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UK government unveils its Shipbuilding Credit Guarantee Scheme

On Wednesday, 26 July 2023, the UK Department for Business and Trade finally announced its Shipbuilding Credit Guarantee Scheme.

The scheme has been eagerly awaited for many months and while the devil will be in the detail, the announcement itself will be welcomed by the UK yachting industry and particularly yacht owners intending to order newbuildings or undertake refits, retrofits or repairs of existing yachts at UK yards.

The scheme is not as many predicted, in that the scheme is not a straight forward refund guarantee scheme. The scheme is essentially a partial government guarantee in favour of the financier of the buyer/borrower's repayment obligations under a loan. This will surprise most as there had been a general understanding in the industry that the scheme would be a refund guarantee scheme.

Nevertheless, we do not see the scheme itself materially changing a financier's credit or investment committee's decision making approach. Ultimately, the level of risk associated with a particular yard and yacht owner will not change because of the scheme. The scheme however will give financiers an additional level of protection and may well encourage financiers to support projects that hitherto would not proceed.

What does the scheme cover?

The scheme will cover newbuilds and refits, retrofits and repairs of existing yachts. The coverage of the scheme is therefore encouragingly wide. While there is always a focus on the newbuild sector, including refits will provide additional support to UK yards, and retrofits may encourage yacht owners to adopt new technology that improves the environmental impact of the yacht.

Who is eligible?

The Department for Business and Trade has not disclosed all of its eligibility criteria however the main requirements disclosed to date are:

- the shipyard must be carrying on business in the UK; and
- the financier making the loan must be "acceptable"; and
- the underlying financials and contractual structure are "acceptable".



How much will the scheme guarantee?

The Department for Business and Trade can provide partial guarantees covering up to 80% of the risk to the financier which we understand to be the risk of non-payment of loan principal and interest for whatever reason. The partially guaranteed loan facility must be used to pay the relevant yard, and the loan facility must be for a period of at least two years, with a maximum guaranteed period of twelve years.



How long does the application process take?

The Department for Business and Trade stated that it wants to process every application within 8 weeks. This is an aggressive timeline considering the complexity involved, especially in the earlier applications.

What are the guaranteed obligations?

The Department for Business and Trade announcement has not detailed the guaranteed obligations and when such guaranteed obligations are triggered enabling a financier to recover sums due to it. This information will be critical in assessing the usefulness of the scheme.

How much does it cost?

Unfortunately, there is no clear guidance on this point as the Department for Business and Trade only states that their premium is determined on a case-by-case basis. Such premium will fall to be paid by the buyer/borrower.

Conclusion

The outline of the scheme is encouraging but further details about the scheme will be critical to access the likelihood of its success. Of course, the real test will be how many applicants are successful in applying for the scheme and what coverage they can obtain. That will only be revealed in due course.

We have been advising on such guarantee schemes and export credit insurance policies for many years. Please do not hesitate to contact us if you have any questions on the scheme.



Contact us



Ian Mace

Partner and global head of maritime finance, London

T: +44 20 7809 2653

E: ian.mace@shlegal.com



Ezio Dal Maso

Partner, Paris

T: +33 1 44 15 82 17

E: ezio.dalmaso@shlegal.com