Greece will continue its strong maritime presence

Though the effects of the lingering economic crisis are still plaguing the shipping industry, the Greek flag will continue to be a strong one, opines Capt. Mattheou Dimitrios, the CEO and Managing Director of Arcadia Shipmanagement Co. Ltd. and Aegean Bulk Co. Inc., who also chairs the Green Award Foundation. Newbuild prices are remarkably low, while weak freight rates are sending many tankers to the scrapyard.

Although the crisis is still upon as, orders continue to be placed and the average age of ships is constantly decreasing. How is this situation affecting your sector?

During the last year, as a result of the global crisis, there has been a sustained reduction in newbuilding contracts with newbuild orderbook-to-fleet ratio falling to 10%, a low point not seen since 1999, according to data from transport analysis firm Crucial Perspective. Yards, most of which have remained heavily underemployed over the last year and some even face the risk of closure, have been trying to attract customers by lowering their prices. As a result, after almost a decade of tough times for much of the shipping industry, newbuilding prices have reached remarkably low levels. However during 2018, as the global economy recovers we may see a return to the shipyards as many owners perceive the window of opportunity for these low prices, and the newbuilding order book may finally start to improve.

At the same time, the last years have been remarkable in terms of vessel's scrapping, as the weak freight rates especially in the tanker sector, have prompted many owners to turn to the demolition markets even if their vessels have not reached the end of their economical life cycle. In fact, a decent amount of tankers below 20 years old are going for scrapping, decreasing the average age of such vessels which is usually 22-25 years. This phenomenon is expected to continue over the next years, in view of the upcoming regulations regarding environmental protection and air pollution reduction. Both the 0.5% global sulphur cap that will enter into force in 2020 and the Ballast Water Management Convention, are expected to change the supply dynamics of the shipping industry. Ship owners will now have to make huge investments in order to comply with these regulations, and since they will not be able to recover the invested amount from their aged vessels they will choose to scrap them, resulting in a further reduction in these vessels' average age. The removal of the least efficient vessels from the global fleet, may also have a positive impact on the tonnage supply side and contribute to better returns for owners over the next several years.

Furthermore, scrapping of tanker vessels is expected to rise in 2018, as earnings for ship owners per tanker vessel might decline amid rising crude oil prices and the drop in China's crude stocking activity.

Although many believe that such tactics to cut capacity by vessel's scrapping are helping to raise shipping rates by addressing the problem of overcapacity, the trend also reflects basic economic principles and the industry's turn toward larger vessels instead of the popular panamax-class ship.

It has been predicted that 2018 will also be difficult for maritime financing. Do you foresee any improvement on this in the short term?

It is true that ship financing sector has been under a crisis over the last years. Even though the dry bulk and the container sector have shown some recovery, most banks still continue to cut their exposure to shipping loans. Although a number of banks have exited the shipping market, there are still some banks continuing to lend selectively to ship owners, but these loans will typically be to strong existing customers or large shipping organizations. While these banks still remain active in the market, they are nonetheless actively trying to downsize their exposure to the shipping sector, which means that owners will continue to have limited access to this type of traditional financing.

In order to face this issue, ship owners are increasingly turning to alternative financing sources. This is particularly the case for small to medium-sized ship owners, as traditional lenders are generally focusing on larger shipping clients due to regulatory and risk management requirements. As a result of this, ship owners are now becoming increasingly interested in considering structures such as high-yield bonds, convertible debt, capital and operating leases, convertible debt etc.

Greek ship owners are continuing to order and buy second-hand ships. Under such circumstances do you consider this is an opportunity for any increase of the ships under the Greek flag?

Even though the last years have been tough for the global maritime industry, the renewal of the Greek fleet continues, as Greek ship owners keep ordering and buying second hand vessels. According to Clarksons, Greek ship owners spent over 4.47 billion dollars in second-hand vessels during 2017, accounting for 23% of all investments in used ships in 2017, while at the same time they placed newbulding orders of total value of 4.7 billion dollars. Although the Greek controlled fleet has increased in terms of DWT and GT, the number of vessels flying the Greek flag declined, due to the Greek flag's declining competitiveness. However, there are still many ship owners that choose to fly the Greek flag on their vessels, despite the higher related costs and the bureaucracy they face, in an attempt to support national economy and maintain Greece's position as a major maritime nation. I believe that even though the sector is facing some tough years, Greece will continue its tradition as a maritime nation, and the Greek flag will strengthen its position among the most preferred flags.

How will the market be affected following what Mr Trump says about increasing the US import duties?

One issue that has troubled the global maritime community recently is the announcement made by President Donald Trump that he would impose tariffs on imported steel and aluminum products. Although this decision aims for the protection of U.S. producers, such an action could provoke retaliatory measures from major trade partners like China, Europe and Canada that would hurt the whole global market. Many fear that these policies undermine the global trade system and may have a negative impact on the transatlantic relations and the maritime industry worldwide. At the same time investors fear that this decision could result in a global trade war, and thus derail what promises to be a strong year for trade growth.

It is true that free trade has brought greater volumes to the global maritime industry and liberal trade policies have enabled global trade to grow. Imposing trade tariffs to import goods makes them inherently more expensive for their buyers, which would likely mean that less of them are bought. This would mean that fewer products would be moved overseas, and the international shipping would get smaller.

International trade is complex, and changing one piece of the formula could have consequences in other sectors as well. Apart from the negative effects on the trade of steel and aluminum, which will mainly affect the dry bulk sector, potential tariffs on other goods could change the balance of global trade and as a result, affect many sectors of the global shipping industry as well.