Challenges and opportunities for Greek shipping in the 2020s and beyond

By Ted Petropoulos
for Nafs
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Greek shipping successfully met expectations and excelled in the prevailing shipping conditions of the past decades and climbed to the no 1 position. The question is raised as to whether the Greek shipping industry will be able to evolve and adapt to the challenging conditions of the future. In my view, never has the industry experienced such challenges in the past as each aspect of shipowning / management, namely chartering, technical management and operations, as well as finance, is now faced with profound change. In this process, there will inevitably be winners and losers and Greece's prominent position will be challenged.

Shipping has faced low returns on invested capital over the last decade. The current fleet is largely based on old technology and Greek shipping remains highly fragmented. Excessive newbuilding orders have exceeded slowing down trade growth with negative effects on rates and this has resulted in the ever increasing pressures being met by short term incremental measures, which are unlikely to address the challenges ahead.

Without wishing to be exhaustive, I shall present to readers what I see are the main challenges and opportunities facing Greek shipping.

GEOPOLITICAL CHALLENGES

Geopolitical strife has risen as the major powers have chosen aggressive ways to handle their own agendas. The 50s and up to the 70s, were characterized by 'consensus' efforts to handle international crises with an emphasis on upholding the rule of law, as well as establishing international bodies and agreements to promote international peace and trade growth via a relaxation of trade barriers and tariffs. The situation is being reversed in the last 20 years, where aggressive unilateral action has taken over as 'bullies' have not been constrained by the existing system such as the United Nations and other bodies, including the international courts and adherence to international law. Each power (major, regional or local) has sought ways to impose its interests on others and maximise its claims in violation of international law. This practice has exacerbated the imposition of sanctions, which are used as geopolitical tools to achieve national policy. Added to the trend has been the use of

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financial sanctions on top of trade sanctions, which applied not only to national fleets but also globally to all shipping companies as well as trade related entities. In addition, the famous US/China trade war has begun to reduce global trade growth and has increased the trading risks by Greek shipping which consists of cross traders and does not have the support of a super power as protection. Finally, many nations elected to depart from international bodies or movements aimed at applying universal rules in favour of individualistic national aspirations.

INTERNATIONAL TRADE GROWTH

Trade growth is also threatened by the increasing environmental, social and governance demands and regulations, a subject that will be addressed later in this article. However, it is important to note that perpetual growth of world trade can no longer be taken for granted as consumers are increasingly becoming environmentally sensitive and are adapting their individual choices to healthier, environmentally friendly, reduced packaging and greener products. Quality instead of quantity has begun to dominate consumer choice in the developed world. However, pressure on governments of less developed countries is expected to rise for the protection of the environment, guarantees for pollution free water and air as health and environmental considerations rise.

Nations, such as Australia, enjoying commodity abundance are already looking into the effects of their extractive industry and at the climatic and environmental effects of such ever increasing raw material extraction. Other nations such as China are plagued by air pollution and are forced to shift power generation towards less polluting energy sources.

The combined effects of all the above factors are expected to slowdown considerably trade growth and hence the demand for shipping, thus adding pressure on the demand/supply balance.

The shipping industry is facing a unique challenge of reducing its carbon footprint, as well as satisfying the current IMO 2030 greenhouse gas (GHG) goals. Slower operating speeds even if universally applied, will only have an initial positive effect but in order to achieve the ambitious 2030 and 2050 targets, technological change is needed. The key issue is how to safely use new fuel technologies for a low carbon era.

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Fuel saving applications and retrofits may assist and so will increased scheduling efficiency and an improved maritime infrastructure which will reduce idle time and enhance fuel saving. However, what is abundantly clear is that a new engine system is required to replace the current system taking into account the new regulatory and environmental targets, as well as the expectations that further measures will be adopted over the next 30 years. The new technology is not yet available but considerable R&D is being expended by the main engine manufacturers and others into technical and operations alternatives (using LNG, hydrogen, ammonia, advance marine coating, battery systems, speed limits and engine power reductions). Leading owners and charterers have begun to pool their efforts and share best practices, e.g. Getting To Zero Coalition, aiming to develop commercially viable zero-emission vessels of standard designs to operate in deep sea trade routes.

