Is further consolidation in Greek shipping a positive development?

By Ted Petropoulos
Head
Petrofin Research© for Nafs, March 2018

There are strong signs of consolidation both on global and Greek levels.

Globally, the growth of international trade across all shipping segments and the striving for greater efficiency has called for larger more expensive and sophisticated vessels. Ample evidence can be observed, among others, in the container sector with large container vessels, soon surpassing the 20,000 teu size, as well as in the development of jumboisation in all market segments. We see that every company seeks to grow and enjoy economies of scale in all its constituent parts of management, technical, chartering and finance.

Seeking to analyse such economies of scale better, we can point out to a variety of benefits derived from enjoying a larger fleet. These include lower spare part procurement costs, keener service supplier prices, lower lubricant, paints and chemical costs, lower telecommunication costs, more efficient crewing procurement, training and rotation ability, keener prices by all service providers, lower insurance costs, as well as being able to command greater attention by all parties interacting with a shipping firm.

I have left finance and capital procurement last because this has become a defining influence, especially over the last decade. The disappearance or diminution of many shipping household European banks e.g. RBS, Commerzbank, HSH and many others has reduced traditional bank finance availability to all market participants. Once again, it is the larger owners that enjoy the benefit of bank finance at relatively low cost, with smaller owners failing either to be considered or being offered finance at considerably higher costs, much more stringent terms and lower loan to asset levels. It is this development that has resulted in an acceleration of the consolidation of the shipping industry, as smaller owners find it difficult to compete and are forced to leave the industry or to seek to join with other small owners.

The barriers to entry have also risen with new companies needing to either access substantial capital and commence with a large fleet or to commit more substantial capital per vessel, in order to enter shipping. The relatively few that make it need to grow fast and achieve economies of scale, bearing in mind the increasing preference for young vessels by banks, insurers and charterers.

In industries where a) the barriers to entry rise, b) the economies of scale are continuously rising and c) the cost and availability of finance becomes critical, we find a strong consolidation process.

I have left out one other factor, which is access to capital. Raising capital in the public markets too has become very difficult for any but the biggest owners and the same applies for the rapidly rising investment funds, who favour larger owners and larger transactions.

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The counter benefits of small owners e.g. agility, swift decision making, personal commitment, are still there but are losing ground in a world where regulations abound and restrict the ability to run vessels differently.

Small owners are increasingly looking to the remaining few, less regulated, local / coastal areas, where they can use their often aged vessels.

