



The
Maritime Standard

TANKER CONFERENCE

25 October 2016, Grosvenor House Hotel Dubai

Organised by



The Maritime Standard Tanker Conference –DUBAI, 25th October 2016

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**Congratulations to Clive and his
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this major and absolutely useful event!**



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Have you wondered why the Central Banks of the EU, Japan, Switzerland, and other countries have brought their lending rates to negative levels and economic activity is not picking up?



Its because global debt levels are around \$255 trillion, whilst global GDPs add up to only \$80 trillion!



Global macro environment that is affecting the tanker and energy markets

- 70 years of no World Wars,
- 70 years of relative peaceful coexistence, coupled with the insatiable human eagerness to be
- creative, take risks and accumulate wealth (what Keynes termed "animal spirits") have given
- rise to unprecedented levels of credit creation!
- The EBIDA that all the assets, factories, real estate, know-how, labor, etc., generate is just not
- adequate to service such huge levels of debt!
- Even so, over-indebted entities need more funds to finance their own working capital needs,
- service their own debts, and to extend credit terms to their clients who are also already over indebted,
- and who need credit for similar reasons and so on and so forth!
- Taking interest-rates down to zero levels, makes it somewhat easier to service such debt and
- pay the interest, but the huge debt overhang is still there!
- But negative interest rates and yields are also heavily detrimental to the savings ethic!
- Why save and create capital when the returns are negative?
- But with current economic situation, there are not much better alternatives around, even
- though we should keep in mind that just pumping more loanable funds to economies and
- companies that are already over-indebted is NOT going to do the trick!
- Its like throwing buckets of gasoline to an engine that has stalled!



Velocity of circulation of money

- 1. The losses banks and other financial institutions and investors are realizing from the
 - inability of borrowers to repay their debts, are limiting their capital and their capacity to lend
- 2. The over-regulation of banking transactions,* the transfer of money, even the opening of
 - new accounts, and
- 3. The overall uncertainty of what is going on financially, geopolitically (see below), ISIS, etc.

All these factors are slowing down spending and the rate of transactions and thus slow down the rate of GDP growth!



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CHALLENGES

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We are in a DEBT TRAP something sort of akin, but also very different to what KEYNES described as a LIQUIDITY TRAP situation! And all of the above without taking into account the quasi-insolvent social security systems! Maybe a \$20 trillion projected cash deficit for the US Social Security System alone?

We are indeed in the middle of an evolving world-wide economic crisis!

Lets review briefly

the nature and the essence («φύση και ουσία», as Aristotle put it)

of the four "situations" the

world economy is faced with, that lead to lower economic growth and retard job creation!

If we don't understand what is really going on, we wont be able to design more appropriate policies!



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CHALLENGE I: Hyper- indebtedness

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A commercial Bank can borrow at 0% from its Central Bank to make loans to Companies that are already over-indebted, so these companies can provide credit and sell their goods to other companies that are also already over-indebted and so on...

Three possible suggestions:

1. Continue the so-called Quantitative Easing (QE) by having Central Banks "print money" to acquire huge stocks of Government and Corporate bonds! Such action provides liquidity to the market, keeps yields low, helps the servicing of floating-rate debt and the refinancing of maturing debts (\$15 trillion of bonds have currently negative yields), but does not reduce the outstanding volume of debt!

It will take time for this policy to have real effect on economic activity!

2. Maybe have Central Banks finance some huge "Innovation Superfunds", which in turn will finance innovation projects!

3. Maybe have Central Banks finance some huge "Infrastructure Superfunds", which in turn will finance global infrastructure projects!



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CHALLENGE II:

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Global Income & Wealth Inequalities and the compression of the Middle Classes

1. The "RICHEST 1%" holds about 40-45% of the World's Wealth!
2. The 62 richest billionaires have a combined wealth equal to the total wealth of the poorest 50% of the people of this planet (=3.3 billion fellow-humans)!

In 2010, it took the richest 388 individuals to have as much wealth as the poorest 50% of the planet!

2010 - 388

2011 - 177

2012 - 159

2013 - 92

2014 - 80

2015 - 62 individuals have as much wealth as the poorest 50% inhabitants of this planet!

The greatest lawmaker, LYCURGUS of Sparta, around 820 BC divided the land of the Spartans into about 9000 equal plots!
By 350 BC King Agis II, faced a situation where the total original 9000 free-holdings were held by only 100 Spartan families!



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CHALLENGE II CONTINUED:

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The great lawmaker Solon of Athens (around 594-593 BC), also faced strife in Athens because of the over-indebtedness of the many (οί πολλοί) and instituted a major debt-absolution program (= Σεισάχθεια)! Still the poorer Athenians were not grateful, as they expected that Solon would also enact a land redistribution scheme (which he didn't)!

