

Current Turbulence in the Shipping Sector Keeps Warning for Tougher Preparations Ahead

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COVID-19 pandemic brought foremost challenges for the world's people in all sectors, including maritime trade and commerce. This has resulted in port congestion, higher freight fees and longer transit times. When the nations could get some relief from this deadly disease with the application of newly invented vaccines, the Russia-Ukraine conflict appeared with new miseries for developing countries. There have been additional pressures on the shipping industry, affecting all related businesses in the consumer market. Concurrent with the new threats worldwide, there has been a warning by the United Nations (UN) specialized agency, the International Monetary Fund (IMF) about a possible escalation of shipping costs along with inflationary effects (IMF, 2022). In reality, the situation is getting worse day by day, and managers/ owners need to learn how to adjust and survive.

Bangladesh has been prospering with a slow stride in the shipping sector as a growing maritime economy. There has been an exciting development in the shipping sector, with a few new entrepreneurs joining the business. The number of total flag carriers in the last two years rose to a record high (80+) at present, having with total GRT of 2.7 m MT. The concerned ministries of the government deserve credit for rendering necessary support, although all owners' requirements are not fully met as yet.

The impact of COVID-19 on the shipping sector has shaken all areas of activity. The first impact was on global crew change. Crews are usually changed approximately every after six months. Still, during the pandemic situation, crews had to stay on board for from nine to twelve months or even more, which affected their morale on one side and incurred additional costs to owners. Some

international calling ports imposed added restrictions on ships from 7 to 21 days. Cost of ship maintenance and repair enhanced, together with added dry-docking cost. Quality of maintenance and repair was also affected due to minimum or poor supervision along with increased duration. Global cargo movement influences the resulting direct commercial impact on shipping. The threat due to Covid-19 is not yet complete. New Chinese towns were locked down with the closure of factories even at the end of July 2022. Before the complete extermination of the virus, the Russia-Ukraine conflict has come on to the world's geopolitical stage. Russia and Ukraine are trading partners of Bangladesh. Export earnings from Russia have been increasing over the last five years. Though the export earnings of Bangladesh from Russia and Ukraine are less than 2% of the total export earnings, if the conflict between Russia and Ukraine continues, Bangladesh may be deprived of these export earnings. Figure 1 shows the Clark Sea Index for all shipping markets during two crises. The cumulative effect of rising shipping costs is already sensed everywhere globally.

Seafarers of Bangladesh earn foreign currency for the country, which is essential. Foreign currency earnings by the seafarers were on the rise before the pandemic and dropped by 20 % in 2020 and again took a positive gradient after 2021. It is worrying that the total number of sailors is nearly half of the total number of officers employed at sea, and earnings by the officers are almost twelve times

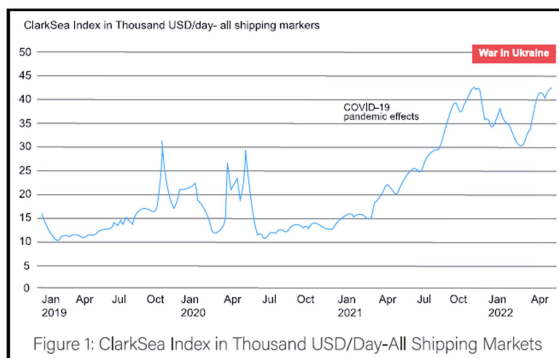


Figure 1: ClarkSea Index in Thousand USD/Day-All Shipping Markets

that the sailors earn. The problem is foreign vessels' owners are still reluctant to employ sailors from Bangladesh because of several issues which need to be addressed seriously by the concerned authority. The last five years of earnings

