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Grimaldi invests for the future

Newbuildings will be offset by scrapping of older tonnage

EMANUELE Grimaldi is one of the few shipping industry bosses prepared to speak out on behalf of the whole industry.

Whereas his brother Gianluca, who runs Grimaldi Group's deepsea services, prefers to steer clear of the limelight, Emanuele has emerged as a powerful champion of European maritime transport.

Just as Maersk Line has accepted its leadership responsibilities in the deepsea container trades and is actively trying to overhaul the way business is done, so Grimaldi, one of the top players in the regional ro-ro and vehicle trades, is also striving to push through change.

Both stand to gain from raising the bar. Each has shown that investment and quality pay off. The hidden agenda is that those who cannot afford to operate state-of-the-art tonnage should quit the business.

However, the Naples family-owned group has gone one step further, hosting its Euro-Med From Land to Sea Convention in a different European location each year to bring together government ministers, regulators, customers, terminal operators, agents and the media with the principal aim of promoting the motorways of the seas.

Dr Grimaldi first caught the attention of the wider maritime industry when, as president of the European Community Shipowners Association nearly a decade ago, he pulled no punches on matters about which he felt strongly.

More recently, he has been highly critical of the International Maritime Organization for adopting low-sulphur fuel requirements that, in his opinion, will drive freight back onto Europe's already over-crowded roads.

In his speech at this year's Euro-Med gathering, he directed his ire at politicians who have wreaked such havoc on the world economy, and at those shipowners that continue to operate obsolete polluting tonnage.

On the wider front, he acknowledged how the global scene had worsened since the 2010 meeting, and in particular over the past few weeks.

"Since August, the mood has soured and we are talking once again about financial downturn and the mounting fears of a double-dip recession," he told several hundred delegates packed in to one of Grand Hotel Qvisisana's conference rooms.

For while the 15th Euro-Med convention was being held in a luxury hotel on the holiday island of Capri, there was no escaping the dire state of financial markets and the impact that is having on daily lives.

"Today, families and entrepreneurs alike know exactly what a debt spiral is, and take care not to incur more debt than they can repay. For the political classes, however, it seems to be different; indeed, they seem incapable of assuming their responsibility for the national balance sheet," he complained.

"An ability to balance the budget will become increasingly critical to countries eager to access the financial markets and generate growth."

He cited two policy alternatives, neither one an easy option.

Governments could either take the recessionary path, slashing public spending and raising taxes. That would hit consumption by individuals and companies alike, so depressing GDP growth.

Or they could curb privileges throughout society, eliminate duplication in local government, sell unproductive assets and cut red tape, not a straightforward task either. But whichever route politicians take, Dr Grimaldi called for a dose of cold reality.

"GDP cannot grow until we re-establish control over the public finances," he declared.

"If developed countries can balance their budgets, even without growth, it will already be a major victory because it will prepare the ground for growth in the future. It will not be easy, and it will take time. But creating a prosperous future for our children must be our goal."

While shipowners are often depicted as an irresponsible group who over-invest and then see their markets swing from boom to bust, Dr Grimaldi argues that governments could learn a lot from tightly-run businesses such as his own that keep their finances under control and do not over-borrow.

"We are perfectly aware of the state of the economy and that there will be little or no growth going forward. As a result, we will steer clear of reckless expansion and look to generate growth through the efficiency of the new tonnage we have joining the fleet," he said. The Grimaldi Group, which has never posted a quarterly loss, operates around 100 ships, and while there are newbuildings on order, these will replace less efficient tonnage.

Grimaldi subsidiary Atlantic Container Line is about to sign an order for the five largest multipurpose con-ros ever built, but the line's existing quintet will all be sold either for scrap or to the US military.

How is it possible to keep investing in such uncertain times? Dr Grimaldi asked.

The answer is threefold: planning, design, and financing.

The latter, in particular, is what distinguishes Grimaldi from some of its competitors. On average, 50% of the cost of every ship is funded through group equity, with the remainder coming from bank financing.

"At Grimaldi, we have always looked to reinvest our profits," Dr Grimaldi said.

At the end of 2010, the group's retained earnings came to more than €1bn ($1.3bn), with the net equity position rising from €1.5bn in 2008 to over over €2.1bn last year, when no dividend was paid. Money in the bank is regularly used to buy up additional shares in subsidiaries Finnlines and Minoan Lines.

But the shipping industry should not just stand by and hope the politicians sort out the financial mess so that freight markets pick up. Pro-active measures are also needed, with Dr Grimaldi again calling for more ship demolition, and compulsory scrapping rules if necessary.

"Shipowners are natural environmentalists, partly because their business requires them to be. By reducing the number of ships in operation to match lower demand, they balance the market and reduce pollution while improving their results," he said. "The ongoing economic crisis could well accelerate this process as the over-supply of tonnage becomes more obvious, and more costly. By mandating the scrapping of older ships, policymakers could spur this process along, rewarding the more efficient and environmentally conscious."

These are testing times, Dr Grimaldi acknowledged, "and the learning curve since the economic crisis began in earnest three years ago has been steep". But he believes it is possible to do well even in such a harsh business climate, if management controls are tight.

Despite the stagnating economy and the group's stable fleet capacity, volumes transported on Grimaldi's Mediterranean Motorways of the Sea network are up by 12% so far this year against 2010, while the company continues to invest for the future. That commitment will be demonstrated within the next few weeks as ACL signs a newbuilding order worth several hundred million dollars for ships that should have a commercial life of a quarter of a century.