

Paper 2

Paper: Challenges ongoing for shipping and global seaborne trade from the global COVID-19 pandemic

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Introduction

There is now the ever growing interests in the ability of our environment to take on the quality of our lives forward against the background of the global efforts to sustain economic growth. In this concern there is the awareness that even now there are ominous warnings of the future of the global economy with The Guardian (23 April 2020) citing European Central Bank President Christine Lagarde reflecting upon the likely impact on the European Economy. There is the fear that eurozone output could fall by 9% in 2020 and to other sources cited by Reuters as much as 15%. This is in comparison with the World Bank data that suggested GDP fell by 4.5% during the financial crisis in 2009. In the same source, of The Guardian, the Bank of England has warned that COVID-19 pandemic and ongoing lockdown was having a severe impact on the economy of Britain. This impact downward is on firms across Europe and also the US and could therefore be seen in terms of falls in output and therefore production globally.

In a more recent report of the BBC news again there is the information that UK borrowing would see “an absolutely colossal increase to a level not seen in peacetime” citing the Director of the Institute of Fiscal Studies on 23 April 2020. This is likely, the report goes, to the UK facing its worst economic shock in several hundred years, a stark warning of what is to come into our lives from dimensions of economics or social aspects. These and other global developments are highlighted here to bring forward developments that are taking place in the shipping sector and how they are likely to be having impacts on the seaborne trade and shipping sectors in the world today.

Approach to future developments

The impact of all these shall be taken from an international shipping perspective. There is the prediction that global seaborne trade may fall by as much as 5% through 2020, this is citing Clarkson Research (Declan B; 2020). On a more positive note, from the national UK perspective, there is the statement by the UK Shipping Minister that in the face of the unprecedented difficulties, the global shipping industry has the UK supplied with vital goods and this has been an important contribution to all people (Tolhurst, K, 2020). This appreciation is extended to all in the shipping sector that has kept the UK economy and society with these goods, including medical supplies from around the world, and special mention is made to those working in ports as well as those critical seafarers.

These will then lead to examine how the socio-political dimensions will develop in Malaysia which is located in a major sea lane of the world, with the Strait of Malacca and leading to the strategic South China Sea. It is through these global sea lanes that the estimate is 100,000 sea transits as well as more than USD5trillion passes annually, and which will certainly be impacted following the COVID-19 pandemic on global trade.

It would be useful here to reflect on the outcome in some of the key shipping sectors and this seen arising from the oversupply of crude oil which is leading the trade to search for floating storage for refined oil such as jet fuel, diesel and gasoline. With increasing supplies of these fuels, there are shortages in land-based storage, which is impacting on delays in ports disruptions on overall supplies globally. The recent report (Bockmann, 2020) states that there are tank shortages and further problems arising from difficulties in selling refined already afloat in moving refined tankers with delays in ports such as in the east coast of Mexico for gasoline from the US Gulf Coast refineries.

On a wider front, predictions are that global seaborne trade may contract by 5% through 2020, which according to brokerage firm Clarksons would have implications on not only the cruise and ferry sector, but would also impact on container, offshore and other cargo carrying segments in ship operations (Bush, D; 2020; Clayston R 2020).

Sectoral Developments

Within the container shipping sector, there are indications that imports of containers into Europe are expected to reach their high point which are the outcome of orders placed before the global lockdown commenced. It is expected that following that into May and June, there will be pressure on freight rates on downward route (King, M, 2020). There is reference here to the horizontal collaboration in coordinating service schedules together with competing carriers within alliances is working to provide the discipline, as suggested by the Sea-Intelligence Research CEO Alan Murphy (cited by King, 2020), which have prevented the collapse in freight rates. There were expectations that the industry sub sector of container shipping has been able to hold firm at least until now in mid-April, 2020, in relation to their freight rates. However, there is the view that sailings have been cancelled on various deep-sea trades which according to the Sea Intelligence group reflects decline in demand of almost 7 million TEU containers in 2020, a huge fall indeed. Although as far as the shipping sector is concerned their horizontal collaboration and reduced sailings are serving to hold freights for the current period, suggesting that those in the trade as exporters and importers and dependent upon cargo delivered in containers are advised to be aware of these challenging dynamics facing these shipping companies.