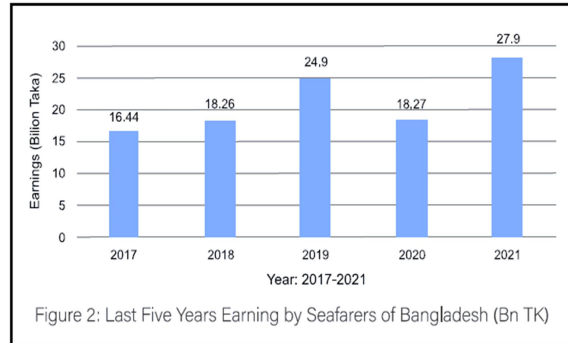


Figure 2: Last Five Years Earning by Seafarers of Bangladesh (Bn TK)

of seafarers are shown in Figure 2. The total amount could have been much higher if our contribution of seafarers in the international market could have been substantially increased. Currently, the total representation of Bangladesh Seafarers in the global maritime market is less than 1%.

The Ukraine conflict set off a chain reaction in the global economy, The worst situation has been the escalation of fuel price, where the price of bunker fuel has remarkably increased.

The introduction of the IMO 2020 Rule also caused rising fuel costs, which had to be managed under challenging conditions. The daily price of VLSFO has been chiefly growing since the beginning of January 2022, On 19 Jul, 2022, the price of VLSFO stood at 968.5 U.S. dollars per metric ton. Figure 3 shows the trend of fuel price rise over the last 10 years (Ship & Bunker, 2022).

The shipping industry has been recently affected on several frontages, with the loss/injury of life and loss/damage of vessels in the Black Sea, disruption to trade with Russia and Ukraine, and the growing burden of sanctions. Bangladesh's government is very

concerned about the loss of valuable life and damage to vessels which should not happen anymore. The industry also faces challenges in day-to-day operations, with cumulative effects on a crew, the cost and availability of bunker fuel and the growing cyber threats.

The UN Conference on Trade and Development (UNCTAD) opined that the conflict around the Black sea zone had raised global vessel demand and the cost of shipping. The same authority urged continued collaboration among vessel's flag states, port states and other actors in the shipping industry to maintain all necessary services, including bunkering supplies, health services for crews, and certification of regulatory compliance, with particular emphasis on the international support for developing countries. The cost of shipping a container on the world's transoceanic trade routes increased seven-fold in the 18 months following March 2020, while shipping bulk commodities spiked even more.

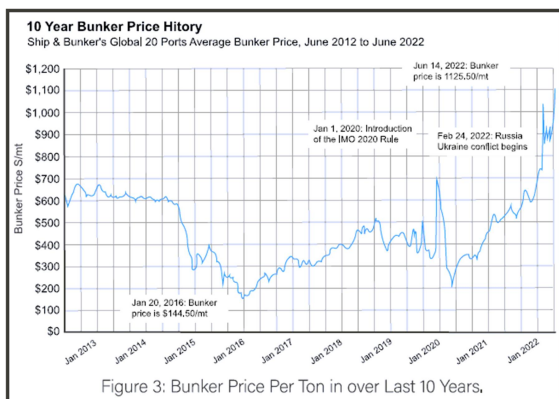


Figure 3: Bunker Price Per Ton in over Last 10 Years.

The daily price of very low sulfur fuel oil (VLSFO) worldwide from January 2022 to July 2022 (in U.S. dollars per metric ton) is shown in Figure 4 (Statista, 2022). Panic now prevails among new entrepreneurs, and some are hesitant to invest more in the turbulent shipping sector for longer.

COVID-19 outbreaks are still disrupting ports in China. Big shipping firms have ordered a record volume of new,

supersized container vessels, most won't come for service until 2023 or 2024. Many of the shipbuilding yards are already booked up to 2025. Shipping firms are locking in long-term leases to take advantage of price hikes, That results in consumers could carry on paying the price for the surge in costs against new ships on order come into service.

