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Basel IV doesn’t need to be ship financing threat

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Delegates at a European Shipping Week seminar showed relief on learning that the new Basel IV ship finance rule will cost banks less than they’ve previously anticipated. “The proposed timing of implementation is also much more relaxed than we thought,” said organiser Christa Sys, from the Department of Transport and Regional Economics at the University of Antwerp and BNP Paribas Fortis Chair Transport, Logistics and Ports, in Belgium. The new regulations are supposed to work against the risk of a financial crisis, forcing banks to put more money aside as backup.

The industry is concerned that the Basel Committee’s proposals would penalise mainly EU shipping financing as “70% of ship loans are provided by banks using the internal ratings-based approach,” said Christos Gortsos from the Law School of the National and Kapodistrian University of Athens, speaking at the seminar.

The internal ratings-based approach allows banks to assign risk weights to exposures based on their own risk assessments. If the new regulations become effective, then these 70% need to meet higher capital requirements and in-house estimates become invalid as the committee thinks that “banks are unlikely to have sufficient data,” said Gortsos.

Shipping is to a great extent backed by bank loans – $513 billion of world fleet financing comes from bank debts, which account for about half of the fleet. The other half comes from bonds, government spending, and public and private equity. European banks predominate on the loan scene, DnB NOR, KfW IPEX Bank, Nordea, HSH Nordbank and DVB being the top five, with a two-thirds share compared to oversea banks.

While this means business for the banks, it's also a threat. The financial shipping crisis has already proven that it can force banks out of business. *The Marine Professional* previously **reported** on the case of the German Bremer Landesbank which found itself in trouble caused by unpaid ship loans last year.

Nevertheless, Vincent Pascal, co-head of shipping finance at BNP Paribas, warned: "If the initial Basel guidelines were confirmed and then endorsed by the European Central Bank, the likely consequences for banks would be less capital allocated for shipping finance, hence smaller production of new shipping loans in the future and new loans will need to be priced significantly higher than today." European banks therefore fear that they could lose business to the Chinese market.

To make sure that financing mistakes, such as ordering too many new vessels, which led to the current overcapacity in the maritime market, won't be repeated, Sys brought some of her masters students of maritime transport to the European Shipping Week meeting in Brussels. "Young people come into the industry and they don't know what previously happened, so we want to warn the new generation to finally stop making the same mistakes," she said in an interview with *The Marine Professional*.

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