The anatomy of Greek shipping – insights and prospects

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In this article, I wish to delve deeper into the forces that shape Greek shipping and go beyond its statistics.

As a background reference, though, the latest Petrofin Research © about to be published shows that the Greek interest fleet in 2011 consisted of 4714 vessels of 256.174m DWT with an average age of 15.92 years. The above compare with 2010 figures of 4655 vessels, of 242.8 DWT with an average age of 16.4 years.

It would appear, therefore, that the Greek fleet, despite the global banking crisis, the shipping recession and the Greek state problems, is holding steady in terms of numbers of vessels, the average vessel size is rising (the average Greek vessel in 2010 was 52,160 tons DWT, and in 2011 54,343 in line with global shipping trends) and that it is becoming younger.

What is of particular interest, though, is that the number of Greek shipping companies in 2011 actually rose to 762, up from 758 last year. Economic theory and substantial market forces have decreed that due to the economies of scale, Greek shipping, like other nations' shipping sectors, should have consolidated into fewer hands. In table 1, we present the latest Petrofin Research © statistics of the number of Greek shipping companies over the past 14 years (since 1998). It is interesting to see that the overall numbers did experience a fall up to 2005 justifying economic theory. However, there was a trend change since 2005 with the numbers rising from 690 Greek companies to 762 in 2011.

Given the plethora of problems befalling Greek shipping, the sector's growth in terms of the number of market participants is significant.

The next question to address is: did all owners, small, medium and large ones display such growth? In short, is there a story within a story here?

Readers familiar with Petrofin Research ©would know that to analyse Greek shipping we divide Greek companies into Group A (over 25 vessel fleets), Group B (16-24 vessels), Group C (9-15 vessels), Group D (5-8 vessels), Group E (3-4 vessels) and Group F (1-2 vessels).

In Table 1 we present a historical table of the performance of each of the above Group over the past 14 years.

Table 1

GROUP	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
A (25+ vsls)	19	19	23	19	24	25	31	26	28	29	32	31	31	34
B (16-24 vsls)	11	25	22	29	25	31	36	36	30	35	32	35	33	37
C (9-15 vsls)	68	76	85	82	84	69	59	52	64	63	70	80	80	65
D (5-8 vsls)	149	143	140	134	128	138	141	131	137	126	125	123	103	111
E (3-4 vsls)	196	166	189	172	170	158	155	157	146	165	159	161	171	165
F (1-2 vsls)	483	325	376	349	318	308	311	288	288	307	340	343	340	350
Total number of companies	926	754	835	785	749	729	733	690	693	725	758	773	758	762

The performance of the 2 largest Groups (A and B) has been similar. They did not share in the overall numbers fall from 1998 to 2005. Instead, they have shown a consistent overall growth. The 'growth champions', though, were Group B, up from 11 companies in 1998 to 27 companies in 2011, closely followed by Group A, up from 19 companies to 34 companies over the same period. The middle Group C (9-15 vessels) shared initially in the general rise over the years but declined thereafter with the 2011 figures at 65 companies, being below the 68 companies in 1998. The main explanation for the above is that companies within this Group move over time upwards (become bigger and change Group) or downwards (sell tonnage and become smaller).

In support of the above explanations, please observe that Group C numbers fell by 15 last year, whereas the adjoining Groups, B and D rose by 4 and 8 respectively. Greek shipping fleet disposals and acquisitions are not uncommon.

Turning our attention to the smaller Groups D, E, F, it is clear that as opposed to the growth of the large Groups their numbers fell substantially over the 14 years. Group D: 149 to 111, E: 196 to 165 and most of all, group F: 483 to 350. The above fall does support the consolidation and economies of scale theory. Moreover, it is obvious that the biggest fall in the smaller fleet (1-2 vessels) Group arose out of both a movement to a larger Group by successfully performing companies or their demise and departure from shipping.

Interestingly, even for the overall declining Groups E and F, there have been a revival in numbers since 2006 with Group E rising from 146 to 165 companies and Group F rising from 288 to 350 companies. How can this be explained?

One explanation is that shipping markets were buoyant during that period, thus attracting new entrants and delaying the departure of older ones. However, this is not the only explanation as the industry's problems over the last 3 years should have reversed this trend.

The answer lies in five additional factors:

1. Greeks have come to realize and view shipping as a successful industry for themselves and their families. In stark contrast to the deleterious investment conditions for the rest of the country, shipping represented an oasis of free enterprise, no state interference and the opportunity to make substantial profits. Hence, a whole generation of industrialists, e.g Fidakis, Lanaras, etc and non-shipping investors turned to shipping and built up a presence.
2. As Greek Groups grew, a second generation or third generation belonging to the enterprise's initial partners developed. Often these members had different ideas as to the future of the company and the bonds that held them together grew looser. Consequently, we see a phenomenon of sons and daughters setting off on their own and becoming successful in their own right, e.g. Vafias.
3. As Greek shipping prospered, so did the interest by private investors increase. Often, private investment assisted in the formation of new groups.
4. As was recently said at a US conference, Greek owners' ambitions are only eclipsed by their big egos. Hence, even companies that face catastrophe try to battle it out on their own rather than merge with others, reduce costs and enhance their prospects of survival.
5. Small owners of overage vessels know that once they leave the industry and scrap their vessels, the chances of their returning are slim. Hence, they battle on.

