

THE INFLUENCE OF GREEK SHIPPING ON GLOBALIZATION

(Incorporating additional comments made during the presentation)

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SHIPPING AN OVERVIEW

Shipping is the enabler of globalization

- Shipping transports over 90% of World trade. As world trade expands so does transport demand.
- The prerequisite for continuing globalization is safe seas.
- The scourge of piracy that has existed for the last 6 years. It still appears to be going strong. It is a matter of time before crews will be unwilling to transit pirate infested waters.
- This will disrupt the flow of oil and bulk cargoes which are carried on slower ships thus breaking the supply chain and severely damaging the economies of all trading nations and particularly the United States, the European Union and China. This will reverse globalization and promote regionalization. This will, in turn, increase costs slowing world growth.
- Piracy already costs the world consumers between \$ 5-10 billion per year supporting unproductive enterprises of all sorts. This money appears to be badly spent since the scourge of piracy persists and appears to be expanding.

**It should be remembered that the allies dealt with the axis powers within 5 years.
What is presently happening with piracy is unacceptable.**

Basic economic parameters of shipping

- When shipping provides low transport cost services to the receivers, it is profitable
- To be successful, all input costs of ship investments must be cost competitive. A cost plus mentality and legislated inefficiencies are therefore inappropriate
- Shipping is a cyclical, self correcting business. Understanding the cyclicity of the freight market and ship value fluctuations is very important

A TALE OF TWO FLEETS

- Greek ocean going shipping is efficient, competitive and grows, free from government interventions
- Shipping within Greece is inefficient, uncompetitive and withers, because of misguided government interventions

GREEK SHIPPING

- Greeks control probably the biggest fleet in carrying capacity (tdw). The average size of Greek controlled ships is about 63.500 tdw. The world's average ship is about 24.600 tdw. The average size of world ships, excluding Greek ships, is about 22.250 tdw. Therefore Greek ships are on average 2.85 times bigger than the rest. It follows that Greek shipping transports a major share of international trade.

The Greek fleet is considered a reliable strategic partner for the transport requirements of all major trading nations.

- In the 19th century Greeks were mostly merchants who had fleets to service their trade.
- In an attempt to improve efficiency, now we mostly have ships to service other peoples' trades, which are mainly international.
- In this way we eliminated cargo price risks but we remain vulnerable to freight market and ship price fluctuations. This improves our potential to generate greater profits from shipping demand imbalances in a rapidly changing world.

This is both a benefit and a disadvantage

The benefits:

- Lower overheads and capital requirements, as we do not need to have cargo and commodity trading offices to finance and to support their risks.
- We can take advantage of opportunities on good markets. If our ships are charter free we prosper.

The disadvantage:

- On a downturn shipowners are more exposed since they do not control the cargo. The shipping risks are therefore higher.
- Owners, urged by their bankers, make attempts to minimize freight market risks through charters. This limits the owners' upside potential but does not reduce the downside risk. Time charterers in a downturn renegotiate or fold.
- Requires better insight and judgment on ship prices and potential earnings by all involved. Greater cash reserves are usually thought to guarantee survival by people who do not understand the dynamics of the industry.

**Shipping is self correcting. Hence its variously cyclical performance.
Better times will always come.**

Shipping Investments - Aligning interests

Shipowners invest in expensive, long term assets. For the right ship, cargoes will always be available, at a price. Freight rates are established by the supply of ships and the demand for transport.

To be successful, shipowners must be good judges of the type of ship the market will require going forward and its price. A large proportion of the ship's price represents estimation of future profits if and when they occur. Such thinking includes a large element of risk in a business notorious of its cyclicity.

Newbuilding ship prices over the years have had an inflation adjusted low below which they are unlikely to drop. Scrap price fluctuates around 65% of the new steel price. **These two parameters could define a base line for ship valuations.**

Financiers who insist in employment "security" (charters) boycott the shipping investments they finance. They should instead rely primarily on the abilities and judgment of their client, the shipowner.

Understanding the needs of the cargo receiver is important. He is the shipowner's long term counterpart, not the charterer.

Shipping serves an integrated transport system

- Ultimate client: The receiver (end user or distribution system).
 - Client requirements: Stable prices, cost efficient and timely cargo throughput. The receiver will choose the lowest CIF cost at his door for equivalent domestic or imported goods. **This factor will change the sourcing decision therefore ton mile demand.**
- The freight cost has historically been a percentage of the delivered cost.
- Shipping added value: Cost efficient seaborne leg
 - System evolution driver: Lower overall transport cost, trade-offs.

The cost of transport represents input and output costs to the economy.

Countries with large import-export trade build shipyards to produce ships in order to ensure reasonable freight rates.

New energy efficient ships will reduce transport costs and emissions. Therefore more shipbuilding orders are expected.

Scrapping reduces the fleet

- Tankers and bulk carriers have a finite economic life which depends mainly on the cost of repairs to keep them in service.
- The higher the repair costs and the lower the freight rates the sooner they will scrap.
- World scrapping capacity is about 37 million tdw per annum for all ships. This of course can be increased at a cost and will take a little time.

