

businessfile

APRIL-MAY 2017 | No 110 | € 5.00

www.economia.gr

ISSN 1109-1592



Balancing in the new Europe



EXCLUSIVE INTERVIEWS



Thomas Wieser
President of the
EuroWorking Group



James Stavridis
Retired US Navy Admiral
and NATO SACEUR



Panos Laskaridis
President elect of ECSA



Hans-Jacob Bonnier
The Bonnier Group

“Building bridges with other nations and societies”



James Stavridis, present dean of the Fletcher School of Law and Diplomacy at Tufts University, retired US Navy admiral and NATO Supreme Allied Commander Europe (SACEUR) 2009-2013, in an exclusive interview on foreign politics under the Trump presidency estimates that US-EU relations will still continue to be very strong

Interview by Eugenia Anastassiou

James Stavridis' role both in the military and diplomacy required for international affairs means he is a proponent of “smart power”, defined as the “balance of hard and soft power taken together.” Stavridis has encouraged the creation of security through the “need to connect international, inter-agency and public-private actors to build security, lining all of them with effective strategic communications.”

This underlying philosophy gives him a measured viewpoint in complex international issues, especially with some

of the concerns which the Trump administration is currently facing.

Trump's relationship with Russia being a case in point, Stavridis thinks that he will try and improve relations between Washington and the Kremlin, but there will always be fundamental disagreements. Russian policy in Syria and what is happening in the Ukraine over Crimea are areas of potential discord.

Stavridis also cautions on US/Russian dealings in cyberspace and the unfortunate row which dominated Trump's transition period, where the US intelligence services were accused of leaking

documents and soured the way Trump perceives them; even though US intelligence services have so far been very accurate on Russian behaviour, especially in the cybersphere. Therefore it is imperative that Trump realises this, both questioning Vladimir Putin's motives and maintaining that Russia still needs to be a top national security priority.

Another contentious stance will be with China –aside from Trump's protectionist economic policies– over territorial disputes in the South China Sea, Taiwan, intellectual property, as well as cyber security.

Smart power in an unpredictable world

James Stavridis' career seems filled with contrasting elements; a US Admiral, the first naval officer to hold the position of NATO Supreme Allied Commander in Europe (from 2009 to 2013). He is an expert in international affairs and diplomacy, together with being the dean of the Fletcher School of Law and Diplomacy at Tufts University and a Senior Fellow at the John Hopkins University Applied Physics Laboratory.

The contrasts extend to his background, half-American and half-Greek through his father's side; his grandparents were Asia Minor Greeks, who fled Smyrna in 1922 and immigrated to America. So to some extent Stavridis also embodies the aspirations of the "American Dream", from Ellis Island to one of the highest positions in the military in three generations.

Perhaps the diversity and breadth of Stavridis' experience and background was a factor in being considered both as a running mate by Hillary Clinton in the recent US election and as Secretary of State by Donald Trump in his administration. Bearing in mind that both presidential candidates were so far apart ideologically and ran the most controversial campaign in living memory, they both seemed to agree on one issue: Stavridis was their "man" in some capacity.

When Admiral Stavridis was considered as Vice-President by Clinton during her campaign, he joked, "My name is too long for a bumper sticker." Joking aside, Stavridis explains that as "a career military officer, I am generally regarded as apolitical. I am registered as independ-

ent." Therefore, he is neither Republican nor Democrat, and appealed to both parties based on his life experience, especially in areas such as international affairs and global security.

Although James Stavridis declined the position of Secretary of State in Trump's administration, he views the senior appointments Donald Trump has made as "a good step"; namely, General Jim Mattis as Secretary of Defence, John Kelly as Homeland Security Chief and Secretary of State Rex Tillerson, whom he sees as a "smart choice" for the role, as he has a "vast knowledge of the world, as well as experience leading a complex, multinational organisation, and the political connections necessary to make it in Washington."

The question of Europe and NATO

Stavridis asserts that the relationship between the USA and the EU will still continue to be very strong, with co-operation on Syria and NATO, despite the fact that President Trump has stat-

"The Maginot Line, the Iron Curtain, the Bamboo Curtain and the Berlin Wall are all examples of fallen walls and failed policies – the world will come and find us, no matter how hard we try to barricade ourselves from it"

ed that the USA would protect members under Article 5 only if they "pulled their weight" in their contributions to NATO. Nevertheless, Admiral Stavridis believes that "the USA will live up to its treaty agreement and that there will be no 'test' of nations." However, there will be more pressure on countries who are not meeting the 2% level of defence spending to contribute the required level. Stavridis underlines the fact that Greece is one of only five countries out of the 29 who make up NATO, who actually meet the 2% contribution.

