

## Access to debt finance for working capital assets can supplement the equity and fund growth, cash flow and enhance return on equity employed

# Financing of short term assets in shipping to aid owners and operators

*Private debt markets displace traditional lenders who reduce risk to meet increasing regulatory requirements for capital and liquidity*

Ocean-going shipping receivables in their primary form involve the receipt of Freight, and are usually documented through a form of a Voyage Charter Party contract; such as Gencon, Tanker-voy, Asbatankvoy, Asbargasvoyand with some Charterers having their own Contract format.

These contracts are agreed between the vessel commercial Operator (be it the actual shipowner or a pure ship-operator) and the Charterer that has an interest in moving a particular cargo from Port A to Port B on certain dates. The underlying compensation, the Freight, for this service is usually paid in US \$ per ton of cargo.

Upon agreement of the terms, usually in the form of a Clean Fixed Recap between the ship-Operator and the Charterer, via a credible broking channel, the Operator has the responsibility to provide a seaworthy vessel to perform the trade. The Recap can be on the back of an agreed vessel; or a vessel to-be-agreed within certain pre-agreed parameters. Thus, the Operator must fix a vessel to perform the agreed trade; and this can be done either through a Trip Time Charter entered between the Operator and a third-party ship-owner; or through a vessel that the Operator already controls under 'period' (Time Charter).

Once a trade is 'fixed', the Operator incurs a series of expenses to perform the underlying voyage until the time they receive payment under the Voyage Charter. The main cost categories are the payment of the hire to the vessel owner under the Time Charter, the bunkers, port disbursement accounts, canal dues, etc. Ultimately, the vessel ballasts, enters the load port, loads the cargo, and then sails towards her discharging desti-



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nation. In the dry bulk sector the common industry practice is for the Freight to be paid upon sailing from the load port (usually 95% of the Freight is paid to the Operator by his client, the sub-Charterer, a few days after the production of the Bills of Lading). This working capital cycle is usually between 15 to 60 days, depending on the trade.

In the tanker sector, the Operator typically receives the Freight after the cargo has been discharged. The risk of dismissing the 'collateral' prior to receipt of payment is counter-balanced by the higher credit-worthiness of the relevant counter-parties, which can be Oil Majors, National Oil Corporations or international trading houses with substantial balance sheets.

Ship Operators are usually asset-light companies with access to cargo and have particular areas of expertise that differentiate them in terms of vessel segments. Some Operators have developed access to niche trades in terms of geography or cargos, some are truly international, and some opportunistic. Operators also vary greatly in size, in terms of vessels controlled, risk management policies, and revenues generated. In recent years, there has been a growing

trend of traditional ship-owning outfits setting-up ship-operating arms to give them a better edge in the market, greater control over profit margins, and improved returns on equity through market cycles if risk is managed properly. The leading hubs for ship Operators include Dubai, Singapore, as well as traditional South American and European maritime nations including Greece, which has been witnessing a growth in number of Operators and ultimately of relevant, experienced professionals.

Despite the recent growth in ship Operators, access to capital remains challenging



for these businesses. Traditional banks historically provided capital to the sector in the form of revolving credit facilities, but no longer do so. Primary reasons for banks abandoning the sector being: the overwhelming regulations banks face post financial crisis; the operational intensity of underwriting, advancing, and monitoring short-term loans; and the risk profile of the asset-light Borrowers. Therefore, small and medium-sized enterprises that lack the balance sheet, generational banking relations, or do not wish to provide personal recourse, face difficulties to secure funding. This contraction in the bank market requires a truly enormous amount of equity

capital to fund the working capital required to keep the vessels moving...an estimated \$15 billion to \$20 billion at any given time to support the 20,000 ocean going vessels in the dry bulk and tanker (wet and gas) segments over 10,000dwt (per Clarksons). Despite this vast pool of demand for capital, the vast majority of maritime lenders continue to direct their capital towards steel, a lending market which, in its own right, has seen substantial contraction especially within Europe. Access to debt finance for working capital assets can supplement the equity in an Operator's business and fund growth,

smooth cash flow management, and enhance the Operator's return on equity employed. The underwriting process is of crucial importance and a diligent risk assessment and security package of the borrowing Operators and their underlying trades lie at the heart of such financing efforts. To this extent there are obvious similarities between voyage financing and factoring for traditional

businesses. These products are part of the over-arching global trend of private debt markets displacing traditional lenders who are being forced to reduce risk to meet increasing regulatory requirements for capital and liquidity. As traditional lenders continue to reduce their exposure to shipping markets, industry participants can expect to see new entrants step into the void with new working capital and asset-backed lending offerings tailored to the needs of borrowers.