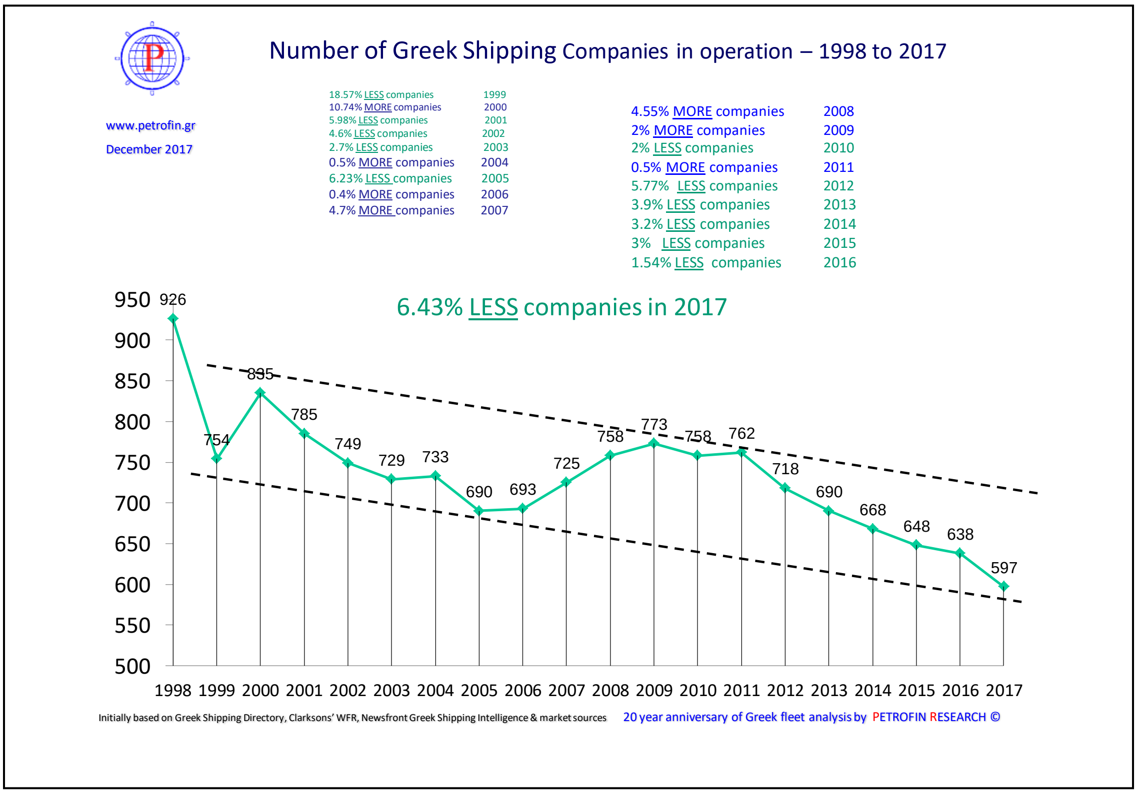
It is self evident that the factors propelling owners to grow have accelerated. A possible recovery in shipping across all sectors will prove to be but a brief respite to the consolidation trend.

The evidence for consolidation in the Greek shipping market

For Greece, we have the benefit of Petrofin Research © and its findings, since 1998. As such, we can highlight the changes to the composition of Greek shipping, as follows:

1. The number of Greek shipping companies (of all sizes) has fallen from 926 in 1998 to 597 in 2017 (please see graph 1). The consolidation trend has accelerated from 2009 onwards.

Graph 1



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2. The fleet percentage held by fleets of 25 vessels and over, in dwt terms, has risen from 42.27% in 2010 to 67.07% in 2017. From the research, it is self evident that Greek shipping companies have been actively growing and aiming towards bigger fleets.

3. The fleet percentage held by fleets of 1 – 4 vessels, in dwt terms, has fallen from 11.67% of the Greek fleet in 2010 to 5.62% in 2017.

4. Table 1 is also a useful guide, as to consolidation of the Greek fleet. In only a decade, 2007 to 2017, despite the Greek fleet growing significantly from 208m dwt to 387m dwt, the top Greek fleets have significantly increased their market share.

Table 1

	Top 30 fleets' total DWT	Top 50 fleets' total DWT	Top 70 fleets' total DWT	Total Greek fleet DWT
2007	104,049,575	106,551,097	147,429,915	208,001,159
	50.02%	51.23%	70.88%	
2008	111,643,505	139,772,288	157,349,073	222,368,331
	50.21%	62.86%	70.76%	
2009	118,473,829	147,699,624	166,380,212	237,288,216
	49.93%	62.24%	70.12%	
2010	123,195,698	157,247,298	175,831,037	242,802,092
	50.74%	64.76%	72.42%	
2011	133,219,034	164,584,202	185,644,178	256,174,041
	52.00%	64.25%	72.47%	
2012	139,088,078	172,621,328	193,407,761	263,635,420
	52.8%	65.5%	73.4%	
2013	155,066,892	188,918,600	209,510,387	281,467,983
	55.09%	67.12%	74.3%	
2014	170,144,932	207,716,808	231,300,786	303,579,176
	56.05%	68.42%	76.19%	
2015	189,561,161	230,548,857	253,689,568	328,254,495
	57.75%	70.23%	77.28%	
2016	213,201,433	257,196,460	280,378,070	361,934,047
	58.91%	71.06%	77.47%	
2017	**227,809,802**	**276,021,712**	**302,752,301**	387,256,616
% of Greek fleet	58.83%	71.28%	78.18%	
	Petrofin Research ©	December 2017		

