# China's leasing houses urged to forego foreign-yard finance

## Move might take a toll on South Korean shipbuilders that have yet to recover from financial woe, **Cichen Shen** reports

Major bank-backed Chinese leasing houses have been asked by China's Ministry of Industry and Information Technology not to finance shipowners' newbuilding projects at foreign shipyards.

MIIT, the industry regulator, delivered the message during an internal shipbuilding seminar in Beijing, where participants included representatives from domestic shipyards, financial institutions and industry associations, according to people familiar with the matter.

They said the ministry had received complaints from the country's two largest state shipbuilding conglomerates, China Shipbuilding Industry Corp and China State Shipbuilding Corp.

The duo are dissatisfied with Chinese financial lessors supporting their competitors in South Korea and Japan, in particular when the market is challenging and new orders are scarce.

In June, BoComm Financial Leasing made headlines by agreeing to fund trading giant Trafigura's 32 new oil and product tankers. Some of the orders were placed with South Korea's Hyundai Heavy Industries.

A few top-tier leasing houses in China also showed interest in Mediterranean Shipping Co's recent order of 22,000 teu containerships at Daewoo Shipbuilding & Marine Engineering and Samsung Heavy Industries. But sources said they had now lost appetite amid pressure from MIIT.

MIIT had not responded to a request for comment at the time of publication.

### Business uncertainties

MIIT's discouragement of financing newbuildings at foreign yards, if complied with, could affect the business of the Chinese lessors as they rev up efforts to expand their overseas portfolio by dealing with foreign owners, many of whom still favour South Korean or Japanese builders for their vessel quality.


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One senior manager from a Chinese leasing firm, who declined to be named due to the sensitivity of the issue, described the situation facing them as "awkward" and "uncertain".

"We don't know how to deal with it yet. We'll try our best to respect the government's wish, but it's also difficult for us to go against the clients' requirement."

Foreign builders, especially the Korean yards that are still struggling to recover from the previous financial woe, could also take a hit.

A recent report about South Korean shipbuilding by JP Morgan pointed to the weak financial offering as a key disadvantage of Korean yards when competing globally.

The analysts, SM Kim and Karen Li, noted Korean export credit agencies, being subject to the Organisation for Economic Co-operation and Development's Understanding on Export Credits for Ships, can only provide financing of up to 80% of the contract price with a minimum level of interest rate required, while their Chinese counterparts, who are not participants in the pact, are not subject to such constraints.

"This, combined with aggressive pricing by Chinese players, seems to make the situation worse for Korean shipbuilders amid an industry downcycle," the analysts added.

Chinese lessors, which are known for their high loan-to-value ratio and flexible structure, serve as an important supplement to the rigid Korean financing regime, particularly when shipyards are stuck in today's prolonged buyer's market.

The withdrawal of the leasing houses had left Korean policy lenders with fewer alternatives to meet MSC's demand for an LTV ratio of more than 90%, Lloyd's List understood.