# THE CHALLENGES FACING THE MARITIME TRANSPORT INDUSTRY

These are unsettling times for the world economy and by extension for the shipping industry. With the transportation of cargo by sea underpinning the world trading system – a point which has already by highlighted in a previous SATT feature, the contraction in global economic activity has resulted in the escalation of challenges faced by an inherently and historically volatile industry. Some of the challenges which have been making headlines are worth examining.

## *Overcapacity*

*"Maersk warns of overcapacity"*

*"Alphaliner says overcapacity to accelerate"*

*"Huge overcapacity hurting shipping"*

These are some of the daily news headlines which testify to a major condition plaguing the maritime transportation – ***OVERCAPACITY***. Overcapacity, simply put, is the over-supply of shipping vessels, in comparison to the demand for same.

The major driver of overcapacity has been the anticipation of continuing expansion in trade and new vessels being ordered to meet expected demand. The container shipping segment has been hardest it by overcapacity, and is struggling to recover from a frenzy of new ship orders in 2008. Around 240 container ships were delivered from March 2007-2009 alone. This led to a situation where there were 500 idle container ships in January 2010. A large number of new vessels are expected to enter the world fleets in 2012-13.

Major players have attempted to address the oversupply in the market by retiring older vessels, delaying orders, or reducing capacity on key routes. Others measures adopted by carriers to absorb capacity have been:

- reducing vessel speed
- taking longer routes

These have all had limited impact.

As it stands in 2012, estimates are that shipping demand will increase by 5.5%, while vessel capacity will grow by 12%. Industry experts predict that the oversupply of vessel capacity could persist for several more years, some anticipating that it will persist as far out as 2016-17.

New vessels have also been built for higher efficiencies, to replace older, less efficient vessels. Unfortunately some of the older vessels have not been scrapped, because of the disincentive of the low scrapping value, but rather sold off, adding more tonnage to an already oversupplied market.

## *Freight rates*

The price that a carrier, that is, a shipowner or charterer charges for transporting cargo is known as the freight rate. In general, freight rates are affected by the demand for the goods being carried by the supply of available vessels carrying the goods. In addition to the fluctuations of supply and demand, the bargaining power of the shipper, the number of competitors and the availability of alternative transport modes also affect price.

Freight rates are one of the most volatile components for carriers in the maritime industry. Wildly fluctuating freight rates have meant that the major carriers have regularly reported negative operating profits since the crisis hit the industry in the second half of 2008.While freight rates have been trending up since the late 2011, the period 2010-2011 saw some dramatic declines in freight rates. Continuing overcapacity is still affecting carriers' ability to implement and maintain significantly higher freight rates.

## *High fuel prices*

The price of fuel is a major cost-driver in maritime transportation. Fuel costs can account for as much as 60 per cent of a ship's operating costs. Therefore, a rise in oil prices will undoubtedly increase the transport cost bill for carriers, and has the potential to significantly undermine the trade. A recent study by UNCTAD has shown that a 10 per cent increase in oil prices would raise the cost of shipping a container by around 1.9 per cent to 3.6 per cent, while a similar increase in oil prices would raise the cost of shipping one ton of iron ore and one ton of crude oil would increase by up to 10.5 per cent and 2.8 per cent, respectively.

Despite the overcapacity in the market, high fuel prices continue to act as an impetus for the order of new design, more fuel-efficient ships. This seeming contradiction is at the heart of the volatility that characterizes this industry.

## *Piracy*

Piracy at sea has emerged as a major international maritime security concern. According to a leading maritime publication, in the first five months of 2011 alone, there was a total of 211 attacks worldwide, with 24 successful hijackings. The majority of these events have been reported off the coast of Somalia, with 139 incidents in that area, 21 hijackings, 362 persons being taken hostage and 7 killed.

In 2010, incidents of actual or attempted acts of piracy and armed robbery against ships, reported to the IMO totalled 489, an increase of 83 (20.4 per cent) over the figure for 2009. These reports made 2010 the fourth successive year that the number of reported incidents increased.

The geographical reach of piracy has also expanded, as a consequence of the use of larger, so-called, "mother ships". Even though the majority of incidents in 2010 occurred off East Africa, attacks in the Indian Ocean and the Arabian Sea also increased.

Moreover, the number of attacks in the South China Sea increased significantly, along with a smaller rise in incidents in South America and the Caribbean.

As a consequence there has been a movement in the industry toward the use of the industry in favour of the use of private armed guards on board ships, as a means of protection against pirate attacks. Other consequences of this proliferation of piracy have been increased insurance rates, longer voyage routes to avoid piracy zones, and vessels carrying armed vessel escorts in high-risk areas.

The impact of piracy is not only felt in economic terms, but also affects the lives of seafarers and their families.

## *Labour shortages*

Key areas where labour shortages exist to support the maritime industry are:

- Maritime attorneys
- Surveyors
- seafarers

While the ship plays a primary role in the trade, without personnel to run the vessel, the shipping trade would grind to a halt. The shortage of seafarers has caused the cost of labour for shipowners to increase dramatically, and likewise, the overall operating cost of ships.

This shortage also has the potential to compromise the quality of seafarers employed and by extension the safety of vessels.

I t is now a worldwide concern forcing the IMO to launch several international campaigns aimed at attracting young people to seafaring careers.

Internationally and to an even greater extent in the local industry, it can be argued that investment in education in the sector has not been up to par with the growth of the industry.

According to Cross World Marine, in 2010, the worldwide supply of seafarers was estimated at around 624,000 officers while the current demand is reportedly 637,000. The result suggests a situation of approximate balance demand and supply rating with a 2% shortage overall.

Outside of the overarching international challenges identified in the preceding, there are unique challenges which prevail both regionally & locally. These challenges will be introduced here but discussed more extensively in another feature.

**KEY REGIONAL CHALLENGES**

- Technology and institutions have emerged and grown while the human resources have not “trained-up” to keep pace with these developments – and this refers to both the public and private sector, although it is more pronounced in the public sector.

- Standardization of customs procedures and failure to harmonize according to WCO standards. Some of the impediments to the advancement and optimal functioning of the local maritime transport industry exist partly on the human resource side as well as with regards to a lack in proper policy formation.

**LOCALLY**

- Inadequately trained “port-side” and “sea-side” workers.

- Labour and labour productivity continues to pose a significant challenge.

- On a policy level, the industry suffers from a general lack of political drive to not only keep up with emerging international trends but to improve the nation’s responses to them.

- Woefully inadequate investments in port infrastructure

- Outdated and disconnected legislation which neither supports the growth of the industry, nor the effective facilitation of trade.