To put it into context, the figures spent annually on defence internationally speak for themselves: the USA currently spends \$600 billion, the Chinese spend \$140 billion and the Russians \$80 billion. Europe is right in the middle with a \$300 billion annual spend on defence – in other words, they spend more than Russia and China combined, so they are definitely contributing as a whole.

Europe also has 2 million military personnel, mainly volunteers, who have operated in a number of combat zones including Afghanistan, Libya, the Balkans and Syria. It would be "a mistake to simply walk away from all those assets and all of that capability and all of that partnership, which has been on display in real world operations over the last decade."

Once again, the danger of cybersecurity increases the level of vulnerability of NATO and the nations within the pact; therefore, co-operation is needed for stronger cyber defence, both for the alliance and each country individually. This can be accomplished out of the Cyber Defence Centre of Excellence in Tallinn, Estonia, which is a NATO entity.

Admiral Stavridis asserts that the US must continue to reach out and serve as a model of democracy, freedom and

human rights. "To do this, we must build and maintain bridges with other nations and alliances, such as NATO, which remains the richest, most effective military alliance in history."

The Greek position

Admiral Stavridis states quite clearly "Point no 1 is: Greece matters, and not just in the financial scheme of things." He has always maintained that Greece "is in an incredibly important geographic position, right on the nexus of terrorist routes, in a very contentious area for NATO, and is a willing partici-

"Greece matters, and not just in the financial scheme of things; Greece is in an incredibly important geographic position, right on the nexus of terrorist routes, in a very contentious area for NATO, and is a willing participant in all NATO operation"

pant in all NATO operation." He adds that "it has been a very good and constructive partner from a geopolitical

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perspective and it affords extremely important strategic bases for the alliance and the USA" and that it is important that Greece is recognised for this contribution.

When commanding a NATO exercise off the coast of Turkey, near Smyrna, Admiral Stavridis could not fail to be moved by the "most amazing historical irony I could imagine" as the grandson of Greek refugees fleeing for their lives from Turkey.

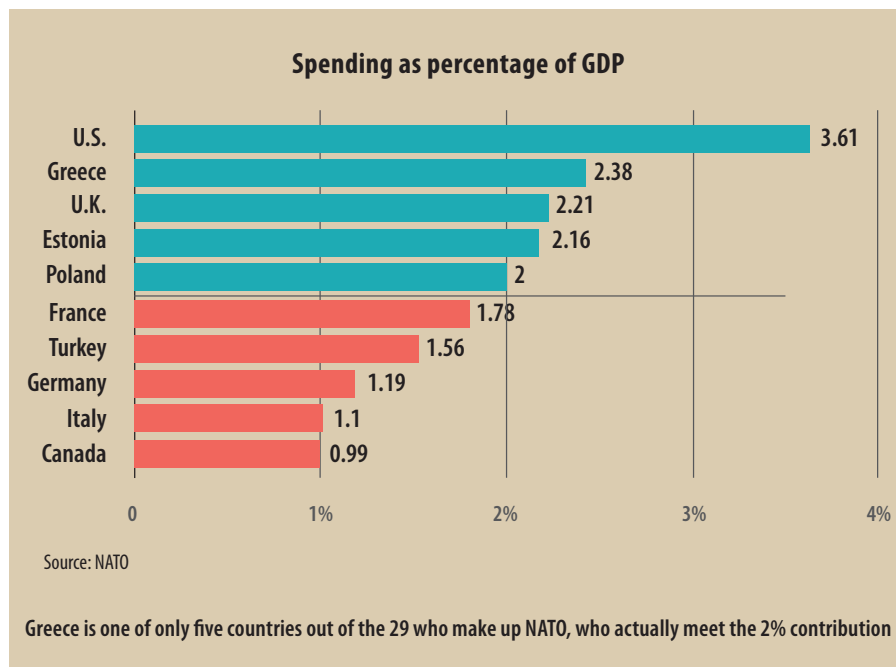
The general outlook in perspective

In a time which seems highly unsettled (many conflicts, geopolitical insecurity, terrorism, cyberwar, uncertainty in politics and the economy), overall people are concerned about the future, yet Admiral Stavridis is pragmatic in his outlook, comparing how life was a hundred years ago, when the world was in the middle of

