New UK Shipbuilding Credit Guarantee Scheme - July 2023

By Fiona Cain, Jack Spence | August 15, 2023

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As part of the UK's refresh to its National Shipbuilding Strategy, the United Kingdom Department for Business and Trade ("UKDBT") announced the launch of the Shipbuilding Credit Guarantee Scheme ("SCGS") to be delivered by UK Export Finance. The scheme will provide a partial guarantee to lenders making a loan to ship buyers or operators ordering newbuilds, or undertaking refit, retrofit or repair works on existing vessels in UK shipyards.

Any support is always welcome (but what does the fine print say)

Under the SCGS, the UKDBT will be able to provide lenders with partial guarantees "*covering up to 80% of the risk to lenders for a maximum repayment period of up to 12 years*". The benefit of this risk coverage is expressed as providing protection to the lender "*against non-payment, for whatever reasons, of the instalments of principal and interest due under the guaranteed loan*". By providing such partial guarantees, it is hoped that the SCGS will encourage banks to issue loans for the construction and work on vessels in UK shipyards. From the initial information available on the SGCS, it seems unlikely that these guarantees will hugely alter the decisions made by lenders as to the risks of particular projects as 80% risk coverage, is substantially less than the 90% plus export credit support that Asian shipyards often enjoy from their governments.

However, a lot remains to be revealed regarding the scheme and as such it is not possible to fully assess the extent to which ultimately the scheme will support the goals of the National Shipbuilding Strategy. Among the most obvious of outstanding questions are, what will the guarantee cost (clearly an important question for a borrower that will expect to have to cover such cost), and when will the guarantee be triggered? While the UKDBT has stated that "*the premium payable… is determined on a case-by-case basis*" we are yet to see what this means in practice and there is no guidance as to when the guarantee will be triggered (save for what we assume will not actually be replicated in the guarantee documentation, that it will be triggered if "*for whatever reasons… the instalments of principal and interest due*" are not repaid).

Full details of the eligibility criteria are also yet to be clarified but the UKDBT has indicated that it will include: (i) the shipyard must be carrying on business in the UK; (ii) the bank making the loan must be acceptable; and (iii) the underlying financials and contractual structure must be acceptable.

A loan guarantee scheme is not the medicine that the sector needs

In March 2022, when unveiling the National Shipbuilding Strategy, the UK Government's stated objective for the SCGS would be to "*level the playing field for domestic shipbuilding orders, which will complement the working capital and buyer credit provided by UK Export Finance* ".

However, a recurring theme that we have encountered in our extensive shipbuilding experience is the need for refund guarantees, rather than lender guarantees, to support large shipbuilding

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contracts in UK shipyards. Indeed, it was refund guarantees that Maritime UK called for in its "*Priorities for National Shipbuilding Strategy Refresh*", and were widely expected to be the solution offered by the UK Government.

A scheme guaranteeing the repayment of lenders, rather than providing refund guarantee support, will not provide comfort to owners, who are typically required to provide substantial initial instalments to shipbuilders and who will (as "non-lenders") fall outside the scope of the SCGS. This is particularly significant given that the UK regulatory apparatus does not allow for the registration of a vessel under construction, which might otherwise provide some (albeit limited) comfort to an owner in the event of insolvency and bankruptcy of the shipyard.

It seems unlikely that the SCGS will achieve its stated aim of "*levelling the playing field*" particularly in relation to the decision making process for vessel owners and operators.

In light of the UK's extensive reliance on shipping for trade, 95 per cent of the UK's imports and exports by volume are moved by sea, and a longstanding maritime history, which in its heyday at the start of the last century[1] was responsible for 60% of ship construction worldwide and even now produces many cutting-edge naval vessels, this (regrettably) appears to be a missed opportunity to encourage the production of big ticket commercial tonnage, together with expanding naval production capacity, in UK shipyards, but it remains to be seen how the scheme will support shipbuilding in practice.

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[1] Lorenz, E. H. (1991). An Evolutionary Explanation for Competitive Decline: The British Shipbuilding Industry, 1890-1970. The Journal of Economic History, 51(4), 911–935.

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