*Stefanos Michalis and Cullen Schaar are the co-founders of Goldfish Capital; a Company that was set up in 2022, which provides voyage finance to international ship-operators.*

## This shift in trade patterns will reshape the global shipping landscape, and demand for VLCCs on these routes is expected to be hampered

# Canada's TMX pipeline to boost Asian crude oil trade favouring Aframaxes

*US Gulf refiners will replenish the heavy crude supply from other LATAM countries, which will generate additional demand for Aframaxes*

Canada's Trans Mountain pipeline expansion (TMX) commenced partial operations on 1 May, a milestone in the global energy market.

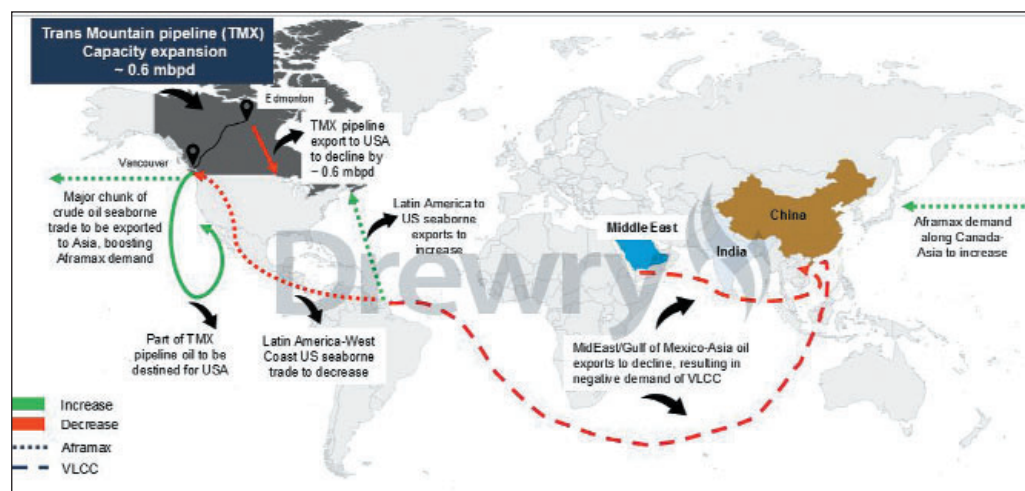
The pipeline will ship 590 kbpd to Canada's Pacific Coast from Alberta and will open up unparalleled access for Canadian crude oil to the booming Asian market. As a result, Aframax demand will be created amid this new trade route.

While a part of this oil supply will be absorbed by the refineries in the US West Coast, most supply will be exported to the Asian market (especially China and India), supporting demand for Aframaxes.

According to Drewry, we expect an addi-



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tional demand for 32-36 Aframaxes annually, assuming 66% exports of 590 kbpd, a parcel size of 80,000 tonnes, with a number of round voyages ~ 40 days.

Talking about the intra-regional trade,

USWC refineries will now import crude from Canada instead of Latin American countries, which will lead to an overall gain in the tonne-mile demand and it will further increase trade of Aframaxes.

The rise in Canadian crude supply through the TMX pipeline will curb the country's crude exports to the US through the existing pipelines such as Keystone, especially considering a modest increase in Canada's domestic production over the next two years. Accordingly, US Gulf refiners will have to fill this gap with the heavy crude supply from other Latin American countries, which will generate additional demand for Aframaxes.

This shift in trade patterns will reshape the global shipping landscape, as Canadian crude will displace Asian imports from other countries, especially heavy crude, from Latin America and the Middle East. As a result, demand for VLCCs on these routes is also expected to be hampered.