The relationship between the USA and the EU will still continue to be very strong, with co-operation on Syria and NATO, despite the fact that President Trump has stated that the USA would protect members under Article 5 only if they "pulled their weight" in their contributions to NATO

a vicious world war, the onset of the Spanish influenza epidemic in 1918, the rise of fascism heralding World War II, which would eventually kill 60 million people. Put into this historical context, "we are better off today, with stronger technology, higher standards of living, longer life spans and many other advantages."

He also feels that "it is important to make the case for reaching out, or building bridges with other nations and societies. We have seen this across the world, when nations try to create security by backing away from their neighbours and severing established relationships, policy failures and insecurity ensues. The Maginot Line, the Iron Curtain, the Bamboo Curtain and



the Berlin Wall are all examples of fallen walls and failed policies – the world will come and find us, no matter how hard we try to barricade ourselves from it."

While much of the world feels precarious at present and has many challenges ahead, Admiral Stavridis is cautiously optimistic that "we will not only survive as a global society, but actually improve."

Furthermore, from his "vantage point" as dean of Fletcher School of Law and Diplomacy at Tufts University: "I can say with complete confidence that we are forming the next generation of problem solvers who will confront the many issues we face with confidence, intelligence and compassion. They are hungry for the challenge and eager to affect positive change."

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"We are forming the next generation of problem solvers who will confront the many issues we face with confidence, intelligence and compassion," says James Stavridis



A testing period for the shipping industry

Shipping, dry cargo and tanker markets, finance, innovation

A wide variety of representatives from all walks of the international maritime industry gathered to debate and analyse the present state and future of shipping at the International Maritime Organisation's (IMO) headquarters by the Thames

By Eugenia Anastassiou

In a year which saw rock-bottom freight rates for dry bulk and container ships, the collapse of South Korean container behemoth Hanjin and a tough restructuring for the Danish container giant Maersk, as well as the uncertainty of uncharted economic and political waters, the views and outlook for shipping are of paramount significance.

The introductions by both the present IMO Secretary-General, His Excellency **Kitack Lim** and the former Secretary-General, **Efthymios Mitropoulos** emphasised the challenging road ahead,

whilst reminding us that shipping is cyclical and that the effects of commercial pressure are more long-term in some sectors.

Nevertheless, the volume of trade will eventually increase due to population expansion, currently standing at 7 billion; this figure is set to double by 2050.

Although it is hard to predict the upturn in maritime business, it is still the most cost-effective way of transporting goods. Estimated world seaborne

trade volumes surpassed 10 billion tons (2015 UNCTAD figures), with 1.75 billion dead weight tonnage transported and \$1 trillion generated in trade to 150 countries, involving 1.5 million seafarers – in short, “without shipping the world would either starve or freeze.”

As the figures suggest, increase in the shipping market continues unabated, although shipyards are in crisis as orders for newbuilds have declined by 5%. The other potential problem for the industry is that there will be shortage

of manpower by 2025, since there will not be enough trained seafarers, with numbers predicted to drop to 174,000 active personnel.

On the positive side, piracy measures have improved with fewer attacks, yet on the other hand cyber-attack risks are increasing, with vulnerability in inter-connectivity, especially at sea. The IMO is looking for ways to address this new challenge to the maritime industry

The outlook for dry bulk and containers

Chairman of the panel, **Thanassis Martinos**, MD of Eastern Mediterranean Maritime Ltd, introduced this section of the conference with the hope that “after 8 years, there should be a pick up in the medium market. It has been too long in a down cycle.” Fellow panellist **Hakki Deval**, MD of Turkish company Deval Shipping, went as far as saying, “dry bulk is in intensive care.” 2016 saw historically low levels of rates because of the slow-down of freight growth in both dry bulk and container shipping.

Professor **Eddy Van de Voorde**, Professor of Port & Maritime Economics at the University of Antwerp, stated that international shipping association BIMCO does not forecast a return to profitability until 2019, and then only under certain conditions – those are zero growth on ship supply and increased growth in trade.