RISKS and OPPORTUNITIES FOR THE SHIPOWNERS and SHIPYARDS

Although promising, the main risk to shipowners is that the new technology is not available today and seems to be a promise for the future. There is also a risk that no unified technology or fuel system will be developed which will result in owners having to guess which system will prevail and what its long term operating efficiency might be. An additional risk is the evolution of local, rather than global industry wide or geopolitical applicable regulations which further clouds owners' decisions. Additionally, new systems have not been costed and are not currently commercially produced and available by the leading shipyards. There is thus a real, technological obsolescence risk for all existing tonnage in the water and especially for the non eco vessels, which still account for the majority of vessels afloat. The risk to shipowners is such that newbuilding orders have recently been reduced to record lows and this is likely to continue as no existing technology vessel can be certain of not being eclipsed by new propulsion designs and internationally stringent regulations. This risk, however, does present a real opportunity to shipping. As supply increase slows down and there is a real prospect of the overall fleet actually declining, the demand / supply balance may well move in shipowners' favour and charter rates may well rise. Such higher operating incomes may well enable the industry to finance the new super eco/super environmental vessels and represents a real opportunity for shipowners.

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Many owners are seriously resisting shipyard pressures for new orders using exisiting technology and this will have major implications for shipyards, as well, since they will fail to meet their minimum survival orders and will need to either merge with other yards or fail.

CHANGING OPERATIONS AND THE SIZE AND TYPE OF OWNERS

The need to pool information will drive owners into alliances and data sharing agreements. However, the incentive and benefits from this data pooling, as well as the benefits of digitalisation will largely affect the bigger Greek owners. The increased complexity of vessel operations, fuel management, technological change, regulations and the need to run fleets more efficiently and amortise costs associated with increased compliance will drive Greek shipping further along the path of consolidation. Larger fleets will enjoy an enhanced competitive edge and alliances, as well as long term agreements between owners, charterers and end users will favour the larger owners. Hence, it is foreseen that there will be considerable market consolidation as leading industry players will join forces to promote sustainable solutions in all aspects of shipping.

The traditional family based nature of Greek shipping will be challenged as shipping companies grow in size. Thus far, the family footprint has been effective as companies grew, but this model of family reliance may be questioned. Where companies are public, returns to shareholders' issues dominate and there have already been challenges to the family model raised by some funds.

It is encouraging, though, to witness, the large influx of non-family junior and senior management into Greek shipping, consisting of ambitious, well educated, professionals seeking to make a difference and their careers in shipping. The family-outside managers mix has thus far worked and Greek owners have adapted well. As shipping is the par excellence Greek national industry, it is not surprising that Greek professionals will also be committed to the industry and see it as their future. Additionally, it is highly welcome that the male dominance ashore is beginning to change as shipping has successfully attracted many women with the ambition and professionalism to excel.

SHIP FINANCE IN THE CURRENT AND FUTURE CIRCUMSTANCES

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Lastly, I wish to address the rising increasing challenges in ship finance. The withdrawal of a large portion of European banks from ship finance has reduced choice by Greek owners. Fortunately, Greek and Cypriot banks have stepped in part, to counter the above trend. Commercial banks are renewing their shipping lending model and can no longer compete only on upfront fees and margins. They need to tap into all the other financial requests by shipowners which often double effective yields. Hence, we are witnessing the rise of local banks competing for Greek and non-Greek finance. The growth of Far Eastern banks' lending to shipping (including Greek shipping) seems to have come at an opportune time but is seemingly reaching its limits. As newbuilding ordering is slowing down, such banks will find it increasingly difficult to maintain their lending volumes unless they compete for business away from newbuildings or their national base. In view of the increasing risk of obsolescence, it is expected that Far Eastern bank lending will plateau.

Far Eastern leasing and especially, Chinese leasing has grown massively and thus far the experience with Greek owners has been a good and successful learning cycle but still largely untested. The technological, environmental and regulatory risks, as well as geopolitical risks will also impact on all lenders, many of which will seek to revise their terms and become even more selective.

As the availability of large bank finance reduces and is part replaced by local and smaller banks and leasing houses, loan yields will rise. This rise is also associated with the shipping risk as perceived by banks and financiers in general, where the required returns on capital employed after estimated losses must provide sufficient attractiveness to loan providers.

In general, the influence of Chinese ship leasing has assisted owners in finding both finance as well as reasonably attractive terms and margins. However, as lenders and leasing companies reassess their exposures in the shipping industry, it is anticipated that loan yields will rise further. The above challenge can best be met by the larger Greek owners who combine size with financial strength, as well as fleet quality efficiency and a sound investment policy. Increasingly it is these owners that will attract the best terms by lenders, thus widening further the two tier financing market between the large and small owners.

The increasingly challenging shipping conditions affecting all aspects of the shipping industry will require Greek shipping companies to evolve, adapt, invest in new technologies, streamline their operations, enter into alliances, whilst maintaining their financial standing and ability to exploit the new opportunities offered in the next decade(s). It will be a real challenge for Greek shipping to maintain its leading position and profit from the enormous changes the industry is undergoing. The main comfort for Greek shipping is that all owners are aware of the challenges as they seek their strategies to handle them.