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Bank Financing Poses Biggest Threat to Shipping Companies

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Shipping companies are now facing tighter bank financing as their biggest threat. Many are looking at alternative funding sources like private equity to fill the voids among a worsening credit crush.

A transport survey done by international law firm, Norton Rose, shows that 42 percent of the respondents said that a lack of finance was the greatest threat to their shipping businesses. Most banks will get rid of assets like ship and trade finance loans to meet the capital rules imposed on euro zone lenders. In the last three years, there has been a significant decline in available lending for the shipping sectors, impacting most businesses.

Most banks are scaling down their ship financing operations to boost capital reserves. Sources claim that Lloyd's Banking Group has plans on selling its \$10 billion portfolio of shipping loans, according to the Chicago Tribune.

The survey also reports that 31 percent of shipping companies expected their primary funding to come from a private equity over the next two years, 18 percent chose export credit agencies. 43 percent of respondents still expected their primary funding to come from bank debt.

Shipping companies, especially in the oil tanker and drybulk sectors, have been hit by low earnings and an oversupply of vessels ordered in better times. The survey found 55 percent believed their key priority was to maintain cash reserves and secure funding lines, with 56 percent planning joint ventures or mergers over the coming year. Some international banks also plan to exit or lessen non-core businesses like shipping.

The Norton Rose survey canvassed views from 1,100 international participants from a range of companies involved in transport including financiers, ship owners and operators, manufacturers and government entities, including 515 from the aviation sector and 263 from the shipping industry.

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