Alastair Marsh, CEO of Lloyd’s Register Group, outlined the background of how China fuelled the growth in the dry bulk boom through its rapid trade expansion, stimulating a frenzy in ordering new ships and an overdrive in shipbuilding. This caused a massive oversupply of vessels from China, Japan and Korea, with finance flooding into the dry bulk market. There were too many ships, tripling deadweight cargo and the shipping market stumbled in 2008, after Lehman’s crash.

Fresh capital was injected into shipping in 2010; it became a buyers’ market as banks backed owners and ships were sold at a 50% discount. There is currently an oversupply of over 100 plus vessels, despite the demolition age reduced by 10 years, to between 30 and 22 years.

However, there is hope too since the dry bulk market is more resistant, with more long-haul coal trips anticipated

The Debate: Ballast Water and Sulphur Compliance Implementation

Shipping is a high-quality service, it is reasonably “green” and fuel-efficient, and both past and present chiefs of the organisation emphasised the IMO’s commitment to seeking improvements and ensuring that emissions in shipping will be compliant with the levels agreed to by the 2016 Paris Agreement.

The Agreement, which has been put into effect and is legally binding after 112 countries ratified it, aims to reduce emissions and maintain the global average temperature to well below 2° C. Emission in shipping had been criticised at the Paris meeting, but it is hoped that levels will decrease with the implementation of sulphur reduction in shipping fuel from 2020.

HE Kitack Lim took a long-term view seeing these environmental issues as a potential brink of a new era for developments in shipping, where technology and engineers can take it to new and improved levels through innovative designs and fuels, as “future ships must achieve these goals in a holistic way.”

One of the most discussed and emotive issue at the shipping conference was the subject of the forthcoming implementation of ballast water compliance measures in 2017, followed swiftly by implementing sulphur reduction in fuel in 2020.

Ballast water is taken on by ships in one part of the world and discharged in another, which may disrupt its ecosystem; this is particularly evident from a salty sea environment to fresh water. Therefore, the solution to overcome this is installing a system to remove or kill organisms prior to discharge; this implementation takes effect on 8th September 2017.

Stavroula Betsakou, Head of Tanker Research at Howe Robinson Partners, pointed out the downsides as to the limitation of space on board vessels, the extra demands on their power generators and that not all ballast water removal systems

have been approved, which may affect ships trading in certain ports.

There is a general view that older ships may be scrapped because of both the expense and extra requirements of ballast water compliance, an opinion shared by ex-IMO chief **Efthymios Mitropoulos**. This is also seen as a way to deal with the oversupply of vessels which is causing a glut in the market, which in turn has pushed freight rates down.

The question **Stavroula Betsakou** posed to shipowners is that since between 2018 and 2020 3,314 tankers will have come to the end of their lives, will it be worth the time and cost to install a new ballast removal system?

Furthermore, it will be even more expensive to install the system in VLCCs and in about 2-3 years about 30 or 40 VLCCs will start to get replaced because they will be 20 years old.

Hugh Baker, the CFO of New York and Monaco-based Scorpio Bulk Inc, asserted that spending between \$750,000 to \$1 million to install a ballast water system on a 20-year old ship is a push towards early scrapping; he also pointed out that retrofitting might not be viable either.

Harry Vafias, founder and CEO of tanker company Stealthgas Inc., was quite adamant that the IMO cannot expect shipowners to invest anything between \$750,000 or even up to \$3 million per ship, installing a system which could become obsolete in 2020 or which might not meet with approval by all jurisdictions.

Also, in 2020 sulphur reduction compliance will be introduced, which is another expensive imposition on shipowners. One question is who pays for these new measures; with regards to this, a suggestion by **Stavroula Betsakou** included that charterers should take on some of the extra costs through their business.

especially to China and a consolidated path, for example USA to India (due to Trump’s policies); although, in reality, the market needs both a meaningful and sustained improvement over a three-year period.

Alastair Marsh did warn about over-reliance on China, since the Chinese stimulus could be temporary. Also, that people in shipping have short memories and they should “enjoy the moment of what you have, rather than get too greedy.”

Nicolai Hansteen, Head of Corporate Development at international shipbrokers Lorentzen & Stemoco, is more optimistic regarding China's stimulus package, with a hoped improvement of 5%-7% GDP, the incentives in manufacturing with more infrastructure projects and real estate built, equal demand for steel.

