where investment banks will come back and knock on Piraeus' doors. The established players in the Greek market have already noticed it and proceeded with cautious steps. "Diversification on a marketing-oriented profile is emerging as an absolute need, but this ⇨

Ship type and age analysis of Greek parent companies

Type	On order		0–4 years		5–9 years		10–14 years		15–19 years		20–24 years		25 years +	
	NO	DWT	NO	DWT	NO	DWT	NO	DWT	NO	DWT	NO	DWT	NO	DWT
TANKERS	56	5.28m	63	7.00m	54	6.46m	67	4.59m	141	6.81m	207	20.63m	300	6.98m
BULKERS	34	2.60m	32	2.97m	47	3.35m	75	3.98m	423	22.94m	444	17.67m	237	4.68m
GENERAL CARGO	19	0.21m	14	0.10m	28	0.22m	43	0.44m	147	1.79m	346	46.17m	248	1.12m
CONTAINER	16	0.81m	7	0.21m	4	0.14m	23	0.88m	17	0.39m	57	1.00m	16	0.51m
PASSENGER	26	0.11m	10	0.03m	10	0.02m	10	0.02m	14	5,156	45	0.06m	195	1.26m
ALL OTHER	2	0.04m	7	0.03m	8	0.03m	8	0.05m	30	0.10m	54	0.38m	146	0.46m
TOTAL	153	9.04m	133	10.34m	151	10.22m	226	9.96m	772	32.04m	1,153	44.36m	1,142	15.02m

Ship type and age analysis of non-Greek parent companies

Type	On order		0–4 years		5–9 years		10–14 years		15–19 years		20–24 years		25 years +	
	NO	DWT	NO	DWT	NO	DWT	NO	DWT	NO	DWT	NO	DWT	NO	DWT
TANKERS	468	38.01m	949	41.71m	1,779	67.82m	1,296	36.10m	1,473	26.93m	1,768	48.40m	2,819	25.51m
BULKERS	243	15.76m	883	51.35m	810	44.30m	744	36.91m	1,063	45.82m	791	24.93m	908	11.81m
GENERAL CARGO	489	3.83m	1,092	8.12m	2,057	8.63m	2,017	8.19m	2,852	14.90m	3,211	19.53m	7,060	16.91m
CONTAINER	232	7.78m	769	21.35m	571	15.72m	242	7.59m	307	7.22m	245	5.10m	179	2.50m
PASSENGER	177	0.47m	481	0.57m	781	0.77m	837	0.78m	553	0.42m	579	0.47m	1,938	5.07m
ALL OTHER	1,211	3.58m	2,686	4.14m	3,938	3.43m	5,935	4.47m	6,445	7.54m	7,594	8.80m	17,546	12.80m
TOTAL	2,820	69.43m	6,860	127.24m	9,936	140.68m	11,071	94.04m	12,693	102.84m	14,188	107.23m	30,450	74.60m

Source: LMIS

DESPITE the increased activity in vessel scrapping during the summer period, Greek interests are still occupying the top of the world's shipowning rankings with a diversified but rather old fleet. According to recent data analysis, 3,730 vessels belong to or are on order for Greek interests. The age of 1,153 vessels lies above 20 years, while 1,142 vessels are over 25 years old.

will be done smoothly and with the essential experience," said a bank executive.

The international players have already been proactive in this area, with Citibank acting globally together with Salomon Smith Barney, while Meespierson has been merged with ASLK and Generale Bank this year, creating a new investment banking entity called Fortis Bank.

Nedship could not lose ground and acquired the essential knowledge from Rabo Bank, its parent bank. ING Bank acknowledged the market changes and recently acquired the Furman Selz. ING Baring Furman Selz now provides securities and private equity investments on selected niche markets throughout the world.

Established worldwide players such as Chase Manhattan Bank, Den Norske Bank and ANZ Investment Bank, among others, are currently surveying the potential for applying their investment banking skills in the Greek market.

The Greek shipping banks have already acquired the experience for the Athens stock exchange through their merchant arms and seem confident. Mr Kokkinis said: "Competition in the ship finance market is fierce. However, we feel that if banks maintain strict credit criteria, so that the market is not distorted from very aggressive transactions, there is room for every bank to get a fair share.

"The entrance of newcomers in the ship finance sector depends upon a number of factors, such as profitability of banks in other sectors and the availability of funds to be invested. It is possible that new institutions will enter the market sooner or later. However, companies and owners committed to the industry demand the same approach and strategy from financial institutions."

Industry change

Greek shipping finance has distinctive characteristics, but, like any other industry, it changes as the market develops. Over the past few years, many owners have been in financial distress: they have witnessed a radical reduction in the value of their vessels, and the pressure of the recessed markets.

The continuous downturn in the market has opened the way for the bond market, which did have some impact in the Greek market but is now completely closed for shipping. It may come back in some years, as investors have short memories.

Many owners embraced a more conservative attitude in the face of the crisis and preserved high levels of liquidity. Some of them are now inspecting vessels around the world, without buying anything yet. They are also examining and evaluating the prospect of consolidating their businesses, but they hit the barrier of family structures.

The market is alive with rumours of new entries into the market and of old banks returning. Some analysts believe that these banks will now be very conservative and approach only the top-tier companies. However, others believe that some banks with no defaulting loans in their history will try to compete by offering loans on soft terms and prices.

The latest phenomenon has already been realised in the dynamic ferry sector, with banks competing fiercely and offering flexible loans. The competitive nature of shipping has been transferred across the board to the banks.