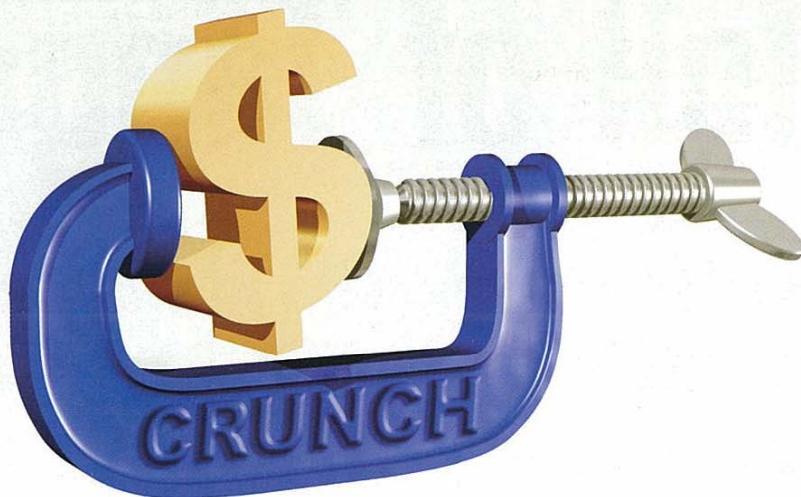


# Credit in the crunch



Getting credit for cargo handling equipment in the current financial climate need not be too much of a problem with manufacturers offering a number of finance deals, reports **Patrik Wheeler**

**T**he advent of 2007's sub-prime mortgage crisis in the US has led to a liquidity squeeze that has already impacted on the shipping sector's ability to raise capital, though not to the extent that was initially envisioned. Ports too are affected as banks and finance houses remain reluctant to invest, making it increasingly difficult to get finance for port development projects or even credit for equipment purchases.

For operators entering the market, especially those looking to establish smaller 200,000 teu capacity terminals, credit is sacrosanct, but the inability to secure a loan can make the difference between success and failure since the initial outlay for say two brand new panamax-size cranes and four rubber-tyred gantry cranes could set you back between \$15m and \$20m – a substantial amount for even the established port operator in an industry that traditionally fails to yield significant profit.

However, most manufacturers these days make equipment available through various schemes of one another, such as operating leases, financeleases, export finance deals and contract renting.

Where ownership of equipment is unimportant the operating lease allows port operators to use the gamut of equipment required to successfully run a port over a determined period against payment of a lease fee, usually based on capital and interest.

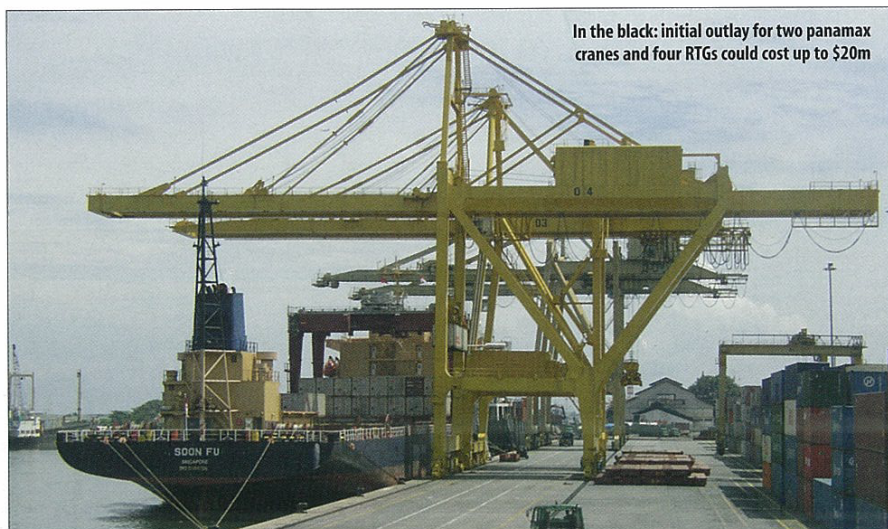
Unless the lease period is renewed the equipment is returned to the manufacturer.

Jason Smith, Kalmar's sales and marketing manager, Contract, says that according to International Financial Reporting Standards this type of arrangement, common for equipment with a functional second-hand market, "is advantageous because in most countries it is classified as an off-balance sheet" transaction so you don't need to activate the equipment as an asset. Capital allowances are claimed by the leasing company and therefore the port operator can gain the benefit of reduced lease payments, which for accountancy purposes are a tax deductible expense.

Port operators can also negotiate contract rental deals. Kalmar's three- to seven-year arrangement for instance is ostensibly the same as an operating lease but with a maintenance package add-on that helps control operational budgets. Based on a fixed monthly price Kalmar's service scheme includes the servicing and repair of its and other manufacturers' equipment over the given lease period.

Finance leasing on the other hand can eventually transfer ownership of the equipment to the port operator. For this type of arrangement, once the lease period ends and all capital and interest payments are complete, the port operator automatically becomes the owner of the equipment or, depending on the nature of the agreement, can buy the equipment at a pre-determined price, often lower than the anticipated future market value. Where the equipment has a long useful working life, the lease period can be extended into a secondary period at a nominal cost.

While port operators can utilise the equipment for a minimal capital outlay, the nature of the arrangement means that those who acquire equipment in this way have to account for it on the balance sheet, as if they



**In the black: initial outlay for two panamax cranes and four RTGs could cost up to \$20m**

