

# Chrysostomides

ADVOCATES AND LEGAL CONSULTANTS

## SHIPPING FINANCE – WHAT’S NEXT

Financing in the shipping industry has changed and will continue to change in the following years. The new IMO 2020 Regulations on low sulphur fuel and the IMO strategy on greenhouse gas emissions (GHG emissions) put more pressure on the shipping industry in the aftermath of the worldwide financial crisis. The need for the development of new financial structures in the shipping industry was therefore profound.

Although bank lending still remains the main source of financing of the industry, the banks’ shipping portfolio has shrunk. Following the 2008 financial crisis and the mounting pressure of regulations on European banks, banks have become more selective and cautious as to whom they lend. As a risk management strategy, banks prefer big shipowners with good prior track record and history. Cyprus banks, when it comes to shipping finance, take a conservative approach similar to the other European Banks.

In view of the above, small to medium shipping companies turn to alternative forms of financing. Although these forms of financing are not risk-free, they present various advantages and constitute viable structures in the volatile and changing shipping industry. Indicatively, *two* of the alternative schemes used in the shipping industry are:

**Private equity funds** are a popular option for an alternative source of funding post-2008 crisis. In Cyprus, the private equity funds largely fall under the form of Alternative Investment Fund (AIF). The AIFs are regulated by the Cyprus Securities and Exchange Commission and provide tax benefits and competitive set-up and maintenance costs. It should be noted, that some of the private equity funds in the world, have shifted their interest in buying bank loans rather than forming joint ventures with shipowners for the financing or re-financing.

Offices – Nicosia (Head Office) • Limassol •

Head office address – 1, Lampousas Street, 1095 Nicosia, Cyprus

Tel: +357 22 777000 • Fax: +357 22 779939 • E-mail: [info@chrysostomides.com.cy](mailto:info@chrysostomides.com.cy) • [www.chrysostomides.com](http://www.chrysostomides.com)

**Sale-Leasing solution** is an increasingly popular source of financing. The shipowner sells the vessel to a partner- a leasing house or a fund - and then leases the vessel back on bareboat charter. The shipowner loses the ownership / title to the vessel but keeps control of her as a bareboat charterer. This form of financing allows the shipping companies to raise capital for the support of their business.

As the European banking sector continues to face challenges and the Chinese economy, which has become a popular option for bank leasing, is slowing down, the demand for non-banking finance options, like IPOs, Private Equity and Leasing Solutions is expected to intensify. Major changes are expected in the shipping industry in the near future as the IMO 2020 Sulphur regulation and IMO GHG emissions Strategy are 'just around the corner' and their financial impact is unknown. Consequently, the spotlight will be on sources of alternative funding. The shipping industry should closely follow the changes and trends in the finance sector and be prepared to adapt to the forthcoming developments.