This could mean a possible increase of 3% in demand for shipping, with iron ore trading going up. 2017 should be an important year, with China expected to import 1 billion tonnes of iron ore. However, there is a word of caution: if China opens its mines, it might dampen increase in demand, especially if China starts exporting its coal to India.

Nicolai Hansteen also sees a positive in President Trump's policy for fossil fuels, particularly if the US starts exporting coal to Europe and Asia. Another indication of some increase in confidence is that Korean shipyards have reported a come-back to newbuilds.

Arjun Batra, Group MD of Drewry Shipping Consultants Ltd, feels that 2017 will not be as bad as 2016; there will be a slight improvement but it looks like there will be a cycle of prolonged low periods in the market and any upswing will seem like a type of "boom".

Shipping volume has been disrupted and the volume of tradable goods will fall, so it will be a question of who can adapt. Also, the unnatural "boom and bust" of 2010-11, when ships were ordered to deal with the trade explosion in China, coupled with bad timing; the downturn had come by the time they were built and ready for service.

The big problem in a bad market is that operating costs are high and for anyone owning ships it has become an economic balancing act. The combination of oversupply, near 0% interest rates, shipowners not scrapping old vessels, low-cost operating costs, not earning but breaking even and reaching "rock bottom" means the only way should be up.

In addition, Capesizes, because of their hybrid design, are now becoming obsolete, since shipping routes have changed and the main China-Brazil and Australia-China trade is different, with

better designed ships available to take them on.

Amir Alizadeh, Professor of Shipping Economics & Finance at Cass, City University, made the case for containers and maintains that building bigger vessels will continue. Although Hanjin's bankruptcy damaged the supply chain and destroyed the investment value of the company, yet again the main problem is too many ships in the container market.

Going forward, **Professor Alizadeh** is optimistic for 2017, with a healthier supply and demand, more rational newbuilds and an increase in scrapping ships.

Although it is hard to predict the upturn in maritime business, it is still the most cost-effective way of transporting goods. Estimated world seaborne trade volumes surpassed 10 billion tons (2015 UNCTAD figures), with 1.75 billion dead weight tonnage transported and \$1 trillion generated in trade to 150 countries, involving 1.5 million seafarers – in short, "without shipping the world would either starve or freeze"

There is a consensus in outlook regarding second-hand vessels, Nicolai Hansteen and Prof. Alizadeh seeing their prices as positive, more affordable and worth looking at.

The 2017 outlook for the oil industry

Bron Sharman, portfolio manager at international commodities investment group RCMA Asset Management, gave a brief account of the current state of play in the oil industry, the effects of which began 30-odd years ago, in 1985.

As a consequence, the 1986 oil crash saw prices plummet when OPEC started selling low, in addition to Saudi Arabia declaring war on shale, which went down to \$50 a barrel, together with crude at \$35-40 a barrel. Inevitably, there were bankruptcies, but not for the oil producers who stored \$100 million worth of oil in container spaces.

There was another glut in crude in 2015, which impacted 2016; additionally, geopolitics also plays its part; with Iran back on the oil-producing scene, Libya not viable anymore and with renewed conflict in Nigeria, the price of crude had reached \$50 per barrel.

In order to rebalance OPEC speeded up by cutting production to 35 million barrels, but the "Catch 22" situation is if it cuts too much, the US will start to produce more shale, especially if Trump develops his energy policy further. It is planned that 70% of US collieries will be in use and this has come about as a result of Trump's return to fossil fuel policy and Saudi "anti-shale" strategy.

There is hope for rebalance in 2017 to drum up growth with OPEC's recent agreement to cut output, with Saudi Arabia taking the biggest hit, fast-growing producer Iraq and even non-OPEC Russia curtailing its supply.

It should be noted that the November 2016 OPEC agreement was regarding capping production levels and not export levels.

Impact and views on the tanker market

Nicos Tsakos, CEO of Tsakos Energy Navigation and Chairman of London-based tanker association INTERTANKO, which represents 70% of independent tanker owners and close to 700 vessels, as well as 6% of the Liquefied Natural Gas (LNG) market, spoke on behalf of the industry about its aims: no casualties, no pollution and no detection.

He sees the ballast water environment pact and commercial sustainability as the next big step in the industry, as well as the objective "to make tanker rates great again."

This was a view echoed by **Antonis Papadimitriou**, President of the Onassis Foundation, who was also concerned by the impact of further regulations, as well as ballast water, sulphur compliance and the volatility of the market.

