



## Talking tankers and tall ships

What better moment to discuss trends, opportunities and challenges in today's shipping industry but during SAIL, one of the largest nautical events in the world. On 18 August, ING welcomed clients from the shipping industry from all over the world for a two-day program in Amsterdam to celebrate SAIL 2015.

Ralph Hamers, CEO of ING, opened the shipping conference, followed by a select number of speakers with views on the many aspects of the shipping industry and the issues it's currently facing. Hamers focussed on the changes hitting the industry, and assured the client's present of ING's continuous support, adding: "We've been involved in the shipping industry since the 1800's. It is your business that is crucial in supporting continuous world economic growth and trade. You are the entrepreneurs committed to make things work, daring to change and invest, not for the short term but for the long term!"

### **Sector highlights - Riding the waves of the shipping industry**

Shipping remains the lynchpin of global trade with 90% of all goods still transported by sea. It can also be a hugely volatile business where both freight rates and asset values can change in a dramatic manner as demonstrated during the financial crisis when we saw the earnings of one particular asset class (Cape-size vessels) falling from \$150,000 a day to \$10,000 in a matter of months, and values dropping by as much as 75%. It is truly a global industry as a ship's construction, ownership, crew, marine insurances and registration can all originate from separate countries.

One of the major challenges currently facing the industry is the overcapacity in the dry bulk market caused by over-ordering of vessels and the slow-down in the Chinese economy. The resulting reduction in demand for commodities such as iron ore and coal has resulted in freight rates hitting an all-time low in the first half of 2015. However, one bright spot is the tanker market where transporters of crude oil are having a good year, boosted by increased demand caused by the fall in the oil price, although it is uncertain how long this will last.

In the container sector more vessels continue to be built as operators seek to exploit economies of scale in order to cut costs by building ever-larger ships. More generally, owners are also seeking newer, more efficient vessels to help them meet increasingly stringent environmental regulations, but as the size of vessels increases, infrastructure and ports have to keep pace.

### **Maintaining position of most environmental friendly form of transportation**

In terms of CO<sub>2</sub> emissions, shipping is by far the most environmentally-friendly form of transporting freight. However, the sulphur content of bunker fuel remains an issue and

therefore it is no surprise that regulators are starting to crack down on the pollution generated by the industry. From 2015, every ship must use higher-quality fuels with a sulphur content of no more than 0.1% in the so-called Emission Control Areas (ECA), which will affect trade crossings such as North Europe/Baltic, US and Canada (see map).



One of the main ways the industry is reacting is by adopting new technologies – to reduce fuel use, to help with environmental compliance and to optimise operations. The search is on for alternatives to the traditional heavy fuel oils, such as LNG-powered ships, which can dramatically cut CO<sub>2</sub> and other emissions. Ship owners essentially have choices to make. However the direction of travel with regards to regulation is clear – there is more to come. Stephen Fewster, global head of Transportation Finance at ING observed: “The global regulatory bodies like the International Maritime Organisation (IMO) are presenting new and even more strict emission regulations, the ability to adapt to new regulations and market pressure will be a key commercial differentiator for companies.”

### **Financing the industry - ING in shipping**

Financiers to the industry have suffered their own shakeout. However, ING, with more than a century of experience in financing shipping, has emerged as one of the leading lenders in the sector with a portfolio of €7.5 billion. Before the financial crisis more than 100 banks were active in the sector. Now there are just 20 left, including ING.

We are proud to be a haven of stability in a stormy sector, thanks to our dedicated Global Shipping team that has over 250 years of experience between them. Given the extreme cyclicity of the industry it is important to look through the cycles. At ING the shipping desk is taking a long-term view. This enabled the bank to continue financing shipping throughout the financial crisis while, as observed above, many other banks withdrew from the market.

“At the same time,” says Stephen Fewster, “we take a conservative outlook, focusing on the top tier of companies that only order ships when they see the need for them in the market, and seek to focus on making the industry more sustainable.”

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