Both Lycurgus and Solon had to leave their home towns and travel one to Egypt and the other to Delphi, to avoid the nagging and bickering of their fellow-citizens! [read Xenophon and Aristotle and Plutarch on these stories]

One Lesson:

"INSTITUTE REFORMS & LEAVE THE COUNTRY" and "CANT BE A TRUE REFORMER WITHOUT TAKING A HUGE PERSONAL COST"

The reasons for the rise in the mass of the poor is difficult to pinpoint:

The poor typically have lower levels of literacy and much higher levels of birth rates, adding to the global numbers of poor people, that economic activity is just not adequate and capable of absorbing, lack of adequate growth levels, new technologies that replace workers, corporate cost-cutting efforts, etc.

Of course the wealthier face progressive income tax rates, heavier real-estate and property taxes, and thus contribute a much higher percentage of the total income taxes and of consumption taxes, etc.



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CHALLENGE III: Geopolitical Disturbances

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Such disturbances cause frictions, a wide-spread sense of insecurity and call for increases in defense spending! As a result they retard commercial and business activity!

Lets review a few:

➤ The rise of jihadism with the brutal executions even of Muslim kids, causing a widespread of insecurity and the destruction of a number of countries. The increase in the number of "failed states", that is of Countries that have ceased to operate as functioning administrative entities.

They have become hives of lawlessness, fanaticism and chaos and have caused millions of their inhabitants to flee their borders!

Take a look at Iraq, Afghanistan, Yemen, Syria, Libya, Eritrea, Somalia, possibly regions in Nigeria, Mali, NW Pakistan and elsewhere.



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CHALLENGE III CONTINUED:

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- The destruction of Syria, with an untold human, social and economic cost, adds to the sense of instability and insecurity, feeding the refugee problem and secretly having Jihadi agents pretending to be innocent refugees seeking to gain access to Europe!
- Russia's actions in Crimea, Eastern Ukraine and Syria have caused the imposition of heavy sanctions that have isolated Russia from mainstream economic and business transactions, adding to the weakness of overall global economic activity!
- China's active claims virtually on the whole of the South China Sea and the creation of military bases on land-reclaimed reefs has caused tensions with Taiwan, the Philippines, Indonesia, Vietnam and the USA! Keep an eye on this conflict that is also closely watched by Malaysia, Singapore, Cambodia, India and Australia!



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CHALLENGE IV: Winner Takes All

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And who are the winners? **The USA, The UK, Switzerland & Germany**

They are winners because they meet some core criteria:

- 1. Stable political environments, without mid-term over-throwing of their Governments
- 2. Well-functioning public Administration, with minimal Government day-to-day interference
- and control,
- 3. Respectable Judiciary that dispenses justice in a timely manner and with acceptable and
- acknowledgeable professionalism,
- 4. Solid infrastructure systems that include monetary and fiscal policies, transportation
- systems, etc.,
- 5. Positive attitude towards new ideas and individualism



CHALLENGE IV CONTINUED:

- Nevertheless, even those "winners" have to face the harsh global realities, but they get that extra "winner" cushion!
- There is NO quick remedy!
- This is the reason why global stock-markets are so skittish (downwardly)

Disagreeing with Professor Olivier Blanchard, xChief Economist tou IMF who wrote: *"I think the explanation is largely elsewhere. I believe that to a large extent, herding is at play. If other investors sell, it must be because they know something you do not know. Thus, you should sell, and you do, and so down go stock prices. Why now? Perhaps because we have entered a period of higher uncertainty. The world economy, at the start of 2016, is a genuinely confusing place." -No, there is no confusion and no "herding"! Just too much debt!*

This is the cause of the decline in the price of oil (energy savings and the introduction of alternative energy sourced, of course have also contributed to this) and of coal!



- *Thus explaining the decline in the price of iron, steel and copper and of almost all agricultural commodities!*
- • *This is what has caused the collapse of bulk carrier bulk rates with disastrous consequences of the Greek marine sector and the Greek economy!*

Analysts and investors need to consider a host of other developments:

- *climate change*
- *the aging of the population in some regions*
- *the situation with the weapons of mass destruction*
- *the behavior of North Korea, etc.*

Also more immediately:

- 1. The state of the European banks*
- 2. The state of the Chinese banking system, given that "loan-to-value" ratios are continuously deteriorating*
- 3. Russia's economic situation, given the multi-billion costs of supporting Crimea, its involvement in eastern Ukraine and Syria, the collapse in the value of commodities that provided huge foreign exchange revenues, and the huge cost of the international sanctions!*
The Western powers need to help find solutions to these issues and get Russia back into the mainstream!



On the plus column –

- 1. Most predictions don't get realized*
- 2. As Aristotle pointed out, the human desire for income and wealth is insatiable! There is no diminishing marginal utility in accumulating wealth! «Ἄπειρος ἡ τῆς ἐπιθυμίας φύσις» [Polit. 1267b].*
3. The gradual re-introduction of Russia, Iran and Cuba into the world economic web, will support global demand and economic activity!
4. Technology is continuously improving, helping make things faster and better, but also allowing faster and cheaper access to knowledge for billions of our fellow-humans!
5. Humanity has survived even worst situations: World Wars, Cold Wars, nuclear terror, genocides, bubonic plagues!



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THANK YOU!

