

# *International Chamber of Shipping (ICS)*

## *Responding to the Global Downturn*

*By Spyros Polemis*

Following several years of incredibly buoyant shipping markets, for many trades the best in living memory, much of the international shipping industry has fallen prey to the worldwide economic downturn. Shipping is inherently the servant of the economy, so the contraction in trade, following the beginning of the 'credit crunch' in late 2008, has translated into a dramatic and abrupt reduction in demand for shipping.

Initially worst hurt were the containership trades. By the Spring of 2009 some 10% of the fleet was already laid up, much of it too modern and expensive to go to recycling yards. However, the dry bulk trades have also been severely affected, particularly by the reduction in demand for raw materials from China, with spot market freight rates for some bulk carriers being a fraction of the peak prices achieved in 2008. By April 2009, rates for crude, product and chemical tankers had also fallen very sharply. In general most shipping markets present a rather bleak picture.

A major concern of ICS national shipowners' associations therefore is to discourage governments from responding to the crisis with protectionist measures, which will only damage world trade further. More particularly, governments must avoid measures that restrict fair and open access to shipping markets. Although most shipping today enjoys relatively liberalised trading conditions compared to the days of national cargo reservation in the 1980s, shipping is unusual in that it is one of the few major industries not yet covered by a global multilateral trade agreement. However, the prospect of a new agreement under the auspices of the World Trade Organization (WTO) looks increasingly uncertain. The industry must therefore be extremely vigilant in reacting to any moves towards protectionism in maritime trades, especially those using safety and security as a pretext. In May 2009, as ICS Chairman II will make this point at a meeting of the world's transport ministers in Leipzig, which is being organised by the OECD International Transport Forum, and which will focus on the implications for transport because of the economic downturn.

The shipping industry does not expect special treatment, or the billion dollars of support being granted by some governments to the likes of the banking and automobile industries. However, to operate competitively and efficiently in very difficult circumstances, shipping requires the maintenance of a regulatory 'level playing field', and continuation of the certainty now provided by the tonnage tax regimes that apply to shipowners in many countries.

Shipping is notoriously volatile, and its more experienced practitioners are familiar with the cyclical boom and bust nature of maritime freight rates. However, the contraction resulting from the general global downturn could well be exacerbated by the large number of new

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buildings due to come into service during the next few years, notwithstanding efforts by many shipowners to cancel or renegotiate contracts. Many of these ships were ordered at high prices at the top of the market.

In the face of this two-way pressure, there is likely to be a considerable increase in the number of older vessels that will be sent for dismantling and recycling. In view of the expected adoption, in May 2009, of a new IMO Convention to address concerns about working and environmental conditions in ship recycling yards, the need for governments to identify facilities that are acceptable for use will become all the more pressing.

As the IMO Secretary-General has forcefully identified, financial pressures on the industry must not be allowed to result in any reductions in standards. Much has been achieved in the last 20 years with regard to safety and environmental performance, and no one is suggesting a moratorium on new regulations that genuinely improve safety, which is always the industry's overriding priority. However, governments need to understand that any immediate regulatory and policy decisions they take must avoid impacting negatively on shipping as it struggles to deal with the current economic situation.

Notwithstanding the current gloom and doom, the longer term outlook for the industry remains very good. The world's population continues to expand, and emerging economies will continue to increase their requirements for the goods and raw materials that shipping transports so safely and efficiently. In the longer term, provided the politicians make sensible decisions, the fact that shipping is the most fuel efficient and carbon friendly form of commercial transport should work in favour of an even greater proportion of world trade being carried by sea.

It is to be hoped that Ministers at the International Transport Forum will deliver a strong statement in support of the maintenance of open shipping markets, and, more generally, promote an early conclusion of the WTO negotiations for a new global trade agreement.