

**For discussion on
28 January 2008**

Legislative Council Panel on Economic Development

Facilitation of Ship Finance in Hong Kong

Purpose

This paper seeks members' views on the facilitation of ship finance in Hong Kong by using export credit insurance.

Background

2. Hong Kong is home to a thriving maritime community, providing comprehensive and quality services including ship finance, ship insurance, legal services, shipping arbitration, ship brokering and management, and ship surveying. Hong Kong shipowners own and manage about 8% of the world's merchant fleet in terms of tonnage.

3. As at end September 2007, loans and advances extended to the shipping sector totalled \$38.2 billion, accounting for 1.6% of Hong Kong's total loans and advances. Over the past decade, loans and advances to the shipping sector have grown considerably faster than the overall total, by an average of 6.3% per annum as against 1.6%. Yet ship finance, like maritime services, is a highly globalized service. Shipowners can take out loans from banks anywhere in the world, depending on the terms provided.

4. It is expected that by enhancing the support for financing of vessels owned by Hong Kong companies, the demand for other maritime services like shipping registration under Hong Kong flag, ship brokering, ship management and legal support will also be stimulated. This will help strengthen the position of Hong Kong as an international maritime centre, which is explicitly supported by the Central Government under the 11th Five-Year Plan.

5. Apart from attracting Hong Kong shipowners using Hong Kong's ship finance and other maritime services, a longer term objective is to attract new fleet to Hong Kong. This would open up great

opportunities for Hong Kong's maritime services clusters and enhance our position as an international maritime centre.

The Proposal

6. Initially, the target is to explore measures to facilitate Hong Kong shipowners running charter business in obtaining finance from banks through the use of export credit insurance. The proposal covers different types of charter, including time charters, voyage charters and bareboat charters.

7. Chartering is a risky business to shipowners, as the capital outlay involved is substantial but performance is heavily influenced by economic cycles. Hong Kong shipowners, especially the well established ones, would have no difficulties in financing their vessels through banks. However, for new comers in the shipping industry, it may be more difficult for them to obtain credits especially for ship chartering. Export credit insurance helps by sharing the risk of non-payment of charter money by charterers. This would facilitate banks' financing business and in turn shipowners could obtain more favourable financing terms from banks. It would be particularly useful when the money market is tight or when banks are cautious about the business outlook.

8. Chartering of vessels by Hong Kong shipowners is effectively a kind of service exports from Hong Kong. The Hong Kong Export Credit Insurance Corporation (ECIC), a non-profit making organisation owned by the Hong Kong Government, provides insurance protection to Hong Kong exporters covering exports of both goods and services. It could insure Hong Kong shipowners against the risks of non-payment by charterers due to commercial and political events. A vessel owning company registered under the Business Registration Ordinance of Hong Kong is considered a Hong Kong shipowner or a Hong Kong registered company which can use the services provided by ECIC. ECIC has already had successful experience in covering time charter for a Hong Kong registered company.

Working Group to Facilitate Ship Finance

9. In order to take forward the above proposal, we have formed a working group under the Hong Kong Maritime Industry Council, comprising representative(s) of ECIC, shipowners, banks and other financing institutes. The Working Group had its first meeting on 11

January 2008 and discussed, among others:

- the target clients to be covered;
- the duration of the charter hire which could usefully be covered by export credit insurance;
- risk that can be covered by export credit insurance and the extent this could help lower the financing cost;
- the cover limit by ECIC taking into account the latest chartering rate and in turn the need for ECIC to secure further funding from the Government in terms of contingent liability; and
- alternative measures for facilitating ship finance in Hong Kong.

Overseas Experience

10. In many ship building countries such as Korea and Japan, export credit is commonly used to facilitate development of the ship building industry. The export credit agency would extend credit to shipbuilders/shipowners who contract to build the ship in that country. For Hong Kong, without a major ship building sector, there is little room for using export credit to promote ship construction. However, with very strong ship owning, ship management and ship finance sectors, it would be useful to encourage shipowners setting up companies in Hong Kong to use our maritime services.

Advice Sought

11. We seek Members' comments on the proposal.

Transport Branch
Transport and Housing Bureau
18 January 2008