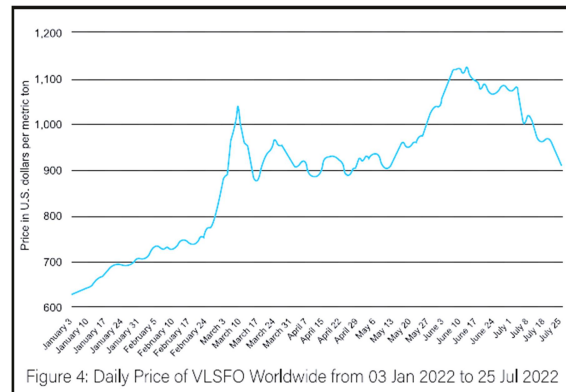


Figure 4: Daily Price of VLSFO Worldwide from 03 Jan 2022 to 25 Jul 2022

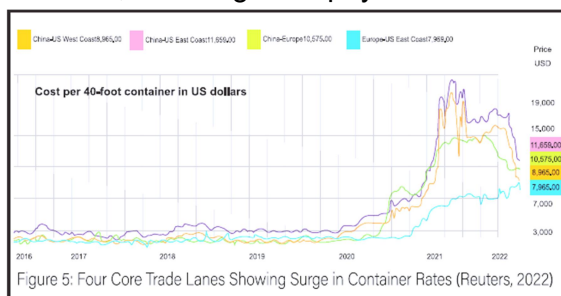
Shipping container rates have surged since late 2020 as COVID-19 restrictions eased (Figure 5). Again high shipping costs drive up inflation worldwide. Old container ships have been sold and chartered at record prices.

The disruption to world trade caused by pandemic lockdowns and a shortage of new cargo vessels has also pushed freight rates for aging container ships to record highs. Marine insurance policies generally exclude the seizure of ships or physical damage caused by war or tension short of war, such as damage from sea mines or occurrences on vessels. Yet, most cautious ship possessors would purchase additional war insurance, covering such losses for an additional premium for a limited period. Again, insurers are often unable to pay claims covered by sanctions, which is to be held in mind too.

Bangladesh is already getting pressure through high import payments for most of the essentials for the industry and agriculture sector, which are transported

by sea. The shipping sector may continue to remain stormy, and the owners and operators have to remain resilient as they have been in the past to survive in the industry.

The government support in the form of framing conducive policies and regulations for the benefit of the owners would enable this promising industry to face probable new challenges which may come across. These may include tax cuts, cash incentives (quick funding) with low interests, and long-term payments.



Concerned departments are still resolving a few bottlenecks in registering and buying new vessels. The registration procedure should be quicker and similar to those of the established maritime states who are successful in business. Moreover, crew certification and documentation procedures need to be quick and smooth. Strategies must be formulated about image building and acceptance of our sailors worldwide. This will ensure more earnings from foreign exchange. Masters and operators need to be trained to manoeuvre safely in disturbed waters in case of new threats, including cyber risks.

Owning ocean-going vessels is not simple as it involves higher capital expenditure (and possibly interest burden if the purchase has been financed via loans or debt). This also involves higher fixed costs - to be incurred even when the markets are down and there is insufficient

cargo. It is thus essential that the owners get support from the government to tackle the difficult situation. Moreover, endeavors must receive sufficient international support for developing countries to meet challenges successfully during war situations and issues posed by pandemics and the climate crisis.

Shipping has always been a complex and indispensable business for the benefit of humanity. The industry is currently passing through a turbulent phase of world geopolitics. To survive successfully in this important sector of maritime trade, it is prudent to maintain wise and cautious management with a skilled workforce for each shipping company. The company management of respective businesses must be aware of the available national and international rules and regulations. They need a sufficiently educated and trained workforce to feel comfortable in meeting all challenges. Without people knowing maritime trade, maritime economics and technical know-how, it isn't easy to yield competitive advantages from the market and frame future business strategies for survival and success. Suppose the conflict escalates beyond Russia and Ukraine's borders, which a conscious mind would never expect. In that case, it will cause devastating consequences to the world, and international shipping would first be affected. Peace-loving people would always urge for a tension-free shipping market, while policymakers must be prepared for new strategies to meet every new challenge.

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