He illustrated this market's instability by pointing out that VLCCs worth between \$100 and \$85 million could now be worth only \$60 million, with daily crude oil freight rates ranging from \$10,000 to \$7,000 (Q3, Q4, 2016 figures).

Harry Vafias, CEO of Stealthgas Inc., hoped that the LNG market would rally slightly in 2017, after two years of low oil prices and the shutting down of yards.

Michael Fostiropoulos, director of Greek company ALMI Tankers, took a broader and more general view that the tanker industry –and by extension shipping– is sometimes stuck in a fixed mentality rather than a growth mindset.

He thinks that a successful organisation should be “agile in an unstable environment”, giving it ability to learn faster than the competition. By taking a more radical approach, tanker operators can increase a demanding and sophisticated market through more mobile adoptive plans.

Fostiropoulos feels that by adopting strategic planning and collective participation, those in shipping are more willing to change strategy, thus giving them the edge, together with investing in people.

He advocates “practical maritime”, away from specialist experts, but involving people working in your company more and harnessing workers’ ability. He cited the US military and navy, who have already adopted the “strategic planning and collective participation” method – “where your ship becomes ‘our’ ship.”

The state of shipping finance

Arjun Batra of Drewry Shipping Consultants Ltd felt that shipping needs more private equity. He feels that it is difficult to raise more money from public markets and that private sources are easier to access, especially for smaller players.

Also, money for good projects still exists but not at any price, since investors have gained a better knowledge of the shipping market.

Adip Mittal, of family-owned Mumbai shipping company Mercator International Ltd, argued against the institutionalising of shipping money issuing public equity, since ships belong to shareholders, with the owners acting more like managers of vessel.

He finds that family-owned companies have better “interconnection” and

work faster, thus having private equity as their source of investment can rise funds and help them adapt quicker to newbuilding and replacing fleets when structurally necessary.

Nicholas Hadjiyiannis, the CEO of the Central Cooperative Bank of Cyprus, also pointed out that in banking terms private equity to shipping has yet to set up in Europe.

Laurent Bozzoni, MD of French family-owned shipping company Socatra Group, introduced the conference to his theory that rather than determining the value of tankers in dollar USDs to evaluate them in terms of EBITDA, like a company, both having a strong correlation.

Developments in innovation

Despite the natural inclination to be more cautious in difficult times, crisis creates innovation together with opportunities to innovate; a shared outlook amongst many panellists.

Costas Andriopoulos, Professor of Innovation & Entrepreneurship at Cass, City University, defined innovation as a recombination of existing ideas to solve problems in order to move forward.

The financial industry is certainly a case in point as new types of banking, and even different types of money, have now become the new reality.

Ironically, the enemy of innovation is success with arrogance and complacency as added factors impeding finding opportunities, such as knowing what the market wants and developing a niche to fill the gap.

In terms of shipping, **Stavroula Betsakou** of Howe Robinson Partners asserted that technology will make all aspects of the industry more efficient: the monitoring of ships, improved ship-to-shore communications and requiring less crew members to operate vessels.

The introduction of smart ships will be the next revolution in shipping; since old style shipping will have exhausted economies of scale in the next 10 years, they will improve shipping’s environmental impact and reduce costs. However, Betsakou feels it is still quite early for driverless ships.



Professor Costas Grammenos and Antonis Papadimitriou, President of the Onassis Foundation

Another important factor is data gathering on ships’ performance and crew behaviour, and how this information will be processed and analysed. This will be a big question for the industry, as to who will own this data: the ship-owners, the suppliers of instruments/systems, technology groups, classification societies or even the IMO?

Professor **Martin Stopford**, non-executive president of Clarkson Research, is also of the opinion that “revolution and development are not catching up and a new vision is needed.”

He maintains that finding smarter ways of using fleets and integrating transport systems, such as sea cargo and inland transportation systems, is the way forward. The shipping business model is fragmented and more efficient global logistics have to be introduced; for this to happen, there has to be a step up in improved communication.

Smart shipping involves running a fleet of ships as a “transport factory” (like a BMW car production line), combined with smart global logistics, which integrate the whole process door-to-door – this could mean the UBERisation of the shipping industry.

Professor **Stopford** concluded by challenging all at the IMO conference with the words of “business thinker” and founding father of corporate management, Peter Drucker: “The best way to predict the future is to create it.” **bf**