EUROPEAN SUSTAINABLE SHIPPING FORUM

PLENARY MEETING

BRUSSELS- 26th of June 2014

REPORT OF THE WORKS OF THE SUB-GROUP FINANCIAL MECHANISMS

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DIAGNOSIS AS INTRODUCTION

Specific needs for funding in a context of financial crisis : how to lift financial barriers?

- Since 2008, a crisis of private financing which grows reluctant about shipping (reduced exposure of the main European commercial banks).

- High extra-costs of environmental standards for shipping industry and the case of ferries-operators (till 10 M€ for scrubbers with engineering studies and implementation on board; till 35M€ for LNG retrofit) : the context of an on-going 6-years crisis emphasizes the challenge of the compliance with reduced profits.

- The dilemma between CAPEX/OPEX and the downward spiralling of an expensive compliance : they impact the assessment of the risks (aggravated with innovative projects) and restrict the access to credit loans.

- Lack of specific private instruments for the retrofitting of the fleets : the need for guarantees (mortgages and financial guaranteed to back equity owner payments and debt commitment), the depreciating value of the ship on the second market.

WORKPACKAGES ON PUBLIC FUNDING AND SUBMISSIONS - 1

The shortcomings of the TEN-T/CEF financing : information and flexibility requested to allow an adapted support to shipowners.

- Information on the different tools (CEF/H2020/ERDF/LIFE)
- Flexibility with criteria of eligibility (minimum number of member States, pilot actions vs deployment of green technologies, maritime areas vs corridors with anchorage of the projects in central networks ports).

WORKPACKAGES ON PUBLIC FUNDING AND SUBMISSIONS - 2

- <u>A PPP retrofit fund and/or bond instrument</u>
  a. The current situation of the shipping industry can be characterised as a structural change; especially because of the sulphur regulation
  b. The basis for the instrument is mature technologies – scrubbers and LNG
  c. The driving business case for the instrument is the OPEX difference for a MGO solution and a solution with a scrubber or LNG
  d. The OPEX difference has to be reduced by the amortisation of the needed investment
  e. Not all ships are suitable for retrofits and not all shipowners have the necessary financial strength
  f. Investments entail risks and risks shall be handled by the private sector
  g. A higher risk profile than for existing retrofit lending is needed
  h. A retrofit and/or bond instrument needs leverage from EIB and/or CEF funds
  i. The coming September CEF call can accommodate the retrofit and/or bond instrument

STATE AIDS: A NEED FOR PUBLIC LEVERAGE

	FINLAND	FRANCE
Aim	Maintain Competitiveness and encourage a sustainable maritime transport : enhancing environmentally friendly investments, speeding up commercial use of technologies and simplifying adaptation to SOX requirements	1) Vehicles of the future : green shipping (new-building and innovation). 2) MARPOL, annex VI “Investments aids for clean ferries)
For whom	Finnish companies & Finnish Shipowners (Finnish flag ships) Finnish Ports	1) French ship-yards 2) European Ferries Shipowners on French flag ships
For what	-Shipbuilding -Retrofitting -Deployment of LNG in ports	- Newbuilding - Acquisition - Retrofitting (LNG/Scrubbers)
Available budget	30M€ NB 30M€ retrofits 123 M€ LNG terminals	100M€ (Investments of the future) 80M€ (call for “clean ferries”)
Spend	30M€ for NB (2 vessels) 20 M€ for retrofits (58 vessels)	45M€ (6 projects within « Investments for future » Program)

ABOUT STATE AIDS

- New environmental aid guidelines apply to all decisions on notified aid adopted from 1 July 2014.
- Aid for early adaptation to new standards is only possible until 1 year before standard enters into force, so not possible today for new sulphur standards in SECA regions, which enter into force on 1 January 2015. For large companies, the maximum aid intensity is 10% if investment takes place more than 3 years before standard enters into force and 5% if investment takes place between 3 years and 1 year before standard enters into force.
- Aid for going beyond existing standards is always possible. For large companies, the maximum aid intensity is 40% of the part of the investment corresponding to the environmental benefits going beyond the existing standard (+10% if eco-innovation and up to 100% if competitive bidding process).
- Transport specific provisions: aid for the acquisition or retrofitting of vehicles (early adaptation to new standards) possible up to the entry into force of the new standard, but only for standards which do not apply to vehicles already purchased (so, not relevant for sulphur standards).
- The Finnish case was based on favourable provisions of the old guidelines (par. 86), but this possibility no longer exists in the new guidelines

CURRENT WORKING PAPERS

- Involvement of the EIB and other private institutions should include a better risk-sharing mechanism to finance shipbuilding projects.
- The question casts the light on European shipyards' stakes (job situation and competition with Asian shipyards)

- Draft recommendations regarding possible ways of mobilizing private funding for financing green shipping are currently discussed within the sub-group.
  - The mortgage of the second range to guarantee the financing?
  - The risk-sharing : risk-aversion of commercial banks and the thresholds of EIB loans (<25M€ for funding) aren't enough incentive for commercial banks.
  - Providing guarantees matters more than banking liquidity. How intermediary bank bears an EIB couterpart risk (which is acceptable being a "AAA" S&P LT risk) whereas EIB draws its policy with acceptable couterpart banking risk (with a minimum "A" S&P LT rating)? Which would be the maturity of the guarantee? In which currency ($/€)? What about risks for shipbuilders : can EIB extend its guarantees on construction period? Paper on a new policy needs to be instructed.
  - The granting process may be shorter and more simple (basically, 6 to 8 months) : what about delegations at national levels to speed up the process? As work-package, SG may examine the EIB credit policy.