

6 - 9 sept 2016

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KfW IPEX-Bank is increasing its presence at this years SMM.

In an interview the departing head of the department Maritime Industries, Dr Carsten Wiebers offers an insight into the different facets of international ship financing as well as the challenges it is currently facing and his successor Holger Apel casts a glance into the future.

Carsten, KfW IPEX-Bank is once more stepping up its presence at SMM. Why?

The SMM is increasingly becoming a meeting point for topics beyond technology (i.e. environmental regulation, market intelligence). We meet with experts of the shipbuilding and manufacturing industry and can discuss how to support their sales.

Also, the SMM conferences such as the “Maritime Future Summit” or the “Global Maritime Environmental Congress” are excellent discussion platforms with experts from around the world. We try to encourage information sharing among different industry stakeholders by offering a series of workshops on regions & markets, sales opportunities and, given our role as a leading maritime financier, ways we can support manufacturers.

During the last SMM, the German Maritime Export Initiative (GeMaX) presented itself as new sales platform for suppliers. What is your contribution as a maritime financier to GeMaX?

23 GeMaX members - including us - share sales opportunities for newbuilding projects, refurbishments or retrofits. In a joint approach (our bank hand in hand with suppliers and shipyards), we target such projects and try to increase sales potential through bundling and flanking long-term financing.

GeMaX is supported by VSM, has highly skilled staff and offers professional advisory services to vessel owners and shipyards. Its aim is to maximize the German content in a maker's list and, along the way, to maximize the opportunities for financing from us. Financing is scarce these days and access to it can impact procurement decisions.

Looking at the broader picture, we are now for 8 years in very challenging shipping markets and there is no end in sight. What is your reasoning?

My brief formula to understand the market is: There is only one global shipping market and it faces constant oversupply caused by cheap money. The single global shipping market is a fundamental aspect of this industry that is rooted in the global mobility of vessels. If this one global maritime market has a problem, you have a problem. You cannot escape to another regional market. Nor can ocean transport gain volume from other modes of transport. It already has a market share of some 95% of all international freight. Oversupply coming from an influx of newbuildings is the major problem.

Why in your opinion did owners keep ordering in the last years despite existing oversupply?

I believe that the cost of capital/loans is a dominant driver of orders in this capital-intensive industry. If money is cheap (as it has been since 2002 with a short exception around 2007), ordering activity tends to be high. The newbuildings of the past years were partly absorbed by China's historic economic expansion. However, now that China is slowing down the negative effect of cheap money is hitting the market hard.

I am concerned that money will remain cheap, prompting shipowners to place orders when the first green shoots start showing in charter and freight rates. Politically supported shipyard capacity only adds fuel to the fire. Under these circumstances, shipping is undergoing not just a cyclical downturn, but a structural change.

So, where do you put your money?

We finance strong owners across all markets and asset classes. However, we look for owners with added qualities such as logistics, consumer services or innovation, who make sustainable environmental improvements to their investments. Providing such benefits for customers and society will more likely achieve a premium. Personally, I believe in the gas markets in the years to come due to the environmental benefits of this source of energy and the large reserves under development. Last year we committed to 44 transactions in shipping and offshore production. In addition, we financed transactions for 8 different cruise lines which accounted for 40% of our final hold and take of EUR 3.6 bn. We continue to be an active player in the cruise market.

Is the cruise market the next bubble?

Checking against the risk criteria I mentioned earlier, I don't think so. Cruising is a consumer product, which is heavily influenced by regional diversity due to language and cultural differences. To some degree you can escape one market and go to the next. Further on the demand side there are millions of customers who make their individual choices. Price is important, but the industry is maturing and cruisers are learning to differentiate quality. The potential to gain market share from land-based tourism is huge. Global cruise penetration is only 1.8%. Unlike other maritime markets the supply side is limited. Shipyard capacities are booked for at least the next 5 years.

Besides trying to reduce risk and making profit, what is important for the bank to provide maritime finance?

We have second agendas, too. We already talked about our cooperation with GeMaX and about promoting sales and employment of European suppliers of maritime technology and German yards. Another part of KfW IPEX-Bank's mission is that we favor ecologically sustainable projects. Together with the DNVGL, in 2011 we developed an EEDI-based tool to analyze the CO2 emissions of every vessel we finance. We regularly benchmark our entire portfolio. An energy efficiency analysis is an integral element of our project due diligence. In the last four years, we have been able to significantly reduce the

CO2 emissions of each dollar lent. We make special efforts for projects promoting employment and environment.

Carsten, thank you for these insights. What will you personally miss leaving maritime industries after 18 years?

My new assignment as Global Head of our Aviation and Rail sector department is an exciting opportunity for me. However, I will miss the personal relationships I have built up in the maritime industry over the last 18 years. The people in this industry are true global citizens dedicated to bringing the world closer together. Their global and interconnected thinking has made it so much fun to work together with them. This, for sure, I will miss.

Holger, you are taking over as new Global Head of Maritime Industries of the bank and we assume you already know how the ship finance department of KfW IPEX-Bank looks like and how many members it counts?

Our maritime team counts about 50 staff at our headquarters and our representative offices in the regional financial centers around the world. In addition, there are industry experts in our risk department with long experience who analyses and assess the risk of our maritime portfolio and transactions. The bank is committed to this industry, due to its significant importance for the economies within Europe and abroad.

What are your expectations for your new role?

I have closely followed the major developments in the maritime industry over the recent years. Still far from being an expert, I think I share with my colleagues like Carsten Wiebers the ability and the ambition to understand an industry from the entrepreneur's perspective. In the end, banks as well as investors and equipment suppliers face similar challenges and have to look for appropriate solutions for the mutual benefit of all. As I mentioned, we can build on a vast amount of knowledge and expertise that our team in the Maritime Industries department has developed over decades.

What could you bring to table?

I have been with KfW for over 25 years now in various functions and have been responsible for different industries. In my current position as Global Head of Basic Industries (i.e. steel, mining, petrochemicals and oil&gas onshore) I definitely gained experience in cyclical industry sectors. Understanding global trade flows and the project finance style of analyzing credit risks will also help me familiarize myself with the new environment. I am really looking forward to working with the team, our valued clients and the colleagues from the banking community and the ECAs involved in maritime industries.

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Picture: Holger Apel and Carsten Wiebers, copyright: KfW Bank / Gaby Gerster