Despite the increase in numbers by the smaller Groups, it should be noted that their relative market share is not large and that their overall importance is still falling. In table 2, you can observe the importance of each Group in DWT terms. Clearly, the two biggest groups A and B amount for only 9.3% of the Greek total in numbers but approximately 66% of the total in DWT terms.

Table 2: Fleet percentage of each Group in DWT terms

	1-4 vessel fleets	5-8 vessel fleets	9-15 vessel fleets	16-24 vessels fleets	25+ vessel fleets
2010	11.67%	10.15%	16.96%	18.96%	42.27%
2011	11.17%	10.35%	12.76%	20.68%	45.04%

Further evidence that the consolidation process continues can be found in the top 30 shipping companies increasing their market share in DWT terms between 2010 and 2011 from 50.74% to 52%. In 2011, there were 62 shipping companies with over 1 million DWT fleets comprising 1774 vessels, 178.5m DWT and 69.68% of the Greek fleet with an average age of 8.5 years.

There has also been a revolution in terms of the age of the fleets of Greek companies. Looking at the age reduction of the whole fleet from 23 years in 2005 to 15-9 years in 2011, we can observe some interesting developments. The overage fleets of over 20 years old have declined over the last 4 years from 509 to 411. This occurred despite a relatively buoyant market in 2007/2008 and the process has accelerated over the last 2 years. The same does not apply to the 15-19 year old fleets which have increased over the same period from 79 to 96. A higher growth over the period can be observed in the relatively young fleets of 10-14 years, which rose from 78 to 104 companies.

The most interesting development, however, has occurred in the youngest fleet ages of 0-9 years old. In this sector, the companies have exploded from only 30 in 1998 to 92 in 2009 and 151 in 2011. Clearly, Greek companies have invested in younger tonnage in order to remain competitive in the emerging global economic conditions. Within this growth, even the smallest fleets comprising of 1-2 vessels, have risen from 16 in 1998 to 26 in 2008 and 37 in 2011. It is self-evident that emerging companies have broken away from the historic model of investing in older tonnage and have invested in young tonnage. This signifies ambition and commitment and augurs well for the future.

It is also important to mention the effectiveness of the pressure exercised by banks who strongly favour and finance young tonnage.

What of the future, though? Will consolidation take place and the move towards younger vessels continue?

We are currently experiencing a weak shipping market across all sectors. Furthermore, the enormous order book and continuous imbalance between vessel demand and supply is pointing out to a longer term shipping slump.

Given the above harsh environment with declining asset values and weak cashflows, Greek shipping shall experience significant market and banking pressure. In order to maintain their fleets, let alone grow, Greek owners will need to invest increasing amounts of capital. The above 'squeeze' is expected to result in a significant increase in scrapping of overage Greek-owned vessels, as well as some distress sales. The main beneficiaries of the 'cashflow' and 'asset cover squeezes' will be the large, financially strong companies, whether public or private. Consequently, substantial consolidation process is expected to occur.

Although some Greek newbuilding cancellations shall take place, the vast majority of newbuilding orders are expected to materialise whether on time or with some delay. Consequently, with the reduction of the average fleet and the continuous delivery of newbuildings, the Greek fleet is expected to become even younger.

The prerequisites to further Greek growth and / or survival (especially for the smaller owners) lie with shipping banks who are currently very tight in the willingness to finance shipping, despite the industry's offered rather generous terms. The attitude of banks towards foreclosures is also a key and whether they are prepared to continue with the same model of co-operation as up to now. Although it is anticipated that banks shall become more demanding as the shipping slump continues, it is not expected that we shall see numerous bankruptcies. The reason is that banks are wiser and regard foreclosures as a true last resort only when the bank client relationship has vanished. Consequently, fleet disposals shall be accomplished on a 'softly-softly' basis, with the co-operation between owners and the bank when these become inevitable.

A key factor in maintaining a good relationship with banks is an owner's ability to maintain his loan repayments and to provide additional capital when needed to maintain such repayment. Here, with the exception of the large private and financially strong companies, public companies hold an edge, as they are able to raise additional capital (admittedly via dilution of their shareholders) in the market.

A long lasting shipping crisis is likely to see a substantial consolidation of the Greek fleet and concentration into increasingly fewer names. A short lasting crisis, coupled with the return of banks towards competitive and abundant ship finance, is expected to delay the above process.

In every shipping crisis up to today, Greek shipping has emerged stronger. This time Greek shipping is also facing a banking crisis. It will be interesting to see whether Greek owners' flexibility, commitment and risk taking shall permit them to take advantage of the bad shipping market.