ASIAN TIGERS PURSUE LEASING
LEASING DEAL OF THE YEAR

By George Weltman

Transaction: $900 million Structured Lease between ICBC Leasing and BP Shipping
Winner: ICBC Leasing

Leasing has found a home in Asia and that is a good thing. It is an important financial tool which allows an end-user to utilize an asset while avoiding the risks of ownership. In its simplest terms, it is capacity paid for to move cargo, which for some is all that is required. A lease transaction requires a creditworthy lessee, a bank and a leasing company who acquires the asset and provides a long-term lease financing, in exchange for a modest return, possible tax benefits and the residual play.

Among the nominations this year included seven bareboat hire purchase transactions they arranged on behalf of small and medium sized shipping companies for one Ultramax and six Panamax bulk carriers. In addition to arranging the transactions, they generally participate as subordinated lenders, or if necessary as senior lenders in the transactions. This year they provided funding totaling $177 million.

ICBC Financial Leasing Co. Ltd described their winning transaction as East meets West. The company through its designated lessor entities concluded an approximately $900 million structured lease arrangement with BP Shipping Limited for 4 Suezmax and 14 MR tankers currently under construction in South Korea. The vessels are being constructed to BP Shipping’s design and specifications and shall, upon delivery, be bareboat chartered to BP Shipping for an initial period of 10 years with end of lease extension flexibility. Under the bareboat structure:

- The SPVs set up by ICBCCL (Lessor) replaced BP Shipping as original owner of the tankers.
- BP is responsible for the construction supervision of the tankers.
- BP Shipping will be responsible for the operation and management of the vessels.
- After the delivery, the lessee will operate the tankers and pay rent to the lessor.
- At the end of the original lease, the charters can be extended or the vessels returned to the lessor.
- BP International will guarantee the obligation.

ICBC Leasing was willing to assume the residual value risk of these vessels based upon BP’s high operational standard for its fleet of operated ships, their young age and high specifications.

The transaction is noteworthy on two counts. It is the first time ICBC Leasing has established a business relationship with an international oil major and the first time BP Shipping has entered into a sale and lease back arrangement with a Chinese financial institution. The transaction demonstrates the emergence of ICBC Leasing as a global player, able to offer competitive and tailor-made leasing solutions to international ship operators for vessels built in China or overseas. With a shipping portfolio exceeding $7.5 billion equivalent consisting of over 330 vessels, ICBC Leasing, a wholly owned subsidiary of Industrial and Commercial Bank of China, continues to build up its leasing franchise while it establishes itself as a leader of the Chinese financial leasing industry.