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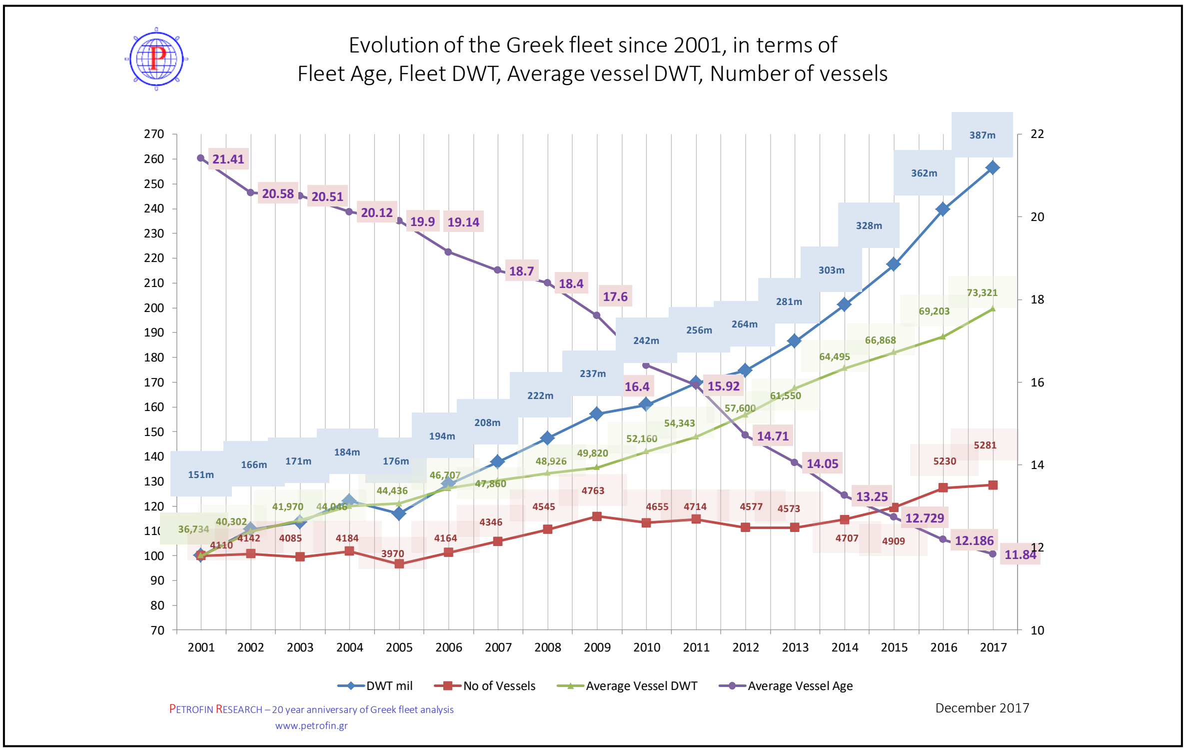
5. The same consolidation can be observed in the number of Greek companies with fleets of over 1,000,000 dwt, which has risen from 2011 to 2017 from 62 to 75 and which now own 79.57% of the total Greek fleet.

6. In Graph 2, you will observe the rise of the Greek fleet but also the decline in the average age of vessel, as well as the rise in the average size of vessel in dwt terms over the last 16 years.

Graph 2



The study clearly points out to Greek shipping increasing its overall fleet substantially, as well as greatly improving its age. At the same time, the emphasis has been on larger size vessels with an emphasis on eco vessels. Most importantly, Greek shipping clearly appreciated the benefits of the economies of scale and moved rapidly to grow and invest accordingly. This is Greek shipping's response to the increasing challenge for more efficient and competitive vessel operation and management, in order to compete in international shipping and maintain / increase its market share. To conclude, we consider that further consolidation will be a positive development for Greek shipping and should enable it to maintain its competitive edge.