Present bulk carriers scrapping is about 5% PA or about 32 million tdw, near the historic high of 5.5% PA in 1986. This is indicative of a very low market.

Contribution of ocean shipping to the Greek economy

Historically Greek shipping offices were established abroad, in cities where bankers and trading partners were located. An office abroad is still an advantage.

The shipping offices in Greece and the cluster they have created contribute greatly to the balance of payments, wealth and job creation of the Greek economy.

Funding inflows to Greece:

€ 14 billion to € 19 billion depending on the market. Since 10/2008 shipping markets are poor. So are inflows.

Employment:

Seafarers about	10.000	Greeks
Staff in shipping offices about	12.000	in Greece
Indirectly employed through shipping about	255.000	in Greece
(2005 University of Piraeus study)		
Total about	280.000	in Greece

CRUISE SHIPS/HOMEPORTING

In the '70s the largest cruise ship fleet in the Mediterranean was the Greek flag fleet. It also executed cruises in the Caribbean, Alaska, the Baltic and the Chinese Coast Now we have no Greek flag cruise ships because of unfriendly legislation.

After years of efforts by the HCS, legislation for cruise ships visiting Greece is now compatible with European standards.

Greece, because of its rich history, culture and the unique Greek islands, is a prime tourist destination.

When home-porting of cruise ships in Greece will be fully developed this industry will create about 11.500 new jobs and over € 1 billion additional annual revenue to the Greek economy.

Legislating job protection is the clearest admission of uncompetitive jobs. It increases costs and eventually destroys both businesses and jobs.

GREEK RO-PAX FERRIES

Serve 1.566.000 islanders (except Euboea, or 14.2% of the population) and 61.5% of the tourists visiting our country

Greek ferries are the most modern and higher speed passenger fleet in Europe.

Greek ferries:

- Execute 2.9 billion PKM (passenger kilometers) per annum
- Transport 570.000 busses/trucks and 1.600.000 cars every year (excluding short sea hauls)
- Are a valuable asset in civil emergencies i.e. evacuation of civilians from Libya

Greek ferries have a high cost per passenger-mile. This is because we have outdated manning requirements and associated legislation.

A high speed ferry which in Europe had 17 crew in Greece has 31.

A conventional ferry which in Europe had 32 crew in Greece has 52.

Necessary changes:

Implementation of EU directive 3577/92 with no additional restrictions and alignment with SOLAS /STCW requirements. Adoption of flexible company cooperation agreements to meet island transport needs.

Adjustment of employment to requirements to the operational needs.

All above would ensure viability of the coastal services sector.

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PURE CAR CARRIERS (PCC)

Above and beyond the car/truck carrying capacity of the Greek RO-PAX Ferries, Greek owners are also involved in Pure Car Carriers.

This part of the Greek beneficially controlled fleet comprises of 15 ships, 12 of which are large, modern ocean going vessels.

ECONOMIC PARAMETERS OF PLEASURE BOATS

Greeks love boats. Greece, having the largest coastline and the unique Greek islands is the preferred international cruising area.

Unfortunately Greece has the least yachts and infrastructure by far. This is due to unfriendly legislation.

Tax legislation enacted in 2009 had as a result the flight from Greek marinas of about 25% of the yachts in marinas, mostly belonging to foreigners, and the destruction of over 6.000 related jobs.

According to a study by the University of Piraeus on sea tourism, now being completed, 13.000 pleasure yachts create about 59.000 direct and indirect jobs. On this basis if Greece attracts 100.000 more yachts to berth year round in Greek marinas we would create at least a further 300.000 Greek jobs.

GREECE AS CENTRAL EUROPE'S HUB

An efficient railway system linking Greek ports with the European merchant rail system could provide faster service between Far East and Central/Eastern Europe.

Examples:

Shanghai to Budapest, Hungary:	Via Piraeus	about 23 days ✓
	Via Trieste	about 28 days
	Via Hamburg	about 35 days
Shanghai to Warsaw, Poland:	Via Piraeus	about 24 days ✓
	Via Trieste	about 28 days
	Via Gdansk	about 36 days
	Via Hamburg	about 35 days
Shanghai to Bucharest, Romania:	Via Piraeus	about 24 days ✓
	Via Trieste	about 28 days
	Via Constanta	about 30 days

Greek ports appear to be the natural getaways to/from Central-Eastern European locations by means of an efficient railway system. They could also be a transshipment hub for Black Sea destinations and the Eastern Mediterranean with feeder vessels.

Greece has always prospered when it embraced the sea

In the 21st century Greece can once again prosper if it develops into:

- The maritime and financial center of the Eastern Mediterranean, attracting international business
- The recreational and boating playground of the European Union, the Ukraine and Russia
- The cruise ship home-porting hub of the Eastern Mediterranean
- The transport hub of Central and Eastern Europe

All this is possible with vision and well thought out, modern, efficient and stable, business friendly legislation which will eliminate all present disincentives.

In this way hundreds of thousand of competitive jobs would be crated and Greece could prosper.

Thank you

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