

Finance for shipbuilding

Since January 1965, in cases where the Export Credits Guarantee Department was prepared to give an unconditional guarantee, overseas shipowners ordering ships from yards in the United Kingdom have been able to obtain credit for 80% of the contract price, repayable over eight years from delivery and in some cases longer, at a fixed interest rate of 5½% per annum.¹ This rate, when introduced in 1962, applied only to the first five years or so of a financial guarantee contract, but in 1965 the London clearing banks and the Scottish banks agreed to cover the whole period of such contracts on this basis. By contrast, British shipowners ordering ships from yards in the United Kingdom have had to raise finance at substantially higher rates; the alternative was to buy abroad, where they could often obtain credit terms roughly similar to those available to foreign buyers in the United Kingdom. To meet this situation, negotiations with the banks were opened last year on the possibility of extending the 5½% fixed rate, under government guarantee, to domestic purchases from U.K. yards.

The outcome of these negotiations was announced by the Chief Secretary to the Treasury during the debate on the Shipbuilding Industry Bill on 11th May. Under the new arrangements, the clearing and Scottish banks are prepared to provide medium to long-term credit at the fixed rate of 5½% for contracts with U.K. shipbuilders, guaranteed by the Ministry of Technology. Section 7 of the Bill empowers the Minister, with the consent of the Treasury, to give such guarantees in respect of loans to residents of the United Kingdom, Channel Islands or Isle of Man for shipbuilding contracts with U.K. shipyards, on the recommendation of the Shipbuilding Industry Board and within an overall limit of £200 million outstanding at any one time. These guarantees will cover the banks for the full amount of finance provided, together with interest.

It will be for the Minister to satisfy himself that a particular contract is suitable for guaranteed finance, in consultation with the Ship Mortgage Finance Company, which will act on the Minister's behalf in assessing the credit-worthiness of buyers.

The banks' loans will normally be repayable over a maximum period of eight years from delivery of the ship, but the period may be extended up to ten years where this is necessary to meet foreign competition on the term of the credit. Buyers will be charged, as is usual with longer-term export contracts, a commitment commission of 1% on the amount of each loan contract and will issue promissory notes maturing half-yearly (with interest at 5½% per annum) which will be negotiable between participating banks but not otherwise marketable. The 5½% fixed interest rate is subject to review at the same time as the corresponding rate under the export financing arrangements.

To enable the banks to undertake such relatively long-term lending, the Bank of England have agreed to stand ready to refinance the whole of any advance made under this scheme,² at the same rate of interest as applied to the original advance, on the understanding that recourse to refinancing will not be had without prior discussion with the Bank.

As regards the effect of the new arrangements on the liquidity of the banks, it has been agreed that banks providing finance under

¹ As explained in articles in the *Bulletins* for March 1962 and March 1965, the 5½% rate was originally agreed for an initial period of five years. Early this year, it was extended for a further year.

² The Bank's refinancing facility for export finance was described in articles in this *Bulletin* - in March and June 1961 and March 1965.

the scheme will have the option, individually, of treating it either:
a as to 100% as part of their liquid assets, but paying 70% of the amount to the Bank as a Special Deposit over and above any existing Special Deposit, or
b as to 30% as part of their liquid assets and 70% as part of their advances.

In announcing the new arrangements, the Chief Secretary expressed the Government's gratitude to the banks for their co-operation in undertaking a considerable volume of lending for a relatively long term, and at a rate of interest which would not vary with changes in short-term rates; and added that the Government would not have asked the banks to undertake this had it not been for the exceptional nature of the position and problems of the shipbuilding industry.