There are greater challenges emerging in the container sector when one of the world's leading container shipping line Maersk and its subsidiary Hamburg Sud, announced that they were moving their business by end April 2020, from the Staten Island terminal in New York to another rival facility at Port Elizabeth in New Jersey (Erik, W, 2020). This decision is being challenged in the US federal court suggesting that this termination date is earlier than the contract expiry date of December 2021 and comes in the wake of the global pandemic. These are developments that need to be considered by those involved either as commercial interests or even as policy stakeholders on the global parameters impacting on suppliers of shipping services in the container shipping sector. These impacts on ports and their operational aspects will have significant outcomes on the economies of the trade flows as well as on expectations of those in port operations, seeing developments from unusual perspectives.

These are the challenges that face interconnected locations within the flow of global shipping containers and importantly would also likely to be seen from Malaysian context of operations of major shipping companies in this segment of the industry. Therefore from an infrastructure perspective, it is not about forecasting growth in demand for facilities based on predicted increase in container throughput, but now in the wake of the COVID 19 crisis, how the pandemic would turn out to be devastating in leading to drastic down flows in cargoes and leading to shipping companies being forced to alter their schedules brought on by external variables that reflect the uncertainties emerging all over the world.

State Assistance to shipping

There is the recent report (Lloyds List News: 23 April 2020), on the Korean state taking the move to assist shipping companies. The report states that South Korean shipping companies, with HMM among them, will receive financial help from the state worth almost \$1billion, purposefully directed towards assisting these companies to face the financial implications arising from the coronavirus pandemic. Importantly, it is reported that the Korea Development Bank and the Korea Ocean Business Corp will almost Won470bn on meeting

maturing debts and thus directly assisting their shipping companies reflecting the importance and fragility in economic consequences from the current crisis. These are approaches that are not easy to emulate for other states including Malaysia, and may be relevant merely to indicate the importance that the state is locating on the capacity of leading players in the shipping sector, especially here the container shipping group, with links to Korea. Here the industrial dynamics of Korea and its structural aspects with linkages in shipbuilding and international seaborne trade are all important aspects that would be relevant to the narrative that is emerging on the approach of the state to ensure that key industries are able to engage in the international scenario in the face of threats unseen in history.

Here, in the same news item, Lloyds List goes on to state that companies in shipping are being assisted with liquidity in the expectation that they are "... expected to suffer more serious damage after the second quarter of 2020. This is to take into consideration that the time-lapse between the global economic turmoil and the decline in their performances," quoting the Oceans Minister Moon Seong-hyeok, reflecting direct state intervention in business. There are indications therefore that states are coming forward to support their indigenous industries facing difficulties in these troubling times, including those involved in the international global economic contexts such as shipping.

Interestingly, the Malaysian balance of payments indicates big deficit in shipping trade indicating heavy reliance on foreign shipping lines to transport its imports and exports. Further. the lockdown policy or Movement Control Order in particular has to support activities related to trading which is a major element of the economy. Here while the scale of assistance may not be to the level as seen in Korea, it may be advisable for governments to assist shipping related industries, such as port operations and infrastructure, although not in direct ship owning since the industry is already largely owned by several foreign countries. This is to recognise the importance of that world shipping for trade and global economic activities

Conclusion

These developments in the global scene are setting remarkable perspectives on the future of seaborne trade and navigation in the uncertainties that will emerge. There are seen very complex developments in the trade, economic and industrial scenario that are global in nature and which would be relevant for those following the policy dynamics in the industry in Malaysia to take into wider consideration to draft appropriate policy and intervention strategies where relevant. The message emerging is that the traditional schools that underpin policies on the border between state and business and business in their own scope are all disappearing altogether in this new world that will unfold the global pandemic.

Reference;

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